AusAID

AidWorks Initiative Number: INH329

Enterprise Challenge Fund for the Pacific and South-East Asia (ECF)

Independent Progress Report

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Triple Line Consulting

October 2011
Final Revised

DISCLAIMER

This report was made possible through support provided by the Australian Agency for International Development. The opinions expressed herein are those of the authors and do not necessarily reflect the views of the Government of Australia.

Aid Activity Summary

Aid Activity Name			
AidWorks initiative number	INH329		
Commencement date	1 July 2007	Completion date	30 October 2013
Total Australian $	$19,919,286.76		
Total other $	$11,600,000		
Delivery organisation	Coffey International Development		
Implementing Partners	Cagayan de Oro (Philippines) Carnival (Vanuatu) C-Corp (Solomon Islands) Didao (Solomon Islands) Emirau Marine Products (Papua New Guinea) Mainland Holdings (Papua New Guinea) Masurina (Papua New Guinea) Nature's Way (Fiji) Paradise Spices (Puritau) (Papua New Guinea) Pupuk Alam (Cambodia) Reddy Farms (Fiji) Sarami (Vanuatu) Volcanic Earth (Vanuatu) Wilderness Lodge (Solomon Islands) WING (Cambodia) SAMIC (Cambodia) Bright Hope Institute (Cambodia) Marine Consultancy Services (Vanuatu) Sunlabob (Laos) Teamworkz (Laos) Future Forests (Fiji)		
Country/Region	South East Asia and the Pacific		
Primary Sector	Rural Development		

Acknowledgments

The authors would like to acknowledge the significant support provided by Robert Tulip, Amanda Jupp, John Hardin, and Carol Gordon with the organization of the mission.

They would like to thank the owners and managers of the companies visited during the mission for their cooperation and understanding.

Author's Details

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ACRONYM AND ABBREVIATIONS

ADB	Asian Development Bank
AusAID	Australian Agency for International Development
BEE	Business enabling environment
CM	Country Manager
DCED	Donor Committee for Enterprise Development
DFID	Department for International Development (UK)
ECF	Enterprise Challenge Fund for the Pacific and South East Asia
FM	Fund Manager
IFC	International Finance Corporation
IMT	Independent Monitoring Team
IPR	Independent Progress Review
M&E	Monitoring and evaluation
MTR	Mid-term Review[1]
PDD	Project Design Document
PSD	Private Sector Development
PSOM	Programma Samenwerking Opkomende Marten (Dutch Enterprise Challenge Fund now referred to as PSI)
RfT	Request for tender

[1] Please note that the Mid-term Review (MTR) of the ECF (undertaken by the Springfield Centre) is also often termed the first IPR. We have used the term MTR throughout this report to differentiate the two IPRs.

GLOSSARY OF TERMS USED

Additionality: An important question in any evaluation of the effectiveness of development policy is what would have happened in the absence of assistance. What matters is that public funds are used to support projects that are genuinely additional to what the private sector would have done anyway. Thus if the grantee could have proceeded without the ECF then, by definition, there is no justification for grant funding. But the applicant should have made a strong case that the project as proposed would not have happened without a grant; or, with ECF funding, the project would happen sooner and/or on a larger scale, or in a higher risk area. In any of these situations there is a case of additionality and ECF funding. To produce an assessment of the counter-factual, involves considering two key components of additionality: *deadweight* and *displacement.* Positive change among the recipients of financial assistance which can be judged to have occurred anyway, in the absence of any assistance, is termed *deadweight.* Even if one concludes that zero deadweight exists, the possibility still remains that assistance provided to a particular region may displace employment in other regions within the economy. Jointly, deadweight and displacement can allow some assessment of the *additional* impact of financial assistance provided by public development agencies.

Effectiveness: The extent to which a project or programme attains its objectives, expected accomplishments and delivers planned outputs.

Efficiency: A measure of how well inputs (funds, expertise, time, etc.) are converted into outputs.

Impact: The overall effect of accomplishing specific results. It comprises changes, whether planned or unplanned, positive or negative, direct or indirect, primary and secondary that a programme or project helped to bring about. Impact is the longer-term or ultimate effect attributable to a programme or project.

Monitoring and evaluation: The combination of monitoring and evaluation together provide the knowledge required for effective programme and project management and for reporting and accountability responsibilities.

Relevance: The extent to which an activity, expected accomplishment or strategy is pertinent or significant for achieving the related objective and the extent to which the objective is significant to the problem addressed. The criteria of relevance refers in this review both to the conformity of the aid with the policy objectives of AusAID and to its consistency with the development aims of the recipient states

Sustainability: The extent to which the impact of the programme or project will last after its termination; the probability of continued long-term benefits.

NOTE ON CONFIDENTIALITY

This review involves the assessment of potentially commercially sensitive information about specific private sector enterprises.

In order to protect this information the names of the companies visited are not given in this report: companies are designated simply by a recognition number.

A separate confidential annex which will not be made publicly available provides AusAID with the names of the companies concerned and the specific evaluation score sheet for each company visited during the mission.

1 EXECUTIVE SUMMARY

The AusAID Enterprise Challenge Fund for the Pacific and South-East Asia 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 Pacific Island Countries. ECF has provided matching grants to enterprises in eight countries[2], Cambodia, East Timor, Laos, Philippines, Papua New Guinea, Solomon Islands, Fiji and Vanuatu. ECF has funded 21 projects: to date A$9.9 million in Australian Government-funded grant funds have been provided and A$11.6 million has been leveraged from the private sector as part of bidder co-contribution to projects. The goal of the ECF is "private sector-led growth in poorer regions of Asia and the Pacific" and its purpose is "increased access by the poor to commercially sustainable jobs and services".

In September 2011 an Independent Progress Review was contracted by AusAID to independently assess the performance of the ECF Pilot Program, advise on how the ECF Pilot could be enhanced; and identify key issues and options for further AusAID activity building on ECF. The aim of the Independent Progress Review as defined in the terms of reference (annex 1) is that "the IPR will focus on lessons learnt for how and whether the ECF modality should be scaled up for future activity". The Independent Progress Review team visited 11 (out of the total of 21) ECF projects in Cambodia, the Solomon Islands and Vanuatu between 19th and 24th September 2011. The results of the review showed that four types of projects make up the ECF portfolio:

Category	No of projects
Projects which are clear "Challenge Fund" projects offering significant scope for replication and are likely to have significant impact on the poor	4
Projects which are well implemented and important, but do not have the characteristics of a Challenge Fund project (in that they are more of "public good" type projects or need more support and facilitation than a Challenge Fund can provide.	2
Projects which are not entirely successful at present and which do not appear to provide much opportunity for replication in their current form, but cannot be viewed as unsuccessful	3
Projects which give cause for concern as to their direction and/or nature	2

This is not an unsatisfactory result for a pilot programme – but, in our view, the situation could have been significantly improved had there been greater clarity at the start as what ECF's objectives were (and are) and what its strategy was to achieve these objectives. This position is not new: it has been raised during the Mid-term Review. However, it remains true: ECF has no clear strategy or hierarchy of objectives and this has led to an uncertainty of what ECF is expected to achieve amongst the Fund Manager's staff (including country managers), AusAID posts, commercial banks, independent assessors, and applicants.

This should not be taken as meaning that there is not a need for an instrument to support pro-poor private sector development: on the contrary there was complete unanimity amongst all stakeholders met during the mission that there is a need for an instrument that recognises that the private sector is the main engine of growth and that direct support to the private sector is the most effective and quickest way to achieve poverty reduction goals in countries where state governance remains weak.

We believe that there should be continued AusAID support for pro-poor private sector development in South-East Asia and the Pacific Islands but that its nature should change.

Our recommendations are on two levels:

[2] There were 9 countries in the ECF. No projects were funded in Indonesia and there was 1 project in East Timor which was stopped.

1. Recommendations relating to the remaining period of the existing Enterprise Challenge Fund: We recommend that the Fund Manger should act in 4 key areas during the remaining duration of the project (subject to adequate resources being made available by a reallocation of the existing budget):

- **Area 1: Activities to encourage scale-up and/or replication of successful projects:** We consider the step of encouraging scale-up and/or replication of a limited group of projects of proven success to be the single most important task remaining for the Fund Manager as it is from such scale-up and/replication that impact at scale in reducing poverty will be achieved. The Fund Manager should prepare (for AusAID's endorsement prior to implementation) a clear strategy and action plan which (i) defines the approach for selecting a limited group of projects which they plan to work more closely on; (ii) defines the approach necessary to replicate and/or scale-up projects so as to achieve the optimum opportunities for poverty reduction. This will require both a portfolio approach and a clear operational plan for each project selected.
- **Area 2: Activities to encourage changes in the business enabling environment:** During the course of actions under Area 1 the Fund Manager is likely to identify legal and regulatory barriers to scale-up: such constraints should be raised with the target governments concerned and with any donors targeting business enabling environment reform in the country in question to demonstrate how the regulation is blocking growth at scale and to encourage focused regulatory reform.
- **Area 3: Activities to encourage business to business linkages:** During the course of actions under Area 1 the Fund Manager will identify opportunities for business-to-business linkages that are likely to add scale to the operation or increase its pro-poor impact: the Fund Manager should work to develop such business-to-business that would help with the scale-up and replication process.
- **Area 4: Activities to provide policy advice to AusAID:** The real impact of the ECF will come from highly focused concentration on scaling up or replicating those successful projects to achieve real scale. It is important that the Fund Manager utilise the lessons learned through Areas 1 to 3 to provide accurate, informed and pertinent policy advice to AusAID.

2. Recommendations as to possible future market-based pro-poor private sector development for South-East Asia and for the Pacific Islands: This second set of recommendations is contained in a standalone document prepared by the Independent Progress Review. Its key recommendations are:

- A new more focused Enterprise Challenge Fund for South-East Asia should be established to help increase the net income of poor people in the region through improved employment and reduced cost of essential goods and services. The Fund should be operated in the poorest countries of the region. Fund management should wherever possible be decentralised to an existing localised Challenge Fund or SME equity fund with clear development objectives to increase alignment with AusAID country strategy priorities and national development priorities of the specific country. The primary focus of the fund should be agriculture and agri-business. Other sectors that are likely to have significant impact upon the poor are other primary sectors (such as fisheries and aquaculture) and financial services.

- Two separate approaches to pro-poor private sector development in the Pacific Islands to increase the net income of poor people in the region through improved employment opportunities: one with a focus on (i) the development of agriculture and agribusiness and (ii) the development of tourism. The first would see a new instrument to provide cost-sharing grants to the private sector to establish or expand nucleus farm systems. The second would provide increased access to commercial finance for tourism

SMEs by contributing to an IFC-managed Risk Sharing Facility for the Pacific Islands that would provide a guarantee to participating banks providing a credit line to tourism SMEs.

Table 1: Evaluation Criteria Ratings

Evaluation Criteria	Rating (1-6)	Explanation
Relevance	5.4	ECF is addressing priorities for partner countries and AusAID and addresses AusAID's Private Sector Development objectives. ECF could have been better aligned with other AusAID and donor programmes.
Effectiveness	3.5	ECF projects are behind schedule in achieving their lower level objectives and some may not achieve these objectives at all. The projects show a high level of additionality but score low on innovation and replicability.
Efficiency	3.5	ECF has been well managed in terms of grant management and project administration and communication. The management of resources to identify ,support and monitor projects has been less efficient and the overall value for money of the programme would appear to be lower than other private sector Challenge Funds.
Sustainability	3.6	Sustainability considered three factors (sustainability of impact and the environmental sustainability of projects and the programme's sustainability strategy.
Gender Equality	3.5	Projects were scored against 4 key gender factors (Access to and control over resources, Decision-making, Women's rights and Capacity building). The portfolio has received a slightly less than adequate score
Monitoring & Evaluation	3.4	M&E was measured through six factors (Strategic framework, Impact logics, Key processes and methods used in measuring results, Reporting results & resources, and M&E System for management, learning and continuous improvement, compliance with DCED standard): the system was found to be slightly less than adequate
Analysis & Learning	3.4	Analysis and learning was considered at programme and project level: it was considered less than adequate at programme level.

Rating scale: 6 = very high quality; 1 = very low quality. Below 4 is less than satisfactory.

2 INTRODUCTION

2.1 ACTIVITY BACKGROUND

2.1.1 Design of ECF

ECF has lack of clarity as to what its objectives were (and are) and what its strategy was to achieve these objectives. This position is not new; it has been raised during the Mid-term Review. However, it remains true: ECF has no clear strategy or hierarchy of objectives and this has led to an uncertainty of what ECF is expected to achieve amongst the Fund Manager's staff (including country managers), AusAID posts, commercial banks, independent assessors, and applicants. We discuss in annex 5 the process of programme design that may have led to this weakness.

2.1.2 Description of ECF

The AusAID Enterprise Challenge Fund 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 Pacific Island Countries. ECF has provided matching grants to enterprises in eight countries[3], Cambodia, East Timor, Laos, Philippines, Papua New Guinea, Solomon Islands, Fiji, and Vanuatu. Grants of between $100,000 and $1.5 million have been provided to business projects on a competitive basis. Supported projects must be commercially viable within three years of grant funding, contribute at least 50 per cent of project costs, demonstrate positive impact on the local business operating environment and improve the livelihoods of the poor.

ECF has funded 21 projects: to date A$9.9 million in Australian Government-funded grant funds have been provided and A$11.6 million has been leveraged from the private sector as part of bidder co-contribution to projects.

The ECF has three key impact areas:

- Business growth and sustainability of the project.
- Increased social and equitable development for project beneficiaries.
- Wider systemic impacts including replication, crowding in and scaling up.

ECF projects are funded on the condition that the business growth will contribute to improving the livelihoods and living standards of poor men and women such as employees, customers, suppliers or communities accessing goods and services from these businesses. Positive indirect impacts for the wider community are also expected.

To achieve wider systemic impacts, ECF projects are intended to be positive models that stimulate other companies to copy or crowd in to the marketplace and stimulate the wider business environments to enhance economic growth. This growth will ultimately improve the lives of poor people in these countries.

Achieving the impacts of ECF is based on the following assumptions:

- The funded business project will grow and become commercially sustainable.

[3] There were 9 countries in the ECF. No projects were funded in Indonesia and there was 1 project in East Timor which was stopped.

- The business growth will contribute to improvements in livelihoods for beneficiaries and wider communities.

- The business growth will contribute to improvements in the business environment for beneficiaries (e.g. behaviour changes, increased access to information and financial services).

- Other companies will change behaviour in the operational and systemic business environment as the ECF model demonstrates success.

- Improvements to both the business environment and the social and equitable development of beneficiaries will contribute to the ECF goal of increased private sector-led growth in poor regions of the Pacific and South-East Asia.

ECF-funded projects have completed construction of infrastructure, invested in supply chain development including training, and worked with potential customers to promote use of goods and services.

ECF is managed by Coffey International Development (the contractor). Triple Line Consulting was contracted separately by AusAID to provide the Independent Monitoring Team (IMT): its main role is to assess the performance of the Fund Manager, conduct cost-benefit analyses, and validate the direct and indirect impact benefits of the funded projects.

A Mid-term Review of ECF was conducted in 2009. It found ECF to be a highly relevant development tool that is expected to impact on large numbers of poor. Major challenges identified included:

- Geographic and sectoral focus which was seen as too broad.
- Absence of a strategic framework.
- Confusion around monitoring and evaluation roles and responsibilities.
- Inadequate project and poverty baseline data.

We address the extent to which the Mid-term Review's recommendations have been adopted by the contractor and by AusAid in Annex 2 to this report.

The Australian Government agreed that a further review of ECF should be undertaken in late 2011, with a focus on assessing if ECF provides value for money or has evidence of waste and examining similar questions as the 2009 review, updated to reflect a further two years of implementation progress including work to address the 2009 review recommendations.

2.1.3 Objectives of ECF

The goal of the ECF is "private sector-led growth in poorer regions of Asia and the Pacific" and its purpose is "increased access by the poor to commercially sustainable jobs and services".

2.1.4 Activities of the ECF

The ECF has two main activity streams:

- Provision of grants for private sector development in the Pacific and South-East Asia.

- Fund management which includes (according to the RfT) six components:

- Component 1: Establishment of ECF mechanisms.
- Component 2: Marketing of the ECF to create a funding pipeline.
- Component 3: Managing Bidding Rounds.
- Component 4: Contracting and management of grants.
- Component 5: Linking into BEE reforms and disseminating lessons.
- Component 6: Activity management and reporting.

2.2 EVALUATION OBJECTIVES AND QUESTIONS

2.2.1 Evaluation Objectives

The goal of the IPR as defined in the terms of reference (annex 1) is that "the IPR will focus on lessons learnt for how and whether the ECF modality should be scaled up for future activity. The goals of the second Independent Progress Review are to independently assess the performance of the ECF Pilot Program, advise on how the ECF Pilot could be enhanced; and identify key issues and options for further AusAID activity building on ECF".

The objectives of the Independent Progress Report are to review:

- Progress towards meeting ECF objectives, including impact on business growth and development, generating livelihood opportunities and poverty alleviation, against the project design document, ECF Monitoring and Evaluation Framework and recommendations from the MTR.
- Efficiency and effectiveness of the ECF model and how this could be enhanced over the remaining period of the Pilot project to 2013.
- Whether ECF applies the most relevant model for achieving the desired, long term development outcomes.
- How the ECF Pilot Program compares with other Challenge Funds.

The IPR is expected to provide advice and recommendations to AusAID on these issues in this Independent Progress Report (whose format is standardized).

2.2.2 Evaluation Questions

The terms of reference for the IPR set the following evaluation questions:

Relevance:

- Is the ECF pilot addressing priorities for partner countries and AusAID?
- Is the ECF pilot aligned to AusAID's Private Sector Development (PSD) objectives?
- How well does the ECF complement other AusAID and donor programmes?
- Has AusAID (Posts and HQ) engagement with ECF been appropriate?
- How relevant has the ECF pilot been as a PSD/ poverty reducing instrument in the eight countries in terms of complementing/ supporting national PSD objectives and instruments?
- Were the objectives as stated correctly targeted or should they be refined?
- How relevant is the ECF model to countries at different stages of development, for example in fragile states and in countries with thriving local private sectors?
- What level of commitment to ECF is there from relevant donors and stakeholders?
- Do other factors (e.g. economic circumstances) make the ECF model more or less timely and beneficial?

Effectiveness:

- Is ECF achieving its development objectives?
- How effective is ECF in achieving its development objectives, including when compared with other private sector development models in ECF-relevant countries?
- What is the overall performance and emerging impact of the projects and the portfolio?
- How have the recommendations of the first IPR been implemented to make ECF more effective?
- How effective is the ECF model in leveraging/ engaging the private sector as an agent of development?
- How effective have ECF marketing campaigns and project identification and selection processes been?
- What are the lessons for aid support to business development services, in areas including linkages and management systems, as distinct from expectations that grant funding alone would be sufficient to catalyse development impact?
- How effective are the measurement of the results/impact from the projects and the adoption of the Donor Committee for Enterprise Development (DCED) approach?
- What is the evidence of the economic and commercial sustainability of ECF projects and how might this be enhanced?
- How many projects would not have proceeded and/or been substantially delayed without ECF funding?
- What are the development benefits of ECF in each country/region where ECF operates and how do these compare?
- How significant are the non-economic development benefits of ECF such as sustainable capacity development and environmental benefits?
- How could the effectiveness of the ECF pilot best be enhanced?

Efficiency:

- Is ECF providing value for money?
- Project management: How does the ECF compare with other Challenge Funds or comparable funding schemes in terms of transaction costs, process efficiency and management?
- What are the lessons in terms of project management for: (i) ex ante assessment/due diligence on projects; (ii) engagement with the funded projects to achieve scaling up and systemic impacts (iii) engagement with PSD actors?
- What are the lessons for project management and leadership in country?
- What specific need exists for changed emphasis in the remaining two years of the ECF Pilot, including best use of available resources?
- How could the efficiency of the ECF pilot best be enhanced, including through contractual amendments to change the existing use of allocated funding?

2.3 EVALUATION SCOPE AND METHODS

Following agreement between AusAID and the Fund Manager, the Independent Progress Review team visited ECF projects in Cambodia, the Solomon Islands and Vanuatu between 19th and 24th September 2011. The sample comprises 11 of the 21 projects financed by ECF.

The team's approach was to:

- Review all ECF programme documentation.
- Review AusAID policy documentation and country strategies (or equivalent) for the three selected countries.

- Review partner country national planning documents for the three selected countries.
- Define a clear set of evaluation criteria and agree these in advance with AusAID.
- Review all documents for each of the projects to be visited: we would like to acknowledge the excellent document recording system operated by the Fund Manager that vastly simplified this task for the team.
- Undertake specific review visits to the selected projects and score each against the agreed evaluation criteria.
- Undertake widespread consultation with stakeholders using a structured questionnaire pre-agreed with AusAID (see annex 3) and, where appropriate, a structured PowerPoint presentation.

