Discussion Paper on the Independent Progress Report and Recommendations

Drafted November 2011 – revised 14 January 2013

Background

The ECF Independent Progress Report was completed in October 2011 and updated on the AusAID website this week. This can be found at http://www.ausaid.gov.au/Publications/Pages/ecf-ipr.aspx

Additionally AusAID has developed a management response to the report which outlines a number of activities that will address the recommendations of the report and are underway in 2013.

http://www.ausaid.gov.au/publications/Pages/ecf-ipr-management-response.aspx

The Independent Progress Report is overall a good evaluation and appraisal of the Enterprise Challenge Fund for Pacific and South-East Asia in terms of progress against development and business outcomes and in identifying some of the positive and limitations to using a challenge fund (or other private sector development approaches) in the Asia Pacific context.

As part of internal continuous program improvement, the ECF Fund Manager held sessions with both in-house and independent Coffey International Development team members to discuss the IPR review findings and the recommendations made on future instruments. Below is a brief summary of some of the points raised in the discussion on the evaluation of challenge funds and the recommendations made - with references to how the ECF pilot program will provide input into the debate over 2013.

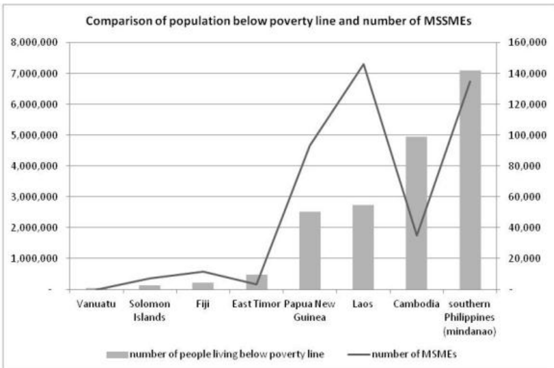
Firstly, a consideration of the context

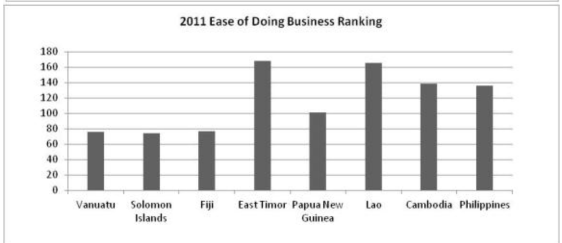
Challenge Funds are tools for distributing public funds to the private sector that encourages co-investment of private sector funds and innovation in development and the maturity and size of the business environment plays a key enabling role.

The evaluation rightly considers Asia and the Pacific separately in their analysis and recommendations. Throughout the ECF this has been very apparent - from registration of interest, to the selection and how impacts have progressed that some countries have had more successful 'challenge fund' projects than others.

The evaluation also comes to this conclusion and sees the Asian market is more appropriate for a typical "challenge fund" approach than the Pacific as the fund has the ability to select projects from a wider number of private sector actors the company (or grantee) can impact on a larger number of poor people and enterprises, given the large population in a small geographic area (see Graph 1 comparing the number of micro, small to medium enterprises (Msmall-medium enterprises) and the larger population size)

This is important as it means the grant will likely be more effective at impacting on the wider (systemic) business environment given the more active private sector and the lower barriers to doing business.





Additionally there are on average according to the World Bank Ease of Doing Business surveys more barriers to business in the ECF South East Asian countries (see Graph 2) so challenge funds can play an important role in supporting private sector development that may not have happened without support.

The Executive Summary (p10) makes a point that four projects are considered clear "challenge fund" projects. In fact, two (or 50%) of these clear "challenge fund" projects are actually from the Pacific so it would be interesting to see why the potential for more of these projects in the Pacific is not considered high.

Secondly, an evaluation of the ECF is made at the fund level.

On page 12, Table 1 - Evaluation Criteria Rating scores the fund between adequate (score of 4) and less than satisfactory (score of 3) on most evaluation criteria.

In breaking down these scores based between Asia and Pacific – the overall rating in Asia would be just over 4 which are considered adequate whereas the scoring in the Pacific projects would score on average 3.3.

