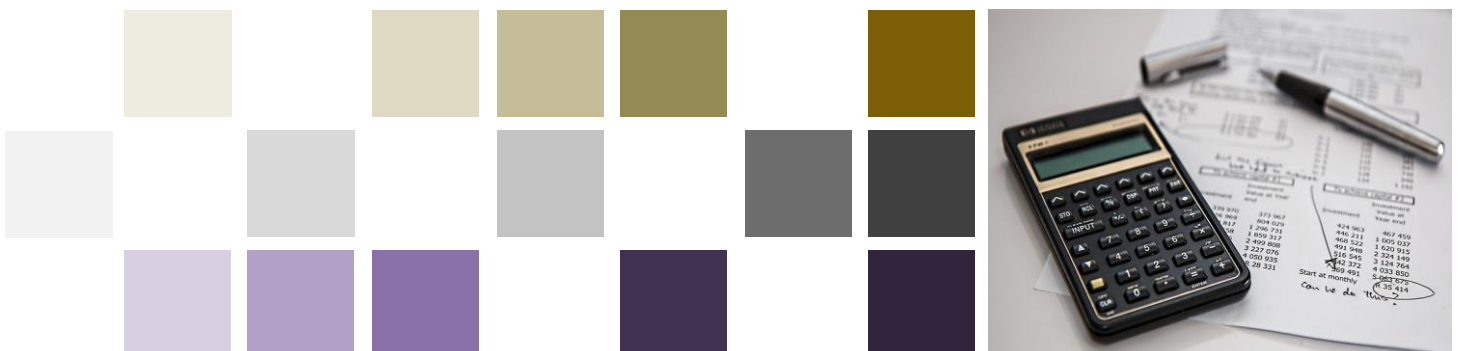


Pacific SME Finance Facility Pilot Programme

Formative evaluation report

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Glossary

Abbreviation	Stands for
ADB	Asian Development Bank
BAS	Business Advisory Services
BASPs	Business Advisory Service Providers
BLP	Business Link Pacific
BSMs	Business Service Managers
DFAT	The Australian Department of Foreign Affairs and Trade
FIs	Financial Institutions
FIPAs	Financial Institution Partnership Agreements
GESI	Gender Equity Social Inclusion
GOs	Government Officials
ICNRs	In-Country Representative Partners
KCCI	The Kiribati Chamber of Commerce
MFAT	The New Zealand Ministry of Foreign Affairs and Trade
PICs	Pacific Island Countries
RSFs	Risk Sharing Facilities
SMEs	Small Medium Enterprises
TS	Term Sheet
The Facility	The SME Finance Facility
TCCI	The Tonga Chamber of Commerce and Industry

Executive summary

Background

The Pacific SME Finance Facility (the Facility) is a 14-month pilot to ensure SMEs' access to capital for adaptation, recovery, and growth in response to the COVID-19 crisis. It is being implemented in the Cook Islands, Fiji, Kiribati, Papua New Guinea, Samoa, Solomon Islands, Tonga, and Vanuatu. DT Global New Zealand is the Managed Service Contractor to implement the Facility through the existing development activity, Business Link Pacific (BLP). It is funded by both the New Zealand Ministry of Foreign Affairs and Trade (MFAT) and the Australian Department of Foreign Affairs and Trade (DFAT).

Leveraging BLP's existing organisational structure, the Facility was designed to address immediate threats to the survival of SMEs, as well as creating an enhanced medium and longer-term framework to support the sector. It is structured around three key outputs: Output 1 – Adaptation grants for stabilisation; Output 2 – Wholesale capital for on-lending; and Output 3 – Delivery of Technical Assistance to Financial Institution Partners.

MFAT commissioned a formative evaluation of the Facility (together with a summative evaluation of the BLP) to ascertain whether the Facility's design is relevant and fit for purpose and to identify any improvements that should be made to strengthen its management and implementation. The evaluation would also help inform MFAT's decision-making on whether to proceed with a post-pilot phase.

A review and analysis of key documentation was undertaken, and information was collected from 150 key stakeholder interviews. These interviews included Small to Medium Enterprises (SMEs), Business Advisory Service Partners (BASPs), Business Service Managers (BSMs), In-Country Representative Partners (ICNRs), In-Country Government Officials, Financial Institutions, MFAT (from both Posts and Wellington), DFAT and Asian Development Bank.

Key findings

The Facility's Inception Phase was initiated in November 2020. It successfully established the fundamental management and programmatic infrastructure to implement the Facility within the 14-month pilot period. There was also strong progress on delivering the key activities associated with the Facility's Outputs One and Two.

As a key deliverable for Output One, two adaptation grant rounds were run. This attracted 2,805 applicants in total across eight Pacific Island Countries (PICs), representing a broad range of sectors and including a high proportion of small SMEs with one to five employees. NZD1.97 million of these grants have been approved, been paid and/or progressing to payment, with the aim of having most of them paid out by the end of October 2021.

Good progress has also been made against the Facility's Output Two. The financial institutions' (FIs) partnership documentation was developed, and an FI partnership pipeline was created. This pipeline has several potential partners at varying points, including three FIs that have completed the

application and due diligence process, and a fourth with a pending application. All four are in the process of reviewing and signing their Financial Institution Partnership Agreements (FIPAs).

Evidence collected as part of this evaluation strongly supports the finding that the Facility is relevant. Both rounds of adaptation grants were oversubscribed, and there was strong agreement among stakeholders that the adaptation grants were meeting a critical and demonstrable need for SMEs. Early emerging evidence indicates that the adaptation grants are meeting the core purpose they were designed for, although more evidence needs to be collected before a conclusive judgement can be made.

The business adaptation planning process was viewed positively as a mechanism to help SMEs adapt and pivot, and to help them build back better, strengthening their resilience and sustainability moving forward. There was strong and clear evidence that the BASPs, BSMs and the ICNRs played a critical and valuable role supporting SMEs. The adaptation grants were perceived by key stakeholders to be well aligned with other economic response, recovery, and stimulus packages.

There were also clear efficiency gains from designing the Facility to use BLP's existing organisational structure and digital platform and using BLP's existing BASP networks and its ICNRs during the application, screening, due diligence, and contracting processes.

The evaluation found that there were several challenges with the rollout of Round 1 of the adaptation grants. Many SMEs struggled to apply because they lacked the capacity (knowledge, skills, and access to technology). Some SMEs did not have the necessary supporting documentation required at the validation stage, and many SMEs (but not all) struggled to articulate how to pivot and adapt their business due to limited opportunities (for example, those in the tourism and hospitality sectors) and the impact of the COVID-19 restrictions.

Suggested improvements to strengthen future application processes made by stakeholders were around making it easier, less onerous, and more user-friendly for SMEs. This included strong support for continued and/or more support from the BASPs, BSMs and ICNRs for SMEs throughout the application, validation, and due diligence processes. It also included on-going support for implementing SMEs' adaptation plans and accessing low interest loans.

There was also support among stakeholders for the concessional loans. Many considered that the need was obvious given the severe on-going impact that COVID-19 is having, combined with the on-going reluctance of many FIs to engage with SMEs – a combination of FIs' concerns over SMEs' lack of financial literacy, business capacity, insufficient capital and availability of acceptable collateral, and the hesitation to increase their risk profile in economies that have been severely impacted by the COVID-19 pandemic.

Several stakeholders identified that several low interest rate initiatives (offered by both government and private FIs) are already being offered and/or planning to be offered in several Pacific countries. These stakeholders wanted to know how the Facility's concessional loans would fit, what value they would add (if any), and what impact they would have in strengthening the wider market system in the medium and longer term. Some supply-side stakeholders noted the Pacific countries were "awash with liquid cash" (such as Fiji and Papua New Guinea). The more pressing priority was, they thought, to build SMEs' capacity and capability to enable them to access loans from the banks and other financial institutions. They, therefore, questioned at this point the need for concessional loans. It should be

noted that these demand side issues are where BLP and the Facility have been working for some time and that this view does not necessarily consider the recognised supply side issues in the market, such as appropriateness of loan products, risk assessment models, and collateral and security requirements, that the Facility's concessional lending component has been designed to address and test alternatives to.

There was solid agreement among stakeholders that the SME Finance Facility should continue beyond its 14-month pilot to support SMEs in their recovery from the COVID-19 pandemic. Stakeholders also believed that the Facility should be integrated with BLP into one entity. This entity would provide an integrated set of complementary services and products, adaptation grants (when required), subsidies, concessional loans, advisor networks, and advice and support. This would enhance its collective impact and therefore make it more effective.

Key conclusions for next steps

Overall, the evaluation collected a solid evidence base to support a Phase Two of the Facility. Strong progress has been made in delivering the Facility's key outputs. Sufficient evidence has been gathered to indicate a Phase Two is required. The evidence suggests that the design overall is relevant and fit for purpose, which reflects the investment made into the original design process.

To strengthen the management and implementation of a Phase Two of the Facility, the following should be considered:

- integrating the Facility with BLP to maximise efficiency gains and enhance its effectiveness
- extending Phase Two for three to five years to allow sufficient time to execute and implement the full Activity
- continuing the adaptation grants to respond to future COVID-19 outbreaks and/or to use them in a more targeted way to support specific SME cohorts
- streamlining the process for smaller SMEs, without compromising any due diligence requirements and introducing more flexible and responsive grant windows to enable SMEs to apply for support when needed, while reviewing whether at the top end the grants were large enough to attract the interest of larger SMEs and whether capital was available
- supporting the testing of the wholesale capital for on-lending approach in different PICs and with different FIs, as there is still a need for SMEs to be able to access finance to recover
- examining whether the current capitalisation of the Facility is sufficient to attract FI partners and meet SME financing needs
- continuing to use other levers, such as technical advice and support to FIs, to influence the uptake of the Facility's offer of wholesale capital for on-lending to SMEs as concessional loans
- undertaking an analysis of the data being collected to ascertain whether the design is targeting the viable but financially distressed SMEs, and that no eligible SMEs or certain cohorts of eligible SMEs are inadvertently left behind.

The Facility should still:

- provide advice and support for SMEs to complete the application, validation, and due diligence, and for their adaptation planning and implementation through the BASPs, BSMs and ICNRs
- take a flexible approach to enable it to respond to PICs' and key partners' (such as FIs) contexts and needs to achieve the outcomes
- retain the robust validation and due diligence processes
- communicate to build awareness and understanding of the adaptation grants and the Facility's other services and products.

Introduction

The Pacific SME Finance Facility (the Facility) was launched by the New Zealand Ministry of Foreign Affairs and Trade (MFAT) in November 2020 as a 14-month pilot to ensure SMEs' access to capital for adaptation, recovery, and growth in response to the COVID-19 crisis.

Funded by both MFAT and the Australian Department of Foreign Affairs and Trade (DFAT) since April 2021, the NZD11.547 million pilot is being implemented in the Cook Islands, Fiji, Kiribati, Papua New Guinea, Samoa, Solomon Islands, Tonga, and Vanuatu. MFAT has contracted DT Global New Zealand as Managed Service Contractor to implement the Facility through the existing development activity, Business Link Pacific (BLP).

The goal is to create a robust, resilient, and sustainable SME sector in Pacific Island Countries (PICs) that contributes to national social and economic development aspirations by creating sustainable mechanisms for SMEs to access the financial and advisory services they need to survive and prosper. By the end of the pilot period, the Facility aims to disburse NZD3.8 million in adaptation grants and NZD1.71 million in business advisory service subsidies, benefiting approximately 400 SMEs, and NZD2.65 million in wholesale capital for on lending to SMEs.