The overall allocation of time – and more specifically the time allocated for field visits – necessarily limited the depth of assessment that could be undertaken.

2.4 EVALUATION TEAM

The team was led by Simon Armstrong, an Associate of Triple Line Consulting (UK). He is responsible for the overall conduct of the evaluation and for the final report. Technically, Simon focused specifically on issues of rationale, relevance and effectiveness. He visited Vanuatu and Cambodia.

David Smith, a Director of Triple Line Consulting (UK). His role on the team was to contribute across the entire review process in support of the team leader, and specifically to lead on all matters related to questions of efficiency. He undertook a field mission to Cambodia.

Mihaela Balan, an Independent Consultant. Mihaela's role on the team was to contribute across the entire review process in support of the team leader, and specifically to lead on all matters related to monitoring and evaluation. She undertook a field mission to the Solomon Islands.

David and Simon additionally met with a wide range of stakeholders in Sydney and all three team members attended a wide range of meetings in Canberra.

Rod Woolcock provided some additional remote support to the project team.

3 EVALUATION FINDINGS

The Independent Progress Review team visited ECF projects in Cambodia, the Solomon Islands and Vanuatu between 19th and 24th September 2011. The sample comprises 11 of the 21 projects financed by ECF.

We have utilised the standard structure for an Independent Progress Report, but elaborated it as necessary to reflect that the review is being undertaken at both programme and project level.

In certain instances the evaluation criterion has been expanded to reflect the specific issues applying to Enterprise Challenge Funds. For example with respect to effectiveness we consider certain aspects critical to the effectiveness of an enterprise Challenge Fund: replicability, innovation and additionality.

3.1 RELEVANCE

Relevance refers both to the conformity of the aid with the policy objectives of AusAID and to its consistency with the development aims of the recipient states. In the case of this review the recipient states are Cambodia, the Solomon Islands and Vanuatu.

In the case of the ECF relevance can be assessed at two levels: programme and project.

<u>Relevance of the ECF as a programme</u>

AusAID has highlighted the importance of utilising their development cooperation resources to achieve sustainable economic development[4] with the aim, inter alia, of "improving incomes, employment and enterprise opportunities for poor people in both rural and urban areas, including the development of sustainable mining industries to boost overall economic development". This recognises that sustained, private sector-led economic growth is the main driver of poverty reduction. AusAid has three primary goals to encourage such growth:

1. Support to structural economic reforms that improve the allocative efficiency of the economy as a whole.
2. Support to creative a favourable investment climate by removing unnecessary regulatory barriers to business creation and growth.
3. Support to enabling poor people to access services and job opportunities that otherwise would not be available to them.

The third objective – making markets work for the poor - focuses on changing the structure and characteristics of markets to increase participation by the poor on terms that are of benefit to them. It addresses the behaviour of the private sector, through a combination of changes to government policies and support to development of new business models that are more inclusive of the poor.

The ECF – AusAid's primary tool at the time of launch for "making markets work for the poor" - represented a significant change in direction for AusAID: one that recognised that, whilst actions to improve the business enabling environment were vital to economic growth, the poor were still deprived of access to markets – as consumers, employees and entrepreneurs. Improvements in the business enabling environment take time and the poor need more immediate support. AusAID therefore introduced ECF to help engage the private sector (with its massive resources) in poverty reduction.

[4] *An Effective Aid Program for Australia: Making a real difference – Delivering real results*

The ECF aimed to support “innovative private sector projects that fail to attract financial backing; not because of low returns, but because of weaknesses in financial markets and the 'public good' nature of some of their benefits. The private sector may be reluctant to undertake pro-poor projects because of perceived risks, lack of information or the high costs of creating new markets”[5]. ECF was intended to catalyse projects that are economically viable – but which would not proceed on a normal commercial basis because of some “market failure” – and which would bring benefits (both direct and indirect) to the poor: a win-win situation.

Is the “making markets work for the poor” approach relevant for achieving AusAID’s goals and objectives?

The central idea of all “making markets work for the poor” approach is that the poor are dependent on market systems for their livelihoods. Therefore changing those market systems to work more effectively and sustainably for the poor will improve their livelihoods and consequently reduce poverty.

It is an approach that is now introduced by many donors to complement their more traditional approaches (with SIDA, DFID and SDC in the lead under the banner of M4P): other agencies follow the approach under different names and differences in emphasis - UNDP's Growing Inclusive Markets, the IADB's Opportunities for the Majority and the IFC's “Next Four Billion”.

Although terminology and emphasis may differ, all of these approaches see a market-based economic engagement with the poor as essential for sustainable development.

This point was confirmed by all stakeholders[6] met during the mission there is a need for an instrument to support pro-poor private sector development: one that recognises that the private sector is the main engine of growth and that direct support to the private sector is the most effective and quickest way to achieve poverty reduction goals in countries where state governance remains weak.

The key message is therefore that that pro-poor private sector development is extremely relevant for AusAID - but that – for reasons we explain in this review - its nature should change.

<u>Relevance of ECF-supported projects</u>

Relevance was agreed with AusAID to be the extent to which a project was in conformity with:

1. “An Effective Aid Program for Australia (Government response to the Independent Review of Aid Effectiveness)”.
2. The Poverty Reduction Strategy Paper or equivalent of the recipient country.
3. The AusAID country strategy for the country or equivalent.
4. The country specific issues identified in the country-specific Business Enabling Environment studies prepared by the Fund Manager.
5. An additional element of relevance is the degree of alignment with the commitments of the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action.

The different elements of alignment are discussed below.

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[5] http://www.ausaid.gov.au/business/other_opps/ecf.cfm

[6] Including the Australian High Commissioner to Vanuatu, Jeff Roach, who asked to meet our team specifically to highlight the significance of continuing direct support to the private sector.

3.1.1 Alignment with "An Effective Aid Program for Australia (Government response to the Independent Review of Aid Effectiveness)"

AusAID has established five core strategic goals: (i) saving lives; (ii) promoting opportunities for all; (iii) sustainable economic development; (iv) effective governance and (v) humanitarian and disaster response. The development objectives underpinning these goals are:

1. Improving public health by increasing access to safe water and sanitation.
2. Saving the lives of poor women and children through greater access to quality maternal and child health services (for example, skilled birth attendants and midwives), and supporting large scale disease prevention, vaccination and treatment.
3. Enabling more children, particularly girls, to attend school for a longer and better education so they have the skills to build their own futures and, in time, escape poverty.
4. Empowering women to participate in the economy, leadership and education because of the critical untapped role of women in development.
5. Enhancing the lives of people with disabilities.
6. Improving food security by investing in agricultural productivity, infrastructure, social protection and the opening of markets.
7. Improving incomes, employment and enterprise opportunities for poor people in both rural and urban areas, including the development of sustainable mining industries to boost overall economic development.
8. Reducing the negative impacts of climate change and other environmental factors on poor people.
9. Improving governance in developing countries to deliver services, improve security, and enhance justice and human rights for poor people; and to improve overall effectiveness in aid delivery in partnerships between host governments and aid agencies.
10. Enhancing disaster preparedness and delivering faster, more effective responses to humanitarian crises, given the increased frequency and impact of natural disasters in recent decades.

The IPR has assessed the projects reviewed to determine their alignment with these AusAID-wide objectives. Alignment has also been assessed against country specific objectives.

3.1.2 Alignment with country specific objectives

Cambodia

Australia's "Strategic approach to aid in Cambodia 2010-2015" sets the current objectives of AusAID[7] with respect to Cambodia. This document sets out AusAID's country specific priorities as:

- Reducing rural poverty - raising the income of small farms through increased agricultural productivity and improving the livelihoods of the poorest and most vulnerable Cambodians through social protection activities such as school meals programs and mine action.

[7] No AusAID country strategy plan for Cambodia was in place between 2007 and 2010

- Improving health services - improving the management and quality of health services and improving the quality of training of health professionals.
- Upgrading infrastructure for growth, trade and travel - upgrading Cambodia's transport and energy infrastructure.
- Promoting access to justice - working with local authorities, communities and civil society to prevent crime and improve community safety, reduce prison overcrowding, expand access to legal services and consider alternative ways to resolve disputes.

The relevant objectives of the Royal Government of Cambodia's "National Strategic Development Plan 2006-2010" are to:

- Education: Reduce the financial burden on poor students by targeted scholarships.
- Education: Facilitate attendance of girls at lower secondary and higher levels, including by increasing the number of dormitories for girls.
- Agriculture: Try out innovative grass-roots oriented direct interventions to reduce poverty.
- Agriculture: Enhance affordable micro-finance availability.
- Agriculture: Encourage and facilitate private sector involvement in agriculture and agri-processing.

The "Business Enabling Environment Research: Cambodia (58631 Version 1, June 2008)" highlights the following development opportunities:

- Expanding rice production for the export market
- Import substitution - higher quality rice
- Diversification into other crops/products
- Expansion of the livestock sector
- Value-add processing for livestock
- Input supplies – animal feed and fish meal processing plants
- Expansion of the rubber industry
- Private sector - processing facilities independent from large rubber plantations.
- Development of smallholder rubber production
- Privatisation opportunities
- Business support – private rural veterinary services.
- Export support
- Infrastructure – private rural suppliers of electricity and water; construction etc.
- Supply chain support
- Tourism linkages – link tourist enterprises to farmers and craft:
- Niche tourism products
- Hospitality training and development
- Aviation - professionally-managed local airlines and low-cost carriers
- Ancillary services - the operation of ground transportation services

- Infrastructure - alternative options for power, extended internet wireless access to remote locations.
- Development of tourism around the Cambodian heritage
- Linkages into adventure tours.
- Upgraded hotel accommodation.

The IPR has assessed the projects reviewed to determine their alignment with these country specific objectives.

Solomon Islands

The "Solomon Islands–Australia Partnership for Development" sets out four initial Priority Outcomes aiming to:

- improve service delivery by strengthening public health functions so they are responsive to community health needs and support primary and secondary care.
- improve economic livelihoods by working to create long-term economic opportunities and livelihood security for Solomon Islanders, particularly those living in rural areas. The partnership will support more productive and sustainable utilisation of agricultural land, forests and marine resources, and the improved operation of markets.
- improve economic infrastructure to facilitate market access and service delivery by increasing access to reliable transport, energy and telecommunication services.
- address economic and fiscal challenges by increasing the effectiveness of public expenditure and assisting in the delivery of broad-based economic growth.

The Solomon Islands and Secretariat of the Pacific Community: Joint Country Strategy 2009–2012 specifies the priorities for the economic/productive sectors as:

- Ensure that the role of chiefs is strengthened, recognised and respected, and put in place measures to protect the traditional rights of resource owners so that they are awarded maximum benefit from the development of their resources.
- Pursue public sector reforms and shift resources toward private sector- driven economic growth.
- Generate opportunities for the growing population and achieve high economic growth, wealth and social well-being for all Solomon Islanders.
- Shift emphasis toward the development of tourism, fisheries and marine resources. Also prevent and ban any activities that would pollute Solomon Islands air space.
- Ensure the sustainable utilisation and conservation of natural resources, protection of the environment and successful adaptation to climate change.
- Priorities: palm oil development, mineral prospecting, value added activities in fisheries and forestry, and promotion of tourism.

The “Business Enabling Environment Research: Solomon Islands (58631 Version 1, June 2008)” highlights the following development opportunities:

- Commercial indigenous nut production
- Two spices - have potential as cash crops - chilli for domestic use in “chilli tuna” and vanilla.
- Betel nut
- Alternative medicinal production
- Domestic beef production
- Construction and operation of abattoir facilities
- Upgraded slaughterhouses - with refrigerated storage facilities.
- Inter-farming practices
- Commercial pig production
- Commercial poultry and egg production
- Feed mill
- Re-vitalisation of beekeeping for honey production
- Domestically marketed food
- Palm oil production increased
- Increased copra production
- Development of niche coconut products
- Increase cocoa production
- Need for quarantine services/capacity
- Facilitate the development of private nurseries: fruit and vegetable planting material
- Business support
- Construction and operation of markets
- Off-season pineapple production
- Infrastructure - shipping, roll-on/roll-off ferries, ports/jetty construction, cold storage and distribution centres.
- Domestic coffee industry - beans and processing
- Commercially operated port and trans-shipping operations.
- Fisheries centres - equipped with ice-making and/ or cold storage plants and fishing supplies.
- Commercial development of aquaculture - seaweed, pearls, giant clams, prawns.
- Development of domestic tuna industry expansion.
- On-shore processing - canneries, value add processing in both Honiara and other centres.
- Small scale shipping - outlying areas to regional on-shore bases.
- Business support - business advisory services, technical support.
- Infrastructure - port facilities, stevedoring, cool storage and freezers in rural areas
- Research facilities - hatchery operations in private sector, technical advice operations to support niche product operators.
- Recreational fishing - development of this sub-sector with a linkage to tourism

Vanuatu

The "Vanuatu-Australia Partnership for Development" is used as the basis for assessing relevance to Australia's objectives in Vanuatu. This document confirms Australia's commitment "to support Vanuatu's pursuit of sustainable economic growth strategies for all Vanuatu's citizens encompassing private sector and infrastructure development". Whilst private sector development is not specifically mentioned as a priority of the Partnership for Development, it is clearly a relevant objective.

The Government of the Republic of Vanuatu's Priorities and Action Agenda 2006 – 2015 "An Educated, Healthy and Wealthy Vanuatu" provides the framework for assessing relevance to the Government's development objectives. The Priorities and Action Agenda recognises the need for economic growth to be Private Sector led and calls, inter alia, for:

- Further attraction of foreign direct investment to the country.
- Increased tourist arrivals through better marketing and improved air links.
- Increased tourism facilities and product range in both rural and urban centres.
- Promoting and improving tourism development in the outer islands.
- Development of small scale niche market activities in the rural areas for SMEs.
- Gaining market access for beef to higher value export markets.
- Improved market structures for the transport and sale of cattle.
- A program of [livestock] breeding improvement.
- Developing and maintaining Vanuatu's shipping infrastructure so that people, communities and business can effectively participate in national and international trade.

The Business Enabling Environment Research: Vanuatu (58631 Version 1, June 2008) highlights, inter alia, the following development opportunities:

- Diversification into high value niche - cold pressed organic coconut oil production.
- Expansion of cattle industry - use of more smallholder production, perhaps feeding into contract farming.
- Infrastructure - shipping, port operations, distribution/supply companies, telecommunications companies, general storage and supply, wholesaling, refrigerated storage facilities.
- Development of oil extracts industry.
- Community linkages - Village based activity supporting resorts; diving, reef cruising and fishing, photography, walks, handicrafts, fresh produce and cultural activity.

3.1.3 Alignment with the commitments on aid effectiveness

The Paris Declaration on Aid Effectiveness (March 2005) defined mutual commitments of aid donors and partner countries with respect to:

- Strengthening partner countries' national development strategies and associated operational frameworks (e.g., planning, budget, and performance assessment frameworks).

- Increasing alignment of aid with partner countries' priorities, systems and procedures and helping to strengthen their capacities.
- Enhancing donors' and partner countries' respective accountability to their citizens and parliaments for their development policies, strategies and performance.
- Eliminating duplication of efforts and rationalising donor activities to make them as cost-effective as possible.
- Reforming and simplifying donor policies and procedures to encourage collaborative behaviour and progressive alignment with partner countries' priorities, systems and procedures.
- Defining measures and standards of performance and accountability of partner country systems in public financial management, procurement, fiduciary safeguards and environmental assessments, in line with broadly accepted good practices and their quick and widespread application.

Whilst a high degree of alignment has been achieved in the Pacific Islands this reflects the fact that AusAID and partner countries' strategies in the region are broad and therefore alignment is relatively simple. The level of alignment in Cambodia is lower indicating a lower level of alignment with AusAID's specific country priorities.

In practice, ECF is not specifically designed to achieve alignment with the priorities of partner country national development strategies, does not make use of country systems and utilises an aid delivery mechanisms outside country systems (a parallel project implementation unit).

3.1.4 Conclusions on relevance

The IPR has assessed the 11 projects reviewed to determine their alignment with these AusAID-wide and country specific objectives.

Table 2: Relevance of ECF projects

Project		Alignment with "An Effective Aid Program for Australia (Max. 1)	Alignment with PRSP or similar (Max. 2)	Alignment with AusAID country strategy or similar (Max. 2)	Alignment with ECF BEE development opportunities (Max. 1)	Relevance score (Max. 6)
Cambodia	Company 1	1	2	2	-	5
	Company 2	1	2	-	-	3
	Company 3	1	2	2	-	5
	Company 4	1	2	2	-	5
Solomon Islands	Company 5	1	2	2	1	6
	Company 6	1	2	2	1	6
	Company 7	1	2	2	-	4
Vanuatu	Company 8	1	2	2	1	6
	Company 9	1	2	2	1	6
	Company 10	1	2	2	1	6
	Company 11	1	2	2	1	6

The projects have an average relevance score of 5.4 which indicates between a very good and good linkage between the nature of the projects and the strategic objectives of both AusAID and the partner countries[8].

However, this generic alignment disguises lost opportunities for more specific alignment – and therefore some opportunities for complementarity are being missed.

3.2 EFFECTIVENESS

Evaluating the performance of enterprise Challenge Funds reviewing a number of important factors:

- Effectiveness
- Potential for replication
- Innovation
- Additionality

In assessing effectiveness we therefore consider all four factors as it is the combination of factors that creates a truly effective Challenge Fund project.

3.2.1 Effectiveness

Effectiveness measures the extent to which ECF projects have achieved their predefined objectives. In assessing effectiveness we looked at the level of achievement of pre-defined targets for business growth, changes in the business enabling environment and contribution to social and equitable development.

Table 3: Effectiveness of ECF Projects

[8] A good example of alignment exists in the Solomon Islands, where cooperation has been achieved between the ECF-supported C-Corp and the AusAID program CLIP: both programmes are working in the cocoa sector.

Project		Achievement of targets for business growth (max 2)	Achievement of targets for changes in the business enabling environment (max 2)	Achievement of targets for contribution to social and equitable development (max 2)	Effectiveness (as at September 2011) (Max. 6)
Cambodia	Company 1	1	1	2	4
	Company 2	1	2	1	4
	Company 3	2	2	2	6
	Company 4	1	2	2	5
Solomon Islands	Company 5	0.5	1	0.5	2
	Company 6	0.5	1	1.5	3
	Company 7	-	1	2	3
Vanuatu	Company 8	0.5	1	0.5	2
	Company 9	-	0.5	0.5	1
	Company 10	1.5	1.5	1	4
	Company 11	1.5	-	0.5	2

The average score on effectiveness is 3.3 which places it just above "less than adequate quality". The average score in the Pacific Islands is 2.8 which indicates relatively poor quality.

3.2.2 Potential for replication

At the heart of all "making markets work for the poor" programmes – be they Challenge Fund or more direct market-based approaches – is the core principle that they should clearly have some kind of plausible vision that leads towards large-scale impact on the poor: all such approaches ought to explicitly envisage feasible mechanisms for replication, extending or multiplying successful results so that, at least potentially, they could benefit very large numbers of poor people. This does not remotely imply that every intervention has itself to be have a direct large-scale impact; but rather that the route or contribution of the intervention to potential impact at scale is credible.

In assessing the potential replication we consider whether the project is likely to be replicated by others ("crowding in") or whether the project is likely to be replicated by the original beneficiary and/or scaled up significantly – without additional public funding. Challenge funds are intended to demonstrate how a systemic market failure can be addressed to achieve a "win-win" situation for the grant beneficiary and the poor – so that others take the same route through self-interest and need no grant encouragement to do so.

There are projects in the ECF portfolio which will provide important "public goods" benefits – but which cannot be expected to be replicated unless further public funding is injected each time a comparable investment is to be made. These are important projects – but they are not Challenge Fund projects.

Table 4: Potential for replication of ECF projects

Project		Replicability (Max. 6)
Cambodia	Company 1	4
	Company 2	2
	Company 3	6
	Company 4	4
Solomon Islands	Company 5	2
	Company 6	4
	Company 7	2
Vanuatu	Company 8	1
	Company 9	1
	Company 10	6
	Company 11	1

The average score on replicability was 3.0: only two projects were considered to have significant scope for significant regional replication or scale-up. The score is disappointing as replication and/or scale-up to achieve significant impact is at the very heart of cost effective approaches to making markets work for the poor. The score rose to an average of 4.0 in Cambodia indicating scope for national replication and/or scale-up.

3.2.3 Innovation

Public funding through Challenge Funds is justified if it results in an innovative approach to a systemic market failure so as to allow inclusion of the poor into markets. Innovation might be to introduce an approach into a country that is proven to work in other countries or it might be a global new innovation.