Summary score	**Overall**	**Asia**	**Pacific**
Relevance	5.4	4.5	5.7
Effectiveness	3.5	4.6	2.8
Efficiency	3.5	3.5	3.5
Impact	2.3	3.0	1.8
Sustainability	3.6	4.0	3.4
Gender equality	3.5	4.8	2.8
Monitoring	3.4	3.4	3.4
Analysis and learning	3.4	3.8	3.1
Total Average	*3.6*	*4.0*	*3.3*

Examining the variance in the Pacific shows this primarily relates to lower scores on *innovation* and *replication* which to some extent relates to the capacity of the markets to achieve these impacts and the lower number of enterprises existing in the market to crowd in to service the projects or copy the approach. Additionally in the Pacific lower scores in terms of the *ability of projects to improve capacity of poor people for employment and / or enterprise creation* which can also relate to difficulty in reaching disperse populations as well as the lower capacity and number of businesses in the Pacific.

Smaller populations and smaller markets have less opportunity for a large number of firms so competition is always lower but in terms of does not negate the need for the original business in terms of providing jobs and income or access to goods and services for poor people in remote areas.

This has bearings for the recommendations and this is examined further in this discussion paper as the recommendations are against a future challenge fund in the Pacific.

Throughout the ECF, context specific analysis has been undertaken and it would be useful to have a more thorough comparative study on how the context of the different regional environments has impacted on the implementation and results of the challenge fund.

A study could look more closely at issues such as -

- Should 'scale' of impact be defined differently for the Pacific? Reaching 1,000 people in the Pacific is more difficult due to the geographical spread – this also impacts on how technology, goods and services and importantly ideas or new information are accessed.

- What is the additional cost of implementation for impact in the Pacific versus Asia? Does this mean a fund is less effective in a country when it costs more to implement?

As outlined in the AusAID management response, the ECF is looking at the most successful programs over the final year to examine the business case and target efforts to scale up the impacts. Two of these projects are based in the Pacific.

Evaluation of challenge funds

In the course of the paper a number of methodologies are used to evaluate how the challenge fund is performing against the OECD DAC criteria for evaluating development assistance.

Often the performance is benchmarked against other challenge funds – funded by other donors and in other countries (mostly Africa). Given the breadth of challenge funds operating and the relative newness of the instrument in development, this is a fair evaluation technique.

Relevance

The evaluation examines the Enterprise Challenge Fund against a number of Australian and National aid strategy documents to determine how relevant the program is in the current context. What is important is that most of these documents did not exist during the program design (2006-07) or bidding rounds where projects were selected (2007-08) and as the IPR review team points out *ECF is not specifically designed to achieve alignment with the priorities of partner governments or national development strategies* (p25).

This exercise is valuable in evaluating ECF's relevance against policy as it show that the fund was relevant prior to these documents and retains relevance (arguable it could be said ECF has become more relevant) which is the benefiting of piloting new approaches.

The fund addresses a number of the strategic aims of AusAID's 2012 Private Sector Development policy and makes contributions to four of the headline indicators outlined in 2011's Comprehensive Aid Program Framework. As highlighted AusAID's management response, the lessons from the ECF will also be relevant to development of guidelines in 2013 for the future use of challenge funds in the aid program.

Effectiveness

Effectiveness is assessed in a number of ways including the potential for replication where "*...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*" (in-country or regionally) ... *"so that at least potentially they could benefit very large numbers of poor people".*

Outlined in the discussion on the context is the difficulty for projects in the Pacific to comply - without a large number of private sector actors being able to crowd in or scale up and of course the different scale of a large number of poor people needs to be considered.

The ECF Pacific linkages approach has focused primarily on how lessons can be disseminated at a regional level - for example the funding of a project in Vanuatu to improve cruise ship tourism is now sharing lessons with project sites in Papua New Guinea. This has the potential to lead to more development outcomes in the Pacific; however is a more complex task.

In Challenge Funds, evaluating the *potential* for replication usually looks at information available at the time of the IPR review however the selection of projects often happens years prior.

For the ECF, the selection of the projects was based on information available to an independent group of Assessment Panels in 2007 - 2008 operating at both a regional and international level. Documentation was in some cases, less than adequate and Panel's usually had to make assumptions that projects would be implemented as planned. Another point to make is that in late 2008, the global business environment changed dramatically impacting on the ease of doing business.

Comments made in the subtext of the evaluation include *"the manager stated that they would implement (the project) in a different manner if they had a chance to start again"* and in two other cases "*If (this project) works, it would be highly replicable*" – have the benefit of hindsight and on actual implementation to date rather than the potential that the Assessment Panel was looking at. However this is very relevant for developing guidance for future selection panels.

