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St Helena Government

AUDIT ST HELENA

PERFORMANCE AUDIT: ENTERPRISE ST HELENA – JULY 2022

AUDIT ST HELENA
External Auditors

Performance Audit:
Enterprise St Helena

July 2022

Audit St Helena is the body that carries out financial and performance audits on behalf of the Chief Auditor.

The Chief Auditor is an independent statutory office with responsibilities set out in the Constitution and the Public Finance Ordinance. Section 29(2) of the Ordinance requires the conduct of performance audits on behalf of the Legislative Council to determine whether resources have been used with proper regard to economy, efficiency and effectiveness.

This report has been prepared in accordance with section 29(2) and published by the Chief Auditor, Brendon Hunt. The audit team consisted of David Brown, Damian Burns and Mufaro Chikandwa of Audit St Helena with expert assistance from Ann Muir, Strategic and Social Policy Coordinator for St Helena Government. Former Chief Auditor Phil Sharman also contributed.

Abbreviations

BAG	Bespoke Agricultural Grant
DFID	Department for International Development
ESH	Enterprise St Helena
FCDO	Foreign, Commonwealth and Development Office
FY	Financial year
GDP	Gross domestic product
Logframe	Logical framework
SDP	Sustainable Development Plan
SEDP	Sustainable Economic Development Plan
SHAPE	St Helena's Active Participation in Enterprise
SHFC	St Helena Fisheries Corporation
SHG	Saint Helena Government
SPS	Small Producer Support
UK	United Kingdom

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Key Facts

£17.6 million
ESH received £9.1 million from SHG and £8.6 million from DFID from FY 12/13 through FY 20/21, for a sum of £17.6 million in total funding (rounded)

200+
SHG and DFID guidance documents provided more than 200 potential indicators to assess ESH's performance

A
Evaluation score awarded to ESH at the end of Phases 1 and 2 by DFID and FCDO, respectively, indicating that ESH's performance "met expectation"

85
Approximate number of new business start-ups supported by ESH

£5.6 to £7.6 million
SHG Statistics Office's estimated range of total expenditure by visitors to St Helena in FY 18/19, the last full financial year prior to the Covid-19 pandemic

£1.1 million, Two-thirds
ESH disbursed almost £1.1 million in grant funding from FY 12/13 through FY 20/21, with two-thirds of the grants (314 of 472) valued at £2,000 or less

10%
Total value of grants and loans disbursed to recipients was 10% of ESH's total combined funding from SHG and DFID

Three-quarters, 9 of 10
Our interviews with grant and loan recipients indicate a generally positive effect, with about three-quarters of sampled business owners who received non-agricultural grants and loans still in operation and optimistic they will be in 5 years' time, while 9 of 10 sampled farmers who received agricultural grants said the same

Summary

INTRODUCTION AND BACKGROUND

1. This report assesses the multi-year efforts of Enterprise St Helena (ESH), which was established by ordinance in 2012 to deliver St Helena Government's (SHG's) economic policy as set out in its Sustainable Economic Development Plan. ESH was charged with promoting the growth of St Helena's economy through (1) developing existing businesses and (2) marketing the island to new investors and developers. As a statutory arms-length organisation, it was the lead body responsible for promoting and enabling private sector development, particularly tourism. It assumed this remit from its predecessor, the St Helena Development Agency, founded in 2008 with a more limited role and budget.

2. ESH was co-funded by SHG and the United Kingdom's (UK's) Department for International Development[1] (DFID), with DFID contributing project development funds while SHG covered primarily operational costs such as salaries, facilities and marketing. ESH's lifespan comprised two phases, each with its own agreements, budgets, guidance documents and performance indicators: Phase 1, from June 2012 to March 2017, with DFID's funding commencing in financial year (FY) 13/14; and Phase 2, from August 2017 to March 2021. According to ESH leadership, while June 2012 is when ESH was formally constituted, the importance of DFID's funding meant that 2013 was the year it became fully operational.

3. ESH continued working in this space through the end of FY 20/21. While ESH still exists in legal form in order to complete final administrative tasks, such as the preparation of financial statements, the organisation transferred the majority of its functions to SHG as of 31 March 2021.

4. Our work proceeded along four key lines of enquiry:

   - Did ESH integrate strategy and policy with SHG so that it focussed on the right things, improved efficiency and maximised impact?
   - How effectively did SHG's performance management framework and information on economic performance measure ESH's contribution to national goals?
   - What level of funding did ESH receive, and what was the value of grants and loans issued?
   - Did ESH make sufficient progress in its key areas of activity, meet its objectives and fulfil its responsibilities?

