Outcomes from the ECF Canberra Lessons Learned Workshops

Thursday 24th October - 9:00am – 5:00pm
Hosted by the Development Policy Centre at the Crawford School of Public Policy, ANU. Canberra

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Summary

The Enterprise Challenge Fund for South East Asia and the Pacific (ECF) was established in 2007 to pilot a new approach for Australia to partner with the private sector for international development. The ECF provided grants ranging from A$100,000 - A$1.5 million, on a competitive basis, to innovative business proposals that were expected to overcome market barriers and generate employment and income.

To mark the ECF program closure in October 2013, two workshops were held to bring together donor agencies, private-sector participants and informed experts to examine the lessons of this and other programs, to inform the next stage of private-sector development programs.

In Cambodia, the focus was on informing the private sector and national government agencies of the results from the region and discussing lessons learned from the business perspective.

In Canberra, the workshop focused on sharing lessons to inform the Australian Aid Program in light of four framing questions:

1. Do enterprise challenge funds work?
2. Can they operate at scale to make real difference to people in poverty?
3. How should they be set up and managed to achieve their goals?
4. What alternatives are there for partnering with the private-sector for development?

The ANU's opening comments noted that the Australian Government has expressed direct interest in challenge fund mechanisms, and that the UK Government has invested in the region of £1 billion in challenge funds. However, the global evidence base for challenge funds is not as strong as the level of investment might recommend.

The day's program included overview sessions and panel sessions to analyse aspects of the ECF program, other approaches to private-sector development, and some possible next steps for the Australian and international development program. The panel discussions stimulated analysis and an exchange of views between panel members and the audience.

The following is a summary of the presentations and discussions from the day.

