



Enterprise Challenge Fund for the Pacific and South-East Asia

Project Completion Report

Final report on the Enterprise
Challenge Fund for the Pacific and
South-East Asia

September 2013

Prepared by Coffey International Development for the
Australian Agency for International Development (AusAID)

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Basic Activity Information	
Project name	Enterprise Challenge Fund for the Pacific and South-East Asia
Activity number	42248
Description	The ECF is a six year, \$20.5 million pilot program (2007–13) supporting private sector development, economic growth and poverty alleviation in South-East Asia and the Pacific Island countries. ECF has provided matching grants to enterprises in eight countries: Cambodia, East Timor, Laos, Philippines, Papua New Guinea, Solomon Islands, Fiji and Vanuatu. ECF has provided grants funds of \$11.012 million for 21 projects. The focus has been on disbursing funds and monitoring and evaluation of projects.
Locations	9 countries in Pacific and South-East Asia Cambodia, East Timor, selected provinces of Indonesia, Laos, Papua New Guinea, southern Philippines, Solomon Islands, Vanuatu
Delivered by	Fund managed by Coffey International Development Implementation of activities through various private sector partners
Key dates	Feasibility and design approval – August 2006 Project design document– December 2006 Commencement – 2 July 2007 Mid-term review – November 2009 Independent progress review – October 2011 Completion – 30 October 2013
Approved costs	A\$20.5 million
Actual costs	A\$17.4 million
Form of aid	Competitive grants to the private sector administered by contracted delivery agent (managing contractor).

Symbol	Currency	Present rate*: 1 Australian dollar =
A\$	Australian dollar	1
F\$	Fiji dollar	1.69 Fiji dollars
K	Papua New Guinea kina	2.02 kina
KHR	Khmer riel	3,673 riel
LAK	Laos kip	7,130 kip
P	Philippine peso	39.42 peso
SB\$	Solomon Island dollar	6.59 Solomon Island dollars
US\$	United States dollar	0.91 United States dollars
VT	Vanuatu vatu	87.40 vatu

** rate current as of 31 July 2013

Executive summary

The Enterprise Challenge Fund Project Completion Report documents the outcomes of the Enterprise Challenge Fund (ECF) pilot program from 2007 until 2013. Over the course of 6 years, the ECF held three bidding rounds, awarded A\$11.012 million in grants to 21 projects that increased the incomes of 78,154 people by an estimated A\$8.179 million in 3 years. This will increase in future years and it is estimated that by 2015, the full cost of the ECF program will have been converted into income for the poor.

This report looks at the activities undertaken and results achieved over the 6 years and assess key lessons and makes recommendations on future options.

Background

Private sector development is an area of importance for the Australian aid program as outlined in Australia's Helping the World's Poor through Effective Aid: Australia's Comprehensive Aid Policy Framework to 2015–16 and contributes to the third strategic goal of sustainable economic development – improving incomes, employment and enterprise opportunities.

The ECF for Pacific and South-East Asia was established to address this important area and is an A\$20.5 million AusAID-led Australian Government initiative. It aimed to contribute to poverty alleviation by creating income generating opportunities and access to goods and services with a positive economic benefit for poor people.

Selection and start up

During 2007–09, three bidding rounds were held. Interest in the challenge fund was very high with over 1,200 companies registering and submitting 532 concept notes. The assessment panels approved 24 projects in Cambodia, East Timor, Fiji, Laos, Papua New Guinea, Philippines, Solomon Islands and Vanuatu with 21 projects successfully completing the project as outlined in the approved application.

Companies used the ECF funds to build infrastructure, developed skills and build partnerships with the poor and rural communities during establishment. To date, 14 projects (58%) are commercially sustainable.

Results

From 2010–2013, the projects achieved wide-ranging results. The ECF is a diverse portfolio of projects and assessed based on business growth and commercial sustainability, achieving pro-poor benefits and those that have prompted wider changes in the market.

- Three (12%) performed very well and already being replicated or supporting other new businesses,
- Ten (42%) performed well or adequately by increasing income or employment but are less likely to be replicated or support other businesses without some change:
- Around eight (or 33%) performed less well and three (12%) were discontinued after grants were approved but before significant implementation.

To date, the ECF has benefited 78,154 people (39,196 men and 38,958 women) with A\$8.179 million in income earned by communities.

Over half the funded projects (80% of those that are already commercially sustainable) have invested additional funds to scale up to new products, services and new markets. Other poor people will benefit from this. Over 130 mostly small–medium enterprises have improved productivity or entered new markets due to the ECF funded projects.

Looking at value for money, this means for every A\$1 of public (AusAID) funds spend on the ECF (A\$17.218 million in total) that 0.50c or half of these funds (A\$8.179 million) has reached the poor in 3 years. By 2015, the full value of the program will have reached the poor as increased incomes and reduced costs.

Lessons

The ECF as a pilot has developed lessons and contributed to research impacting on the way challenge funds will be considered in future.

- The ECF has demonstrated that with appropriate support the private sector can play a pivotal role in alleviating poverty.
- The two regions ECF operated in – the Pacific and South-East Asia required different approaches. The high performance of ECF projects in Asia indicates that a challenge fund model can be appropriate and effective; projects in the Pacific had a lower impact and found more challenges in implementation. The standard challenge fund model only addresses the access to finance impediment to a more vibrant, productive and beneficial private sector in the Pacific but not the other factors such as the need for business support.
- To improve challenge fund management - providing a sector focus will reduce management cost and time, improved due diligence on the applications would provide the assessment panels with better information to make judgement on, and investing in a strong results measurement and evaluation program has had significant benefits.

Future considerations

There is considerable interest by AusAID and other donors in continuing to work with the private sector through challenge funds or other types of initiatives.

- The most important element is the challenge. Future challenge funds need to have strong and clear objectives for providing funding and consideration of why the private sector should be used and what challenge the program is addressing is critical.
- A challenge fund is a tool in distributing public funds and can be applied broadly to encourage innovation and new models or at specific challenges by narrowing the focus to specific geographic regions, sectors or partnerships. This needs to be incorporated in to the design of the fund.
- A large number of assessments of challenge funds currently underway will provide good analysis of this and other challenge funds. AusAID has also committed to a review of the ECF's post impacts in 2015.



From 2010 - 2013 the ECF funded businesses have benefited 78,154 people by an estimated A\$8.179 million in increased income. This equates to 50% of Australian Government funds spent on the program. By 2015, the full value of the program will have been converted into income for the poor.

Background

The 2006 Australian Government White Paper on Australian Aid included a commitment to partner with the private sector to promote pro-poor private sector development. The Australian Agency for International Development, AusAID, identified challenge funds as a potential tool to respond to this commitment and commissioned a feasibility study of challenge funds in late 2006. The findings of the feasibility study, combined with lessons from the implementation of challenge funds elsewhere, showed a sound rationale for launching an Enterprise Challenge Fund in the Pacific and South-East Asia (AusAID, 2006).

About the Enterprise Challenge Fund

The Enterprise Challenge Fund (ECF) for Pacific and South-East Asia is an A\$20.5 million AusAID-led Australian Government initiative. The aim is to contribute to poverty alleviation by creating income generating opportunities and access to goods and services with a positive economic benefit for poor people.

From 2007, the ECF awarded grants to 24 business projects in Cambodia, East Timor, Fiji, Laos, Papua New Guinea, Philippines, Solomon Islands and Vanuatu. As a pilot program, the ECF had no country or industry quotas. It used a competitive bidding process with grant decisions made by experienced, independent assessment panels – no government took part in decision making and grant drawdowns were administered by the managing contractor, Coffey International Development.

Private sector businesses applying for ECF grants had to demonstrate that the grant was crucial to the project being implemented and that it would satisfy the assessment criteria in three key areas – commercial sustainability, benefits to disadvantaged communities, and likelihood of broader impacts in the wider market and economic development. Most of the supported business projects have now been operating for some time; a few did not manage to complete the full three years. There is clear evidence of the effectiveness and appropriateness of the challenge fund modality for stimulating the type of private sector development that has strong impact on poverty alleviation.

This final report for the program takes into account the funding of 24 business project across three years. In July 2013 the combined impact of these companies had an outreach to 497,512 poor people, of whom

78,154 poor people and 1,146 small businesses have earned increased incomes during 2010–13 equating to \$8.179 million, or 50% of the full program costs. This is expected to rise in coming years and by 2015, the income to the poor will be A\$19.197 million. This means the full cost of the program will have been recovered in benefits to the poor.

What is a challenge fund?

Challenge funds are increasingly seen as an innovative and versatile financing mechanism to channel public funds for investment. An enterprise challenge fund provides public funds to the business sector and aims to mitigate against risk in markets where business innovation can contribute to poverty alleviation. A typical enterprise challenge fund has one or more calls for business proposals that are assessed competitively. Successful proposals attract grants on a matching basis; the firm is required to prove that it is genuinely putting capital at risk. A successful proposal must demonstrate that the activity in question has both strong development benefits and reasonable prospects of achieving commercial viability within a certain timeframe.

The most important feature of a challenge fund is the challenge, which needs to be clearly articulated and promoted through the eligibility and selection criteria in order to produce a large pipeline of applicants that fit the needs of the program.

Why is it relevant?

When markets work efficiently and produce equitable outcomes for the poor, they are the most powerful vehicle for delivering growth and poverty reduction. Private sector development is an area of importance for the Australian aid program as outlined in Australia's Helping the World's Poor through Effective Aid: Australia's Comprehensive Aid Policy Framework to 2015–16 (AusAID, 2012) and contributes to the third strategic goal of sustainable economic development – improving incomes, employment and enterprise opportunities.

In August 2012, the Australian Government launched the Private Sector Development Strategy. The strategy sets a framework for how AusAID will support the growth of the private sector in partner countries, for example through financial inclusion, women's economic empowerment, infrastructure, education, health, economic reform and governance. Before 2011, the ECF was one of the few AusAID programs, not delivered by multilateral agencies, which directly assisted business entities. Documenting and sharing these lessons has helped AusAID improve current and future private sector development programs.

The projects funded by the ECF also have significant relevance to national government programs and other donor priorities with programs in agriculture, renewable energy, financial services and tourism key sectors where ECF projects are impacting.

Why support business in the Pacific and South-East Asia?

The Asia Pacific region is the highest priority region for the Australian aid program, which targets 86% of funding to this region. The ECF's feasibility study found companies in the Pacific and South-East Asia faced a number of barriers to pursuing pro-poor business opportunities. Access to affordable and appropriate finance was a significant barrier for over 70% of companies, especially for agribusiness ventures, which often have the best prospects for pro-poor outcomes.

In the Pacific, companies cited weak transport or infrastructure as a key barrier; in Asia significant barriers were the lack of educated workforce and market information as well as excessive bureaucracy and over regulation. In Asia, rising economic development is leading to inequality in market access.

Many companies interviewed during the design expressed interest in the types of projects that would connect the poorest to the cash economy, such as providing a market for natural resource assets (e.g. cattle, fish, cocoa) to create additional inputs with new sales. There was also interest in projects from the banking and renewable energy sector to provide services to remote or rural communities. Mechanisms that give people access to the cash economy can also be used to supply other goods and services or transport out products. The funding of the supply chain 'link' is another benefit of a challenge fund.



Key outcomes expected

Over the past six years, challenging the private sector to propose development solutions has led to innovative outcomes. Projects funded new products and services specifically designed for the poor and opened opportunities to develop industry in which rural and remote communities could participate.

To gain wider impact in markets, innovative projects needed to scale up or replicate in different locations and wider business environments stimulated to enhance economic growth. This growth will ultimately improve the lives of people in these countries.

The ECF achieves the right impacts by:

- 1 implementing projects through a co-investment of grant funds and private sector contribution
- 2 the business growing and becoming viable by transacting with the poor
- 3 the business generating opportunities for the poor through access to employment and supply; and new goods and services leading to higher incomes, increased skills and improvements in living conditions for people affected by poverty in the area
- 4 as the business grows and communities benefit, adapting or scaling-up the business model to new products or wider beneficiary groups, as more beneficiaries are interested in transacting, and increasing the likelihood that the business will be sustainable
- 5 in time, generating interest in the wider business environment and other companies copying the behaviours or crowding-in to service the market; and in some cases, if a large number of projects operate in the same space or with a catalytic project, the support market can respond with changes to regulations, and improved access to financial and communication services.

Role of the fund manager

The Enterprise Challenge Fund is administered by a network of Country Managers and a Fund Management team to encourage private sector applicants, advise bidders and assessment panels, and guide companies during implementation. The Country Managers oversee the technical monitoring and private sector support program as well as communicating project results.

Over three bidding rounds in 2007–09 Country Managers fielded more than 1,200 registered enquires and a total of 532 Concept Notes. Country Managers gave support and advice on meeting the criteria. The Fund Manager coordinated an independent selection panel to make decisions and awarded 24 grants.

Following contracting, the ECF monitoring program began with baseline beneficiary surveys and included 6-monthly visits by Country Managers to assess project progress and, through observation, interviews and surveys, collect data on business growth, impacts for beneficiaries and changes to the wider business environment from the funded projects. The ECF Monitoring Specialist visited programs every year to assess use of the monitoring system and provide technical advice to Country Managers. The monitoring system is working towards compliance against the Donor Committee for Enterprise Development – Standard for Results Measurement, the first challenge fund to do so.

The ECF monitoring visits also allow companies to source important information about their business.

Box 1: ECF Grantee Perception Survey 2012

In 2012, Coffey International Development developed a grantee perception survey and asked awarded companies to respond to 14 questions based on their experience and perceptions. Of the 21 funded projects, 12 responded (for full details see the ECF Annual Portfolio Report (ECF, 2012).

When asked about the role of the Fund Manager and monitoring visits:

- 90% found monitoring visits useful or very useful, specifically that the information was useful and supported business decisions
- 70% indicated the ECF team had provided useful information to support improving and changing the business and 30% that thought advice and information was either not useful, not received or were not sure – all responses from Pacific businesses that had a number of challenges during implementation.

The Fund Management team also developed a program to communicate and share the lessons from the ECF program as a whole and from projects. Linkages between supported projects and other market players and organisations are facilitated by targeted meetings and presentations. Country Managers were responsible for implementing tailored work plans developed for each project.



ECF program funds allocation – final cost summary

The total Australian Government approved of A\$20.5 million funding for the ECF over six years included:

- A\$14.5 million in funding for grants (71%)
- A\$5.9 million (29%) for running costs of the program over 6 years: management of assessment panels (A\$0.7 million), marketing of the fund (A\$0.1 million), travel (A\$0.4 million) and salaries of nine Country Managers and three fund management staff for marketing, management of contracts, finance and administration, monitoring and data collection, reporting, and business linkages for all projects and the fund (A\$4.2 million), and an independent monitoring team (A\$0.5 million).

Enterprise Challenge Fund
2007 - 2013 breakdown of ECF actual costs (\$A '000)

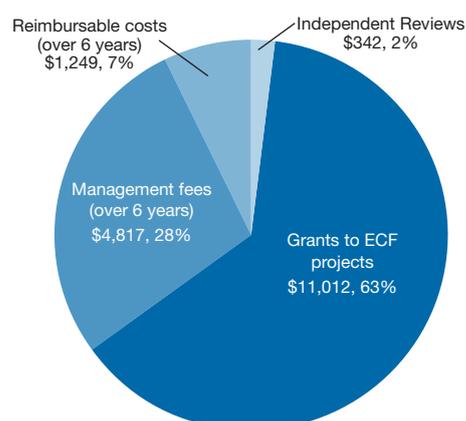


Table 1: Costs of program actual versus approved 2007–13

	Approved costs Initial contract 2007 plus amendment from 2008 (A\$ '000)	Approved costs Contract revised 2012 (A\$ '000)	Actual costs est to 30 Oct 2013 (A\$ '000)
Management fees (over 6 years)	4,211	4,862	4,817
Reimbursable costs including market research, travel and assessment panel costs (over 6 years)	1,190	1,344	1,249
Grants to ECF projects	14,500	10,986	11,012*
Independent reviews	500	500	342
Total	20,401	17,692	17,421
Management fee to grants ratio	29%	35%	35%

* Note: Actual costs are higher than approved costs as accrued interest from the fund was used in addition to the funds from the Australian Government drawdowns.

As at July 2013, the total Australian Government total expenditure for the ECF is expected to be A\$17.421 million¹, a reduced expenditure of \$3 million. The difference is from the original approved grant funds of A\$14.5 million, to the A\$11.012 million (82%) actually drawn down for projects. Two companies did not begin their projects due to changed market conditions²; and three companies did not complete the full 3-year

implementation and spent less than expected³. Four of the five uncompleted projects were in the renewable energy sector.

The private sector has co-contributed A\$17.8 million which equates to A\$1.62 for every dollar invested by the Australian Government – slightly more the original expected ratio of A\$1.59 in the ECF Mid Term Review (Elliot et al, 2009).

1 Note the report is written as at 1 September 2013. The ECF program ends on 30 October 2013. Two key activities are still to be undertaken and funded in September–October 2013. A workshop for the Sarami (Vanuatu) program in Solomon Islands in mid-September and two lessons learned workshops to disseminate lessons learned with the wider industry in October 2013.

2 Solomons Biodiesel and Pelena, both biofuel projects in the Solomon Islands did not begin operations as a result of changed market conditions in 2010.

3 The Solutech solar lamp project in East Timor was cancelled by the grantee in 2011 due to lower than expected demand. In Laos, the Sunlabob renewable energy completed only one pilot area using 43% of the grant funds. Mainland Holding in Papua New Guinea changed ownership and as part of the renewed strategy the ECF vanilla project was discontinued after 18 months. None of the projects were achieving commercial sustainability at the time of cancellation.

Efficiency of the ECF

The Organisation for Economic Cooperation (OECD) Development Assistance Committee defines efficiency as 'a measure of how economically resources/inputs (e.g. funds, expertise, time) are converted to results'. Efficiency can be assessed in a number of ways.

In general, evaluator's measure challenge fund efficiency by comparing the management fee to the grant funds allocated. A challenge fund is considered efficient if the ratio is 20%. The ECF management fee to grant ratio is 35% (Table 1: Costs of program actual versus approved 2007–13) indicating that this challenge fund is not very efficient. Pilot programs where lessons are being learned during progress are often less efficient.

Benchmarking against a ratio does have limitations. A straight comparison of management fee to grant fund does not take into account the difference in activities required between funds such as higher investment in management, monitoring or disseminating lessons.

An alternative approach to looking at efficiency is using cost effectiveness or value for money analysis. The term 'value for money' describes a commitment to ensuring the best results possible are obtained for the money spent. The term reflects a concern for transparency and accountability in spending public funds, and for obtaining the maximum benefit from the resources available.

The ECF team developed a simple value for money assessment for the program. It relates incomes to the poor over three years to the donor funded input costs from the program – both grant funds and management costs. This linear assessment looks at the development value for every A\$1 of public (AusAID) funds spent.

Additionally, the approach considers an additional two years' cumulative impact (post grant period) in line with the aggregation guideline of the Donor Committee for Enterprise Development's Standard for Results Measurement.

This approach looks only at the public funds, not the bidder contribution, as a simple assessment of how long it takes for the public funds (ECF grant and program costs) to translate into increased incomes to the poor. The bidder contribution is a critical part of the results. However, the assessment does not include business growth benefits such as head office employment, increase profits or assets. Thus public costs only are compared to pro-poor outcomes.

The analysis found the following:

- From A\$17.4 million spent on the ECF program including the management fee and grant fee (excluding evaluation costs), the impact at August 2013 was A\$8.179 million. At the end of the grant period, 50% of total program costs had flowed on to the poor as income and reduced costs – a value for money return on investment of 50%.
- After the program's close, the sustainable projects will continue to benefit the poor. By mid-2015, \$19.197 million will have been received by poor people, therefore recovering the total ECF program costs.
- Successful projects in Cambodia, Philippines, Fiji and Vanuatu contributed to the overall value for money for the program. It is important to consider a portfolio approach in challenge funds.

