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BLCF: Assessing Achievements and Future Directions

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This document has been prepared by Deloitte Emerging Markets (www.deloitte.com/emergingmarkets) for the Department for International Development (DFID). The views expressed in this report are those of the Consultants and are not necessarily those of DFID. For further information contact Jack Newnham, jnewnham@deloitte.co.uk, Tel (020) 7303 0363 Fax (020) 7303 3125.

Executive Summary

1 The Business Linkages Challenge Fund (BLCF) was designed by DFID to engage with the private sector to accelerate growth and poverty reduction in developing countries. The BLCF recognises the role of the private sector to achieve the Millennium Development Goals (MDGs) and supports partnerships - “business linkages” – that are of commercial interest to the companies involved and contribute to DFID’s poverty reduction objectives. Launched in 2001, the BLCF has allocated grants totalling £11.5 million to 40 business linkage projects, 78% of the total BLCF fund of £14.7 million. Business in BLCF target countries apply for cost sharing grants between £50,000 and £1 million on a competitive basis. The diverse portfolio of projects supported to date leverages £24.2 million in private sector resources against the £11.5 million in grants committed, a ratio of 2.1:1. With Round 7 in progress and a concept note deadline for the final Round 8 in October 2004, BLCF funds are on track to be fully committed on schedule by February 2005.

2 The BLCF has been successful in meeting its expected outputs to date, although it is still relatively early days in terms of the outcomes of individual BLCF supported projects. The 6 application cycles so far have successfully identified and supported a diverse range of linkage projects that leverage significant additional private sector resources into areas of importance to DFID, and have the potential to deliver market development outcomes that have significant impacts on poverty reduction. Principal lessons at this stage focus on the process of engaging with and supporting the private sector, and coincide with the experience of the Financial Deepening Challenge Fund (FDCF), that the BLCF has had to evolve from the original “laissez faire” conception of a classic challenge fund approach in order to be an effective tool for DFID to influence and support private sector initiatives.

3 While there are many ways of analysing the projects supported by the BLCF, in all cases the BLCF helps the private sector overcome some of the initial risk associated with linkage projects by sharing some up front costs through the provision of cost sharing grants. A broad division has emerged between those projects where there is a relatively quick, predictable or direct payback for the private sector for the investments made, and projects that provide the private sector with longer term, less predictable or less direct returns. The former category tends to include projects led by smaller entrepreneurial businesses that are more directly managed, and the latter category tends to include projects with large corporate partners that often include third party support during implementation, although this is not always the case. The potential for broader market development for the former category tends to be through innovation and demonstration effects, while there is often great potential for internal replication with projects in the latter category.

4 The range of projects and partners supported through the BLCF offers a laboratory of experience to inform DFID as to what mechanisms are most appropriate for different types of engagement with the private sector. There are strong arguments for retaining a multi-country approach – scale offers a range of advantages - particularly when looking to engage larger organisations that operate across borders. There are also opportunities for country programmes to tap into central initiatives, which may be more effective than establishing single country programmes. Competition, a key element of the challenge fund approach, is an effective method of allocating grants to the private sector, but can be applied in various ways, and does not mean “hands-off” management provided there is separation between the fund managers and decision makers.

1. Overview of the BLCF

1.1. The BLCF and DFID's Policy Objectives

5 The BLCF is one of two major private sector challenge funds financed by DFID¹ that respond to the urgent need for development agencies to work with the private sector to mobilise the resources necessary to achieve the Millennium Development Goals (MDGs). The BLCF seeks to harness the commercial drivers of the private sector by supporting demand led initiatives from “for-profit” companies that deliver growth and make markets work better for the poor. The BLCF does not attempt to address issues of access to finance, which often constrain the development of small and medium sized enterprises (SMEs) in developing countries². Rather, the BLCF provides cost sharing grants that promote commercial or ‘business linkages’ within the private sector that help overcome some of the initial risk that would otherwise stop or slow down investment by the private sector in areas of relevance to the poor.

6 The programme falls within DFID Growth Hub, in the Investment, Competition and Business Development Services (BDS) Team. The approach of the BLCF is aligned with the market development approach to BDS, with business services and technology transfer provided on a practical level “at the coal face” through direct commercial relationships. This is sometimes referred to as bundled BDS delivered through the supply chain.

7 Linkage projects supported through the BLCF should lead to outcomes for private sector promoters that include:

- Increased sales.
- Penetration of new markets.
- Higher profitability.
- Enhanced efficiency.
- Compliance with quality standards.
- Employment generated for poor individuals.
- Purchase of micro-enterprise products.
- Production of products or services consumed by the poor.

1.2. BLCF Criteria and Management Approach

8 The BLCF is a new mechanism for development agencies to engage with the private sector to support poverty reduction, and the Fund Managers have implemented the project in line, as far as possible, with the initial design. However, our management approach has evolved, mainly as regards the level of front end engagement with applicants, in order to maximise impact while staying broadly true to the fund's original conception (demand led, competitive, easy for the private sector to access). The four key criteria are that BLCF projects:

¹ The other main DFID private sector challenge fund is the Financial Deepening Challenge Fund (FDCF). The Tourism Challenge Fund, that was initially managed within DFID then contracted out to Deloitte Emerging Markets, is now incorporated into the BLCF. DFID also finances the Civil Society Challenge Fund, although this does not target the private sector and has other significant differences.

² The FDCF seeks to support financial institutions to develop new products, services and delivery mechanisms that increase access to financial services for SMEs and poor individuals

- Involve partnership between two or more private sector enterprises where all invest and all share in rewards.
- Improve efficiency of participating enterprises leading to increased profitability and employment.
- Support the livelihoods of the poor.
- Minimise negative impact on competing businesses, and where possible, improve the impact on the environment and ethical codes of practice.

9 Our approach has been to minimise the transaction costs for the private sector of engaging with the BLCF, keeping the application process simple and accessible, while seeking to limit the amount of time spent by the private sector on uncompetitive applications. Our message to the market has evolved into three themes that summarise the qualities of competitive projects. Firstly, linkage projects must be commercially viable as they must be sustained through commercial returns. Secondly, there must be a reasonable likelihood of broader market development arising from the linkage project³. Finally, the project, and/or the broader market development that arises as a result of the project, needs to have a positive impact, directly or indirectly, on the poor.

10 Competition allows the BLCF Assessment Panel⁴ to focus on these three issues, and balance how they interact. Identifying good projects to support is an art not a science, and the Panel's role as decision makers, independent of the fund managers, is a key element of the process. The BLCF criteria are relatively simple, but weighing up competing applications is often a challenge. While the objectives of the BLCF are relatively broad, the linkage criteria still represents a box that private sector initiatives do or do not fit into. The BLCF management approach has been to remain focused on supporting linkage projects within the private sector that support the development of long term commercial relationships.

11 Implementation involves a number of balancing acts, which get to the heart of the subtleties of the BLCF process. Balances that need to be struck include balances between:

- a hands off demand driven approach, vs. assisting applicants to think through their ideas and areas of opportunity;
- providing detailed feedback at the concept note stage to guide full applications, vs. allowing the private sector to drive the agenda;
- supporting projects with strong applicants capable of effective implementation, vs. supporting projects with weaker partners that are more in need of help;
- supporting projects that achieve high leverage, vs. supporting projects that clearly need BLCF resources to progress;
- supporting projects that appear to be more driven by CSR, vs. supporting projects that involve a CSR component to gain initial momentum, but are essentially commercial in nature; and
- Providing too much feedback to unsuccessful applicants, vs. getting bogged down in reasons for negative decisions.

³ e.g. Growing the market directly, a demonstration effect so that others follow, the potential for linkage partners to replicate in other locations, spin offs in terms of the development of input or aligned markets, or positive impacts on the enabling environment that benefit more than just the linkage project partners

⁴ The BLCF Assessment Panel are independent from the Fund Managers and judge the competition, identifying which concepts should go to full application stage and which projects should be funded. Appendix 2 sets out the BLCF grant making process in more detail.

1.3. Marketing and Support to Applicants

12 The typical challenge fund approach is “hands off”, putting the information in the public domain and widely publicising the availability of grant support. Provided the criteria are clearly defined and straightforward, the theory is the private sector then responds with competitive projects, and the task is to identify those projects most worthy of support.

13 While this classic challenge fund approach works well in more developed countries, with more sophisticated applicants, the ‘hands-off’ approach does not work so well in developing countries. While the BLCF criteria are clear and simple, the objectives of market development and achieving the greatest pro poor leverage are arguably more complex than the objectives of inner city regeneration, which has been a key application of challenge funds in the UK.