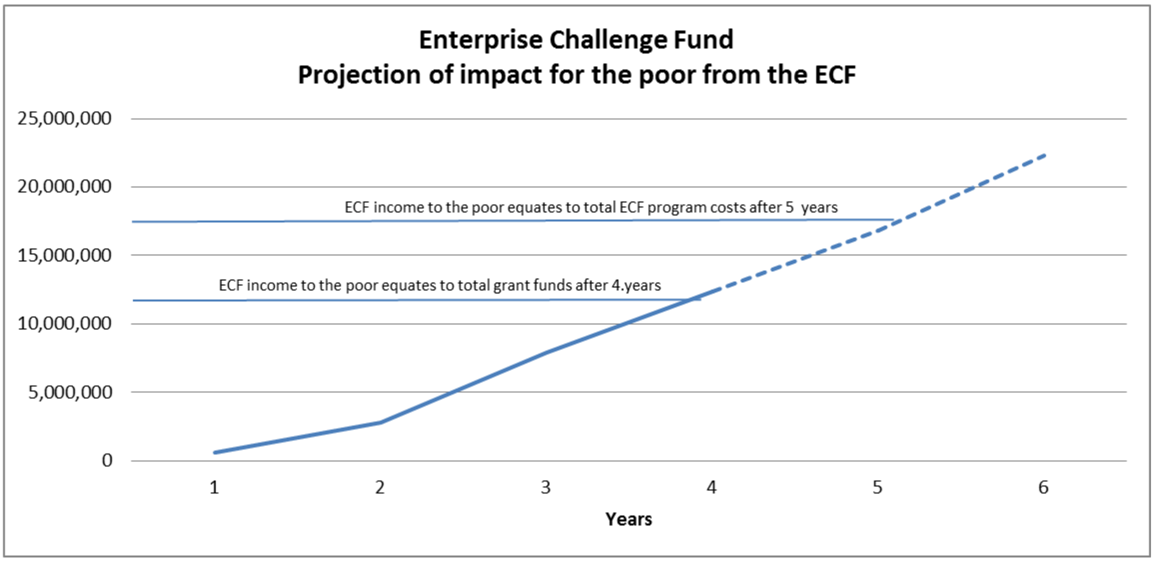
Agenda

9.00am	**Jim Woodhill,** Principal Sector Specialist Food Security, AusAID**,** welcomes the audience and provides an overview of the day and outlines the ECF. **Robin Davies,** Associate Director, Development Policy Centre, Crawford School of Public Policy, ANU, comments on Crawford School research and challenge funds.
9.30am	**Amanda Jupp,** Program Manager, Enterprise Challenge Fund (ECF), Coffey International Pty Ltd, – to highlight the results of the ECF (facts and figures) and value as a learning pilot program.
10.00am	Morning tea
10.30am	**ECF critical analysis Session 1: Business perspective** Chair: **Alwyn Chilver**, Adviser, Aurecon Speakers: **John Hardin on behalf of Toata Molea**, Managing Director, Didao Development Corporation, Solomon Islands **Lolita Cabanlet** , Owner, Cagayan de Oro Handmade Paper, Philippines **Amanda Jupp on behalf of Anthony Perkins**, Chief Executive Officer, WING, Cambodia
11:30am	**ECF critical analysis Session 2: Program perspective** Chair: **Alwyn Chilver**, Adviser, Aurecon Speakers: **David Smith**, Director, Tripleline Consulting **John Hardin**, Fund Director, Enterprise Challenge Fund (ECF), Coffey International P/L **Kane Preston-Stanley**, Senior Policy Officer, Food Security and Rural Development, AusAID **Denise Aldous**, Head, International Assessment Panel of the ECF
12.30pm	Lunch
1:30pm	**Current models for working with the private sector** Chair: **Robin Davies,** Associate Director, Development Policy Centre, Crawford School of Public Policy, ANU Speakers: **Andrea Iffland,** Regional Director, Pacific Liaison and Coordination Office, Asian Development Bank **Marian Boreland,** Senior Principal - Director, Cardno Emerging Markets (Australia) Pty Ltd **Arnold Jorge,** Senior Specialist, Private Sector - Financial Inclusion, AusAID
3:00pm	Afternoon tea
3:30pm	**What does the future look like?** Chair: **Denise Aldous,** Head, International Assessment Panel of the ECF Speakers: **Jim Woodhill,** Principal Sector Specialist, Food Security and Rural Development, AusAID **Robin Davies,** Associate Director, Development Policy Centre, Crawford School of Public Policy, ANU **David Smith,** Director, Tripleline Consulting
4.45pm	**Summary and close** **Jim Woodhill** Principal Sector Specialist Food Security, AusAID, Summarises and ties together the points discussed during the day, in light of development priorities.

Overview of the ECF

- The Enterprise Challenge Fund for South East Asia and the Pacific (ECF) was a A$17.4 million program funded by the Australian Government and managed by AusAID. It provided a competitive opportunity for businesses to obtain grants from A$100,000 to A$1.5 million for business projects to address local market failures. The key objectives of the ECF were to generate employment and income through sustainable business, and to create wider systemic change in weak markets.
- The rationale driving the ECF was that lack of finance inhibits investment in innovative solutions to stimulate long-term inclusive pro-poor economic growth. By contributing up to half the investment funds required, the ECF shares risk with the private sector to attract investment that would not otherwise occur.
- From 2007-2009, three bidding rounds were held and 24 projects were approved in 8 countries. A total of 74%of projects were in the Pacific. Ranging from 2007-2010 , companies received A$11.012 million in grant funds and total contribution from the private sector was A$17.9 million. The ECF reports that, from 2010 to 2013, 78,154 people benefitted from a total $8.178 in increased incomes and savings. This figure is expected to rise in coming years and by 2015, the ECF forecasts that income to the poor will be A$19.197 million (Table 1).
- The audience discussed whether these figures indicated good value for money considering the total investment, public and private, approached $34 million. In response, the panel that the independent cost-benefit analysis found a positive economic return over a longer timeframe. The audience also noted the figures above represent only the direct financial benefits to the ECF target population of people in poverty and do not include the return on investment earned by the business themselves.
- The ECF was implemented in the Pacific and South-East Asia – two very different regions – and revealed significant lessons for developing and managing private sector programs in the South-East Asian and Pacific countries.
- The value of the benefit in each region was roughly equal but the Pacific saw a lower number of beneficiaries (4,495) compared to South East Asia (74,780). Successful projects in the Pacific delivered higher value benefits to a smaller population size, primarily from supply of agricultural products and tourism services. Projects in South East Asia (one in particular) achieved much higher outreach but delivered lower-value benefits per person, primarily through mobile transaction and microinsurance businesses.
- One key finding is that the ECF improved income and employment and achieved some limited successes at scale; the model may be more suited to Asia than the Pacific. Projects in Asia tended to be more successful than in the Pacific, due in part to a stronger business environment, and the cost of managing the program was significantly higher in the Pacific due to distances and wide differences in markets.

Table 1: Past and projected income to beneficiaries



ECF Critical Analysis

The first main session for the day analysed the ECF program in two parts – looking at what contributed to project and program success and what could be improved from the perspective of participating businesses, and from the perspective of program managers and reviewers.

Session 1 - Case studies from the workshop

Three case studies from the Enterprise Challenge Fund were featured at the workshop. Two projects were presented by the fund management team when travel difficulties meant the presenters from the private sector could not attend.

The case studies covered two South East Asian, one Pacific project and included small companies and multi-national companies.

Cagayan de Oro Handmade Papercrafts used an ECF grant of A$407,139 to expand its handmade paper manufacturing and craft making facilities, and develop a supply chain sourcing raw abaca fibres to make paper products from the indigenous peoples of Claveria, Misamis Oriental.