The Facility includes the following outputs:

1. Business adaptation grants will be for a limited duration (around three-six months) and targeted towards short-term productive purposes to maintain cash flow, adapt to the new business environment and to access medium-term concessional loans or other forms of commercial finance.
2. Business advisory services and technical assistance to support Pacific SMEs to apply for and implement adaptation grants and concessional loans.
3. Wholesale capital lending to FIs for lending/on-lending to SMEs under concessional terms. Concessional loans will range from six - 60 months, be disbursed by partner financial institutions, and tailored to meet SMEs' working capital and investment needs.
4. Capability building of Pacific FIs by providing technical assistance to address long-standing structural barriers to SMEs' access to finance by strengthening the financial services sector.

Evaluation purpose

The formative evaluation will be used by MFAT primarily to:

- confirm whether the Facility's design is relevant and fit for purpose
- identify improvements that can be made to managing, implementing, and achieving results
- inform MFAT's decision on whether to proceed with a post-Pilot phase, and if so, what the future direction, scope, design, and support should be.

Evaluation objectives, criteria, and key questions

For this evaluation there were four key **evaluation objectives**, three of which map to the **evaluation criteria** of relevance, effectiveness, and efficiency, with the fourth objective being to determine future support. Appendix B shows how the **evaluation questions** were mapped to these objectives and criteria.

Criteria: Relevance	Objective 1: to assess the extent to which SMEs' access to finance remains a priority for partner countries and the New Zealand Aid Programme.
Criteria: Effectiveness	Objective 2: to examine the progress being made in achieving the Facility's outputs and outcomes.
Criteria: Efficiency	Objective 3: to review the cost effectiveness of the Facility and Managed Services Contractor approach.
Future design and support	Objective 4: Future design and support – to identify the key changes needed to deliver sustainable outcomes from a possible second phase of the Facility.

Evaluation scope

The scope of the evaluation included the Facility's establishment and implementation activities associated with Output One: The Adaptation Grants, and Output Two: Wholesale on-lending, from 12 November 2020 to present, covering the Cook Islands, Fiji, Kiribati, Papua New Guinea, Samoa, Solomon Islands, Tonga, and Vanuatu.

The scope of the evaluation excluded:

- the FIs and the financial sector capacity building (Component 3)
- an assessment of achievement towards the Facility's outcomes and goals.

Evaluation design, approach, methods, and data collection tools

This was a formative evaluation. Its primary purpose was focused on learning. This included assessing what progress the Facility has made to date against Output One and Two. This will enable MFAT to strengthen the management and implementation of the Facility's key deliverables moving forward and help inform the decision of whether the SME Finance Facility should proceed to a Phase Two.

Our inquiry was informed by a 'realist approach' where our questioning and analysis was focused on looking at 'what works', 'for who', 'where' and 'why'. An Evaluation Framework (see Appendix B) was used to help ensure evidence from all sources was captured against the evaluation's objectives and questions in a systematic manner.

The evaluation used mixed methods where information and data were collected through key stakeholder interviews (primary data sources), review and analysis of relevant documentation, and analysis of programme data (secondary data sources).

The document review and analysis against the key evaluation objectives included the following sources:

- Activity Design Document: SME Finance Facility
- the SME Finance Facility Inception Phase Progress Report
- the SME Finance Facility Quarterly Progress Reports for Q1 and Q2
- the SME Finance Facility Implementation Work Plan.

The BLP team provided a dataset containing data relevant to the SME Finance Facility. This dataset was analysed by the Evaluation Team and formed part of the evidence base for the findings.

Stakeholder interviews were carried out by the Evaluation Team, based both in New Zealand and in-country – see Appendix C for more detail. Topic and interview guides were developed for each key stakeholder group, along with the appropriate data collection tools. Before fieldwork commenced, a briefing was conducted. During the field work, the in-country evaluation team members were managed and supported by Talanoa Consulting, based in Fiji.

The thematic analysis of the interview notes involved an initial identification of key themes via a top-down analysis, which was completed. This allowed for the creation of a set of theme codes used to closely analyse the notes via a bottom-up analysis. The following table provides guidance on how the strength of these findings have been characterised in the following report.

Thematic analysis – describing the strength of findings

Descriptor	Meaning
“Strong”	Meaning that most, or all, interviewees raised this point
“Moderate”	Where a material proportion of interviewees raised this point
“Minor”	For observations by more than one interviewee, but few, or else strongly held by an informed interviewee
“Mixed”	Where there are comments supporting, and taking away, from the finding

Stakeholder interviews completed

Between 23 August and 15 September 2021, the New Zealand based Evaluation Team members conducted 21 interviews: 11 with MFAT staff at Wellington and Post (Fiji, Tonga, the Cook Islands, Vanuatu, Solomon Islands, Samoa, and Papua New Guinea); four with DFAT (Canberra, Kiribati, Papua New Guinea, and Samoa); three with DT Global; and one with ADB (Sydney).

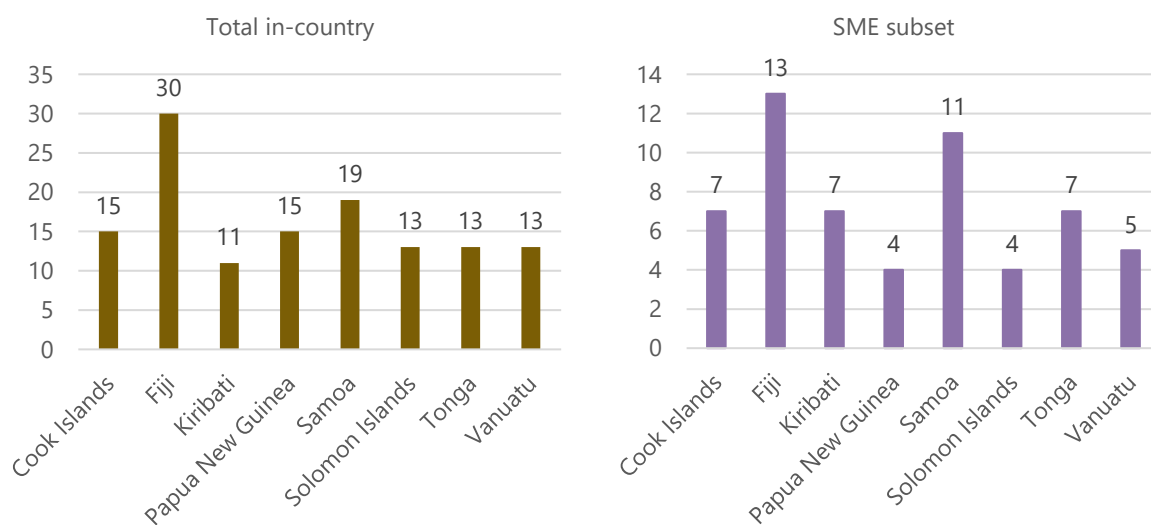
The in-country Evaluation Team members conducted a total of 129 key stakeholder interviews across eight Pacific countries with small to medium enterprises (SMEs), Business Advisory Service Partners (BASPs), Business Service Managers (BSMs), In-Country Representative Partners (ICNRs), In-Country Government Officials (GOs) and Financial Institutions (FIs).

Table 1 and Figure 1 provide additional details below.

Table 1: In-country key stakeholder interviews

	Cook Islands	Fiji	Kiribati	Papua New Guinea	Samoa	Solomon Islands	Tonga	Vanuatu	Total
SMEs	7	13	7	4	11	4	7	5	58
BASPs	4	8	1	3	2	4	2	4	28
BSMs	1	1	-	3	1	-	1	1	8
FIs	-	4	1	3	3	1	1	1	14
GOs	2	1	-	1	1	1	1	-	7
ICNRs	1	3	2	1	1	3	1	2	14
Total	15	30	11	15	19	13	13	13	129

Figure 1: In-country key stakeholder interviews by total and SME



The SME Finance Facility

SME support programmes in PICs have tended to focus on donor-funded direct provision and/or permanent subsidisation of SME support. These approaches tend to distort and crowd out existing and potential commercial business advisory service providers (BASPs) at a local level.

This has resulted in the commercial market for business advisory services (BAS) in the PICs, particularly servicing SMEs, remaining largely underdeveloped, with government or donor-funded small business enterprise centres servicing microenterprises and international accounting and consultancy firms servicing larger businesses. Many SMEs in PICs require assistance beyond that provided by these enterprise centres but are too small to access formal banking and advisory services.

Commercial banks report an interest in increasing lending to SMEs, yet they remain hesitant, expressing concerns over SMEs' lack of financial information and weak internal management capacity, as well as insufficient capital and availability of acceptable collateral. Constraints associated with seeking of BAS, such as affordability, confidentiality, and quality, mean that SMEs often require support to identify, access and realise the value of BAS to access finance and support their relationship with commercial banks.

The COVID-19 crisis is imposing a significant burden on Pacific Island economies and on their SME sectors. There is a high risk that the difficult economic conditions currently being experienced will lead to multiple business failures in the sector, and that those SMEs which survive will take a long time to recover.

SMEs in the Pacific have long-standing problems in accessing financial services due to both demand and supply side factors, overlain by significant gender-related issues. These problems have become more acute since the onset of the COVID-19 crisis.

A survey undertaken by Business Link Pacific (BLP) in June 2020 informed the design process for the Facility. It found that almost 80 per cent of SMEs are currently seeking financial support. Almost 90 per cent reported that their revenue has declined, and about half expected that their businesses would close in the next six months if business conditions do not improve or if financial assistance is not forthcoming.

Financial Institutions (FIs) participating in the survey reported experiencing difficulties with rising loan arrears/defaults and lower lending volumes. Many FIs have offered deferred repayment schedules and reduced charges to their clients. Most FIs surveyed expressed concern at the current situation and a keen interest in participating in a programme targeting SMEs with financial and business advisory support.

Leveraging BLPs existing organisational structure, the Facility was designed to address immediate threats to the survival of SMEs and create an enhanced medium and longer-term framework to support the sector. It is structured around three key outputs:

- **Output 1 – Adaptation grants for stabilisation:** Distribute business adaptation grants to SMEs in a timely manner. The grants were to be tailored to meet immediate business capital needs identified by SMEs. The application, screening and due diligence and grant

window payments to SMEs were to be fast-tracked through BLP's digital platform, quality approved BASP network and contracted ICNR partners.

- **Output 2 – Wholesale capital for on-lending:** Wholesale capital would be provided to partner FIs for lending/on-lending to SMEs under concessional terms. The Facility will include potential risk sharing approaches with partner FIs, including coordinating wholesale credit and existing loan guarantee facilities in PICs to share some of the credit risk with the partner FIs. Following on from the business adaptation grants, concessional or guaranteed loans will facilitate finance access for SMEs to support economic recovery.
- **Output 3 – Delivery of Technical Assistance to FI Partners:** BLP will provide technical assistance to partner FIs to support the rollout of concessional lending, facilitate SME linkages to concessional loans, the development of new concessional SME loan products and support SME financial services proposals. This output was not in scope for this evaluation.

Report structure

The report is structured as follows:

- **The Inception Phase:** presents the key achievements related to the Facility's establishment. This included the fundamental management and programmatic infrastructure to implement the Facility within the 14-month pilot period.
- **Output One – Adaptation Grants:** examines the key results for Round 1 and Round 2 (to date). Stakeholders' views are examined on Round 1 in further detail and their suggested improvements to strengthen the process moving forward presented.
- **Output Two – Wholesale capital for on-lending:** reviews the progress made to date against this output and explores feedback from key stakeholders in relation to the role and need for concessional loans.
- **The Gender Equality Social Inclusion (GESI) Framework** presents progress made to date.
- **Future direction for the Facility** looks at whether the Facility should continue beyond its 14-month pilot phase, and if so, what it should consider.
- **Key conclusions:** presents the key conclusions of the formative evaluation of the SME Finance Facility pilot.
- **Recommended next steps** presents what a Phase Two of the Facility needs to consider in its design going forward.