Table 5: Level of innovation of ECF projects

Project		Innovation (Max. 6)
Cambodia	Company 1	4
	Company 2	4
	Company 3	4
	Company 4	4
Solomon Islands	Company 5	2
	Company 6	4
	Company 7	2
Vanuatu	Company 8	1
	Company 9	1
	Company 10	4
	Company 11	1

The average score for innovation was 2.8 indicating only a slight level of innovation. Innovation is again at the heart of the Challenge Fund approach as it seeks innovative approaches to systemic market failure issues from the private sector. Projects were far more innovative in Cambodia than in the Pacific Islands.

3.2.4 Additionality

Public funding is justified only if the private sector grantee would not have proceeded (or would not have proceeded on the same scale, at the same time frame or with the same degree of risk) to implement a project considered to provide strong pro-poor benefits without the ECF. This additionality provides the justification for grant funding and is thus crucial to Challenge Funds.

Table 6: Level of additionality of ECF projects

Project		Additionality (Max. 6)
Cambodia	Company 1	6
	Company 2	6
	Company 3	4
	Company 4	6
Solomon Islands	Company 5	6
	Company 6	6
	Company 7	4
Vanuatu	Company 8	4
	Company 9	2
	Company 10	4
	Company 11	4

The average score on additionality was 4.7 indicating that most projects would not have proceeded without ECF finance or would have only proceeded on a significantly smaller scale or over an extended timeframe.

This indicates a high degree of compliance with the ECF requirement that funding should only be provided if commercial finance has been refused. However, in several projects it is becoming clear that the refusal of commercial finance was not always due to a market failure: in some instances the commercial banks may have been correct in their assessment that the project was not commercially viable.

3.2.5 Conclusions on effectiveness

The average overall effectiveness score is 3.5 comprising a score of 4.6 in South-East Asia and 3.3 in the Pacific islands.

Table 7: Summary of effectiveness of ECF projects

Project		Effectiveness	Replicability	Innovation	Additionality	Overall effectiveness (Max. 24)	Overall effectiveness (Max. 6)
Cambodia	Company 1	4	4	4	6	18	4.5
	Company 2	4	2	4	6	16	4.0
	Company 3	6	6	4	4	20	5
	Company 4	5	4	4	6	19	4.75
Solomon Islands	Company 5	2	2	2	6	12	3
	Company 6	3	4	4	6	17	4.25
	Company 7	3	2	2	4	11	2.75
Vanuatu	Company 8	2	1	1	4	8	2.0
	Company 9	1	1	1	2	5	1.25
	Company 10	4	6	4	4	18	4.5
	Company 11	2	1	1	4	8	2.0

As a generality there appear to be several reasons for these relatively low scores:

- The applicants were required to demonstrate commercial sustainability within three years and this may have resulted in an over-optimistic forecast of target achievement. These optimistic targets should have been more systematically reviewed by the Fund Manager and assumptions tested in the inception phase:
    - The broad focus of the ECF[9] meant that the Fund Manager could not establish appropriate sectoral expertise to undertake effective due diligence at a reasonable cost.
    - The minimum grant funding level of A$100,000 is too low to justify the percentage cost of full due diligence is required and management costs per project are high[10]. The cost of appropriate due diligence and monitoring are high and Challenge Fund investments of less than around A$250,000 may be difficult to justify in terms of fund management costs and may climb to unacceptable levels if sectoral focusing to reduce costs is not undertaken.
- There was inadequate identification of the market opportunities for intervention which might favour pro-poor growth[11] The information is necessary to help the private sector better

[9] The RfT specified that "The ECF shall be open to all pro-poor business ideas regardless of sector, and projects may indeed span several industry sectors. However, the Contractor must focus attention on sectors that have the potential to generate real systemic change (that is, they exhibit potential multiplier effects). Field work undertaken during the feasibility study suggests that these sectors are likely to be those in natural resources such as agriculture, forestry and fishing, with linkages through into transport, distribution, renewable energy, banking and telecommunications. Those that are gender sensitive will likely have better pro-poor outcomes. The Contractor shall review the relative importance of these or other business sectors, to ensure that primary sectors can be identified and promoted to the market, taking into consideration the different conditions in individual countries". This was not satisfactorily undertaken.

[10] However, A$100,000 effectively excludes most indigenous investors in the Pacific Islands – meaning that ECF has tended in some cases to be seen as an AusAID project to support expatriate Australians. The PDD foresaw this problem but suggested it could be overcome by small companies investing with larger companies. This assessment failed to understand that a company capable of undertaking an A$100,000 investment in the smaller Pacific Islands is – in local terms – not a small enterprise and the potential for the type of partnerships foreseen is limited. This is an indication of a need for different approaches in the different regions.

[11] The RfT specified that "The Contractor shall act as an information repository in its countries of operation, using highly selective research to help the private sector identify the most compelling market opportunities. The Contractor may therefore seek AusAID's written permission to undertake research in addition to that listed below. The Contractor shall provide market

understand and respond to the commercial opportunities that exist in low income markets, in areas offering the greatest potential for systemic change.

- It was far harder to identify high quality Challenge Fund projects in the Pacific than in South-East Asia: a large pool of potential private sector applicants exists in most SE Asian countries (with the possible exception of Lao PDR), but the small population size of most Pacific islands (with the possible exception of Papua New Guinea) means that most Pacific island countries do not have the critical mass of potential private sector applicants to make a Challenge Fund functional.

This indicates that most projects have yet to achieve their defined goals: some will achieve their goals over an extended timeframe but there are real concerns that others will not.

3.3 EFFICIENCY

The efficiency of the ECF should consider how well the inputs of the ECF are converted into outputs. In this sense efficiency should consider issues such as whether the Fund Manager has used the right level of inputs at the right cost to identify and screen projects, manage the portfolio and measure the results. It is essential not to lose sight of the fact that one of the benefits of a Challenge Fund instrument is the low administration cost compared to a more "hands on" market development facility approach. Low transaction costs for the donor and good value for money are two key features of the Challenge Fund approach.

This section is intended to answer the following key questions:

1. Project management: How does the ECF compare with other Challenge Funds or comparable funding schemes in terms of transaction costs, process efficiency and management?
2. What are the lessons in terms of project management for: (i) ex ante assessment/ due diligence on projects; (ii) engagement with the funded projects to achieve scaling up and systemic impacts (iii) engagement with PSD actors?
3. What are the lessons for project management and leadership in country?
4. What specific need exists for changed emphasis in the remaining two years of the ECF Pilot, including best use of available resources?
5. How could the efficiency of the ECF pilot best be enhanced, including through contractual amendments to change the existing use of allocated funding?

The ECF received a total of 532 concept notes over three rounds of which 387 were eligible. Roughly one quarter (96) were invited to submit applications. 81 applications were received and 23 projects approved. These ratios indicate that there was excess demand for the fund generated by the Fund Manager's marketing effort and a sufficient number of applications to select a range of different types of project. However as previously noted there was a very mixed pattern in the region with Indonesia managing to generate only 9 proposals, none of which were funded while Vanuatu and the Solomon Islands produced 7 proposals of which 4 were funded in Vanuatu and 5[12] in Solomon Islands. Thus the specific marketing efforts and initiative of the Country Manager was a key success factor in project identification.

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information services for each country including: (a) Reviewing the existing studies on value chains relating to the sectors identified as offering the highest pro-poor impact. Where information is deficient, the Contractor shall conduct specific market research designed to help the private sector better understand and respond to the commercial opportunities that exist in low income markets, in areas offering the greatest potential for systemic change. The information arising from this research shall be consolidated and publicised to reach the market segments to which it will be of most relevance; (b) Developing a list of the most significant legal and regulatory impediments to growth in pro-poor business, to provide a 'BEE baseline'; (c) Documenting the main elements of all ongoing Private Sector Development (PSD) initiatives and systematically connecting all research and project concepts into these parallel activities, to ensure synergies are maximised. The Contractor shall ensure that all research into opportunities to engage with communities, support economic activity and deliver better services to communities is gender sensitive and all relevant data is disaggregated by gender". This task was not satisfactorily undertaken.

[12] The Burrows Biodiesel project ceased leaving 4 projects

The MTR in November 2009 analysed the efficiency of the selection process and this has also been documented in previous IMT Milestone Reports[13]. As there have been no new funding rounds since 2009, there is no need to update these efficiency measures. It has been noted that the process efficiency of the ECF improved significantly during the first three rounds. In particular the move to more targeted marketing and greater country manager involvement in the application process improved the quality of concept notes and proposals by round 3. Lessons were also learnt in terms of streamlining the number, length and cost of the panel meetings.

In the last two years, the FM has managed the portfolio of projects, monitored the progress through regular monitoring (see section 3.7) and engaged in PSD linkage activity with the grantees.

The Fund Manager has had a number of challenges in undertaking the M&E activities, with more time and other resources being committed and spent than initially planned and some key M&E personnel changes.

The PSD linkages activity has been reported on in the IMT's milestone reports and is considered to have been very effective. However the review team consider that a more focussed approach should have been followed using these PSD linkages as the basis for creating scale-up and/or replication and with programme resources being committed accordingly.

Some learning from the portfolio has been conducted and is presented in the latest Annual Report. More learning is planned in 2011/2 including studies on nucleus estates and supply chains in the Pacific and access to affordable and appropriate finance.

3.3.1 ECF Comparison with other Challenge Funds

Table 8: Fund Manager Budget and Expenditure of ECF

		Budget	Expenditure to Date	Budget 2011/12	Balance
		A$ July/June			
1	Management	4,116,446	3,049,228	611,751	455,467
2	Reimbursible				
	-Marketing	155,610	133,829	17,060	4,721
	-Travel	441,251	424,382	16,869	-
	-Panel	337,329	321,853	-	15,476
	Total	934,190	880,064	33,929	20,197
3	Performance Payment	350,000	90,416	70,000	189,584
4	Projects	14,500,000	10,933,140	624,791	2,942,069
5	Total	19,900,636	14,952,848	1,340,471	3,607,317
6	Management as % of total*	**27.1**	**26.9**		

* 6= (1+2+3)/5
Source: Fund Manager Contract and Annual Workplan 5 2011/2

The Fund Manager was awarded a contract and budget of A$3,860,970 in July 2007 excluding the performance payments of up to A$350,000. The contract was amended in 2009 and again in 2010, to allow for additional monitoring costs and some reduction was made to the cost of the panel reduced from A$648,000 to A$337,000. This increased the total fund management fee to A$4,116,446.

In terms of the breakdown of the management cost contract, the Fund Manager was originally contracted to supply the following inputs.

[13] IMT Milestone 5 Report September 2009

Table 9: Contracted Fund Manager Inputs[14]

Position	Original Inputs in Person Months to be provided during the 6 year period (72 months) of the contract	Revised Contract 2010
	Months	Days
Fund Director	13	426
M&E Adviser	14	435
ECF Project Manager	18	540
Marketing Specialist	4	120
Country Managers x 9	9-14 months each	2071

The first key change to the above schedule was to the fund director - who was (more than) full time in the first two years and these proposed inputs have changed significantly over the course of the contract. The Fund Manager's contract amendment changed the inputs in 2010 significantly as set out in Table 9.

The Fund Manager submitted annual workplans with inputs per key individuals changing each year. There has been a fairly major change in terms of the number and input of country managers which has been gradually reduced in number from 9 separate individuals in 2007 to having just 2 in 2011[15] (Solomon Islands and Papua New Guinea) with the other 5 countries being covered by the Project Manager (Laos, Cambodia and Philippines) and the Fund Director (Vanuatu and Fiji). Monitoring inputs have increased over time but are still relatively light (a total of 80 days per year) and the country management inputs have been reduced to approximately 20 days per person per project per year as set out in Table 10.

[14] Fund Manager Contract Amended July 2009 AusAid
[15] The Country Manager for Philippines resigned in 2011

Table 10: Fund Manager Inputs 2007-2013

	Actual				Budget	
Days per year	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13
Fund Management Team						
Fund Director	Full time	Full time	Full time	98	50	25
M&E Adviser	39	30	162	229	80	80
ECF Project Manager	Full time x 2	Full time x 2	Full time x 2	Full time	Full Time	50%
Marketing Specialist	70	70			0	0
Short term Expert (communications)	15	15			10	0
Country Managers						
Laos	37	61	53	23	30 (Fund Manager)	10 (Fund Manager)
Cambobia	35	69	67	45	70 (Fund Manager)	45 (Fund Manager)
Fiji	70	54	34	38	45 (Fund Director)	20 days (Fund Director)
Vanuatu	10	37	50	51	60 (Fund Director)	10 days (Fund Director)
Solomons	36	66	53	53	65	40
PNG	69	59	62	75	80	40
Philippines	91	98	40	10	9	-
East Timor	12	37	17	17	-	-
Indonesia	90	61	-	-	-	-
Total Country	450	542	376	312	259	110

Source: Fund Manager Workplan

Measurement of Efficiency

The OECD DAC defines efficiency as "a measure of how economically resources/inputs (funds, expertise, time, etc.) are converted to results". The key concept is a comparison of resources and results. The resources can be time or expertise, but are most commonly financial or economic. Results can be outputs or impacts, but efficiency is also sometimes assessed for outreach and activities.

Efficiency could be measured in terms of the administrative or implementation efficiency or it could look at efficiency in terms of the wider development impact as set out below. These wider development measures would be the most suitable measure of assessing the value for money of the ECF.

Table 11: Measures of Efficiency

Implementation	Development
• Time efficiency measures including: time from project approval to grant award. • Grant Management as a % of Fund Manager costs. • Monitoring & Evaluation as % of Fund Manager costs. • Other project management as % of Fund Manager costs. • PSD engagement, learning and dissemination as a % of Fund Manager costs.	• Fund Manager Cost per end beneficiary. • Fund Manager Cost per value of beneficiary output. • Economic rate of return- Cost Benefit Analysis (CBA).

At present, end beneficiary numbers and unit net benefits cannot be aggregated across the portfolio and it is therefore more appropriate to look at a simple ratio of Fund Manager costs to the total ECF Fund.

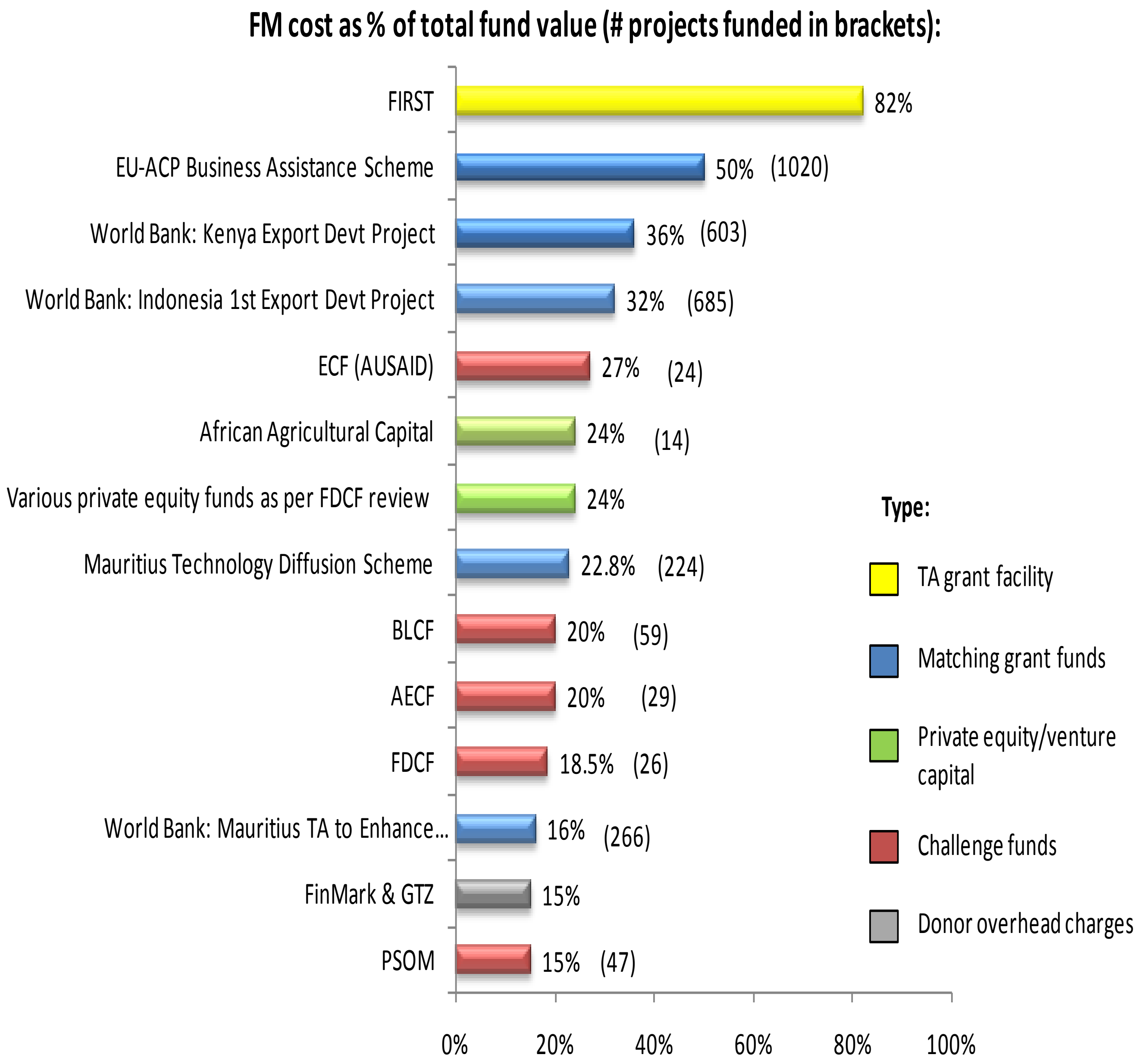
Figure 1 shows a comparison of administrative costs for a number of different aid instruments including Challenge Funds, technical assistance facilities and venture capital funds. The study was conducted as part of a benchmarking study for the African Enterprise Challenge Fund in 2010. It is noted that this comparison included multi-donor funded international organisations such as the World Bank and EC and more project facility operations such as FinMark Trust or the Dutch Government PSOM Enterprise Challenge Fund.

It is difficult to compare the different Challenge Fund models on a like-for like basis as there are significant differences in the scope of the services provided by the management agent in each fund, the data in Figure 1 should therefore only be used as an indication of the range of management costs and demonstrates that the range of Administrative and Financial Management Costs are between 15% to 40% of total fund value with a benchmark of around 20%.

Another study conducted for DFID Challenge Funds showed a similar spread although some of the Civil Society Challenge Funds have administration and programme support costs that are well under 15%[16]. It is however accepted that Challenge Funds with the private sector might be expected to have higher management costs as a number of the Civil Society funds are a conduit for grants to established organisations with on-going programmes and monitoring systems. The requirements for due diligence and evaluation with these Civil Society Funds are therefore lower.

[16] DFID. Understanding & Learning Lessons from DFID's Use of Intermediary Management Agents for Executing Civil Society Funds. James Morton, Triple Line Consulting, June 2010.

Figure 1: Comparative Challenge Fund Management Costs



Source: Benchmarking the Africa Enterprise Challenge Fund May 2010. Hennie Bester

Notes:
PSOM- Programma Samenwerking Opkomende Markten Dutch Government Funded Challenge Fund, now referred to as PSI
BLCF: Business Linkages Challenge Fund
FDCF: Financial Deepening Challenge Fund

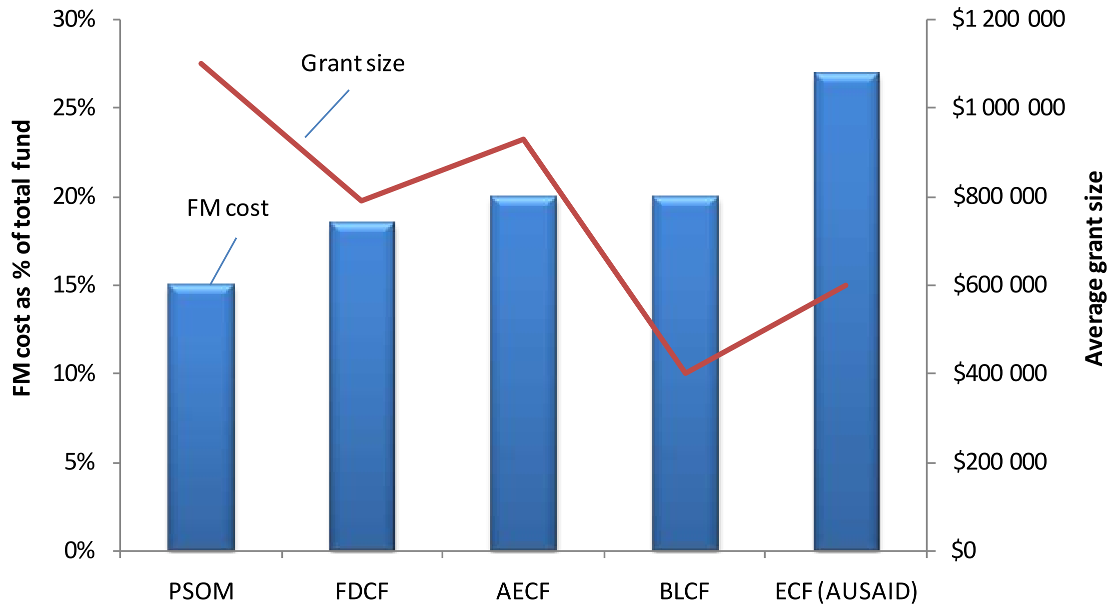
If a benchmark of around 20% is considered acceptable - there needs to be some notion of what the breakdown of this cost should be. There is no clear "benchmark" on this but the above study[17] using indicators from other Challenge Funds points to approximately the following distribution: Establishment/set-up 3%; Marketing 5%; Implementation Fund Management 5%; Monitoring 5%; Dissemination and Communication 2%. It is noted that equity funds supported by donors typically

[17] Benchmarking the Africa Enterprise Challenge Fund May 2010. Hennie Bester

charge a management fee of between 4-6%[18] which would cover identification, due diligence and financial monitoring. This fee would not cover more detailed development impact monitoring.