14 From an early stage, a more proactive approach to marketing and guidance to bidders than was envisaged in the original design has proved necessary. This includes greater use of targeted marketing and relatively intensive engagement with bidders during the development of their ideas, prior to the submission of concept notes.

15 Early rounds of the BLCF elicited lots of interest from the private sector, but the quality of concepts was disappointing. Many applicants recognised the BLCF as a source of grant assistance, and submitted concepts that would benefit from such support. However, only a small proportion of applicants suggested essentially commercial projects, but in need of some sharing of initial investments.

16 Following limited responses from larger companies in the first round of the BLCF, it was agreed with DFID that the upper limit on grant size should be raised from £250,000 to £1 million. There was also a shift in country focus. The first round targeted companies in Southern Africa, which was expanded to Southern and Central Africa in round 2. The planned roll out to East Africa and South Asia in was replaced by roll out to 9 countries in the Caribbean. However, it was agreed with DFID that there would be a degree of flexibility in the BLCF country eligibility criteria, so that provided ‘one leg’ of a linkage is within a BLCF target country, which includes the UK, the project can be considered for support. As such the BLCF is currently supporting projects in India, Pakistan, Tanzania, Algeria and the Gambia, through links to the UK or other BLCF target countries.

17 In November 2001 DFID reviewed the early progress of the BLCF and its sister fund, the FDCF, at a workshop hosted by Deloitte in Johannesburg. It was concluded that the BLCF was meeting many of its early objectives, but that projects that had a broad impact on the enabling environment for business were not featuring in the pipeline. It was concluded that a separate window for the BLCF to elicit such projects should be developed.

1.4. Enabling Environment Window

18 The policy environment as it impacts on the private sector is a central aspect of DFID’s work, and harnessing private sector initiatives that are likely to impact on the policy environment is rightly an objective of the BLCF. Indeed, evolving the BLCF, explored in Section 4, could involve a mechanism exclusively focused on private sector led projects that impact on laws and regulation, or compliance with laws and regulation.

19 Early experience suggested that individual private sector firms are less willing to invest in projects that have a broader impact on the business environment, as the benefits extend to their competitors due to the public good element within such initiatives. Expecting private companies to pay a minimum of 50% of the costs of Enabling Environment projects was recognised as unrealistic, and a new Enabling Environment window for the BLCF was piloted in Southern Africa in Round 5 in early 2003 with a minimum of just 10% of projects costs financed by the applicants. Eligibility criteria for the BLCF Enabling Environment window are set out in Appendix 4.

1.5. Connecting to DFID Country Programmes

20 The BLCF is a central Policy Division programme that supports projects that are implemented in countries that are the responsibility of DFID country or regional programmes. As such the BLCF application process needs to link with DFID country offices and policy advisers, and suitable mechanisms applied to keep DFID locally aware of project implementation and lessons learnt.

21 The involvement of local DFID advisors in the application process is handled by formally passing all competitive concept notes through the local DFID office on a no-objections basis, to make sure, as a minimum, that the BLCF does not support projects that the relevant DFID advisers object to. Levels of engagement beyond this vary, with, for example, a very close working relationship between the BLCF regional manager in Southern Africa, and the DFID private sector development advisor for South Africa, who also has an Africa-wide remit. Particularly with enabling environment applications, 'front-end' coordination to agree marketing strategies and specific targets has been strong.

2. BLCF Outcomes and Achievements

2.1. Characteristics of the Portfolio

22 The BLCF has made grant awards to 43 projects, leveraging £24.2 million in private sector investments for the £11.5 million in grants awarded, a leverage ratio of 2.1:1. Of the 43 awards made to date, 3 projects were cancelled before project start up, leaving 40 funded projects. Total funds available for commitment are £14.7 million. With £11.5 million (78%) of the total awarded in the six bidding rounds to date, a balance of £3.2 million (22%) remains to be committed in Rounds 7 and 8. Table 1 set out the funding patterns by bidding round.

Table 1: Funding Patterns to Date by Application Round

Bidding Round	Full Applications/Projects			BLCF Grant Awarded		Total Value of Projects	
	Submitted	Funded	Ratio	Value (£)	Percent	Value (£)	Percent
1	6	3	50%	380,000	3%	1,283,500	4%
2	9	5	56%	1,657,510	11%	4,359,582	12%
3	13	9	69%	2,329,709	16%	6,865,127	19%
4	9	6	67%	1,648,612	11%	8,499,659	24%
5	13	8	62%	2,532,164	17%	6,114,288	17%
6	11	9	82%	2,918,870	20%	8,561,046	24%
Subtotal	61	40	66%	11,466,865	78%	35,678,177	100%
To be allocated in Rounds 7 and 8				3,239,860	22%		
Total grant available				14,706,725	100%		

23 The 40 projects funded to date were identified from more than 600 concept notes submitted in the first six bidding rounds and well over 1,000 enquiries received. In the two stage application process, the 600 plus concept notes were reduced to 61 full applications, achieving an overall ratio of full applications submitted to projects funded of 66%. This ratio has increased over the life of the programme, with conversion rates between 50% and 60% in rounds 1 and 2, between 60% and 70% in rounds 3, 4 and 5, and over 80% in round 6.

24 BLCF management costs represent approximately 16% of total grants and 5% of the total projected value of projects (assuming the same ratio of BLCF grant to private sector contribution for the remaining grants as has been achieved to date). Allowing for approximately £0.5 million in additional management charges to cover monitoring and supervision beyond 2005, these figures become approximately 19% and 6% respectively.

25 The BLCF is targeted on 9 countries in Southern Africa, 9 in the Caribbean, Rwanda and the UK. Projects have been supported in all BLCF target countries except Swaziland, Lesotho, Zimbabwe, Namibia, Dominica, Grenada and St Vincent. However, the eligibility criteria work such that provided one leg of the linkage falls within a BLCF priority country, the linkage becomes eligible. As such, there is some flexibility for the BLCF to be opportunistic in funding good linkage projects that are implemented outside BLCF target countries. The BLCF currently supports projects implemented in the Gambia, Tanzania, Algeria, India and Bangladesh, as well as projects in BLCF target counties. Table 2 sets out funding patterns by region/country.

Table 2: Funding Patterns to Date by Region/Country

Region/Country	Projects	BLCF Grant Awarded		Total Value of Projects		
		Value (£)	Percent	Value (£)	Percent	
Africa						
Southern Africa						
Botswana	2	307,540	3%	781,203	2%	
Malawi	1	295,000	3%	1,614,000	5%	
Mozambique	2	297,389	3%	753,394	2%	
South Africa	14	3,421,560	30%	15,159,941	42%	
Zambia	1	88,400	1%	326,700	1%	
Subtotal Southern Africa	20	4,409,889	38%	18,635,238	52%	
Africa - other						
Rwanda	2	880,130	8%	1,710,391	5%	
Tanzania	1	243,700	2%	336,567	1%	
Gambia	1	196,800	2%	423,460	1%	
Algeria	1	491,496	4%	1,212,936	3%	
Subtotal Africa – other	5	1,812,126	16%	4,123,354	12%	
Pan Africa	4	1,013,885	9%	1,175,350	3%	
Total Africa	29	7,235,900	63%	23,493,942	67%	
Caribbean						
Belize	1	225,000	2%	504,000	1%	
Dominican Republic	1	189,000	2%	558,500	2%	
Guyana	1	80,000	1%	196,204	1%	
Haiti	1	225,000	2%	683,855	2%	
Jamaica	2	710,000	6%	2,262,000	7%	
St Lucia	2	407,800	4%	1,376,770	4%	
Total Caribbean	8	1,836,800	16%	5,581,329	16%	
Asia						
India	2	1,944,165	17%	4,869,906	14%	
India/Bangladesh	1	450,000	4%	1,293,000	4%	
Total Asia	3	2,394,165	21%	6,162,906	17%	
Grand Total	40	11,466,865	100%	35,678,177	100%	

26 The most striking aspect of the geographic analysis is the relative success of Africa as compared to the Caribbean. Of the 34 projects located in BLCF target countries, 26 are in Africa (20 in southern Africa, 2 in Rwanda and 4 Pan African) as compared in 8 in the Caribbean. The remaining 6 projects include 3 in countries in Africa that are not BLCF target countries, and 3 in India and Bangladesh.