The Inception Phase

The Facility's Inception Phase was initiated on the date of contract signing, 12 November 2020. This phase established the fundamental management and programmatic infrastructure to implement the Facility within the 14-month pilot period.

Solid progress was made. This included the creation of contracting documentation, internal systems, and software modifications, establishing monitoring and evaluation systems and frameworks, recruiting staff, and creating team structures, completing operations manuals, work plans, and partnership agreements and procedural documentation.

Key achievements of the Inception Phase included:

- Recruiting a Senior SME Banking Specialist and the Financial/Administration Programme Manager.
- Actively engaging BSMs in the development and roll out of the Grant Portal, and through the application process and in the finalisation of grantee applications, validation, and grant administration. This included initiating engagement with BASPs and ICNR partners.
- On-boarding new ICNRs and BASP partners in Kiribati and Tonga:
 - The Tonga Chamber of Commerce and Industry (TCCI) was contracted as of 1 April 2021, to assist with the Facility's implementation, and to act as the ICNR partner to assist and support local SMEs' access to adaptation grants and support services.
 - In Kiribati, the Kiribati Chamber of Commerce (KCCI) was contracted on 19 July 2021, as the coordinating ICNR partner to assist grantees, and to assist in ICNR/BASP on-boarding and on-going grant administration.
- Establishing a dedicated bank account for the wholesale capital for the concessional loans component, along with the financial systems and tracking tools for the processing of expenses, grants, and wholesale capital for the Facility.
- Finalising a Monitoring and Evaluation Framework and Results Measurement Table in June 2021 to track and attribute the impact on SMEs of accessing BLP services, the Facility's services and where SMEs have accessed both BLP and the Facility services.
- Completing the GESI Framework and Action Plans, which have been approved by MFAT.
- Updating and reporting quarterly on the Risk Register (to ISO standards) for the Facility.
- Finalising the Operations Manual, which was approved by MFAT on 13 July 2021. This manual includes details of the full DT Global systems, management and HR functions, health and safety, facility operations, policies, procedures, processes, and full partnership documentation for implementation.

It also contains detailed information on financial management and accounting for the Facility, including fraud control and prevention, as well as procurement of BASPs and ICNR partners' services related to the Facility. It details grants administration, including grant criteria and processes for application approval, disbursements, and monitoring, as well as the administration processes for the wholesale capital component of the Facility. It includes

reference to the wholesale capital FI partnership documentation, agreements, and term sheets.

- Finalising the Finance Institution Partnering Agreement template, term sheet, application forms, due diligence procedures and other documentation, after full legal review and final approval from MFAT to proceed on 13 July 2021.
- The Facility's Implementation Work Plan was approved in January 2021 by MFAT. It encompasses all phases of the Pilot, along with programme management, monitoring and evaluation and reporting functions. The Work Plan establishes the timelines, documentation development, detailed deliverables, tasks, and outputs for the duration of the Pilot Programme.

Output One: The Adaptation Grants

This section examines the key results for Round 1 and Round 2 (to date). It examines Round 1 in more detail based on key stakeholders' feedback and identifies their suggested improvements to strengthen future rounds moving forward.

Adaptation Grants Round 1

Within five weeks of contract signing, DT Global established the Facility's grant application process and acceptance criteria during the Inception Phase, leveraging off BLP operations, policies, procedures, and processes. It opened Round 1 for applications from SMEs across the seven participating countries on 18 December 2020. It closed on 31 January 2021. Vanuatu was not included in Round 1.

Round 1 received 805 applications from SMEs across the seven PICs, totalling NZD8,796 million in grant requests. Grants were available between NZD5,000 to NZD15,000 depending on the size of the business, with an average grant request of NZD10,940 per applicant.

507 applications did not meet the adaptation grant criteria or scored below benchmark to proceed. As part of notification, the unsuccessful applicants were referred for consideration of other potential forms of BLP support, including BAS subsidies, business diagnostics and other support services.

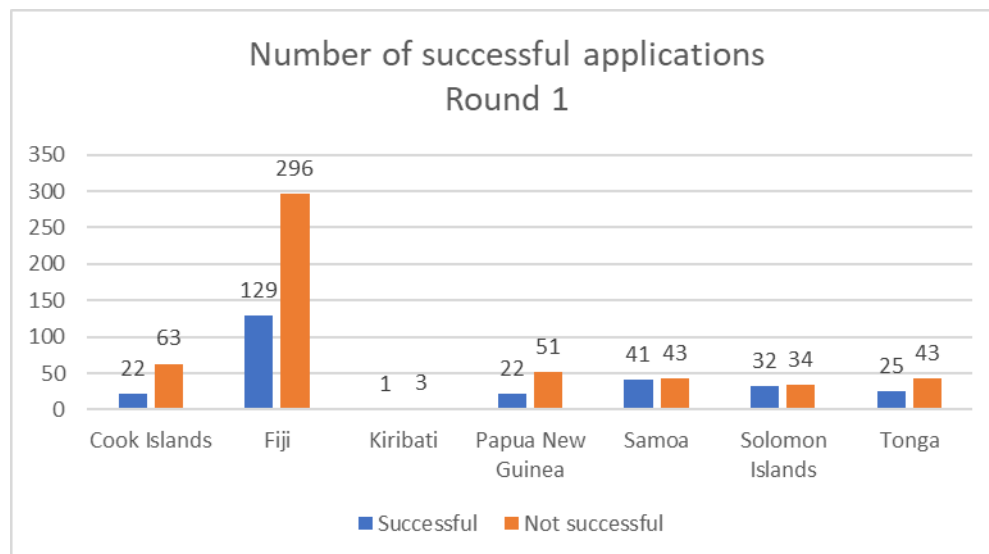
Table 2 shows that Kiribati, Papua New Guinea, and Solomon Islands have a noticeably lower proportion of applications submitted (17-37 per cent) when compared to other Pacific Island countries (48-54 per cent), and when compared to the overall total proportion of applicants submitted, which sat at 45 per cent.

Table 2: Grant applications (Round 1) as at end of August 2021

	Cook Islands	Fiji	Kiribati	Papua New Guinea	Samoa	Solomon Islands	Tonga	Total
Submitted	85	425	4	73	84	66	68	805
Not submitted ¹	73	468	19	174	82	111	71	998
Total	158	893	23	247	166	177	139	1,803
Proportion submitted	54%	48%	17%	30%	51%	37%	49%	45%

Figure 2 shows both the number and the proportion of successful grant applications in Round 1. The proportion of successful applicants was around half for both Solomon Islands and Samoa, with the other PICs ranging from 25-37 per cent.

Figure 2: Successful applications (Round 1) as at end of August 2021



¹ A total of 998 applications were started by potential SME grant applicants but were not submitted and therefore were not evaluated or considered for funding. Most of the unsubmitted applications had very little information in them. Based on the analysis by DT Global, the primary reason why applications were not submitted was that 65% did not complete the form, including questions relating to conflicts of interest and financial adaptation plans, which may indicate that they were put off by the difficulty of answering these questions; 30% had created a form but did not answer anything, perhaps showing that SMEs were checking out what was required. More information can be found in SME Finance Facility Pilot Programme Quarterly Progress Report January 1-March 31, 2021 (PYQ1), page 13.

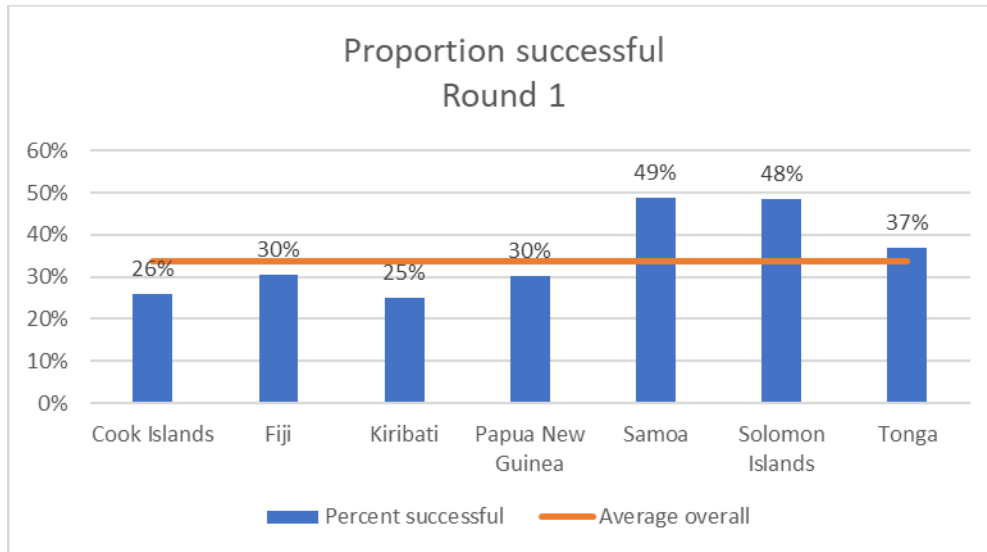


Table 3 provides additional detail, noting that around a third of the grant applicants were successful in being awarded an adaptation grant in Round 1.

Table 3: Successful applications (Round 1) as at the end of August 2021

	Cook Islands	Fiji	Kiribati	Papua New Guinea	Samoa	Solomon Islands	Tonga	Total
Submitted	85	425	4	73	84	66	68	805
Successful (end June)	22	139	3	24	48	32	30	298
Did not proceed *	0	10	2	2	7	0	5	26
Successful (end August)	22	129	1	22	41	32	25	272
Not successful	63	296	3	51	43	34	43	533
Percent successful	26%	30%	25%	30%	49%	48%	37%	34%

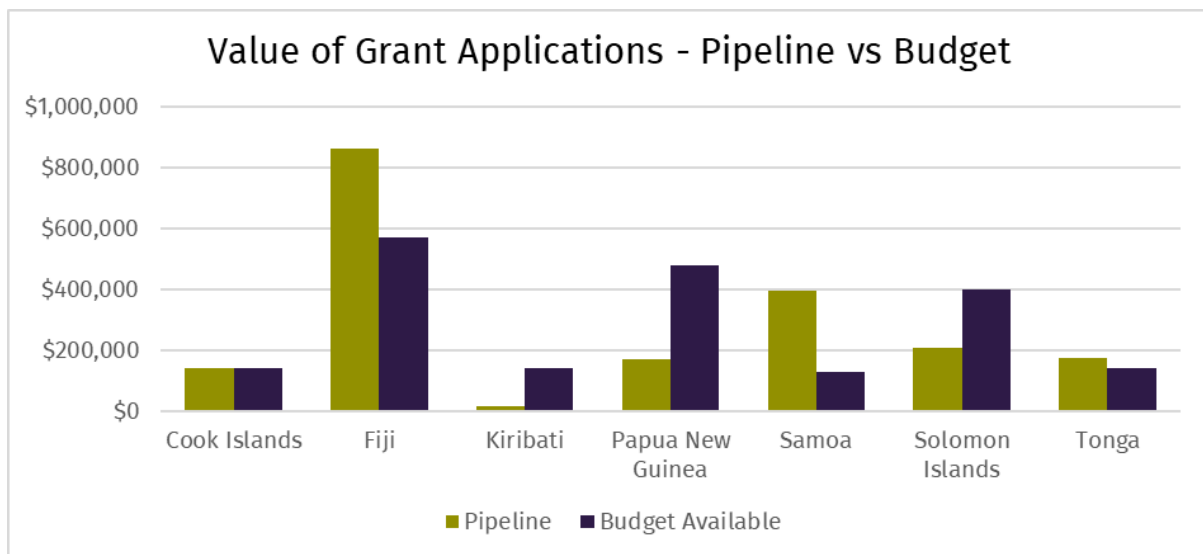
* Cases where SME has not responded, withdrawn their application, or been unable to provide the required information to proceed.