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[1] In September 2020 the UK's Department for International Development merged with its Foreign and Commonwealth Office to form the Foreign, Commonwealth and Development Office (FCDO). Because this report is historical in nature, we generally refer to DFID except where FCDO must be distinguished.

KEY FINDINGS

GOVERNANCE, STRATEGY, POLICY AND REPORTING

1. ESH's governance structure was rational and the organisation reported to the right bodies.

ESH's enabling ordinance specified that it would be governed by a Board of Directors, which was responsible for setting ESH's strategic direction and monitoring its performance. In addition to the Board, ESH reported to the Governor, SHG's Chief Secretary, Legislative Council's Economic Development Committee and DFID. ESH provided regular narrative and financial reporting to its Board and to DFID. ESH also reported to Legislative Council's Economic Development Committee, with ESH's Chief Executive sitting on the committee. More broadly, ESH leadership described a complex web of reporting arrangements, local boards and committee structures that took input from ESH staff. As of November 2020, the latter included 40 positions at various community, quasi-governmental, business and tourism councils, committees and working groups. (paragraphs 1.1 to 1.4, and Figure 1)

2. A series of SHG and DFID guidance documents directed and informed ESH's activities over its tenure.

Along with the aforementioned governance bodies and other groups, ESH's roles and responsibilities were further prescribed by a series of policies, strategies, plans and other guidance documents over the years. Some of the most important include island-wide directives like the Sustainable Development Plan (SDP), Sustainable Economic Development Plan (SEDP) and 10 Year Plan. SHG set expectations for ESH in its 2012 Framework Agreement, revised in 2017. DFID memorialised its expected outcomes, outputs, performance indicators and associated targets for ESH in two 'logical frameworks' (logframes) covering Phase 1 and Phase 2, respectively. (paragraph 1.5 and Figure 2)

ESH'S PERFORMANCE AND HOW IT WAS MEASURED

3. SHG policies gave ESH wide latitude to achieve its intended results.

ESH's powers were expansive. According to its enabling ordinance, it had the authority "to do anything it considers necessary or desirable to promote economic development either by bodies or individuals", to include giving financial assistance to those appearing to have facilities to carry on economic development; acquiring, managing and disposing of land; making buildings available for purchase, lease or rent; and covering the costs of training or work experience. The 2012 Framework Agreement between ESH and SHG stated that ESH should implement government policy with a minimal amount of government interference. It also referenced other guidance, such as the Sustainable Economic Development Plan that "sets the ten year context within which ESH will operate, giving a long term vision... towards which ESH will strive to deliver". In the background, the island's 2012 Sustainable Development Plan stipulated that ESH was to take the leading role in implementing the SEDP thus delivering National Goal 1 (a vibrant economy) while contributing to other national goals. The Framework Agreement identified eight objectives for ESH along with a series of corresponding responsibilities, later consolidated to four objectives in 2017. The major themes were inclusive and sustainable economic development; growth and development of the private sector, social enterprise and wider community; promotion of investment opportunities for local and overseas investors; and marketing St Helena as a desirable destination to niche visitors, tour operators and new markets. (paragraphs 2.1 to 2.5, and Figure 3)

4. **SHG and DFID guidance documents provided more than 200 potential indicators to assess ESH's performance.**

In performance measurement terminology, an 'indicator' is a specific attribute that organisations can track to determine progress toward a desired goal. Organisations then set targets for the indicator for interim and/or final outcomes. A best practice is to choose targets that are specific and numerically quantifiable, to the extent this is possible, as this ensures the targets can be measured. The many strategy and guidance documents governing ESH contained many potential performance indicators of varying levels of specificity and measurability. According to our analysis, the primary guidance documents we identified offered more than 200 potential indicators, though some did not apply exclusively to ESH. The indicators varied in their specificity and measurability:

- Some were both measurable and already specified. For example, "The island becomes more self-sufficient financially by generating increased local revenue". In this case, increases over a baseline level of local revenue indicate increased self-sufficiency.
- Some were measurable but not already specified. For example, "Promote economic growth through the development of local businesses". It is not clear how local business development will be measured.
- And some were not readily measurable: For example, "Preserve St Helena's cultural identity".