27 South Africa has been particularly successful, with 14 projects, 30% of the BLCF grants committed to date and 45% of projects by value. The leverage of private sector investments is high in South Africa, at 3.5 times BLCF grant. For southern Africa this reduces to 3.2 times and reduces further to 2.2 times for Africa as a whole. Leverage of private sector investments in the Caribbean is 2.0, and for Asia is 1.6. Lower leverage in Asia is more a function of sectoral focus than location.

28 The BLCF has funded a diverse portfolio of projects to date, from lead bidders covering a wide range of sizes and relative sophistication, and adopting a wide variety of types of partnership arrangements. There are many useful ways of analysing the portfolio by developing indicators, often qualitative, which help describe the qualities of projects and partnerships. These are initially completed based on project design, but reviewed during implementation and on project completion, to assess the degree to which the qualities of projects and partnerships described in initial applications match actual outcomes. For this report we restrict ourselves to the

sectoral analysis set out in Table 3, but other approaches to analysis are explored in Appendix 3.

Table 3: Funding Patterns to Date by Sector

Sector	Number	BLCF Grant Awarded		Total Value of Projects	
		Value (£)	Percent	Value (£)	Percent
Agriculture	16	2,936,275	26%	8,887,104	25%
Education	1	350,000	3%	998,000	3%
Healthcare & Pharma.	6	3,352,465	29%	13,458,061	38%
Manufacturing	3	827,996	7%	2,574,436	7%
Mining	1	450,000	4%	1,800,000	5%
Tourism	6	1,572,652	14%	3,302,304	9%
Power	1	137,200	1%	275,737	1%
Other ⁵	6	1,840,277	16%	4,382,535	12%
Total	43	11,471,890	100%	35,683,202	100%

29 Table 3 indicates that projects in agriculture, healthcare and pharmaceuticals, and tourism make up almost three quarters of the BLCF portfolio by value of grant, and allows comparison of leverage and average project size across sectors. Within these three key sectors, agriculture projects have the smallest average grant size, and healthcare and pharmaceuticals the largest. Agriculture projects achieve average leverage of BLCF grant to private sector resources, as compared to the BLCF portfolio as a whole, while healthcare and pharmaceutical projects achieve higher than average leverage, and tourism projects lower than average leverage (in the case of tourism projects average leverage is only just over the 1:1 minimum).

30 Finally, more than 90% of projects in the BLCF portfolio bring new private sector partners to DFID and the development community, and more than 60% of projects involve linkages where all key partners are new to DFID and the development community.

2.2. Performance of the Portfolio

31 While 78% of the total BLCF grant fund has been committed to date, so far only three projects have come to completion, and the majority of projects already supported will come to completion between 2005 and 2007. Projects that will be supported in the final two bidding rounds are likely to complete in 2007 or later. As such only tentative conclusions can be drawn as to the performance of the portfolio and impact of funded projects. Table 4 sets out the maturity profile of projects already funded. This paper does not include detailed descriptions of each project. The BLCF web-site accessed through www.challengefunds.org provides details of all projects within the portfolio and comments on the progress to date for individual projects.

⁵ The six projects in the category 'other' includes grants of £841,785 to three of the four enabling environment projects referred to in Section 2.3, two project that span mining, manufacturing, agriculture and tourism, and one municipal waste recycling project.

Table 4: Maturity Profile of BLCF Project Funded to Date

Status of Project	Number	BLCF Grant Awarded		Total Value of Projects	
		Value (£)	Percent	Value (£)	Percent
<i>Cancelled projects</i>	3	5,025	0%	5,025	0%
Already complete	3	380,000	3%	1,283,500	4%
Due for completion in 2004	2	380,900	3%	1,052,304	3%
Due for completion in 2005	10	3,185,559	28%	8,310,546	27%
Due for completion in 2006	13	3,437,724	30%	8,650,385	24%
Due for completion in 2007	12	4,082,682	36%	16,381,442	46%
Total	43	11,471,890	100%	35,683,202	100%

32 Overall projects are being implemented broadly as planned and the decision making process has proved reasonably effective in supporting promoters who have the necessary capacity to implement projects effectively. Three projects have been cancelled before start up, due to bidders being unable to meet conditions for funding set out by the Panel, and one project terminated early by mutual agreement.

33 Monitoring and evaluation is currently focused on budget tracking and monitoring project activities, with an increasing emphasis on project impact as projects mature. The BLCF has begun a programme of case studies, with a standard case study template applied to 11 funded projects to date. In addition, each grantee sets out impact indicators in their initial application which they report against annually and one year after project completion. These indicators have been grouped against the three themes for the BLCF (see Section 1.2) so that the impact of all projects in the portfolio can be measured against these broad objectives. The first theme, commercial sustainability, is the starting point for assessing project performance (if the business fails, impact will generally be limited) and can often be assessed based on relatively simple quantitative indicators. The second theme, the degree to which the project stimulates broader market development, requires a range of usually qualitative indicators and is often harder to assess. The third theme, the extent to which the project directly or indirectly impacts on poverty reduction, involves a combination of quantitative and qualitative indicators and presents the greatest evaluation challenge. While there are qualitative indicators that can be used to assess the direct impact of a commercially sustainable project on poor people, the indirect effects from the linkage itself, and the indirect effects from the broader market development that results, are very hard quantify to attribute. However, there is emerging work in the area of links between business growth and poverty reduction⁶ which will inform our methods of measuring performance.

34 There many interesting ways to analyse the BLCF portfolio that include classification according to the qualities of individual project and partnership structures. Some projects are relatively direct commercial partnerships between two private companies, while others involve diverse partnership arrangements including short term consultancy input, NGO involvement, government support, or links, directly or indirectly, to large numbers of poor stakeholders. Similarly, some projects are directly linked to the core businesses of participating enterprises, and if successful translate directly into commercially sustainable projects for the promoters, while other projects are not so directly linked to the core business of the participating enterprises, and may need to successfully transition from a subsidised project to a regular part of their commercial business.

⁶ Emerging Markets Economics recently published a draft discussion paper for DFID 'Measuring the Impact of Business Growth on Poverty' and have completed several case studies which will inform our approach to assessing poverty impact.

2.3. Enabling Environment Window

35 Since the introduction of the Enabling Environment window of the BLCF (see Section 1.4) four projects have been supported in this area. Total BLCF grant applied to these four projects is £1,013,885, with bidders' contributions of £161,485, a ratio of 0.16:1, slightly over the minimum 10% bidders' contribution for enabling environment projects. The introduction of the Enabling Environment window in Round 5 has reduced the average leverage of BLCF grants in Rounds 5 and 6, and to some extent masks the increasing leverage of private sector funding by bidding round.

36 The four Enabling Environment projects funded to date include two in the area of regulatory best practice and regulatory impact assessment, directly in line with the objective of simplifying regulation set out in the BLCF logical framework. The third project, a private sector led initiative highlighting the causes and results of corruption, addresses some similar areas, and the forth project deals specifically with regulatory issues in the honey sector, building capacity to comply with existing regulation.

37 In addition to the projects that specifically support the Enabling Environment for businesses, there are other projects that impact on this area, even though this may not be the central focus of the project. For example, a BLCF funded project in Tanzania which supports a group of multinational and large domestic companies to work collectively to increase local content in their supply chains, includes a quarterly steering committee where the chief executives of the participating companies meet to review progress. This has resulted in a group of high profile influential business leaders in Tanzania with a much improved understanding of the issues that face SMEs, who have become effective advocates for the SME sector with government. Developing such understanding within larger businesses of issues that constrain SME development is an important part of the partnership approach applied by the BLCF. In the current bidding round 7 we are seeing applications come through the main window of the BLCF with more than 50% funding from the private sector, that target the enabling environment for business in specific sectors (e.g. textiles in Vietnam). These are the sort of projects envisaged by DFID when the BLCF was first designed, that do not require a lower threshold for bidders' contributions and involve significant investments on the part of the private sector, but that are only now coming through the BLCF pipeline.

3. How Does the BLCF Approach Help DFID?

3.1. Engaging the Private Sector

38 The focus of this paper is how the experience of the BLCF to date informs DFID on effective ways to work with the private sector, rather than how the challenge fund approach can be applied as a development tool. There are other ways for donors to engage with the private sector, and challenge fund approaches can be applied by donors to support non-private sector partners⁷. Experience from the BLCF suggests that challenge fund approaches can offer flexible ways of working with the private sector in its various forms, and can be applied to help overcome a variety of constraints to private sector development. In the context of the BLCF, the target market is broad, but the scope of projects is focused on support to commercial linkages, making the BLCF a relatively specific source of funding. However, learning from the BLCF can inform many aspects of supporting private sector led initiatives that build on the capacity and commercial drivers within the private sector, and help to reduce poverty.