Table 2: Value for money in the ECF a comparison of donor funds to development impacts

Country	Number of funded projects	A ECF project management costs allocated per country	B Grant values per country	C Total benefits to the poor from the ECF – 3-year impact to 2013	C/(A+B) VFM per country using ECF and management cost	D Total benefit over 5 years (C + projected 2 year post grant impact) to 2015	D/(A+B) VFM per country using ECF and management cost
Cambodia	4	\$ 1,185,139	\$ 2,632,224	\$ 2,257,781	59%	\$5,637,807	149%
Laos	2	\$527,835	\$591,456	\$322,597	29%	\$ 554,946	50%
Indonesia	0	\$91,171	\$ -	\$-	0%	\$-	0%
Philippines	1	\$286,627	\$407,139	\$ 1,502,130	217%	\$3,044,307	445%
East Timor	1	\$261,327	\$125,477	\$-	0%	\$-	0%
PNG	4	\$ 1,130,289	\$ 1,561,310	\$133,385	5%	\$1,072,135	40%
Solomon Islands	3	\$837,662	\$ 1,971,383	\$75,063	3%	\$1,280,004	46%
Vanuatu	4	\$ 1,181,758	\$ 3,120,000	\$ 2,911,855	68%	\$5,653,842	133%
Fiji	3	\$906,505	\$603,224	\$976,077	65%	\$1,954,356	132%
Total		\$ 6,408,313	\$ 11,012,212	\$ 8,178,887	49%	\$19,179,397	111%

The assessment cannot benchmark future programs as it relies on the investment the private sector in bidder contribution and capacity however seeks to show the value of A\$1 in to this challenge fund.

For more information see the ECF internal value for money assessment (ECF, 2013).

Ensuring aid effectiveness

ECF is a more efficient and cost effective way of kick-starting projects and allowing for the creativity and efficiency of the private sector. Grantee Perception Survey (ECF, 2012)

The effectiveness of challenge funds in general depends on the extent to which the ECF program has run to schedule and funded projects have achieved their intended objectives.

The ECF program covered six intermediate outcomes

- 1 establishment of the fund
- 2 marketing of the fund
- 3 managing bidding rounds
- 4 contracting and management of grants
- 5 linking into Business Enabling Environment (BEE) reforms and disseminating information
- 6 program management and reporting outcomes.

Program – All the intermediate outcomes were completed on or ahead of schedule. Completion of the bidding rounds six months earlier than schedule allowed the saved time and costs to be invested in additional activities such as a rigorous results measurement program; additional activities to promote high performing projects and a further monitoring round to measure the impacts in 2013 – one year following the end of the grant. Key personnel were retained for the full six-year term and researchers were sourced from global networks to bring specific technical review of key projects.

The ECF pilot program trialed a number of new approaches to management and learned lessons on how to operate more efficiently. It gave additional support to funded programs in order to achieve higher level business and development impacts and took an improved approach to measuring results using the Donor Committee for Enterprise Development Standard for Results Measurement (Box 2: Use of the DCED Standard for Results Measurement) ensuring that information collection is more rigorous and the results more meaningful.

Projects – 19 of the 24 (80%) approved projects were still operational after the 3-year implementation period with 58% of the projects commercially sustainable as at July 2013. In 2011, the Independent Progress Review (Armstrong, 2011) reviewed 11 operating projects (58%) and found the ECF's portfolio of investments had achieved mixed results, but that results were satisfactory for a pilot program of this nature.

The review also looked at effectiveness. It found that a number of projects in South-East Asia were on track and effective but projects in Pacific were less likely have met the business growth or enabling environment targets. For a review of the differences in results and effectiveness between the regions is see Box 4: Lessons learned in South-East Asia and Box 8: Lessons learned in the Pacific.

Box 2: Use of the DCED Standard for Results Measurement

As one of the first challenge funds to use the DCED Standard, the ECF has started work actively towards applying the good measurement practices described in the DCED Standard in early 2011 across its 21 projects. (Heinrich, 2013)

ECF uses a results based management approach that incorporates results chains to assess the plausible attribution of ECF activities to outcomes in line with the Donor Committee for Enterprise Development (DCED) Standard for Results Measurement. Key data is gender disaggregated and is systematically collected using qualitative and quantitative research methods and validated through a wide ranging stakeholder consultation (through stakeholder interviews, beneficiary surveys and secondary research) by program Country Managers in 6-monthly field visits depending on location.

In 2013, the ECF underwent a partial DCED audit covering seven of the 21 projects. The audit found the ECF had a reasonable results measurement system (76%) with some additional features.

The ECF pioneering use of the Standard has provided significant lessons for evaluating challenge funds. Key papers outlining these lessons for broader programs include the Guidance for Results Measurement in Challenge Funds Using the DCED Standard (Kessler 2013) and Donor Partnerships with Business for Private Sector Development: What can we learn from experience? (Heinrich 2013).

Enterprise Challenge Fund program outcomes

The goal of the Enterprise Challenge Fund is to achieve private sector-led growth in poorer regions of Asia and the Pacific by supporting increased access by the poor to commercially sustainable jobs and services. This leads to increased incomes for poor households and contributes to poverty reduction.

The grants have a wider objective of identifying market failures – raising awareness of opportunities to partner with the private sector in the region of profit making opportunities in poorer markets and stimulating increased investments for these ventures.

The following four sections examine ECF outcomes through business selection, project establishment, results and key community benefits, and wider benefits to other businesses.

1. Selection – who is the right partner?

Between September 2007 and May 2009, the ECF completed three competitive bidding rounds with the private sector in nine target countries. Country Managers and assessment panel members played critical roles in the selection process.

Country Managers were responsible for publicising the fund to a variety of potential bidders through a mix of general and targeted media, and informing key connectors such as banks, chambers of commerce and national government agencies. The most effective marketing was personal contact – targeted and face to face meetings with key businesses. The level of understanding was low given the challenge fund model was new and the fund specifically targeted businesses that had not previously worked with donors.

The eligibility (Box 3: ECF eligibility criteria) and selection criteria were broad as the pilot program was open to a variety of countries and all industries.

The level of business and financial literacy varied substantially among bidders. Focused support from Country Managers and the fund director was critical in developing the applications. Bidders who received further feedback on considering the impact of their project on outcomes including as highlighted in ECF's review of women's economic empowerment - in gender and indirect impacts on communities, submitted more detailed applications that took into account further impacts, not just income generation (Nethercott et al, 2013).

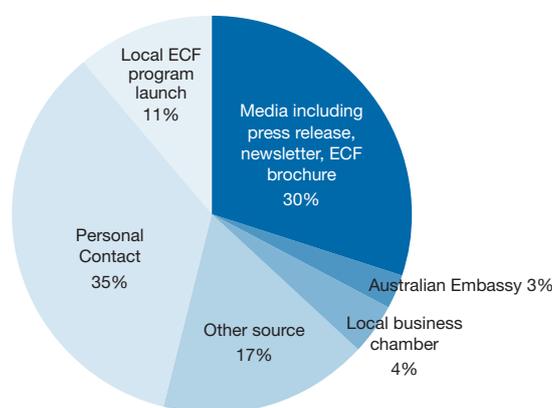
A self-evaluation checklist trialled in 2008 may have helped reduce the number of ineligible bids. However, additional support during the bidding process, could have helped companies to adapt programs during the application stage to improve development benefits.

This would also have been an appropriate time for an in-depth due diligence by the Fund Manager.

The ECF team additionally invested in general research into business enabling environment opportunities for each country in order to target marketing and advise the assessment panels.

Interest in the challenge fund was high with more than 1,200 registrations of interest from the website; 532 concept notes were submitted over three bidding rounds.

Enterprise Challenge Fund
Bidding survey 2007 - 2009 - How did you hear about the ECF



Box 3: ECF eligibility criteria

Businesses eligible for funding need to demonstrate that:

1. they are a for-profit private sector business (non-government organisations and other groups may be partners in a consortium led by a for-profit business)
2. they are able to contribute a minimum of 50% of the project funds required
3. that they are in a sound financial position and are up-to-date with tax submissions
4. the funding provided by ECF will be utilised within three years.

Projects eligible for funding need to demonstrate that:

1. it will be commercially sustainable after the grant period ends
2. it contributes to improving the livelihoods and opportunities for men and women affected by poverty
3. it could not obtain commercial funding
4. it avoids social damage, is environmentally responsible and does not involve tobacco, alcohol or gaming.

The ECF formed four selection panels made up of private sector and development specialists as well as sector specialists in agriculture, tourism and banking:

- three regional assessment panels – Cambodia and Laos; Asia (Indonesia and Philippines); Pacific
- one international assessment panel.

The panels assessed and made final decisions on the eligible submitted concept notes and applications. Panels were pro-bono with costs of travel covered but no remuneration provided. A number of panel members represented major companies including Australian banks whose involvement also supported corporate social responsibility requirements.

The fund management team assessed bids against the eligibility criteria and made recommendations to the panels based on selection criteria. The regional assessment panel assessed all bids of less than A\$200,000 in value and made recommendations to the international assessment panel for bids of A\$200,000 and above. The international assessment panel made the final decision on 70% of the applications.

Table 3: Bidding round data 2007–09

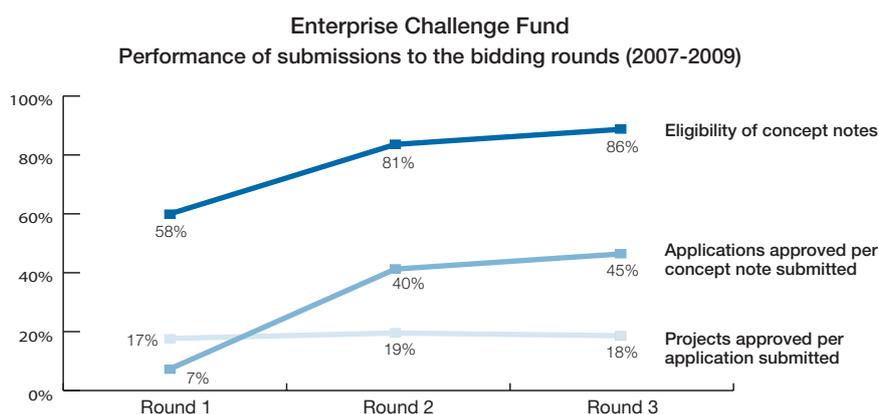
Enterprise Challenge Fund	Round 1	Round 2	Round 3	Total
Concept notes submitted	217	181	134	532
Eligible concept notes	125	147	115	387
Concept notes invited to application	37	35	24	96
Applications submitted	29	30	22	81
Projects approved	2	12	10	24
Grants to full term	2	10	9	21

The original plan was for assessment panels to use an online system to assess concept notes and meet once per round to consider applications in person. During the first meeting, all assessment panels expressed preference to meet physically for both assessment activities. It meant a consensus could be reached based on discussion among panel members, and specific and detailed feedback given at the concept note stage. Given the low resources for Fund Manager due diligence, it was a good basis for improving applications.

Over the bidding rounds, the performance of bidders improved significantly with more targeted marketing and greater country management involvement in the application process.

Concept note eligibility rose from 58% in round 1 to 86% in round 3 and the rates of approval for applications and projects also increased.

Factors to assess the applications for grant funding included first a clear assessment of the business growth and commercial sustainability and secondly a review of the social development impact and potential for wider benefits to the economy.



Projects approved

ECF assessment panels awarded A\$14.5 million in grants to 24 business projects across eight countries in the Pacific and South-East Asia. Projects ranged in value from A\$110,000 to \$1.5 million and across the six key sectors of agriculture, tourism, financial services, renewable energy, education and transportation.

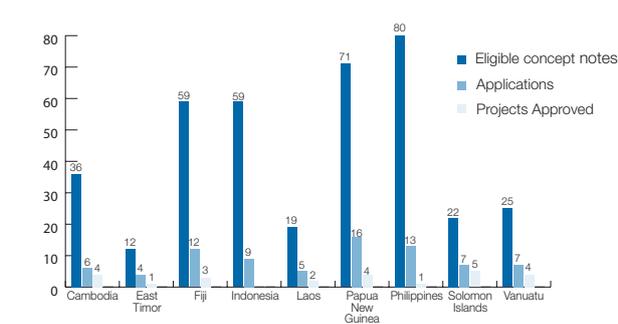
Countries with large economies submitted more concept notes but approval rates varied. Countries with higher barriers to finance and a challenging business environment, such as Papua New Guinea and Solomon Islands, tended to have more approved projects (Box 4: Lessons learned in South-East Asia).

The ECF portfolio represents a relevant and informative cross-section of projects implemented by a variety of enterprises:

-  grants of A\$100,000–200,000: 8 projects (38%)
-  grants of A\$200,000–750,000: 7 projects (33%)
-  grants of A\$750,000–1.5 million: 6 projects (29%)
-  locally owned companies awarded grants: 14 (67%)
-  small-medium enterprises (5–200 employees) awarded grants: 19 (90%).

The allocation of A\$14.5 million in funds was completed in 2009 and bidding rounds closed. The remainder of the time was spent on monitoring program outcomes, supporting the businesses and communicating the results of the pilot.

Enterprise Challenge Fund
Assessment of bidding submissions by country (2007-2009)



Box 4: Lessons learned in South-East Asia

The Pacific region accounted for 47% of all submitted concept notes and 74% of funded projects. This was contrary to the expectations of the ECF project design which reported that 'Asia may generate five to six times the number of competitive proposals that emerge from the Pacific' (AusAID, 2006).

The ECF managed identical assessment processes across target countries, but key factors impacted on the performance of individual countries – geographical constraints, success of marketing, language barriers and business practices.

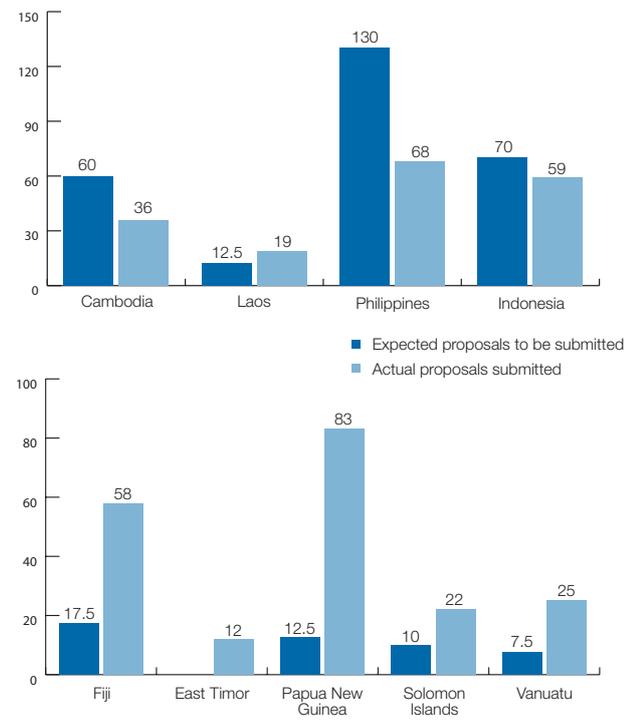
ECF bidders in the selected provinces of Indonesia and southern Philippines were often smaller companies that had good local experience but lacked systematic approaches to developing ECF applications (e.g. formal financial statements, business planning). Larger companies did not participate as expected because alternative funding was readily available from foundations or less risk adverse capital lenders.

Marketing to a large geographical area where the target area is broadly defined, business practices and language differ, and face to face business is considered critical is costly and time consuming compared to countries with smaller business communities usually focused in the capital.

Recommendations for challenge funds operating in Asia in future include: focusing on geographic target areas; partnering with the government and other agencies to improve marketing; using more intensive resources to address relationship-based marketing; increasing the minimum grant size to attract large businesses; working more closely with national government agencies or forming partnerships with foundations or other formal financing to develop proposals; and consolidating the assessment panels to mitigate any bias across regional panels.

The Asian assessment panel also suggested that cultural aspects to business are not taken into account in a homogenous fund. In Asia much of the key business knowledge is 'internalised' by key personnel, which creates problems when Asian companies try to articulate a solid business and development case as required under the ECF (and westernised) processes. In Asia, an important part of a business's decision-making process is based on the business owner's character. The panel suggested that an assessment of the character and integrity of the bidder should be given more emphasis. For further analysis see The internal ECF review of lessons learned in South-East Asia during the ECF pilot program (ECF, 2009)

Enterprise Challenge Fund
Expected in the Project Design Document (2006) compare to actual proposals submitted (2007-2009)



2. Implementation – businesses are established and grow

Business growth against targets, such as increased turnover, volume and value of transactions with the poor, and ultimately profitability, are measured as part of the ECF program. These aspects of business growth indicate an increased chance that the business will be commercially sustainable and continue to operate and develop benefits in the long term.

Between 2008 and 2013, 24 business projects began operations; 21 projects successfully completed the project as outlined in the approved application. Minor changes to the schedule were made in response to changing market conditions such as improved foreign exchange rates and decline in market demand.

The ECF funded a wide variety of projects including:

- innovative new goods and service that previously did not exist (mobile payments systems and microinsurance) or innovative agricultural products (organic fruit fly bait) and practices (duck outgrowing or cocoa plantations) that would not have occurred without ECF support
- businesses facing barriers (technological, access to finance, remote communities) to entering new markets or expansion that would not have occurred without ECF support including entering long-term contracts with landowners to plant teak, developing supply chains for abaca or shipping routes in remote areas. Assessment of the ECF grant contribution and ongoing benefits is more difficult in this type of program.

The potential for sharing information or linkages between projects in six distinct sectors and seven countries was limited.

At completion, A\$11,012 million had been drawn down to contribute to the funded projects and the private sector had co-invested A\$17.834 million – A\$1.62 for every dollar invested by the Australian Government exceeding the expectation of A\$1.59 in the ECF Mid Term Review (Elliot et al, 2009).

The 24 projects are summarised in Annex 1.

Box 5: Without the ECF

ECF provides funding to the private sector where market failures erect barriers to entry and promote under-investment in innovation by firms. The grants encourage investment in new products and services and expansion of operations to new markets that involve the poor in business.

Analysis by the Fund Management team in 2010 of ‘what would have happened without ECF funding for these businesses’ indicates that 11 projects (52%) would not have happened at all, 5 projects (24%) may have started in the 5–10 years longer term with fewer or no pro-poor benefits if they were implemented, and the remaining 5 projects (24%) could have been implemented without ECF support at some stage but would be unlikely to deliver the same level of development impacts.

This correlates with the Grantee Perception Survey of 2012 when 90% of grantee respondents indicated their project would not have started when it did without the ECF grant, and would have started in 3–5 years (60%) or 6–10 years (10%).

Challenge funds tend to have strong rationale for providing grant funding to companies.

Additionally in considering how the projects provide benefits to the poor, the ECF team has also examined the project impact compared with the alternative market where it exists (called the counterfactual). The income benefits to the poor are calculated as the difference between the ECF and cost of using an alternative good or service.

ECF projects by sector	Pacific	Asia
Agriculture/agribusiness (including fishing and forestry)	10	2
Tourism	2	1
Financial Services	0	2
Renewable energy	1	1
Shipping	1	0
Education	0	1
Total	14	7

Businesses set up for business

As a first step, companies focused on undertaking the funded activities including constructing infrastructure, developing supply chains and marketing approaches to reach new customers, growing head office operations and staff, and approaching customers in domestic and international markets.

Infrastructure and expanding facilities

During the first 1–2 years of implementation, companies increased infrastructure and capacity for their new and expanded operations. A number of facilities were developed and improved in remote areas:

- agricultural production facilities including construction or expansion of nine processing and handling operations for vanilla (rapid curing and extraction), ducks, cocoa, fish, coconuts, handmade paper, natural soaps and oils, and organic fruit fly baits; and construction of two nurseries for teak and cocoa seedlings and an expanded quarantine facility with four heat treatment chambers
- tourism facilities in remote areas including expansion of an eco-lodge, jetties, amenities blocks and barbeque facilities at four sites in the Pacific
- education facilities including 12 classrooms and a four-room dormitory
- energy infrastructure of an off-grid hydro-power supply plant
- new and expanded office facilities for management of projects
- infrastructure to increase access to markets including two resource centres, vessels for inter-island shipping, and roads and bridges to improve transport of goods to market.

Some facilities are jointly owned and operated by local communities in partnership with the company. Most infrastructure is available for wider use by the community and other private sector companies. This increases wider business and community productivity and leaves a long-term investment in rural areas.

Developing supply chains

Companies also invested in partnerships for developing supply chains for suppliers and customers.

- C-Corp (Solomon Islands) developed a joint venture with two village communities to plant and maintain cocoa plantations on their land.
- Cagayan de Oro (Philippines) partnered with a farming-cooperative to establish and run an abaca buying station in the remote village of Claveria. Cagayan de Oro provides financing and transportation for the abaca as it is brought by farmers to the station.

Several training and capacity building programs were also implemented using ECF grant funds. Companies improved supply chains by communicating new knowledge and training, providing labour saving devices, and developing skills through extension workers, marketing agents and farmer field schools in order to benefit from new products and services.



Case Study: Growing vanilla in Papua New Guinea

Puritau Limited is a family owned company in Port Moresby, Papua New Guinea involved in agricultural products since 1987. Puritau used an ECF grant of A\$170,000 to establish a processing facility to produce pure vanilla, oleoresins and other spices.

Agricultural extension work is an important activity for Puritau. During a field visit, the ECF team visited the extension worker and the almost 40 growers in the Vanapa of PNG who are being trained in vanilla plantation by the extension worker. Growers also receive information on the price of vanilla from extension workers. The price is going up and farmer interest is increasing. Extension workers are targeting 621 vanilla producing households in the region; 300 households have begun selling vanilla beans to Puritau.