There are clear issues of scale here as the due diligence and/or project management time costs tend to be fixed irrespective of the size of the project. Thus a Challenge Fund with larger projects will inevitably have lower fund management costs. The relatively small size of the ECF grants inevitably is correlated with a high management cost as shown in Figure 2.

Figure 2: Fund Management Costs and Grant Size



Source: Benchmarking the Africa Enterprise Challenge Fund May 2010. Hennie Bester

The ECF therefore does not compare favourably with other Challenge Funds in terms of administrative efficiency and the key lesson here is that a Challenge Fund instrument should have a larger minimum project size (A$250,000 rather than A$100,000) to ensure that the manager can perform the required tasks of: launch, application support/due diligence, monitoring and PSD engagement.

3.3.2 Lessons for Project Management in due diligence and engagement

Lessons for project management are drawn against three broad headings: (i) ex ante assessment/due diligence on projects; (ii) engagement with the funded projects to achieve scaling up and systemic impacts (iii) engagement with PSD actors.

The initial design of the ECF was in the manner of a "light touch" and did not allow for a full ex-ante assessment/ and or due diligence of a project before it was funded. The lesson of the ECF and the AECF is that such an assessment is essential to ensure that key aspects of a project's rationale based on the paper-based application process are adequately validated. The IPR is of the view that at least two of the projects visited would not have been funded had this due diligence been conducted.

It is particularly important to validate the additionality of the project proposal as well as the poverty profile of the beneficiaries- these are two key aspects which are of interest to the funder but are of less interest to the business and have generally been poorly presented in ECF applications.

A typical due diligence on a commercial basis may cost up to A$100,000 for a project of A$1 million. The experience of the AECF is that at the very least a project visit should be undertaken and at least

[18] IPR Team discussion with the Emerging Market Investments in Lao/Cambodia or the Multi donor Funded Beira Corridor initiative in Mozambique.

2-3 days of Fund Manager's time. If the project is then funded, an equal amount of time is required to validate the indicators in the application and set the baseline for the project's performance.

The ECF was designed to ensure that the monitoring obligations of the grantee were minimal and were expected to produce brief quarterly reports to the Fund Manager. The grantee was not expected to conduct any external monitoring of its activity or conducting any surveys as this responsibility resided with the Fund Manager. The annual monitoring of a project and site visit should require a minimum of 3-4 days per year in addition to the project management and grant administration time. Thus a workplan with just 80 days for the monitoring advisor is light. There is therefore some merit in transferring some responsibility of performance monitoring to the grantee and this is confirmed in the mock audit report[19] - especially in the case of the agribusiness outgrower/nucleus farm type projects (e.g. C-Corp, and Emirau) where some data collection is a key part of the extension activities being conducted. Most grant funded instruments have the provision to include a budget for monitoring and survey activity. This has not been done in the ECF.

But the overall evidence from Challenge Funds is that the ECF Fund Manager costs are relatively high compared to other Challenge Funds and whilst this can be partly justified on the grounds of it being a pilot and the greater transaction costs of managing relatively small grants in the Pacific, at 27% it is essential the ECF provides more than just a light touch and provides some added value which was implied in the project design which explicitly referred to the additional functions that the Fund Manager should provide[20].

As reported in the Mid-term Review and in IMT's Milestone reports, the Fund Manager has been efficient in grant management, information management and general project management and liaison with AusAID, but has been less proactive in the strategic development of the ECF. The value addition of the Fund Manager has been less effective in the first and third of these key areas:

- Ex-ante support: Support to project proposals, including monitoring frameworks prior to project fund or in the inception phase of each project.
- Ongoing support to projects:
  - Development and strengthening of networks including sign-posting of projects;
  - Development of B2B linkages and support to PSD learning alliances and communities of practice, reflection and learning;
- Strategic Development and Ex-post support:
  - Support to scaling up and replication of projects.
  - Dissemination of project results, PSD engagement and policy dialogue: publications, conferences, compilation of lessons.

3.3.3 Lessons for project management and leadership in country

Table 9 shows that the ECF model was based on the presence of a country manager in each of the original 9 countries with a substantial input for each to manage the programme. Four key functions were expected from the country teams: (i) identify projects and support the launch of the ECF; (ii) monitor the progress and measure the impacts from the projects and (iii) support linkages to PSD stakeholders, and (iv) facilitate scale-up and replication of project results.

Two key questions are raised here. Does the resident country manager approach work and what skill sets are required to perform this function? There is a transaction cost lesson here. A Challenge Fund needs at least 4-5 projects to justify a resident manager and therefore the ECF has expended a

[19] "ECF should try to build in a system in which the grantees can be more engaged in the results measurement process" DCED Results Measurement Standard - Mock Audit of ECF, October 2011, Nabanita Sen

[20] "The ECF should also impact on the BEE through the fund management centre becoming a recognised centre of excellence which other initiatives will seek both to utilise and cooperate with. In addition to acting as information repository in its countries of operation the Contractor shall also use highly selective research to help the private sector identify the most compelling market opportunities". AusAID. Request for Tender Enterprise Challenge Fund for the Pacific and South East Asia, March 2007.

significant amount of resources in countries such as Indonesia and East Timor without achieving any results. Equally a manager's presence in Mindanao to manage just one project is not efficient.

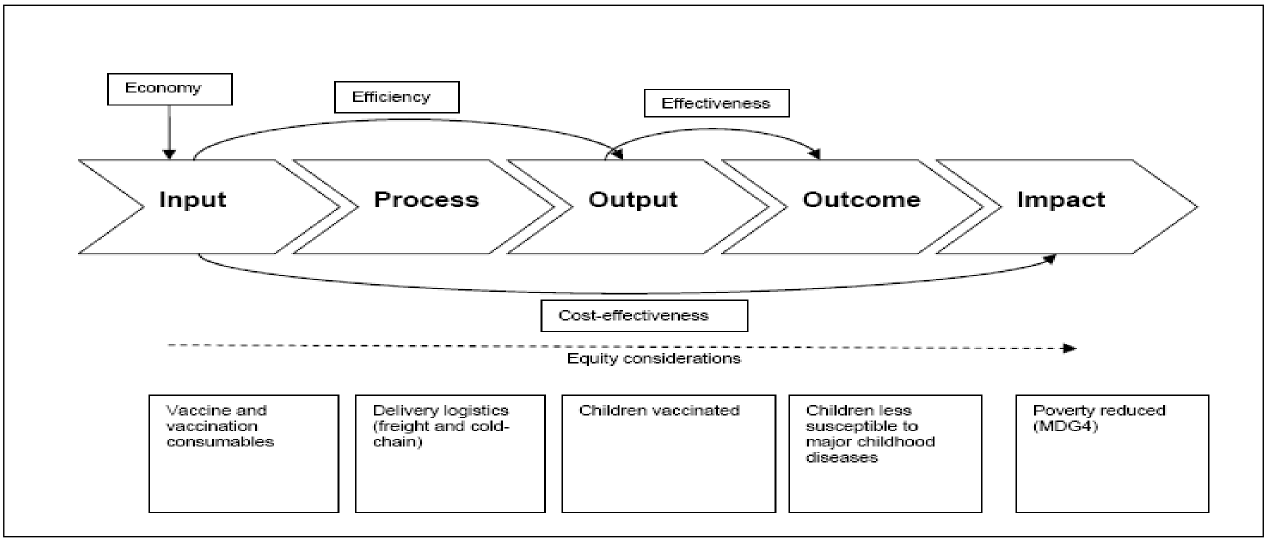
In terms of the skill set, the ECF has found the management of the four key functions by a single individual challenging. A number of the Country Managers have been effective in project identification and in PSD networking but have found the monitoring of results and impact challenging. A key lesson is that the monitoring function is a specialised activity and the ECF has struggled to transfer this monitoring skill using an external expert to a generalist Country Manager. This process has been adversely affected by the disruption in the number and changes in the M&E advisory function. A key lesson here is that some consideration should be given working towards a more cost effective monitoring function including the outsourcing to a local service provider.

The planning of the facilitation and scale-up has been documented in IMT's Milestone 12 report. The key issue here is that the Fund Manager has limited resources and needs to be selective in the efforts to achieve scale-up and replication. The Fund Manager has selected six key projects to concentrate its efforts. There is no explicit strategy as to why these projects have been selected, and this priority list should be reviewed against some fairly strict criteria. These are described in section 4.2.1.

3.3.4 How could the efficiency of the ECF pilot best be enhanced?

The Fund Manager needs to demonstrate how the ECF could potentially represent good value for money for AusAID. This is partly being demonstrated through the Cost–Benefit Analysis on the 10 case studies, but more generally, there needs to be concerted effort to demonstrate the benefit of the ECF in terms of its broader value for money across all aspects from the cost of inputs used to manage projects to the key requirement to demonstrate the overall cost-effectiveness of the instrument in terms of the poverty impacts reduced. The approach to analysing this value for money is set out in Figure 3.

Figure 3: Value for Money



3Es

Economy: Are we or our agents buying inputs of the appropriate quality at the right price? (Inputs are things such as staff, consultants, raw materials and capital that are used to produce outputs)

Efficiency: How well do we or our agents convert inputs into outputs? (Outputs are results delivered by us or our agents to an external party. We or our agents exercise strong control over the quality and quantity of outputs)

Effectiveness: How well are the outputs from an intervention achieving the desired outcome on poverty reduction? (Note that in contrast to outputs, we or our agents do not exercise direct control over outcomes)

Cost-effectiveness: How much impact on poverty reduction does an intervention achieve relative to the inputs that we or our agents invest in it?

Source: DFID's Approach to Value for Money. Department for International Development July 2011.

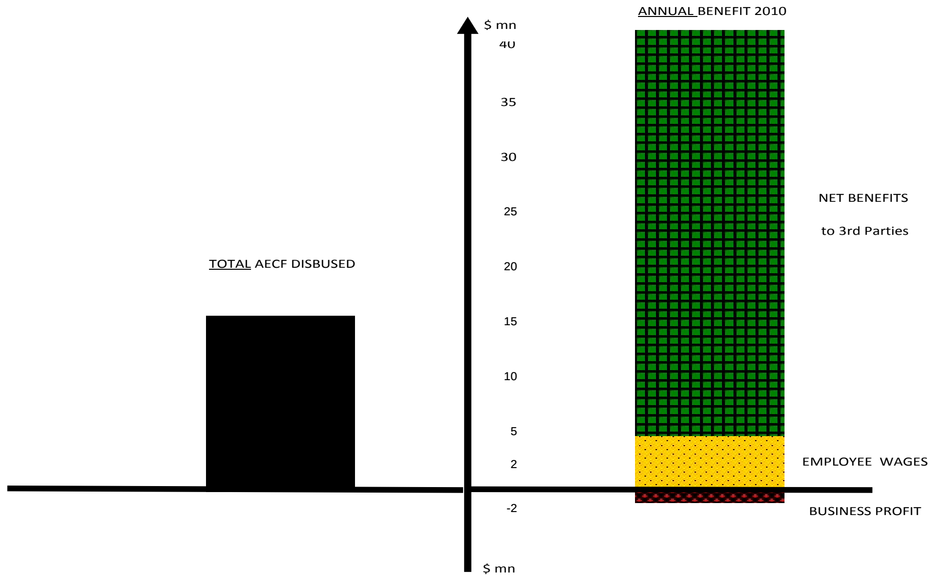
A Challenge Fund is potentially a very efficient aid modality as it has the ability to leverage private sector investment to engage in poverty reduction and the poverty reducing benefits should be captured in the business model and the benefits that accrue can be sustained once the ECF funding has been completed.

The Fund Manager needs to complete two key tasks. Firstly there is the need to measure the net benefits accruing to the project portfolio. This has been only been partially completed and although for some projects it is difficult to calculate[21], a greater concerted attempt is required. To demonstrate the cost-effectiveness of the instrument and overall value for money the ECF should calculate the net benefits accruing to the employees of the projects and third parties similar to that shown in Box 1. Secondly the Fund Manager needs to put in place a mechanism to ensure that the scale-up and replication activities are adequately monitoring tracked.

[21] This is not easily done for all projects. For example SAMIC in measuring the benefit of micro insurance may require the use of contingent valuation methodologies to measure the benefit of insurance and life cover.

Box 1: AECF Measurement of Impact and Cost Effectiveness

Source: AECF Portfolio Report 2010. L.G Sewell and D Smith. Triple Line Consulting August 2011



These total benefits to companies, employees and 3rd parties are increasing. The benefits are expressed in net terms (i.e. it is the additional benefit of the AECF project), but most important they are annual benefits compared to a one off disbursement of AECF funds. The overall benefits should therefore be measured over a longer period and shown as a discounted cash flow or cost-benefit ratio. But even shown on this annual snapshot, the emerging results are impressive and at this early stage, this demonstrates strong value for money for the AECF donors.

3.3.5 What specific need exists for changed emphasis in the remaining two years of the ECF Management

The management of the ECF has been streamlined considerably with the reduction in the number of Country Managers and resources have been scaled back other than for M&E and project management. The key challenge facing the ECF in the next two years is to:

- Demonstrate the measurable impact from the projects.
- Communicate and disseminate the results to a wider audience.
- Use the emerging results from the ECF projects to demonstrate learning and engagement with PSD stakeholders and policy makers.
- Facilitate the scale-up and replication from the projects based on the key criteria set out in 4.2.1.

The future actions for the balance of the contract are taken up more specifically in the Section 4.2.1 of the Recommendations section of this report.

This would mean changes throughout the management structure with the role of country managers switching to that of facilitation to support the Fund Director to undertake scale-up/replication activities.

3.3.6 Conclusions on Efficiency

ECF has been well managed in terms of grant management and project administration and communication. The FM is producing some good learning from the portfolio of projects and the activities in support of B2B linkages have been effective. But the overall management of resources to identify ,support and monitor projects has been less efficient and the value for money of the programme would appear to be lower than for other private sector Challenge Funds.

Table 12: Efficiency

Factor	Score (max 6)
Efficiency in the use of resources to manage the identification, support and monitoring of projects	3
Efficiency on the Fund Managers Performance in managing grants, information and communication with AusAid	5
Management costs as % of total costs compared to other Challenge Funds	3
Cost-Effectiveness of the ECF or overall Value for Money for AusAID	3
Total (out of 24)	14
Score out of 6	3.5

3.4 IMPACT

This section is intended to determine whether ECF has produced positive or negative changes (directly or indirectly, intended or unintended).

It was agreed in advance with AusAID that impact would be measured through consideration of a single core indicator: the extent to which the income of the poor target group has been raised.

The process involved comparing reported achievement in the quarterly reports of the beneficiaries with the findings of the field visits.

Impact is measured by outcomes as at September 2011 and not expected future benefits (which are considered later under sustainability of impact).

Table 13: Impact of ECF projects

Project		Impact (as at September 2011) (Max. 6)
Cambodia	Company 1	4
	Company 2	2[22]
	Company 3	4
	Company 4	4
Solomon Islands	Company 5	1
	Company 6	1
	Company 7	2
Vanuatu	Company 8	1
	Company 9	1
	Company 10	4
	Company 11	1

The projects have an average impact score of 2.3 reflecting their early stage against this measure. As described under the "effectiveness" section most projects are behind the schedule that they indicated in their application form. The reasons for this have already been discussed.

On AusAID evaluation scoring basis this ranks between poor and very poor and indicates only slight impact has been achieved so far. In the Pacific Islands this falls to 1.8 indicating a low level of impact. Only one project has generated very significant impact and this is on track to benefit around 200,000 individuals. In some instances impact may climb after an extended period, but this is not certain and, in some instances, unlikely.

3.5 SUSTAINABILITY

"In the context of donor-funded development programs and activities, sustainability can be defined as the continuation of benefits after major assistance from a donor has been completed"[23].

3.5.1 Environmental sustainability

The contract for the Fund Manager sets the requirements with respect to environmental sustainability: specifying that the Fund Manager must ensure all supported projects comply with the Environmental Protection and Biodiversity Conservation Act 1999 and requiring that where an ECF project proposal is likely to have a significant negative impact on the environment anywhere in the world that it must be referred to the Australian Minister for Environment before approval is given or any contract is entered into.

Section 8 of the Concept Note form "Environmental Impact" states that "AusAID policy requires potential environmental impacts to be considered. For assistance in answering these questions please refer to the Environmental Management Guide for Australia's Aid Program 2003, (especially Guideline 3) available at http://www.ausaid.gov.au/publications/pdf/Environmental_Management_Guide.pdf and asks applicants to state whether the project is being undertaken in an environmentally sensitive location and to outline the impact, if any, of the project on the environment. The guide comprises 80 pages and is too complex for proper consideration by an enterprise submitting a concept note.

[22] The original target is considered to be excessively low.
[23] AusGuideline 6.4: Promoting Sustainability, AusAID, October 2005

The concept note information sheet states that in order to be eligible projects should "have no significant negative environmental impact" and states one of the assessment criteria as the "extent to which the project leads to additional benefits such as promoting gender equity, or addressing environmental challenges". The concept note assessment form aims to judge, *inter alia*, the "extent to which project leads to additional benefits such as promoting gender equity, or addressing environmental challenges".

The application form asks where there any environmental risks associated with the project and, if so, how they will be managed. The application form information sheet has a section on environmental risks and advises that if there are any environmental risks associated with the project they need to be summarised with an explanation of how these will be managed. It also again refers to the Environmental Management Guide for Australia's Aid Program 2003.

With respect to the actual application form assessment process the "Individual Panel Member Ranking Form" does not contain a specific section on environmental sustainability. However "Section 2: Description of Project" which provides up to 5 points out of a total of 45 for "the extent to which the project's inputs, outputs outcomes and impacts are clearly defined, measurable and achievable". This section gives "Key Points to Consider" when making the assessment as:

- Extent to which the project has been clearly explained and the nominated outcomes/impacts are clearly defined and measurable.
- Likelihood that the project be delivered successfully within the proposed time frame.
- Extent to which environmental risks appear to be manageable.

This is the sole mention of environmental sustainability is project selection and therefore the environment – other than to ensure a project had no serious negative environment effects – cannot have been a significant selection factor.

The Fund Manager prepared a December 2010 study on Environmental Management in the ECF. This gives a wide range of specialist advice for operationalising environmental sustainability which we would fully endorse.

- "The application form should include in an annex a project specific environmental impact assessment, submitted to and approved by the Assessment Panel or Fund Manager prior to approval. The Fund Manager can provide comments on the environmental impact assessment and ask for information to be amended where necessary.
- The application should be strengthened to accurately identify the location of the project, thereby identifying whether any elements of the Environmental Protection and Biodiversity Conservation Act may need further review (such as wetlands of international importance).
- The contract could allocate funds as part of the due diligence process to undertake environmental impact assessments on projects operating in risky environments.
- As part of the due diligence process prior to commencing the project, the grantee should provide a project environmental management plan, submitted to and approved by the Fund Manager. The complexity of an environmental management plan should reflect the size and complexity of the project with small projects having simple plans. Box 7 in AusAID's Environmental Management Guide provides an example of a simple project environmental

management plan. These measures will also ensure that there is an environmental management plan to manage the negative environmental impacts of every project chosen.

- The Fund Manager should carry out regular (within monitoring cycles) environmental risk assessment / audits. The environmental management plans would assist the Fund Manager to determine what areas to focus on when conducting project/site audits in order to check that the environmental management commitments made by the grantee are being carried out and continue to be effective".

It is regrettable that such guidance was not sought before the grant funds were committed rather than when they were fully utilised.

The IPR has assessed the 11 projects reviewed to determine their contribution to the four dimensions of environmental sustainability.