Prior to this Cagayan de Oro was a small company starting to export into the US and European markets. The ECF funded the company develop a supply chain to farmers selling abaca in remote, conflict-affected areas around Cagayan de Oro.

ECF invested in planting assistance for 300 hectares of abaca benefiting 300 tribal households by PHP4,500 per 150 kg harvest. The funds also provided plantation and nursery training. Additionally the funds were used to set up a buying station in the village area where farmers can sell their abaca locally rather than through middle men or having to fund transport for the trip to Claveria, the closest town 30 minutes away. This reduces the cost of production and has led to increased prices in the area. Other farmers are also starting to sell abaca at the buying station.

The abaca has been used to support the growing paper making facilities with Cagayan de Oro exporting now to US, Germany, Italy, Belgium, Ireland and Australia. The business employs additional home-based paper makers, and contributes to suppliers of wild grass, reeds and coconut shell for product decorations.

The project has successfully raised income and improved growing and trading options for indigenous people in Mindanao but does not operate a large scale.

Didao, a nationally owned company in the Solomon Islands, used an ECF grant to develop a fish processing and export project. Construction of the processing facility and transportation has begun, and the first fishing trip to the community of Lau Lagoon has been made. The project will support sustainable fishing practices for reef (pelagic) fish species from offshore waters of Lau Lagoon by artificial island people in the heavily populated island of Malaita.

The Didao program has encountered a number of delays during implementation including gaining necessary permits, sourcing infrastructure and in start-up. A key issue was management capacity to undertake the project. The managing director is technically skilled but lacked access to business advice and financial management. The ECF fund manager supported an Australian Business Volunteer to assist the company with financial management however the company would benefit from appointment of a General Manager.

The project is not considered a success at this stage but the independent cost benefit analysis forecasts that Didao could be a profitable project in the medium to long term.

WING is a provider of mobile phone payment services that enable customers to transfer, store and cash-out their money using a mobile phone and has operated in Cambodia since February 2008.

Originally, WING was proposed as an opportunity to bank urban un-banked such as those with small income jobs working in garment and other factories. WING was interested to close the payment eco-system loop by expanding to rural areas but the parent company felt this was too much of a risk.

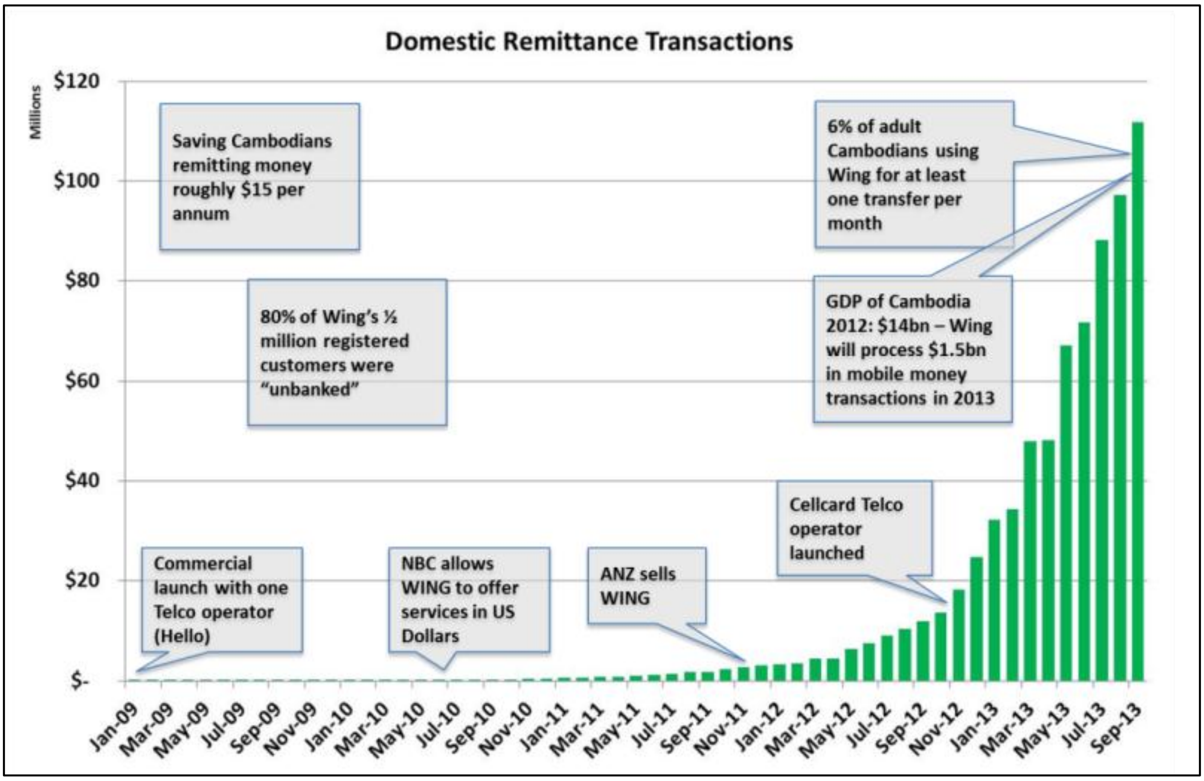
WING bid for and was awarded an ECF grant of $1.5 m for training of rural businesses to operate WING, greater awareness for rural customers and for financial literacy training. In Cambodia, “cash is still king” so WING explored ways to talk to people about banking and the benefits of WING.

