ECF Mark II: is SEED Pacific a better Enterprise Challenge Fund?

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After an 18-month hiatus, Australia's aid program will again contain an enterprise challenge fund for the neighbourhood. Foreign minister Julie Bishop announced the 'SEED Pacific' program during the launch of DFAT's innovation hub, the innovationXchange. The SEED Pacific initiative basically aims to foster the establishment of developmentally beneficial partnerships between larger, international business enterprises and local organisations in Pacific island countries. In Bishop's own words, the initiative will,

> … work with global businesses that will show leadership and innovation in the Pacific. We will design a model that will broker and support the most promising partnerships between businesses and social enterprises, academia and civil society from across the region. These partnerships will develop business models that bring ideas, new products and new solutions to the Pacific that, while making profit, have a significant development impact.

The announcement of SEED Pacific broadly fulfils a commitment Bishop made when in opposition, which was to continue the Enterprise Challenge Fund for the Pacific and Southeast Asia (ECF-PSA), a Howard-era program which was maintained under subsequent Labor governments and expired in October 2013. It should be noted though that SEED Pacific's parentage has gone strangely unacknowledged and that the ECF-PSA concept has undergone a sea change, potentially for the better.

With funding of $20 million over the three years to mid-2018, not including overheads, SEED Pacific is well over double the size of the ECF-PSA. The latter spent about $20 million over six years, including sizeable overheads. Moreover, SEED Pacific's geographic scope is more circumscribed and, unlike the ECF-PSA, it eschews a standalone local SME development objective and will confine its attention to pairing medium-sized and large businesses with local partners for mutual benefit.

In general terms, SEED Pacific's approach has much to recommend it, and is in line with a view that Devpolicy put last year, namely that enterprise challenge funds need to be very clear about their basic purpose. Either they seek to promote local enterprise development, or they seek to enhance the development impact of established, mostly multinational business operations. Obviously, doing the latter often helps to do the former, but these two objectives are very different and require different approaches and instruments.

The ECF-PSA tried to pursue both of the above objectives at the same time. It devoted most of its money and effort to local enterprise development but in the end was only judged to have delivered a positive return on investment across its whole portfolio thanks to a single investment in an ANZ Banking Corporation mobile money initiative in Cambodia (which, despite its success, came to be perceived as inconsistent with ANZ's business strategy and was sold off). One would expect in most cases that the development impact of a single successful engagement with a multinational corporation would exceed that of multiple successful SME development activities. SEED Pacific's focus on larger businesses, therefore, is welcome.

Also welcome is the fact that SEED Pacific constitutes, in one geographic area at least, a framework for dealing with business in the aid program. Provided it operates with a reasonable degree of transparency and contestability, it represents a better approach than the alternative critiqued here, under which the government enters serially into vaguely specified partnerships with individual firms.

However, SEED Pacific as currently conceived is quite a muddle. Granted the program has not yet been designed, and all we have to go on is a quite brief and breathy Request for Tender document (which refers to the initiative under the superseded title, the 'Pacific Innovation Initiative'). There is fortunately a good deal of time—DFAT is allowing six months for the detailed design of the initiative to be 'co-created' through consultation between an initiative managing agent and a DFAT internal working group—for the ideas underlying the initiative to be sharpened up, and also for its design and implementation arrangements to be streamlined.

On the ideas front, there are several problems.

- **Innovation**. The emphasis on innovation throughout the description of the initiative is overdone and unneeded. The objective is to induce large businesses to do things that they are not doing, such as local purchasing, value-adding or simply supplying something cheap and useful, with consequent development benefits. Those things need not involve innovation, and most often will not. The RFT is full of language that is more appropriate for a program of public support for high-tech start-ups: 'creative business solutions', 'test, learn and evolve', 'incubation', 'acceleration'—and also 'failures will hold valuable learning'.
- **Grant-making**. At one point, the RFT says, 'big business-led growth that contributes to reducing poverty does not happen of its own accord'. In other words, without government interventions like this you might get growth but you won't get poverty reduction—an odd thought from a conservative government, and a false one. Consistent with this odd thought, the emphasis on grant-making processes in the description of the program, and in the specification of the role of its managing contractor, is both overwhelming and unexplained. In order to induce big businesses to operate in more 'inclusive' ways, aid donors need much more than financial instruments, and indeed do not always need to provide funding at all. Where donors do provide funding, it's obviously not because the firm lacks or can't find money. Rather, the funding compensates for missing public goods that inhibit local employment or consumption, or helps local suppliers of business inputs position themselves with respect to the firm's supply chain. This makes it rather easier for the firm to contemplate moving to a more inclusive and perhaps marginally less profitable business model. A fund that passively allocates grants to big business on the basis of a mechanical matching formula, with no clear rationale and no direct engagement with local partners, does not have a bright future.
- **Amnesia**. At no point in the announcement of SEED Pacific or in the RFT documentation is there a single reference to the prior experience of the ECF-PSA, which has the distinction of being the most fully and transparently evaluated of the various enterprise challenge funds that have operated in recent years. Nor is there any reference to the existence of a UK fund with closely related aims, the Food Retail Industry Challenge Fund. SEED Pacific is presented as 'a new venture for DFAT', developed in response to the motto that 'the world has changed—and our aid program must change

too'. It is in fact a species of enterprise challenge fund, if not so labelled, and it represents the second try at designing such a mechanism on Australia's part, so DFAT had better learn from earlier and parallel experiences. The fact that the ECF-PSA was explicitly labelled as a pilot makes it all the more disappointing and mystifying that it should be so comprehensively ignored by its successor.

