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Report

Centrally Managed Donor Funds and facilities to promote business engagement

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Key messages

- 20 centrally managed bilateral donor funds for business engagement reviewed. Evaluation documents available for 8 funds.
- Objectives include promotion of general business competitiveness, more targeted inclusive business or CSR models or both.
- Some European facilities have specific focus on linking domestic companies with business opportunities in developing countries.
- Three main types of assistance are provided by these funds and facilities: grant (usually matching) funds, technical assistance and partnership broking.
- Other issues include: target company scale; levels of management decentralisation; integration with wider market interventions

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Abbreviations

ADA	Austrian Development Agency
AECF	DFID's Africa Enterprise Challenge Fund
AMC	Advance Market Commitments
AusAid	Australian Agency for International Development
BIF	Business Innovation Facility
BOP	Bottom Of the Pyramid
BP	Business Partnerships
BPP	Business Partnership Programme
BMP	Business Matchmaking Programme
BMZ	German Federal Ministry for Economic Cooperation and Development
CCPS	GIZ's Centre for Cooperation with the Private Sector
CMDF	Centrally Managed Donor Fund
CSO	Civil Society Organisations
CSR	Corporate Social Responsibility
DAC	OCED's Development Co-operation Directorate
DANIDA	Danish International Development Agency
DCED	Donor Committee for Enterprise Development
DCMF	Netherlands MFA Development Cooperation Matchmaking Facility
DFI	Development Finance Institution
DFID	The UK's Department for International Development
EC	European Commission (of the EU)
ECFPSEA	AusAid's Enterprise Challenge Fund for the Pacific and South East Asia
EITI	Extractives Industry Transparency Initiative
EU	European Union
FRICH	DFID's Food Retail Industry Challenge Fund
GAVI	Global Alliance for Vaccines and Immunisation
GDA	Global Development Alliance (USAID)
GEC	DFID's Girl's Education Challenge (Fund)
GIZ/GTZ	The German Society for International Cooperation
IAP	SIDA's Innovation Against Poverty Facility
IDA	World Bank's International Development Association
IDH	Netherland's Sustainable Trade Initiative
IFC	International Finance Corporation

ILO	International Labour Organisation
LIC	Low Income Country
MDG	Millennium Development Goals
MFA	Netherlands Ministry of Foreign Affairs
MNE	Multi-National Enterprise
NGO	Non-Governmental Organisations
NORAD	Norwegian Agency for Development Cooperation
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PPDP	SIDA's Public Private Development Partnership (programme)
PPP	Public-Private Partnership
PSD	Private Sector Development
PSI	MFA's Private Sector Initiative
RAGS	DFID's Responsible and Accountable Garment Sector Challenge Fund
SIDA	Swedish International Development Cooperation Agency
UN	United Nations
UNGC	UN Global Compact
UNIDO	UN Industrial Development Organisation
USAID	United States Agency for International Development
WB	World Bank

1 Introduction

The potential benefit of engaging with business in order to achieve development objectives has long been recognised by donor organisations. It is an issue being given particular emphasis now by many donors, as a result of changing consensus on the effectiveness of different aid delivery mechanisms, as well as overall government budgetary constraints.

The reasons that donors have sought to engage with business were summarised in a previous ODI paper (Smith, 2013) as follows:

- Business activities already impinge hugely and unavoidably on poor peoples' lives – in both positive and negative ways. Not engaging with business clearly reduces the scope and efficacy of donor efforts to tackle poverty. Donors may try to influence business to modify their activities – both to mitigate negative impacts and to accentuate positive impacts on the development outcomes that donors seek to bring about.

- Multi-national companies in particular, may also enjoy a scale and reach which can be leveraged to carry out activities or provide products which can impact a very large number of people.

- Particularly in an environment of increasing constraints on public development assistance, there is an increasing awareness that private sector capital may be mobilised for investment to achieve development aims. This capital may be broadly 'philanthropic' - funds allocated to meet corporate social responsibility objectives, or may be a firm's core business capital. Private sector financial resources dwarf sources of development assistance and significant opportunities exist to leverage how private capital is invested to optimise development impact.

- Due to the discipline of competing in the market, it is recognised that valuable resources have been developed within the private sector in terms of management expertise and processes to improve operational efficiency. Donors may seek to harness these strengths by engaging with business, or encourage public and civil society organisations to learn from, or adopt, such practices.

- Businesses often develop, own or sell specialised technology which can make a vital contribution to development and which is not available elsewhere e.g. pharmaceutical companies' vaccine research and development, or private sector computerised mapping technology that may be vital to disaster risk reduction efforts.

- The business community inevitably plays some role in national and local governance and has a political significance that donors may seek to influence or promote as an alternative or independent voice in national debate.

For public donor organisations that have traditionally provided funding through governments or civil society organisations, the issue of how to introduce the idea and practice of business engagement throughout their organisations but in a way which is sensitive to, and consistent with, decentralised decision making, has proved challenging. One common response has been to launch initiatives managed centrally to promote business engagement – usually a fund or facility of some kind.

This paper reviews a number of these centrally managed donor funds and facilities (CMDFFs), that are either currently existing or recently closed, and discusses their objectives and modus operandi, as well as lessons learnt in relation to their implementation.

The study will focus on facilities that provide grants, technical assistance, information, training, publicity, 'reputational capital' and similar support – but will not include facilities offering financial instruments such as debt, equity investment or similar.

Section two will describe the funds covered in this review. Section three will analyse the objectives, scope and modalities of these funds and facilities. Section four will examine evidence from available evaluations of these funds, while Section five will discuss some issues that should usefully be considered by donors when thinking about business engagement funds and facilities.

2 The Funds

In this section we provide a brief description of each of the centrally managed donor funds and facilities reviewed for this paper.

Austrian Development Agency's (ADA) Business Partnership Programme (BPP)

http://www.tcbresourceguide.org/vol2/bilateral_services/trade_promo_cap_building/austria.html

Aims to promote private sector development in developing countries by promoting linkages with businesses in European countries, and providing grants, know-how and contacts.

Africa Enterprise Challenge Fund (AECF)

http://www.aecfafrica.org/index.php?option=com_content&view=article&id=12

Provides match funding grants and interest free loans to businesses who wish to implement innovative, commercially viable projects in Africa, which will have a broad developmental impact on the rural poor. It focuses on agriculture, financial services, renewable energy and technologies for adapting to climate change.

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

http://www.enterprisechallengefund.org/

Provided match funding grants to support projects offering innovative solutions to address market failures and stimulate long-term inclusive pro-poor economic growth.

BMZ develoPPP.de

http://www.bmz.de/en/what_we_do/issues/wirtschaft/privatwirtschaft/ppp/develoPPP/index.html

Provides match funding grants to companies operating abroad to support projects which are in line with, and will contribute to the goals of Germany's development policy, and can demonstrate a clear development outcome. EU companies, or developing country companies with a minimum 25% European ownership, are eligible.