Employment at the head office

An aspect of business growth is employment of workers at the head office. ECF funded projects have created employment opportunities for 426 new full-time jobs (251 men, 175 women) at head offices around the region. Many of these employees are skilled workers – management, technical specialists and office workers. They are not targeted beneficiaries of the project but support improved economic growth for developing countries.

- WING (Cambodia) now has 204 headquarter staff (132 men, 72 women) to manage head office functions and operate a call centre for customers of WING. This has grown from 55 since the change of management; additional staff from parent company Refresh Mobile supply high level information technology skills and WING now manages its technology platform in-house.

Introducing new technology and international recognition

Projects also introduced new technology, including information communication technology, such as online tourism payments and mobile payment systems in Asia and agricultural technology in the Pacific such as heat treatment chambers for fruit and vegetables, production of oleoresins and cattle management improvements in the Pacific.

A number of projects also developed international supply chains for products to be exported. They included a premium grade cocoa brand from Solomon Islands to New Zealand and Japan; vanilla brand from Papua New Guinea; handmade cards from the Philippines to Europe and the United States; and branded beauty products using local inputs from Vanuatu to Australia and the United States.

Eleven of 14 (78%) projects in the Pacific connected to international markets, which reflects in most cases the small domestic markets in each country. Of the remaining three, only one – Future Forests (Fiji) – achieved sustainability in the domestic market. Only two of seven projects (29%) in Asia connected to international markets in the short term. A number of projects may expand regionally in the medium term but these results show the benefit of a sizable domestic market.

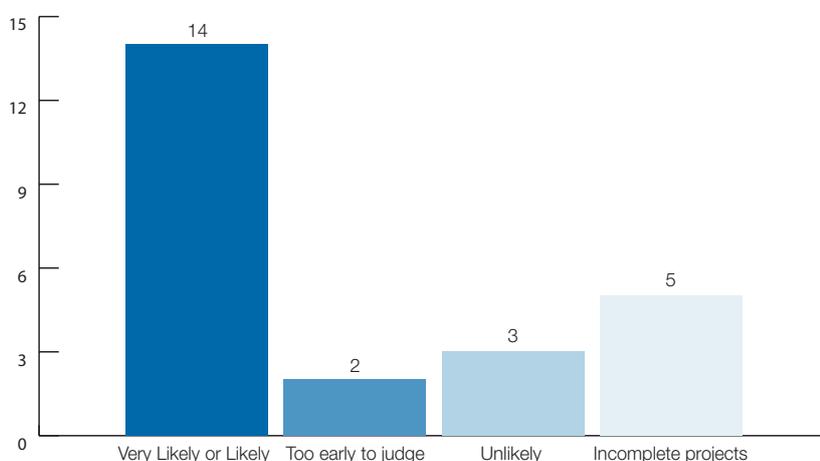
Commercial sustainability

ECF assesses key aspects of commercial sustainability in projects including profitability, stakeholder buy-in and additional investment to the projects. The assessment found:

- 14 projects (58%) were already commercially sustainable
- two projects with high impact potential once fully implemented were delayed during implementation and have yet to begin full operations. Emirau Marine (Papua New Guinea) had delays in obtaining start-up capital for its coconut oil processing operation; and Didao (Solomon Islands) only recently completed infrastructure of the fish factory in Honiara and initial trials.
- three projects are unlikely to be commercially sustainable in the long term - Pupuk Alam (Cambodia) and Marine Consultancy Services (Vanuatu) are providing goods and services to rural communities but demand is less than expected in the original business plan
- five projects, including four renewable energy projects, did not complete 3 years of implementation Burrows and Pelena (Solomon Islands) did not begin implementation; Solutech (East Timor) found itself in a changed businesses environment when other companies provided cheaper alternatives to a price conscious clientele; and the business projects proposed for mini hydro-power generation in Laos and vanilla in Papua New Guinea were not commercially viable.



Enterprise Challenge Fund
Assessment of commercial sustainability 2013



Challenges faced by businesses during establishment

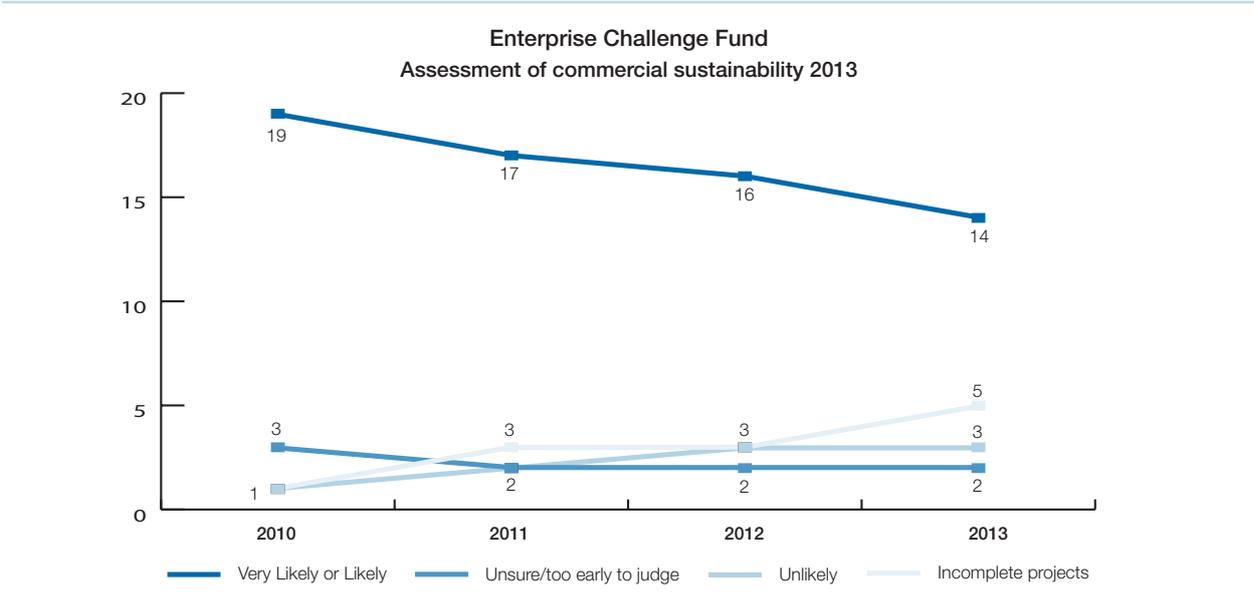
Most companies (75%) faced challenges during implementation.

- Unable to secure the necessary permits for operation particularly in the early stages, WING (Cambodia) was able to transact only in local currency Khmer Riel for the first 18 months of implementation. This limited the potential to partner with companies for payroll services, which is primarily in United States dollars.
- Change in market conditions particularly in 2008 and cash flow constraints affected projects in a number of countries particularly those accessing international markets.
- Machinery failure or delays in construction in remote areas caused operational delays for three projects.
- Natural disasters, such as flooding or cyclones during the 3 years of project implementation in Fiji, Philippines and Cambodia, affected agricultural projects and their beneficiaries.
- In three cases, the company contracting with the ECF changed ownership. In the case of WING (Cambodia) this resulted in a better fit and a more appropriate partner to expand operations. In the two vanilla projects in Papua New Guinea, the change of ownership caused a re-evaluation of the investment. In all cases, a change of ownership impacts on progress while the company stabilises.
- Two companies found that key assumptions on the profitability of the business model were not viable. As part of ECF risk management, companies could not change the nature of projects once approved by the assessment panel (apart from minor changes or reallocations).

Linkages to support programs during establishment

The Fund Manager developed linkages through a contact and dissemination program tailored to each project. The linkages program was able to draw on technical support for an identified need in a business project to mutually beneficial links between supported businesses. This indirect support during challenges in implementation included:

- linking to Australian Business Volunteers and introductions to suppliers or financiers for Didao (Solomon Islands) and Emirau (Papua New Guinea)
- introducing grantees to other business people able to advise on technical issues or as customers through the Pacific Islands Private Sector Organisation or the South Pacific Tourism Organisation
- linking grantees with potential commercial and international finance institutions' funding sources
- facilitating support services from development agencies to strengthen supplier and community engagement activities.



A review by sector

Agriculture

- Types of products: agricultural produce (vanilla, fish, cocoa, cattle, teak seedlings); value-added products sourcing raw agricultural products (abaca, beauty products); and agricultural inputs (fruit fly baits, quarantine treatment services and resource centres)
- Grant funding: A\$5.7 million; Private sector contribution A\$8.1 million (A\$1.42 per A\$1 of grant funds)
- Locations: All countries excluding Laos with a majority in the Pacific
- Results: 4,675 people and small businesses (2,926 men, 1,589 women and 160 small businesses) benefiting by an additional \$3.043 million over three years

Agriculture is a key industry in all the targeted countries of the ECF. Not surprisingly, 50% of ECF projects targeted improved agricultural techniques and technology, and enhanced market access for remote communities that would otherwise find it difficult to capitalise on their natural assets and traditional agricultural practices.

Agricultural productivity is best addressed by using the natural assets of the region, and improving the skills and products of rural communities without significant disruption. Most successful projects improved established crops, and use of existing resources and traditional skills.

Typically, agricultural projects required a longer period for implementation, particularly when infrastructure (e.g. factories, nurseries and plantations) had to be constructed in remote areas. Many companies needed to improve existing transportation infrastructure such as building roads or purchasing vehicles to support the supply chain.

In the Pacific, agricultural supply chains were connected to export. However, these products required high quality and a reliable quantity of supply in themselves and their raw ingredients. Many companies used ECF funds for training and extension work for their suppliers.

Improving agricultural productivity and reducing costs along the supply chain should lead to greater profitability and a more viable business. Returns to suppliers need to be quick and worthwhile to prevent the investment of time (to undertake contract farming) and resources (such as land or investing in infrastructure for the project) being diverted to other more profitable activities.

Agriculture is a key industry in all countries in the region and for future private sector development programs or challenge funds.

Tourism

- Types of projects: expansion of tourism facilities in remote areas to support large numbers of tourists to travel to remote areas through cruise ship tourism and online marketing of local tourism enterprises
- Grant funding: A\$1.142 million; Private sector contribution A\$2.3 million (A\$2.01 per A\$1 of grant funds)
- Locations: remote areas of Solomon Islands, Vanuatu and Laos
- Results: 825 people and small businesses (371 men, 363 women and 86 small businesses) benefiting by an additional \$2.897 million over 3 years; 86 communities are benefiting indirectly from flow on effects of increased tourism in the 86 hotels

Tourism is a growth sector in Asia Pacific countries with both regional and international tourism a key contributor to economic growth. The private sector is the primary driver.

Only three of 24 (12%) approved projects were in the tourism industry, but they had a high rate of impact and all were successful. Tourism projects funded by the ECF built infrastructure in remote areas, including an eco-lodge in Solomon Islands, and wharfs and amenities in remote islands of Vanuatu; and increased capacity for remote tourism providers. Through training, companies undertook international marketing and increased the supply of international tourists into remote areas. The significant flow on benefits for local communities was in supply of food for restaurants, markets for handicrafts, transportation and employment.

The contribution and additional investment by the private sector was high in all cases with almost double the required bidder contribution.

Tourism is not usually an area where donor agencies consider funding, but based on the ECF experience, the potential for impact is considerable and flow on effects are high. The tourism industry should be considered strongly for future private sector development programs or challenge funds.



Financial services

- Types of products: mobile payment platform and a credit risk and basic life insurance products for microfinance customers
- Grant funding: A\$1.7 million; Private sector contribution A\$4.479 million (A\$2.64 per A\$1 of grant funds)
- Locations: remote provinces in Cambodia
- Results: 71,174 people and small businesses (34,526 men, 35,748 women and 900 small businesses) are benefiting by an additional \$2.150 million over 3 years

Limited access to financial services is a key obstacle to income generation and social protection. The private sector plays a critical role in designing appropriate and innovative approaches to banking and servicing the unbanked.

The ECF funded two projects (both in Cambodia) that created financial products designed for the rural market. Both were funded at the time legislation was being drafted by the National Government of Cambodia. Both projects were highly innovative and, through networks with other providers, were able to reach a large number of clients quickly.

The companies trialed new approaches during implementation. They built customer trust through brand awareness and strong regulation at the national level to protect rural customers. (Previous poor practices of other financial providers in Cambodia had generated low trust in financial services.)

The ECF funded public goods (e.g. financial education) and client network expansion (e.g. training merchants to undertake transactions and provide a support network to clients in remote areas). Customer-to-customer recommendations were important to build trust and as the networks are based on financial transfers the benefit expanded to those outside the original target areas.

Outreach is very high but it was also important to assess how these new products actually benefit people (in some cases, people sign up to new services but do not understand them enough to use them). Both Cambodian businesses have expanded with new products and entered new clients or markets in the region.

Public education was critical but quality information campaigns can be expensive. This is a key area where public funds can be directed to support the enabling environment and legal requirements. Public funds could combine with a challenge fund to support innovative first adopters in the private sector.

Renewable energy

- Types of projects: village level hydro-power and coconut oil based bio-fuel
- Grant funding: A\$1.5 million; Private sector contribution A\$1.45 million (A\$0.96 per A\$1 of grant funds)
- Locations: Xieng Khaung province, Laos and Kavieng province Papua New Guinea
- Results: 2,164 people (1,129 men, 1,036 women) are benefiting by an additional \$0.060 million (A\$60,938) over three years.

Renewable energy has the potential to provide significant social and economic benefits to communities and nations in the region. Access to reliable energy lowers the cost of doing business, has health and security benefits, and reduces the use of fossil fuels. Using available local inputs such as coconut oil, thermal or solar power allows local communities to participate to the industry.

The ECF approved five projects (20%) with different approaches to power generation in rural areas. Only one project may be end up being viable.

Projects were technically complex and high risk. They required construction of equipment such as hydro-turbines and plants, and depended on price competitiveness with alternative sources of power. In many cases, investment in renewable energy required subsidy as it was more costly than alternatives or power generated in urban areas.

Benefits to the poor were clear when the cost was affordable. In Laos, accessing more reliable and regular electricity stimulated small enterprises and improved security through public lighting, improved education where public buildings were able to be open for longer hours and had health benefits from improved lighting quality and reduced use of fuels.

The infrastructure developed by the private sector is a public and long-term asset but expensive to maintain. Given the high risk and cost, the private sector is unlikely to invest without a subsidy and therefore a challenge fund approach is not appropriate. A better approach is private-public partnership with assets funded and owned by the government (or donor funds), and the private sector manages and operates the assets.

3. Results – communities benefit

ECF projects were funded on the condition that the associated business growth would contribute to achieving partnerships with poor men and women as employees, customers, suppliers or communities accessing goods and services from these businesses. Other benefits along the way include improved access to jobs for women, positive environmental benefits and improved livelihood for poor people leading to poverty alleviation.

100% of projects contributed to poverty reduction (Box 6: 2010 poverty assessments) and benefited communities through increased access to goods, services, employment and a market for produce. The ECF achieved a total outreach of 497,512 people (mostly poor or rural customers) over 3 years.

Access is a critical step in development, but the focus is on the number of people who increased their income through using this outreach to create income and reduce costs. Over three years, the ECF has benefited 78,154 people (39,196 men and 38,958 women) with A\$8.179 million in income earned over three years.

Key figures in this report were aggregated from all projects – specific project contribution is outlined in the tables in Annex 2.

Table 4: Total benefits from the ECF projects 2010–13

	Employment and contracting	Supplying goods and services	Customers using goods and services
Total number of poor people with net income benefit or reduced costs	263	4,319	73,572
Total benefits to the poor over three years of ECF	A\$676,980	A\$4,948,894	A\$2,553,013

Box 6: 2010 poverty baseline

A survey of the intended beneficiaries for all projects in 2010 interviewed 306 people (189 men, 103 women, 14 mixed groups) face-to-face across all projects. The survey used both random and targeted sampling techniques to establish baseline household income and living standards data on current and potential ECF direct beneficiaries.

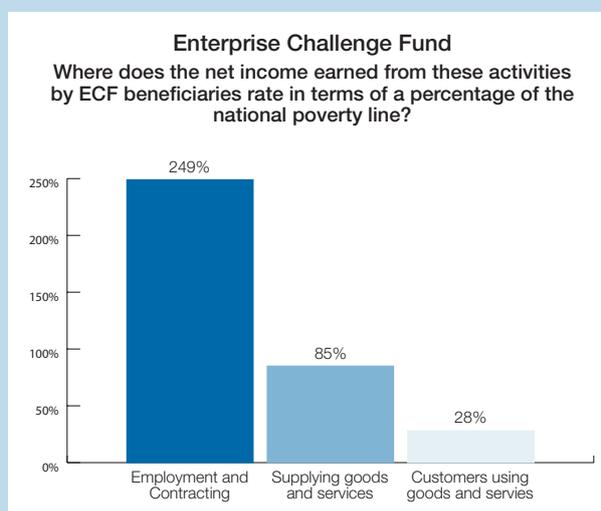
Given the small size of some of the surveys, these were useful to profile potential beneficiaries but were not in some cases sufficient as a baseline for attribution as noted in the DCED audit, Wanitphon (2013). 13 projects (62%) involve new projects and therefore the baseline is 0 and the full results are attributed. 8 projects (38%) involve new ways of working with existing beneficiaries and therefore results reported are based on net additional income for suppliers or employees.

The project attribution assumes that other companies would not have started up in three years without support funding given constraints to accessing finance was the basis of the ECF application.

During 2010–13, repeated surveys confirmed these beneficiaries continued to benefit from the companies.

The results found that most ECF beneficiaries surveyed were living on household incomes lower than the respective national poverty line. Many beneficiaries lacked daily access to vital goods and services such as power, water and food. A further lack of access to information, technology and finance contributed to a gap between rural and urban populations.

The ECF Annual Portfolio Report (ECF, 2012) compared annual incomes earned through employment, and supply and use of goods and services to the national poverty line for each country. The figures showed that the income contributed significantly to the household with employment contributing around two and a half times the national poverty line; supplying goods on average earned close to the minimum wage and was usually combined with other venture. Customers accessing new goods and services had less contribution to the overall household income but the projects addressed services lacking in the poverty baseline such as power, transportation, food and access to markets.



Increased incomes through employment and supply chain development

A majority of ECF funded projects provided income generation opportunities for the poor to access full-time or casual employment or earn additional incomes from developing supply chains for raw materials and services. 15 of the 21 funded projects created additional income for poor and rural providers through supplying raw materials and services to the company.

Employment⁴

ECF funded companies setting up or expanding operations in rural and remote areas were the primary employer of 263 poor people over the last three years.

Unlike employment at the head office (usually skilled or experienced personnel) employment targeted at the poor was often manual labour for agricultural field or factory work, construction during the infrastructure construction phase and marketing agents such as extension workers or rural sales force. In some cases the poor were the only option for employees and companies provided skills and training programs.

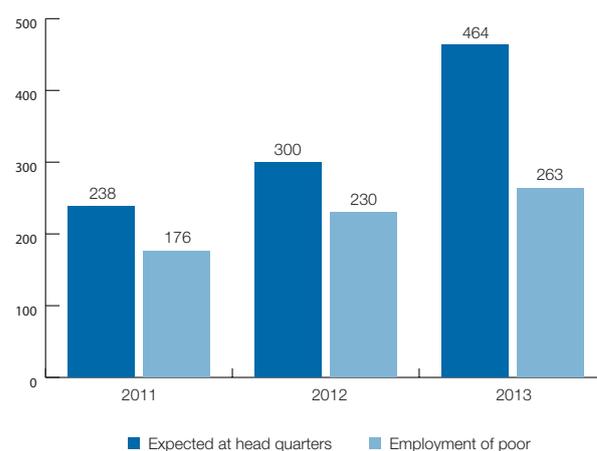
- Wilderness Lodge (Solomon Islands) required additional staff from the Morovo Lagoon area for the expanded eco-lodge. Wilderness has hired an additional 15 full-time employees earning on average A\$55 per month: 12 were trained by an in-house team in hospitality, house-keeping, and food and beverage; three were trained to provide scuba diving tours.
- Cagayan de Oro (Philippines) developed a locally based workforce in the communities surrounding the handmade paper factory. As the factory expanded so did the needs for craftsmen, paper makers and a part-time workforce of women working from home to assemble and fold cards. Up to 88 home based workers have been trained and 46 are regularly working and can earn up to P97,000 per year (A\$2,461).
- WING (Cambodia) trained and hired more than 1,000 part-time staff (200 full time equivalents) during the first 18 months of the program to market the mobile payment system to people across Cambodia. The original sales force was young people, often students called 'WING pilots'. They earned US\$20 plus commission to find and register new customers. In December 2011, pilots were discontinued as awareness had increased and the cost of maintaining a large sales force was too high.