Table 14: Environmental sustainability of ECF projects

Project		Dimensions of environmental sustainability		
		Protection of natural and cultural places, endangered or threatened species from international floral and wildlife trade (Max. 3 with score of 1.5 being neutral and scores below that being negative impact)	Promotion of nature conservation and sustainable resource use (Max. 3 with score of 1.5 being neutral and scores below that being negative impact)	Environmental sustainability total (Max. 6 with score of 3 being neutral and scores below that being negative impact)
Cambodia	Company 1	2	3	5
	Company 2	2	3	5
	Company 3	1.5	1.5	3
	Company 4	1.5	1.5	3
Solomon Islands	Company 5	1.5	1.5	3
	Company 6	2.5	2.0	4.5
	Company 7	2	2.5	4.5
Vanuatu	Company 8	2	2	4
	Company 9	1.5	1.5	3
	Company 10	1.5	1.5	3
	Company 11	1.5	2	3.5

The projects have an average environmental sustainability score of 3.8 which indicates that the projects are environmentally positive.

3.5.2 Sustainability of impact

One important element of assessing sustainability is to determine the extent to which projects are likely to meet their impact targets and, having met those targets, ate likely to sustain those benefits beyond the life of the project. This section has obviously a direct linkage with section 3.4 (impact) and is necessarily a subjective judgement made by the review team based on the achievements to date.

The IPR has assessed the 11 projects reviewed to determine the sustainability of their impact.

Table 15: Sustainability of impact of ECF projects

Project		Sustainability of impact		
		The degree of impact that will likely be achieved by the end of the project (Max. 3)	The extent to which the benefit achieved by the end of the project would be sustained (Max. 3)	Sustainability of impact total (Max. 6)
Cambodia	Company 1	2	2	4
	Company 2	2	2	4
	Company 3	3	3	6
	Company 4	3	3	6
Solomon Islands	Company 5	3	3	6
	Company 6	1	1	2
	Company 7	2	2	4
Vanuatu	Company 8	2	2	4
	Company 9	0.5	0.5	1
	Company 10	3	3	6
	Company 11	0.5	0.5	1

The projects have an average sustainability of impact score of 4.0 with a range of between poor to very high.

3.5.3 Sustainability strategy

ECF, as currently designed in not directly aligned with key partner Government policies: discussions with Government stakeholders revealed, at best, a lack of knowledge and understanding of what ECF was trying to achieve and, at worst – for example in Vanuatu, a view that ECF was not entirely relevant to their objectives. ECF is also not explicitly aligned with AusAID's country strategies in the different countries in which it operates, but by linking into country strategy papers there is increased local ownership and greater alignment with partner country policies and strategies.

ECF appears to have been designed without a sustainability strategy[24] at a programme level although the projects that were selected projects should be profitable within three years and therefore be sustainable without donor support. However the ECF as programme had no "phasing out" strategy. "Program and project designs should include a strategy for the phasing out of donor support and the uptake of management and financing responsibilities by the appropriate stakeholders"[25].

ECF has been operated as a standalone programme without linkage into any regional or national institution that might seek to continue elements of its tasks beyond the life of the programme. However, the task of "making markets work better for the poor" is not a finite task. Making markets work for the poor aims to address market failures, but of course no market system is static: all are dynamic. Market systems are constantly changing due to the perpetual motion generated by

[24] "Without being too risk averse with the initial selection of development activities, all AusAID's bilateral and regional aid activities should be designed and managed with the aim of achieving sustainable benefits, except for particular forms of aid such as one-off emergency and humanitarian relief activities. Because there is no one single way to achieve sustainability, country, sector, program and activity specific circumstances need to be taken into account. Each individual activity should define its own sustainability strategy on a case-by-case basis": AusGuideline 6.4: Promoting Sustainability, AusAID, October 2005
[25] "Promoting Practical Sustainability, AusAID, September 2000

information asymmetries, human emotions, investor sentiments, social perceptions, cognitive limitations, data inaccuracies, economic cycles, demographic transformations, systemic inefficiencies, structural problems, competing interests, global capital flows, global trade, policy shifts, regulatory loopholes, political expediencies, central bank interventions, etc. among market participants in an open system. It follows that the task is not finite but ongoing.

However, as pro-poor private sector development is an ongoing task (given the dynamic and ever changing nature of markets) there is a need to accustom partner countries to the need to take increasing responsibility for such an approach into their own policies and, eventually, their own budgets. This will not happen if "Making markets work for the Poor" is seen by governments as having little relevance to their own policies and needs. The experience from other countries highlights the need to involve partner countries at a very early stage if they are not to become alienated to the whole approach[26].

A sustainability strategy should have considered the phasing-out approach: considering possible regional and/or national host institutions to undertake fund management tasks and working to persuade the partner governments of the efficacy and cost-effectiveness of "making markets work for the poor" approaches. Government needs to be drawn into the process – but to understand and not to intervene.

Clearly this is an area where both AusAID and the Fund Manager should have considered the need for such a strategy.

The absence of a sustainability strategy means that we have scored this section at 2.0: that is, of poor quality.

3.5.4 Conclusions on sustainability

We have structured the three key elements of sustainability into a grid in order to draw some overall conclusions on sustainability:

Table 16: Overall sustainability of ECF projects

Sustainability	**Score (maximum 18)**	**Score (recalculated to maximum of 6)**
Environmental sustainability	3.8	1.3
Sustainability of impact	4.0	1.3

[26] A 2010 review of the multi-donor Katalyst project summed up the dangers of not involving government: "As long as receiving governments are not aware or do not understand the approach, or believe it does not provide adequate benefits for the poor, the M4P approach will struggle to be sustainable. They are a key player in the market, especially in a post-Paris Declaration and Accra Agenda context. Donors need Government approval of what they fund and should preferably respond to Governments' requests and priorities. (Democratic) governments respond to their electorate. Given the facilitative nature of M4P, voters are unlikely to ask for it. However, Governments are influenced by in-country research institutes, development thinkers and consultants, as well as private sector bodies and civil society generally. Yet they have seldom been the target of effective promotion of M4P, either through these channels or directly. This does do not seem to be part of the strategy to develop the M4P market, with the result that demand for M4P in receiving countries remains very weak. Developing a capacity to provide M4P services, on the other hand, has been a major focus of efforts to develop the market system, mostly in countries with M4P projects on the ground. Bangladesh is perhaps the outstanding example. However, it is clear that if the demand side (i.e. Governments and Donors) is not effectively addressed, this capacity will wither away when M4P projects like Katalyst end. Katalyst's efforts to facilitate 'M4P crowding in' have not had a significant effect. The demand for M4P services, from donors and the Government, remains very weak. Without such demand M4P will not prove to be a sustainable approach in Bangladesh": Draft Mid-term Review of Katalyst, 2010

Sustainability strategy	3.0	1.0
Total score	10.8	3.6

The total sustainability score is therefore 3.6 which is between adequate and less than adequate.

3.6 GENDER EQUALITY

3.6.1 Gender equality in the design and operation of ECF

The contract for the Fund Manager sets the requirements with respect to gender equality: "it [ECF] must ensure women, as well as men, are able to benefit. Care must be taken to ensure that the process is gender sensitive by engagement with potential bidders, requiring proposals to consider the effects on gender equality, including gender expertise in relevant positions and measuring program impacts on male and female beneficiaries"[27].

The Fund Manager has produced a specific "Lessons Learned in the Application of Gender during the Enterprise Challenge Fund Program"[28]. The document advises that "during the launch phase of the ECF, women in business were included in the invitation list for launches and workshops through their business associations" and names the women's groups that registered with ECF. The document also advises with respect to sectoral targeting that "the contract included the provision that the marketing should target industries with higher gender sensitivity. In most countries, women's participation is higher in the primary industry of the country - agribusiness, manufacturing, tourism and retail trade and therefore in targeting already targeted by the marketing". Neither point suggests very proactive consideration of gender issues.

Both the Concept Note form and the Application form required applicants to provide disaggregated number of men / women beneficiaries and the application form additionally required the applicant to complete a section on "what is the likely impact of the project on women" and this is to be highly commended.

However, the actual forms do not encourage an applicant to view gender equality as a significant factor: apart from asking for the gender split of beneficiaries the Concept Note form is silent on gender equality. The concept note information sheet gives one of the seven listed assessment criteria as "Extent to which the project leads to additional benefits such as promoting gender equity, or addressing environmental challenges" and an eligibility requirement that projects must "not exacerbate existing gender inequities", The concept note assessment form uses the same "catch all" in its assessment process: judging the "extent to which project leads to additional benefits such as promoting gender equity, or addressing environmental challenges".

The Application form is similarly silent on gender equality apart from asking for the gender split of beneficiaries. The application information sheet advises that applications will be appraised and lists 21 appraisal criteria of which one is the "extent to which the project will have a positive impact on women or, at the very least, not increase gender inequalities".

The application information sheet also states that "When indicating the flow on benefits to women please indicate how they will actually benefit Please refer to AusAID's gender guidelines at http://www.ausaid.gov.au/keyaid/gender_guidelines.cfm. The AusAID "Guide to Gender and Development" is a 93 page document intended for use by AusAID Activity Managers, AusAID Officers

[27] Contract 42448: ECF for the pacific and South-East Asia. Schedule 1 – Scope of Services (Section 2.2, para f).
[28] Enterprise Challenge Fund, July 2009, DCR 59111

at Posts and other experts in development. It is both unreasonable and unrealistic to expect private sector applicants whose business is not development to undertake this level of research – especially when the assessment criteria advise them that this in only one of twenty-one factors on which they will be scored.

With respect to the actual application form assessment process the "Individual Panel Member Ranking Form" lists, under "Section 4: Contribution to the Objectives of ECF", the "extent to which the project will have a positive impact on women or, at the very least, not increase gender inequalities" as one of the seven factors for consideration. Five marks are available for award in consideration of the seven factors which include other really critical factor such as:

- The extent to which the project will provide real improvements in the incomes and livelihoods of poor people, including their access to vital products and services (relative to the size of the grant provided by the ECF).
- The likely extent of social/developmental benefits proportionate to the projected commercial gain.
- The anticipated extent to which the project will contribute to capacity building in the local market.
- Likelihood of project being replicated in similar environments and/or multiplying private sector investment in the region or industry.
- The extent to which a project helps the country in which it will be undertaken to harness its natural resources and/ or comparative advantage on a sustainable basis.
- The extent to which the project will result in improvements in the general conditions for doing business in the region or country as a whole.

The marks awarded under section 4 then contribute to a total score of 45. Given that no weighting is utilised this would suggest that the maximum score a project which advanced gender equality and promoted women could achieve would be 0.7 marks out of 45 or 1.59% of the total marks available to be awarded.

Gender equality cannot therefore to have been considered a significant factor in project selection.

3.6.2 Conclusions on gender equality

The IPR has assessed the 11 projects reviewed to determine their contribution to the four dimensions of gender equality.

Table 17: Contribution to gender equality of ECF projects

Project		Dimensions of gender equality				
		Access to and control over resources (Max. 1.5)	Decision-making (Max. 1.5)	Women's rights (Max. 1.5)	Capacity building (Max. 1.5)	Gender equality total (Max. 6)
Cambodia	Company 1	1	0.5	0.5	1	3
	Company 2	1.5	1.5	1.5	1.5	6

	Company 3	1.5	1.5	1.5	1.5	6
	Company 4	1	1	1	1	4
Solomon Islands	Company 5	1	1	1	1	4
	Company 6	0.5	0.5	1	1	3
	Company 7	1.5	0.5	0.5	2.5	4.5
Vanuatu	Company 8	1	-	-	2	3
	Company 9	1	-	-	-	1
	Company 10	1	-	-	1	2
	Company 11	1	-	-	1	2

The total average score for gender equality is 3.5 which is between adequate and less than adequate.

3.7 MONITORING AND EVALUATION

The monitoring and evaluation (M&E) function of the ECF is the responsibility of the Fund Manager. In addition AusAID contracted IMT to independently validate direct and indirect impact benefits and assess the Fund Manager's performance. Grantees are required to produce quarterly reports on the project progress but the measurement of project results is conducted by the Country Manager with technical support from an M&E adviser.

This section looks at the system put in place by the Fund Manager to systematically collect information about the program's progress and evaluate its effectiveness and impact over time. Specifically it covers:

- The ECF Strategic Framework
- Impact logics
- Key processes and Methods Used in Measuring Results
- Reporting Results. The compliance with DCED.

3.7.1. Strategic framework

The Mid-term Review (November 2009) advised that the ECF required a program-level strategic framework to provide clear direction for the operation of the ECF, setting out a basic hierarchy of objectives and anticipated causal impact in line with the analysis and recommendations outlined in the report. Some work has been done in this respect and the May 2010 "Revised Monitoring and Evaluation Plan" contains a "Strategic Results Framework", but this is incomplete.

The ECF program needs a clear hierarchy of objectives – which coherently links the goal of poverty reduction and a focus on sustainable market system change. The strategic focus of the ECF is to offer grants to businesses which deliver project level pro-poor impact, and which can lead to wider systemic change and even greater impact. The direct objective of ECF is to stimulate market systems to work better for the poor: an objective of systemic change therefore should have been made explicit in the ECF strategic framework.

Such a strategic framework establishes the overarching direction and rationale of the program. It provides the Fund Manager with a clear, overarching direction and establishes the basis for monitoring the results of its activities. The strategic framework also sets the parameters for the assessment of sustainability and provides the basis for more detailed impact logics[29]. A strategic framework impacts directly on the way impact logics are designed and thus is essential for effective monitoring and evaluation (as well, of course, for day-to-day operation).

Had a coherent strategic framework been set for the ECF, the revised impact logics could have been based on the overall strategic framework. Impact logics are, in effect, "mini-strategic" frameworks. Some impact logics in ECF still have to be streamlined in terms of: the number of changes; the cause-effect logic; or projecting a credible and robust 'story' to help the project deal with attribution.

3.7.2. Impact logics

The Fund Manager has followed the recommendation of the 2009 Mid-term Review and the IMT[30] to introduce impact logic models adhering to Results Measurement guidance developed by the Donor Committee for Enterprise Development (DCED). The Fund Manager has developed impact logics for all of the 21 funded projects: these have been reviewed and the quality has improved as has been noted in a separate review[31]. Most of these logics clarify the chain of results from business project impact to wider sector or market system impact (clarifying the key assumptions, indicators, and sources of information along the way). But this process is not complete for all impact logics, improvements are still needed, and this has also been acknowledged in the review[32] and the mock audit[33] . Examples are as follows:

- *Changes in the impact logic must happen in a clear sequence* and it is important for the program to be explicit about that sequence. This is essential in order to check whether the desired changes are happening or not. In particular, the changes between each step in the results chain need to be logical and clear without involving major assumptions. This is not the case for some current impact logics (e.g. those for Didao and Wilderness Lodge).

- *The logic of the "impact logics" is essential to the question of attribution of positive impact*: This is discussed later in this section.

- *Simplifying the impact logic chain*: Some of the impact logics in ECF are still "over-populated". There are too many anticipated changes in the logic when in fact only a few changes are really central to the achievement of the desired impacts. Recognising those key steps is crucial as the program cannot afford to validate every possible step in their results chains.

- *Wider systemic improvements*: The process of developing impact logics for the ECF projects should clarify the mechanisms by which wider sector or market system impacts could occur. This should help to clarify the activities required, and their relative priority – based on maximising potential impact from the ECF portfolio. This process of supporting scale-up and replication has not yet started.

3.7.3. Key processes and methods used in measuring results

Design and implement a plan for collecting data to monitor and measure performance (the Result Measurement Plan)

[29] The term "impact logic" may be used interchangeably with the terms "result chains" or "casual logic".
[30] "Validation of direct and indirect impact benefits", September. 2010
[31] "Capacity Building of ECF project's country managers on DCED standard". June 2011, Wafa Hafiz. Wafa Hafiz was contracted by AusAID to support the Fund Manager with its M&E activities. She is now the M&E Adviser to the ECF.
[32] Ibid
[33] DCED Results Measurement Standard - Mock Audit of ECF, October 2011, Nabanita Sen

The MTR recommended that the Fund Manager should establish a monitoring system for the ECF that would show for each impact logic:

- The information required.
- How it will be collected (the tool)?
- How each key indicator will be calculated and described?
- The timing (when), by whom (responsibilities).

Whilst the Fund Manager has undertaken a thorough review of the Monitoring and Evaluation Frameworks based on the impact logics, there is still a need for a clear plan to be set for each impact logic (a result measurement plan) which sets out how data will be collected and which will address all the requirements stated above. The auditor confirms this in her report "*Measurement plans are sometimes vague in terms of tools to be used. Research to assess impact after it has been achieved has been poor quality to date, resulting in questions about the credibility of reported impact. Little qualitative data is included in the formal results measurement system.*[34]"

Indicators: the Fund Manager has followed the recommendations of the mid-term review and has established indicators for every change in its impact logics. However most of the indicators need to be reviewed and modified to make them more appropriate[35],[36] and there needs to be a clear definition of how each key indicator is calculated and described. The Fund Manager reports in its annual portfolio reports against universal indicators at impact level: this is possible since most private sector development programmes are broadly aiming at achieving similar impacts: income and jobs. However, the Fund Manager's use of indicators is not always clear as to what is measured in terms of jobs created (whether this is, for example. full-time job equivalents) or in terms of income of the poor (whether this is additional income minus additional costs as per the DECD definition). The auditor for example mentioned in her report that "FTEs are calculated in different ways for the different projects (e.g. compare WING to FFF)"[37]. There needs to be greater clarity on this point.

Data collection: Data collection is expensive and time consuming. The Fund Manager has a tendency to over specify the amount of data to be collected: a clearer strategic framework and simpler impact logics would help focus on the information that is essential to be collected and avoid collection of inessential data[38]. An analytical process for robust data collection was introduced in June 2011 in line with consultant's recommendations[39]: Country Managers were encouraged to translate the logic model levels to specific indicators of measurement in the various outcome sheets of the Monitoring and Evaluation Frameworks, and then translate those indicators into questions or checklist for interviews[40].

Triangulation of data: The mock audit report mentions the need for the programme to allocate more resources to verify data collected, using more than one source of data (triangulation). "While currently

[34] DCED Results Measurement Standard - Mock Audit of ECF, October 2011, Nabanita Sen
[35] Capacity Building of ECF project's country managers on DCED standard". June 2011, Wafa Hafiz
[36] DCED Results Measurement Standard - Mock Audit of ECF, October 2011, Nabanita Sen: "Some indicators are inadequate particularly at the target beneficiary level to gauge sustainability of behaviour change or performance change at the target beneficiary level. The programme at this stage does not make projections of impact".
[37] DCED Results Measurement Standard - Mock Audit of ECF, October 2011, Nabanita Sen
[38] Information for routine internal consumption does not need to be completely accurate, comprehensive or polished. Information for external consumption does need to meet far higher standards but tends to focus on a small selection of indicators captured and presented periodically
[39] "Capacity Building of ECF project's country managers on DCED standard" .June 2011; Wafa Hafiz
[40] A significant level of capacity building activities has been undertaken in June 2001 with respect to setting indicators and designing and managing measurement plans. This activity is expected to continue supported by ECF's M&E advisor. Practical exercises in this process were also undertaken with three ECF Country Managers.

project managers do monitor progress of interventions through their quarterly visits, due to limited time frame of such visits, they often have to rely on grantees for much information"[41].

Measuring across the impact logic to achieve plausible attribution

The logic of the "impact logics" is essential to the question of attribution of positive impact: Clarity in sequencing (as described in section 3.7.2.) is necessary to allow appropriate attribution of positive effect and this is not very well articulated in the current ECF impact logics. This issue has been considered, to a degree, during the re-formulation of some impact logics but others remain unclear with respect to attribution (e.g. MCS, Wilderness Lodge, Bright Hope Institute). The actual method used to prove attribution depends on the individual circumstances of the projects and it is easier to develop a credible and robust attribution in some ECF projects rather than in others. There is no requirement for rigorous proof of attribution using the DCED standard, but rather a requirement that each project builds a credible and convincing case for attribution. However in either case the attribution factor needs to be addressed by the Fund Manager and this needs to be achieved by completing the reshaping of existing logics into more "robust" impact logics which more clearly demonstrate attribution.

Systemic change

The purpose of the ECF is to catalyse the private sector to realise systemic change in markets that provide sustainable benefits to the poor. Individual projects may not by themselves have significant impact on poverty but each should have the potential to create changes in the wider market system through processes such as scaling up and replication of proven concepts. This is not straightforward and nor can it be expected to happen spontaneously. The ECF strategy to ensure these wider changes occur needs to be defined and operationalised (see section 4.2.1 for greater description of this process). In a separate report, for example, the auditor mentions that the ECF current methodology on tracking systemic is not well articulated[42].

There are examples of successful interventions supported by ECF with significant outputs and impacts. However, the Fund Manager has not established a clear system for encouraging the scale-up or replication of successful interventions to achieve massive impact on poverty reduction.