Compete Carribean

http://www.competecaribbean.org/
Provides technical assistance grants and investment funding to support productive development policies, business climate reforms, clustering initiatives and Small and Medium Size Enterprise (SME) development activities in the Caribbean region. It

includes components undertaking private sector impact studies and identifying constraints to PSD, as well as an Enterprise Innovation Challenge Fund which provides grant funding to entrepreneurs with innovative project ideas and to clustering initiatives i.e. a group of firms with an innovative business idea which will have direct benefits for all parties involved.

DANIDA Business Partnerships

http://um.dk/en/danida-en/activities/business/partnerships

Provides financial support for the preparation and implementation of commercially oriented partnerships between Danish companies and local partners, including companies, civil society organisations or local authorities, in order to mitigate some of the risks inherent to the pursuit of new business opportunities in developing countries. Danida Business Partnerships focuses on transfer of knowhow and technology from Danish companies to local partners. It aims to promote jobs, competitiveness and improved CSR in developing countries, and help Danish companies to engage in new markets, achieving cost savings and improved access to raw materials.

DFID's Responsible & Accountable Garment Sector Challenge Fund (RAGS)

https://www.gov.uk/responsible-and-accountable-garment-sector-challenge-fund

Provides grants on a match funding basis to companies, non-governmental organisation (NGOs) and/or trade unions that commit to demonstrating sustainable improvements in the working conditions of garment workers in countries in Asia and Sub-Saharan Africa supplying the UK market. The objective of the project is to make responsible and ethical production the norm in the garment manufacturing sector supplying the UK.

DFID Business Innovation Facility (BIF):

https://www.gov.uk/business-innovation-facility-bif

Promotes the development and uptake of inclusive business models by companies in developing countries, by providing advisory support (e.g. on business planning, value chain analysis etc.), facilitation, brokering partnerships, signposting to other sources of support, and sharing the cost of consultancy support. It also runs a practitioner hub which is aimed at facilitating knowledge flows between its members.

DFID Food Retail Industry Challenge Fund:

https://www.gov.uk/food-retail-industry-challenge-fund-frich

Aims to connect African food producers to European markets, and increase European imports of Africa food products. It provides grants to businesses to support new ideas that connect African farmers with global retailers through innovative business partnerships. It helps to remove blockages to market access and raise awareness amongst European consumers about the positive development impact of their purchases.

FinnPartnership:

http://www.finnpartnership.fi/www/en/business_partnership_support/index.php

The programme provides financial support to Finnish companies and other organisations for the planning, development and training components of projects that are aimed at establishing commercial activities in developing countries or projects that aim to increase imports of products from developing countries, and promote positive development impacts.

GIZ Center for Cooperation with the Private Sector (CCPS)

http://ccps-africa.org.winhost.wa.co.za/dnn7/

Supports corporate social responsibility (CSR) initiatives (designed to improve the socioeconomic and environmental outcomes of business activity) led by the private sector in targeted countries, builds the capacity of wider civil society to engage on CSR issues, and convenes business and other stakeholders to promote dialogue and collaboration on CSR issues. It supports concept development and functions as a neutral facilitator, bringing in technical expertise and helping to develop capacity.

IDH – The Sustainable Trade Initiative (Netherlands)

http://www.idhsustainabletrade.com/

Aims to accelerate and scale-up trade linkages with developing countries by building coalitions of companies, civil society organizations, governments and other stakeholders to promote transformation within particular markets. The prospects for a particular market are first assessed by IDH and existing barriers to development identified, and then private companies and other stakeholders are approached with a view to developing a collaborative programme to address the constraints. Match funding grants can be provided to private partners, with a view to developing innovative strategies and transformative supply chain models that address difficult social and environmental challenges.

Dutch Ministry of Foreign Affairs, PPP Facility for Sustainable Entrepreneurship and Food Security

http://sunbusinessnetwork.org/casestudy/

Provides match funding grants to support projects which encourage private sector innovation and investment to improve food security. Open to both multi-national and local businesses in 60 developing countries, and also to multi-stakeholder partnership projects. Projects may promote improvements in the investment climate, or overcome specific constraints, and must help improve food production, access to food, and / or the functioning of food markets.

Dutch Ministry for Development Cooperation, Private Sector Investment Programme (PSI)

http://english.rvo.nl/subsidies-programmes/psi

Provides match funding grants that support innovative investment projects in developing countries which involve a partnership between a local and foreign firm (not necessarily Dutch) in one of the target countries, and which are expected to result in positive development impacts and further investments after the project has ended.

Dutch Ministry of Economic Affairs, and Ministry of Foreign Affairs: The Development Cooperation Matchmaking Facility

http://www.government.nl/issues/development-cooperation/development-cooperation-matchmaking-facility

Targets developing country companies who can apply to be put in touch with Dutch businesses, in order to promote joint investments.

SIDA Innovations Against Poverty (IAP)
http://www.sida.se/English/Partners/Private-sector/Collaboration-opportunities/Challenge-Funds/Innovations-against-poverty/

A challenge fund which supports innovative, commercial business ideas that will benefit the poor, by developing and scaling-up inclusive business models. The Fund aims to help private actors to enter developing markets in a sustainable way, by providing financial support to high risk business ideas that cannot obtain funding elsewhere.

SIDA Public-Private Partnership Development Programme (PPPDP)

http://sidapublications.citat.se/interface/stream/mabstream.asp?filetype=1&orderlistmainid=3487&printfileid=3487&filex=4991971248924

Promotes a method of engagement whereby public and private sectors make a joint investment in a project implemented by a third party (e.g. a local Government ministry or NGO). SIDA provides match funding grants and expertise concerning development cooperation-related issues, but the private partner must drive the project. Larger firms are the target group. The aim is to encourage the private sector to pro-actively create business ventures that improve conditions for people in poverty, by creating new economic opportunities, and promoting the inclusion of the poor in value chains etc.

NORAD – Application-Based Support for Private Sector Actors

http://www.norad.no/en/support/private-sector-development/application-based-support

Provides grants to businesses to support feasibility studies, pilot testing, and training for local employees, in order to promote private investment and the establishment of new businesses in developing countries.

NORAD – Business Matchmaking Programme

http://www.norway.org.bd/News_and_events/Business/Bangladesh-Business-Matchmaking-Program/#.UtV6kBqYZ88

Aims to establish sustainable and profitable business ventures between Norwegian and developing country companies, and reduce poverty through increased employment and company profits. Norwegian companies are assisted in the process of identifying suitable developing country partners in target countries, funding for travel to visit the potential local partner, feasibility studies, training of local employees, and through support for investment in environmental protection.

USAID Global Development Alliance

http://idea.usaid.gov/gp/about-gda-model

A model for promoting public private partnerships which align business interests and capabilities with global development objectives to produce cost-effective, scalable and sustainable programs. The partnerships are co-designed, co-funded and co-managed between the partners so that risks, responsibilities and rewards are equally shared amongst them. There is no standard model for these partnerships, but in developing them, USAID can offer its country presence and relationships with government; technical expertise across industries and sectors; network of development partners; convening and coordinating power to catalyse, promote and facilitate the development of partnerships; funding; and credibility and goodwill.