⁴ Employment implies a contract and specific provision of service whereas supply is often ad hoc and based on the immediate needs of the company. Employment and supply income have been separated to demonstrate the different approach and attitudes taken with employees and suppliers.

- Sarami (Vanuatu) employs 17 full-time and 47 part-time contractors (33 men, 31 women) to manage farms and undertake weeding. Women are contracted through a local coordinator, primarily in part-time work.

Employment develops a much stronger relationship between company and community. The income benefit is higher (on average three times higher than suppliers and 10 times higher than customers). Income is on average 2.5 times the national poverty line which in some regions means that people have been lifted out of poverty. The stability of regular and reliable payment with employment can also contribute to accessing finance and loans.

Enterprise Challenge Fund
Employment in ECF projects 2011 - 2013



Case Study: Future Forests - a harmonious relationship with traditional landowners in Fiji

Future Forests (Fiji), a teak nursery and plantation in the underdeveloped Ra province, received an ECF grant of A\$190,000 in 2009 to expand and upgrade its teak seedlings nursery as the first stage of a larger teak plantation and timber processing business. The nursery is a crucial link in the company's development plan. The seedlings are used for the company's plantations and sold to others.

The nursery upgrade was completed on schedule. It now operates profitably and exceeds international yield standards. It is the largest commercial tree nursery in Fiji.

The operation employs 14 full-time workers and 10–15 part-time workers – casual and contract workers represent the bulk of the workforce. Cash payments to men and women who plant and maintain the plantations range from F\$109 to F\$146 per hectare. This equates to A\$180,000 per year or the equivalent of 250 part-time jobs.

Other significant benefits from Future Forests are:

- developing local skills in nursery operations and plantation management
- establishing a new village based nursery with income for 15 people
- donating 15,000 teak seedlings for planting on community land that will generate incomes of around A\$540,000 in six years (when trees are thinned) and over A\$800,000 when the mature trees are harvested in 20 years.

Villagers in Narikoso, a remote area in Ra province, said that Future Forests had established a nursery and provided 200 to 300 free seedlings per landowner totalling 5,000 seedlings for the village (Blyth & Siwatibau 2013). The village supplies water to the company nursery. Earnings for the village from Future Forests activities enabled the villagers to deposit F\$19,000 (A\$10,160) for connection to the national power grid.

Villagers receive short-term benefits include the key payment and returns from labour contracts which for Future Forests leases extend for the first 5 years of the plantation. The association between village communities and Future Forests has introduced men and women of the area to new, widely appreciated, skills associated with raising seedlings of native and exotic tree species.

The mutual benefits accruing to both landowners and the company are a good model for others to replicate. The project outcomes demonstrate the value of a timely public contribution to effectively kick start a business operation that is driven by individuals with a clear understanding of the importance of, and a commitment to, a harmonious relationship with traditional landowners.

Future Forests launched on the Fiji stock exchange in early 2012 and raised \$F1.8 million (approximately A\$1 million) of additional investment. The capital will be used to increase the number of leased plantations and to develop a plantation timber processing operation that will maintain a reliable market for thinned and mature trees. The company has now proceeded to a second stage – processing plantation timbers for local and export markets. This will provide additional employment opportunities and incomes for landowners who have plantations on their land.



Supply chain development

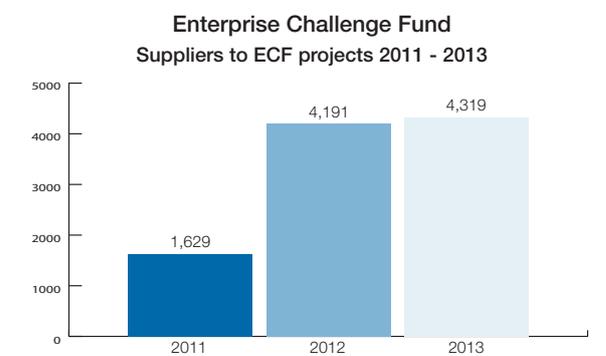
Most funded companies invested in supply chains in order to access goods and services from poor people. To date 4,319 poor people are supplying goods and services and earning incomes.

Goods included agricultural and raw material inputs (ducks, fish, cocoa, coconuts, cattle) and services included financial services and tourism services to customers of the company in remote areas.

In some cases, communities were already producing the commodities and the ECF-supported companies opened an alternative market, usually with higher prices or additional support such as training or transportation.

In other cases, goods and services were introduced to communities with training and support services and the ability to buy-back the products. In almost all cases, beneficiaries had a number of income generating activities and supply to the ECF-funded projects was only one of many income streams.

- Carnival (Vanuatu) was awarded a grant to improve infrastructure and work with local communities at three remote sites where it docked its cruise ships in Vanuatu – Mystery Island, Champagne Bay and Wala. Carnival has also developed a tourism supply chain to help local villagers earn additional income from cruise ship passengers. Carnival worked with 300 households in three locations to train local villagers on quarantine friendly merchandise, and as boat and tour operators.
- Cagayan de Oro Handmade Papercrafts (Philippines) developed a supply chain for abaca – a raw material in their handmade paper – with 300 farmer households in the remote area of Claveria, northern Mindanao. Cagayan de Oro funded one hectare of abaca or 400 plants per farmer, provided training on organic fertilisers and abaca grading, built a buying station and transported the abaca from remote hills areas to a cooperative buyer in town. Since the station opened in late 2011, more than 10 tonnes of abaca has been sold for P520,794 (A\$13,211) and it is estimated the full benefit from the 300 hectares of abaca will be A\$1 million into the rural areas. Farmers are also replanting abaca at an estimated rate of an additional half to one hectare of abaca each since Cagayan de Oro established the buying station.
- Emirau Marine Products (Papua New Guinea) developed a coconut processing operation for coconut oil in a remote province of PNG. The operation is in early stages after delays with securing working capital. At full operation, Emirau will employ more than 100 people and need to secure up to 10,000 coconuts per day from mostly women suppliers. Local transport operations will also benefit from this program. Emirau has been investing in rehabilitating and expanding local coconut plantations by providing new and improved varieties of coconuts.
- Reddy Farms (Fiji) planned to utilise up to 100 households in surrounding depressed cane belt area in northern Fiji. Contractors would outgrow up to 50 ducklings and sell back to Reddy after 7–8 weeks with an estimated income of F\$1,400–2,000 (A\$820–1200) per year. However, Reddy found only a small number of farmers were interested or able to participate and is now working with 4–5 suppliers growing out 75–100 ducklings instead. These contractors are more entrepreneurial and less likely to be the very poor.
- A number of companies also used small–medium enterprises or partnerships with community groups to support the supply chain for their inputs.
 - o Nature’s Way (Fiji), a cooperative of small farming enterprises across Fiji, makes a large and geographically dispersed supply chain to ensure quantity of throughput and spread the risk of impact of natural disasters.
 - o Volcanic Earth (Vanuatu) sources from a local company which has partnered with local women’s groups to obtain higher quantities of tamanu nuts in remote locations of Vanuatu. Women work in groups of 15 to peel, dry and sort tamanu nuts and earn a small income of VT2,000 (A\$23) for themselves and their villages.



In Asia, farmers often had large debts for agricultural inputs or to moneylenders, repayable on the harvest of crops. They thus found it difficult to change suppliers. Companies providing flexibility such as Cagayan de Oro (Philippines) allowed farmers to clear their debts the first harvest and work with the ECF project from the second harvest. Companies needed to spend time with farmers to understand their operations.

- Companies invested in the relationships with their employees and suppliers by providing training and developing skills programs for beneficiaries as well as access to new technology.
- WING (Cambodia) cash express merchants are trained in business skills and financial management which has a flow on to WING customers.
- Mainland Holdings (Papua New Guinea) funded three agricultural extension workers to advise vanilla growers.

A number of companies also provided non-financial benefits under corporate social responsibility arrangements. For example, Cagayan de Oro provided scholarships for children of home based workers, C-Corp (Solomon Islands) invested in local health centres and schools and Carnival (Vanuatu) invested in health clinics and water projects with funds from a passenger donation program.

Case Study: Sarami – breeding cattle in Santo, Vanuatu



Sarami Plantation (Vanuatu) has bred cattle in Vanuatu for 30 years and was the first property in Santo to introduce cross Brahman bulls on their 2000 hectare breeding property.

An ECF grant of A\$1,375,000 funded 30% of the cost of a substantial upgrade of the company's pastures, site infrastructure, acquisition of equipment, genetic improvements and introduction of the first large-scale cattle feed silage operation in the Pacific Islands.

Sarami purchases cattle from small holder farmers in Santo at higher prices and sell to the two abattoirs in Vanuatu for eventual local consumption and export.

An independent review (Marlow 2013) found that between 2010 and 2012 Sarami purchased over 2,000 cattle from 241 suppliers at a total value of more than A\$600,000, earning suppliers an average of around A\$150 for each beast and increasing total income by approximately A\$300,000 over the 2 years.

The reasons smallholders are keen to sell to Sarami because Sarami:

- pays an average of 50% more for suitable younger cattle because with the improved genetics, pastures and silage operation, the business is able to secure higher prices from the abattoirs for fattened cattle
- collects cattle in its vehicles giving small holders a further cost saving because they no longer have to pay to transport their cattle
- provides a free, genetically superior bull to a supplier, or group of suppliers, to improve their stocks when it has sold around 40 cattle to Sarami (more than 10 such bulls have been supplied and numbers will increase substantially in coming years)
- buyers guide small holders on their cattle and pasture management – other buyers are traders with little or no practical cattle management experience.

In this classic 'win-win' arrangement, small holders receive considerably more cash in the hand for their cattle and Sarami has a reliable supply chain that contributes to increased turnover and profits. The small holders have no formal supply contracts with Sarami and are free to sell to whomever they wish but interviews with small holders showed that they prefer to deal with Sarami.

Increased incomes through accessing goods and services

Eight of the ECF funded projects provide goods and services to poor or rural communities.

By directly providing access to new goods and services such as financial services, education and transportation, projects contributed to improved economic growth by improving productivity and the ability for poor people to access markets for supply.

The large populations and economies of scale in Asia made introduction of new goods and services more attractive and most projects (six of eight) providing access to new goods and services were funded in Asia with companies focusing on gaining traction in one country with the aim of expanding regionally.

Goods and services are targeted at geographic areas where a majority of poor people reside even though they are accessible to both poor and non-poor customers. Companies found that to reach the poor, additional marketing or training was needed for the different approaches to those used in urban or educated markets.

The impact is high, but the dollar value of the benefit or cost saving is not high compared to earning incomes. Goods and services must offer advantages against alternative practices or services however the benefit can also be convenience, safety and security.

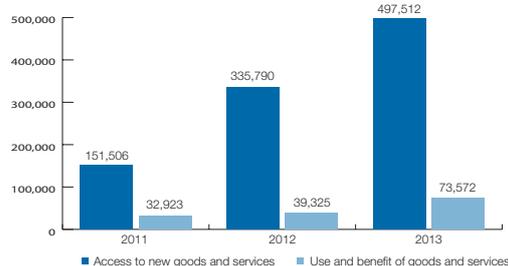
As at June 2013, more than 497,512 people in rural areas were able to access increased income and new goods and services funded by ECF. Of those using the goods and services to derive an economic benefit, 73,572 were benefiting from reduced cost of doing business or subsidised access to services such as education, transportation or electricity.

- The WING (Cambodia) national mobile payment platform that has signed up more than 400,000 clients across Cambodia. ECF funding supported the expansion to rural areas and currently 82% of customers are from rural areas outside the capital Phnom Penh. Around 15% of customers are using the service regularly. The cost benefit of using WING versus alternative fund transfer merchants such as taxis or money changers equates to US\$18.89 per year. An independent report by Hoffman in 2013 found 'WING demonstrates the kind of benefits customers

can realize from mobile money and/or electronic payments: significantly reduced cost, faster access to money, better security (reduced risk). Cost savings seems the easiest to measure and serves as a good proxy for general positive impact because clients cite cost-savings as a key benefit of the service.'

- Teamworkz (Laos) developed an online marketing and payment platform for urban hotels. With the support of an ECF grant, this service was provided to hotels in remote provinces of Laos and the ECF funded the cost of a travel writer and photographer to develop materials for the sites. To date, 86 hotels in rural areas are now online and an estimated A\$275,391 in bookings through the site has been benefited the rural hotels and their surrounding communities.
- Future Forests (Fiji) received a grant to upgrade their teak tree nursery and this aspect of the business became commercially sustainable within 2 years. Future Forests has partnered with 250 local landowners who were previously predominately subsistence farmers and supplied 30,000 teak seedlings for planting on their land for a future supply of teak. Teak is a long-term investment but considerable income will be realised in 10–20 years. Future income of F\$150 per tree (A\$80) when thinning in 8–10 years and F\$300 (A\$160) in 20 years when mature trees are harvested equates to F\$2 million in future value for landowners.
- Sunlabob (Laos) developed a mini hydro-power grid in remote Xieng Khaung province in Laos. The grid connects 350 households in five villages to a 24-hour source of electricity for household lighting, cooking and security. Electricity is now cheaper than before by LAK 53,000 (A\$6.50) per year. 17 new businesses have started to make use of the electricity for small scale manufacturing including purified water, furniture and weaving, and providing labour saving services such as rice mills.
- Bright Hope Institute (Cambodia) used an ECF grant to construct 12 new classrooms and four dormitories, and upgraded existing infrastructure such as computers and curriculum materials. Student numbers increased from 353 in 2009 to 1,160 in 2013. The grant also allowed Bright Hope to provide part scholarships for up to 100 students per year to those who would not otherwise have the opportunity to receive higher education. To 2013, 316 rural youth had received partial scholarships to study at the institute and 45 students were living in the newly constructed dormitories. Based on surveys with dormitory and scholarship students, 95% indicated that without Bright Hope they would not have been able to access tertiary education. Reasons included the ability to continue to support families by studying close to home villages, and family members of women being reluctant for them to live in Phnom Penh for security and financial concerns. To date in 2013, 410 students have graduated from 2 and 4 year degrees and 90% are employed within 3 months. Graduate students indicated that their income of US\$150 per month, was US\$50 per month higher because of the degree.

Enterprise Challenge Fund
Customers to ECF projects 2011 - 2013



Case Study: MEADA – microinsurance products to protect the poor in Cambodia



Poor people must work hard to manage their finances particularly without formal instruments to use. Backyard savings, purchasing assets such as livestock, jewellery, gold, gems, and many different types of formal and informal loan and savings mechanisms are used on a regular basis.

The Cambodian company SAMIC provides microfinance services through eight provincial branches. In 2009, SAMIC was awarded an ECF grant of A\$199,450 to pilot a microinsurance program called MEADA (or Mother) for its borrowers to protect immediate family members in the event of accidental death. The policies are paid by small premiums included in the loan repayments and cover the outstanding loan amount.

As of May 2013, SAMIC has 15,302 clients (12,161 women and 3,141 men) and has paid 143 claims with a total benefit to clients of A\$38,460. ECF funded the Microinsurance Centre to explore what is the value of a life microinsurance product that combines loan protection with a small cash payout in the event of a microcredit borrower's or primary income earner's death.

The team interviewed family members of recently deceased individuals, some of whom were covered by insurance and some not, to better understand the costs they faced and how they covered those costs including the role the insurance played.

Kim's story

Kim lost her husband in October 2012 after he fell sick. She now heads her household of six people: four adults and two children. Before her husband died, the monthly household income was US\$150; now, the six live on just US\$100 per month.

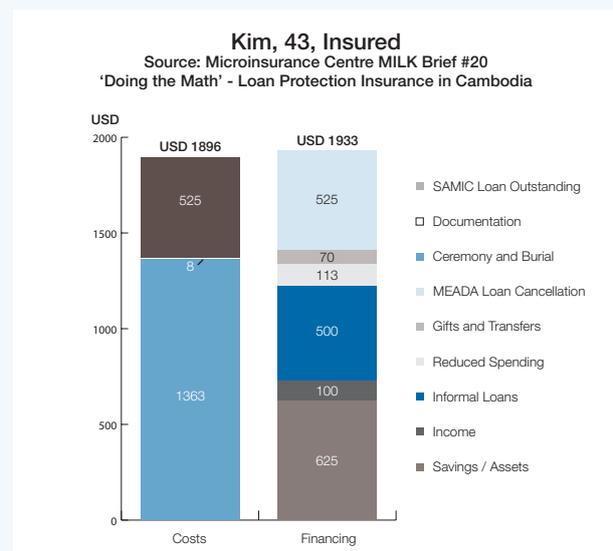
The funeral of Kim's husband had the very high price tag of US\$1,363 for coffin, priest, clothing, decorations, venue, food and music. Thanks to the insurance, Kim faced no costs at all for loan servicing: just one day after she submitted the documents, her husband's outstanding loan of US\$525 was cancelled.

Instead, her efforts were spent covering the costs of the funeral. After the death, she received gifts of US\$50 in cash and US\$20 in kind. She sold an animal for US\$625 and borrowed an additional US\$500 from a moneylender at 5% per month. Her household cut spending on education by US\$19 per month for two months and food by US\$38 per month over the same period. Finally, she used US\$100 in remittance income to cover her costs.

In Kim's case, the loan cancellation relieved her of another US\$525 she would have had to pay over and above the ceremony and burial costs. As she already churned through five different financing sources just to finance the funeral, it is difficult to imagine how she would have come up with the money to repay the SAMIC loan if it were not for the insurance.

Overall, loan protection (or the forgiveness of the loan debt) provided an average US\$199 which reduced the obligation to pay back the deceased's debt. However, in many cases, this fell well short of eliminating the entire debt burden as the deceased often had multiple loans from microfinance institutes, money lenders and from family members.

The product also paid an average of US\$129 in a cash refund equating to the amount that a borrower had already repaid by the time of death. However, given the high cost of funerals in Cambodia (on average between US\$701 for uninsured clients and US\$973 for insured clients) this cash refund was again too small to provide meaningful financial value. However the research indicated it did enhance perceived value among clients – peace of mind for poor families.



For more information see Microinsurance Centre, MILK Brief 20: Doing the Math – Loan Protection Insurance in Cambodia, 2013

Box 7: Reporting on key indicators for Australian Aid Program

The Australian Government has set targets for the five strategic areas of the Australian Aid program, to achieve by 2015–16. The Enterprise Challenge Fund is contributing to the strategic goal of sustainable economic development in partnership with the private sector in three key indicators:

Poor people will increase their incomes through market development programs. In 2013, 78,154 (39,196 men and 38,957 women) poor people increased incomes through the opportunities provided by the ECF. Employment and contracts with companies provided annual income equivalent to two to three times the poverty line as well as providing access to a secure source of cash. Accessing new goods and services often reduces the cost of alternatives but also provides more opportunities for poor people to do business.

Farmers (at least 40% women) will be able to access new agricultural technologies, resulting in increased crop value of over half a billion dollars. A majority of the 12 agricultural projects funded provided new technology rather than just new markets; others sought better techniques or practices that can be easily absorbed by target beneficiaries. In 2013, 3,063 (1,809 men and 1,254 women) gained access to and used these techniques to increase agricultural production, a figure that will continue to grow as farmers adapt their practices. The financial value of the increased production equates to A\$606,998 (US\$552,368) in 2013 and over the last 3 years this has equated to a total of A\$2.6 million additional income to communities.

Poor people (at least 50% women) will have increased access to financial services such as loans to start small businesses. Financial services projects funded by ECF (both in Cambodia) reached (signed up) 475,322 people by mid-2013. Increasing access to financial services is a first key step in supporting people without access to the formal banking system. Access must be monitored over a longer period to examine how the poor use and continue to use the financial service; and the benefit of using this financial service compared to alternatives needs to be explored. To date, 70,256 people (34,937 men and 35,319 women) are benefiting from the access to financial services – they use the services at a cost less than alternative services (financial benefit). In the case of mobile payments, some clients sign up but do not use the service regularly.

Other important benefits

Most impact assessments of challenge funds focus on the economic outcomes – increased incomes and access to goods and services for the poor through working with the private sector. Challenge funds also contribute to other important social and equitable outcomes.

Benefits for women's economic advancement and empowerment

There are significant links between improving women's economic advancement, empowerment and overall economic growth. In 2013, the ECF team reviewed how private sector programs funded by the ECF can support women's economic advancement, as these examples show.