The challenge now is for the Fund Manager to catalyse broader demonstration effects and replication in order to have systemic impact beyond funding a handful of firms on relatively small projects across large and varied local markets, countries and regions as was pointed out by the IMT[43].

The Fund Manager needs to define a clear strategy and action plan for selection[44] of the projects considered appropriate for scale-up/replication and the actual process of scaling-up/replication. This strategy and action plan must include developing result chains and a monitoring and evaluation plan for the scale-up/replication phase.

3.7.4 Reporting Results

The Country Manager has primary responsibility for project monitoring and this responsibility has been built in to their work programmes. Country Managers physically visit each project every 6 months in

[41] DCED Results Measurement Standard - Mock Audit of ECF, October 2011, Nabanita Sen

[42] DCED Results Measurement Standard - Mock Audit of ECF, October 2011, Nabanita Sen

[43] "The demonstration comes through disseminating the results of the funded projects. But it is also about engaging and influencing other market players, policy makers and donors, to act in such a way that there is a broader impact than the project alone. Therefore, dissemination and engagement has an especially important role to play in a project like ECF beyond the usual desire for "lesson learning" common in donor funded programs" IMT, Milestone 9 Report 2010.

[44] The Fund Manager should define the process of selection: amongst the likely selection criteria should be: (i) the potential for replicability and/or scalability of the project without donor assistance; (ii) the proven evidence of emerging impact; (iii) commercial sustainability. The Fund Manager has tentatively selected six projects but they do not all appear to meet such selection criteria.

order to validate information in grantee reports, gather information using the monitoring visit monitoring tools, and ensure that projects are operating in a socially responsible manner. They also provide support to the M&E adviser during case study visits. The improvement of the impact logics of projects has simplified the monitoring tasks of the Country Managers. However, there remains a need (foreseen in a consultant's report[45]) to continue to build the capacity of the Country Managers to ensure that have an adequate understanding as to how to undertake their monitoring role.

Country Managers have to plan their project visits to accommodate multiple objectives[46] and monitoring (including updating of the Monitoring and Evaluation Frameworks and reporting) does not always happen as planned[47].

The M&E adviser is expected to support the process through updating logic models, updating the monitoring and evaluation plan, undertaking analysis and reporting on findings. The adviser is also responsible for annual M&E reporting including data assessment and verification, portfolio collection and analysis and compilation of the annual report. Case study information is collated in field notes by the M&E adviser after each case study visit.

Grantees provide reports to the Fund Manager on a regular basis once per quarter. However, these reports are not always very informative and do not appear to use a standardised format and do not report against the impact logic in a structured and consistent form.

The Fund Manager should request that the grantees provide more impact logic information in a standardised format as this is essential if the Fund Manager is to aggregate the results from the different projects to achieve meaningful summarised results attributable to the ECF project. It would also help the Country Managers and the Fund Manager with their reporting and reduce the time that Country Managers need to spend on collecting data.

Annual portfolio reports are prepared in ECF and they have been satisfactory and useful. Following IMT and AusAID recommendations these reports have been improved over the years and have now included analyses of the portfolio according to a number of dimensions including the direct and indirect impacts in areas such as: income generation; skill increases; behaviour change; impacts on the economic environment; and crowding-in. M&E data is more detailed, more accurate and timely and reports are compiled more quickly and easily. These critical improvements have delivered gains and greater effectiveness for ECF. The reports have contributed to improved program management's capabilities to make better decisions. Where the reports still need to improve is in setting out a clear understanding of and reporting against the expected "broader" market development arising from its projects.

3.7.5 M&E System for management, learning and continuous improvement

To some extent the ECF has proved effective and flexible as a program to continuously learn and evolve its approach. However there is little evidence that the system is used in an on-going manner to determine if assumptions underlying impact logics are proving true and then to adjust accordingly, and eventually use the system to steer projects[48]. More work needs to be done and some suggestions follow with respect to addressing this.

Formal review of projects: All projects undergo, to a certain degree, a "formal" in-country internal review every three months when the Country Managers prepare their quarterly reports. This internal

[45] "Capacity Building of ECF project's country managers on DCED standard" .June 2011 Wafa Hafiz
[46] Two of the country managers manage 14 of the overall 21 ECF-funded projects whilst the other two have dual responsibilities within the project as either Fund Director or Project Manager and these latter two are not based in-country.
[47] "Capacity Building of ECF project's country managers on DCED standard" .June 2011 Wafa Hafiz
[48] DCED Results Measurement Standard - Mock Audit of ECF, October 2011, Nabanita Sen

review aims to be a thorough review that gives Country Mangers and the M&E Advisor/Fund Director an opportunity to take an in-depth view of the effectiveness of the project and its strategy. Generally it consists of a presentation of the project status (achievements or impediments) followed by discussions and suggestions on how to improve the project. Any changes in impact logics are documented as a result of these reviews, and areas where estimates have to be updated are identified and plans made for updating those. If changes are made, the project impact logic, measurement plans, and MEFs must then be updated.

However this process needs to be undertaken in a more structured manner with the Country Managers and the M&E Advisor (or the Fund Director) revisiting the project logic and the underlying strategies (including those for scaling-up/ replication) in the light of the impact to date of the projects, changes in the market environment, and the portfolio's impact as a whole[49]. The impact logics are particularly important in this review process and need to be increasingly viewed by the Country Managers as a management tool, which enables them to assess regularly their projects and take corrective measures when required[50]. The review process could also reveal other factors which had not previously been included in the logic[51]. The review would also assist the Fund Manager in undertaking the regular review of the overall portfolio so as to check whether the portfolio is generating sufficient impact to achieve the program objectives or whether corrective action is needed.

This review process should be "formalised" within the ECF systems and be further developed in the ECF Results-based Management, Monitoring and Evaluation Manual. The current version of the manual (July 2011) is incomplete and needs significant work. An improved and complete Results-based Management, Monitoring and Evaluation Manual would provide an effective guide for Country Managers in undertaking their day-to-day monitoring activities and would help institutionalise[52] the M&E System within the ECF.

3.7.6 Compliance with the DCED Standard

In 2011 ECF has moved towards using the DCED standard and is currently working towards becoming compliance with that Standard.

A mock audit took place in August 2011. The report concludes that *the programme has a system in place that is partially compliant with the DCED Standard for results measurement. Overall ECF needs a more comprehensive system for developing and documenting results measurement plans in order to gain full compliance with the Standard for results measurement*[53]. This mock audit will be followed by a full audit next year.

ECF has pushed the frontiers of monitoring and evaluation frameworks using the DCED standard in Challenge Funds programs. Country Managers have responded extremely positively to the introduction of the DCED Standard saying that it has helped them to better understand the importance of the ECF wider achievements.

3.7.8 Conclusions on Monitoring and Evaluation

The ECF's monitoring and evaluation system has been measured against six factors. The overall score is 3.42 which is between adequate and less than adequate; however the Fund Manager is fully committed to improving the M&E system and is moving in the right direction.

[49] This more structured process could be undertaken six-monthly rather than quarterly
[50] This has been also mentioned in DCED Results Measurement Standard - Mock Audit of ECF, October 2011, Nabanita Sen
[51] This would then require a review of the underlying logic of the impact logic or other supporting interventions (for example in the PSD linkages) being drawn and linked to it. Impact logics are not static, but evolving and they could and should change.
[52] The need for the M&E system to be institutionalised has also been raised by the auditor involved in the mock audit (October 2011)
[53] DCED Results Measurement Standard - Mock Audit of ECF, October 2011, Nabanita Sen

Table 18: Monitoring and Evaluation

Factor	Score (out of max 6 per factor)
Strategic Framework	2
Impact logics	4
Key processes and methods used in measuring results	4
Reporting results & resources	4
M&E System for management, learning and continuous improvement	3
Compliance with the DCED Standard	3.5
Total M&E score (max 36)	20.5
Total M&E score (max 6)	3.4

3.8 ANALYSIS AND LEARNING

We have already stressed that, in our view, there was insufficient analysis of pro-poor sectors by country and therefore inadequate identification of the market opportunities for intervention which might favour pro-poor growth (and especially which might provide opportunities for poor women). This inadequate analysis led directly to the limited effectiveness and impact of the ECF. The Fund Manager was additionally expected to "act as an information repository in its countries of operation, using highly selective research to help the private sector identify the most compelling market opportunities" and this again did not happen to a satisfactory level. Continuous learning was expected to be achieved by the Fund Manager becoming "a recognised centre of excellence, which other initiatives will seek to both utilise and cooperate with"[54]: this unfortunately also did not happen. At a programme level we therefore rate analysis and learning at 3.0: less than adequate.

We have also assessed each project as to the extent that it is likely to lead to an improved capacity of poor people for employment and/or enterprise creation.

[54] Request for Tender, Enterprise Challenge Fund, AusAID

Table 19: Contribution to the sustainable capacity development of the poor

Project		Sustainable capacity development of poor people for employment and/or enterprise creation – project level (Max. 6)
Cambodia	Company 1	2
	Company 2	4
	Company 3	6
	Company 4	6
Solomon Islands	Company 5	4
	Company 6	4
	Company 7	4
Vanuatu	Company 8	2
	Company 9	1
	Company 10	4
	Company 11	4

The average score for the extent that the projects are is likely to lead to an improved capacity of poor people for employment and/or enterprise creation is 3.7 which is just below adequate.

The summary score for both programme and project level analysis and learning is shown below.

Table 20: Analysis and learning

Analysis and learning	**Score (maximum 12)**
Programme level	3.0
Project level	3.7
Total score	6.7

The average scope for analysis and learning is therefore 3.4 or just above less than adequate quality.

3.9 EVALUATION CRITERIA RATINGS

Table 21: Evaluation Criteria Ratings

Evaluation Criteria	Rating (1-6)	Explanation
Relevance	5.4	ECF is addressing priorities for partner countries and AusAID and does address AusAID's Private Sector Development objectives. ECF could have been better aligned with other AusAID and donor programmes.
Effectiveness	3.5	ECF projects are behind schedule in achieving their lower level objectives and some may not achieve these objectives at all. The projects shoe a high level of additionality but score low on innovation and replicability.
Efficiency	3.5	ECF has been well managed in terms of grant management and project administration and communication. The management of resources to identify ,support and monitor projects has been less efficient and the overall value for money of the programme would appear to be lower than other private sector Challenge Funds.
Sustainability	3.6	Sustainability considered three factors (sustainability of impact and the environmental sustainability of projects and the programme's sustainability strategy).
Gender Equality	3.5	Projects were scored against 4 key gender factors (Access to and control over resources, Decision-making, Women's rights and Capacity building). The portfolio has received a slightly less than adequate score
Monitoring & Evaluation	3.4	M&E was measured through six factors (Strategic framework, Impact logics, Key processes and methods used in measuring results, Reporting results & resources, and M&E System for management, learning and continuous improvement, Compliance with DCED standard): the system was found to be slightly less than adequate
Analysis & Learning	3.4	Analysis and learning was considered at programme and project level: it was considered less than adequate at programme level.

Rating scale:

Satisfactory		Less than satisfactory	
6	Very high quality	**3**	Less than adequate quality
5	Good quality	**2**	Poor quality
4	Adequate quality	**1**	Very poor quality

4 CONCLUSION AND RECOMMENDATIONS

4.1 KEY CONCLUSIONS

The ECF portfolio that we have reviewed can be split into clear categories:

Category	No of projects
Projects which are clear "Challenge Fund" projects offering significant scope for replication and are likely to have significant impact on the poor.	4
Projects which are well implemented and important, but do not have the characteristics of a Challenge Fund project (in that they are more of "public good" type projects or need more support and facilitation than a Challenge Fund can provide.	2
Projects which are not entirely successful at present and which do not appear to provide much opportunity for replication in their current form, but cannot be viewed as unsuccessful.	3
Projects which give cause for concern as to their direction and/or nature.	2

This is not an unsatisfactory result for a pilot programme – but, in our view, the situation could have been significantly improved had there been greater clarity at the start as to what ECF's objectives were and what its strategy was to achieve these objectives. This position is not new: it has been raised during the Mid-term Review. However, it remains true: ECF has no clear strategy or hierarchy of objectives and this has led to an uncertainty of what ECF is expected to achieve amongst the Fund Manager's staff (including country managers), AusAID posts, commercial banks, independent assessors, and applicants.

A supposed rationale for this lack of clarity was that ECF is a pilot and therefore no strategic framework should be defined which might limit its options. The logic behind this predication is flawed: a pilot is aimed at testing assumptions to determine which are valid and which are not. As ECF had no firm and quantified objectives or strategy for achieving them then there are very few clear assumptions being made that can be tested in a clear and objective manner.

This lack of clarity as to what ECF was expected to achieve or how it was to achieve it flowed down through everything: inadequate sectoral targeting, poorly focused selection criteria, unhelpful reviews of the business enabling environment and inevitably, the selection of projects which have had a rather limited impact.

This should not be taken as meaning that there is not a need for an instrument to support pro-poor private sector development. On the contrary there was complete unanimity amongst all stakeholders[55] met during the mission that there is a need for an instrument that recognises that the private sector is the main engine of growth and that direct support to the private sector is the most effective and quickest way to achieve poverty reduction goals in countries where state governance remains weak.

We believe that there should be continued AusAID support for pro-poor private sector development in South-East Asia and the Pacific Islands but that its nature should change.

Our more specific conclusions are:

Issue	Important as...

[55] Including the Australian High Commissioner to Vanuatu, Jeff Roach, who asked to meet our team specifically to highlight the significance of continuing direct support to the private sector.

Issue	Important as...
There remains no clear strategic framework for the ECF	The lack of clarity as to what the project was expected to achieve and how it was to achieve it has been highlighted by other reviews. This was raised by the MTR and so we do not raise the issue in detail here. We discuss the process of ECF design further in annex 5.
The same vehicle is not suitable for both SE Asia and the Pacific	As has been stated above a Challenge Fund needs to be both sectorally focused and have access to a large pool of potential private sector applicants. It is reasonable to assume that most SE Asian countries possess an adequate pool of potential applicants given their population size (with the possible exception of Lao PDR). However, it seems equally reasonable to assume that – with the possible exception of Papua New Guinea – most Pacific island countries do not.
Minimum project size was inappropriate	The lower level of A$100,000 is too low for a "proper" Challenge Fund approach where full due diligence is required and management costs per project are high. However, A$100,000 effectively excludes most indigenous investors in the Pacific Islands – meaning that ECF has tended in some cases to be seen as an AusAID project to support expatriate Australians. The PDD foresaw this problem but suggested it could be overcome by small companies investing with larger companies. This assessment failed to understand that a company capable of undertaking an A$100,000 investment in the smaller Pacific Islands is – in local terms – not a small enterprise and the potential for the type of partnerships foreseen is limited. This is a further indication of a need for different approaches in the different regions.
There is a low level of local ownership of ECF	As pro-poor private sector development is an ongoing task (given the dynamic and ever changing nature of markets) there is a need to accustom partner countries of the need to take increasing responsibility for such an approach into their own policies and, eventually, their own budgets. This will not happen if the concept of "Making markets work for the Poor" is seen by governments as having little relevance to their own policies and needs. Experiences in other countries highlights the need to involve partner countries at a very early stage to ensure adequate buy-in to the approach.
ECF is not specifically aligned with AusAID and other donor programmes in the target country	The lack of specific alignment means that opportunities for complementarity are being missed.
The approach discourages the involvement of commercial banks in projects	ECF requires "evidence that commercial funding has been sought but not obtained" for projects that can demonstrate commercial viability within 3 years. In both the Pacific and SE Asia the most probable reason for such rejection is lack of collateral acceptable to the banks. The purpose of this requirement is to demonstrate that bank funding has not been crowded out by ECF - but the approach used has been to sever the link between the project and the bank although the project owners will inevitably need bank

Issue	Important as...
	finance at some stage in the future. The failure to provide funding is a market failure and actions should be taken to address it in a manner that involves the banks and not one that excludes them.
There is no structured plan to operationalise the replication and/or scaling up of projects which have been identified as offering the optimum opportunities for poverty reduction.	At the heart of all "making markets work for the poor" programmes – be they Challenge Fund or more direct market-based approaches – is the core principle that they should clearly have some kind of plausible vision that leads towards large-scale impact on the poor: all such approaches ought to explicitly envisage feasible mechanisms for replication, extending or multiplying successful results so that, at least potentially, they could benefit very large numbers of poor people. This does not remotely imply that every intervention has itself to be have a direct large-scale impact; but rather that the route or contribution of the intervention to potential impact at scale is credible. The Fund Manager has identified six projects which they plan to work more closely on. There is now a need to confirm the validity of the selection of these projects and then develop a clear operational plan for each selected project so as to define clearly and then operationalise the approach necessary to replicate and/or scale-up projects so as to achieve the optimum opportunities for poverty reduction.

4.2 KEY RECOMMENDATIONS

Our recommendations are on two levels:

- Recommendations relating to the remaining period of the existing Enterprise Challenge Fund.
- Recommendations as to possible future market-based pro-poor private sector development for South-East Asia and for the Pacific Islands. This second set of recommendations is contained in a standalone document prepared by the Independent Progress Review Team and is therefore not discussed further here.

4.2.1 Recommendations relating to the remaining period of the existing Enterprise Challenge Fund

We believe that the Fund Manger should act in 4 key areas during the remaining duration of the project (subject to adequate resources being made available by a reallocation of the existing budget).

Area 1: Activities to encourage scale-up and/or replication of successful projects

As we stated in our conclusions: At the heart of all "making markets work for the poor" programmes – be they Challenge Fund or more direct market-based approaches – is the core principle that they should clearly have some kind of plausible vision that leads towards large-scale impact on the poor: all such approaches ought to explicitly envisage feasible mechanisms for replication, extending or multiplying successful results so that, at least potentially, they could benefit very large numbers of poor people".

We consider the step of encouraging scale-up and/or replication of a limited group of projects of proven success to be the single most important task remaining for the Fund Manager, as it is from such scale-up and/replication that impact at scale in reducing poverty will be achieved.

The Fund Manager should prepare for AusAID's endorsement a clear strategy and action plan to select a limited group of projects which they plan to work more closely on and the approach necessary to replicate and/or scale-up projects so as to achieve the optimum opportunities for poverty reduction. This will require both a portfolio approach and a clear operational plan for each selected project.

The selection of these projects will be pivotal. The selection factors should include:

- A replicable model that offers clear potential for replication (or scale-up) to benefit the poor with a selection factor being the potential number of poor people who might be impacted upon by the scale-up.

- A proven existing impact on the poor: the Fund Manager should propose a clear definition of what constitutes proven impact on the poor and then utilise this definition.

- A requirement that no additional public subsidy is needed to achieve replication or scale-up.

- Scope for significant growth in the market within a specific realistic and reasonable timeframe.

- Level of interest in scale-up/replication of the owner/manager of the company.

- Consideration of any negative impacts to scale-up/replication: on the environment, displacement of other businesses, sustainable livelihoods or on gender equality.

A critical factor in the selection of projects should be the consideration of "value for money": this will involve considering the costs of scale-up/replication costs per project against the potential impact on poverty reduction.

Where possible projects should be selected that will have a significant demonstration effect. It may therefore be appropriate that a sectoral balance between those projects considered most significant to poverty reduction (agriculture and agribusiness, financial services and, to an extent, tourism) should be selected to maximise the demonstration effect.

Area 2: Activities to encourage changes in the business enabling environment

During the course of actions under Area 1 (and only in this framework to ensure continued focus) the Fund Manager is likely to identify legal and regulatory barriers to scale-up. Whilst this should automatically rule a project out for scale-up/replication actions by the Fund Manager under Area 1, such constraints should be raised with the target governments concerned, and with any donors targeting business enabling environment reform in the country in question to demonstrate how the regulation is blocking growth at scale and to encourage focused regulatory reform.

Area 3: Activities to encourage business to business linkages

During the course of actions under Area 1 (and only in this framework to ensure continued focus) the Fund Manager will identify opportunities for business-to-business linkages that are likely to add scale to the operation or increase its pro-poor impact.

The Fund Manager should work to develop such business-to-business linkages – but we would stress again this should only be in the framework of the selected projects for scale-up and replication and not with respect to other projects in the overall portfolio.

Area 4: Activities to provide policy advice to AusAID

The impact of the ECF to date has not been significant and the opportunity for real impact will come from a highly focused concentration on scaling up or replicating those successful projects to achieve scale.

This is a challenging task which will have impact not only on the poor but on the overall direction of AusAID's policy towards using the private sector as an agent for poverty reduction.

It is important that the Fund Manager utilise the lessons learned through Areas 1 to 3 to provide accurate, informed and pertinent policy advice to AusAID.

We understand that there is an under-spent balance of approximately A$3 million on the ECF budget. We would suggest that AusAID should contract some of the available funds with the Fund Manager for the undertaking of activities 1 to 4 over the period until the end 2013. We would suggest that the majority of resources should be sent on surveys and research into the reasons for the success of the selected project (impact surveys, technical research, gender survey, environment studies, etc.). These studies should be commissioned by the Fund Manager but undertaken independently of the Fund Manager to gain credibility for the research. Research and survey studies should then be compiled into technical case studies (as opposed to marketing documents) and these should be utilised to encourage replication and/or scale-up.