To date, there have been a number of systemic impacts including

- 11 of the funded projects (52%) investing over A$1.2 million[1] to scale up their operations moving to new markets and products.
- A number of projects have had a demonstrated effect on improving the productivity of small businesses particularly providing access to new technology and information to do business.
- 42 companies have commenced to supply or compete with the funded projects. This has led to a further 6,670 poor people benefiting outside of the ECF projects equating to around A$180,000 additional annual income for poor people[2] .

As outlined in the management response, the ECF is undertaking activities to encourage scale up and replication of successful projects over the following year. Examining the context will also be an important part of assessing how 'potential for replication' can better be evaluated by selection panels in the future.

Efficiency

Figure 1 on p 36 compares ECF fund management costs as a percentage of the grant value against a number of other "challenge fund" and grant facilities. This has been used to assess the value for money or efficiency across a number of donor funded grant programs.

In the absence of benchmarks in the industry, this is a common measure of program efficiency.

There are limitations as the "percentage" (management fee / grant allocation) does not take into account the different scope of activities (e.g. the management tasks) that donors require. This could include country and sector challenges, difference in travel, local resource costs, or the actual activities required in monitoring the fund.

For example

- The PSOM (Programma Samenwerking Opkomende Markten) program now called PSI is considered the most effective in terms of fund management cost at 15%.
  However the management tasks and the scope of the fund are actually very different. Marketing or information sessions are held in Netherlands, the home country of the donors with little cost for travel required by the fund; grants are implemented with a lead experienced Dutch or foreign company and monitoring is conducted by grantees annually with no cost for PSI. This is also a very large challenge fund and in 2011 the fund value was €70 million and there are obvious economies of scale as noted in the IPR review *"as the due diligence and / or project management time costs tend to be fixed irrespective of the size of the project"* (p37).
- Secondly, the African Enterprise Challenge Fund is a US $50-$100 million fund and is considered the benchmark for efficiency at 20%. In contrast with the AusAID Enterprise Challenge Fund, the Africa fund has funded a number of larger, many multinational companies. The monitoring is undertaken by the funded companies with the fund management teams only travelling to validate this data once a year with a significantly reduced cost of management.

Figure 1 on p 36 could be increasingly relevant to evaluation the comparability of challenge fund models on a like-for–like basis unless these differences in the scope, tasks required by the donor and context variations are accounted for and considered.

Impact

The IPR review makes a very important point when looking at the impacts of the projects to date - that the scoring reflects "their [projects] early stage against this measure" (p43).

Private sector development programs that seek impacts on income often through introducing new approaches to agriculture or new technology take a longer time frame to a achieve results and this can be after the official monitoring of a funded program has been completed therefore the aid program is not showing the true or full impact of the investment. This could be understated if impacts happen post completion or overstated if funding was in fact subsidising a poor performing business.

[1] ECF Annual Portfolio Report 2012 p 27
[2] ECF Annual Portfolio Report 2012 p 30

The ECF Annual Portfolio Report from 2012 stated, a majority of ECF projects are likely to be commercially sustainable, and continue to grow and reach more poor people. It appears that many of the impacts will occur in future, particularly those in the wider market systems that are only just starting to emerge. The AusAID management response includes the action that AusAID will conduct an evaluation of the ECF two years after completion. This is in line with the DCED Standard recommendation that impacts are attributable for up to two years post funding. This will be a very valuable exercise in assessing the full impacts and sustainability of this type of funding.

Sustainability

The key to sustainability in a challenge fund program is the private sector is a local company, has ownership of the project, the project is successful (profitable) and implementation is underpinned by a meaningful engagement with the beneficiary communities. Selecting projects that meet this criteria, increases the likelihood of sustainable development immensely.

The ECF monitoring program measures the sustainability for every project by three indicators of sustainability-

1. Profitability or turnover of the business in three years
2. Stakeholder buy-in including feedback from the private sector, competitive industry and key government agencies
3. Engagement with the poor in an ongoing and mutually beneficial exchange, for example through employment, as suppliers or as customers.