The project has achieved a lot in this time

- Cost savings in transaction fees for over 500,000 rural receivers
- improved financial literacy in rural areas
- nearly 1,000 merchants/small businesses operating in rural areas to service customers
- WING estimates 6% of adult Cambodians now use WING on a regular basis and around 10% of the GDP of Cambodia will be transacted through WING by end of 2013.

Although the benefit per individual is small the project has been highly successful at scale and the improved transaction services show the potential for major improvements to the wider market (e.g. improved remittance options, improved payroll options, increased incomes for local cash points).

Table 2: Value of WING remittances



Questions and discussion:

How burdensome were monitoring demands on Cagayan de Oro? How much time and opportunity cost was involved in giving results?

- Cagayan de Oro Handmade Papercrafts found the monitoring framework very useful and looked forward to visits by ECF contractors because it helped to structure the business plan and records. The reporting required, and the application process itself, were instructive.
- Some other projects were found the reporting more burdensome but the managing contractor observed that successful businesses were more inclined and more able to provide useful monitoring and results information. David Smith from Tripleline highlighted that if the business is the means for achieving development results, rather than the beneficiary, monitoring should not focus too heavily on the business but measure directly the impact on target populations.

If Pacific businesses require greater technical assistance than businesses in SE Asia, how frequently did this situation arise and what options to the managing contractor have to link ECF businesses with supporting programs or services?

- The ECF program manager found this was a common situation across the program participants in the Pacific. Some did not require much support but many did struggle with the limited support provided by the program. Business support services were not built into the ECF but the program manager provided assistance as able during project visits, and did refer projects to support providers or other businesses that might have an interest in supporting ECF participants. In some cases this proved effective, in others much greater support would have been better such as employing a qualified business manager.

Would many projects have occurred anyway without ECF intervention?

- The panel discussed the difference between capability and willingness to proceed. Some of the project participants, especially the larger companies such as ANZ, certainly had the capability to fund project activities. However most did not display an intention to, as ANZ's sale of WING demonstrated. Cagayan de Oro Papercrafts confirmed that it would have attempted an expansion at some stage but expansion would have taken considerably longer without ECF, and without the useful business framework that ECF contributed. Independent analyses of the ECF concluded that most projects would not have proceeded without ECF finance or would have only proceeded on significantly smaller scales or longer timeframes.

Would Cagayan de Oro Papercrafts recommend any improvements for future challenge funds?

- Cagayan de Oro Papercrafts advised that identifying projects could be improved. However this was a two-way improvement and applicants should be expected to provide high-quality applications and adapt to recommendations. Cagayan de Oro Papercrafts considered that the ECF selection process, including recommendations by the selection panel, contributed to the success of the business.