3 Objectives, scope and modalities

3.1 Objectives

The funds reviewed for this paper aimed at promoting one or more of the following objectives:

- The development of new businesses in developing countries (e.g. Finnpartnership).
- New investments by existing businesses (e.g. the Dutch Private Sector Investment Programme).
- Partnerships between developing and developed country businesses (e.g. DANIDA Business Partnerships).
- Strengthening trade relationships and opportunities (e.g. IDH Sustainable Trade Initiative).
- The development and adoption of inclusive business models: those which create jobs for poor people, integrate local farmers and entrepreneurs in international supply chains, or provide goods and services to low-income consumers (e.g. DFID's Business Innovation Facility).
- Promoting CSR activities that will improve the socioeconomic and environmental impacts of existing business operations (e.g. GIZ Centre for Cooperation with the Private Sector).
- Innovation to tackle a specific development problem defined by the donor (e.g. the Dutch PPP Facility for Sustainable Entrepreneurship and Food Security).

The first four of these encompass more general enterprise development objectives, seeking to create private sector growth and development, trade, job creation and income generation. The final three objectives in this list focus more on influencing the type of growth generated by businesses in order to have a more focused impact on poverty alleviation - through inclusive business models or corporate social responsibility.

Promoting more inclusive business models is one way to promote enhanced development impact. This can be through the adaptation of existing business models in ways that enhance development impacts e.g. by using locally sourced products rather than imports as inputs to the production process, thus creating new sources of demand for local suppliers, or by training local staff rather than bringing employees in from abroad. Or it can be through the creation of new products which better meet the needs of poor consumers. The cost implications and commercial viability of these approaches may be initially unclear, hence the need for donor support for initial testing.

Supporting CSR initiatives is an alternative way of encouraging improved development outcomes from existing business activity. While the GIZ CCSCP is the only scheme reviewed which explicitly states its support of CSR initiatives, in practice it is likely that other CMDFFs support CSR activities by businesses. Promoting ethical business practices and good labour standards is a key part of the CSR agenda, thus DFID's RAGS initiative also fits within this category. There are many examples of business CSR activities which are undertaken in partnership with donors, though most of these are not implemented through centrally managed donor programmes specifically.

In contrast with inclusive business approaches which focus on improving the development impact of core business activities, CSR activities are considered by many to be somewhat separate from core business activities, being managed out of a separate department within the business, for reputational reasons rather than commercial ones, and thus of less potential impact than efforts to improve the development impact of core business activities.

However, GIZ's vision integrates the two more closely, noting that there is often a strong commercial business case for good practice in terms of environmental and socioeconomic outcomes, as it is a key part of a risk management strategy, helping to maintain good labour relations and a licence to operate in the host country, and to secure sustainable sources of supply of raw materials etc. Indeed, as natural resource scarcity increases over time, and the sustainability of business operations also faces increasing scrutiny, the business case for CSR is likely to grow.

3.2 Modalities

The types of assistance offered to companies through these centrally managed donor funds can be divided into three broad categories: funding, brokering partnerships, and technical assistance. However, many CMDFFs combine elements from more than one of these categories within the package they offer.

3.2.1 Funding

This can be made available for a wide range of different purposes. Many schemes provide grants to support specific investments by businesses. This is often provided as match funding, requiring an equal contribution by the private company. Some schemes specify what the funding should be used for e.g. feasibility studies or pilot testing of new products, or to pay for consultants or technical assistance. Some fund the exploratory stages of a new partnership between developed and developing country businesses, or fund the training of local employees in developing countries. Some provide funds to support reforms to the investment climate as part of a wider partnership, and some provide funding for activities by third parties, such as NGOs or local government, which will support a particular business partnership project (e.g. SIDA Public-Private Partnership Development Programme).

The rationale for funding of particular investments is not always clearly specified, and seems to vary. One possible rationale is that the private sector provides a more efficient delivery mechanism for achieving particular development goals and that by leveraging donor funding through partnership with the private sector, better value for money is being achieved. In that situation, there would be a case to provide a subsidy to business activity that will facilitate enhanced development impact and to provide this funding on an ongoing basis.

However, for most CMDFFs, the rationale is to provide seed funding to test out a new and innovative business idea, partnership or business model that will, if successful, deliver development gains as well as being commercially viable but which might otherwise be deemed too risky to try by the business itself. This may be due to market failures such as lack of information or capital market failures creating a shortage of finance. Sometimes, though, the rationale is not specified in economic terms by donors. The objective is to share the risks of these innovative projects, with the expectation that funding will not be provided on an ongoing basis. If the approach is proven to be commercially successful, it will continue to be implemented on a commercial basis, without the need for ongoing donor subsidy.

CMDFFs that provide funding to share risks

SIDA Innovations Against Poverty: The programme focuses on small companies that may have innovative ideas but do not have the resources to act upon them. SIDAs aim is to stimulate development that would not have taken place if left to the private sector alone, due to perceived initial commercial risk or uncertain market opportunities.

FinnPartnership: The programme provides financial support for the planning, development and training components of projects that are aimed at establishing commercial activities in developing countries or projects that aim to import products from developing countries. The programme aims to reduce risk by funding initial investment research that may not have been independently undertaken by companies.

DFID FRICH: The Food Retail Innovation Challenge Fund provides money to create ‘innovative’ ways to increase the amount of food exported from Africa into the EU. The fund aims to support new ideas that can help connect African farmers with global retailers as well as remove blocks to market access

Compete Caribbean: The challenge fund includes an ‘innovation’ window which provides financial support to innovative and risky business ideas. Innovative ideas need to have the potential to be commercially sustainable and positively impact livelihoods.

In order to ensure that the project is potentially commercially viable by the partner business itself, and to assess the quality of the proposal, most CMDFFs provide only match funding, whereby the private partner is expected to bear a portion of the costs itself (usually a minimum of 50%).

CDMFFs are not the only type of donor instrument available for sharing or mitigating risk. Others include loan guarantees or advance market commitments, such as those used by the GAVI alliance to promote research and development of vaccines against diseases prevalent in low income countries.

There are also some CMDFFs which provide pure grants that do not require partners to match the funds they provide. Sometimes these are provided in addition to a match funding component, perhaps for a specific activity, such as supporting market research, or scoping out the feasibility of partnership ventures.

Most CMDFFs which provide funding use a competitive application process, with one or more specific funding ‘windows’ (timeframes in which the funding applications must be submitted) and with a pre-defined maximum total budget. Selection criteria vary for each fund but usually incorporate an assessment of both the potential development impact and potential commercial viability. Some CMDFFs use a non-competitive process for allocating funding, with decisions dependent on specific eligibility criteria.