39 A principal lesson is that programmes that seek to support the private sector in areas of importance to DFID have to be proactively engaged with the private sector in order to achieve the most effective results. Financial resources are important, and the availability of BLCF cost sharing grants certainly stimulates the interest of the private sector. However, the processes of engagement with fund managers and feedback from the Panel are important elements in the evolution of concepts from initial ideas to funded projects. The BLCF role in monitoring project implementation, while not micro-managing the process, is also important to provide grantees with project management disciplines, and enables the BLCF to draw out learning and impact from projects supported through the programme. While tapping into the capacity of the private sector to implement projects is proving successful, a similar lesson is emerging for project implementation as for project design and development – that proactive engagement with the private sector leads to higher impact.

40 Competition, the central tenant of the challenge fund process, offers advantages and constraints as a way of engaging the private sector. One of the aspects of the BLCF that works well is the use of an independent assessment Panel to determine which concepts are developed into full applications and which receive funding awards. Panel members are not directly engaged with applicants, and can apply the BLCF criteria, including commercial viability, without being swayed by contact with projects. The Panel operates much like a credit committee at a bank, and ensures that grants are applied to develop commercially sustainable business activities, rather than to subsidise an activity that is essentially non-commercial. The BLCF has been successful in attracting new private sector partners to the development community, with over 90% of projects bringing new private sector partners to DFID. New private sector partners tend to be more focused on utilising BLCF grants to develop new market opportunities, while some more traditional partners see DFID funding as a way of supporting subsidised business activities.

41 There are some constraints with a competitive based approach, for example, where there are a limited number of potential projects to support or organisations to engage with. There may also be challenges when working with business

⁷ DFID applies the Challenge Fund approach to the Civil Society Challenge Fund, a small grants scheme for UK civil society organisations to link with civil society organisations in developing countries.

associations, where longer term relationships may be important, and there are risks of alienating important partners if they fail in a competition for funding. In such circumstances the issue may be more about engaging with potential partners to help them develop their ideas, rather than using a competitive approach to identify the best projects to support. However, the Challenge Fund approach offers flexibility within the competition, and the competitive element can be brought forward such that the competition is more about identifying those organisations to explore ideas with, rather than using competition to make final decisions on which projects receive grants. To some extent this has been the BLCF experience in the two stage application process to date, with conversion rates of 50% between approved concepts and funded projects in early rounds, building to more than 80% in the latest round 6 (see Section 2.1, Table 1: Funding Patterns to Date by Bidding Round).

42 The BLCF was designed to be an accessible mechanism for the private sector, demand driven with rapid and predictable decision making⁸. Feedback from bidders indicates these are important features, allowing the private sector to design and develop applications for support, and respond to commercial opportunities and make investment decisions relatively rapidly. Some applicants complain that it is restricting having to wait up to six months for the application cycle to begin, but overall the BLCF competes relatively well with other forms of finance as regards speed of decision making, and experience suggests that it is often delays in mobilising other elements of financial or technical support that delay initial implementation.

3.2. Diversity within the Private Sector

43 Diversity within the private sector leads to different challenges in engaging with different types of businesses. While there are dangers in over-generalising, there are some early lessons that emerge from the diversity within the BLCF portfolio. The BLCF has a minimum grant size of £50,000, and with a minimum one to one match for private sector contributions, the minimum project size is £100,000. Naturally this means many smaller companies cannot apply directly for BLCF support, but may be able to as part of a linkage with a larger organisation.

44 Lead bidders at the smaller end of the spectrum tend to be commercially focused, with projects that link relatively directly with their core business activities. Projects are less likely to face difficulty transitioning from a 'project' to a regular part of the commercial enterprise, although projects may still be risky or may not succeed for other reasons. Partnership arrangements tend to be more direct, and the returns to the key promoters tend to be relatively easy to quantify and predictable. There are of course exceptions, particularly in the nature of the partnership arrangements. For example a relative small lead bidder in Rwanda is working with a diverse range of local partners, including private sector companies, conservation NGOs, local community groups and a government department.

45 The BLCF has been broadly effective in working with companies at the smaller end of the spectrum, where projects include innovative approaches to developing new markets, developing partnerships to link poorer producers with existing markets, technology transfer between companies in the linkages, and securing raw materials of appropriate quality and regularity. Our experience is that projects work better where there is at least one reasonably sophisticated partner

⁸ Funding decisions are generally made within 4 months of the initial submission of concept notes, and there are two application cycles each year.

within the linkage, usually the lead bidder, who has the capacity to engage with the BLCF and manage implementation effectively.

46 At the larger end of the spectrum, the challenges are more varied, but the rewards are potentially very high. Some initiatives from large corporations are linked with their core businesses, while others involve non-core functions or activities unrelated to their main business. The criteria of long-term commercial viability focuses BLCF support on working with larger companies in areas linked to their corporate priorities. Projects may face a challenge in transitioning from a 'project' to a regular part of the commercial activities of the corporation, and partnership arrangements may be more involved, often with a third party 'facilitating' partner whose involvement tends to be linked with the period of grant funding. Returns to larger Corporations may be more difficult to quantify and less predictable than for projects led by companies at the smaller end of the spectrum, but no less valuable.

47 Again there are dangers in over generalisation and over simplification, but the challenge of working with smaller companies can be seen as supporting them to develop their businesses, while the challenge of working with larger companies can be seen as supporting them to do business in a more pro-poor way. Both are important areas of engagement for DFID and are informed by experience from the BLCF.

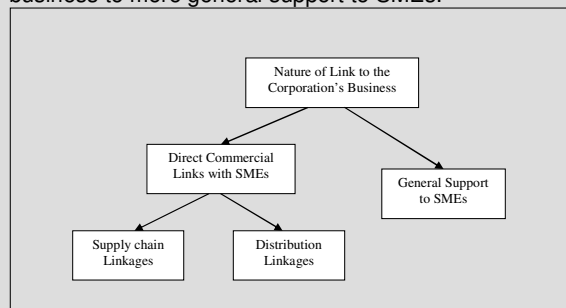
3.3. Drivers for Action within the Private Sector

48 A key element of effective engagement with the private sector is understanding and working with companies' drivers for action. These drivers will vary and need to be considered on a case by case basis, but the nature of returns that motivate larger corporations to invest are often more complex than those that motivate smaller companies. Building on this variety of drivers, including commercial opportunity, is a key element in influencing global actors in the private sector to organise their business so as to have more positive impacts on developing economies in which they operate.

49 The UNDP and UNIDO sponsored a workshop in January 2004 to engage Global Compact⁹ members in a review of approaches taken by large companies in support of small enterprise development in developing countries. A background paper¹⁰ prepared by Deloitte reviewed 21 cases of

Box 1: UN Global Compact January 2004 Workshop: 'Partnerships for Small Enterprise Development'

At the Global Compact meeting, 'Partnerships for Small Enterprise Development', 21 case studies of partnerships between large corporations and small enterprises in developing countries were reviewed. Examples were classified according to the nature of the link between the business of the corporations and the SME partners, ranging from directly linked with the core business to more general support to SMEs.



A selection were examined in detail including a presentation from the Small Business Partnership (SBP) on the BLCF supported 'Private Sector Initiative' (Psi) in Tanzania, a group of multinationals and large Tanzanian corporations led by BP working in collaboration to build up the local SME presence in their supply chains.