- Nature's Way (Fiji) operates a factory heat-treating fruit and vegetables for the export market in Fiji. Traditionally women were employed in office positions, as the factory floor work was heavy and packing and grading was done manually. The automated packing and grading equipment purchased through the ECF grant reduced the weight of loads and allowed more women to be employed in factory floor positions. Five out of 10 employees at Nature's Way are women; 5 years ago it was none. They earn F\$5,000–6,000 per year (A\$2,700–3,250), two times the national poverty line. Nature's Way was encouraged to consider the impact of women through regular reporting on business outcomes, including disaggregated data for men and women in employment and supply of product to the factory.
- Future Forests (Fiji) employs women in the nursery operation to maintain teak seedlings. They earn around F\$150 (A\$80) per week, which is 100% higher than the national poverty line. During field visits, women indicated that this income has made them feel proud and increased their confidence. They were using the additional funds to purchase better food, look after family members and increase savings. The women also found that the skills they learned in the nursery made them more productive in their home gardens.

The review looked at conditions where this type of impact can be stimulated through a challenge fund or private sector development program and found it was important to:

1. highlight the business case for women's economic advancement and empowerment and work with companies that already show a social and ethical understanding of the importance of gender equality
2. target sectors where women's participation is higher but lacking in resources
3. consider upfront the context in different societies and industries in order to target the areas where women's participation can realistically be strengthened
4. although policy support of women's economic empowerment is an important step, extend it into future designs and allocate budget to it.

Additional discussion and analysis has been conducted in the Women's Economic Empowerment – Practice and Policy Implications from the Enterprise Challenge Fund (Nethercott et al, 2013).

Benefits to the environment

Poor people in this region have a higher dependency on natural resources including forests, fishing and agriculture, and are disproportionately affected by living in a degraded environment. Improved management of the environment and natural resources contributes directly to poverty reduction, promoting security and preserving the ecosystems that poor people rely on for their livelihoods. Private sector development projects have the potential to have positive impacts on the environment through promoting innovative techniques and processes that encourage communities to be aware of the rational usage of natural resources.

1. ECF funded projects contributing to improved use of natural resources and developing supply chains using products sourced from traditional farming practices – Future Forests (Fiji) expanded teak and other hardwood plantations in Fiji as well as practicing organic pest management. It has a very strong environmental policy and committed environmental responsible practices.
2. ECF funded tourism projects promoting sustainable tourism and environmental management and working with local communities to protect environmental resources – Wilderness Lodge (Solomon Islands) has expanded an eco-lodge in the environmentally protected area of Marovo Lagoon including use of solar lighting and waste management. The company conducted community education and awareness in environmental practices, and school programs and materials.
3. ECF funded projects practicing environmentally friendly production methods – Cagayan de Oro Handmade Papercrafts (Philippines) developed a processing method for paper shifting to the use of hydroxide chemicals for bleaching instead of using acid base. Cagayan de Oro has also constructed a wastewater treatment facility for proper management of factory effluents which was praised and promoted as a good model by the Department of Industry in Philippines.

A number of steps can increase the environmental benefits in future programs.

- Grant funding can be allocated to ‘windows’ that support innovative projects specifically addressing environmental sustainability such as climate change, renewable energy or adaption of climate technology.
- As part of the pre-funding due diligence process, the grantee could submit a project environmental management plan for approval by the Fund Manager. These measures would also ensure the negative environmental impacts of every project chosen are managed.

Additional discussion and analysis has been undertaken in the paper – Environmental Management in the Enterprise Challenge Fund (ECF 2010).

Livelihood benefits

The provision of goods and services and increasing income also supports non-economic or lifestyle benefits for targeted and non-targeted communities.

- During beneficiary interviews in 2010, people were asked what the additional income from the project would mean for livelihood changes. Most beneficiaries indicated they would increase spending on food, increase savings, pay school fees or support family members such as children or parents.
- Marine Consultancy Services (Vanuatu) maintains a regular and reliable shipping service to the otherwise underserved islands of Banks and Torres in northern Vanuatu. Mobile phone towers have expanded to the region they have the first ships large and reliable enough to carry the equipment and maintenance gear. People report that the widespread availability of mobile communications are the underlying reason for the increase in business activity and economic optimism. The expansion of mobile phones has also supported a flying doctor service in Gaua.
- Sunlabob (Laos) has noted the reliable electricity has reduced the use of kerosene and other fossil fuels in the home, and improved lighting quality is likely to have a positive impact on eye health. Women in particular report improved security through public lighting has been beneficial. ‘When people have electricity every village will be 100% happy. They now [can] access information, TV, radio, lights and cooking.’
- Prestige is also a consideration in how goods and services may be beneficial for the well-being of poor communities. Access to technology, banking, quality education in local areas, electricity allows television and technology to be more accessible and long term visible investments such as teak can also contribute to reputation for remote communities.



Box 8: Lessons learned in the Pacific

The ECF's operation in South-East Asia and the Pacific Islands provides useful lessons in the appropriateness of the challenge fund modality in these different environments.

Despite initial concerns that the larger, more vibrant Asian economies would dominate the grant allocations, only seven of the approved projects (<30%) were in Asia. (Box 4: Lessons learned in South-East Asia)

This primarily reflected the more limited access to finance for new business projects in the Pacific than in South-East Asia – it was easier for Pacific bidders to demonstrate that the ECF grant was crucial to the project's implementation.

When compared to their Asian counterparts, the Pacific projects had lower levels of sustainability and considerably higher cost per beneficiary. The design failed to foresee that cost per beneficiary in the Pacific would not be similar to that in Asia.

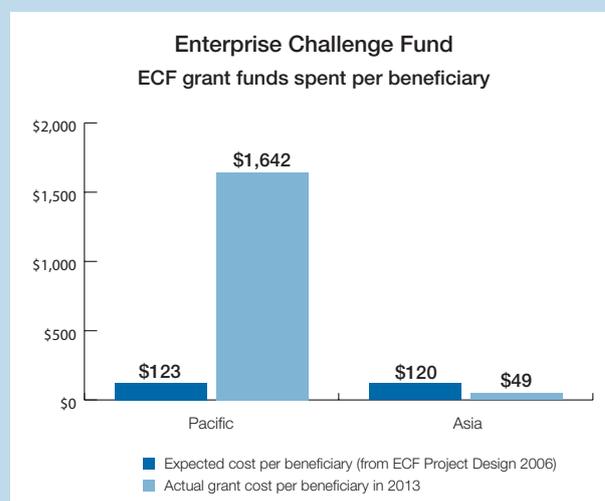
Key lessons are as follows:

- The Pacific projects generally took longer to establish and tended to exceed the initial budget. This reflects the more limited physical and supporting services infrastructure in the Pacific that impacted adversely on a number of projects.
- Management resources and capabilities in the Pacific were weaker than in Asia and this required more support to facilitate the establishment and effective management of the projects. There were exceptions such as Future Forests (Fiji), Sarami (Vanuatu) and Nature's Way (Fiji), which established the project on time and achieved sustainability more quickly than other projects.
- The Pacific projects were confronted by more problematic supply chain challenges such as under-developed physical infrastructure, limited commercial awareness among rural suppliers and restricted support from supply chain intermediaries that could have enhanced delivery of and support services for input supplies.
- Most Pacific projects depended on export markets for their viability, an additional challenge for the relatively small and inexperienced Pacific projects. The Fund Manager intervened to assist in some cases but only limited assistance could be provided.

Lessons for any future challenge fund model program in the Pacific

- A 3 year monitoring and evaluation period is not appropriate. For the reasons already outlined, new or expanded projects are more likely to take several years to be implemented and a more meaningful evaluation is only possible from 5 years and onwards.
- The 'light touch' approach of the ECF, whereby grantees were basically left to their own devices, is not appropriate in the Pacific environment. Almost all of the projects required more assistance and guidance that was possible under the ECF design.
- Funding support to allow for the establishment/ expansion of projects is obviously important, but needs to be supplemented by business support services to help businesses overcome the evident impediments in the region. In other words, the shortcomings in 'human capital' are just as significant as financial support.

The somewhat disappointing commercial growth outcomes for Pacific projects stems in part from the absence of meaningful technical or business support for the high risk ECF projects – in many cases management, financial control, technical and marketing shortcomings have undermined their potential.



4. Sustainability – business models adapt and in time, other companies take notice...

The first indication of success and sustainability in a new business model is when the company invests additional funds. These funds may take the company to new markets or develop new products and services.

Other companies then take notice to copy or crowd in to the marketplace and can potentially stimulate the wider business environment to support further economic

growth. This growth will ultimately improve the lives of large numbers of poor people in these countries.

This is the higher level objective of a challenge fund beyond just supporting increased income and employment. It can take a number of business cycles to become apparent but initial interest is an indicator that this is likely to occur in future.

In total, more than 130 businesses, mostly small–medium enterprises, have been impacted by ECF funded projects. A majority were businesses using WING (Cambodia) to service their clients with payroll services.

Table 5: Total wider impacts from ECF projects 2010–2013

	ECF funded projects	Other companies
Profitability and scaling up	11	
Other businesses used ECF projects improve productivity		120
Businesses crowd in or copy the funded business in the market		14
Business models are copied (replicated) in other markets		1 - interested

Profitability and scaling up

To date, 14 (58%) of ECF funded projects are already commercially sustainable and 11 (79%) have invested additional funds through company profits, private financing or working with donors⁵ in order to diversify into new products and services for their target market or to enter new markets with existing products.

New opportunities for the existing poor market

- SAMIC (Cambodia) expanded its original offering of microinsurance through MEADA from client loan protection and added a new product – basic life insurance covering both client and spouse. As at April 2013, 3,350 clients and 2,485 spouses were protected by basic life insurance. This product was offered to staff of SAMIC and MEADA and a further 199 new persons were insured.
- WING (Cambodia) has used company funds to develop additional services for existing clients including billpay for internet, water bills, and payment for food and services in businesses in Phnom Penh.

- Future Forests (Fiji) floated on the Fiji stock exchange in 2011, gaining \$F1.8 million (A\$1 million) in additional funds. Future Forests will continue to expand its plantations and develop sawmill and timber processing operations. The operation will provide both formal employment opportunities in a depressed province and incomes for landowners on whose properties plantations were established in the past.
- Bright Hope Institute (Cambodia), with additional support from the German Embassy in Phnom Penh, received a water purification system which allows students to access clean water on campus. Bright Hope developed a small water-bottling operation called 'Hope water'. Twelve dormitory students earn part time income bottling water, which supports their studies.

⁵ There may be some question over whether additional donor funding to support scaling up is a good outcome of the ECF. Challenge funds are expected to fund programs that are commercially sustainable and viable without additional donor funds; however, in seven cases companies have been approached by other donors. Whether this shows the ECF proved the company was a good donor partner or an increased drive for donors to work with the private sector, companies tended to agree to take additional donor funding.



New markets where poor people can benefit

- Teamworkz (Laos) expanded its website to cover two new countries, Cambodia and Thailand, and added 70–80 sites in Cambodia in Sihaoukville and Phnom Penh. The approach in rural areas of Cambodia will be similar to that used in the rural areas in Laos.
- Carnival (Vanuatu) began a new itinerary to Milne Bay in Papua New Guinea in 2013 and will use lessons from the experience in Vanuatu to work with local communities. AusAID has recently signed a partnership with Carnival to support additional work in the Pacific including in Vanuatu and Papua New Guinea.
- SAMIC (Cambodia) is in the process of separating into two companies – SAMIC, the microfinance institute and MEADA, the general insurance company. MEADA will need to obtain a licence to operate as a general microinsurance company. The registration will allow expansion outside of SAMIC and provide insurance to the general public.
- Following a mobile banking conference in Laos, the World Bank has been in discussions with WING (Cambodia) about expansion into Laos and Myanmar. The World Bank has been supporting the National Government in Laos to introduce enabling legislation and will support WING's expansion at the same time. As discussed in the sector analysis, this seems to be a reasonable approach to a private sector development program.

Beneficiaries copying and interested in benefiting from the funded operations⁶

As an additional aspect of scaling up, ECF projects worked with targeted beneficiaries due to limited resources for training or equipment. However in cases where the companies provided a clear benefit, often neighbours, family members and community members have also been interested and started to take up opportunities.

- Cagayan de Oro (Philippines) found a further 50 farmers not in the original cooperative who are selling abaca at the buying station. Their agreement the cooperative has expanded the rural organisation.
- As a payment service, WING (Cambodia) relies on customers to send money to recipients – often other family members. WING found that as the number of students studying in Phnom Penh increased so did rural family members transferring funds for their living allowances.
- Nature's Way (Fiji) cooperative structure allows smallholder farmers in Fiji to use the facility for exports. The existence of the efficient facility with ample capacity has stimulated increased investments in the sector and farmers are more engaged in fruit growing and seedling plantations.

⁶ For ease of reporting, the additional beneficiaries 'copying' are included in the direct impacts for while they are not the original targeted beneficiaries, they are still directly benefiting from the ECF funded project.



Case Study: C-Corp swimming downstream in the cocoa supply chain in Solomon Islands

C-Corp (Solomon Islands) is an Australian based business with cocoa and other commodity operations in the Pacific Islands. With an ECF grant of \$A1,155,000, C-Corp rehabilitated 150 hectares of cocoa plantations discarded as a result of ethnic tensions in the Solomon Islands and developed new plantations on the main island of Guadalcanal. C-Corp introduced new hybrids, improving yields by 5–6%, and improved infrastructure in the supply chain. Over 3 years, 100 men and women were employed in rehabilitation work and cocoa production.

The project required close collaboration with local communities and two joint ventures were established with the landowner groups. Relationships with the landowners were strained by different perceptions of how a joint venture operates and ongoing security issues have included theft of equipment and of mature beans. In retrospect, this arrangement, undertaken with the best intentions of a genuine partnership with landowners, was not appropriate. A more straightforward lease arrangement, with regular payments, would have been better for all stakeholders.

Nonetheless, C-Corp expanded operations and established a processing plant in Tauranga in New Zealand. The company will also create a new product – chocolate produced from Solomon Islands cocoa and hopes to be able to export 30 tonnes of cocoa beans to New Zealand per month.

C-Corp has also established accreditation with a large chocolate manufacturer in the European Union and expects to develop ongoing exports of their premium grade cocoa beans.

The 120,000 productive cocoa trees in the Solomon Islands will therefore deliver significant future economic benefits for communities.



Box 9: Funding innovation in the ECF

A key aspect that stimulates copying and crowding in is innovation and entering a new market rather than just investing funds in an existing market that lacks finance. Innovative projects are also more risky and must be trialed – and require flexibility in the ECF arrangements. A number of ECF projects were funded because they were innovative – developing new products and services or developing new technology.

- Teamworkz (Laos) developed online payment and marketing sites for hotels and guesthouses in rural and remote areas that previously had not had an internet presence.
- WING (Cambodia) developed a new approach to mobile payments in Cambodia following newly released legislation targeted at previously unbanked customers in rural areas.
- Sarami (Vanuatu) trialed an innovative approach to pasture improvement and silage that will have applications for other Pacific Island countries.
- Volcanic Earth (Vanuatu) developed a web-based export approach with useful lessons for other remote Pacific suppliers.
- SAMIC (Cambodia) conducted a pilot program introducing microinsurance in Cambodia to microfinance clients.
- Future Forests (Fiji) developed a new partnership approach with landowners combining employment and future economic benefits from timber plantations.
- Sunlabob (Laos) trialed a new approach to developing mini hydro-grids in rural areas and trialed a partnership with the national government and the community. The approach proved not to be commercially viable; without subsidies those in rural areas would have higher cost of accessing power. The project did contribute lessons to the national government program.

It should be noted that in the Pacific Islands context, innovation is often an improved approach rather than new technology. This does not diminish the usefulness of these business models for improved productivity and benefits to disadvantaged suppliers.

Other businesses used ECF projects improve productivity

Of the funded projects, 30% have supported improvements in productivity in other businesses – directly through use of the goods and services or indirectly through providing public goods that can benefit other companies.

Improved access to financial transfers

In 2013, 113 companies were using WING (Cambodia) for payroll functions to 26,674 new clients (11,787 men, 14,887 women). These higher value clients have regular funds deposited, are more active and are predominantly in rural areas where there was a gap for employers to arrange pay. The majority are unbanked as banks in Cambodia are focused on the high-end market segment and WING provides a convenient and affordable alternative.

- The non-government organisation, American Assistance to Cambodia reported the time taken to do their payroll fell from two days to less than an hour and the costs of doing it from US\$100 to US\$40 a month.
- The YouCan Group sells educational materials and text books through a network of 1,000 sales agents. The agents use WING to transfer payments for the materials to the main office, saving time and expenses.

The benefit for small informal businesses is also significant and the subject of extended research by Fang (2011) for example a hardware dealer in a small city and his younger brother at university in the capital both report a better relationship as well as cost and time savings, due to more predictable money transfer services. Instead of waiting on unpredictable taxi drivers and taking time off work and school to go to the banks, the entrepreneur uses WING to transfer money to his brother.

Improved access to public infrastructure

Other companies see the expanded market created by Carnival (Vanuatu) in Mystery Island as an opportunity to expand their product offerings in the region. Royal Caribbean Cruises is interested in expanding tours to the South Pacific; Telecom Vanuatu established mobile phone towers; banks expanded operations; and a Port Vila based water sports operator is likely to establish at Mystery Island and pay locals a commission.

Additionally the expansion of Wilderness Lodge (Solomon Islands) has prompted the Government of Solomon Islands to consider building an airport in the region. Sarami (Vanuatu) has built a number of roads in rural Santo. A mobile phone tower has been installed in the Banks and Torres region following establishment of Marine Consultancy Service (Vanuatu) – a large bulk carrier service to the region.

International reputation and brands

Creating a national brand or recognition that a region produces high quality inputs is an important public good that businesses can create benefits to business. In

Solomon Islands, C-Corp is creating a premium brand for Solomon Islands cocoa, Mainland Holdings and Puritau are contributing to the improved international reputation of Papua New Guinea vanilla and Volcanic Earth has developed strong interest in tamanu nut oil from Vanuatu as well as gaining reputation for naturally produces beauty products. Marketing of a country's natural resources to international tourists can also benefit other businesses. Wilderness Lodge (Solomon Islands) was profiled in the National Geographic magazine in 2010 and Teamworkz (Laos) provides guidance on accessing rural Laos via internet sites aimed at international tourists. This has flow on benefit to many small-medium enterprises involved in tourism.

Other businesses crowd in or copy the funded business in the market

Once a business model has proven effective, the private sector is usually quick to respond with other companies following into the market either as suppliers or competitors. Given the market failure addressed by challenge fund projects and the small markets in the Pacific, this wider market response has been small. In some cases, competition could negatively impact on the grantee.

- Conservation International used teak seedlings from the Future Forests (Fiji) nursery to establish plantations in Fiji. It paid F\$140,000 (A\$76,000) to 500–600 landowners for planting and field maintenance on an additional 350 hectares of land. This equates to F\$255 (A\$138) for each worker or 13% of the national poverty line.
- Three new exporters have begun operations in Fiji after inspecting Nature's Way (Fiji) resources to ensure capacity to handle their export volumes. The 50 new farmers supplying these exporters earn an average of F\$5,000 (A\$2,700) per year. The increased start-up of new exporters is likely to lead to new agricultural growing areas in Fiji but this will not be evident for another 2–3 years.
- Five new shipping groups are servicing the remote provinces of Banks and Torres in Vanuatu where Marine Consultancy Services (Vanuatu) provide a regular shipping service. The groups time their departure to travel just before the Marine Consultancy service to capture market share and are primarily buying and freighting copra on return journeys. With the downturn in copra prices, it is unclear how sustainable this would be for communities.
- WING (Cambodia) found two new competitors to the WING produce start up during 2010–13. Aceda's bank service and in 2011 Mobitel established a rival CellCard cash. CellCard was not successful and will be wound down in 2013 with customers being offered free transfer to WING.
- Other microfinance institutes are also offering insurance through partnerships with new companies. Prevoir Kampuchea has partnered with VisionFund and piloted personal accident insurance in two branches; Prasac Microfinance has partnered with Forte insurance and a new company is also setting up. The ECF funded a workshop with industry participants to outline MEADA's approach and discuss the findings of the microinsurance research. Six microfinance institutes indicated they were interested in further discussions for future partnerships. Given the interest and scale of the industry, many participants were keen to offer microinsurance but had not decided whether to enter partnerships or to diversify themselves. If MEADA does not act quickly, it's likely that the industry will move without it.

Case Study: Teamworkz online booking platform – increasing tourism opportunities in rural areas of Laos

Teamworkz (Laos) is a Lao-owned business support company whose services include an online booking platform for hotels, guesthouses and tour operators. Teamworkz used an ECF grant of A\$227,030 to expand operations to include the remote provinces of Luang Namtha, Champasak and Xieng Khuang, where tourism potential was constrained by the absence of information and booking services. Teamworkz partnered with 86 rural hotels and guest houses – 95% of whom previously had no internet profile or marketing materials. Since 2009 this has generated close to 2,000 additional bookings or A\$275,391 – over and above the funds invested by the ECF.