(paragraphs 2.6 to 2.9, and Figure 4)

5. **DFID's performance indicators drove ESH's monitoring and evaluation process. These indicators were detailed, measurable and reasonably comprehensive.**

DFID's and SHG's goals were not separable in any meaningful sense, as SHG funded primarily the operational costs for implementing DFID projects. In other words, as ESH leadership told us, the main purpose of SHG's budget appropriation was to enable ESH to deliver the projects that DFID funded. As such, ESH reported performance to SHG on indicators that were largely consistent with DFID's indicators. DFID housed these indicators within a logframe, which is a planning document typically used in aid funding that has objectives ranging from short term to long term as well as performance indicators and annual targets. One of the logframe's key functions is to clarify the high-level impact that the project seeks, while also providing a path to achieve it through actionable steps and discrete outputs. As ESH matured, it tended to measure its performance using DFID's indicators. For example, according to our analysis, 19 of the 24 performance indicators included in ESH's FY 18/19 annual report are nearly identical to those in DFID's Phase 2 logframe, covering FY 17/18 through FY 20/21. (paragraphs 2.10 to 2.12, and Figure 5)

6. **ESH generally performed well relative to DFID's performance indicators in both Phase 1 and Phase 2.**

After establishing logframes for each phase with accompanying indicators, DFID evaluated ESH on an annual basis and then cumulatively at the end of each phase (2017 and 2021, with FCDO authoring the latter review). In these evaluations, the UK government extensively assessed ESH's performance against the targets in the logframes based on evidence presented by ESH and SHG:

- *DFID's review of ESH Phase 1.* ESH contributed to the start-up and growth of 67 businesses, a majority of which remained in business after 2 years. Nine hundred sixteen individuals received training courses, 11 completed apprenticeships or traineeships, and 25 accepted skills development grants. Two hundred four grants provided financial assistance for business development in a variety of sectors. Tourist numbers exceeded the original expectation, with ESH supporting 40 businesses and creating 124 jobs in that sector. DFID wrote that ESH's activities secured 12 new investors generating £1.2 million of new investment, but this was mostly from local sources due to delays in the airport's opening having a chilling effect on the market for international investors. DFID further credited ESH with achieving improvements in the fisheries sector by supporting 10 businesses and implementing a large number of recommendations from a fisheries development initiative.

- *FCDO's review of Phase 2.* Prior to the pandemic, there had been an increasing trend in the arrivals of tourists as well as those with St Helena connections taking holidays on the island. This was in furtherance of ESH's overarching aim of helping St Helena to become financially independent and improving standards of living. FCDO's report quoted a SHG Statistics Office estimate of annual island income from tourism as being in the range of £4.8 million to £6.0 million. According to FCDO, in performance not related to tourism, ESH
    - assisted 58 business start-ups or expansions;
    - provided more than 200 on-island businesses with grants, advice and/or training;
    - supported increased digital marketing for 6 destination marketing companies and 13 accommodation providers;
    - advocated successfully for legislative changes that benefitted local commerce; and
    - oversaw an expansion of local coffee production.

(paragraphs 2.13 to 2.17, and Figure 6)

7. **ESH did not adequately monitor and report high-level program impacts.**

Despite its generally positive assessment, DFID in its Phase 1 review did express concern that out of three high-level outcome indicators, SHG was not able to provide information about two of them: (1) Total number of businesses registered with the Tax Office and (2) SHG employee headcount as a percentage of the population. DFID further noted that "data for impact indicators is incomplete, so trends cannot be fully analysed" and "data shortages also highlight significant gaps in the capacity of SHG to collect and share key indicators of economic progress on the island". As such, DFID encouraged ESH to "consider identifying outcome and impact targets which can be more easily measured, perhaps using expertise outside of SHG, to ensure high-level results can be consistently tracked throughout the second phase of the project". Similarly, DFID observed there was "no systematic mechanism to assess the outcomes of support" like grants and training "for individuals and businesses through regular follow-up". In addition, DFID asserted that no quantitative value for money indicators were presented in ESH's business case and none had been identified in its several annual reviews. This was "mostly due to both SHG and DFID funding sources contributing to the same outputs and outcomes" and recommended more rigorous analysis in Phase 2 that could better attribute effects to one funding stream or the other. As DFID did in its Phase 1 completion review, FCDO in its Phase 2 review expressed concern about ESH's collection of data related to impact. As a lesson learned it recommended that SHG "regularly collect metrics on, for example, business turnover and profits", which FCDO claimed DFID requested at the beginning of the programme before facing resistance from both businesses and ESH. (paragraphs 2.18 to 2.22)

In addition to the performance indicators in DFID's logframes, the 2013-16 Corporate Plan featured several high-level impact measures. According to the plan, ESH's success in delivering the Sustainable Economic Development Plan was to be monitored through four "core indicators": (1) Annual real economic growth rate; (2) Percentage of total employees in private sector as a proportion of working population; (3) Annual growth in total employees; and (4) Private sector expenditure as a percentage of total expenditure. We contacted SHG's Chief Statistician about these core indicators, but he was not aware of any request from ESH for his office to track them on a routine basis. He told us that, in general, the effect of the airport construction through 2017 would tend to frustrate any high-level assessment of year-over-year economic trends, such as annual growth rate and private sector employment, during much of ESH's tenure. Another distortion is the prominence of UK aid, which annually is roughly two-thirds the size of St Helena's total gross domestic product (GDP): increases in aid in real terms will tend to increase GDP, all other things equal, while less aid will have the opposite effect. Despite these measurement challenges, the Chief Statistician told us that SHG is now in a better position to assess contribution to GDP for the past 3 years, and it could do such an analysis in the future, for example when the impact of Covid-19 has normalised. He added that proper computerisation of the income tax collection systems would give his office a greater ability to analyse profit and loss outcomes for individual businesses, such as those that receive financial assistance. (paragraphs 2.23 and 2.24)