- **Payment by results**. The RFT documentation contains several entirely unmotivated and inexplicable references to 'payment by results' approaches. Payment by results might make sense in the context of output-based contracting arrangements and, more controversially, as a potentially efficient way of funding governments for the provision of social or environmental services. It makes no sense if one's intention is to nudge firms into changing their business models in ways that create or increase benefits to poor suppliers, employees or customers. If money is required, it should be provided in straight grant form with a minimum of complexity.
- **Business size**. There is some equivocation about what constitutes a 'bigger business' for the purposes of the initiative. Local SMES are explicitly ruled out. However, medium-sized businesses are in, and it is not a strict requirement that they already be active in the Pacific. This creates a large risk that SEED Pacific is swamped with, and over-allocates resources to, funding requests from quite small Australian firms wanting to undertake feasibility studies with a view to doing something in a region where they have no current toehold.
- **Nationality**. The RFT documentation is entirely silent on the question of the nationality of eligible firms ('eligibility criteria … will be set in the co-creation phase'). Australia's aid program, as was reaffirmed in July 2014 by the government, is not tied with respect to procurement. Yet the three ad hoc partnerships into which DFAT has so far entered are with Australian firms (Carnival Cruises, ANZ and Westpac), and it could be that the intention is to deal only with Australian firms under SEED Pacific. It does make sense for the Australian government to relate primarily to firms headquartered in Australia and our immediate neighbourhood, and let other donors do the same with their own firms, but the participation of firms headquartered elsewhere should not be ruled out *de facto* if it might benefit the Pacific.

If any one of the above points is of over-riding importance, it is the one about grant-making. The ECF-PSA only made two grants to big businesses, one to ANZ and one to Carnival Cruises. These were comparatively small grants and they tended to be obscured by the larger number of activities that were pitched more at the level of village enterprises. (In her past praise of the ECF-PSA, Bishop focused on activities of the latter type.) Nevertheless, these grants to businesses did attract some critical scrutiny from parliamentarians and others, who wondered what need these companies had for aid money.

In the case of SEED Pacific, possibly every grant will be of this nature—a grant to a big or biggish business—and will certainly be substantially larger on average than those provided under the ECF-PSA. Given this, it will be very important for DFAT, and Bishop, to be able to communicate a clear rationale for the provision of grants. Approximately, that rationale is that the grants ultimately benefit those who engage with a firm, by readying them to participate in its supply chain (as consumers, workers, suppliers or distributors) and thus making it easier for the firm to alter its business model to include them. The firm might or might not be the fund-holder—that is a practical choice—but it should not be cast as the beneficiary.

There are also one or two problems on the SEED Pacific design and implementation front.

- **Crowding**. The number of actors involved in the design and implementation of the initiative is mind-boggling. DFAT will first select an initiative manager, who is required at the outset to nominate a number of consortium partners (it is unclear why). These three to four parties (who, by the way, are required to articulate a 'mutual infection strategy') will 'co-create' the design with a DFAT working group of unknown size. The design will be appraised by an independent evaluation manager who, as with the ECF-PSA, will lurk in the background for the life of the initiative. The design will then be put to DFAT (who co-created it) for approval. In the implementation phase, the DFAT working group presumably disappears but is replaced by a 'committee of experts from inside and outside DFAT' to 'select the best ideas' for incubation and scaling up. There is quite wonderful scope here for fuzzy accountabilities, confusion and disagreement about objectives and methods, and lowest-common-denominator outcomes.

- **Red tape**. This initiative exists to work with private sector partners who will often be fast-moving, sceptical or undecided about the merits of changing their business models. Yet the initiative manager will be required to ‘develop application forms, guidelines and processes to receive and assess applications which are likely to include Value for Money assessments, economic assessments, environmental and social assessments, sustainability assessments and endorsement from the appropriate partner governments’. In addition, all ‘business solutions’ will be required to have ‘a logframe or results framework’ and ‘robust monitoring and evaluation plans to collect systematic baseline data and to consistently monitor progress’. Things will need to get a lot simpler than this. The initiative and the initiative manager have to remove, not create, disincentives for business participation.

In sum, the numerous concepts and processes currently adorning and obscuring the core of SEED Pacific could do with a drastic rationalisation, but the basic idea is good. Let’s hope the basic idea prevails in the final design.

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