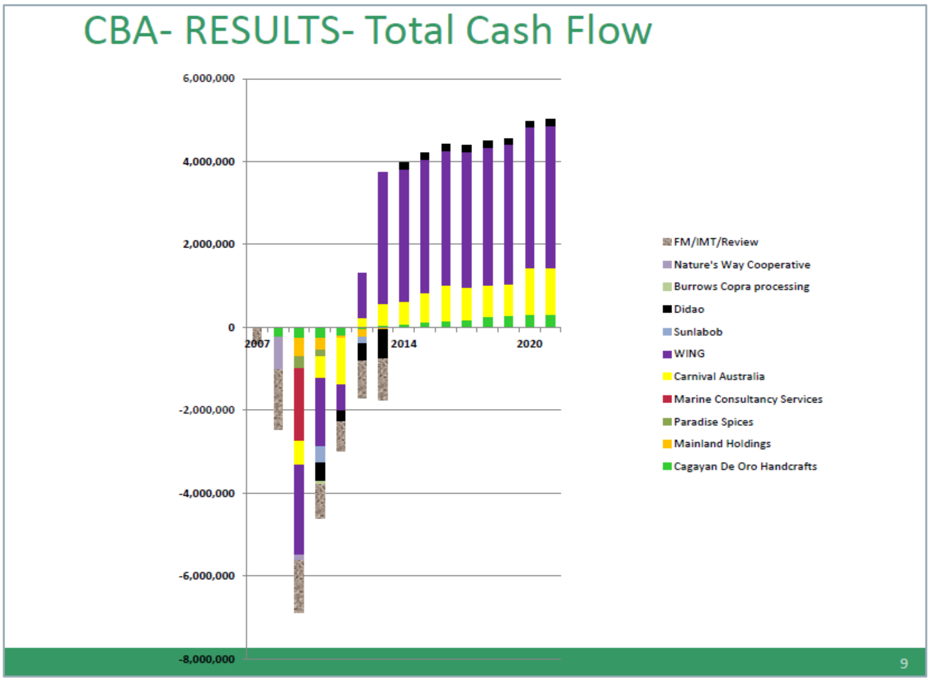
Session 2 – Program perspectives

The second session of the workshop brought together a panel of people involved in managing and delivering the ECF Program to analyse and discuss some of these lessons.

Defining the challenge fund

- To inform people less familiar with challenge funds, Mr David Smith from Tripleline Consulting (the independent reviewer of the ECF program) presented eight criteria common to most enterprise challenge funds:
  1. They rely on competitive business ideas to overcome market failure
  2. Business is the tool for aid delivery
  3. Objectives focus on pro-poor development
  4. The program shares risk with the private sector
  5. Projects should be additional to what would have occurred without assistance
  6. Projects should catalyse wider market improvements
  7. The most successful projects are those that can be copied without additional public money,
  8. A portfolio investment requires a tolerance of some failures.
- Mr Smith highlighted that challenge funds should not simply seek to upgrade businesses – they should aim to catalyse wider market improvements beyond a single business. David advised that a challenge fund should not implement technical assistance programs – although technical assistance to build business skills may be a key requirement for successful private-sector development in some regions.
- Mr Smith also presented findings of a cost benefit analysis on 10 of the ECF funded projects, conducted from 2007 to 2013. Four of the projects show a positive economic rate of return, as shown in Table 3 (in contrast to positive commercial returns, which 14 projects have already achieved). Overall the analysis found a positive economic rate of return of 17%. Results in Asia were more positive than the Pacific and this influenced the positive impact across the portfolio.

Table 3: cash flow of ten ECF projects



ECF in the Pacific and South-East Asia

- The Enterprise Challenge Fund had a substantially higher uptake in the Pacific, perhaps indicating a higher demand for business funding, but projects were overall less successful. Key challenges faced by businesses in the Pacific included limited human capital and business enabling environment constraints. The majority of ECF projects were successful where the companies had high level of management capacity and commitment to the project.
- In Asia, the challenge fund approach worked very well in some cases but had a lower uptake than the Pacific, perhaps as a result of more bankable business opportunities (or more bankable business skills).
- The standard challenge fund approach did not work in the Pacific, where businesses required a greater degree of technical support than the program was designed to provide. Future programs need to consider the limited capacity of firms and enabling environment as a priority for development funding.

Lessons for donors, managers and business

- The ECF and other challenge funds suggest the model can be effective at leveraging businesses funds to increase income and employment. However the success of the ECF (and future programs) would be improved with greater clarity around the objectives and more detailed market analysis. Market analysis under the ECF was constrained by the very wide sectoral and geographical spread – future programs should consider a narrower geographical region and/or targeting fewer industry sectors.
- Selection processes will play an important part in program success. The ECF selection panel brought a range of expertise to bear, including representatives from commercial banks. The wide range of skills and experience with different regions assisted the panels to discard projects or approve for consideration more efficiently, or even identify projects for commercial financing that did not need ECF support.
- Applying rigorous commercial sustainability criteria and due diligence at the early stages is necessary to draw out desirable projects. Other selection criteria are also important but projects that are desirable but not likely to be commercially sustainable must be culled early to reduce the burden on selection panels and applicants that ultimately will not be successful.
- Objectives and outputs must be stated clearly. The ECF did not specify exactly what the objectives were, instead referring to what the fund manager was required to measure. Different opinions on final objectives were evident at the workshop, with discussion whether income and employment was more important than overcoming wider market barriers and whether businesses were the intended beneficiary of the program or the tool for delivering benefits to people in poverty. In most cases a challenge fund would judge success on overcoming barriers to wider business growth and increasing income/employment for wider poor, not just the participating business.
- Once clearly stated, objectives should not change over time unless there is a decided reason and process for change. For example, the ECF found that participating projects in the Pacific required greater support than the program was designed to provide. One response might be to alter the program to provide a greater level but another might be to retain the program design and shift delivery to regions or business sectors that do not require assistance. Change is required to deal with lessons as they arise but donors have a role ensuring change promotes objectives and effectiveness.
- Regional programs need to have improved links to country posts. Where programs are run from the Canberra base, country programs need to be consulted and involved in implementation.
- Fund managers and donors need to invest in good results measurement – to evaluate and learn from challenge funds. An important part of this is ensuring that donors' program management staff have good technical knowledge of results measurement. Managing contractors will be responsible for delivering an effective results measurement program but donors must have sufficient technical skills to judge the effectiveness and advise how monitoring needs to be structured to meet the donor's needs.

