

Alignment with the UKaid Policy on “Subsidising” for-profit organisations

Conditions for UK aid Funding

Before applying the MEL designed investment decision-making criteria, as a precursor to the establishment of the SEP Challenge Fund, SEP initially looks to fulfil the following UKaid conditions:

- i. There must be a clear **social-economic development rationale**, and that co-investing with the private sector is an appropriate way to achieve the SEP development goals as well as providing value-for-money to the British taxpayer. There are two primary rationales for public subsidy. Firstly, overcoming market failures and secondly, achieving equity or distributional goals.
- ii. The **investment must demonstrate “additionality”**, and only will provide funding to projects that would not have gone ahead, not been scaled-up, or would have been delayed for a sufficiently long period (at least 2 years) without an appropriate catalytic investment from the SEP CF; and benefits or introduces innovation to the wider industry.
- iii. The investment will only support interventions that have the potential for a **high level of socio-economic development impact with long term commercial sustainability** and where the investment is time-bound, and where the SEP CF will not invest more in the pilot unless the intervention shows promise for up-scaling.
- iv. The investment does **not distort the market**, and does not subsidise the costs of services or products being delivered by the proposed project; but improves efficiency, delivery and outreach for a limited time; and the fund is open to anyone to apply provided they meet the entity criteria described in each investment window (See Section 3: SEP Funding Windows). The co-investment from the programme will be the minimum necessary and targeted as closely to the market failure as possible.
- v. The investment should follow the principles of **making markets work for the poor (M4P) – systemic market** transformation, facilitation and sustainability with strong MEL – that can monitor progress and deliver transformative solutions to address skills gaps and market failures. It will thus avoid locking in inefficient market distortions by only benefitting individual firms.
- vi. The investment must **facilitate the alignment of the business objectives** of the investment partner with the development objectives of SEP programme. At the same time, SEP realises that the private sector is free to choose where they invest and how they invest, and that they, too, also need to have a commercial rationale that satisfies their shareholders.