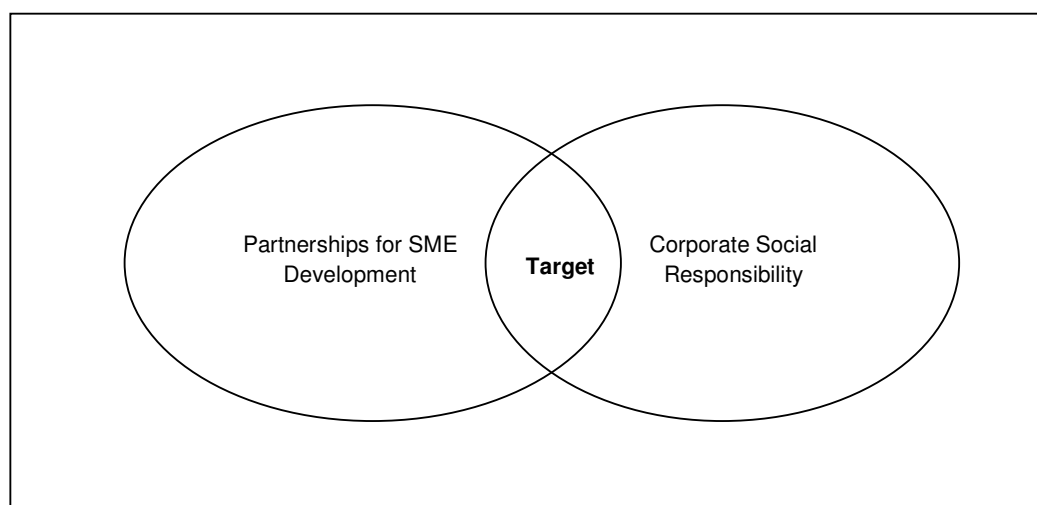
⁹ www.unglobalcompact.org

¹⁰ Deloitte was commissioned by UNDP and UNIDO to prepare and present a background paper for the January 2004 Global Compact workshop 'Partnerships for Small Enterprise Development'.

concrete examples of large companies entering into partnerships with local enterprises. All examples involve partnerships that go beyond a typical commercial relationship between buyer and seller and generally address the gap between the requirements of the corporate partner and what the small enterprise can supply. Box 1 sets out the classification system used to analyse these examples, looking at the nature of the link with the Corporation's business.

50 Corporate Social Responsibility (CSR) has not traditionally been part of the BLCF vocabulary, yet CSR agendas have evolved over the four years the BLCF has been operational, and are often now more aligned with core corporate objectives. Harnessing the CSR agendas of large corporations can be an effective way of galvanising support within large organisations for partnership projects, particularly to gain initial momentum. Figure 1 shows the overlap between corporate-led initiatives to engage in partnerships for SME development, and corporate-led CSR initiatives¹¹.

Figure 1: Partnerships for SME Development and Corporate Social Responsibility



51 Considering the lifecycle of partnerships that support SME development, helps understand the motivators of the corporate sector. In many cases corporate led small enterprise support initiatives start off with an element of CSR behind them, but as the partnership matures and delivers returns, the purely commercial benefits take over.

3.4. Efficiency and Effectiveness of Approach

52 The challenge for DFID and the development community in supporting pro-poor private sector development is all about leverage, and as such efficiency and effectiveness of approach are key. The BLCF has been effective in bringing new private sector partners to DFID and the development community, not least through the linkage requirements, but also facilitated through management by outside contractors and the new private sector networks this brings. As donor engagement with the private sector develops and matures, particularly with multinational corporations, the need for donor coordination will increase, and the challenge will

¹¹ It is in this area of overlap between CSR drivers, and the returns offered through greater engagement with (and investment in) local SMEs, that often present the greatest opportunities for working with large corporations to support poverty reduction

focus more on the most efficient and effective ways to work with key partners. This is likely to involve longer term relation based engagement, and donor programmes that involve a reasonably long term commitment to working with private sector partners.

53 The two stage application process limits the transaction cost for those applying to the BLCF, which is an important aspect of attracting new partners. It also gives the BLCF the chance to influence the development of full proposals through the Panel feedback at the concept note stage. Such a structured process allows for efficient engagement between donor and private sector partner during project development, and also helps applicants who get through the concept note stage self select as to whether they can submit a competitive full proposal based on feedback received, again reducing unnecessary effort of the part of the private sector.

54 Limiting unrewarded effort on the part of the private sector is important, but there are opportunities to influence more private sector partners than just those that end up receiving grant support. The process of engaging with the BLCF has helped many companies think through how to harness commercial opportunities in markets of relevance to the poor. The early and relatively intensive (although necessarily selective) up front guidance provided by the BLCF proves value to those that do not end up grantees, as well as those that do.

3.5. Connecting to DFID Country Programme and Other Donors

55 Feeding learning into DFID country programmes is an important objective for the BLCF, along with influencing and informing the activities of other development agencies. There are sometimes challenges in integrating BLCF support into DFID country strategies and national poverty reduction strategies, and the level of engagement with DFID country offices varies. Local DFID offices review all concept notes, and have generally become increasingly engaged and supportive over the course of the programme, recognising the ability of the BLCF to support partnership projects with the private sector that could not be accommodated through country level budgets or staff resources.

The ability of the BLCF to operate across countries and regions is also important, and is one of the few ways that DFID can engage with the private sector at a global level.

56 The DFID office in Ghana decided in 2002 to implement a Ghana BLCF, which has completed three bidding rounds and has supported two projects to date. There is a contrast between the experience of the Ghana BLCF, and the experience of Rwanda, which was added as an additional country to the main BLCF also in 2002. Rwanda has secured more than twice the funds from the main BLCF, almost £900,000, that have been committed through the Ghana BLCF, suggesting there may be

Box 2: The BLCF and the Evolution of Donor Approaches to Private Sector Support

For more than 20 years the donor community has worked with the private sector, mainly SMEs, initially through soft lending and hands on technical assistance direct to the companies themselves. However, experience suggests that such direct engagement may not be the best use of resources, and more recently support has shifted from direct engagement with SMEs to broader support to the infrastructure that supports the private sector (including chambers of commerce, financial institutions, and, importantly, the policy environment). Developments in sustainability and commercial provision of microfinance and the market development approach to business development services support, argue for market based approaches to donor support at the individual enterprise level.

Part of the rationale behind the BLCF is to engage more directly with the real private sector to ensure initiatives are relevant to and led by the commercial sector. This overcomes some of the weaknesses in other approaches that seek to support the private sector without necessarily engaging directly with it or building effectively on existing capacity.

advantages to operating at scale. However, adapting the approach in Ghana to increase uptake, work more effectively in a limited market, and engage more directly with DFID's country priorities will be extremely valuable in linking the BLCF approach with country programmes and feeding into future work with the private sector.

57 Opportunities for feeding back experience within DFID are not limited to links between DFID country offices and BLCF supported projects in those countries. As the programme matures and the performance and potential impact of the portfolio becomes clearer, many lessons are emerging. The BLCF will continue to proactively seek opportunities to disseminate experience within DFID and the broader development community, building on the joint BLCF and FDCF workshop planned by DFID for 21 May 2004, and existing links with other donors active in working directly with the private sector.

58 It is important to recognise the relatively specific box of funding that the BLCF represents, while identifying the more generic lessons for private sector engagement. Locating the BLCF as one mechanism within the range of approaches available to the development community is important. Box 2 sets out one perspective on where the BLCF sits in the context of recent donor work in private sector development.

4. What is the Future for the BLCF?

4.1. Building on Experience from the Laboratory

59 The BLCF has funded 40 projects to date, which will increase to more than 50 once the final two application rounds are complete. The portfolio of projects managed by the BLCF includes an additional 8 projects awarded grants through the Tourism Challenge Fund¹². The Ghana BLCF, while separately managed, also has a growing portfolio of projects. Experience from this diverse range of funded projects, as well as different marketing challenges and slight variations in allocation processes, generates a wealth of examples of working with the private sector to feed into the design and development of future initiatives.

60 The BLCF was designed as a one hit form of support for private sector linkages. Building on the success of individual projects supported by the BLCF through additional grant support would therefore go against the philosophy underlying the BLCF approach (provide leveraged support to help the private sector invest in new areas that have the potential to be commercially viable, rather than provide subsidy to non-commercial projects). As such it is appropriate that any follow on work to the BLCF that DFID initiates should build on the success of the BLCF, but also develop and evolve the approach to supporting private sector led initiatives.

61 As suggested in Section 3.1, this paper focuses on how experience from the BLCF can be applied more broadly in the context of private sector engagement, rather than looking at how a purer challenge fund approach can be used to allocate public funds. The evolution of the BLCF to date, from the 'laissez faire' towards more proactive engagement, already suggests different approaches to working with the private sector. Moving to the next stage and looking for ways to further increase leverage for DFID will require new approaches and further evolution. DFID and other donors are at the early stages of significant partnering with the private sector, and the BLCF and sister programme the FDCF can be seen as early steps in a long road of partnership with the private sector. Some initial thoughts on the how such engagement might evolve or be applied to achieve specific objectives are set out below.

Box 3: Evolution of the Challenge Fund Approach

<i>Activity</i>	<i>Impact</i>
Simple competition	Modest
More use of targeted marketing and intensive up front engagement	Better targeting of management resources and funding on quality projects
Marketing focus to achieve specific outcomes and clustering of projects	Broader impact with synergies between activities and greater leverage
Building on success and engagement from key project clusters	Potential for systemic changes to sectors and advocate for policy change

4.2. The Shape of Things to Come

62 There are many potential directions for DFID in building on the experience of the BLCF for future engagement with the private sector. However, it should be emphasised that the ideas outlined below are not mutually exclusive, and several areas could be addressed within a flexible mechanism for support.