Questions and discussion:

Given the size of the Indonesian market and population, why were no Indonesian applicants successful?

- The selection panel was surprised that Indonesian applications were of lower quantity and quality than expected. The selection panel also acknowledge difficulties created by the wide focus of the ECF, which resulted in applications not only covering very different markets and countries but written in different languages and different currencies. The fund manager highlighted program difficulties specific to Indonesia, where the country manager was located far from the target region and may not have had the qualifications to market and elicit quality applications. These are important lessons for future programs.

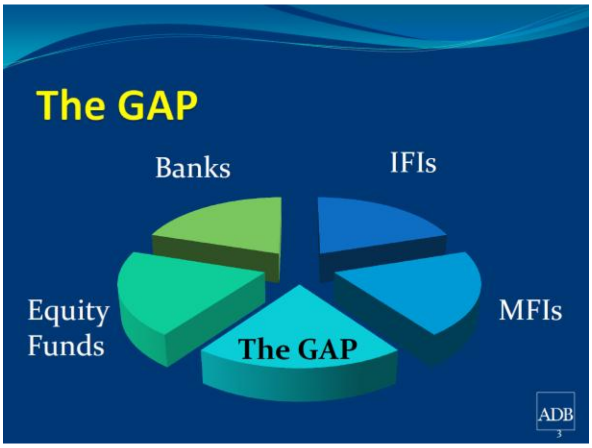
If business should be considered the delivery agent instead of the beneficiary did the cost benefit analysis measure the wrong things by focussing on the economic rate of return and net present value (which are business measures)?

- The cost benefit analysis measured the economic rate of return of individual projects, and the program as a whole, with reference to all costs and benefits – not only those of the individual business. Hence the economic rate of return is measuring what the program delivered to the economy/community as a whole, not just the participating business.
- The panel and audience also discussed whether measurement should focus on the total economic rate of return for the program – or should focus on development impact and private-sector finance leveraged by Australian Government investment. Future programs would benefit from clearly stating what is considered success and which results should be prioritised.

Session 3 – Current models for working with the private sector

This session looked at other mechanisms for private-sector development. Representatives from the Australian aid program and international organisations joined managing contractors and the ANU Crawford School to examine some other programs and their differences.

Funding gap for medium enterprises in the Pacific



- Through research and experience with current programs, the Asian Development Bank has identified that funding is available in the Pacific for larger business ($2 million+) through banks and equity funds; and for small businesses through microfinance (up to $20,000) but there is still a gap for funding medium enterprises.
- The gap may exist partly because banks may expect returns that mid-tier businesses won't provide, partly because these businesses lack financial and business skills that banks require before investing.
- The Asian Development Bank has a range of options to work with the private sector include Private Sector Operations (debt, equity and guarantees), Public Private Partnerships (transaction advisory services) and Private Sector Development Initiative (business linking services) but cannot service the smaller business community alone because transaction costs prevent unilateral engagement with projects less than $1 million.
- Partnerships with donors may fill the gap, including the Pacific Business Investment Facility proposed in partnership with Australia and New Zealand. The Pacific Business Investment Facility would focus on selected companies in the Pacific and provide finance, direct business support or links to existing support, as necessary, to expand or diversify operations, increase turnover and/or gross profits, and increase employment.
- Australia will consider the proposed Pacific Business Investment Facility in late 2013.

Market systems approaches and other models for working with the private sector

- AusAID has funded market systems approaches to development, including CAVAC (Cambodia Agricultural Value Chain Program) and MDF (Market Development Facility).
- The market systems approach attempts to identify opportunities to improve how markets function, using existing businesses as leverage points to create the change. For example, identifying a market opportunity for agricultural lime to increase yields and soil quality and a local cement company that can supply the market but is not currently doing so.
- The market systems approach tends to provide greater ongoing analysis and support to businesses than traditional challenge funds, and are predicated on ongoing results measurement to identify opportunities and sticking points in interventions. The different approach comes at significantly higher management costs than challenge funds but is likely to deliver higher success rates (recalling that portfolio investment like challenge funds require necessary tolerance of business failures).
- The market systems approach exists on a continuum with challenge funds rather than entirely different. The approach might be briefly summarised as higher cost with lower risk than challenge funds, and perhaps better suited to places with weaker supporting environments. Where risk of business failure can be tolerated and business support is stronger, a challenge fund might be a more cost-effective mechanism.
- There are many elements to private sector development, including interventions to support enabling environment with regulation reform and investment in infrastructure. Leveraging the private sector to provide funds and invest in business infrastructure as well as undertaking dialogue between private sector and governments.
- Donors need to carefully analyse the potential partners and the market situations they operate in before selecting which model they will use to intervene via private sector development programs.