Table 1: Funding

Partnership Programme	Maximum Funding %	Maximum Funding Amount	Notes
SIDA IAP	50%	€20,000 / €200,000	The facility provides two types of grants: the first is the “small grants” facility that provides up to €20,000 whilst the second is the “large grants” facility that provides up to €200,000. The application process for the grants is competitive and grants are awarded to the best business plans that meet IAPs criteria.
SIDA PPDP	50%	Unspecified	It is expected that the majority of funding will be covered by the private sector partners. SIDA funding is meant to be additional to the business venture and have clear benefits for poor people.
BMZ DeveloPPP	50%	Unspecified	Private and public contributions need to be complementary. Funding is only available where the private sector partner would not have otherwise carried out the project.
DANIDA BPP	50%	US$ 800,000	May provide up to US$ 1,960,000 for projects in multiple countries or, exceptionally, for bigger projects.
Netherlands MFA - PPP Facility for Sustainable Entrepreneurship and Food Security	-	€10 million	The facility follows a competitive process where companies submit business ideas that will directly improve food security for the poor. Minimum funding starts at € 1 million.
Netherlands MFA – Private Sector Investment Programme	50%	€ 1,5 million	The programme acts a co-financier, providing a minimum of € 250,000
FinnPartnership	50%	€200,000 / €400,000	
ADA BPP	50%	€ 200,000	Project support is maintained for up to three years.
NORAD Matchmaking	50% / 80%		The grant provides up to 80% of project costs for

Partnership Programme	Maximum Funding %	Maximum Funding Amount	Notes
Programme			projects that deal with environmental protection.
USAID GDA	50%	Variable	The GDA uses a 1:1 leveraging system, where USAID provides 50% of funding (either in cash or in-kind) for the partnership, it is unclear what the ceiling for funding is (if any exists).
Challenge Funds			
DFID RAGS	50%	£ 250,000	RAGS operate a matching grant system where participating members need to match the grant received by the RAGS fund. Minimum funding is £50,000.
DFID AECF	50%	US$ 1,500,00	Minimum funding is US$ 250,000. Funding is provided subject to participating companies being able to produce at least 2 years of audited accounts.
DFID GEC	unspecified	£ 2,000,000	Minimum funding is £250,000. Funding is made available to the most innovative, effective and well evaluated pilot projects.
Compete Caribbean	50%	US$ 500,000	The challenge fund uses a competitive funding process which provides (non-refundable) grants to winning applicants. The fund offers a minimum of US$ 100,000. Applicant firms must be able to match (applicant firms can also contribute more than the fund's contribution). Projects are implemented by the winning firms and the challenge fund disburses grants as the project achieves pre-arranged milestones.
AusAid ECFPSEA	50%	AU $ 1.5 million	The fund follows a competitive grant allocation process that awards a minimum funding is AU$ 100,000
'Pure' Grants			
ADA Partnership Programme	-	€20,000	Help partners carry out feasability studies for partnership activities
DFID Ethiopian Competitveness Facility	-	$300,000 (maximum)	Provides a mixture of grants and matching grants i.e. the facility may provide the majority of funding for any competitveness enhancement activity but it also expects the local partner to contribute a part of the expenses.

Partnership Programme	Maximum Funding %	Maximum Funding Amount	Notes
Netherlands MFA – Matchmaking Facility	-	€5,000	A grant is made available the applicant firm in the host country in order to hire Dutch consultants to help explore and define any cooperation with Dutch companies

The inherently risky nature of this approach raises questions about how many projects must turn out to be commercially successful in order for the programme portfolio as a whole to be considered successful, and offering good value for money. If all or most projects turn out to be commercially viable, this perhaps suggests that only projects with a very high probability of success are being selected for funding. This in turn might imply that these projects or investments might have gone ahead anyway without donor funding and that insufficient risks are being taken by the fund. On the other hand, if most projects fail, or wind up after the funding is removed, this is unlikely to be providing good value for money. Getting the balance right is important, but difficult, and must be considered carefully in the design of the programme and assessment criteria applied to funding applicants.

The issue is complicated by the fact that this kind of approach is sometimes criticised as using taxpayers' money in a way that ends up contributing to business profits rather than helping the poor. Thus it is important to have in place a methodology to assess and demonstrate additionality - that the investment would not have gone ahead without donor funding – as well as its development impact.

If such funding is succeeding in its goal of helping to identify new products and business models that provide both development gains and commercial viability, it should result in replication by other businesses, and scale-up of the ideas once their viability has been demonstrated. In turn, this should yield the wider, systemic change that is often ultimately sought. However, from the evaluation studies reviewed, there is little evidence of this occurring as yet.

Different approaches to the issue of market distortion are observed within different CMDFFs. Some actively aim to improve the commercial effectiveness of their implementing partners, boosting their performance so they can compete more successfully with other market players – which arguably constitutes a market distortion. Other CMDFFs however, state specifically that implementing partners should *not gain* any competitive advantage from the partnership activities e.g. ADA's BPP, SIDA's PPDP and IAP, DFIDs BIF and BMZ's develoPPP. Thus there seem to be some disagreement, or perhaps confusion, about the issue of market distortion.

Those CMDFFs that provide funding to support specific reforms to the investment climate, to assist in the development of a wider business partnership, or that fund activities by third parties such as NGOs or local government, can perhaps be justified relatively more easily. The private sector cannot reasonably be asked to fund these kinds of activities given that the benefits derived may accrue not only to the firm itself but also to its direct competitors.

3.2.2 Partnership brokering

Some donors provide a form of matchmaking facility, or access to an international network of contacts in developing countries which can make connections between potential business partners. Some provide practical (as well as financial) assistance to support the exploratory stages of a potential business partnership (e.g. NORAD's business matchmaking programme). Some promote the transfer of know-how and technology between developed and developing country businesses (e.g. Danida Business Partnerships). Some donors take a more proactive approach to designing programmes, involving, convening and coordinating multiple stakeholders to tackle specific issues that are constraining business activity and private sector development (e.g. IDH Sustainable Trade Initiative).

The basic rationale for most matchmaking facilities is the lack of information or contacts, or the cost of obtaining information or contacts, which hampers investment in developing countries by companies in developed countries, or indeed hampers investment by developing countries enterprises seeking developed country investors or trading partners. CDMFs may be involved in the identification of sources of finance for companies and finding potential investors and partners for companies.

In some cases, donors ask developed country companies to share their knowledge and expertise by sending over technical experts or carrying out training courses for partners in developing countries. And sometimes donors link developing country companies to other stakeholders, such as research organisations, or universities, to help develop or test new products.

Sometimes donors can play a wider, coordinating role, which facilitates a more joined up approach to developing a market. For example, IDH focuses on strengthening agricultural value chains, which involve a number of actors, including private companies, government, market institutions and research institutes, and facilitates collaborating between the various players.

Within USAID's GDA initiative, partnerships are brokered partly with the aim of mobilising funds from business – to increase the scale or reach of a project – or mobilising expertise and human resources from business, to build skills in developing countries, or help implement projects.

One of the main aims of the DANIDA BPP is to improve developing country enterprise competitiveness through skills and technology transfers from Danish enterprises.

3.2.3 Technical assistance

Donors offer to provide businesses with a range of different types of assistance and know how. Some donor schemes provide technical know-how, advisory support, (e.g. on business planning, value chain analysis etc.), or access to a network of expert consultants. Some provide technical expertise to support processes of dialogue and collaboration between businesses (in addition to convening that dialogue). Some provide signposting to other sources of support, or facilitate lesson learning and knowledge sharing. Some initiatives build the capacity of wider civil society to engage effectively with business. Some donors offer their presence in developing countries and relationships with government as assets that can help to support a partnership. Some undertake awareness raising activities with consumers (e.g. about certification schemes), or lend profile, credibility and legitimacy to business activities that promote development goals.