¹² See Annex 1: The BLCF: A Brief History

- **Stimulate experimentation within the private sector, through simple competition.** Support innovation through a relatively simple and hands-off process that creates new models and engages new private sector partners for the development community, through cost sharing grants. This would tend to attract smaller more entrepreneurial applicants, although eligibility would be broad to encourage a wide response, and relatively risky projects. Such a programme would benefit from scale and donor coordination, but could also be applied to specific geographic areas or otherwise targeted.
- **Leveraging private sector resources into areas more traditionally deemed the domain of the public sector, by partnering more directly with the private sector.** Support the private sector to do more 'developmental' projects, with greater cost sharing from the public sector and intensive engagement by fund managers. Could include some types of public private partnership, or sharing the costs of infrastructure investments necessary to develop new markets. Will tend to involve larger projects and larger companies, and develop models for longer term engagement between development agencies and individual private sector firms.
- **Focus support on private sector led initiatives in specific sectors or to achieve particular outcomes, through a competitive process.** The BLCF has a fairly broad scope, but is still a relatively specific form of support due to the requirement for commercial linkages. Similarly the FDCF focuses support on the financial sector and broadening access to financial services. Areas of focus could include sectors such as agriculture, and link to other initiatives in those sectors that address constraints to the business environment. Similarly support could be focused on business services providers, or private sector led projects that seek to impact on the enabling environment for business.
- **Scale up, by targeting big projects with big partners through multi-donor programmes.** Target the multinationals and build relationships with key potential partners in coordination with other donors. Likely to involve long term and relatively intensive engagement, where non-financial support, alongside cost sharing grants, is a key part of the process. Identify ways of individual donors achieving their own objectives within a multi donor fund. Build on success and support scale-up of existing successful initiatives. Gexsi – the Global Exchange for Social Investment¹³, is an example of a new programme that seeks to scale-up and coordinate donors and other social investors and act as a broker between projects and sources of support.
- **Scale down, by targeting smaller enterprises and the poor more directly, making use of intermediaries and membership based organisations.** Target smaller applicants and projects that deliver more direct benefits to the poor, making use of intermediaries and other mechanisms to reach down to smaller enterprises, without excessive transaction costs. This could include greater involvement of NGOs, cooperatives, trade associations or other representative groups so as to work more directly with smaller enterprises and the poor.
- **Develop models that are closer to the way the private sector itself operates, to help leverage impact.** Incentivise fund managers by rewarding

¹³ See www.gexsi.org

deals done, and seek returns from successful investments¹⁴ so that losses from unsuccessful investments are covered. Respond to market related feedback from customers (recipients of support) to ensure models evolve and compete effectively against other forms of support. Act more as broker between funders and projects, and leveraging other sources of funding (e.g. trusts, ethical investments, and other forms of development assistance).

- **Broaden the range of mechanisms for supporting the private sector, moving beyond grants.** Expand the range of support available to include loans, equity, and guarantees, so that more flexible and appropriate support can be applied to specific private sector initiatives. Equity may be more appropriate for high risk high return projects, along venture capital lines, and loans where the cash requirements are significant but the risk is low. The BLCF currently benefits from a simple process, and introducing alternative forms of support within a single programme would have to be handled with care to avoid confusion.

63 It will also be important to reflect on the type of capacity within the private sector that DFID and the donor community are seeking to engage. While there are many similarities between the BLCF and the PPP programme¹⁵, the key difference (and this is an oversimplification) is that the BLCF seeks to support the private sector to do business, that will create opportunities for the poor and bring profits to the private sector, while the PPP seeks to support the private sector to carry out more developmental tasks in a cost effective way, that will create opportunities for the poor, and in the long term, bring profits to the private sector. These two uses of private sector capacity are not mutually exclusive, but are worthy of reflection when considering mechanisms for working with the private sector.

4.3. The Vital Role of BLCF Dissemination

64 The dissemination of learning from the BLCF is ongoing, with many opportunities already taken to present the BLCF experience to date, generally focusing on the project identification and approval process, and often combined with promoting and marketing the BLCF itself. There is considerable interest from other donors and the wider market in the BLCF, and in DFID's broader experience of engaging with the private sector in support of development goals. It is an area that appears to be increasingly important for many stakeholders, both private sector and development sector stakeholders. The Global Compact and UN Private Sector Commission are two examples of major initiatives to take forward the agenda of harnessing the private sector to help achieve the MDGs.

¹⁴ Seeking returns from successful investments could imply loans or equity, but could also imply some sort of profit share or payback should projects succeed and become profitable.

¹⁵ The Public Private Partnerships (PPP) programme is managed by GTZ on behalf of the German Ministry for Economic Cooperation that promotes partnerships between German companies and companies in developing countries.

65 A key element of BLCF dissemination is maintaining momentum, and helping DFID stimulate others into action to build on the success of the BLCF to date. With the outcomes from individual funded projects beginning to come through, there are many new messages for the BLCF to share, and much will be learnt from the evolution and outcomes of individual projects¹⁶. The BLCF has a high profile with the UN Division for Business Partnerships and UN Global Compact and there has been extensive engagement with the PPP programme managed by GTZ¹⁷ for the German Ministry of Economic Cooperation and the ODI partnership programme on business and development. Feeding learning from individual projects into the BLCF dissemination programme will keep messages fresh, and opportunities for joint dissemination will be pursued. The PPP and BLCF were jointly profiled in the UN Global Compact Meeting Partnerships and Supply Chain Management in July 2003, and further joint dissemination activities by the BLCF and PPP are being planned.

66 While there are a range of lessons from the BLCF application cycles to date, much more will be understood about mechanisms for working with the private sector as the impact of individual funded projects becomes clear. The diversity of projects and partnership structures of projects within the BLCF portfolio lends itself to detailed examination. While it is always better to have more data to analyse, the number and range of projects supported by the BLCF allows for themes to be distilled and success factors identified. Evaluation of these themes and success factors will help DFID and the broader development community determine how to work with the diverse range of actors within the private sector going forwards.

67 The BLCF has begun a programme of case studies, looking in more detail at the inputs, activities and outputs than can be achieved through the regular process of interacting with grantees to review quarterly reports. To date, 11 BLCF case studies have been completed, with an increasing emphasis on reviewing projects as they near completion, to assess the degree to which they are likely to achieve commercial sustainability in the long term. These case studies will feed into themed products for dissemination, themed, for example, on industry sector (e.g. agriculture, healthcare and pharmaceuticals, and tourism – currently the three most successful sectors), type of partnership model, involvement of multinational partner, emphasis on access to markets, extent of direct involvement of poor stakeholders, involvement of NGO or Government agency, or other qualities or themes that are of particular interest to DFID and the donor community. These themes will be agreed with DFID and build on areas of interest identified and developed through workshops such as the workshop planned for 21 May 2004, for which this discussion paper has been prepared.

¹⁶ It is already clear that some projects have evolved during implementation and that some aspects of their initial design are more critical than others. Accepting and responding to change is an important feature of working with the private sector and there is a natural link between proactively monitoring projects, and drawing out lesson learning and impact.

¹⁷ This coordination is institutionalised through the membership of Albrecht von Hardenberg on the BLCF Assessment Panel.

Appendix 1

BLCF – A Brief History

BLCF Design and Management Arrangements

DFID had been exploring new ways of engaging with the private sector for several years before the implementation of the BLCF, including commissioning a design study in 1998 to investigate alternative risk sharing mechanisms to support private sector initiatives. At one stage four separate challenge funds were envisaged, the Tourism Challenge Fund (TCF)¹⁸, Financial Deepening Challenge Fund (FDCF), Trade Challenge Fund and Linkages Challenge Fund. Ultimately three funds were rolled out; the TCF, the FDCF, and BLCF. The BLCF combined the trade and linkages objectives in a single challenge fund.

The management of the BLCF is led by Deloitte Emerging Markets, with support from Deloitte offices in BLCF target countries, Enterplan and Project North East. Deloitte Emerging Markets brings more than 20 years experience working with donor organisations in support of private sector development, and local Deloitte offices the networks and local knowledge to identify, assess and support potential applicants in BLCF target countries. Enterplan provided support during the initial launch and roll out of the BLCF, and carry out direct marketing in the UK, and Project North East provide experience from challenge funds in the UK and support monitoring and evaluation.