Value of grant disbursements

At the end of June 2021, the 298 successful applications in the grant pipeline represented a total grant value of NZD1.97 million, against a total budget for Round 1 of NZD2 million.

Figure 3 shows the value of the grant pipeline by country compared to the preliminary grant budget allocation for each country. The value of successful grants exceeded the allocated budget in Fiji, Samoa, and Tonga and below the budget allocation in Papua New Guinea, Solomon Islands and Kiribati.

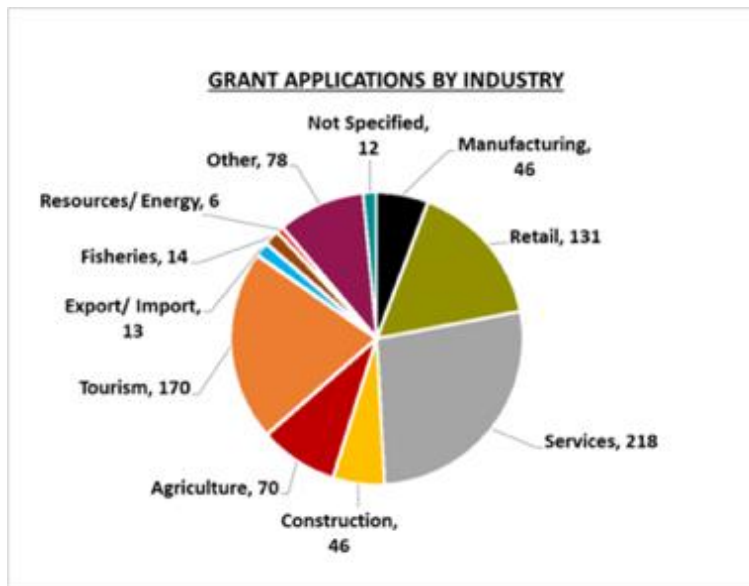
Figure 3: Value of grant applications – pipeline vs budget



Industry sector of grant disbursements

In terms of industry sector, applications were received across a broad range of sectors, with tourism, business, and financial services, retail and agriculture sectors presenting the highest number of applications – see Figure 4.

Figure 4: Round 1 Grant applications by industry



Size of the SME

There was a higher-than-expected level of interest in the adaptation grant from smaller businesses with applications from businesses with one to five employees representing the highest proportion of applications submitted and approved. Larger businesses with 20 plus employees have shown less interest in the grants, which may have been due to the size of the grants available (max. NZD15,000 for larger businesses).

Table 4: Round 1: Grants pipeline by SME size

Size of business	Total value of grant pipeline	Budget allocation by business size
0-5 employees	\$ 717,733.00	\$ 400,000.00
6-20 employees	\$ 918,680.00	\$ 800,000.00
21-50 employees	\$ 330,990.00	\$ 800,000.00
Total	\$ 1,967,403.00	\$ 2,000,000.00

In the grant application form applicants were asked to provide the number of full-time and part-time employees in December 2019 and December 2020. The 298 applicant SMEs employed 2,375 FTEs at end December 2020, with 1,048 (44 per cent) of these being women.

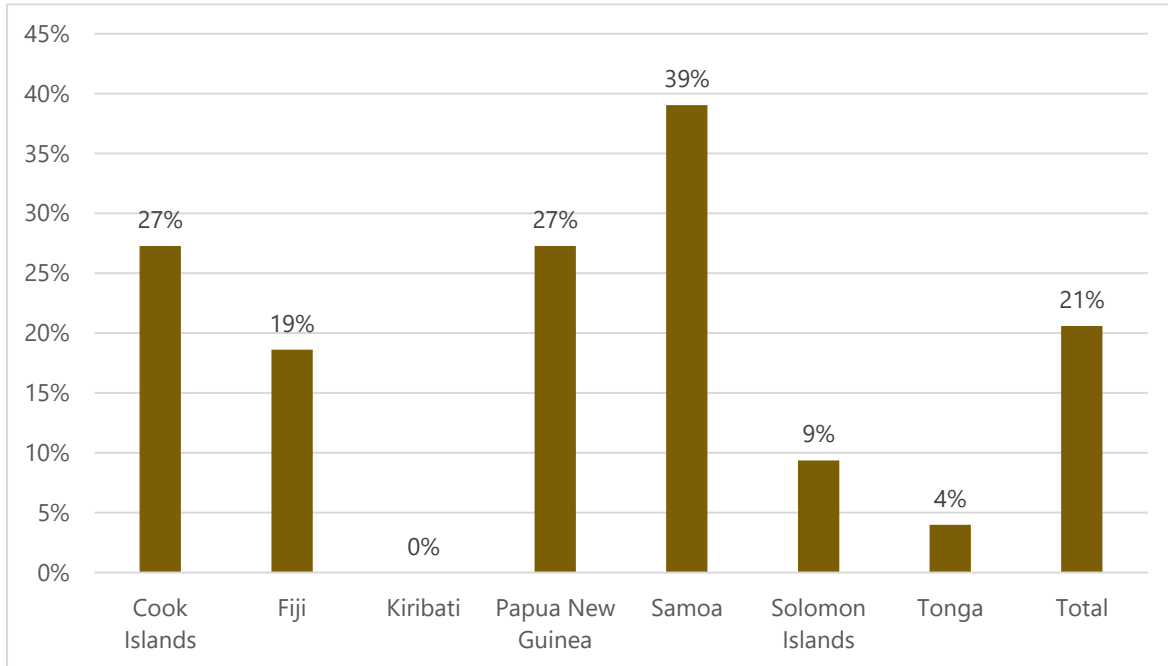
Turnover of SME grant recipients

The 298 applicant SMEs represent a total combined turnover of NZD134 million at December 2020. Of the 298 applicants, there are 157 (53 per cent) reported to have 50 per cent or more female ownership. However, although the businesses with more than 50 per cent female ownership represent 53 per cent of the total number of businesses, they are proportionately smaller in terms of turnover, with a combined turnover of NZD29 million.

Adaptation grants and BLP subsidies

Figure 5 shows the correlation between applications that were successful in receiving an adaptation grant and those that had previously received a BLP subsidy. In the case of Samoa, 39 per cent of successful recipients for an adaptation grant had previously received a BLP subsidy.

Figure 5: Percent of approved adaptation grant recipients (Round 1) that had previously received a BLP subsidy



Grant disbursement

The first round of adaptation grants has a total budget of NZD2 million; 298 applications totalling NZD1.97 million have been approved and are progressing to payment.

At the end of July, BLP had paid out 70 grants (totalling NZD606,818). The remaining grants are progressing through the validation process with BASPs before final approval and payment. This involves further developing the adaptation plans, preparing a validation memo, summarising their current financial and organisational status, and a cash flow forecast for their business for at least the next 12 months. The BLP Grants Panel reviewed these documents before providing final approval.

Table 5: SME grant applications status by country at end June 2021

Application Status	Country							TOTAL
	Cook Islands	Fiji	Kiribati	PNG	Samoa	Solomons	Tonga	
Applications created	158	893	23	247	166	177	139	1803
Applications submitted	85	425	4	73	84	66	68	805
Unsuccessful applications	63	286	1	49	36	34	38	507
Applications evaluated	23	147	4	30	57	34	34	329
Successful applications	22	139	3	24	48	32	30	298
SME confirmed	20	116	3	21	41	31	27	259
Validation in progress	2	88	1	12	17	22	18	160
Validation completed	15	28	0	9	22	2	6	82
Approved for payment	15	25	0	7	22	0	3	72
Contracted	15	13	0	0	9	0	0	37
Grants Paid	13	12	0	0	8	0	0	33

Adaptation Grants Round 2

The Australian Department of Foreign Affairs and Trade (DFAT) confirmed a contribution to the Facility through a “Delegated Cooperation Agreement” with MFAT. These additional funds have enabled a second round of adaptation grants, and for Vanuatu to be included. Round 2 opened on June 27th and closed on July 27th, 2021. Successful applicants in Round 1 were not eligible to reapply for Round 2.

2,000 adaptation grant applications were completed and submitted in Round 2 from SMEs across eight participating PICs. The response from Fiji was very high with over 1,400 applications submitted in Round 2, coinciding with the second COVID-19 lockdown in Fiji.

The proportion of applications submitted in Round 2 was three in five (60 per cent). As in Round 1, Kiribati, Papua New Guinea, and Solomon Islands submitted a lower proportion (38-44 per cent) compared with other PICs (51-66 per cent), but a higher proportion than they did in Round 1.

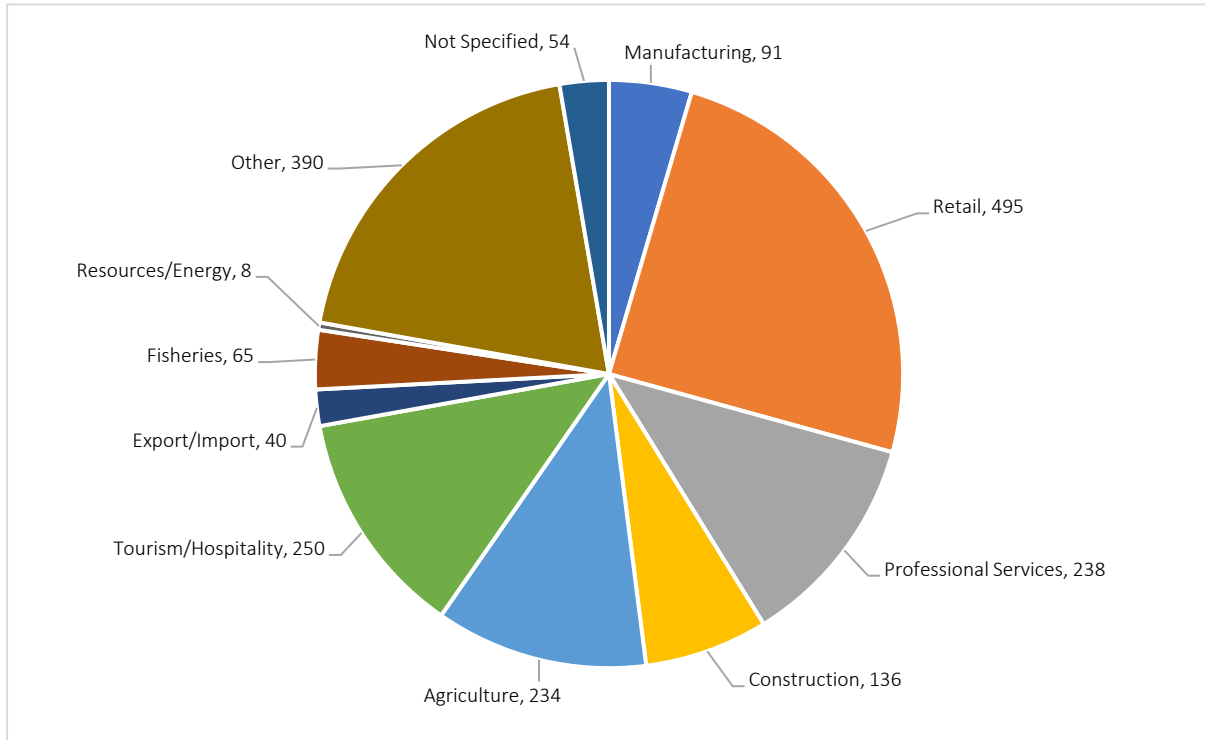
Table 6: Grant applications (Round 2) as at end of August 2021

	Cook Islands	Fiji	Kiribati	Papua New Guinea	Samoa	Solomon Islands	Tonga	Vanuatu	Total
Submitted	63	1,483	24	163	120	30	41	76	2,000
Not submitted	33	837	33	208	109	49	40	44	1,353
Total	96	2,320	57	371	229	79	81	120	3,353
Proportion submitted	66%	64%	42%	44%	52%	38%	51%	63%	60%

Industry sector of grant disbursements

In terms of industry sector, applications were received across a broad range of sectors, with tourism, business and financial services, retail and agriculture sectors presenting the highest number of applications – see Figure 6.