CDMFFs might offer to provide information on the investment climate, and to diagnose any constraints. They might draw on their knowledge of the economic and cultural context, or of market institutions in developing countries, to help inform developed country businesses that may be less familiar with these contexts. They may help companies to develop and implement inclusive business models or CSR initiatives by drawing on their knowledge of development objectives and constraints.

For example, SIDA's PPDPP aims to proactively engage the private sector in order to help them commit to investing in developing countries. Programme activities include: pilot projects, technical assistance, training and capacity building, and investments in facilities, such as infrastructure, linked to a business venture.

DFID's Business Innovation Facility aims to promote the development and use of inclusive business models by companies in developing countries, and amongst other things provides consultancy services to support business planning and value chain analysis, and runs a practitioner hub aimed at facilitating knowledge flows between its member companies.

CDMFFs may also work to build capacity and improve the commercial success of developing country enterprises - where they may lack managerial expertise or entrepreneurial skills for example - in order to promote private sector development and support the creation of livelihoods.

3.3 Scope

Some CMDFFs aim to engage or support developing country companies directly, while others are aimed at encouraging or helping companies from developed countries to invest in developing countries. Many are open to companies from either developed or developing countries. Many of them specify that the activities of partner companies should be in line with the donors's development objectives in order for them to be eligible for support, though how this is assessed is not always specified.

Most schemes require companies to apply for assistance or funding, from which they select those they will support, often using a competitive process, as discussed above. However, a few, such as IDH's Sustainable Trade Initiative, and USAID's Global Development Alliance, take a more proactive role in identifying and engaging suitable businesses as partners to achieve their development objectives.

3.3.1 Sector

A few CMDFFs target a particular industry or economic sector e.g. DFID's RAGS scheme which targets the garment industry. Others specify a number of sectors that they consider to be priorities e.g. DFID's African Enterprise Challenge Fund, which supports companies involved in agriculture, agribusiness, renewable energy, adaptation to climate change and access to information and financial services. Others are open to applicants from any industry.

It seems that CMDFFs that are operated as challenge funds are more likely to have a particular sectoral focus, perhaps because they are by definition aimed at tackling a specific problem or challenge.

Table 2: Sectoral focus

CMDF	Specified Sector Focus
ADA BPP	None
AECF	None in general but the AECF has opened windows for renewable energy, climate adaptation and agribusiness.
AusAid ECFPSEA	Projects clustered in Agriculture, Renewable Energy, Financial Services and Tourism
BMZ DeveloPPP	None
Compete Caribbean	None
DANIDA BPs	Limited
DFID BIF	None
DFID RAGS	Garment Sector
DFID GEC	Education
DFID FRICH	Food production industry
Finnpartnership	None
GIZ CCPS	None
IDH	Agriculture & Tourism
NORAD BMP	Unknown
Netherlands MFA DCMF	None
UNIDO BP	Each BP focuses on a particular Sector
SIDA IAP	None
SIDA PPDP	None

In some cases, particular sectors are excluded from funding for ethical reasons e.g. SIDA's IAP does not provide money to companies in the arms, tobacco or gambling sectors and the AusAid ECFPSEA was closed to alcohol, weapons and tobacco producers.

3.3.2 Company size and experience

Donors are keen that companies have the means and resources to commit for the long term and to continue the activities after the donor exits the partnership. Some funds therefore require business partners to have a strong track record, such as several years of annual accounts that can be scrutinized (e.g. SIDA's PPPDP). Some specify that they are seeking private partners that can commit to long-term projects e.g. ADA's business partnership criteria specific that member organisations need to engage in long-term investments within their partner countries.

For similar reasons, some schemes target companies which are large enough to be able to sustain them once the donor cooperation ends. However, other CMDFFs are more willing – or indeed specifically aim – to support small firms or young firms e.g. Compete Caribbean, ADA's BPP, the Dutch PSI programme etc. Minimum and maximum investment sizes specified for matching grants also help to determine the size of company that is likely to be attracted to a particular scheme, and these vary considerably.

Some schemes support individual firms, some support the creation of partnerships between two firms, while others will support groups or clusters of firms that are collaborating to tackle a particular issue. Some support even wider partnerships and collaboration between firms and other stakeholders such as local governments, trade unions and NGOs.

3.3.3 Geography

Country eligibility also varies widely between CMDFFs, with some open to all developing countries and others only open to a limited number of countries. The rationale for this choice may be linked to a donor's particular priority countries, to where donors think they have the necessary presence or expertise to implement CMDFF related activities, or to the particular goals of the CDMFF (e.g. DFID's FRICH is targeted at countries with many poor farmers).

Table 3: Target countries

Programme	Country Coverage
ADA BPP	All developing countries (Using OECD/DAC categorisation)
AECF	Anywhere in Africa
AusAid ECFPSEA	9 countries in the South-East Asia & Pacific regions
BMZ DeveloPPP	OECD/DAC countries
BMZ Africa Facility	Cameroon, Ghana, Kenya, Mozambique, South Africa, Tunisia, Uganda and Zambia

Compete Carribean	Carribean Countries
DANIDA BPP	Bangladesh, Benin, Bhutan, Bolivia, Burkina Faso, China, Egypt, Ghana, Kenya, Mali, Mozambique, Nepal, Nicaragua, South Africa, Tanzania, Uganda, Vietnam, and Zambia.
DFID BIF	Bangladesh, India, Malawi, Nigeria and Zambia
DFID FRICH	Countries North of South Africa and South of the Sahara
FinnPartnership	OECD/DAC Countries
Netherlands MFA PPP Facility	60 middle & low income countries
Netherlands MFA PSI	Unclear but covers Africa, Asia, Latin America, Middle East and E. Europe
Netherlands MFA Matchmaking Facility	40 developing countries
NORAD BMP	India, Sri Lanka, Vietnam, Bangladesh & South Africa
SIDA PPDP	SIDA Partner Countries
SIDA IAP	SIDA Partner Countries

3.3.4 Promoting domestic business interests

A few donor schemes specifically target their own national businesses, and some have explicit goals that include the promotion of their own national business interests in addition to development goals (e.g. one of the aims of DANIDA Business Partnerships is to help Danish companies to engage in new markets, achieving cost savings and improved access to raw materials).

According to Callan & Davies (2013), even those agencies that do not explicitly aim to work with or benefit domestic businesses, tend to more commonly partner with companies that are based in their own country. This may be because they know them better, or are culturally similar, or because proximity helps to reduce communication and transactions costs, or it could be that it enhances the capacity to influence local companies and play to home strengths.

This kind of approach can help to promote political palatability in the donor country, where aid is seen to be linked to domestic economic goals. However, this approach can also be seen as distortionary and sub-optimal from an economic viewpoint. Supporting or effectively subsidising engagement with businesses from a particular developed country creates artificial incentives for partnerships with those businesses that might not otherwise be the best businesses to work with from the point of view of the developing country.

A similar argument is made against tied aid, where donor funding is made contingent on the purchase of the donor country's products or services. This is about promoting developed country *exports* to developing countries – an approach which is discouraged by the OECD Development Assistance Committee and the Paris Declaration on Aid Effectiveness, and which some countries, such as the UK, have ruled out in law. However, it is not clear that any donors are currently aiming to promote their own domestic exports through CMDFFs in quite this way.