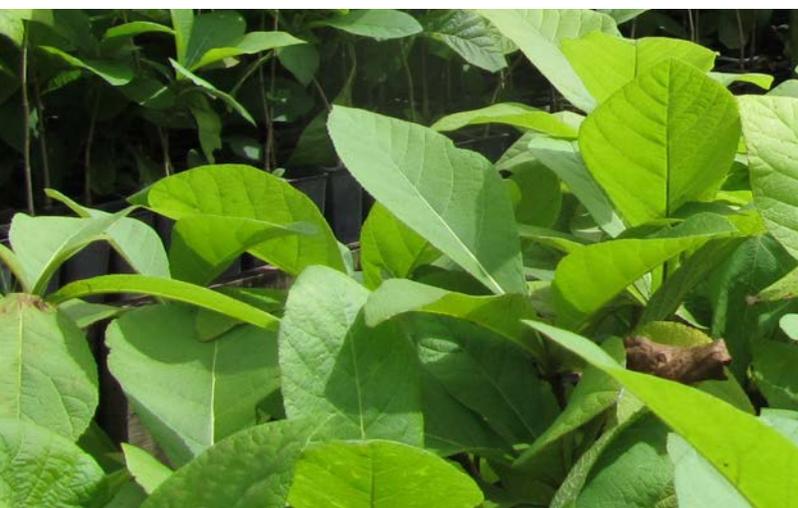
In 2011, competitor company Laobookings.com sought advice from Teamworkz (Laos) to develop its online website for hotels in Laos. Laobooking.com is working with hotels in Vientiane, Luang Prabang and Chamapask and increasing its market presence. At end of 2012 laobooking.com had partnered with 80 hotels, eight (10%) in remote areas. Using the average booking and flow-on to beneficiary rate of Teamworkz, this could equate to 64 additional bookings in rural areas or an additional US\$750 per hotel per year. It is also likely that as seen with surveys conducted for Teamworkz, benefits would flow to poor people through employment and opportunities to supply to hotels



Impacts on the legal and regulatory environment

Only significant impact will influence the legal or regulatory environment. With this type of challenge fund impact was spread across many countries and sectors and had no large scale impact (except perhaps WING). However, public or donor funds could be targeted to create a more supportive environment for projects to start up and for the private sector to respond.

- In 2013, WING (Cambodia) was asked to present at the Laos mobile money workshop. The ECF also contributed research into WING from Riskfrontiers. The World Bank brought together regulators, banks and telecommunication companies but found that the most reasonable option of supporting mobile money in Laos was to help WING to expand to Laos as an intermediary. The Bank is also looking at how this could also expand to Myanmar.
- The Ministry of Economy and Finance in Cambodia has issued temporary legislation to allow microinsurance to be offered to the public. SAMIC (Cambodia) subsidiary MEADA is responding by completing a formal company registration process and applying for a licence, which will allow MEADA to offer insurance outside of the SAMIC (parent company) microfinance clients.
- Future Forests (Fiji) is planning to develop a carbon credit trading program in Fiji which will require the Government of Fiji to address carbon credit trading laws.



Box 10: Business enabling environment

Each ECF project was expected to address business enabling environment (BEE) impediments and it was anticipated that the lessons learned from the projects would have a positive business enabling environment impact.

100% of ECF project were supported on the basis of addressing a market failure in limited access to appropriate and affordable finance as well as lack of access to information, poor infrastructure that could be addressed by the private sector. The extensive linkages program with commercial banks in the Pacific was intended to impact positively on the banks' willingness to support business projects in those sectors with the best prospects for pro-poor outcomes (agriculture, agribusiness, more remote area tourism and smaller scale seafood projects). The outcomes have been limited because many Pacific projects have yet to prove their commercial sustainability.

There could have been a more meaningful impact on the lending attitudes of commercial banks if commercial finance had been allowed as part of the bidder's contribution to project costs (explicitly excluded in the ECF eligibility and assessment criteria). Had banks been more included in several ECF projects, there would have been a more tangible impact on their behaviour in the medium term.

Throughout the implementation of the ECF projects a number of BEE issues were identified and action taken to advise both government and other stakeholders of their practical impacts on private sector and economic development.

- Non-transparent export licence cancellation that impacted adversely on an agribusiness project in the Pacific.
- Local ownership restrictions that prevented more socially beneficial commercial activities at remote tourism sites.
- Cumbersome approval procedures for a food processing operation in the Pacific that delayed implementation and unnecessarily added to costs.
- Regulations in Fiji that inhibited growth of the cattle industry and import controls that added to industry costs (both issues are being followed up by the Fiji Crop and Livestock Council).
- Regulations in Asia were slow to be implemented leading to delays in projects such as the expansion of SAMIC (Cambodia) subsidiary MEADA and use of US dollars as a currency for WING (Cambodia).
- Slow implementation of export pathways for fruit and vegetables from Fiji although a direct approach to Biosecurity Australia helped to clarify situation.

For more information see Learning from the Enterprise Challenge Fund: Accessing Finance in the Pacific Islands (ECF, 2013).

Other businesses copy (replicate) the funded projects in other markets

To date, no projects have been imitated or copied in other markets although interest has been shown by other companies. Only one project has had significant interest.

- The Solomon Islands Government purchased 400 cattle from Sarami (Vanuatu) to develop a cattle project in the Solomon Islands. Sarami will provide technical advice and guidance based on its experience with the ECF project. Sarami has also agreed to facilitate a visit to the Santo operations by Fijian Department of Agriculture officials, which may have lessons for upgrading the dairy industry in Fiji.

Replication is a long-term matter and would only occur when a successful business model exhibits clear impacts. Start up and operation of other models would likely take longer than 5 years.

Private sector linkages program supporting wider market impacts

The linkages and dissemination program developed by the ECF fund manager has designed to promote the ECF projects showcase their benefits from private sector development and this has supported wider systemic impacts. The program has linked funded companies to the wider market and helped disseminate lessons from the program to inform agencies on design and management of challenge funds.

- Several meetings with commercial banks in the Pacific were held to provide information on the lessons from ECF projects and facilitate, where required, additional support to projects. These meetings were intended to address the recognised difficulties in securing appropriate and affordable finance for relatively risky projects in the Pacific by demonstrating that with support such projects can be successful.
- Business organisations and their members as well as relevant non-government organisations received ongoing updates on the progress of ECF projects and the lessons learned.
- Government bodies have been updated on the lessons from ECF projects, including any regulatory issues.
- Regular liaison with AusAID post, other donors and regional agencies operating in developing countries provided lessons from the ECF projects and, where appropriate, established collaboration with the projects.

- The program facilitated collaboration on research and relevant presentations with universities covering private sector development and aid for trade, results measurement of private sector development, research including policy briefs for women's economic empowerment and challenge fund design, and working papers on global examples of results measurement in challenge funds and other private sector programs.

Impacts from the linkages program will mostly occur in the medium to longer term but there are a number of examples of short-term impacts:

- The South Pacific Tourism Organisation has organised a number of port preparedness workshops in the Pacific, including a case study on the Carnival (Vanuatu) remote call sites project in Vanuatu involving the ECF Fund Director. This project has a number of valuable lessons on how to secure the best possible returns for local communities from cruise ship calls. The Carnival program has since formed a memorandum of understanding with AusAID and these lessons will contribute to further programs.
- The Fund Director worked with Pacific Trade and Invest in Australia to help Volcanic Earth (Vanuatu) refine its export strategies; the lessons will be useful for other small Pacific exporters.
- The World Bank was contacted to showcase the work WING (Cambodia) has achieved in Cambodia. WING presented at a mobile money workshop and it's likely this will lead to additional partnerships.
- Meetings with the Ministry of Economy and Finance Taxation Division in Cambodia were held to understand the process of issuing temporary microinsurance licences and the barriers the government faces to wider uptake. The Ministry and SAMIC (Cambodia) with their subsidiary MEADA are working closely to complete the licensing process.
- The Fiji Department of Agriculture and the European Union have monitored the Reddy Farms (Fiji) project in the depressed cane belt region and will use the lessons learned to guide the planned alternative livelihoods programs in the region.
- Following a meeting between the Ministry of Agriculture in the Solomon Islands and the Fund Director, 400 cattle were purchased from Sarami (Vanuatu) as the first step in the rehabilitation of that country's cattle industry (a further sale of 400 cattle is under negotiation). This will be followed up by a workshop and contact program by the Sarami owner in the Solomon Islands in mid-September 2013.

Box 11: Is it possible to stimulate wider systemic impact in challenge fund projects?

An active role to facilitate others to be more effective – but recognition that facilitator cannot be part of market system in longer term (SDC, 2010)

Background

Following recommendations from the Independent Progress Review (Armstrong et al, 2011), the ECF focused its attention on projects with the highest impacts in order to maximise sustainable impact at scale. Key projects accelerated the use of mobile banking and microinsurance in Cambodia, innovative improvements in the cattle industry, and a sustainable and beneficial timber plantation development in the Pacific. These projects show the potential to deliver systemic change and replication of effective methods, with strong value for money through ongoing benefits for poor communities. The Fund Manager took an active facilitation role with the goal to encourage wider systemic change through market facilitation to increase the scale of poor people benefiting from the ECF and increase the likelihood of sustainability. Key activities were as follows:

- **Research and development** into the commercial and development aspects of each model through independent technical reviews – this is a critical step to gain credibility with the market by leveraging independent advice. The research and selection of reviewers can also provide technical advice for the projects and other market players.
- **Financing** (funding) activities to support scaling up of development benefits – financing was proposed to support scaling up for the two products for the poor with large potential for expansion in the domestic and regional markets.
- Undertaking a **dissemination approach** through networks and linkages – in almost all cases by leveraging industry events or holding ECF funded events to showcase models to key players. Developing and maintaining connections through the linkages program helped to facilitate new opportunities.

Research and development

Over 12 months, technical reviews were completed for the four projects, with mixed findings. The projects were innovative and in some cases there was potential for scaling up or replication. In others the projects relied on particular market circumstances so scale up or replication was less likely.

- Research comparing WING (Cambodia) progress with other branchless and mobile phone payment systems indicates that despite WING's growth to 500,000 customers so far, this is slower than other companies around the world particularly those operated by telecommunication companies which already have a fixed network. The research found that outreach to the poor is generally less of a priority in the early stages but donor funding, as with ECF funds, can support by funding public goods such as financial literacy training (Hoffman & McVay, 2013).
- Research into Sarami cattle project found the project has a number of innovative aspects but the model is successful due to a particular pricing agreement between Sarami and the Santo Meat Packers Association. A key pre-condition to replication of the full model would be to have a similar industry set-up which is rare in other countries (Marlow, 2013). Nonetheless, the pasture improvement, silage production, genetics improvement and the partnerships with small holders all represent useful models for other Pacific countries and was recommended for broader promotion.
- Research into SAMIC (Cambodia) subsidiary MEADA microinsurance model found the overall loan protection (or the forgiveness of the loan debt of SAMIC) component of the product provided an average US\$199 of value to insurance beneficiaries by reducing their obligation to pay back the deceased's debt. However, in many cases, this fell well short of eliminating the entire debt burden as the deceased often had multiple loans from microfinance institutes, money lenders and from family members – indicating the large over-indebtedness that some Cambodians are living with (Microinsurance Centre, 2013). The Centre also provided recommendations to improve products and support the uptake which was able to be funded with the additional co-financing.
- The research on Future Forests (Fiji) indicated that the model entails a number of features that would support beneficial replication in other locations. Unfortunately, delays in finalising the report will limit dissemination before completion of the ECF.

Financing

Over 12 months, discussions with WING and SAMIC (Cambodia)'s subsidiary MEADA in Cambodia identified areas where additional co-financing could support further scaling up. However, this was more challenging than expected given the growth phase both projects were going through and lack of a licence for MEADA to operate – still pending as at July 2013.

An opportunity was identified for co-financing of A\$20,000 to develop an improved community education program based on recommendations from the Microinsurance Centre. Client education materials covered the insurance concept as well as ensuring clients know that MEADA and SAMIC are separated, which was identified as a limitation to expansion. This has been developed and will be rolled out in the second half of 2013.

Dissemination approach

The dissemination program for research findings and results of the projects was conducted in 2013.

- The ECF provided research to the mobile banking conference in Laos and the **WING** team was asked to present. The World Bank is now in discussion with WING on expanding their services to other countries in the region included Lao and Myanmar.
- A workshop to share the lessons from the **MEADA program** was held for 20 key participants from microfinance institutes including the Cambodia Microfinance Association, research bodies and participants from SAMIC, MEADA and ECF in Cambodia that are interested in learning more about microinsurance. Participants were highly interested in the future of the insurance industry and the benefits for the microfinance institutes and clients. In addition to driving new partnerships, MEADA is well positioned to represent the microinsurance industry vis-à-vis regulators, investors and others.

From surveys, around two-thirds had some knowledge of insurance previously and 80% felt their knowledge had improved through attending the workshop. 60% felt their organisation was likely to have insurance at a future date either through partnership or by themselves. They were interested in further information.

In the short term, six companies provided contact details and MEADA arranged to meet with them during a technical review of their strategy the following month. MEADA is well positioned to expand and offer services to other microfinance institutes, when it obtains the operating licence.

- Two workshops to disseminate the lessons from the Sarami beef cattle project were held in Fiji, which had been identified as a key market for potential replication. These workshops, in conjunction with the newly formed private sector Fiji Crop and Livestock Council, were well attended by a cross-section of private sector, donor and government parties. The owner of Sarami presented and provided on site guidance to stakeholders in a number of locations.

Attendees indicated that the workshops had been extremely useful and informative. The Fiji Crop and Livestock Council received valuable exposure and was able to obtain input from the private sector on the regulatory and other issues constraining the industry.

The short term outcomes from these workshops include:

- follow up action by the Fiji Crop and Livestock Council on the identified constraints to the industry
- a visit to Sarami by a company interested in replicating the project in Fiji
- a plan for the Sarami owner to travel to Fiji for a meeting with one of the largest cattle producers to further discuss collaboration on the expansion of the Fiji company's operations
- a workshop in the Solomon Islands scheduled for mid-September 2013 following the successful Fiji program model.



Conclusion

It is too early to judge the overall success of the program but the initial indications are promising. It is evident that the best outcomes are likely to be achieved once the targeted projects have a proven track record, often after 4–5 years of operation.

An ECF design with a longer time frame and resources allocated to a more extensive facilitation and dissemination program from the outset, more tangible replication and crowding in outcomes may have been possible. However, there are key lessons:

- Challenge funds with a sector focus will support additional systemic impact. The ability to cross-promote multiple projects, in particular WING and SAMIC (Cambodia) to other financial services programs and Future Forests (Fiji) and Sarami (Vanuatu) to agricultural organisations in the Pacific was a benefit.



- Disseminating information on a successful challenge fund project (such as through research, workshops or other events) brought additional work for some of the companies as organisations have requested advice and assistance. To date there has been interest but actual replication will take time. It is important that the company understands this and it does not create a burden.
- Size matters – at the conclusion of the ECF grant period, two companies moved from a growing, innovative new starter to commercial consolidation in a more mature industry. WING (Cambodia) was sold to a new owner that changed the focus to some extent to the more profitable market segment and Future Forests (Fiji) launched on the stock exchange raising funds for a sawmill operation and additional commercial opportunities. This reduced the scope for undertaking additional development related activities which also have additional investment requirements. Smaller (comparatively) companies such as SAMIC (Cambodia)'s subsidiary MEADA and Sarami (Vanuatu) while successful models, had capacity issues for growth. MEADA is still able to offer insurance only to clients of SAMIC (of which 90% are already signed up); Sarami (Vanuatu) operates in a small island region and has reached 80–90% of potential small holders in the area.
- In larger economies or regions where economies are closely linked, demonstration of successful models can be more obvious and copying/replications can happen in the domestic market. In the Pacific, replication will only be achieved outside the small domestic markets and therefore the Fund Manager needed to promote the model in other countries. In achieving systemic impact in Pacific Island companies, it is important to look beyond the demonstration effect of companies in the domestic market and support wider dissemination of business models to other Pacific Island companies. This is much more effective when combined with research into the contextual requirements for replication.
- Ensuring that the financing activities of the systemic impact program were co-financed meant that grantees were similarly cautious as they would be with ECF projects. These activities also imply risk for the companies and therefore a longer time frame would have been beneficial.
- Finally, in the ECF, the relationship between the Fund Manager and companies was designed to be light touch. These activities required a more interventionist approach, which was a change in the nature of the role. In future challenge funds wanting to include programs that stimulate additional impacts, the role of the Fund Manager should resemble an investment manager in the project. The monitoring program would become more results management focused and have more scope to move into a facilitation role in future.

Looking forward – sustainability of the impacts

The goal of the Enterprise Challenge Fund is to achieve private sector-led growth in poorer regions of South-East Asia and the Pacific by supporting increased access by the poor to commercially sustainable jobs and services. This has been achieved with 21 projects contributing to 78,154 poor people and 1,146 small businesses having better access to and benefiting from jobs and services. More widely, more than 130 other businesses are also benefiting from improved productivity and crowding into new markets.

The ECF is a portfolio of projects albeit a diverse collection of projects. The success of a challenge fund project is assessed based on achievements of business growth and commercial sustainability, the scale of pro-poor benefits and those that have prompted wider changes in the market; accordingly

- Three (12%) performed very well and already being replicated or supporting other new businesses,
- Ten (42%) performed well or adequately by increasing income or employment but are less likely to be replicated or support other businesses without some change:
- Around eight (or 33%) performed less well and three (12%) were discontinued after grants were approved but before significant implementation.

Results for the poor are considerable with the three high performing projects representing around 80% of the impact - - the ECF achieved a total outreach of 497,512 people (mostly poor or rural customers) and 1,163 small businesses directly benefited over 3 years.

Over 3 years, 78,154 people increased their incomes – either through additional incomes or by reduced costs from new products and services. The net benefit was A\$8.179 million to communities over 3 years.

The income contributes significantly to households with employment and supply of goods and services earning income equal to or above the national poverty line.

Companies developed infrastructure and facilities in rural

and remote areas and provided training to large number of people. These types of investments support other businesses to start up and beneficiaries can use training with other income earning ventures. This increases wider business and community productivity as well as leaving a sustainable long-term impact and investment in rural areas.

Specific benefits for women from a number of companies will continue to contribute to the economic advancement principles and likely contribute to greater economic empowerment (Nethercott et al, 2013). A number of projects have shown positive environmental impacts. Future Forests (Fiji) has planted 30,000 teak seedlings in Fiji and has the potential to contribute to future carbon trading programs. Tourism projects such as Wilderness Lodge (Solomon Islands) and Carnival (Vanuatu) have contributed to environmentally aware communities.

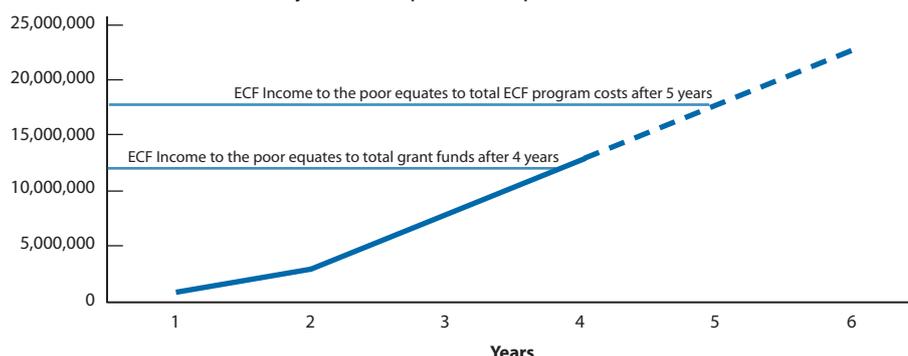
Eleven of the 14 commercially sustainable projects (79%) are already scaling up with additional investment from profits, capital raised from banks and markets, and donor investments to reach new markets and develop new products and services. This is expected to increase as new markets and services provide additional profits and attract new investment. New beneficiaries are approaching successful projects to participate, and attracting new customers and suppliers.

Companies will focus on business growth and look for more profitable markets in future but retain commercial sustainability in ECF funded ventures as a strong part of the business. For example WING (Cambodia) will focus a number of innovations in the urban market but continues to invest in the linkages to the rural areas as this is an integral part of the payment ecosystem.

Over 130 additional, mostly small–medium businesses are currently benefiting through improved productivity from the ECF projects, and this is expected to rise – particularly those benefiting from improved payroll from WING (Cambodia).

Projections for the next 2 years following the trends of commercially viable businesses indicate a further A\$11.019 million⁷ will be earned by poor communities – a total 5 year benefit to the poor of A\$19.197 million. The projections (see Annex 2) indicate that in 5 years the cost of the ECF (A\$17.218 million) will have earned in equivalent net income by poor.