Additionally, the monitoring program is audited against the DCED Standard for Results Measurement – a quality standard designed for private sector development programs and includes "*assessing the likelihood of lasting impact*" as a criteria for audit and the 2011 mock audit noted *"The [ECF] system is particularly strong at assessing sustainability at the grantee level through collection of both qualitative and quantitative data*" and recommended additional qualitative indicators to improve measurement of sustainability for beneficiaries. A recommendation incorporated in the monitoring system since.

This is considered in the IPR review on p 46.

The IPR review interestingly also discusses sustainability of the ECF Fund Management – the program noting that the fund "*appears to be designed without a sustainability strategy - at programme level: there is a sustainability strategy for each supported project. This means that ECF also appears to have 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*".

This raises an interesting question about the role of the Fund Manager not only in administering the fund (selecting projects, auditing the drawdown of the funds during implementation and monitoring of the impacts) but the role of the Fund Manager to promote the program and share lessons on the program as an aid instrument.

The Enterprise Challenge Fund designed a dissemination or linkages program that is implemented at a country and regional level. More information can be found in the ECF Annual Portfolio Report 2012 on p 36. The linkages program has had a two-fold effect both in enabling better links between stakeholders as well as promoting the benefit of the projects and program as a whole. A dissemination (linkages) program to support sharing of information is a very useful part of the program particularly as noted in the IPR review in p 46 that the ECF was not directly aligned with key partner Government policies.

The AusAID management response shows that the action plan for sharing lessons from projects and the ECF as a whole is a strong part of the 2013 agenda. The ECF and Independent Monitoring Team will also collaborate in workshops scheduled in Asia and Pacific in 2013 to share lessons with stakeholders on the implementation and impacts of the fund. This will be able to feed into AusAID's thinking on future programs including the development of guidance notes on challenge funds for AusAID country programs.

Evaluation against other relevant development criteria

Challenge Funds are often seen as private sector programs focused on economic outcomes, however the instrument can be targeted through the marketing, selection criteria and implementation to achieve outcomes in a broad range of areas.

Environmental sustainability, capacity development and gender equality were considered in the design and implementation of the Enterprise Challenge Fund – although were not the fund's direct objectives - and in 2012 three papers were disseminated via the ECF website sharing achievements of the projects in these thematic areas as well as lessons on good practice and improving impacts for the future.

The IPR review evaluates these development thematic areas using a range of broad criteria for such as *Protection of natural and cultural places, endangered or threatened species from international floral and wildlife trade* in assessing environmental sustainability or *Promoting women's rights* as criteria for women's economic empowerment (gender equality).

Evaluating a pilot program on a one-size fits all approach particularly using very specific development outcomes is less effective given that the ECF was essentially broad in nature as a pilot program and the selection criteria only required that at a minimum 'no negative impacts should occur'. Where challenge fund instruments are able to act is in the design of the selection criteria and through the monitoring approach to some extent – the tool is very powerful when it is targeted however when criteria is very broad, it may be limited.

As the AusAID management response points out, the ECF Fund Management team has conducted research into a number of thematic areas and the impact of the ECF on Women's Economic Empowerment in partnership with the AusAID gender policy unit reviews targeting of the challenge fund instrument in more detail. This paper draws a number of lessons and recommendations for future programs.

Recommendations for future programs

The Independent Progress Report recommended that consideration is given to separate Private Sector Development programs for South-East Asia and the Pacific Islands.

South-East Asia Approach

Firstly the review (p64) outlines:

- *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.*

Evidenced through the ECF, appropriately focussed agriculture and agribusiness projects can provide tangible benefits to disadvantaged communities and stimulate positive systemic impacts. Partnering with existing private sector funding programs would reduce program transaction costs and allow for more innovative approaches, including possible hybrid funding packages that incorporate small-medium enterprise venture capital and grants to facilitate supply chains or support services that impact positively on rural communities, as well as the commercial viability of the supported business project.

The AusAID management response agrees that a targeted geographic focus would be beneficial and that AusAID Country Programs are made aware of the challenge fund instrument through advice and guidance developed by AusAID.

Additionally, the Enterprise Challenge Fund team is planning lessons learning events and will hold one in Asia and one in the Pacific and this can inform the guidance to AusAID programs.