From this point of view, some CMDFFs are seen as a way to help domestic companies compete, at the national level, for access to contracts and relationships with developing country businesses and to establish a market presence in countries in which fast growth can be expected to generate potentially lucrative new sources of demand in future. The DANIDA Business Partnerships programme comes closest to specifying these kinds of factors as a clear rationale, as mentioned above, although recent speeches in the UK also reflect this kind of sentiment[1].

[1] https://www.gov.uk/government/speeches/justine-greening-development-in-transition

4 Evaluations

The evaluation reports available for review for this section were as follows:

- AusAid ECFPSEA Independent Progress Review of 2011 and the Progress Report of 2012
- FinnPartnerships's Evaluation Report of 2012
- DFID's BIF Strategic Review 2013
- ADA BP Evaluation 2009
- NORAD Business Related Assistance Evaluation (includes its matchmaking services) of 2010
- USAID GDA Evaluation of 2008
- Netherlands PSI Evaluation 2009
- SIDA IAP Analysis (2013)

It was, therefore, possible to review evaluations for slightly more than a third of the CMDFs. Evaluations of the others proved hard to find. Four of the evaluations reviewed have been carried out externally. FinnPartnership's evaluation was carried out by KPGM and the BIF strategic review was carried out by the Springfield Centre, whilst the rest have been carried out by the donor themselves.

The limited number of available evaluations and differences in the design of CMDFFs reviewed and evaluation methods adopted make it difficult to generalise results about which approaches work better than others. However, it is possible to build up a broad picture of how evaluations of CMDFFs are being conducted.

Most of the evaluations reviewed have shown that the programmes have had positive effects. However, the question arises as to how these evaluations measure success. Three broad types of indicators can be identified:

1. First there are those that measure operational success, such as:

- The number of **applications made** (total and successful) to the programme.
- The amount of **funds disbursed** by the CMDFF.
- The **cost of running** the programme.

These types of indicators are likely to be the easiest to collect, but are not good indicators of the overall *impact* of the programme.

2. Then there are those that look at development outcomes, common indicators including:

- Number of **jobs** created by the CMDFF activities.
- Number of **poor people** which are beneficiaries from the project.
- Changes in **income** as a result of the programme.

3. The third type of indicators measure the market effects, or 'partnership' effects e.g. how much private sector activity has been leveraged, or what changes in business behaviour have been achieved. Indicators include:

- The amount of **funds contributed** by private partners
- The **commercial viability** of the projects implemented
- The **environmental** impacts of the projects

It is notoriously difficult to produce robust evaluations of donor activities which provide strong evidence of impact, causation and clear attribution to the programme in question. This is perhaps particularly challenging with regard to market related interventions, where the intervention will be affected by market dynamics and thus it is hard to establish a clear counterfactual. Few evaluations attempt to do this thoroughly, given the time and resource costs involved and many rely on anecdotal evidence gleaned from interviews with participating firms and other beneficiaries. Many evaluations are based almost entirely on self-reported project progress reports, with indicators mainly at the level of activities and outputs rather than outcomes or impacts. Assessing systemic or transformational impacts is even more difficult. This is discussed further below.

4.1 Operational success: applications, funds disbursed, costs

Most of the CMDFF evaluations give a breakdown on the number of applicants that they have received, often breaking down the types of applicants (i.e. big or small companies), the sectors that they work in and the countries that they operate in (e.g. the IAP (2013), the AusAid ECF and the BIF (2012)). Such reporting is purely informational and the evaluations do not seem to make explicit value judgements based on these factors. Instead value is assessed in terms of the total number of successful applications made to the CMDFF programmes.

The issue of high administration and management costs and limited staff capacity appears across multiple evaluation documents. It is clear that CMDFFs for business engagement require quite a high degree of management and administration for a given amount of aid disbursed, relative to other types of spending. This kind of facility is thus sometimes criticised for being an inefficient use of aid money (in contrast to the expectation that it is an effective use of aid funding because it leverages additional private funding). For example, FinnPartnership's evaluation (KPMG, 2011) highlights burdensome administration costs reducing the amount of disbursed grants, stating that costs are relatively high if compared to actual monetary support provided by the programme.

There is also sometimes a lack of capacity amongst donor staff to engage effectively with business. Where this slows things down, it can create dissatisfaction and ultimately disengagement among business partners. For example, the Finnpartnership evaluation notes that the facility is short on staff and does not employ permanent staff in the programme. This has meant that there has been a high turnaround of junior Finnpartnership staff. But a lack of donor agency staff with sufficient knowledge to engage effectively with business is a common finding more broadly. The ADA evaluation cites the outsourcing of implementation as a key reason for the success of the programme.

However, this may be at odds with integration of the programme into the donor's wider development goals. The BIF (2013) evaluation notes that: "BIF has increasingly recognised the need for a strategic focus and has started to reflect this in its country operations, responding to the need for consistency with DFID country programmes and the value of strengthened, contextually informed project identification and development." (p.1).

The 2013 BIF strategic review states that:

"BIF's monitoring and results measurement system is exhaustive and of high quality. The consistency and quality (verifiability) of raw data (including baselines) being captured, however, is weak and reliant on data provided by recipients and this undermines the efficacy of those initial results and impact data already generated. This challenge can be expected to increase with respect to long-term transformational impacts beyond individual firms which can be ill-defined and not systematically monitored and/or captured.

Significantly less emphasis has been placed on country-level business-to-business and sector-focused lessons and learning outputs that would address more directly the needs of sector/market-level audiences who, arguably, would have more immediate capacity and incentive to drive business model up-take, scale-up and wider market transformation. The prevailing BIF model can and does contribute indirectly to transformational (systemic) change but is neither designed nor equipped to target system change directly and, arguably, by not defining and tracking systemic change goals is not able to credibly attribute to itself changes to which it may have contributed." (p.2).

Thus, one of the options put forward for the future of BIF is to:

"embed BIF 2 as an instrument within a strategic, country-specific intervention framework to strengthen its systemic impact. This model would target sector and/or thematic priorities and be more closely integrated with the wider DFID country programmes. The model implies a more decentralised decision-making structure with the central function focusing on governance and specific learning outputs and exchange. In collaboration with other projects and initiatives, this model would seek to leverage a wider array of instruments and tactics to target and support firm-level innovation with the potential to stimulate transformational, systemic change. This model offers the greatest potential to leverage BIF in contributing toward lasting, systemic change and from which to generate greatest learning around the wider, systemic constraints facing pro-poor business innovation. The model implies a more decentralised management structure and enhanced level of coordination at country-level". (p.2).

4.2 Development outcomes: jobs, income, poverty

Most of the CMDFF evaluations state that they have been effective in creating jobs e.g. the NORAD evaluation (NORAD, 2010) and the AusAid ECFPSEA (both the 2011 and 2012 evaluations) find positive employment effects. How these employment improvements are measured differs. For example, the FinnPartnership evaluation relies on increases in employee numbers as reported by partner companies, whereas the AusAid evaluation (Coffey, 2012) looks at the total number of jobs created by ECFPSEA activities, and the BIF evaluation looks at both reported results and estimated future growth in employment numbers.