Enterprise Challenge Fund
Projection of impact for the poor from the ECF



Case Study: WING – The future is mobile payments in Cambodia

Wing has evolved over the past four years to be a pioneer not only in Cambodia, but the whole of South-East Asia. WING press release (June 2013).

WING (Cambodia) is a provider of mobile phone payment services that enable customers to transfer, store and cash-out their money using a mobile phone. In 2009, WING Cambodia was awarded an ECF grant of A\$1.5 million to support expanding mobile phone payment services to rural provinces of Cambodia.

The grant provided funds for training of rural businesses to operate WING, greater awareness for rural customers and for financial literacy training. To date WING has more than 500,000 customers across Cambodia and 82% are in rural areas.

WING is diversifying the use of the product and looking at expansion to new markets. Future innovation for WING is in urban areas including retail payments and online payments. WING has begun to allow its customers to pay small restaurant or take away bills via WING and as people respond, this will grow to larger payments and online payments – a paypal for Cambodia.

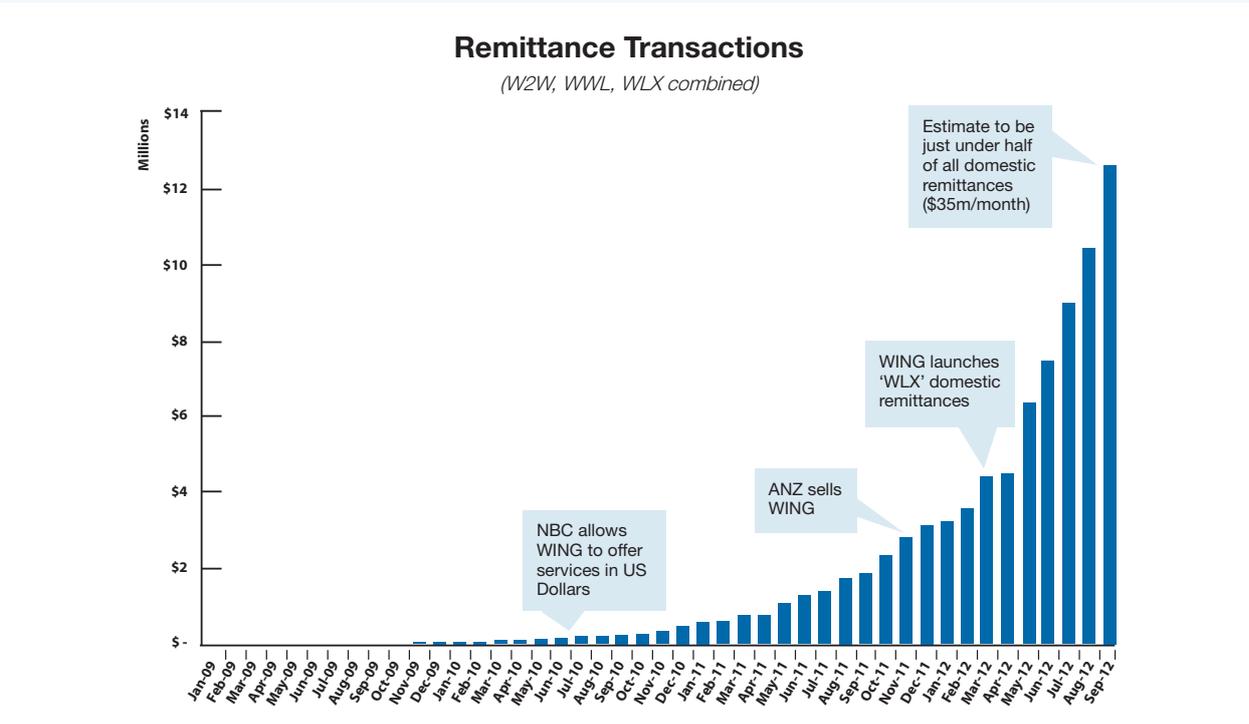
WING still retains a focus on rural areas. In 2012, WING launched a new product that was completely over the counter. The product allows small transfers of funds to be transacted by the Wing Cash Express – neither of the sender or recipient needs to have a WING account. The non-WING to non-WING product is a similar price to the existing money changers and Western Union style

operations (around US\$1.50) in the market but can be undertaken at the local marketplace through a Wing Cash Express. These transactions have skyrocketed. Feedback from users indicate it's not just saving money that interests people in using WING but the convenience.

WING is also looking at expansion in the region and to new markets in Laos and Myanmar. Agencies like the International Financing Committee are supporting the national governments to review legislation for mobile banking as they did in Cambodia.

International remittances are a large source of funds in Cambodia – many young Cambodians travel to regional markets such as Malaysia and Thailand to work in labour jobs where skills are short. Their income is often sent back to families in urban and rural areas. Currently there is no easy way to do this – international remittances through formal channels are expensive and alternatives such as taxis are unsafe and time consuming. It's likely many people travel to border areas and deposit funds to WING cash express directly sending these to family members. WING is talking with banks and other mobile payment systems in the region to develop linkages for this network to make it easier for the migrant labourers to provide for their families.

The future of WING is likely to be very strong and has the potential to become a world-class business model. This approach includes a strong link to rural areas and this is due to the ECF investment.



Source: WING presentation, Current trends in Private Sector Development Forum - Development Policy Centre 2012

Challenges and lessons learned

Partnering with the private sector can lead to poverty alleviation

The ECF has demonstrated that with appropriate support the private sector can play a pivotal role in alleviating poverty. Most ECF projects have worked in a collaborative manner with disadvantaged communities, given suppliers support that has increased their skills and income earning prospects, and provided either the market mechanisms or actual markets required for rural and other suppliers to improve their lives.

From this perspective the private sector should be seen as the catalyst for positive change and tangible improvements in livelihood opportunities for disadvantaged communities. Profitable business ventures will continue to provide an accessible market for capable suppliers, provide formal jobs, and create flow on opportunities for other small and medium size ventures and stimulate economic and export growth.

It is also worth noting that the great majority of ECF grantees have maintained and increased their commitment to working in a mutually beneficial manner with suppliers and associated communities post-grant. Frequently this stems from self-interest and profits but it is also clear that most of the grantees felt a moral obligation to continue to maximise the flow-on benefits to affected communities.

Weighing up results in South-East Asia and the Pacific

- **In South-East Asia, the performance of ECF projects in this region indicates that a challenge fund model can be appropriate and effective:** As South-East Asia markets grow, a large number of small-medium enterprises require new business models and supply chains, business skills and higher education. As such, ECF projects achieved high impact for low cost. The benefit to regional economies both large and small flows on to companies and prompts a higher likelihood of wider systemic impact. The challenge was finding funding for particular projects that involved the poor and had high returns rather than finding funding for business.

Integration with national government, and other, programs would have leveraged more support and opportunities. National and local government programs are more integrated with the private sector in Asia as is the importance of relationships and a long-term approach to businesses.

- **In the Pacific, the standard challenge fund model only addresses funding however there are more impediments to a vibrant, productive and beneficial private sector:** The ECF addressed one key shortcoming confronting business projects in those more risky but socially beneficial sectors – the shortage of financing to implement and sustain the business. In the Review of Access to Finance in the Pacific Island (ECF, 2013), the banks in the Pacific Islands contacted by the ECF clearly showed that their other main concern was the perceived limited ‘human capital’ and experience within companies planning difficult, export focused ventures. It is clear a different tool would have benefited in this region. Additionally an ECF grant could have helped involve banks more and look at collaborative funding of projects.

Does the size of companies impact on the success of the project?

The ECF portfolio is very broad and crosses multiple industries, countries. Projects are mixed in company size, grant size and ownership type, and key success factors vary.

- **Outreach to beneficiaries:** There is no clear link between size of the grant and corresponding number of beneficiaries. In only one case, for WING (Cambodia) does the number of beneficiaries corresponds with the grant amount and the size of the grantee. In other cases there is no strong link between grant amount and size of the grantee and number of beneficiaries. The relatively large grants for Sarami (Vanuatu) and Carnival (Vanuatu) saw benefits to around 300 men and women; the small grant to Wilderness Lodge (Solomon Islands) benefitted more than 424 people. In Cambodia, the small grant to SAMIC (Cambodia) benefitted more than 10,000 poor people.
- **Commercial sustainability:** The co-relationship between the potential commercial success of projects and the size of the company is limited. Several projects implemented by larger businesses (e.g. Mainland Holdings (Papua New Guinea), C-Corp (Solomon Islands)) struggled to reach break-even point due to a difficult business environment, whereas a number of the smaller business ventures have a good commercial track record – Future Forests (Fiji), Volcanic Earth (Vanuatu) and Wilderness Lodge (Solomon Islands). The common characteristic of projects that achieved commercial sustainability is a strong management team and a commitment to the success of the project.
- **Systemic impact:** Larger projects such as WING (Cambodia), Sarami (Vanuatu) and Carnival (Vanuatu) have resulted in strong systemic impacts or have the potential to do so in the longer term. On the other hand, smaller projects such as Future Forests (Fiji), Teamworkz (Laos) or SAMIC (Cambodia) have equally good prospects for replication and systemic impacts. The critical aspects were innovation of the model and demonstration.
- **Support required:** the smaller ECF projects generally required more support than larger companies, as expected. In the Pacific, several larger projects including Mainland (Papua New Guinea), Emirau Marine Products (Papua New Guinea) and Didao (Solomon Islands) would have benefitted from intensive support and the potential broader impacts of these projects make a good case for the provision of such support.

When assessing the relative merits of grant proposals, it should not be assumed that larger projects or larger companies will represent better value for money in broader impacts and/or numbers of beneficiaries. The more important determinant is often the skills and commitment of the project management team which can be difficult to assess in an ‘arms-length’ selection process. Assessment panels can be provided with additional information to support this assessment. The size of the markets is also a key factor – in the Pacific the number of beneficiaries will be relatively low in overall terms but often significant in population terms and overall economic activity.

Project failure – what is acceptable?

Some projects, despite best intentions, did not work. The ECF funded business projects operate in challenging environments and often involve new or innovative approaches. This, coupled with the projects' inability to qualify for commercial finance, means that the risk profile of ECF projects is relatively high and some failures should be expected.

Five of the 24 approved ECF projects did not complete 3 years of implementation. Three renewable energy projects did not proceed beyond an early stage due to changed market conditions – Burrows & Pelena (Solomon Islands) and Solutech (East Timor) – while a mini hydro-power generation project in Laos proved to be commercially unsustainable. A vanilla project in Papua New Guinea did not complete the proposed 3 year implementation period as a result of supply chain and market challenges.

It is important to understand that projects will fail from the outset. A business support program has assisted some projects in the early and mid-stages of implementation. Additionally the partnership and bidder co-contributions were important factors, as in all cases the companies pulled out of the approach rather than waste their own funds if viability was not assured.

Lessons in managing challenge funds

Provide a focus for the program

Overall, there would have been advantages for management of the challenge fund in focusing the approach of the ECF to a selection of sectors or countries including:

- increased potential for collaboration between supported ventures in the same industry sector
- more targeted project assessment procedures, with a limited number of technical experts to provide objective assessment inputs to the assessment panels
- increased potential for catalytic industry sector impacts stemming from the number and possible inter-relationships between business projects
- more meaningful lessons learned from different models and experiences in the one industry sector.

Linking the challenge fund sector to the AusAID Country Strategy or national government development agenda would also provide additional opportunities to link projects during implementation.

Improved selection of partners

- **A more interactive and hands-on approach would have resulted in a higher quality bids.** The project design took a 'hands-off' approach during the bidding rounds on the assumption that the private sector would generate innovative bids on their own. However the Fund Manager and Country Managers found they needed to provide more guidance during the process to all types of bidders not only to ensure that eligible bids were submitted but also draw out additional social and development impact. While this may have an impact on the number of concept notes and applications submitted, which was a measure of effectiveness, it would have meant an improvement the overall quality.
- **More time and resources to undertaking due diligence.** There were also insufficient funds for due diligence and testing of the assumptions during the application process. Assessment panels relied on the Country and Fund Manager assessment but '... they articulated a need for more input and depth from the ECF Fund Manager to a) substantiate application claims (due diligence); b) check out the business and business owner; and c) provide additional supporting information which the applicant may struggle to find / present (particularly on wider development impact related issues)' (Elliot et al, 2009). Future funds (and many of the new generation of challenge funds) need greater involvement and accountability by the Fund Manager to go beyond the application ... giving clear additional information to the Panel, and giving a clear view of what they think about the projects and applicants, why, and how they rank them with the assessment panel providing validation rather than decision making.
- **Commercial finance could be considered as part of an eligible contribution.** In the ECF eligibility criteria, bidders had to demonstrate that commercial finance was not available for the proposed business project. Banks could not be included in the business venture and this missed the opportunity for including bank and formal financing in the process to leverage of additional support from the banks, with a potential flow-on impact on their attitudes to supporting the more risky projects in the ECF portfolio. This may also reduce the need for a higher ECF grant.
- **The role of the regional assessment panel was critical and the low level of responsibility and level of grant approach was a discouragement.** The assessment panel and structure could be improved either through an increase in the grant size approval limit for the regional panel from A\$200,000 or through an amalgamation of the regional and international panel to one panel. This would improve the effectiveness of time and costs. The greater commitment may mean assessment panel members should be paid. Experience has shown that it is difficult to retain good members who are not employed by a large organisation prepared to allocate their time as part of corporate social responsibility; therefore sitting fees would be appropriate. The Enterprise Challenge Fund – Mid-Term Review (Elliot et al, 2009) agreed with these points.

Improved results measurement

- **Results measurement systems for challenge funds can benefit the public sector.** The considerable lack of evidence on the effectiveness of challenge funds is in part to do with the length of time it takes for challenge funds to achieve full impact and the approach to 'light touch' management – reducing the time and input costs for management and monitoring of the fund. AusAID invested in a robust monitoring and evaluation approach from the outset to ensure a greater degree of rigour in assessing ECF results. This included approving additional funds for the fund management team to develop a results measurement system in compliance with the Donor Committee for Enterprise Development Standard for Results Measurement– a recommendation from the ECF Mid Term Review (Elliot et al, 2009). Additionally AusAID invested in an annual performance assessment and validation process, an independent cost benefit analysis, designed to measure the ECF against other thematic programs and committed to a review of the ECF's post impacts in 2015. This significant investment gained a much more informed position to assess the challenge fund impact. Heinrich (2013) states, 'only very few structured mechanisms for partnering with business have published actual evaluations or some form of review of their whole portfolios [including the ECF]'.

• **Results measurement systems for challenge funds can benefit the private sector.** The Fund Manager's role during implementation is to collect

results and report on the impact of the program. The ECF monitoring team sought to create a strong results measurement system so that information was beneficial for donors but also helped companies improve projects. The interest of the private sector is focused on the commercial operations and the fund manager needed to be responsible for measuring impacts for beneficiaries and any wider impacts. The team found discussing the tools with the companies beforehand allowed input for relevant market research questions. Results needed to be collected regularly and reported back in a timely manner in order to be useful. The ECF found adapting the system to the control elements set out in the DCED Standard was beneficial as it provided a good framework as well as external support.

- **An effective linkages program can assist supported businesses during the difficult implementation stages.** In the Pacific Islands in particular, new or expanding businesses often require outside support to guide their implementation and marketing. There are numerous donor funded support programs and the ECF manager could play a useful role in facilitating contact and relevant support. Because most Pacific business projects were focused on export they also needed introductions to both support agencies and, where possible, potential customers. This support is, however, time consuming and presented resource challenges for the Fund Manager.



Case Study: Marine Consultancy Services – inter-island shipping in Vanuatu



Marine Consultancy Services operates scheduled freight and passenger shipping services between Santo in Vanuatu and the capital Port Vila.

An ECF grant of A\$850,000 allowed Marine Consultancy Services to purchase a second vessel for scheduled sea freight and passenger services to the remote and under-serviced Banks and Torres island groups of Torba province in the north of Vanuatu.

The estimated 9,000 inhabitants in the remote Torba province and nearby islands were poorly serviced by inter-island shipping companies.

In 2010, Marine Consultancy operated 11 trips to Banks and Torres but despite this there was no significant increase in the outward freight from the islands, aside from copra. Increased competition on the route was a factor and the advertised shipping service from Marine Consultancy was used by competitors to under-cut their operation. While this has presented commercial difficulties for Marine Consultancy, local businesses and communities have greatly improved access to vital goods and services.

Chief Joseph Tula from the Kaska area in East Gaua is optimistic about the future of his area. He has seen a recent increase in shipping services and to take advantage of this he is reopening a medium sized store. He is also expanding his copra plantings, and opposed to always cutting the copra with his family, he leases out the harvest rights for VT7000 per half hectare. Sandalwood plantings are also a priority as revenue from sandalwood is much greater than copra.

A review of the Marine Consultancy Shipping Project Impacts (Engel, 2013) found that while shipping services provided by Marine Consultancy had a positive impact on the delivery of goods to the Banks islands it was difficult to attribute specific impacts because of the increase in services by other shippers. Marine Consultancy provided a more rapid and reliable service than other shipping companies and the service was also suitable for cattle and seafood products That could have contributed to the economic diversification of the Banks islands. There was, however, little evidence that economic development and diversification away from copra had occurred despite the improved shipping services.

The confidence that Marine Consultancy had that people of the Banks and Torres would take advantage of their services and to develop industry and services that relied on regular transportation to other parts of Vanuatu proved to be ill founded. In retrospect, the MCS project should have incorporated some supply chain and transport infrastructure in the Banks to provide the return freight volumes required for a commercially viable professional shipping service. Other shipping companies are able to make profits on the route because they operate on a trading/barter model that reduces reliance on return freight income.

However as Engel (2013) states, 'Even if [Marine Consultancy] had engaged better with local communities and service providers to educate people about the economic opportunities to be gained from utilizing faster shipping services to gain better market access, the timeframe from planting to harvesting the higher value crops kava and cacao is 3-4 years. With its obligations to ECF fulfilled, [Marine Consultancy] has reduced services to the Banks and Torres islands even before the first crops could have been harvested.'

Conclusions and recommendations from the ECF

The ECF has demonstrated that with appropriate support the private sector can play a pivotal role in alleviating poverty. There is a clear rationale for using challenge funds to partner with the private sector and significant interest from the private sector.

Challenge funds are being adapted by AusAID and other donors around the world. It is important to take the lessons from this challenge fund, other challenge funds and comparative reviews into consideration however each region and sector will have specific challenges.

‘Challenge funds are not just grant mechanisms but have the potential to impact more broadly on the wider market system and lead to lasting change’ Cunningham (2012).

Box 12: Grantee Perception Survey 2012

100% of grantees felt the ECF was a good way for donors to work with the private sector, for several reasons:

- The established private sectors in various countries may have good ideas but resources are limited to implement these ideas. No other bodies provide this type of funding to the private sector.
- ECF is a more efficient and cost effective way of kick-starting projects and allowing for the creativity and efficiency of the private sector.
- Involvement of private sector specialists in the selection process was good and the straightforward applications did not create additional paperwork. Continuous reporting is good for accountability.
- Use of matching grants means equal participation will help make it effective. It is not a handout but requires the company to invest and work towards the success of the project.

Recommendations for future challenge funds

Setting the challenge for a challenge fund

There needs to be a clear rationale or challenge outlined for a challenge fund to be effective in partnering with the private sector. This should be clearly set out in the eligibility and assessment criteria as it supports the private sector to develop proposals that fits the overall objective.

The ECF lacked a strategic framework so this resulted in a very broad portfolio albeit funded a number of high impact and innovative approaches. This can be a valid use of an enterprise challenge fund – to fund innovation from the private sector and the World Bank has a Development Innovation Fund for this.

Sector specific challenge funds however can be more effective and target donor priorities, are easier to manage and have better potential for linkages between projects and wider systemic impact.

It is important to ensure that the challenge or rationale is clear – this can then determine how broad or targeted a portfolio may be.

Different approaches in different contexts

The ECF worked well in South-East Asia despite the panel’s approving less than expected number of projects by providing fund for innovation or for public goods where rural and remote communities were not able to access growing markets. The size of the economies and number of businesses operating provided a strong base for developing proposals, high impacts and for achieving wider interest from funded projects. Better involvement with national government programs and other donor programs (e.g. AusAID country programs) would have leveraged more support and opportunities as would more relationship or character based assessment process and the consideration of a longer term approach to partnering with business rather than a one-off grant. As the Australian Government looks at how to engage with Asia as a partner, this approach also provides considerable lessons for doing business in Asia.