During this period the Fund Manager should establish an effective online information service on the efficacy of the "Making Markets Work for the Poor" approach and become the genuine centre of excellence that the original terms of reference called for but which was never achieved. It is suggested that AusAID require the Fund Manager to prepare a relatively detailed action plan for the extension period and a detailed budget as to how the funds are proposed to be used.

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

This second set of recommendations is contained in a standalone discussion document prepared by the Independent Progress Review Team. Its key recommendations are that:

- A new more focused Enterprise Challenge Fund for South-East Asia should be established to help increase the net income of poor people in the region through improved employment and reduced cost of essential goods and services. The Fund should be operated in the poorest countries of the region. Fund management should wherever possible be decentralised to an existing localised Challenge Fund or SME equity fund with clear development objectives to increase alignment with AusAID country strategy priorities and national development priorities of the specific country. The primary focus of the fund should be on agriculture and agri-business. Other sectors that are likely to have significant impact upon the poor could be other primary sectors (such as fisheries and aquaculture) and financial services.

- Two separate approaches to pro-poor private sector development in the Pacific Islands to increase the net income of poor people in the region through improved employment opportunities: one with a focus on (i) the development of agriculture and agribusiness and; (ii) the development of tourism. The first would see a new instrument to provide cost-sharing grants to the private sector to establish or expand nucleus farm systems. The second would provide increased access to commercial finance for tourism SMEs by contributing to an IFC-managed Risk Sharing Facility for the Pacific Islands that would provide a guarantee to participating banks providing a credit line to tourism SMEs.

ANNEX 1 TERMS OF REFERENCE FOR THE INDEPENDENT PROGRESS REVIEW

1 BACKGROUND

1.1 The AusAID Enterprise Challenge Fund (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 Pacific Island Countries. ECF has provided matching grants to firms in eight countries, Cambodia, Laos, Philippines, East Timor, Papua New Guinea, Solomon Islands, Fiji and Vanuatu. Grants of between $100,000 and $1.5 million are provided to business projects on a competitive basis. Supported projects must be commercially viable within three years of grant funding, contribute at least 50 per cent of project costs, demonstrate positive impact on the local business operating environment and improve the livelihoods of the poor. ECF is managed by Coffey International Development.

1.2 A first Independent Progress Review (IPR) of ECF was conducted in 2009. The Australian Government agreed that a further review of ECF should be done in late 2011, with a focus on assessing if ECF provides value for money. This review will examine similar questions as the 2009 review, updated to reflect a further two years of implementation progress including work to address the 2009 review recommendations. The 2009 IPR was unable to look at emerging impact as ECF projects had only just started. This review should address effectiveness /emerging impact from both a quantitative and qualitative perspective.

1.3 ECF includes support for independent validation of its monitoring and evaluation processes to measure program impact. This validation work is through annual field visits by an independent monitoring team, Triple Line Consulting (TLC). The 2011 IPR will be conducted by TLC, expanding the scope of their scheduled annual validation field mission. The validation tasks usually reported separately will be subsumed within reporting for the IPR.

Goal

1.4 The IPR will focus on lessons learnt for how and whether the ECF modality should be scaled up for future activity. The goals of the Second Independent Progress Review are to independently assess the performance of the ECF Pilot Program, advise on how the ECF Pilot could be enhanced; and identify key issues and options for further AusAID activity building on ECF.

Objectives

Independent Progress Report

1.5 The review of ECF performance will assess:

(a) Progress towards meeting ECF objectives, including impact on business growth and development, generating livelihood opportunities and poverty alleviation, against the project design document, ECF Monitoring and Evaluation Framework and recommendations from the first IPR.

(b) Efficiency and effectiveness of the ECF model and how this could be enhanced over the remaining period of the Pilot project to 2013.

(c) Whether ECF applies the most relevant model for achieving the desired, long term development outcomes.

(d) How the ECF Pilot Program compares with other Challenge Funds.

1.6 The IPR will provide advice and recommendations to AusAID on these issues in an Independent Progress Report.

Concept Development

The Concept Discussion Document will

1.7 Comment on potential development benefits, scale and modality of further AusAID funding based on lessons from ECF, including the benefits of focusing on particular windows of opportunity and/or regions and countries (for example financial services, export markets, geographical focus).

1.8 Provide advice and recommendations to AusAID on these issues in the form of a Concept for further funding, including draft terms of reference for possible scoping and design missions to be managed by AusAID country and regional programs.

2 SERVICES

2.1 The Contractor shall provide Simon Armstrong, David Smith, Mihaela Balan and Rod Woolcock to perform the following Services in accordance with the terms and conditions of this Contract:

Inputs

2.2 The inputs shall be as per the following table

		Simon Armstrong	David Smith	Mihaela Balan	Rod Woolcock
Saturday 17th	AM				
	PM				
Sunday 18th	AM	0.5	0.5		
	PM	0.5	0.5		
Monday 19th	AM	0.5	0.5	0.5	0.5
	PM	0.5	0.5		
Tuesday 20th	AM	0.5	0.5	0.5	
	PM	0.5	0.5	0.5	
Wednesday 21st	AM	0.5	0.5	0.5	
	PM	0.5	0.5	0.5	
Thursday 22nd	AM	0.5	0.5	0.5	
	PM	0.5	0.5	0.5	
Friday 23rd	AM	0.5	0.5	0.5	
	PM	0.5	0.5	0.5	
Saturday 24th	AM	0.5		0.5	
	PM	0.5		0.5	
Sunday 25th	AM	0.5	0.5		
	PM	0.5	0.5		
Monday 26th	AM	0.5	0.5	0.5	
	PM	0.5	0.5	0.5	
Tuesday 27th	AM	0.5	0.5	0.5	0.5
	PM	0.5	0.5	0.5	0.5
Wednesday 28th	AM	0.5	0.5	0.5	0.5
	PM	0.5	0.5	0.5	0.5
Thursday 29th	AM	0.5	0.5	0.5	
	PM	0.5	0.5		
Friday 30th	AM	0.5	0.5		
	PM	0.5			

	Simon Armstrong	David Smith	Mihaela Balan	Rod Woolcock
Total Field	**12.5**	**11**	**9**	**2.5**
Prep and Milestone 1 Report	2.5	1	0.5	
Write up IPR (milestone 4)	4	3	3	0.5
Write up Concept (milestone 5)	5	2	1	
Telecon/Briefing	1			
Final Draft	2	1	0.5	
Total	**27**	**18**	**14**	**3**

The review will conduct

- a desk review of all relevant documentation agreed with the AusAID Activity Manager
- site visits to ECF projects in Asia and the Pacific (September 2011)
- stakeholder consultations

When the team is contracted, they will have conference calls with AusAID and the Managing Contractor Coffey International Development to plan for the review to discuss the approach and field visit schedule, and to agree process for consultation with other stakeholders such as partner governments and donor agencies.

Outputs

2.3 The outputs shall be:

(a) **Milestone One** – Prepare an outline plan covering what the IPR will review, who they would like to meet, which locations to visit etc, approach to reviewing the fund management team, key planning and approach documents they need.

(b) **Milestone Two** – Complete field visits and consultations as specified in this TOR.

(c) **Milestone Three** Circulate a preliminary findings report (aide memoire) well before a meeting with AusAID in Canberra to give the ECF team opportunity to engage meaningfully in a review exit meeting.

(d) **Milestone Four** - Draft an Independent Progress Report

(e) **Milestone Five** - Draft a Concept Document for possible further AusAID funding based on lessons learned from the ECF Pilot.

(f) **Milestone Six** – Finalise the Progress Report and Concept Document in response to comment from AusAID.

2.4 In delivering these outputs, the Contractor shall address the following questions

2.5 **Independent Progress Review**

(g) Relevance: Is the ECF pilot addressing priorities for partner countries and AusAID?

1. Is the ECF pilot aligned to AusAID's Private Sector Development (PSD) objectives?
2. How well does the ECF complement other AusAID and donor programmes?
3. Has AusAID (Posts and HQ) engagement with ECF been appropriate?
4. How relevant has the ECF pilot been as a PSD/ poverty reducing instrument in the eight countries in terms of complementing/ supporting national PSD objectives and instruments?
5. Were the objectives as stated correctly targeted or should they be refined?

6. How relevant is the ECF model to countries at different stages of development, for example in fragile states and in countries with thriving local private sectors?
7. What level of commitment to ECF is there from relevant donors and stakeholders?
8. Do other factors (e.g. economic circumstances) make the ECF model more or less timely and beneficial?

(h) Effectiveness: Is ECF achieving its development objectives?

1. How effective is ECF in achieving its development objectives, including when compared with other private sector development models in ECF-relevant countries?
2. What is the overall performance and emerging impact of the projects and the portfolio?
3. How have the recommendations of the first IPR been implemented to make ECF more effective?
4. How effective is the ECF model in leveraging/ engaging the private sector as an agent of development?
5. How effective have ECF marketing campaigns and project identification and selection processes been?
6. What are the lessons for aid support to business development services, in areas including linkages and management systems, as distinct from expectations that grant funding alone would be sufficient to catalyse development impact?
7. How effective are the measurement of the results/impact from the projects and the adoption of the Donor Committee for Enterprise Development (DCED) approach?
8. What is the evidence of the economic and commercial sustainability of ECF projects and how might this be enhanced?
9. How many projects would not have proceeded and/or been substantially delayed without ECF funding?
10. What are the development benefits of ECF in each country/region where ECF operates and how do these compare?
11. How significant are the non-economic development benefits of ECF such as sustainable capacity development and environmental benefits?
12. How could the effectiveness of the ECF pilot best be enhanced?

(i) Efficiency: Is ECF providing value for money?

1. Project management: How does the ECF compare with other Challenge Funds or comparable funding schemes in terms of transaction costs, process efficiency and management?
2. What are the lessons in terms of project management for: (i) ex ante assessment/ due diligence on projects; (ii) engagement with the funded projects to achieve scaling up and systemic impacts (iii) engagement with PSD actors?
3. How does economic assessment of ECF in terms of return on investment What are the lessons for project management and leadership in country?
4. What specific need exists for changed emphasis in the remaining two years of the ECF Pilot, including best use of available resources?
5. How could the efficiency of the ECF pilot best be enhanced, including through contractual amendments to change the existing use of allocated funding?

2.6 Concept Development

(j) The review will assist AusAID to scale-up funding in private sector development. AusAID geographic program areas (Asia, Africa, Pacific) will assess how PSD will be part of their delivery strategies. Review comment should be guided by AusAID and partner government views on priorities. Where possible, AusAID program areas could use the IPR report as an input for mobilizing design and scoping missions for PSD, including Challenge Funds if appropriate. For example, Pacific Branch may wish to link design work on a possible new Challenge Fund to partnership with other donors. It is expected that various modalities, including Challenge Funds, will be considered as part of forward programming options

(k) The Review will prepare a discussion document to prepare the ground for a full Concept Document and project design document. The discussion document will address:

1. Poverty reduction, pro-poor PSD and private sector development: clarifying AusAID's objectives for a new instrument
2. The pros and cons of different instruments for private sector development (investment climate facilities, equity, credit guarantee funds, Challenge Funds, BDS matching grants, etc.)
3. The different challenges in the different target countries of the ECF: what are the challenges facing the private sector?
4. When to use a Challenge Fund and when to use M4P approaches as opposed to more traditional PSD measures)
5. Challenge funds: operational aspects - sectoral windows, minimum population size, minimum grant size, management, positing the "challenges", etc.
6. M4P approaches: operational aspects – sectoral focus, research and facilitation, need for seed funding, replication challenges, etc.
7. The Paris Declaration and beyond: alignment with national PRSPs and complementarity with other donors; alignment with national PSD objectives and with AusAID country strategy papers.
8. Implications for AusAID: outline of a new instrument and ToR for a Concept Development mission.

(l) The discussion document on a future Pro-Poor Private Sector Development Instrument will have the following outline structure

Chapter 1	Poverty reduction or economic growth through private sector development (PSD): not all growth is pro-poor
Chapter 2	Why private sector development matters for pro-poor growth and how private sector development can contribute to pro-poor growth
Chapter 3	Blockages to PSD and for PSD to contribute to poverty reduction (with annexes addressing the different blockages facing PSD in the different ECF countries)
Chapter 4	The pros and cons of different instruments for private sector development (investment climate facilities, equity, credit guarantee funds, Challenge Funds, BDS matching grants, etc. (with an annex giving details on each main instrument)
Chapter 5	When to use a Challenge Fund and when to use M4P approaches: the pros and cons of the different approaches (with separate annexes on each addressing operational consideration)
Chapter 6	The Paris Declaration and beyond: alignment with national PRSPs and complementarity with other donors; alignment with national PSD objectives and with AusAID country strategy papers.
Chapter 7	Clarifying AusAID's objectives for a new instrument: defining clear goals linked to the government policy document An Effective Aid Program for Australia
Chapter 8	Implications for AusAID: outline of a new instrument
Annex 1	Blockages to PSD by country for each of the 8 ECF countries
Annex 2	Instruments for Private Sector Development (investment climate facilities, equity, credit guarantee funds, Challenge Funds, BDS matching grants, etc
Annex 3	Challenge Funds: policy and operational considerations

Annex 4	M4P approaches: policy and operational considerations
Annex 5	Terms of reference for the concept development mission

3 REPORTING REQUIREMENTS

3.1 The Contractor must also provide the following reports by the date, in the format and the number of copies indicated:

	Description of Report	Format	Qty	Due Date
(a) Milestone One –	Prepare an outline plan covering what the IPR will review, who they would like to meet, which locations to visit etc, approach to reviewing the fund management team, key planning and approach documents they need.	electronic submission Microsoft Word/Excel	1	19/9/11
(c) Milestone Three	Circulate a preliminary findings report (aide memoire) well before a meeting with AusAID in Canberra to give the ECF team opportunity to engage meaningfully in a review exit meeting.	electronic submission Microsoft Word/Excel	1	28/9/11
Milestone Four -	Draft an Independent Progress Report	electronic submission Microsoft Word/Excel	1	15/10/11
Milestone Five -	Draft a Concept Discussion Document for possible further AusAID funding based on lessons learned from the ECF Pilot.	electronic submission Microsoft Word/Excel	1	15/10/11
Milestone Six –	Finalise the Progress Report and Concept Discussion Document in response to comment from AusAID.	electronic submission Microsoft Word/Excel	1	30/10/11

3.2 All reports must:

(a) be provided in accordance with the specification under Standard Condition clause headed **Reports**;

(b) be accurate and not misleading in any respect;

(c) be prepared in accordance with directions provided by AusAID;

(d) allow AusAID to properly assess progress under the Contract;

(e) be provided in the format, number and on the media approved or requested by AusAID;

(f) not incorporate either AusAID or the Contractor's logo;

(g) be provided at the time specified in this Schedule; and

(h) incorporate sufficient information to allow AusAID to monitor and assess the success of the Services in achieving the objectives of AusAID's policy framework.

Annex 2: Assessment of the extent to which the Mid-term Review's recommendations have been adopted

Recommendations of the Mid-term Review of ECF (2009)		The extent to which these have been adopted by the Fund Manager and/or AusAID
No recapitalisation of the existing ECF fund	Recommending any new investment capital for the ECF would be dependent on the review being sufficiently confident about the expected social return to the investments already made. We are not, and hence our primary recommendation is that no new funds should be invested through the ECF at this time.	AusAID has not invested new funds through the ECF since the 1st Independent Progress Review
Managing for results	The ECF needs to rework its strategic framework in line with the analysis and recommendations outlined in this report. Critically important is setting the basic hierarchy of objectives and anticipated causal impact. Doing this will set a clear results framework.	No strategic framework exists explaining the ECF's strategy and focusing on clear and specific objectives to achieve its purpose. The May 2010 "Revised Monitoring and Evaluation Plan" does contain a "Strategic Results Framework" but this is not a strategy for the operation of the ECF and is, in itself, incorrect in some instances (as, for example, it confuses activities and outputs).
	This results framework should be applied to each project, using an impact logic model. This will set a clear causal impact chain for each project.	The results framework has been applied to each project, but the causal impact chains are not clear or always causal
	The existing MEFs should be updated and aligned in accordance with the impact logic. This will involve setting clear indicators at different levels.	The MEFs have been updated and are aligned with the causal impact chains but as the causal impact chains are flawed so are the MEFs. Clear indicators do not exist at all levels and there are too many indicators at the activities level.
	A revised M&E plan should be defined in line with each newly worked MEF. This plan should be clear on data sources and methods, and what can, or cannot, be expected to be provided by the grantee.	The May 2010 "Revised Monitoring and Evaluation Plan" does not define an M&E plan for each newly worked MEF: it contains a generic M&E plan. Each MEF does contain a section called "M&E plan" but this describes the monitoring undertaken to date and not the monitoring and evaluation plan.
	The M&E plans should be clear who is responsible for what from	This has been addressed by the Fund Manager in the May 2010

Recommendations of the Mid-term Review of ECF (2009)		The extent to which these have been adopted by the Fund Manager and/or AusAID
	across the ECF Fund Manager team.	revised M&E plan
Further independent review of performance	As mentioned, this review has taken place at time where there is a very limited track record of performance. The review team believes that a further independent assessment of performance a year from now is warranted. This review believes that the ECF responds well to a gap in AusAID's current programming options. It has done enough to warrant AusAID considering further use of the instrument both centrally and at country levels (as recommended below). If the ECF responds to the analysis and recommendations of this review then a year from now it should offer a more tangible laboratory of experiences from which any wider application of Challenge Funds by AusAID can be informed. Hence, the type of assessment envisaged here is more learning and knowledge capture focused, with the specific purpose of generating insights which can inform the design and operations of any new Challenge Fund programmes.	The current IPR has been commissioned by AusAID and this annex represents an element of the review team's tasks. The IPR's terms of reference require a review of the ECF to identify insights which can inform the design and operations of any new Challenge Fund programmes.
Taking Challenge Funds into AusAID – Central level	Challenge funds do not represent any sort of panacea or short cut to good development practice. They are an instrument, which if deployed strategically, and in clear context, can in principle add value to future AusAID programming. As such, the review recommends that AusAID should aim to normalise this instrument within their suite of current aid modalities.	AusAID has not as yet normalized the Challenge Fund instrument within their suite of current aid modalities, but has provided finance to the Zimbabwe window of the Africa Enterprise Challenge Fund.

Recommendations of the Mid-term Review of ECF (2009)		The extent to which these have been adopted by the Fund Manager and/or AusAID
The role of the ECF within a new Renewable energy facility	As mentioned, the ECF has done enough to show the relevance of the Challenge Fund instrument to AusAID and to development challenges in the Pacific region in particular. However, it is limited by its lack of specialisation, lack of alignment / embeddedness with specific AusAID development policies and strategies, and by its limited fund management role beyond that of offering cost-sharing grants. An ECF model that responded to these limitations would be powerful indeed. For these reasons the review feels that an ECF model would be highly relevant to delivering the pledged commitment of the Australian Government to support the promotion of renewable energy across the Pacific Islands. This would offer the degree of specialisation required to support improved effectiveness and efficiency considerations. It would also ensure a clear alignment with Australian Government priorities. Energy represents the second most represented sector in the ECF portfolio. Most of these projects are located in the Pacific. As such, there are various options open to what role the ECF might play in such an initiative. A more detailed consideration of options can only be explored further in the context of a scoping study commissioned specifically to look at the feasibility for a new facility to support renewable energy in the Pacific.	No scoping study has been commissioned specifically to look at the feasibility for a new facility to support renewable energy in the Pacific
Taking the Challenge Fund into AusAID - Country level	The ECF has clearly resonated positively with many AusAID country managers. The instrument offers welcomed flexibility, visibility, and relatively quick programming. It complements AusAID's more institutional reform efforts with partner Governments, and more direct livelihoods work with communities. The review is aware of a host of new PSD related programmes currently being designed and/or initiated by AusAID (e.g. CAVAC, SADI-II, and Regional M4P Facility). The review would support these programmes making use of a Challenge Fund instrument; if such an instrument was deemed valuable to their planned work.	No further Challenge Funds have been established.