In the Dutch PSI evaluation (2010), indicators of development impact include: job creation, an increase in income, knowledge transfer and establishing linkages with local small and medium-sized companies, contribution to the business climate dialogue, and strengthening of the local private sector. Findings for the success of the project portfolio were as follows:

"Based on the field study, we estimate that of all projects approved and completed, 57% resulted in a lasting enterprise seven to ten years after the approval date. The surviving companies visited have seen an average increase of 31% in employment after the project completion date. The multiplier for follow-up investment varies between 0 and 20. The effects beyond the individual projects such as SME linkages, catalytic effects on the sector and the contribution to the business climate dialogue were limited." (pp. II).

Most CMDFF evaluations state that they have had a positive impact on reducing poverty. ADA's BP evaluation has stated that its value chain strengthening programme has had a strong impact on poverty reduction (but does not explain how this has occurred). The FinnPartnership evaluation states that it has reduced poverty but does not explain how this has been measured. The AusAid ECFPSEA evaluation estimates the number of poor people that it has impacted using a multiplier system. However, the NORAD evaluation (2010) states that there is no clear evidence on how its activities impact poverty due to a lack of evidence on causal linkages.

Income effects are also somewhat unclear, with most evaluations relying on information about income changes as reported by partner businesses, and with those evaluations that do discuss income effects claiming a generally positive outcome but not identifying clear causal links.

The BIF evaluation looks at the positive effects of BIF activities at the bottom of the pyramid and tries to assess the number of poor people (i.e. consumers) that are affected by its activities (Ashley, 2012). The AusAid ECFPSEA 2012 evaluation also looks at how its processes have increased access to goods and services for the poor. The ECFPSEA, BIF and IAP assessments also consider gender impacts. The evaluations again point to overall positive livelihood benefits but do not necessarily provide much detail on how these results have been measured.

4.3 Market effects: leveraging finance, commercial viability, environmental impacts

Most evaluations state that commercial viability of many projects has been positive, though the approach varies according to the evaluation systems. But in most cases no quantifiable evidence is provided demonstrating commercial success. This is perhaps because most evaluations are aggregating results. The 2009 ADA review provides a short description of commercial viability across its portfolio as a whole, rather than showing a breakdown of each project's assessment.

Finnpartnership's evaluation states that it has succeeded in reaching its goal of helping participating companies establish sustainable commercial business activities with their developing country partners, and that partners see the programme as an important and complementary instrument for new partnerships in these markets. Statements like these could be based largely on anecdotal evidence gleaned from interviews with participating firms.

Some CMDFFs measure the amount of private funding that they have leveraged. For example, the IAP evaluation (2013) states that it has provided about 30% of total funds for projects undertaken, with the private sector providing the rest.

Others question the amount of private capital that is really put at risk. The BIF evaluation (2013) notes that: 'The predominance (and nature) of in-kind cost-share arrangements obscure determination of the true level of 'risk' commitment amongst business recipients. The significant number of recipient projects that receive other donor support indicates variable motivations and willingness and/or capacity amongst some beneficiaries to invest in (and thus scale) their own projects.' (pp. 1).

Measurement and reporting on environmental outcomes seems fairly limited. BIF's reporting on environmental outcomes shows positive results but is mainly based on qualitative assessments rather than physical/quantitative measures. The 2012 AusAid ECFPSEA evaluation takes a more qualitative approach to the environmental benefits of its projects, breaking down the benefits at a project-by-project level and briefly describing what these are.

The sustainability of impacts (beyond the life of the project) is hard to assess without ongoing monitoring. However, some of the evaluations have commented on this aspect. For example, the ADA evaluation found that projects relating to supply chain development were more likely to have sustainable, ongoing impacts, than those which involved the provision of consulting services or technical assistance for a particular issue, reflecting the fact that specific, standalone interventions are by themselves unlikely to make a significant difference to generate real change in market outcomes. Multiple barriers need to be tackled in concert to have a real impact.

One issue that arose in several evaluations was the need to get the balance right in terms of assessment of development benefits, and commercial viability, of potential projects. The Dutch PSI evaluation (2010) states that the assessment of the development impact was not as rigorous as the assessment of the partners and the business plans, and that development impact could therefore be improved through improved assessment procedures.

They also note that:

"The monitoring of results relies too much on the principle of "trust", which is not appropriate when problems arise that affect the key results upon which the payments depend, such as employment and turnover targets. Here we suggest reviewing whether the targets set in the contract reflect the ambitions in the business plans and whether companies receiving subsidies should not be requested to submit an audited account for the final year of the project, so that results can be verified independently." (pp. v).

David Elliot's call (Elliot, 2013) for more rigorous evaluation of the impact of Challenge Funds has wider relevance for all centrally managed donor funds. He suggests greater clarity would be helpful in terms of setting out: the rationale of the funds and the barriers which they will address; additionality in terms of grant outcomes; and the impact of challenge fund investments on a company's future attitudes to risk and on the behaviour of other companies in the sector. These issues are summarised as follows:

- **"Rationale:** confirming that a coherent economic rationale (rather than simply relevance) exists across its many and varied challenge funds.

- **Results (output additionality):** what these actually are, both during the grant (particularly when the grant is used as a direct transactional subsidy), and beyond the grant.
- **Recurrence (behavioural additionality):** were these grants actually transformational in any way, if not, could they be, if used more programmatically, or are they simply a convenient source of one-off grant funding to those well versed in accessing grant funding."

4.4 Other lessons learned

Fragmentation across many countries and sectors also has disadvantages. The Finnpartnership evaluation noted that:

"In 2011 the programme included projects in 62 countries. In 2011 the programme was implemented in 21 sectors, which can also be considered a big number. The small average support sums combined with fragmentation reduces the administrative effectiveness of the programme. It also contributes to the difficulty of measuring the effectiveness of these activities in achieving development impacts." (pp. 5).

The Finnpartnership evaluation also noted that:

"a passive IT based matchmaking service does not provide for an efficient matchmaking process when it is operated as a separate stand-alone tool. Active marketing in the form of business seminars, promotion and use of established contact networks is needed in order to increase the efficiency of the matchmaking process."

The Finnpartnership evaluation also derived lessons in terms of the size of target firms required to maximise uptake:

"An inevitable overall conclusion to be drawn from the evaluation results is that the interest among Finnish companies towards the markets in developing countries is relatively low and the ambition level of their projects could be improved. The program should consider raising the funding percentage of bigger companies with sufficient management, know-how and administrative capacity in order to encourage them to enter the poorest countries and especially Finland's long-term partner countries." (pp. 6).

In contrast, the evaluation of the NORAD matchmaking programme suggests a greater degree of success, saying that the scheme had mobilized around 600 Norwegian SMEs to explore business cooperation and investment opportunities in the target countries.

"The implementing agencies have provided effective services, triggered by an innovative sub-contracting mechanism by Norad using performance-based remuneration." (pp. xix).