Pacific Islands Approach

Secondly the review (p64) recommends two separate approaches to pro-poor private sector development in the Pacific Islands:

- *Development of agriculture and agribusiness through a new instrument to provide cost-sharing grants to the private sector to establish or expand **nucleus farm systems**.*
- *Development of tourism through improved access to commercial finance for **tourism small-medium enterprises** by contributing to an IFC-managed Risk Sharing Facility for the Pacific Islands that would provide a guarantee to participating banks.*

Rationale

As outlined in the initial pages, the report's conclusion that the ECF approach may not be appropriate or cost effective in the Pacific would benefit from additional analysis.

The assertion is made that there is an insufficient pool of companies to promote competition and scale of impact on the poor is not possible in the region. This may be true in very small Pacific countries and the report indicates that Papua New Guinea may be the only country of sufficient size to warrant an ECF. This claim takes no account of the fact that around 80% of Papua New Guinea's relatively large population operates outside of the formal sector and that its geographically fragmented nature can be more costly to implement.

It is also appropriate to note that there were a high number of companies interested and bidding for the ECF and a higher number of approved funds went to the Pacific countries (Papua New Guinea, Fiji, Solomon Islands and Vanuatu).

The report uses the IFC McKinsey Micro, Small-Medium Enterprise (MSME) Gap Analysis Data to identify the potential pool of ECF bidders. This data appears to define business ventures according to international standards on what constitutes a small and medium business and may have only taken into account locally owned businesses.

For example, the report indicates there are only 30 medium sized businesses in Fiji and 974 small businesses – with the former presumably the key target area for ECF projects. This does not correspond to our experience in Fiji where the number of businesses capable of undertaking worthwhile ECF projects is considered to be in excess of 100.

The following important points should be made -

- The relatively smaller size of Pacific companies is consistent with the smaller scale of many viable business projects in these economies.

- Larger catalytic projects in the Pacific are likely to be initiated by regional or international companies which will bring with them the resources, technology, expertise and market connections required for success. ECF investment in such a project may not only result in more substantial pro-poor outcomes, development of good models for replication, stimulate more crowding in, but also stimulate beneficial foreign investment particularly in Pacific countries where business conditions and sovereign risk factors can be significant investment barriers. Increased foreign investment is an important objective of all Pacific countries and in this regard an ECF type program can play a practical facilitation role.

- The relatively small size of the Pacific countries means ECF supported projects can represent a relatively significant contribution to the regional and even national economy, as well as the impacted communities.

A challenge fund can make an important contribution in terms of economic development, a more vibrant private sector and pro-poor outcomes. There will be a higher cost of managing a challenge fund in the Pacific. This needs to be considered from the outset of the program but value for aid dollar can be found by focusing in the larger economies (Papua New Guinea, Fiji, Solomon Islands, Vanuatu) and those with active private sector (Samoa, Tonga, Cook Islands).

The design of a challenge fund in the Pacific should consider what defines "scale" in the Pacific, what is considered appropriate investment to achieve results and the capacity of smaller economies to incorporate wider scaling up and replication.

Challenge funds can also support replication and systemic impact on a Pacific regional basis. This process will take longer to develop because of the difficulties and lengthy timeframes involved in establishing new business projects in the Pacific but there is a shortage of good and appropriate business models in the region and our experience has shown that companies and government agencies in the region will be influenced by the outcomes from projects operating in the local environment.

For example, the Sarami beef project in Vanuatu has received strong interest from the private sector in Fiji and the government in the Solomon Islands, while the Carnival remote call sites project in Vanuatu is expected to provide useful lessons for the planned Carnival calls to new call sites in Papua New Guinea.

As outlined in AusAID's management response, the ECF management team is undertaking activities to encourage scale up and replication of successful projects over the following year and two of these projects are in the Pacific. This will provide lessons that can be used in determining what the potential for other successful challenge fund projects could be in the region.

Project Focus

The IPR review recommends future programs in the Pacific focuses on agriculture through promoting nucleus farms and access to finance for tourism projects – these two sectors represent 80% of the projects ECF funded in the Pacific.

Nucleus Farms

Nucleus farm projects would address significant market failures in the Pacific and there would be flow on benefits to employees, suppliers and contractors. These types of projects may source inputs from disadvantaged communities and there would be worthwhile pro-poor outcomes, as well as potential replication outcomes in similar environments on a country and regional basis.

The nucleus estate approach has been adopted by several ECF Pacific projects such as Reddy Farms (Fiji), C-Corp (Solomon Islands), Sarami (Vanuatu), Mainland Holdings and Emirau Marine Products (Papua New Guinea) and, to a lesser extent, Nature's Way (Fiji) and have provided useful lessons.