The Tourism Challenge Fund, Ghana BLCF and Windward Island Design Study

This paper refers mainly to the experience from the BLCF, although our BLCF contract now includes a single country challenge fund - the Ghana BLCF managed by Deloitte in Ghana - as well as monitoring projects funded through the TCF. In conjunction with DFID, the BLCF has also explored developments and evolution of the challenge fund approach in the Windward Islands, where submissions have been generally of poor quality and uncompetitive. In conjunction with the European Union and DFID Caribbean, the BLCF commissioned a study into the potential for a separate challenge fund for the Windward Islands. The study concluded that what was most required was a technical assistance facility to help the private sector develop proposals for and access existing forms of assistance, rather than the creation of a new pool of funding. Technical assistance has been provided by third parties to applicants to the Ghana BLCF, with varying degrees of success.

Key Dates

November 2000	BLCF contract awarded to Deloitte Emerging Markets
April 2001	Deadline for concept notes for pilot countries in Southern Africa
July 2001	First batch of full applications and funding decisions made
September 2001	BLCF rolled out to Central Africa and the Caribbean
November 2001	Joint review of the BLCF and FDCF resulting in some refinement of policies and procedures
December 2001	Tourism Challenge Fund projects incorporated into BLCF portfolio
February 2002	Ghana BLCF commences
January 2003	Enabling Environment Window introduced

¹⁸ The TCF was initially managed internally by DFID but then contracted out to Deloitte Emerging Markets.

Appendix 2

BLCF Grant Making Process

The BLCF Application Process

The BLCF application process operates on a six monthly cycle, with two funding rounds each year. The process is two-stage, where applicants initially submit a short concept note with an outline of their project idea, with those applicants whose concepts are approved asked to complete a full application or business plan. As the programme has developed there has been increasing emphasis on greater front end engagement with applicants in order to encourage quality applications.

The BLCF seeks to support private sector led initiatives, and as such applications to the BLCF must be led by a for-profit private sector enterprise. Bids must involve two or more private sector entities, although the lead entity that completes the application materials and becomes the contracting party when projects are funded. Detailed application criteria are set out below. BLCF supported projects should;

- involve or facilitate links between two or more enterprises,
- increase the competitiveness and viability of participating enterprises so as to enhance employment opportunities and increase exports or domestic sales,
- contribute to creating improved livelihoods and opportunities for poor people,
- share the linkage costs between the BLCF and the participating entities, with bidder contribution being at least equal to the BLCF grant,
- be sustainable after the BLCF grant has been utilised,
- be innovative,
- avoid negative impact on non-participating local businesses and avoid social or environmental damage,
- be compatible with DFID policy in the country in question, and
- have a maximum three year duration.

Decision Making and the BLCF Assessment Panel

Decisions are made by an independent Assessment Panel. This separation of duties between the fund managers, who promote the BLCF and provide support to bidders, and decision makers, has proved important, and enables the Fund Managers to engage effectively with applicants without an actual or perceived conflict of interest. Formal assessment criteria are set out below, but it should be noted that decisions are based on broad judgement that weighs up the various qualities of projects and are reached after lively debate and discussion. Projects are judged as to the:

- likely sustainability of project,
- enhancement of the competitiveness and viability of participating enterprises so as to improve employment opportunities and increase exports of domestic sales,
- improvement of the incomes and livelihoods of poor people,
- extend of new private sector resources mobilised,
- potential replicability of project, and
- degree of innovation in the project approach.

Appendix 3

BLCF Project Portfolio

Market Response

The BLCF has generated considerable interest from the private sector, with more than 600 concept notes submitted and well over 1,000 companies completing BLCF enquiry forms¹⁹. The pattern is that the response from the market has generally been high and poorly targeted on BLCF objectives in the early rounds, with fewer more competitive concept notes that are better targeted on the BLCF objectives as rounds continue.

Initially the BLCF took a broad approach to promoting the BLCF, to get the message to as many potential applicants as possible and put the information squarely in the public domain. This has been followed up by more intensive engagement with potential applicants and a more targeted approach to promotion and marketing. This has generated fewer, more competitive submissions.

The response from the market has varied across regions and countries, although the simple statistic of the number of concept notes submitted is a blunt instrument through which to gauge market response. As the programme matures, the Fund Managers have become increasingly engaged with applicants before the submission of concept notes, which tends to reduce the market response as measured by concept notes received, but improves the quality of those concept notes that are received.

Project Portfolio

The following two pages set out some analysis of the BLCF project portfolio and a list of projects that have received funding to date. The analysis that follows is in many ways the tip of the iceberg, as there are lots of other ways, in addition to sector and country, through which to examine the portfolio. However, simple analysis by sector demonstrates that agriculture, healthcare and Pharmaceuticals, and tourism have been the three most successful sectors for the BLCF to date.

We are developing, in conjunction with DFID, a range of standard qualitative and quantitative indicators²⁰ through which to further analyse and examine the BLCF portfolio, linking these back to the three themes for the BLCF – the commercial sustainability of the linkage project, the broader market development that arises, and the degree to which the project and broader market development impact on the poor. These indicators are assessed at the outset, based on project plans, and then updated/checked during project implementation. This gives the profile of a project as it was when supported, and adjusts the planned profile to actual as the project is implemented.

¹⁹ The BLCF enquiry form is included on the BLCF web site, and is the entry point to the BLCF for applicants. Interested parties complete the BLCF enquiry form and concept notes are then issued to those applicants with concepts that meet the broad objectives of the BLCF.

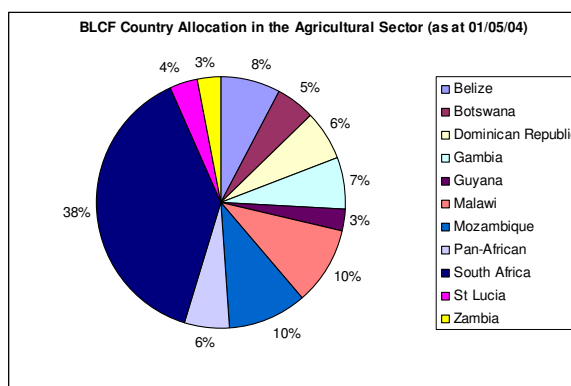
²⁰ The indicators referred to here are standard indicators against which all projects can be assessed, and form the basis for analysis across the portfolio. These are different to the indicators that applicants include in their project submissions referred to in Section 2.2, where applicants identify a number of indicators against which project performance should be assessed.

Portfolio Analysis by Sector & Region

As seen from Table 3 in Section 2.1, Agriculture, Health Care & Pharmaceuticals and Tourism comprise 69% of the grant value awarded by BLCF. Furthermore, Agriculture is the only sector in which a project has been funded in every single round of the BLCF process. In this light we provide further details on these specific sectors.

Agricultural Sector:

16 agricultural projects have been funded by BLCF. 79% of funds in this sector have been directed to the African continent, with only 21% being targeted to the Caribbean and Latin America and none to Asia. Nearly half of the African funds have been for projects located in South Africa, where 5 projects are being undertaken. A common attribute of South African agricultural projects is that they all involve the community as a direct stakeholder to the project. Thus having a direct impact amongst the poor.

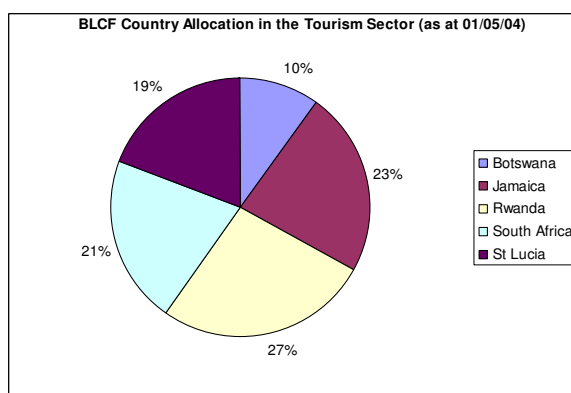


Health Care & Pharmaceutical Sector:

6 Health Care & Pharmaceutical (HC&P) projects representing 15% of the total portfolio have been funded by BLCF. 71% of funds in this sector have been for 3 projects in India and Bangladesh. 2 of these projects (Female Condom and Stable Liquid Vaccines are well above the average size of BLCF projects (£286,672) at nearly £1m. Haiti and South Africa are the remaining two countries where a HC&P is being carried out.