The NORAD evaluation finds that the application based support programme works well in combination with the matchmaking programme, as the programmes are mutually reinforcing. However, it states that the scheme has:

"a too liberal policy framework (allowing cases of 'corporate welfare' to occur), partly due to lack of an effective monitoring mechanism by Norad for follow-up on adherence to agreements and assessing development results." (pp. xix). They conclude they need to screen applicant firms more carefully, to ensure additionality and weed out those simply aiming to access funds for no additional effort, and to monitor impacts more carefully over time.

Similarly, the NORAD evaluation notes that a factor for success has been the provision of a comprehensive package of instruments, from exploration to loans, rather than individual interventions. They also note that:

“Organizations which are allowed to develop professionalism on its own terms with a limited mandate create value for money in PSD, while fluid administrative structures with a multitude of functions result in less value.” (pp. xxi).

The NORAD evaluation also notes a lack of systemic impacts and concludes:

“if Norwegian PSD support is to have a noticeable impact on poverty beyond local communities, it must be much stronger in creating leverage from funds and allow for scaling up.” (pp. xxi) and conclude they need to look at different implementation models such as challenge funds to see if they can help achieve wider impacts.

5 Conclusions

In place of drawing more prescriptive conclusions about business engagement donor funds and their design features, the aim of this section is to highlight some of the issues that should be weighed if the establishment or design of a centrally managed fund is under consideration.

Promoting competitiveness or inclusive business ?
The review of various donor-business partnerships has identified two main approaches: commercial enhancement (i.e. creating links, knowledge/technology transfer etc.) and more directive pro-poor business development (i.e. inclusive business models, CSR). Often, both agendas are adopted in tandem within the fund and act as guiding principles e.g. BMZ's DeveloPPP. A few funds focus on one aspect over the other: DFID's Business Innovation Facility, for example, focuses only on inclusive business practices. Promoting both inclusive business practices and commercial effectiveness are not mutually exclusive. In fact, commercial viability is central to any inclusive business. However, it is important to establish clarity on which approaches are adopted and therefore how the fund aims to achieve its objectives.

Challenge Fund or more open-ended fund ?
In terms of objectives and types of assistance provided, there is limited difference between a Challenge Fund and a more open fund or facility for business engagement. The Challenge Fund methodology, however, does provide a structured approach which has advantages in terms of transparency of procedures and criteria and the independence of the selection process. By defining the challenge to be addressed, the methodology also does provide opportunities for a clear presentation of the rationale for the fund and the barriers which the fund will address. As described, above, this level of clarity has not always been achieved in practice but there is, at least, a clear body of lessons learned and 'best practice' that has developed around Challenge Fund methodology upon which donors can easily draw.

Centralised or decentralised ?
Though this is clearly a review of centrally managed business engagement funds, the question arises as to whether such initiatives may be better managed by country offices or whether there is some form of hybrid structure which can combine the benefits of both. Centrally managed funds clearly allow for wider geographical (global) scope, more comprehensive engagement with multinational companies and can be useful in terms of focusing on export markets of developing countries (e.g. through initiatives with Western retail sectors). A number of evaluations, however, have remarked that central management can lead to dilution of impact and difficulties in mobilising management expertise relevant to the varied contexts in which companies operate. The logistical question of how to carry out effective due diligence and monitoring and evaluation on a global scale also has to be addressed. Of the CDMFs that were reviewed, two (the Dutch PSI programme and the

NORAD BMP) were clearly devolved (i.e. handled by country offices). DFID's Business Innovation Facility is centrally managed but focuses on a limited number of selected countries. In these countries, national field managers play an important role in project identification, due diligence and monitoring. One of the key findings of the BIF evaluation was the critical role of the national field managers and the extent to which the strength of these national operations determined the success or otherwise of BIF implementation on the ground. This is a clear lesson for other centrally managed funds.

Should domestic business interests be promoted ?

A large number of European business engagement funds promote linkages specifically between domestically domiciled companies and companies in developing countries. The rationale is largely to make government spending on overseas development more palatable politically to the domestic electorate and business community. On the positive side, such partnership programmes encourage investment by shouldering risks that domestic companies would not otherwise be prepared to face, especially when investing in what are seen to be new or risky markets. These partnership programmes also tend to target national small and medium enterprises which may not otherwise have the financial capacity to invest in emerging markets.

If the fund is focussing on developmental outcomes, however, targeting home companies clearly introduces a distortion that jeopardises effectiveness from an economic perspective. Such targeting creates artificial incentives for partnerships with those businesses that might not otherwise be the best businesses to work with from the point of view of the developing country. Seen purely from the perspective of developing country partners, there is little rationale or benefit from donors engaging exclusively through domestically domiciled companies.

Large or small companies?

Whilst some CMDFs are focussed on helping SMEs, the majority do not discriminate partners based on their size. Rigorous evidence on the relative effectiveness of engagement with larger or smaller companies is not available. Anecdotal evidence suggests that, in practical terms, larger companies are better equipped, in terms of staff and resources, to engage with donors (write proposals, host due diligence visits, carry out monitoring and evaluation etc.) and also much more likely to be able to make required co-investments from company resources. There are also advantages in terms of reduced transaction costs from the donor when dealing with a smaller number of large companies compared with a larger number of small companies. On other other hand, anecdotal evidence also points to problems in partnership with larger companies that can arise in terms of securing internal buy-in from senior management of the company and the time that this can take. Demonstrating the additionality of donor support may also be more difficult in partnerships with larger companies.

Decisionmaking on the size of companies that donor funds target can also coloured by more 'ideological' considerations of the relative development impact of small versus large business. This issue lies outside the scope of this report and will depend very much on perspectives of the donor organisation in question and the sectors in which engagement is sought. It is noticeable, however, from the review of centrally manged funds that, other aspects being equal, preference is usually expressed for engagment with larger scale companies.

Finance only?

Three main types of assistance provided by business engagement funds have been identified in this review: finance, technical assistance and business linkages. Development debates sometimes focus on trying to prioritise needs for finance over knowledge, skills or contacts or the necessity or otherwise of providing a combined package of support to companies. In reality, it is not possible to generalise as the needs of business will vary considerably between sectors, markets and over time. It is important, however, for donor funds to inform decision making on the types and combinations of support to be provided through careful analysis of the nature of constraints faced by businesses in the markets targeted.

Integration with wider market issues

One of the clear features of the centrally managed donor funds that have been reviewed is their focus on engagement with individual companies but difficulties in integrating these activities with efforts to address wider market issues that may constrain the companies involved: regulation and government policy; land, labour and capital market issues; markets for related services etc. This issue may be reflected in similar difficulties experienced in integrating centrally managed business engagement funds with donors' own structures for planning and delivering development programmes in country.

This issue has been identified in the review of DFID's Business Innovation Facility. It has led to an attempt to focus the next phase of the facility's activities on particular sectors in which deeper market analysis can be conducted and the range of interventions widened from a focus only on direct engagement with companies towards a wider 'making markets work for the poor' approach. Other donors will also need to consider whether business engagement activities are best contained within a specialist, centrally managed facility, or integrated in a more sector and country specific approach where direct engagement with companies forms part of a wider programme of market intervention.

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