Figure 6: Grant applications (Round 2) by industry



Size of the SME

As in Round 1, there was a higher-than-expected level of interest in the adaptation grant from smaller businesses, with applications from businesses with one to five employees representing the highest proportion of applications submitted.

Table 7: Grants pipeline by SME size Round 2

Size of business	Total value of grant pipeline	Budget allocation by business size
0-5 employees	\$4,694,218	\$500,000
6-20 employees	\$2,404,480	\$500,000
21-50 employees	\$742,850	\$300,000
Total	\$7,841,548	\$1,300,000

Adaptation Grant Rounds 1 and 2

Figures Figure 7 and Figure 8 show that the number of applications submitted for Papua New Guinea and Kiribati improved in Round 2, though the number of applications from Solomons Islands fell, as did applications from the Cook Islands and Tonga. Figure 8 shows a higher proportion of fully completed applications also being submitted overall – with notable increases in Fiji, Kiribati, and Papua New Guinea.

Figure 7: Round 1 and 2: Number of grant applications submitted by country

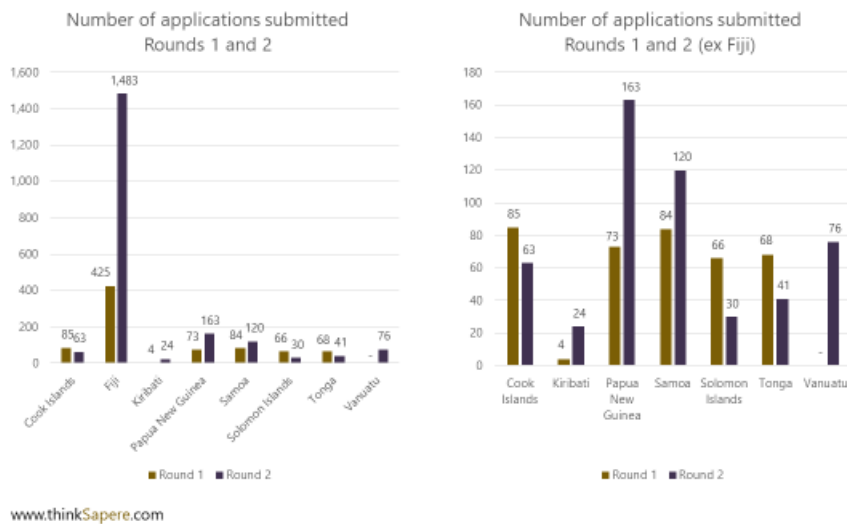


Figure 8: Round 1 and 2: Number and proportion of grant applications submitted

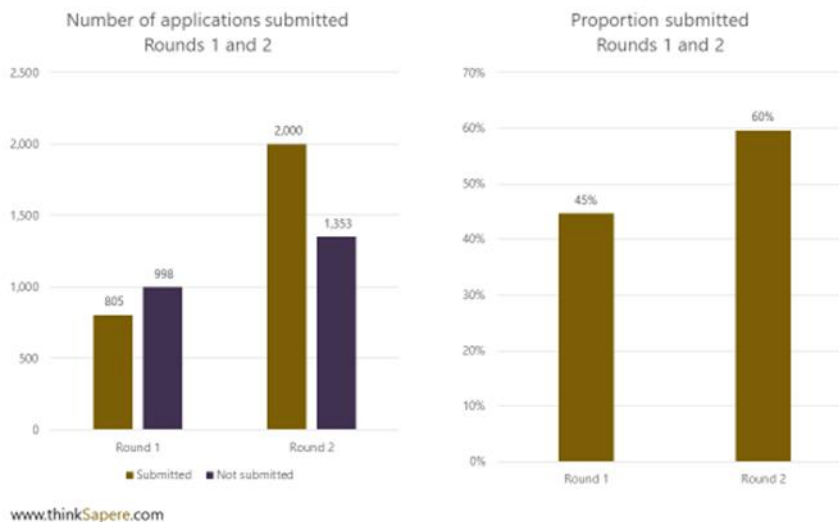
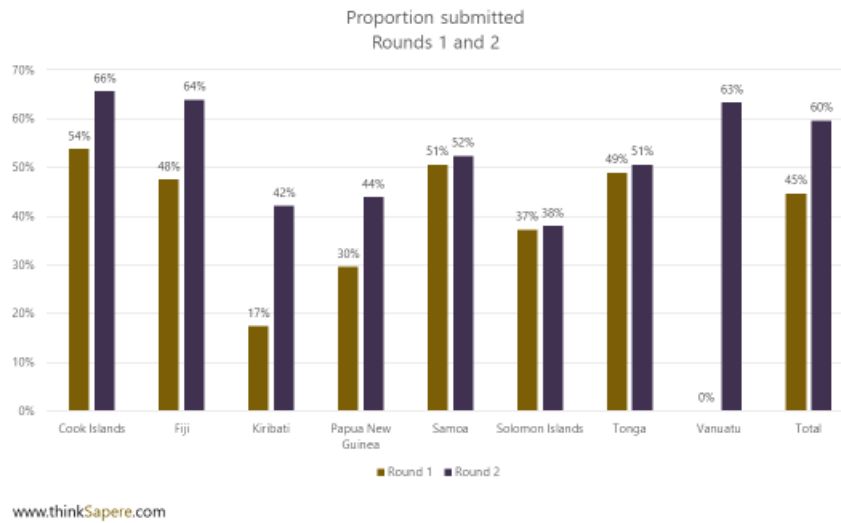


Figure 9: Round 1 and 2: Proportion of grant applications submitted by country



Looking at Table 8 below, it shows that Kiribati, Papua New Guinea, and Solomon Islands still have a noticeably lower proportion of applications being submitted (35-38 per cent) overall when compared to other Pacific Island countries (50-63 per cent). This suggests that SMEs probably need more support in completing their applications in these PICs. The total proportion submitted sits at 54 per cent, though this disguises that more applications were submitted (60 per cent) in Round 2 than in Round 1 (45 per cent).

Table 8: Grant applications (Round 1 and 2 combined) as at end of August 2021

	Cook Islands	Fiji	Kiribati	Papua New Guinea	Samoa	Solomon Islands	Tonga	Vanuatu	Total
Submitted	148	1,908	28	236	204	96	109	76	2,805
Not submitted	106	1,305	52	382	191	160	111	44	2,351
Total	254	3,213	80	618	395	256	220	120	5,156
Proportion submitted	58%	59%	35%	38%	52%	38%	50%	63%	54%

Table 9 shows that there is little difference between rounds in the proportion of applicants that are 50%+ owned or managed by women between rounds – 52% of active* applicants that are 50%+ owned or managed by women in Round 1 compared to 50% in Round 2.

Table 9: Grant applications (Round 1 and 2 combined) that are 50% owned or managed by women as at end of August 2021

	Round 1	Round 2
Number of submitted applicants that are 50%+ owned or managed by women	405	940
Total number of submitted applications	805	2023
Number of active* applicants that are 50%+ owned or managed by women	139	521
Total number of active applications	266	1035
Number of approved** applicants that are 50%+ owned or managed by women	104	0
Total number of approved applications	199	0

* Active applications are applications that are currently proceeding through the grant process i.e., evaluation, peer-review, validation, approval, payment.

** Approved applications are applications that have been approved and/or paid.

Are the adaptation grants fit for purpose?

This section presents key stakeholders' feedback on the adaptation grants in more detail, including their suggestions on how to improve and strengthen them.

Are the adaptation grants meeting a need?

The adaptation grants were targeted to assist SMEs to survive the immediate impacts of the COVID-19 crisis, aiming to protect jobs and tax revenues by providing small grants to viable but financially distressed SMEs in participating PICs. The focus was on the stabilisation of business operations and, where appropriate, would lead to the next phase of recovery via access to concessional loans.

The application, screening and due diligence was managed through BLP's digital platform, successful applications were validated, and implementation planning supported by quality approved BASPs in the BLP network, with due diligence and other follow-up managed by BLP's ICNR partners. The adaptation grants (and the concessional loans) were designed to align with government and donor-supported economic stimulus packages, including operational modalities, timing, and duration.

Overall, there was strong high-level agreement among all the key stakeholders we interviewed (including SMEs, GOs, ICNRs, BASPs, BSMs, FIs, and key stakeholders from DFAT and MFAT) that the adaptation grants meet a critical and demonstrable need at a time that Pacific SMEs most needed the assistance:

The Facility met the SMEs current and ongoing needs in relation to COVID-19 response and recovery. (Papua New Guinea)

The adaptation grants were very timely in Fiji as they went into the second lockdown. The SMEs needed cash to help them survive, adapt, and pivot, and just to keep the doors opened. The concessional loans will be a key part to their recovery going forward. (Fiji)

There was a strong message from several stakeholders that it was too early to ascertain whether the adaptation grants were meeting the core purpose they were designed for. They considered that evidence needs to be collected before they drew any conclusions and/or made a judgement.

There is, however, emerging evidence from SMEs that shows that the adaptation grants are meeting the purpose they were designed for:

The grant enabled some SMEs to diversify their business into other related activities that will continue to generate the cashflow to sustain business and keep staff from being unemployed, especially the SMEs that are tourism related. The grant also facilitated some SMEs to move quickly to ensure the sustainability of business by making repairs or replacing equipment. It supplements the budgets of some SMEs, so they do not have to pay full costs and avoid dipping into their valuable savings. (Tonga)

The adaptation grants were very timely and allowed businesses in Samoa to manage debt, maintain cash flow, and adapt. (Samoa)

The grant has allowed us to invest in quality online strategy and get my sales online. Without this grant I would not have been able to afford it. (Fiji)

It allowed me to expand my operation to catering for buffet dinners and functions. I could buy an oven, which was paid partly by the grant, and we covered the rest as we needed to urgently generate additional business from our restaurant. (Tonga)

There is also evidence that applicants in Round 1 applied to use grant funds as an equity contribution towards bank loans and other financing to finance the delivery of larger adaptation plans. These included equity for several loans that are to be used for procurement of capital equipment, working capital, renovations, and stock purchases.

BLP is tracking this but it is too soon to say how many of these have successfully secured loans or the total value of loans secured. At the time of writing this report, five have been successful, but most are in progress and are using BASP support to submit their loan applications. However, what we can say is that out of a total of 298 successful Round 1 grant applicants:

- 226 applicants (who applied for grants totalling NZD1.47 million) indicated that they had secured or intend to secure other funding (total NZD9.5 million) to deliver their adaptation plans
- 41 applicants (who applied for grants totalling NZD273k) indicated that they had already secured or planned to get commercial loans (totalling NZD2.3 million) to help fund their adaptation plans.

This demonstrates the potential flow-on from grants to the concessional loans being developed in Output 2 with select FI partners, which can further leverage the initial equity provided to SMEs as grants.

A positive outcome is that BLP has secured agreement from several banks to recognise a grant offer letter from BLP as the cash equity equivalent of the grant transfer to enable the SME to secure a loan. This is a significant result in terms of demonstrating problem solving, responding to blockages, and meeting market needs. Using grants for equity for bank loans resolves the prevailing market condition where banks require cash equity to be deposited in an account before they will process an SME loan application, combined with it being generally acknowledged that SMEs struggle to meet the banks' collateral and equity requirements to apply for a loan.

By providing grants that can be used as equity, the Facility enables more SME loan applications. Where the adaptation grant application meets the criteria, the grant can be approved with the condition that the loan is also approved by the bank. The bank conducts its own due diligence and loan assessment before the loan is approved by the bank, and the grant is only released once the loan has been approved.