Questions and discussion:

Will the proposed Pacific Business Investment Facility directly provide advisory and business support services or promote local provision of these services?

- The ADB highlighted that it was important not to provide advisory services in a way that crowds out the local market, hence a shift away from providing services directly in the past. However, experience has shown some services just aren't present so supporting businesses to purchase locally is ineffective. The proposed program will aim to link businesses to existing service providers wherever possible and provide support where specific technical skills are not easily obtained locally.
- A third option is to support the growth of business support services in the Pacific or in other markets where business support is weak, much as it would any other desirable industry sector. The panel and audience did not discuss this option in any detail or the degree to which the proposed investment facility may pursue this objective.

How strong is the case that inclusive economic growth requires support for enterprises, versus supporting the business enabling environment?

- This question goes to the heart of the of private-sector development programming and is one of the most important for donors and generated significant discussion. The panel consensus was that there is no one pure solution to this question, with differing opinions as to where the appropriate balance lies.
- Market systems approaches seek to link markets and improve their function but programs do not seek to become part of the market, i.e. a lender or primary source of business advice. They may form a hybrid of the two options, supporting enterprises to improve market operation and perhaps the enabling environment itself. More time is required to accurately assess exactly how effective market systems approaches are in this respect.
- The ADB has worked in the space of improving enabling environments for many years and selling direct business support can be difficult in some respects. However, doing only one or the other is not an effective option: improving the enabling environment alone may not be effective where there is insufficient demand and market activity to take advantage of the improvements.

- Panellists discussed the limited capacity for donors to actually influence the business enabling environment in certain countries, which might recommend directly supporting local enterprises who could become domestic advocates for improvement.
- One panellist expressed the view that private-sector growth should be predominantly pursued through the enabling environment and improving business regulation, access to finance, and catalysing market improvements. Support to individual firms should be considered only if the activity will have significant effects beyond the individual business. This view is not inconsistent with challenge funds or market systems approaches, which should in fact aim to catalyse wide market improvements and not simply upgrade specific firms.
- The panel discussed a final point of caution, acknowledging that arguments behind supporting enterprises vs the business enabling environments are often ideologically driven. The assessment should be made on the basis of the likely outcomes of intervention – if significant improvements can be made to the enabling environment they should be but if external actors will have little influence over the local environment, or supporting firms can achieve significant benefits beyond an individual firms, then business support may be warranted.

Session 4 – What does the future look like?

The final session looked at the lessons raised from the workshop and ongoing independent research as to how might the Australian aid program, other donors, and program managers structure and deliver the next stage in private-sector development through a challenge fund?

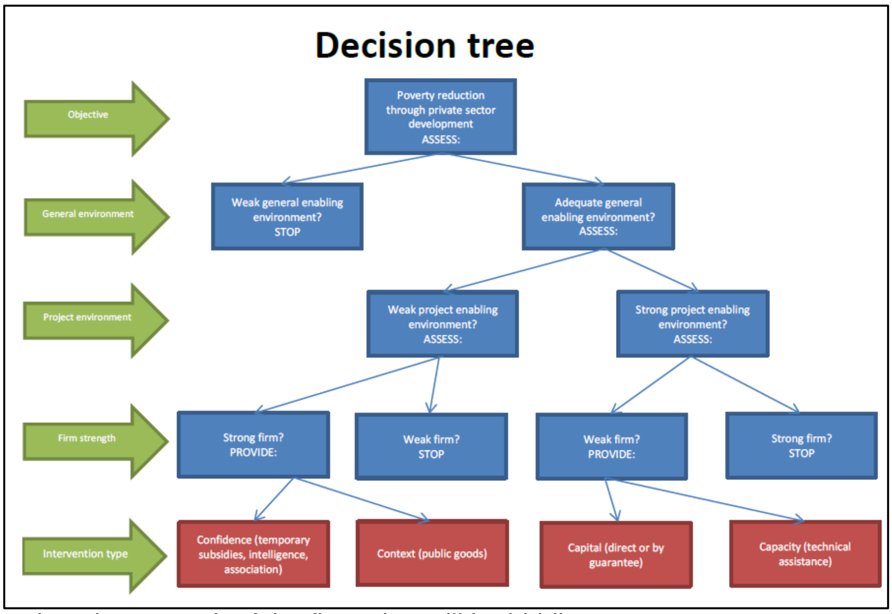
The instrument used needs to represent the environment