In the Pacific, limited regional business support services, perceived lack of human capital and management experience within companies looking at difficult, export focused ventures meant that better commercial sustainability and broader impacts would have been enhanced by ancillary technical support services. The typical challenge fund model needs to be adapted in order to address these impediments in the Pacific. Alternative approaches including equity investments and linked business support services are currently being considered.

Improving results measurement and evidence

'There are hardly any credible/robust evaluations on the impact on outputs generally, and fewer still that even attempt to measure and attribute additionality to the challenge fund grant.' (Elliot, 2012)

Investment in a robust results measurement system and rigorous evaluation has provided a strong basis for assessing the impacts of the ECF and the best approach to partnering with the private sector. Additionally, the results measurement system supported funded companies – providing information on their business stakeholders and understanding from a development perspective.

Future challenge funds should be funded with adequate budgets for results measurement, evaluation and program linkages and dissemination from the outset. As Callan & Davies (2013) states – a light touch system reduces cost for both the fund manager and the business. However, this may be a false economy if the challenge fund cannot learn from experience or demonstrate its impact (Callan & Davies 2013).



Future research into the effectiveness of challenge funds

AusAID will conduct an evaluation of the ECF 2 years after its completion in 2015 and this will give further evidence to impact of a challenge fund. This is the first post-impact assessment undertaken on a challenge fund – a commendable approach.

Additionally the ECF team has contributed to wider industry research into private sector partnerships and challenge funds looking at wider evidence from various challenge funds and private sector approaches around the world and will provide more comprehensive recommendations for future challenge funds.

- A working paper – 'When business meets aid: analysing public-private partnerships for international development' (Callan & Davies, 2013) made a number of recommendations and considerations for design of future challenge funds including '...the next generation of enterprise challenge funds should be designed on the basis of a broad evaluation of their predecessors and explicit consideration of a set of issues [identified in the paper]'. In 2013, an informal working group on challenge funds including ECF fund management, evaluation specialists, other challenge fund management teams and AusAID has been convened to advise the new generation of challenge funds and develop a policy guidance note for senior advisers in donor agencies for late 2013.
- The German Ministry for Economic Cooperation and Development and Endeava is developing a publication on results measurement and aims to further results measurement in development partnerships by looking at examples in practice including challenge funds and other private sector partnerships for publication in late 2013.
- The Donor Committee for Enterprise Development is also continuing to develop working guidelines for practitioners and donors implementing results measurement in challenge funds and additional tools for supporting improved results measurement for publication in 2013 and 2014.

Annex 1. The funded projects



Bright Hope Institute, Cambodia

Grant value: A\$199,300

Bright Hope Institute is providing tertiary education to rural Cambodians in Kampong Chhnang. Bright Hope used an ECF grant to construct 12 new classrooms and four dormitories, and upgraded existing infrastructure such as computers and curriculum materials. With improved facilities, Bright Hope can accept up to 800 students by 2012 and provide part scholarships for up to 100 students per year to those who would not have the opportunity to receive higher education.



Cagayan de Oro Handmade Paper Crafts, Philippines

Grant value: A\$407,139

Cagayan de Oro Handmade Paper used an ECF grant 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. More than 300 farmers are working to grow and harvest more abaca. The project has established a buying station and a larger market for the abaca fibre and is expanding into small community development and poverty alleviation programs.



Carnival, Vanuatu

Grant value: A\$805,000

The Carnival Australia cruise company has been operating in Vanuatu for over 75 years. It carries more than 150,000 passengers to the Pacific Islands each year. Carnival used an ECF grant to upgrade facilities on three remote islands (Champagne Bay, Wala and Mystery Island) to strengthen and extend markets for locals and Carnival Australia. Carnival trained local traders in tourism services and the development of local trade initiatives to maximise income generated from the increased tourist trade.



C-Corp, Solomon Islands

Grant value: A\$1,155,000

The commodity company C-Corp has been involved in cocoa plantations and redevelopment for almost 5 years. C-Corp used an ECF grant to rehabilitate and redevelop 180 hectares of Horokiki cocoa and 60 hectares of new cocoa plantations in collaboration with local landowners in the Solomon Islands. The improved supply has enabled C-Corp to purchase additional wet beans from communities, increase marketing and work towards developing a recognised cocoa brand for Solomon Islands.



Didao, Solomon Islands

Grant Value: A\$680,000

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.



Emirau Marine Products, Papua New Guinea

Grant value: A\$996,000

The Papua New Guinea owned company Emirau Marine operates in Kavieng and uses small quantities of processed coconut oil as an alternative fuel. Emirau used an ECF grant to construct a processing facility and has begun purchasing copra and whole coconuts from local communities for the production and export of a number of products, from coconut oil to processed husks. Emirau also promotes rehabilitation of senile coconut plantations by local communities in order to secure a reliable supply chain.



Future Forests, Fiji

Grant value: A\$190,000

Future Forests Fiji was established to develop a social and environmentally friendly teak plantation business in Fiji. It used an ECF grant to expand and modernise seed germination and nursery facilities, and develop sustainable and equitable partnership models with landowners to expand plantation operations. Over 90,000 seedlings can now be germinated in 12 months in the new ECF funded hot houses. Future Forests launched on the Fiji stock exchange in 2012 to fund a second stage of processing operations.



Mainland Holdings, Papua New Guinea

Grant value: A\$212,145

National agribusiness company Mainland Holdings used an ECF grant to establish a processing plant that will convert fresh green vanilla pods into desiccated, fermented and dried products to international standards. Mainland has developed a supply chain of 200 vanilla farmers able to supply green vanilla pods for processing and has given technical support in crop management, disease control and overall management of supply operation to growers.



Marine Consultancy Services, Vanuatu

Grant value: A\$750,000

Marine Consultancy Services provides scheduled services between Santo and the capital Port Vila and underserved islands north of Santo, carrying general merchandise, agricultural products and passengers. Marine Consultancy used an ECF grant to obtain a second vessel to transport goods and passengers to and from the poorly serviced Banks and Torres island groups. The new reliable transport service is travelling bi-monthly and linking the communities to commercial centres in Santo and Efate.



Masurina, Papua New Guinea

Grant value: A\$183,166

Masurina developed as a cooperative in Milne Bay province in Papua New Guinea to support agricultural development in the area. Masurina used the ECF grant to develop two locations as resource centres (Kwato and Bwasa in Normanby Islands) to facilitate the sustainable harvesting of timber as well as expanding into boat building by using the existing skills of workers in the region.



Nature's Way, Fiji

Grant value: A\$263,321

Nature's Way Cooperative has 160 shareholders who are growers and exporters, with the vast majority being small farmers. Nature's Way used an ECF grant to expand Fiji's quarantine treatment capacity for the export of fruit and vegetables through increasing and expanding existing infrastructure; improving handling and treatment systems; and obtaining organic produce certification for the facility.



Puritau Limited, Papua New Guinea

Grant value: A\$170,000

Puritau Limited is a family owned company involved in agricultural products since 1987. Puritau used an ECF grant for the Paradise Spice project – establishing a processing facility in Port Moresby to produce pure vanilla, oleoresins and other spices. Agricultural extension workers are working with 621 vanilla producing households in the target area and have begun purchasing vanilla beans from households. Puritau is also producing spices, coffee and bottled water from the production facilities.



Pupuk Alam, Cambodia

Grant value: A\$734,414

Pupuk Alam is a Malaysian based manufacturer of protein baits for fruit fly made from organic materials to replace traditional pesticides. It used an ECF grant to develop a training program and supply chain for organic fruit fly baits. The baits are cheaper, reduce use of pesticides in crop production, and increase crop yields by reducing spoilage. Pupuk Alam agreed with a local beer manufacturer to establish a production facility using beer waste to produce fly baits – and contribute to the sustainability of the project in Cambodia.



Reddy Farms, Fiji

Grant value: A\$149,900

Reddy Farms is a 100% locally owned Fijian company, breeding and supplying ducks for sale to restaurants, supermarkets and hotels. It used an ECF grant to construct a hatchery for Pekin day-old ducklings that has doubled the capacity for hatchings. Reddy Farms is working with 15 farmers to provide ducklings along with feed and technical support. Once the birds reach optimum weight, Reddy Farms purchases them at an agreed net price per kilo. ECF funding also supported Reddy Farms to build a new slaughter house with a cold storage facility and a refrigerated truck for transport of processed birds to domestic buyers.



Sarami, Vanuatu

Grant value: A\$1,1375,000

Sarami Plantation has been breeding cattle in Vanuatu for 30 years and was the first property in Santo to introduce cross Brahman bulls on their 2,000 hectare breeding property. Sarami used an ECF grant to work with small holder cattle farmers to improve beef production in Vanuatu, increasing their incomes by purchasing cattle at higher average prices. The funds also developed improved pastures and silage to improve the quality of cattle for sale. A planned genetic improvement program will also develop the perfect cattle genotype to suit island climatic conditions.



SAMIC/MEADA, Cambodia

Grant value: A\$198,450

SAMIC Limited is a microfinance institution providing credit and savings options to poor and low-income Cambodians. SAMIC developed Measure for Economic and Accelerated Development for All (MEADA) – a specific insurance product that protects the financial debts in case of death of the income earner. SAMIC has launched two insurance products including credit risk and basic life to over 14,000 clients protecting more than US\$2 million in loans for small businesses.



Sunlabob, Laos

Grant value: A\$364,426

Sunlabob is an innovative company that provides electricity at affordable and competitive prices in remote villages. Founded in 2000, Sunlabob has grown from a small team of technicians to the leading company in Laos for renewable energy solutions in remote off-grid areas. Sunlabob used an ECF grant to design and install a mini hydro-power plant in remote villages, providing electricity to 350 households who do not currently have a consistent, reliable source of electricity. This supports the Government of Laos plan to electrify 90% of Laos by 2020.



Teamworkz, Laos

Grant value: A\$227,030

Teamworkz operates a tourism website in Laos and received an ECF grant to expand to include the remote and less visited provinces of Luang Namtha, Champasak and Xieng Khaung, where tourism was constrained by the absence of online information and booking services. The project has developed websites for 86 tourist destinations in these provinces (including accommodation and tours) and will help to make travel and sightseeing in these provinces, and in Laos in general, more accessible.



Volcanic Earth, Vanuatu

Grant value: A\$190,000

Volcanic Earth has established a new production and export handling facility in Port Vila by expanding its processing plant to produce bulk supplies of skin care products for wholesale and retail export markets and virgin coconut oil. The project also works more closely with village suppliers to increase supply of locally sourced raw materials such as coconut oil and tamanu nuts and to provide technical support for first stage processing by local suppliers.



Wilderness Lodge, Solomon Islands

Grant value: A\$110,000

Wilderness Lodge is an ecotourism bungalow style resort in protected Morovo Lagoon. It used an ECF grant to expand existing facilities to double guest accommodation and expand site infrastructure using environmentally sustainable methods. The project has undertaken extensive training and strengthening of the human resources of the business, including hospitality training of staff in conjunction with other ecotourism operations.



WING, Cambodia

Grant value: A\$1,500,000

WING is a provider of mobile phone payment services and allows customers to transfer, store and cash-out their money using a mobile phone. WING was awarded an ECF grant to support expanding these services to rural provinces of Cambodia. WING used the ECF funding to create a strong network for rural customers, developed specific targeted marketing campaigns and embarking on financial literacy campaigns for rural users and has reached over 400,000 customers in rural areas.

Projects that did not proceed



Solutech, East Timor

Grant value: A\$125,477 (incomplete)

Solutech is an East Timorese company supplying solar and other alternative energy products and services to various customers. ECF funding of A\$575,500 was allocated to support Solutech to expand sales of solar lamps and solar systems to rural communities and micro and small businesses however Solutech found itself in a changed businesses environment when other companies provided cheaper alternatives to a price conscious clientele.



Burrows & Pelena, Solomon Islands

Grant value: A\$29,621 (incomplete)

Burrows Pty Ltd is an Australian company which has operated a fuel distribution business in Australia for 35 years. The fund allocated an ECF grant of \$1,175,615 to assist in the establishment of a new coconut processing and biodiesel production facility in Honiara. Due to changed market conditions this project did not go ahead.

Pelena Energy is an Australian engineering company based at Dorrigo, in northern NSW, Australia. Pelena was allocated a grant of A\$198,898 to establish a biofuel production facility on Kolombangara Island in the Western Province of Solomon Islands. An oil extraction facility will be established to produce around 80,000 litres of bio-fuel each year. Due to changed market conditions this project did not go ahead.

Annex 2. Summary tables of impact

Employment at head office – indicators of business growth

Company	Beneficiary group	Full time equivalents		Casual staff		Total employed over 3 years
		Men	Women	Men	Women	
Bright Hope (Cambodia)	Teaching staff including faculty specialist	25	3	0	0	28
Cagayan de Oro (Philippines)	Head office staff	2	5	0	0	7
Didao (Solomon Islands)	Employment of factory workers	4	0	0	0	4
Marine Consultancy Services (Vanuatu)	Management staff	3	1	0	0	4
	Boat crew and freight handlers	15	0	0	0	15
Pupuk Alam (Cambodia)	Extension officers and trainers	2	2	0	0	4
Puritau (Papua New Guinea)	Employment of factory workers in Port Moresby	5	0	0	0	5
SAMIC (Cambodia)	Insurance officers	15	3	0	0	18
Sunlabob (Laos)	Head office staff including engineers and finance staff for Nam Kha project	1	1	0	0	2
Teamworkz (Laos)	Hotel and tourism operator employees in three remote provinces	4	4	0	1	9
Teamworkz (Laos)	Head office staff including travel writers and website designers	19	76	0	0	95
Volcanic Earth (Vanuatu)	Employment of factory workers	3	5	0	1	9
WING (Cambodia)	Call centre and WING management staff	132	72	0	0	204
WING (Cambodia)	WING pilots – sales agents that promote WING to community members	21	1	0	0	22
Total		251	173	0	2	426

Employment in rural and poor regions, 2010–13

Company	Beneficiary group	Full time equivalents		Casual Staff		Total employed over 3 years	Total income over ECF three years	Projected income for next 2 years
		Men	Women	Men	Women			
Cagayan de Oro (Philippines)	Craft workers from surrounding villages of Cagayan de Oro	55	0	0	0	55	\$99,990	\$99,990
	Paper makers from surrounding villages of Cagayan de Oro	12	0	0	0	12	\$29,472	\$29,472
	Home based workers from surrounding villages of Cagayan de Oro	30	0	0	0	30	\$163,005	\$131,700
C-corp (Solomon Islands)	Factory workers in East and west side	10	6	11	5	32	\$34,278	\$ -
C-Corp (Solomon Islands)	Employees for field maintenance, planting in Horokiki	22	3	0	0	25	\$ -	\$ -
Emirau Marine Products (Papua New Guinea)	Employment of factory workers in Kavieng	7	7	11	4	29	\$ -	\$ -
Future Forests (Fiji)	Casual labour in fields and nursery workers in Ra province	2	2	0	0	4	\$221,880	\$236,000
Mainland Holdings (Papua New Guinea)	Employment of factory workers on casual basis in Lae	3	0	0	0	3		
Mainland Holdings (Papua New Guinea)	Seasonal extension workers in Lae	6	0	0	0	6	\$ -	\$ -
Nature's Way (Fiji)	Employment of workers in factory for packing and grading	6	6	0	0	12	\$75,790	\$75,790
Pupuk Alam (Cambodia)	Women contracted to supply baits in local communities in rural Cambodia	0	0	0	0	0	\$276	\$ -
Reddy Farms (Fiji)	Employment of local community members in the hatchery in Lautoka province	5	2	1	0	8	\$40,842	\$47,034
Sarami (Vanuatu)	Villagers work in casual weeding in Santo	0	0	10	6	16	\$ -	\$ -
Sunlabob (Laos)	Village grid technicians providing basic maintenance of turbines in Nam Kha	2	0	0	0	2	\$3,388	\$3,388
Wilderness (Solomon Islands)	Hotel staff employed from local villages around Morovo Lagoon	3	3	8	15	29	\$8,059	\$5,372
TOTAL		163	29	41	30	263	\$676,980	\$628,747

Suppliers in rural and remote areas, 2010–13

Company	Beneficiary group	Outreach	Suppliers - Men	Suppliers - Women	Total people supplying over 3 years	Total income over ECF three years	Projected income for next 2 years
Cagayan de Oro (Philippines)	Farmers in Misamis Claveria	350	350	0	350	\$1,154,659	\$1,225,374
	Suppliers of inputs in surrounding factory area in Cagayan de Oro	23	13	10	23	\$55,641	\$55,641
Carnival Australia (Vanuatu)	Tourism operators in Mystery Island, Wala and Champagne Bay	300	150	150	300	\$2,542,000	\$2,542,000
C-Corp (Solomon Islands)	Landholders in Horokiki	40	40	0	40	\$ -	\$ -
Didao (Solomon Islands)	Fishermen in Morovo Lagoon (80–100 families planned)	0	0	0	0	\$ -	\$1,135,200
Emirau Marine Products (Papua New Guinea)	Coconut growers in Kavieng	400	72	0	72	\$53,000	\$930,000
Masurina (Papua New Guinea)	Families in local area supplying wood to resource centres in Milne Bay	16	16	0	16	n/a	n/a
Mainland Holdings (Papua New Guinea)	Vanilla farmers in Papua New Guinea	1308	1308	0	1308	\$52,985	\$ -
Puritau (Papua New Guinea)	Vanilla growers in Rigo selling to Puritau	300	300	0	300	\$27,400	\$8,750
Reddy Farms (Fiji)	Farmers trained in duck out growing and raising; selling ducks to Reddy Farms in Lautoka	60	2	1	3	\$26,940	\$8,830
Sarami (Vanuatu)	Cattle small holders in Santo	241	241	0	241	\$332,730	\$166,988
Volcanic Earth (Vanuatu)	Nut sellers in Malekula selling to Nuts N Oils used to produce oil sold to Volcanic Earth	1200	200	1000	1200	\$7,200	\$6,400
Volcanic Earth (Vanuatu)	Women's groups in Malekula who peel and dry nuts on contract to NutsNOils.	50	0	50	50	\$11,925	\$10,600
Volcanic Earth (Vanuatu)	Coconut contractor buying coconuts from villagers to supply coconut oil	30	6	0	6	\$18,000	\$16,000
Wilderness (Solomon Islands)	Tourism providers in Peava and Moro	410	210	200	410	\$32,727	\$64,368
TOTAL		4,678	2,908	1,411	4,319	\$4,314,569	\$6,170,151
Small-medium enterprises							
WING (Cambodia)	WING Cash express merchants in rural areas of Cambodia	900			900	\$203,700	\$209,520
Nature's Way (Fiji)	Cooperative members supplying to Nature's Way throughout Fiji	160	-	-	160	\$430,625	\$430,625
TOTAL		1,060			1,060	\$634,325	\$640,145

Access to goods and services – customers in rural and remote areas, 2010–13

Company	Beneficiary group	Access–total outreach (both men and women)	Customers benefiting from access (Men)	Customers benefiting from access (Women)	Total people benefiting over 3 years	Total net income benefit over ECF three years	Projected income for next 2 years
Bright Hope Institute (Cambodia)	Students graduating in Kampong Chhnang	480	259	221	480	\$169,443	\$386,100
Future Forests (Fiji)	Landowners in Ra province plant and maintain trees	250	125	125	250	\$180,000	\$180,000
Marine Consultancy Services (Vanuatu)	Households in Banks, Torres, and West Malekula islands	9,000	0	0	0	n/a	n/a
Pupuk Alam (Cambodia)	Farmers using baits in rural areas of Cambodia	5,424	156	365	521	\$80,233	\$ 8,333
SAMIC (Cambodia)	SAMIC clients in rural areas of Cambodia taking out insurance	15,302	2,554	11,637	14,191	\$50,352	\$31,320
Sunlabob (Laos)	Households in five remote villages in Xieng Khaung province	2,094	1,032	1,032	2,064	\$4,550	\$4,550
Teamworkz (Laos)	Communities around 86 hotels in rural Laos	86 communities				\$39,267	\$59,346
WING (Cambodia)	Customers of mobile banking in rural areas of Cambodia	460,020	36,442	19,623	56,065	\$1,753,777	\$2,744,752
TOTAL		492,571	36,084	37,488	73,572	\$2,277,622	\$3,414,402
Small-medium enterprises							
Teamworkz (Laos)	Hotels in rural areas directly provided with access to online marketing and payment facilities				86	\$275,391	\$165,065

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Contractor Certification

Coffey International Development certifies that this Project Completion Report has been prepared in accordance with the interim guidelines provided by AusAID Canberra. The final version amended according to AusAID advice and instructions was submitted in September 2013.

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The ECF is a competitive opportunity for businesses to obtain grants that assist in commercialising business projects to reduce poverty in ECF participating countries. ECF is an Australian Agency for International Development (AusAID)-led Australian Government initiative.