Nucleus farm often for commercial reasons, take the path of least resistance and work with the more reliable suppliers who have or can independently acquire the required resources and skills. . For example, the Reddy Farms (Fiji) found potential out-grower duck contractors needed more assistance than they could offer in terms of the related input supply costs and this project opted to work with the better organised, and inherently more entrepreneurial and higher income contractors as a first step.

A nucleus farm can, and often does, provide the type of extension and support services that are not adequately managed by governments. But if the most vulnerable in the potential supply chain are to be included in the benefits additional support services, such as technical advice and microfinance, need to be built into the project from the outset.

Broader agricultural research and development and supporting services, transport, information provision, compliance or accreditation facilitation and similar projects may be able to present a convincing case for challenge fund type support, without undermining the management and due diligence efficiency that stems from sector specialisation.

As outlined in AusAID's management response, the ECF management team is undertaking research into nucleus farms and supply chain approaches used in the Pacific and this can provide some lessons into this approach.

Access to finance to expand tourism

Support to the tourism industry in the Pacific Islands countries would also be a key focus for investment in private sector development and has obvious linkages to wider poverty benefits, as well as other areas of poverty alleviation such as increased access to goods and services, environmental benefits and improved incomes.

The report states that the main impediment to a more vibrant and beneficial tourism sector in the Pacific is *access to finance* and recommends AusAID contribute to an IFC managed risk sharing facility specifically for tourism small-medium enterprises.

Access to finance is a barrier for small-medium enterprises in tourism and other industries in the Pacific. Smaller tourism projects such as guest houses are often located in more remote areas where land title may be unavailable, where security and other business risks may be higher, where access to assets in case of default may not be possible and where the lending institution has no experience.

The report recognises the need for ancillary support services and recommends that these be included in the program to improve management and to assist in the preparation of professional submissions to the banks, as well as assistance to the banks themselves to better understand and manage small-medium enterprises borrowers. In fact, this approach was adopted by the IFC's South Pacific Finance Facility although was considered high cost and replaced by a focus on larger tourism projects that are less resource hungry to facilitate and implement.

Based on experience in the Pacific[3] there are a number of other key inhibiting factors for small-medium enterprises operating tourism ventures in non-urban areas. These include:

- A tendency amongst locals with a suitable site to be over-ambitious in their plans and business projections – a "build it and they will come" attitude. This has resulted in a high failure rate and an understandable perception amongst financial institutions that small-medium enterprises operated tourism projects are relatively high risk
- Poor communications that impact adversely on the marketing and booking and payment capabilities of more remote facilities.
- Inadequate infrastructure that discourages visitors and increases costs. There is a limit to what even the "adventure tourist" will endure.
- Poor marketing collaterals and skills - compounded by the limited reliable communications.
- Poor accessibility or inadequate air links, especially where the domestic market is small or non-existent.
- An absence of skilled workers, weak management and customer service skills, despite the efforts of some government bodies to instil basic standards.
- Poor financial literacy and limited understanding of basic business concepts such as a project's break-even point.

For example – the ECF supported Teamworkz project in Laos is a useful case study in addressing the key issue of communications, marketing, reliable booking and payments would have a lot of benefits.

> The Teamworkz project was funded to develop online sites and booking facilities for accommodation and tour providers in three remote provinces to improve access to travel and sightseeing in these areas and Laos in general. To date sites have been developed with over 86 accommodation and tour providers and within the first 12 months, more than 1,911 bookings have been managed equating to US$165,065 (A$156,489) worth of additional income to the rural areas.
>
> Feedback during monitoring field visits was very positive particularly for smaller hotels where the Teamworkz system provides security of income, additional bookings and a reliable on-time payment system; it is therefore a preferred booking agent. Interviews with tourists in Champasak showed that tourism dollars were reaching the poor through direct purchase of transportation, entry fees and handicrafts. Hotels indicated that most employees were from local villages and the food in restaurants was sourced from local providers.