- Private-sector development will require different approaches in different areas. If a lack of finance is inhibiting growth despite appropriate business skills and supporting environments, a challenge fund approach may succeed in reducing risk to leverage private finance. If a lack of business capacity and skills is constraining business growth then a traditional challenge fund approach is unlikely to address the barriers to growth.
- Since challenge funds are likely to be more successful where business skills and business opportunities already exist, programs may be improved by focusing on sectors or countries that demonstrate the right balance of business strength and constrained finance.
- Focussing on specific sectors or countries will also mean that more detailed and expert knowledge is applied when selecting projects.
- Other key lessons for future challenge funds include:
  - Analysis, Analysis, Analysis. Success will depend on identifying business sectors with capacity for pro-poor growth, the barriers to growth (finance or more complex?), and the best approach to tackle these problems – *before* deciding on a challenge fund.
  - Market the fund so it is well understood by businesses in your target region and sectors.
  - Have a single project selection panel that brings expert knowledge of your target region and industry sectors and conducts face to face interviews (helps to identify good applicants instead of good applications)
  - Stage the program over sufficient so that the program can react to lessons as they emerge (is one industry sector producing excellent projects and another producing failures?)
- The fund manager should play an active role, identifying and assessing project applicants ('due diligence') before progressing to the selection panel, establishing a strong results measurement approach from the outset, and linking businesses to supporting systems.

Working Group on Challenge Funds

- Development Policy Centre has convened a Working Group on Challenge Funds in July 2013 to examine the rationale for the use of ECFs and private-sector development, reflect on experience to date and develop recommendations for agencies on their use in future.

- The Working Group highlights the importance of analysis to identify the objectives of private-sector programs and therefore the appropriate instrument. Is the objective strengthening enabling environments, fostering enterprise development or stimulating inclusive investment?
- The Working Group identifies four broad types of assistance including building confidence (temporary subsidies to assist businesses), context (developing public goods such as infrastructure, skills development or consumer education), capital (providing grants or other financing) or capacity (providing business planning or management capacity).
- Assistance should be context specific and should be designed based on the objectives, the general business and project environment but also depend on the strength of the firms that will be bidding.



- Two types of funds have been considered
  1. Enterprise Development – supports the establishment or expansion of small-to-medium enterprises to achieve positive general or sector specific development impacts providing financing or increased business capacity
  2. Inclusive Business – supports the expansion or reconfiguration of large-scale (can be multinational) enterprises to increase their beneficial engagement with the poor as suppliers, employees or consumers by providing risk reduction financing, information or good offices.

Future work

- The Australian Aid program is looking at a number of options for expanding private sector development.
- The Asian Development Bank is looking at a Business Investment Facility focused on consolidating and growing commercially viable businesses in the Pacific. This will be done through business advisory services, facilitated linkages and pacific investment fund.
- The Development Policy Centre is currently working on a paper consolidating the findings of the informal working groups on challenge funds. The paper will outline principle-based recommendations to development agencies on the use of challenge funds in the future.

Conclusions

- The day closed with a discussion in light of the framing questions.

1. Do enterprise challenge funds work?

- The Australian ECF and other programs demonstrate that the challenge fund approach can raise employment and income, and possibly overcome wider barriers to business growth, although the ECF itself had mixed success.
- Future programs should achieve greater success by implementing the lessons of the ECF, particularly by ensuring the program is appropriate to the barriers to growth and by identifying clear objectives in targeted industry sectors.

2. Can they operate at scale to make real difference to people in poverty?

- The answer to this question may require more data. A key conclusion of the workshop and recent academic research is that there is less rigorous data on the success of challenge funds than there could be, especially given the degree of global investment in this type of program.
- Future programs should establish strong results measurement frameworks from the outset, learning from the ECF's experiences implementing the Donor Committee for Enterprise Development Standard for Results Measurement.

3. How should challenge funds be set up and managed to achieve their goals?

- Challenge funds should be based on good analysis and marketed to target sectors in a way that makes the fund's objectives and processes clear.
- A single selection panel, with face to face meetings, should handle final selection of projects over several stages – after the fund manager has reduced the number of applications by identifying and assessing applicants (due diligence).
- The fund manager should play an active role linking project businesses to supporting services and other businesses that may have an interest in market links but should not provide supporting services to 'prop up' project participants – unless business skills development is an identified program objective and business support a defined role for the fund manager.

4. What alternatives are there for partnering with the private sector for development?

- There are several alternatives for partnering with the private sector, which may be more appropriate than challenge funds in certain places.
- Efforts to improve the business enabling environment by (for example) reforming business regulation or access to finance will play a large role in ensuring long-term business growth. But improvements to the enabling environment may not result in growth if commercial finance is constrained or favours lower-risk investments (e.g. government) or if business skills are lacking, so that commercial finance does not consider business to be bankable.
- A combination of approaches will deliver the most successful business growth strategy, applying interventions based on sound analysis and suitable to context.