Because the banks require the cash equity to be deposited in an account before they will process the loan application, BLP needed to gain the agreement from the banks to recognise the grant approval as equivalent to cash equity for the loan application to proceed with the bank.

Are the adaptation grants aligned?

In-country officials agreed that the adaptation grants met a critical need to help SMEs respond and recover to COVID-19, and they also agreed that overall, they were well aligned with their country's COVID-19 economic response/stimulus packages. ICNRs, MFAT and DFAT stakeholders shared this view.

These stakeholders believed that the Facility's requirement to develop a business adaptation plan and cash flow projections, which many of the government-sponsored grant/loan support programmes were not requiring, provided a solid foundation to help SMEs recover, build back better, and strengthen their resilience and sustainability going forward.

Significant coordination occurred through the design and implementation of the Facility by BLP with relevant government agencies, country chambers of commerce, multi-lateral banks, and other development partners. Stakeholders believed this coordination needs to continue to help manage any risks of duplication across COVID-19 response and recovery packages and to help identify any gaps, so that the adaptation grants could be targeted to where they are most needed moving forward.

There was a clear message that GOs, as well both MFAT and DFAT, desired updates about the Facility and the adaptation grants (for example, a list of successful grant applicants) to help maximise any opportunities that may arise through their work.

How well did the adaptation grant process work?

Overall, responses from stakeholders were mixed about the application, validation, and due diligence processes.²

There was a sizeable group from across the stakeholders' cohorts (primarily SMEs, BASPs and BSMs) who reported that the adaptation grants were straightforward, easy to follow and complete, that the online tools were user-friendly and comprehensive, and that the processes and procedures associated with the application, screening, and due diligence were sound and robust.

This feedback was usually (but not always) associated with and accompanied by remarks about the hugely valuable role BASPs, BSMs and ICNRs played in offering advice and support to SMEs. This suggests that without this assistance and support, a lot more SMEs would have struggled:

The BLP support combined with the grant allowed more SMEs, which could have been severely affected, to do more to keep them afloat and not going out of business. (Tonga)

Another somewhat larger and more diverse group of stakeholders (including BASPs, BSMs, ICNRs, FIs, SMEs and MFAT Posts) reported that SMEs struggled with the application, validation, and due diligence for several reasons. The primary reason was that many SMEs lacked the financial literacy and the business capability and capacity, and many did not have the necessary supporting documentation (includes financial, tax and business information) required for validation.

BASPs reported that many of their clients found the questions daunting and the data/information challenging to provide. There were reports that SMEs struggled with understanding the basic business terms and with the concepts of adapt/pivot. Some SMEs found the business plan challenging to complete in the fluid and uncertain environment created by COVID-19 restrictions.

Several SMEs described that they found the whole process³ to be time-consuming, lengthy (from the application closing date to the disbursement of the grant several months later), complicated, onerous, overwhelming, and intensive. A few SMEs found the process to be invasive, especially when asked to provide their financial information, and indicated that a trusted relationship was needed before they would share this type of information. One SME likened the whole process as to be more akin to applying for a \$500,000 bank loan than a small grant of \$15,000; another noted that it was easier to get a government grant for an even larger sum of money than what was being offered by the Facility; and others questioned whether all the effort was worth it for such a small grant. These observations were also echoed by BASPs and BSMs as well.

Other reasons cited by several different stakeholders (including SMEs) of why SMEs struggled included:

² Difference between stakeholder feedback primarily was between different stakeholder groups, as reported. There appeared little and/no different across other dimensions such as across PICs, size of SMEs, and the like.

³ Stakeholders' feedback did not really distinguish in any detail between the application process, the validation process, and the due diligence process.

- the very short four-week turnaround application period, which was compounded by Round 1 being over January and/or it coincided with lockdown restrictions, which meant for some SMEs they could not access the necessary documentation to support the validation of their application and/or open a bank account
- a lot of SMEs don't have access to the internet and/or there is poor connectivity if they do, and/or access to online is too expensive; and/or there were barriers to accessing ICNRs' online facilities, due to distance and/or high transport costs; this appeared to have more impact in remote areas and outer islands
- a lack of awareness among SMEs that the adaptation grants were available and/or lack of awareness of the timeline for the grant process
- it was challenging to find the necessary advice and assistance to support the application process for some SMEs in smaller Pacific countries, such as Kiribati, and in more remote areas and/or outer islands.

BASPs' main concern with the due diligence process was that they felt they "were learning on the job", and that some of the earlier guidance and support they received from BLP lacked clarity around their role and the adaptation grants. They also noted (which was also identified by BLP as an on-going challenge) that they experienced delays in contacting SMEs and gathering and verifying their documents, which added time to the due diligence process. This was further hampered by lockdowns and COVID-19 restrictions.

Suggested improvements

When asked about how the application process could be improved, feedback reflected what stakeholders had found both challenging and frustrating.

Suggestions for improvement by stakeholders included:

- continue to provide more advice and support for SMEs to complete the application, validation, and due diligence, and to also provide ongoing support to assist SMEs implement their adaptation plans
- expand the existing network of BASPs, BSMs and ICNRs to help meet the demand by recruiting more local people in business/businesses to be involved in the application, validation, and due diligence processes
- look closely at how to make the process less onerous to better reflect the value of the grant and to achieve a timelier turnaround from applications being submitted to the disbursement of the adaptation grants to the successful applicants
- increase SMEs' awareness of the adaptation grants through such channels as social media and country chambers of commerce, including local individual organisations that sit under the chambers of commerce, and use local TV and local languages
- ensure SMEs and other key stakeholders better understand who can apply for the adaptation grants – for example, they are open to all industry sectors
- strengthen the effort to ensure that women operating in the SME space are aware of the Facility's services. Specific suggestions to improve this included:

- working more closely with local chambers of commerce/other key business groups, including the many women business/women groups that operate in the PICs
- more targeted support for women SMEs
- a better understanding of the many challenges' women-led/managed SMEs face to access the necessary advice and support.
- extend the application window beyond four weeks to allow time for SMEs to complete and submit their applications
- timeframes for applications to be more flexible and responsive to enable SMEs to apply for support when it is relevant to them going forward
- more effort/focus to include SMEs from the outskirts of the capitals/provincial centres, in more remote areas and/or in outer islands, and/or in other sectors, such as agriculture and fisheries.

Some stakeholders questioned whether the adaptation grants were by default picking up SMEs that could more probably help themselves and exclude eligible SMEs that may be more in need and/or SMEs most in need that were being left behind.

BLP recruited a team of BASPs in each country that had completed the competency assessments and been quality approved for both "Strategy and Business Planning" and "Financial Management" to conduct the grant validations and support the adaptation planning with successful grant recipients. Suggestions were made by some stakeholders that the pool of BASPs needed to include those that are beyond the "stock standard set of accountants" to provide the right advice and support required to help SMEs adapt and pivot, and to assist them to manage their business through such tremulous times. As one stakeholder said – there was a difference in providing an audited set of accounts and offering insights into future business opportunities, and how then a SME might adapt and pivot.

Others identified that more technical and/or specialist sector (such as market chain experts, tourism, agriculture) advice is required. Others suggested using local people as mentors who run successful businesses as they had "real hands-on experience in managing a business", which would add value to the advice and support already offered by BASPs, although any issues with conflicts of interest and confidentiality would need to be considered and managed in small local markets. Connecting SMEs to basic face-to-face business 101 workshops, offered by other providers, could also help strengthen potential grant applicants' financial literacy and business management capacity.

Output Two: Wholesale capital for on-lending

The Facility was designed to provide both business adaptation grants and wholesale capital delivered through concessional loans in partnership with regional and local FIs, including second and third tier banks, finance companies and development banks. This support was primarily aimed to help address the hesitation of FIs to lend to SMEs, accentuated by current events, by providing concessional loan capital and/or guarantees/risk sharing facilities (RSFs). This was to be combined with technical assistance (TA) to refine lending practices, products, and approaches in the long-term.

What progress is being made?

BLP completed planning around the wholesale capital and concessional loans placement. This included development of a partnership pipeline, and completion of the partnership documentation – the FI Application Form, the Term Sheet (TS) and the Financial Institution Partnership Agreement (FIPA).

Discussions were undertaken with some 25 potential FI partners. These discussions are at varying stages. At the end of June 2021, BLP is near to signing and/or is signing a FIPA with four FI partners in the Cook Islands, Papua New Guinea, Solomon Islands and Fiji, which demonstrates excellent progress towards the target in the Facility pilot contract of three signed FI Partnering Agreements.

Another seven FIs have shown interest in this initiative and are at various stages of discussions and/or in negotiations. Progress has been delayed by COVID-19 restrictions and/or business disruptions. Two FIs (both in Papua New Guinea) have decided not to pursue the offer as they were unwilling and/or reluctant to lower their interest rates as it would undercut their existing loan products.

What support is there for concessional loans?

Overall, there was definite support for concessional loans for the SMEs by stakeholders.

Several stakeholders identified that the need for such assistance was obvious, given the severe and on-going impacts that COVID-19 is having on SMEs across the Pacific, and that what support there was in this space currently was not enough and/or is not going to be enough to meet this demand going forward in what will be a long and protracted recovery period. Others noted that due to commercial banks' high interest rates and their continued reluctance to take on the risk and lend to SMEs, that this will mean concessional loans at a lower interest rate will always be needed, especially now due to the impacts of the COVID-19 pandemic.

Several stakeholders agreed there was a definite role and room for SME concessional loans if they were offered as part of a package, alongside the BLP subsidies, adaptation grants and on-going business advice and support.

Other stakeholders were more unsure about the need for concessional loans. Stakeholders from Kiribati, Fiji, Samoa, Vanuatu, Tonga, Solomon Islands and Papua New Guinea all identified that there were other players already in the market offering products such as credit guarantee schemes and/or considering offering SMEs low interest loans through development banks.

Both approaches can be seen to have been present in PIC markets for some time now. However, there is evidence that shows they have had limited results. The Facility was designed to deliver a different approach – provide wholesale capital, for which the Facility absorbs the risk, to demonstrate and catalyse access to finance for bankable SMEs – although this may not be fully understood by these stakeholders.

Stakeholders wanted to know how the Facility approach to concessional lending will add any extra value, what gap it would fill, and how they would align and leverage off what currently exists or is being planned. The timing of these concessional loans would be important as different Pacific countries and different sectors have been impacted to varying degrees across the Pacific. Therefore, it is important that the concessional loans (as with adaptation grants and business advice and support) are on offer when SMEs needs them and as part of a combined package of support.⁴

Several stakeholders (mainly FIs) believed there is currently plenty of liquidity in the Pacific, and that perhaps more important was the need to continue to build and/or put more effort in building SMEs' business capacity and capability and support them to adapt and pivot and learn to operate in "this very fluid and uncertain environment" so they are in a better position to access this finance. Offering concessional loans may not be a priority, and the real and more pressing priority need was to create a pipeline to access all this finance, as one stakeholder put it, "of more bankable SMEs to invest in".

It should be noted that these demand side issues are where BLP and the Facility have been working for some time and that this view does not necessarily consider the recognised supply side issues in the market, such as appropriateness of loan products, risk assessment models, and collateral and security requirements, that the Facility's concessional lending component has been designed to address and test alternatives to.

Stakeholders saw the Facility would also need to identify how these concessional loans would achieve this goal, and then monitor and evaluate what value they add and what impact (positive and/or negative) these loans might have in the medium-long term on and within the wider ecosystem.

Stakeholders also questioned whether SMEs would be interested in taking on more debt during such a time as this, yet on the other hand, there were stakeholders who said that SMEs would be keen to access concessional loans at lower interest rates.