This project has relevant lessons for more remote tourism operators in the Pacific and a modified model could achieve worthwhile outcomes. It also represents a typical challenge fund project where the associated costs of establishing the system would not be commercially attractive and the benefits to widespread disadvantaged communities would be high. Funding could be earmarked for associated support services to operators and the coordinating supported business would benefit in terms of greater

[3] Numerous papers have been written on this from (Britton, 1987a; Fletcher & Snee, 1989; Milne, 1992; Fagence, 1997; Pearce, 1995; Ryan, 2001; Tourism Council of the South Pacific, 1997b) and experience from the ECF funded tourism projects in Solomon Islands, Laos and Vanuatu.

customer satisfaction and increased booking fees. Such a project would have a number of features in common with the recommended nucleus farm approach, including supportive linkages with other organisations and also represent a less costly approach from a management perspective.

Additionally the market for local suppliers to provide to larger scale tourism projects such as international hotels and cruise ship passengers is relevant to both tourism and agricultural projects. The latter is being piloted by the Carnival project in Vanuatu and there are already clear lessons in terms of the support required by potential beneficiaries in remote locations. Working with large hotels requires sourcing reliable volumes of quality products from local suppliers and this is a challenge. These hotels can play a role similar to a nucleus farm but are usually not prepared to provide the same level of extension support to suppliers. A tourism program in the Pacific could play a useful role in increasing the multiplier impacts of larger scale tourism projects through effective demonstration ventures, including nucleus farm models.

This can have indirect effects for access to finance. As remote operators are incorporated into a supportive project their attractiveness to financial institutions is likely to improve. This does not necessarily mean that business expansion or diversification loans would be forthcoming but the perceived commercial viability impediments to small-medium enterprises tourism projects in more remote areas may become less of a consideration for lenders.

Access to finance is a complex issue particularly in the Pacific and is not limited to tourism enterprises. There needs to be ongoing interventions in Pacific financial institutions by organisations such as the IFC to address the broader issue of access to finance for all types of enterprises. Success has already been achieved in a number of areas – credit bureaux, land titling, asset registers, decentralised credit scoring approach, improving loan managers' capabilities to manage delinquent accounts and the related economic and social benefits warrant donor support.

Additionally as outlined in AusAID's management response, the ECF management team is undertaking research into access to finance and this can provide some lessons into this approach.

Other opportunities

As a final point, it would be useful to broaden the review to other industry sectors or innovative program possibilities for private sector development programs in the Pacific.

- The **Fisheries** sector has high potential and current domination by overseas companies. The ECF Didao project in the Solomon Islands is an attempt to support a local company to develop a seafood export venture with substantial community benefits. It is a high risk project but there will be useful lessons from the project that can benefit others.
- The **forestry and timber** industry offers scope for more environmentally responsible and sustainable projects in the Pacific. The successful ECF Future Forests teak nursery and plantation project in Fiji represents a useful model for a sustainable project with considerable community benefits.
- In the energy poor Pacific region viable **renewable energy** business projects would have significant social and economic benefits. Two approved bio-fuel projects did not proceed for commercial and other reasons – these indicate the difficulties confronting such projects in the region, as well as the need for equity support to encourage these types of more innovative business ventures.
- Partnering with **large resource projects** in countries such as Papua New Guinea, Solomon Islands, Fiji and East Timor. Resource developers are usually mandated to ensure the maximum possible flow on local business development. An ECF style investment fund could play a pivotal role in encouraging more substantial business projects alongside the rising market for supply by these resource projects, including nucleus farms or agricultural projects increasing the trickle down benefits to local farmers, input suppliers and small-medium enterprises contractors.

Conclusion

Challenge funds are new tools in development to partner with the private sector in eradicating poverty. The Enterprise Challenge Fund is a pilot program for the Australian Government and therefore the lessons from implementation and results are informing the future use of the tool and the partnership.

As outlined in the AusAID management response, the remaining scope of the ECF includes opportunities to encourage replication and scaling up successful projects, documenting business enabling environment changes and undertaking research into key areas of the pilot program.

The ECF management team is also involved with sharing lessons to improve current and future private sector programs through conducting research and reviews on key projects and thematic areas as well as planning for workshops in the region to discuss the pilot program and lessons that are emerging.

AusAID is looking at developing future programs in Private Sector Development as outlined in the Private Sector Development Strategy for 2012 and in the management response the Sustainable Economic Development branch is looking at developing guidance notes and support for agency wide sharing of information.

Additionally AusAID is planning an evaluation of the ECF two years post completion will be a useful method in program evaluation to provide further evidence on partnerships with the private sector.