Tourism Sector

Up until now, BLCF has funded 6 tourism projects with an average size of £261,109 each. These are distributed amongst 5 different countries of Africa and the Caribbean. Although South Africa holds two projects, these are nearly half the size of their counterparts in the other countries with an average size of only £167,481.



Leading country: South Africa

South Africa has both the most number of funded projects (14) and is also the only country that has had funding allocated in all six rounds of the BLCF to date. Its portfolio represents 30% of the total funds allocated to date by the BLCF. South Africa has also got the most diversified portfolio, having invested in all sectors except education.

List of BLCF Supported Projects

Grantee	Project Name / Alias	Region	Country	Sector	Round	Duration (years)	End year	Mod BLCF Grant Total (£)	Bidders Cont Plan (£)(Max)
Atriplex	Fynbos Crops	Southern Africa	South Africa	AGRICULTURE	B5	3	2006	327,236	336,000
Agrico	Herbal Remedies & Beverages	Caribbean	St Lucia	AGRICULTURE	B3	3	2006	107,800	107,100
Amazon Caribbean Guyana	Organic Dietary Supplements	Caribbean	Guyana	AGRICULTURE	B6	3	2007	80,000	116,204
Anglo Khula Mining Fund	Junior Mining Initiative	Southern Africa	South Africa	MINING	B6	3	2007	450,000	1,350,000
Aquastel	Aquaculture Development	Southern Africa	South Africa	AGRICULTURE	B3	3	2005	150,000	394,000
Arulussa	Essential Oil Development	Southern Africa	Zambia	AGRICULTURE	B2	4	2006	88,400	238,300
Bees for Development	Support to Honey African Exporters	Pan-African	Pan-African	AGRICULTURE	B5	3	2006	172,100	16,100
BP Tanzania	Private Sector Initiative Tanzania	East Africa	Tanzania	OTHER	B2	2.5	2004	243,700	532,867
Cambridge Biostability	Stable Liquid Vaccines	Asia	India	HEALTH CARE & PHARMACEUTICAL	B6	3	2007	946,165	1,312,741
Cantle Jones Associates	Sports Partners South Africa	Southern Africa	South Africa	TOURISM	B1	3	2003	184,500	356,500
Caribbean Venture and Integrated Services	St Lucia Festivals	Caribbean	St Lucia	TOURISM	B6	3	2007	300,000	861,870
Commonwealth Business Council - 1	Regulatory Impact Assessment Research	Pan-African	Pan-African	OTHER	B5	2	2005	278,000	30,000
Commonwealth Business Council - 2	Strategies Against Corruption	Pan-African	Pan-African	OTHER	B6	3	2007	179,265	73,365
Conacado	Fair Trade Organic Chocolate	Caribbean	Dominican Republic	AGRICULTURE	B3	3	2005	189,000	369,500
Conservation International	Bushman Traditional Village	Southern Africa	Botswana	TOURISM	B3	3	2005	158,540	161,663
E Oppenheimer & Son	Kopanang Initiative	Southern Africa	South Africa	OTHER	B5	3	2007	293,812	327,584
Enedom	Recycling Municipal Solid Waste	Central Africa	Rwanda	OTHER	B3	3	2006	460,980	456,211
Female Health Company	Female Condom	Asia	India	HEALTH CARE & PHARMACEUTICAL	B2	3	2005	998,000	1,613,000
FerroGrow - Kgalgadi Development Company	Ferrogrow Fertilizer	Southern Africa	Botswana	AGRICULTURE	B1	2	2003	149,000	312,000
Great Lakes Cotton Company	Pre-treated Cotton Seed	Southern Africa	Malawi	AGRICULTURE	B5	3	2006	295,000	1,319,000
Green & Blacks	Maya Gold	Caribbean	Belize	AGRICULTURE	B4	3	2006	225,000	279,000
Haygrove	Gambian is Good	West Africa	Gambia	AGRICULTURE	B4	3	2006	196,800	226,660
Illizi Homes / BP	Algerian Artisans	North Africa	Algeria	MANUFACTURING	B5	3	2006	491,496	721,440
InforServe	IT Training Programme	Caribbean	Jamaica	EDUCATION	B3	4	2007	350,000	648,000
Intelligent Energy	Fuel Cell Development	Southern Africa	South Africa	POWER	B4	1	2004	137,200	138,537
iTemba Pharmaceuticals	Pharmaceutical Research and Development	Southern Africa	South Africa	HEALTH CARE & PHARMACEUTICAL	B4	3	2007	520,000	5,681,000
Jamaica Hotel and Tourist Association	Jamaica - Explore it, Taste it, Feel it	Caribbean	Jamaica	TOURISM	B6	3	2007	360,000	904,000
Megkon	Pharmatainers	Southern Africa	South Africa	HEALTH CARE & PHARMACEUTICAL	B2	3	2006	213,300	197,000
Miranda Caju	Quality Control in Cashew Processing	Southern Africa	Mozambique	AGRICULTURE	B6	3	2007	174,000	232,061
MOCIT	Redevelopment of Citrus Exports	Southern Africa	Mozambique	AGRICULTURE	B3	3	2005	123,389	223,944
Mondi	Support to Small Scale Charcoal Producers	Southern Africa	South Africa	AGRICULTURE	B2	3	2005	114,110	115,880
Natural Botanicals	Cultivating Indigenous Plants	Southern Africa	South Africa	AGRICULTURE	B6	3	2007	204,440	333,080
Nottingham Textiles Group	Technical Textiles	Southern Africa	South Africa	MANUFACTURING	B5	3	2006	290,000	790,000
ODI/ Mboza Tourism Business Unit	Pro Poor Tourism Pilot	Southern Africa	South Africa	TOURISM	B4	3	2006	150,462	151,800
Procter & Gamble	Clean Water Good Business	Caribbean	Haiti	HEALTH CARE & PHARMACEUTICAL	B6	3	2007	225,000	458,855
Small Business Project	Regulatory Best Practice	Pan-African	Pan-African	OTHER	B5	2	2005	384,520	42,000
Thandi Fruit	Fair Trade Food & Wine	Southern Africa	South Africa	AGRICULTURE	B3	3	2005	340,000	1,332,000
Urbis Lighting	Street Lighting in Townships	Southern Africa	South Africa	MANUFACTURING	B1	2	2003	46,500	235,000
Volcanoes Safaris	Tourism Development in Rwanda	Central Africa	Rwanda	TOURISM	B4	3	2006	419,150	374,050
Wagtech	Water Testing Kits for Arsenic	Asia	India/Bangladesh	HEALTH CARE & PHARMACEUTICAL	B3	3	2005	450,000	843,000

Appendix 4

BLCF Enabling Environment Window

The Enabling Environment window for the BLCF was developed following the November 2001 joint review meeting of the BLCF and FDCF in South Africa²¹. The principal difference between the BLCF and the enabling environment window of the BLCF is the level of bidders contribution required, which is a minimum of 10% of total project costs for the enabling environment window, rather than the 50% normally required.

Eligibility Criteria for the Enabling Environment Window

The BLCF enabling environment window is open to lead bidders that are:

- Private sector companies; or
- Private sector representative bodies (chambers of commerce, informal sector organisations etc).

Eligible projects through the enabling environment window will:

- Promote reforms to the business environment that (a) improve the awareness of the ways the business environment affects levels of poverty and the competitiveness of the private sector, and how reforms to the business environment can improve the situation; or (b) promote direct changes to the business environment; or (c) contribute to the building of skills and capacity of relevant organisations to participate in processes that lead to reforms in the business environment.
- Clearly demonstrate close collaboration between lead agencies with all project partners investing in the project.
- Respond to national priorities for reform in the business environment and those contained in DFID country strategy.
- Describe how the applicant will provide no less than 10% of the project costs in cash or in-kind.
- Not be more easily funded by another donor or DFID's country programme

Roll out of the Enabling Environment Window

The BLCF enabling environment window was introduced in Southern Africa in round 5 of the BLCF, in close consultation with DFID Southern Africa. Three enabling environment projects were funded in Southern Africa and the process judged broadly effective, so plans for roll out to the Caribbean were developed in close coordination with DFID Caribbean. Priorities in the Caribbean explored using the BLCF enabling environment window to work with business associations to support private sector led approaches to regional economic integration. Adapting the existing BLCF processes to accommodate such applications was considered and the design of a separate enabling environment window for the Caribbean developed. However, it was concluded that with bidding rounds coming to an end, a separate initiative would be more appropriate to provide the necessary support, and that experience from the BLCF would provide valuable input to such an initiative.

²¹ See Section 1.4