Several stakeholders noted that if concessional loans were going to be offered, they should not be detrimental to SMEs. They should be designed in such a way that it accommodates the "lumpiness of economic recovery" – for example, allowing holiday periods from repayments because of COVID-19 lockdowns and/or restrictions and interest-only repayment periods.

Stakeholders from Kiribati and Solomon Islands noted that the limited capacity and capabilities of their SMEs – compounded by the small pool of BASP advisors available in country that could offer advice and support – could hamper SMEs applying for concessional loans.

⁴ A sector analysis is currently being undertaken.

How is the GESI progressing?

SMEs in the Pacific have long-standing problems in accessing financial services due to both demand and supply side factors, overlain by significant gender-related issues.

To help address some of the significant gender-related issues and to support women's economic empowerment, the Facility developed a Gender Equity Social Inclusion (GESI) Framework in its Inception Phase. This Framework would guide the Facility's activities over time to achieve the following:

the aim of market systems development programming is to "empower women through activities that shift systems to be more favourable for women who are participating or who could/would participate in market systems"

The market systems approach of the Facility means that the Facility has limited direct delivery of services to SMEs, and it engages with SMEs in PICs predominantly through in-country partners and online platforms. As such, the Facility works through where it can have most influence. This includes a focus on the following:

- continuing to mainstream a GESI lens within the Facility's staff
- integrating GESI considerations and approaches within both the Facility, such as subsidies, grants, and loans and in cross-cutting services such as communications
- providing technical assistance, supporting, and sensitizing the Facility's partners, including BASPs and FIs, to a GESI approach, while facilitating linkages between these partners and SMEs owned by women, youth, and other marginalised groups.

Progress against deliverables in the Facility's GESI Action Plan, as at end of June 2021, included:

Mainstream GESI lens within BLP staff

- BSMs participated in a group or one on one GESI webinar in June 2021 in Fiji, Papua New Guinea, Solomon Islands and Tonga.
- Literature reviews and country plans drafted and ready for final review.
- The GESI advisor is working with each BSM to develop a blog post/reflection pertaining to GESI issues in context.

Integrate GESI considerations and approaches within the Facility's services

- GESI criteria have been developed and incorporated in the adaptation grants, and applications have been assessed against these criteria.
- ICNRs, BASPs and other GESI partners have been made aware of the opportunities through the Facility.
- Applicants were given access to and made aware of services offered by BASPs and BLP relating to diversity, equity, and inclusion.
- Selecting FI partners that meet criteria and demonstrate their outreach and service to SMEs owned by women, youth and other marginalised individuals is considered.

- Scope of concessional loan products being negotiated will include GESI criteria and targets.
- The Finance Finder application is being reviewed and GESI considerations are being incorporated.

Technical assistance with FIs as at the end of June 2021 has yet to start.

Where to next?

Should the SME Finance Facility Pilot Programme continue?

There was strong agreement among stakeholders that the Facility should continue beyond its 14-month pilot phase. Stakeholders believed that the adaptation grants were meeting a critical need for SMEs, and that this need is still there and will be there in the foreseeable future.

Many stakeholders talked about the on-going and long-term impacts that the COVID-19 pandemic is having on the Pacific SME sector and the challenges SMEs face in their response and recovery. This included loss of income, reduced business activity because of border closures and/or COVID-19 restrictions, a loss of skilled workers to overseas markets, a small and/or exhausted domestic market to provide services/sell products to, and disruptions to national and international supply chains.

This is being compounded by SMEs (but not all) struggling to adapt and pivot towards an uncertain future, and/or having limited opportunities to pivot and/or adapt, which is further hampered by SMEs' low levels of business capacity and capabilities.

There were several stakeholders who thought that it was too soon to make any judgements about the effectiveness, efficiency, and impact of the Facility, as the Facility had just been established. Stakeholders believed that the collection of more evidence was required before any decision was made about the Facility's future.

This included more evidence on the impact of the adaptation grants, what progress is being made to achieve the Facility's objectives and short-term outcomes, and what (if any) impact the Facility is making towards its medium- and longer-term outcomes and goals, and its contribution to development outcomes. Evidence on the concessional loans will also need to be gathered to ascertain what contribution (if any) they will make in strengthening the SME ecosystem in the medium and longer-term.

Should the SME Finance Facility Pilot Programme integrate with BLP?

There was again a very strong agreement from across all the stakeholders that the Facility should be integrated with BLP and/or be part of one Facility offering a wraparound service. To them, this was logical and was common sense, as the adaptation grants, concessional loans, and the business advice and support could not effectively and efficiently be delivered one without the other/s. Many believed that combining the BLP and the Facility into one entity would offer a more integrated set of products and services and, when combined, would have more chance for a successful outcome for SMEs.

Many other stakeholders (including SMEs) already saw the BLP and the Facility as one entity. They did not see the Facility and BLP services as being separate and distinct, so why would it need to change?

From an efficiency and value for money perspective, operating through BLP as one entity makes sense. The Facility is designed to be implemented using BLP's existing organisational structure and digital platform. It uses BLP's existing BASPs networks and its ICNR partners during the application,

screening, due diligence, and contracting processes for the adaptation grants. This advice and support will be extended to SMEs seeking concessional loans. At this point in time, it does not make sense to change this, nor would it justify the additional investment that would be required to set up the Facility as a distinct and separate entity.

Operating as a wraparound service across the whole ecosystem will also enable relationships and partnerships to be established and strengthened, and trust to be built, between SMEs, BASPs, ICNR partners, and FIs. Data can be collected in one data management system, allowing DT Global and MFAT to undertake in-depth analysis across the whole system, enabling a deeper understanding of how the Facility is working and where it is not. This will help to make more informed inflight adjustments to increase its effectiveness and efficiency.

Key conclusions

The evaluation found that strong progress has been made towards delivering the Facility's key activities and against its Outputs One and Two.

In the last 10 months, the Facility has been established and operating with the necessary management and infrastructure to implement it within the 14-month pilot. Both rounds of the adaptation grants were oversubscribed, and a partnership pipeline of potential FIs interested in wholesale lending for concessional loans to SMEs has been established.

Overall, there is a strong agreement among stakeholders that the adaptation grants are meeting a critical and demonstrable need for SMEs across the Pacific. Early emerging evidence indicates that they are. The adaptation grants are perceived by stakeholders to be well aligned with other economic response, recovery, and stimulus packages.

A higher proportion of fully completed applications were submitted in Round 2 than in Round 1. This positive result can be attributed to the support from the BASPs, BSMs and ICNRs. A good range of successful applicants were also from a range of industry sectors, with a higher proportion of successful applicants from smaller SMEs with one to five employees than SMEs with six-plus employees in both rounds. Looking forward to a Phase Two of the Facility, a question that probably needs to be addressed is whether more could or should be done to support those SMEs with six or more employees.

Evidence was also gathered that suggested there is a case for the Facility to strengthen its support to viable yet distressed SMEs from the outskirts of capitals and/or provincial centres, those SMEs in more remote areas, and outer islands, and those SMEs that face a range of challenges associated with access to technology.

The evaluation also found that there were several challenges with the roll out of Round 1 of the adaptation grants. Strong stakeholder feedback reported that many SMEs struggled because they lacked the capacity (knowledge/skills/access to technology). Many SMEs (but not all) struggled to articulate how they planned to adapt and pivot their business and some SMEs did not have the necessary supporting documentation, required at validation, and required additional support from the BASPs to complete these stages.

There was a call from some stakeholders to make the adaptation grants easier and less onerous. How best to respond to this feedback, will need some careful thought given that there is still a need to have a robust grant process. The validation and due diligence processes are designed to target the viable but financially distressed SMEs. Any considered changes, to make it less onerous, will need to be done without compromising the necessary checks and balances that are required by these processes to manage any exposure to risk and/or to prevent fraudulent behaviour to the Facility.

The adaptation grants have been specifically designed to target viable but financially distressed SMEs in participating PICs to survive the immediate impacts of the COVID-19 crisis. Making it easier for SMEs to apply may run the risk of opening the adaptation grants to SMEs that are not viable/eligible, causing the number of applications to rise, along with any associated costs to the Facility, and it could

be at the expense of more viable/eligible SMEs that are currently not applying, such as larger viable SMEs.

There was clear evidence that the BASPs, BSMs and the ICNRs played a critical and valuable role in supporting SMEs. There was a strong call for continued and/or greater support from the BASPs, BSMs and ICNRs for SMEs throughout the application, validation, and due diligence processes, as well as for ongoing support with the implementation of SMEs' adaptation plan.

More evidence needs to be collected to say conclusively if the adaptation grants are meeting the core purpose they were designed for. A more in-depth analysis of the data (once it is collected) would be valuable to further explore the impact of the Facility's design to ensure that the adaptation grants are fulfilling the core purpose they were designed for – targeting viable but financially distressed SMEs with small grants to survive the immediate impacts of the COVID-19 crisis, and where appropriate, leading to the next phase of recovery via access to concessional loans – and that no eligible SMEs or certain cohorts of eligible SMEs are inadvertently left behind.

There was also solid support among stakeholders to roll out the concessional loans. Stakeholders wanted to know how the concessional loans would fit into each country context, what value they would add, when they should be offered, and what impact they would have in strengthening the wider market system in the medium and longer term. Some stakeholders considered that more effort should be put into building SMEs' capacity and capabilities so they would be in a better position to access the finance already available, rather than supporting the rollout of concessional loans to SMEs.

It is too soon to make any judgements on the concessional loans. Four FIs are at the point of near signing or are signing a FIPA. These have been negotiated to respond to and reflect the individual market they operate in, making each FIPA quite different. More time is required to be able to execute and implement these before any conclusions about their effectiveness are reached.

There also appears to be a need for this intervention. This is due to an on-going reluctance of FIs to lower their interest rates and lend to SMEs (despite the liquidity in some PICs' economies), and/or FIs' hesitation to take on increased risk to expand their lending portfolio to include SMEs in such an unpredictable economic environment. Other levers may be required in the form of technical assistance in more 'liquid' economies for FIs and/or larger amounts of wholesale capital to make it more attractive for FIs to take this offer on board.

Looking forward, stakeholders considered that the SME Finance Facility Pilot should continue beyond its 14 months, as it is meeting a critical need for SMEs now and will do so into the foreseeable future, given the long-protracted recovery ahead for many PICs. There was strong support for the Facility being integrated with BLP. This would offer SMEs a wraparound set of complementary and integrated products and services and enhance the Facility's effectiveness. Efficiency gains would continue, using and leveraging off BLP's organisational structure, digital platform and networks.

More also could be done to increase the awareness and understanding of the Facility's services and products across all stakeholder groups. Several areas of feedback from stakeholders (in particular, SMEs) regarding how it could be improved and/or strengthened are offered by the Facility already. For example, adaptation grants are open equally to all sectors and can be used to access specialised technical or specialist sector support by SMEs. Suggestions for new services, such as helping SMEs to

digitise, and simple e-commerce solutions that would support SMEs to access markets and grow revenue, are services and products the Facility already provides.

Recommended next steps

Phase Two of the SME Finance Facility

Overall, the evaluation has collected a solid evidence base for a Phase Two of the Facility. Strong progress has been made in delivering the Facility's key outputs and sufficient evidence indicates a Phase Two is required. This has also been strongly supported by the stakeholders we engaged with.

The evaluation did not identify any significant design changes to the Facility that are needed. The evidence suggests that the design overall is relevant and fit for purpose, which reflects the investment made into the Facility's original design.

To strengthen the management and implementation of the Facility in Phase Two, the following will need to be considered:

- integrate the Facility with BLP to maximise efficiency gains and enhance its effectiveness
- consider extending Phase Two for three to five years to allow sufficient time to execute and implement the full Activity
- look at how to strengthen the BASP, BSM and the ICNRs network to meet on-going and widening demand for their services.