Annex 3: Structured stakeholder questionnaire

Person interviewed: Date:

Interviewer:

1	Do you feel that there should be a Phase 2 of the ECF?	If No, then get reasons
2	Do you feel that the primary focus of ECF 2 should be poverty reduction or economic growth?	Get reasons
3	Do you feel that poverty reduction through supporting the private sector to involve the poor in markets is the right approach?	If No, then get reasons
4	Do you feel that there is a need for changes in ECF2 compared to ECF 1?	If No, then get reasons
5	Do you feel that there should be differences between ECF in Asia and ECF in the Pacific?	If No, then get reasons
6	Is there an alignment between the ECF with the PRSP (or similar) covering your country?	If No, then get reasons
7	Is the ECF aligned with other AusAid objectives and other donor programmes?	If No, then get reasons
8	Do you feel that the Challenge Fund approach (explain briefly) is an appropriate tool for your region?	If Yes, then get reasons
9	Do you feel that the M4P approach (explain briefly) would	If Yes, then get reasons

	be a viable alternative in your region?	
10	Do you feel that the ECF should have sectoral “windows” in your region (Asia or Pacific)?	If No: reasons why no change is needed
11	What do you think should be the ECF sectoral “windows” in your region (Asia or Pacific)?	List and ask for reasons
12	Should there be a maximum and minimum grant size?	Give range proposed with reasons
13	Should there be co-financing – in cash or in kind?	Give response with reasons and an indicative level
14	Is there a need for more “facilitation” (explain briefly) in order to get high quality pro-poor applications for the ECF in your region?	If yes, get reasons
15	What other elements would you like to see in the ECF 2?	List with reasons
16	An exit strategy for AusAid requires identifying a regional “host”? Can you think of an appropriate institution that would have broad support from countries in the region?	
17	(for government stakeholders) Do you believe that your government would be interested in funding a regional ECF once AusAid has stopped funding?	

Annex 4: List of persons consulted

Name	Organisation
Denise Aldous	Independent Consultant, Sydney (Chair, International Selection Panel)
Barry Amos	Managing Director, South Sea Shipping (Vanuatu)
John Atkins Aruhuri	Head of Rural Banking Services, National Bank, Vanuatu
Brek Batley	Director, South Asia – Regional Section, AusAID, Canberra
Harald Bekkers	Market Development Facility, Fiji
Christopher Bleakley	Senior Investment Policy Officer, IFC, Sydney
Clive Carroll	Managing Director, Commodity Corporation
Katrin Bock	Business Analyst, European Investment Bank, Sydney
Alwyn Chilver	Principal Adviser Rural Development and Environment, AusAID, Canberra
David Clark	GM, C-Corp Solomon Islands
Ian Clarke	Immediate Past President, Australia Papua New Guinea Business Council, Sydney
Christopher Colmar	Manager, Sarami Plantation
Peter Colmar	Managing Director, Sarami Plantation
Simon Cramp	Programme Director, Governance for Growth Programme, Vanuatu
Jean-Philippe de Jong	Head of Regional Office, European Investment Bank, Sydney
Deva De Silva	Senior Operations Officer. IFC, East Asia and the Pacific - Access to Finance
Julie Delforce	Director Growth and Resources, Pacific Division
Trent Eddy	Partner, Emerging Markets Consulting Cambodia
Chou Bun Eng	Ministry of Interior, Secretary of State, Cambodia
James Gilbert	Economics and Public Finance Section, AusAID, Canberra
Christine Groeger	Manager, Economics and Trade, Pacific Branch, AusAID, Canberra

Name	Organisation
John Hardin	Managing Director, Hardin & Associates
Perry Head,	Director, Solomon Islands and Public Administration, Pacific Division
Barnabas Henson	Staff, Solomon Islands Chamber of Commerce & Industry (SICCI)
Stephen Higgins	CEO, ANZ Royal. Cambodia
Cameron Hill	Acting Director, Asia Strategy, Programs and Performance Section, AusAID, Canberra
Soneath Hor	Project Manager, Investment Climate Services, IFC, Cambodia
Mark Ingram	Chief Executive Officer. Business for Millennium Development, Sydney
Francois Japiot	Adviser. Department of Agriculture, Vanuatu
Caleb Jarvis	Trade Commissioner, Pacific Islands Trade & Invest, Sydney
Carol Jones	Fiji Section, Pacific Division
Amanda Jupp	Project Manager, ECF
King Kap Kalyan	General Manager, SAMIC, Cambodia
James Kana	ECF Solomon Islands M&E support
Kanokpan Lao-Aray	Senior Private Sector Development Specialist, ADB, Sydney
Alopi Latukefu	Director (Bilateral), Food Security and Rural – ERDI Branch, AusAID, Canberra
John Lightfoot	Lightfoot Associates, Sydney
Tim Martin	Investment Analyst, Pacific Islands Trade & Invest, Sydney
Michael Mihajlov	Carnival Australia, Sydney
Katherine Mitchell	Second Secretary, Development Cooperation, AusAID, Cambodia
Toata Molea	Managing Director, Didao Solomon Islands
Ruth Moore	Advisor, Economic Reform Unit (ERU) Solomon Islands
Tess Newton Cain	Advantage Management and Consultancy, Vanuatu
Gregoire Nimbtik	Director, Department of Strategic Policy, Planning and Cooperation, Office of the Prime Minister, Vanuatu
Keo Nimet	International Relation Manager, Chamber of Commerce, Cambodia

Name	Organisation
Melissa Noonan	Head of Distribution and Marketing, Westpac Pacific Banking
Daniel Nunuvia	CCorp Solomon Islands Landowner at Horokiki
Roselyn Nunuvia	CCorp Solomon Islands Spokesperson Landowners
Peter O’Connor	AusAID Solomon Islands First Secretary
Michael Para	CCorp Solomon Islands Landowner at Horokiki
Lee-Anne Pitcaithly	CEO, WING, Cambodia
Bob Pollard	ECF Solomon Islands Country manager
Colin Potakana	AusAID Solomon Islands staff
Alfred Ramo	General manager CEMA Solomon Islands
Jeff Roach	High Commissioner, Australian High Commission, Vanuatu
Barry Roche	Volcanic Earth, Vanuatu
Peter Roggekamp	Team Leader, CAVAC, Cambodia
Katherine Ruiz-Avila	Counsellor (Development Cooperation), AusAID, Vanuatu
Ben Schultz	Manager, Development Services, Coffey International Development, Cambodia
Kao Sereyrath	ICT Manager, SAMIC, Cambodia
Seng Sintha	Director Bright Hope Institute
Lim Siah	Consultant, Pupuk Alam
James Soo	Director, Pupuk Alam SDN, Kuala Lumpur , Malaysia
Yun Sovanna	Manager, Cambodia Chamber of Commerce
Sin Sovith	Senior Programme Manager, Agriculture and Rural Development, AusAID, Cambodia
Wilfred Spencer	CCorp Solomon Islands Landowner at Horokiki
H.E. Nguon Meng Tech	Director General, Cambodia Chamber of Commerce
Neak Tharen	General Manager, Pupuk Alam, Cambodia
Serge Taga	Head of Relationship Banking and Marketing, National Bank, Vanuatu
Mark Taylor	Managing Partner, Emerging Markets Consulting, Cambodia

Name	Organisation
James Terry	Deputy Director Department of Fisheries Solomon Islands
John Titus	CCorp Solomon Islands Landowners at Horokiki
Michael Tokuru	General Manager, Solomon Islands Visitors Bureau (SIVB)
Robert Tulip	Financial Services Manager, Economic, Rural Development and Infrastructure Branch, AusAID, Canberra
Peter Wilson	AusAID Solomon Islands Advisor
Calvin Ziru	CEO, Solomon Islands Chamber of Commerce & Industry (SICCI)

Annex 5: The design of the ECF

The feasibility study

The April 2006 White Paper "Australian Aid: Promoting Growth and Stability" recognised that "growth has to be driven by the private sector" and that "developing countries, and especially fragile states, cannot rely on governance reforms alone to drive growth. Reforms take a long time to deliver, and many of Australia's neighbours need to generate growth much sooner to provide employment for growing populations and to underpin stability". The White Paper called for "strengthening support for private sector-led rural and business development". In response to this call AusAID's Advisory Group proposed an Enterprise Challenge Fund for the Pacific and the poorer regions of South-East Asia. A feasibility study was commissioned and completed in November 2006[56].

The feasibility study launched an issue which remains one of the fundamental flaws of ECF to the present day. It did not define a clear hierarchy of objectives nor did it define a strategy for achieving objectives. The feasibility study did define – without justification and without hierarchical linkages – the objectives of the ECF as:

- "Reduce poverty – increased number of poor and disadvantaged people with jobs, income, goods and services provided by commercially sustainable businesses
- Raise awareness broadly across the private sector in the Pacific and poorer parts of Asia of profit making opportunities in poor markets
- Catalyse more commercial investments in poor markets
- Help bring about sustainable change in corporate behaviour – an increased proportion of private sector resources gets allocated to pro-poor business for commercial reasons
- Improved conditions for profitable business in poor markets – in terms of more enabling rules and regulations, enhanced business-to-business services, improved infrastructure, and so forth
- Add value to PSD activities in the region, leveraging the efforts of businesses to help advance broader improvements in the enabling environment"[57].

A clear logical framework matrix prepared in accordance with AusAID's normal procedures could have clarified the hierarchy of objectives for the implementation of ECF.

The issue of an absence of a strategic framework is not new: it has been raised during the Mid-term Review. However, it remains true: ECF has no clear strategy or hierarchy of objectives and this has led to an uncertainty of what ECF is expected to achieve amongst the Fund Manager's staff (including country managers), AusAID posts, commercial banks, independent assessors, and applicants.

The feasibility study however did highlight some important design aspects:

- **Involvement of commercial banks**: the feasibility study viewed access to finance as one of the key stumbling blocks to private sector-led growth in the Pacific. It stated that "*the conservative attitudes of the commercial banks in more remote areas in the region could be reduced by an*

[56] Feasibility Study: Enterprise Challenge Fund for the Pacific and South-East Asia, Enterplan Ltd, November 2006
[57] Ibid.

ECF. These banks have already indicated that a business project that has been through an ECF appraisal would be well regarded and that they would consider an EC grant as quasi-equity. Beyond the individual project, however, successful and profitable pro-poor businesses operating, in part, in more remote areas would also improve the risk assessment of such ventures and could lead to more flexible lending decisions for other similar projects not supported by an ECF. An ECF may therefore result in beneficial improvements in the commercial banks' lending decisions for pro-poor business projects in the region". The feasibility study also concluded that "it may be appropriate to take into account a bank loan or similar as the company's contribution, provided this does not impact adversely on the viability of the project and company. The particular difficulties in securing finance in the region suggest that bank finance would only be provided for projects that can demonstrate viability to a sceptical provider and this should reduce the overall risk of undermining the project through over borrowing".

- **Regionally different ECFs**: The feasibility study proposed a "dedicated Pacific Fund" because, inter alia, "the business and market conditions in the two regions [Pacific and South-East Asia] are also quite different with projects in Asia possibly having more absorptive capacity/higher numbers of beneficiaries".
- **Sectoral targeting**: The feasibility study also concluded that "given the much lower effective cost of projects seeking to lift livelihoods as opposed to those offering consumers existing or new goods and services, consideration may need to be given to restricting the ECF to these types of projects. Limiting the ECF in this way recognises that the poorest in these countries are those in rural and remote areas who are mostly cut off from the cash economy, and generating any cash income for them, even if small, may have positive multiplier effects, at a regional and national level". The feasibility study continued "DFID has taken these issues into account in designing its new African ECF. To maximise impact they have decided to limit eligible projects to those which benefit the rural population either by increasing their access to finance or by improving the functioning of commodity markets. While this type of restriction is not necessarily endorsed by the consultants, it is something which AusAID may want to consider further".

The lack of clarity as to what ECF was expected to achieve or how it was to achieve it flowed down: inadequate sectoral targeting, poorly focused selection criteria, inadequate reviews of the business enabling environment and inevitably, the selection of projects which have had a rather limited impact which could have been much improved had such a strategic framework been in place.

However, the ECF might have been better focused if it had been structured as a second generation Challenge Fund with clear sectoral targeting[58] and clearly posited "challenges" to the private sector. In order to operate an effective Challenge Fund the Fund Manager must know which interventions should be supported and which offer the nest prospect of replication and/or scale-up. This requires the Fund Manager to have a good understanding of why the market does not currently work for poor people and being able to (i) word the "challenges" to the private sector in a manner that elicits clear responses and (ii) ensure that proposed interventions will sustainably address systemic failure. This is only possible cost-

[58] Sectors relevant for reaching the poor are: (i) sectors in which the poor have a large presence, either as self-employed individuals or as employees; (ii) sectors with the potential to absorb the poor in more rewarding, more secure or less risky economic activities; and (iii) those sectors able to supply the poor with essential goods and services to an acceptable quality and at an affordable price. Under this umbrella sectoral focusing should have considered the specific needs of partner countries and AusAid's priorities in those countries.

effectively if there is a significant degree of sectoral focus as undertaking due diligence across a wide range of sectors is expensive and requires significant expertise in the sector in question.

Equally, it seems likely that introducing a different instrument to address the different problems of SE Asia and the Pacific Islands might have led to improved focus: it is reasonable to assume that most SE Asian countries possess an adequate pool of potential entrepreneurial applicants to respond to a clearly posited "challenge" given their population size (with the possible exception of Lao PDR) and it seems equally reasonable to assume that – with the possible exception of Papua New Guinea – most Pacific island countries do not.

This focusing was foreseen in the feasibility study but did not happen: the change in direction occurred through the Project Design Document.

<u>The Project Design Document</u>

The Project Design Document was completed in December 2006[59]. Despite the conclusions of the Feasibility Study, the Project Design Document introduced some design elements that were contradictory to the original study's recommendations:

- **Commercial funding**: "Proposals must be able to demonstrate that their ideas could not be funded on a normal commercial basis".
- **Sectoral focus**: "An ECF should be open to all sectors"[60].
- **Separate funds for the Pacific and SE Asia**: "The recommendation is therefore to launch and operate the ECF in all countries covered by the feasibility study".

The reasons for these radical changes in direction are not explained: the two documents were completed within a month of one another by the same company. The changes introduced by the Project Design Document had, in our view, a negative impact, but why they were introduced is unclear.

We understand that the Fund Manager did request that AusAID remove the commercial funding exclusion requirement – but that AusAID did not accept their proposal.

We have discussed in the previous section the negative impact caused by not having separate instruments for the Pacific Islands and South-East Asia and not having sectoral targeting.

With respect to commercial funding, in line with the Project Design Document, ECF requires "evidence that commercial funding has been sought but not obtained" for projects that can demonstrate commercial viability within 3 years. In both the Pacific and SE Asia the most probable reason for such rejection is lack of collateral acceptable to the banks. The purpose of this requirement is to demonstrate that bank funding has not been crowded out by ECF - but the approach used has been to sever the link between the project and the bank although the project owners will inevitably need bank finance at some stage in the future. The failure to provide funding is a market failure and actions should have been taken to address it in a manner that involved the banks and not one that excluded them.

[59] Enterprise Challenge Fund for the Pacific and South-East Asia, Enterplan Ltd., December 2006
[60] However, the feasibility study calls upon the Fund Manager to review business sectors to ensure that primary sectors can be identified and promoted to the market taking into consideration the different conditions in individual countries,

Additionally, the Programme Design Document did not view itself as the final programming document: “therefore there is a clear prima facie case for an AusAID-funded ECF in selected regions, given the close alignment of this instrument with current policies, and the potential complementarity to its broader programme. A more rigorous analysis of the potential of an ECF would help to substantiate this belief and enable the fine tuning of Challenge Fund techniques to meet the specific circumstances of the regions in which perceived need is greatest”[61].

This rigorous analysis and subsequent fine tuning to meet the specific circumstances of the target regions was never undertaken: it was however certainly needed as the Project Design Document – like the feasibility study which preceded it – had no clear hierarchy of objectives and concentrated far more on the detail of <u>how</u> the ECF should operate and far too little on <u>what</u> it was expected to achieve.

<u>The Request for Tender (RfT)</u>

The Request for Tender is dated 10th March 2007. The RFT seeks to focus the objectives of the ECF. It defines the goal of the ECF as “private sector-led growth in poorer regions of Asia and the Pacific” and its purpose as “increased access by the poor to commercially sustainable jobs and services”.

The RfT places responsibility for key actions to focus the ECF on the Fund Manager: tenderers were asked to draw up an Implementation Strategy that explained*, inter alia*, how they would:

- Identify pro-poor business opportunities and market the ECF in the target countries, given the different profiles of each country
- Identify and distinguish sectors and projects with the greatest potential to generate systemic change in the business enabling environment
- Pro-actively develop and realise links with efforts to improve the business enabling environment
- Apply analytical skills and conduct ‘market research’ to identify potential ECF projects with the greatest impact

The RfT also specified that “The ECF shall be open to all pro-poor business ideas regardless of sector, and projects may indeed span several industry sectors. However, the Contractor must focus attention on sectors that have the potential to generate real systemic change (that is, they exhibit potential multiplier effects). Field work undertaken during the feasibility study suggests that these sectors are likely to be those in natural resources such as agriculture, forestry and fishing, with linkages through into transport, distribution, renewable energy, banking and telecommunications. Those that are gender sensitive will likely have better pro-poor outcomes. The Contractor shall review the relative importance of these or other business sectors, to ensure that primary sectors can be identified and promoted to the market, taking into consideration the different conditions in individual countries”.

This essential focusing was not satisfactorily undertaken by the Fund Manager.

<u>Piloting: a justification for weak design?</u>

A supposed rationale for the lack of clarity of what ECF was expected to achieve and its lack of focus was that ECF is a pilot[62] and therefore a strategic framework was not necessary as it might limit its options.

[61] Ibid.
[62] The Request for Tender specified that “this project should in its entirety be considered to be a 6 year pilot, to enable AusAID to rigorously test the utility of this donor instrument in ways that satisfy the priorities set in the White Paper. The project will be flexible

This logic is flawed: a pilot is aimed at testing assumptions to determine which are valid and which are not. As ECF had no firm and quantified objectives or strategy for achieving them then there are very few clear assumptions being made that can be tested in a clear and objective manner.

Additionally, the Request for Tender advised the Fund Manager that "the amount of funding available [for grants to beneficiaries should not be restricted in any particular round other than to not exceed the outstanding total of the fund". Given that the ECF was viewed as a 6-year pilot it is unfortunate that all the funds were permitted – or rather even encouraged – to be committed as rapidly as possible. This meant that by the time of the Mid-Term Review[63] the grant funding had mostly been utilised – without any scope to learn from the preliminary effectiveness experiences of these initial projects[64]. Limited further funds were available for allocation – but the Mid-term Review recommended against further fund release

Conclusions on Project Design

The process of project design focused throughout too much on the detailed design of how the ECF should operate and too little on what it was expected to do and achieve. The absence to this day of an ECF strategy is a huge weakness. Whilst the feasibility study and the project design document both lack clarity as to what ECF was expected to achieve, probably a far more significant problem is that the Fund Manager was not proactive in shaping such a strategy for the ECF. The RfT makes it clear that AusAid expected intellectual input into refining the design of the ECF and for the Fund Manager[65] to become – in the words of the RfT – "a recognised centre of excellence, which other initiatives will seek to both utilise and cooperate with".

The Fund Manager has not provided sufficient or adequate advice and guidance to AusAID on strategic direction[66] which is unfortunate and has lessened the impact of an important instrument for pro-poor private sector development.

Additionally, AusAID encouraged rapid utilisation of the available funding despite the programme being a pilot where lessons were expected to be learnt and those lessons to lead to a steadily evolving design. This meant that by the time of the mid-term review almost all grant funding had been committed[67] and the primary lesson of the review – that there needed to be an underpinning strategic framework – came too late to allow any change of direction. Given the stressed 6-year pilot nature of the ECF it would have been desirable if a significant proportion of resources had been left for commitment after the lessons of the mid-term review.

to allow for opportunities to leverage additional funding (both internal and from other donors), to extend the country coverage of the ECF and to extend the duration of the project."

[63] http://www.ausaid.gov.au/publications/pubout.cfm?ID=2179_5123_9221_7348_509&Type=

[64] Although the Fund Manager's efficiency undoubtedly improved between the different calls that characterized the use of the grant funds. However, few of the lessons of the mid-term review were adopted (see annex 2).

[65] We would stress here that by ECF Fund Manager we mean the company contracted to undertake these tasks and not the ECF Fund Director. We have been consistently impressed by the drive and enthusiasm of the ECF Fund Director and feel that significant credit for what has been achieved rests with him.

[66] The RfT specified that "The ECF shall be open to all pro-poor business ideas regardless of sector, and projects may indeed span several industry sectors. However, the Contractor must focus attention on sectors that have the potential to generate real systemic change (that is, they exhibit potential multiplier effects). Field work undertaken during the feasibility study suggests that these sectors are likely to be those in natural resources such as agriculture, forestry and fishing, with linkages through into transport, distribution, renewable energy, banking and telecommunications. Those that are gender sensitive will likely have better pro-poor outcomes. The Contractor shall review the relative importance of these or other business sectors, to ensure that primary sectors can be identified and promoted to the market, taking into consideration the different conditions in individual countries". This was not undertaken satisfactorily.

[67] Some remain due to the cancellation of one project and underspend on others.