Adaptation grants

- Continue the adaptation grants to respond to COVID-19 outbreaks over the next 18-24 months as required, as PICs' economies move from survival to recovery mode (this will mean increase capitalisation, review demand, and an adjustment of the budget accordingly)
- Use the adaptation grants in a more targeted way to strengthen outreach to specific SME cohorts, such as those SMEs in more remote areas and/or outer islands and/or to attract larger SMEs to apply – for example, by offering a larger grant.
- A more streamlined and perhaps less onerous process for smaller SMEs for smaller grants, without compromising any due diligence requirements; a "Do you need help?" link to supporting ICNRs and/or BASPs (if a link does not exist).
- Make the application process more flexible and responsive to enable SMEs to apply for support when needed – for example, the Facility could consider a rolling grant window moving forward.
- Look at how the BASPs', BSMs' and ICNRs' advice and support can be more effective in reaching SMEs in remote areas/outer islands, and in Kiribati, Papua New Guinea, and Solomon Islands.
- A clearer delineation between application, validation, and due diligence, with an increased emphasis on the value of the business plan to support SMEs' response and recovery rather than perhaps as being a due diligence component of the validation.

Concessional loans

- Continue to support the testing of the wholesale capital for on-lending approach in different PICs and with different FIs as there is still a need for SMEs to be able to access finance to recover.
- Examine whether the current capitalisation of the Facility is sufficient to attract FIs and engage with the Facility; in other words, has the Facility's initial capital contribution been sufficient to leverage FIs' relationships for loans?
- Look at using other levers, such as technical advice and support to FIs, to influence the uptake of the Facility's offer of wholesale capital for on-lending to SMEs as concessional loans.

What Phase Two of the Facility should continue to do

Phase Two of the Facility should continue to build on what works, which includes:

- providing advice and support for SMEs to complete the application, validation, and due diligence, and for their adaptation planning and implementation through the BASPs, BSMs and ICNRs
- taking a flexible approach to enable the Facility to respond to PICs and key partners (including FIs) contexts and needs to strengthen progress made
- retaining the robust validation and due diligence processes
- communicating to build awareness and understanding of the adaptation grants through social media and country chambers of commerce, including local individual organisations that sit under the chambers of commerce
- undertaking analysis of the data being collected to ascertain whether the design is targeting the viable but financially distressed SMEs and that no eligible SMEs or certain cohorts of eligible SMEs are inadvertently left behind.

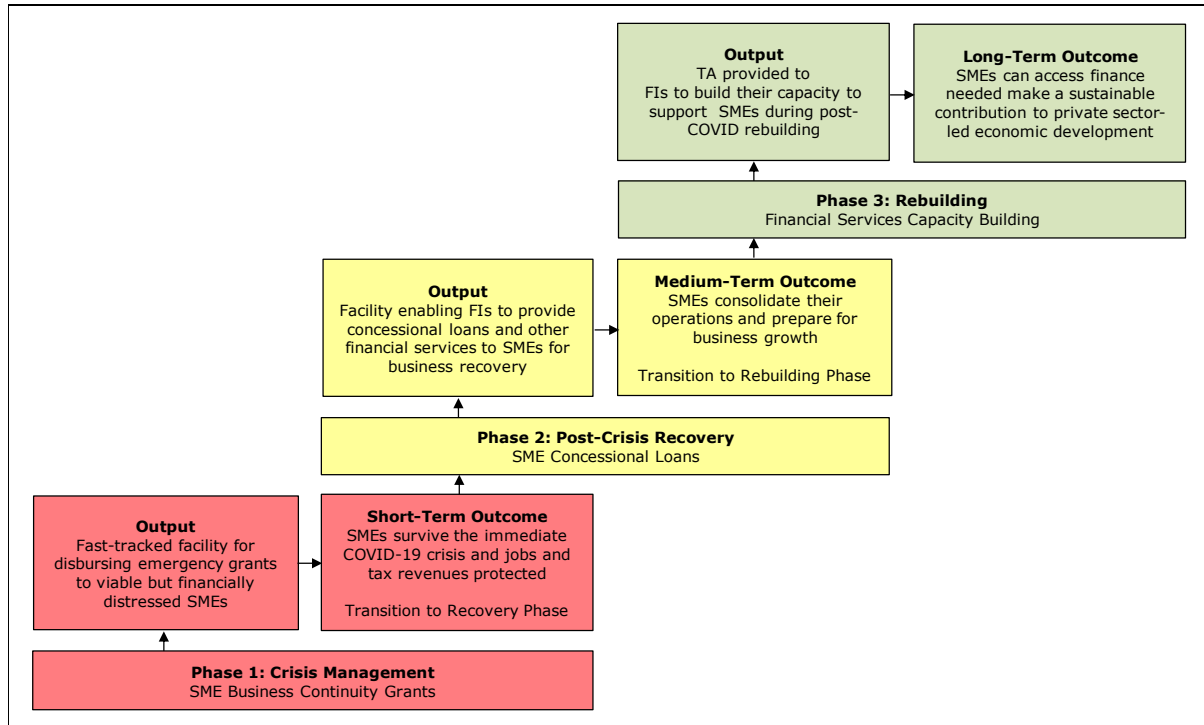
Key recommendations

The key recommendations are that:

- a Phase Two of the Facility beyond its 14-month pilot should proceed
- integration with BLP should progress
- the changes as outlined in the previous section above be considered and addressed for Phase Two of the Facility.

Appendix A Results Framework

Figure 10: Pacific SME Finance Facility Pilot Results Framework



Source: Pacific SME Finance Facility Activity Design Document

Appendix B Evaluation Framework

Table 10: Evaluation Framework

Objectives and criteria	Evaluation questions
<p>Objective 1: to assess the extent to which SMEs access to finance remains a priority for partner countries and the New Zealand Aid Programme.</p> <p>Criteria: Relevance</p>	<ol style="list-style-type: none"> 1. To what extent does the Facility address PIC government priorities for SMEs and economic development? 2. To what extent does the Facility address MFAT and DFAT’s regional and bilateral strategic priorities, including economic resilience, inclusive development, and climate change? 3. Given the impacts of COVID-19 and the availability of other donor support programmes for PIC SMEs, is the Facility appropriate and fit-for purpose? 4. To what extent is the Facility compatible and complementary to other initiatives in the Pacific with similar objectives? 5. To what extent does the Facility align with and respond to SME financing needs in the Pacific?
<p>Objective 2: to examine the progress being made in achieving the Facility’s outputs and outcomes.</p> <p>Criteria: Effectiveness</p>	<ol style="list-style-type: none"> 6. How effective are the key Facility workstreams in delivering outputs and what is the likelihood of achieving the proposed Activity outcomes? 7. What, if any, benefits, or synergies are realised from combining Facility services with business advisory services? How well does the Facility interface with other SME support services and programmes? 8. What is the Facility’s likely impact on financial institutions’ willingness to lend to SMEs and the broader financial services sector? 9. What is the Facility’s likely impact on SME resilience, particularly in terms of adapting and responding to COVID-19 and accessing formal finance? How likely is there to be unintended or negative impacts? 10. What factors (positive and negative) influenced the effectiveness of the Facility?
<p>Objective 3: to review the cost effectiveness of the Facility and Managed Services Contractor approach.</p> <p>Criteria: Efficiency</p>	<ol style="list-style-type: none"> 11. Given the budget available, to what extent does the Facility represent good public value in delivering results? To what extent did the Facility make appropriate use of New Zealand’s and Australia’s time and resources? 12. What efficiencies are realised through the combined delivery of BLP and the Facility? 13. What other opportunities exist for Activity improvement?
<p>Objective 4: Future design and support – to identify the key changes needed to deliver sustainable outcomes from a</p>	<ol style="list-style-type: none"> 14. Given the progress to date on the Facility, should it be extended beyond the current pilot? What services or geographic areas should be added/discontinued and what potential exists for increasing scale through donor funding or other sources?

possible second phase of the Facility.

15. If the Facility is approved for a second phase, should it be merged with BLP or continue to be managed as a separate activity?
16. What recommendations could be made to enable the Facility to be flexible in learning from its own experiences and adapting to changing external circumstances?

Source: "Formative Evaluation Terms of Reference for the Pacific SME Finance Facility Pilot"

Appendix C The Evaluation Team

The core team comprises evaluators from Sapere (New Zealand) and Talanoa (Fiji) who jointly planned the evaluation and undertook research. Sapere had the overall responsibility and led the analysis and preparation of the Evaluation Reports (with input from Talanoa). Talanoa was responsible for coordinating the in-country evaluation partners (with input from Sapere) and for interviews in Fiji.

- Gary Blick, Sapere Principal, responsible for managing the evaluation alongside the evaluation of BLP (i.e. commissioning in-country partners, providing client updates, contributing to analysis, and preparing the report).
- Ingrid van Aalst, Sapere Principal, the evaluation lead on the formative evaluation of the SME Finance Facility Pilot, responsible for undertaking interviews (e.g. with MSC, MFAT and Posts), undertaking analysis and preparing the report.
- Preston Davies, Sapere Principal, responsible for undertaking analysis and contributing to the report.
- Marita Manley, Talanoa Director, responsible for coordinating in-country evaluation partners, undertaking interviews in Fiji, undertaking analysis, and contributing to the evaluation findings.
- Matt Capper, Talanoa Director, responsible for coordinating in-country evaluation partners, undertaking interviews in Fiji, undertaking analysis, and contributing to the evaluation findings.

The wider evaluation team comprised in-country evaluation partners who were responsible for undertaking interviews with local stakeholders and preparing a country-level summary of interview themes.

In-country evaluation partners

Table 11: In-country evaluation partners

Country	In-country evaluation partner
Cook Islands	Maureen Hilyard
Fiji	Talanoa Consulting (Marita Manley, Matt Capper and Kolora Mason) – part of the core evaluation team.
Kiribati *	Tokintekai Bakineti
Papua New Guinea	Lydia Nenai
Samoa	Zita Martel
Solomon Islands	Gaylyn Puairana
Tonga *	Dr Taniela Fusimalohi
Vanuatu	Rebecca Bogiri

* Countries where the evaluation partner is undertaking this formative evaluation of the Pacific SME Finance Facility Pilot only; in other countries, the evaluation partners are also interviewing stakeholders for the evaluation of BLP.

Appendix D Governance, Quality and Ethics

Governance arrangements

The evaluation was governed by an MFAT Steering Group, which ensured the evaluation was fit for purpose and delivered in line with the Evaluation Plan. Key responsibilities included facilitating access to documents and stakeholders; approval of the Evaluation Plan; reviewing the draft Evaluation Report; managing internal feedback on the draft Evaluation Report.

Quality considerations

The evaluation was undertaken by an independent team of four consultants, separate from the officials responsible for policy making and from stakeholders.

The team-based approach, of two evaluators in New Zealand and in-country based evaluators to undertake the field work, allowed for some in-built internal cross-check and quality assurance.

Ethical considerations

The confidentiality of interviews was an area where potential ethical issues may have arisen. The following principles were followed, to mitigate the risk of creating harm among local relationships.

- Informed consent to participate. The interviewee will have the purpose explained and asked if they feel comfortable with participating at the outset. Participants will be informed that the evaluation report will be published. The interview will only proceed if this verbal consent is given and recorded. Personal / identifiable information collected will also be protected.
- Access to notes. Participants will have access to their interview notes if they wish to review their responses.
- Views non-attributable. Our approach for reporting findings is that individual responses from Activity participants will not be attributable. This principle will be made clear at each interview, to encourage participants to share their views freely and to avoid creating harm among local relationships.
- The evaluation team will ensure that access to data and participant details are kept strictly to evaluation team for the purposes of the evaluation only.
- In-country evaluators have been requested to disclose any conflicts of interests (potential or actual) with respect to BLP and the stakeholders being interviewed.

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