8. **There are limitations to relying on the UK government's assessments of ESH's performance.**

   ESH fared relatively well in its annual and cumulative assessments with only 1 year not meeting expectations. However, to put these results in their full context, it is worth noting that grantees failing to meet expectations in successive annual reviews are put on a performance improvement program. As poor performance from its grantee would reflect poorly on DFID/FCDO, the evaluator, this sets up at least the potential for a conflict of interest that must be managed. More significantly, the highest-level performance indicators – assessing progress against ESH's overall intended impact – were not addressed in DFID's 2017 or FCDO's 2021 completion reviews. For example, total SHG revenue collected from the private sector appeared in both DFID logframes but in neither completion review. In that sense, with regards to "what did ESH achieve for St Helena?", these reviews do not answer the most comprehensive form of the question. We attempt to provide a more complete answer to this question in Part Four. (paragraphs 2.25 and 2.26, and Figure 7)

FUNDING, GRANTS AND LOANS

9. **ESH received funding in the amount of £9.1 million from SHG and £8.6 million from DFID from FY 12/13 through FY 20/21.**

   ESH received funding from SHG as a continuation of its prior funding of ESH's predecessor, the St Helena Development Agency. SHG funding was for both 'Economic Development' and 'Tourism' in FY 12/13, the year that ESH came into existence. These two functions were combined from FY 13/14 forward, with ESH given responsibility for both. According to FCDO's project tracking website, DFID's funding of ESH began in FY 13/14. While SHG supplied a little more than half of ESH's funding overall, the two sponsors provided nearly equivalent amounts from the time DFID became engaged. As noted above, ESH leadership told us the main purpose of SHG's annual appropriation was to enable ESH to deliver the projects that DFID funded. (paragraphs 3.1 to 3.3, and Figure 8)

10. **According to its financial statements, from FY 16/17 through FY 19/20 ESH spent 40% of its total available funding on 'employee costs' and 18% on 'marketing and promotion'.**

    According to its financial statements, from FY 16/17 through 19/20 – the years this information is available – ESH spent 40% of its total available funding on 'employee costs' and 18% on 'marketing and promotion'. It is important to note that some of the employee costs include salaries for those delivering projects, like tourism and training, in addition to ESH administrators. Marketing and promotion included costs for marketing St Helena through various in-person and media campaigns, including brochures and other advertising materials, website development and trade shows. Typically, spending on program elements like employees and marketing would be considered 'overhead'. We consulted an outside expert in an attempt to determine an appropriate benchmark for the amount of overhead that would be reasonable for a programme like ESH. As a reasonable share of programme funding, the expert estimated 60% for technical advice and support, 20% for overhead and 10-20% for direct grants. In ESH's case, its employee costs would include both administrative overhead and project technical assistance, putting them within the range of reasonableness. (paragraphs 3.4 to 3.5, and Figure 9)

11. **ESH made financial assistance available to businesses and individuals for a wide variety of purposes.**

    In addition to non-financial support, a high-profile role for ESH was the distribution of grants and loans to businesses and individuals. While funded primarily by DFID, SHG contributed a significant amount of this financial assistance as well. This included all loan funding, as DFID funded only grants. SHG's and DFID's financial support included many different types of grants and loans consistent with different purposes:

    - Small business grants to cover the costs of business plans and marketing as well as the purchase of equipment and needed supplies
    - Capital investment grants for tourism and hospitality operators
    - Grants to small producers in order to encourage increased local agricultural production
    - Assistance with the cost of a training course – local, online or overseas – to develop the skills of business owners and/or employees
    - Grants to non-governmental community organisations, such as charities, churches, clubs and trusts
    - Loans to businesses, whether start-ups or established
    - Loans to young people to encourage business start-ups, with a low interest rate and no collateral required

    (paragraphs 3.7 to 3.10)

12. **The total value of grants and loans disbursed to recipients was 10% of ESH's total combined funding from SHG and DFID.**

    Grants ranged from a high of £213,000 in ESH's final year to a low of £13,000 in FY 13/14. Loans ranged from a high of £236,000 in FY 17/18 to a low of £5,000 or less in three different years. Across the nine financial years of ESH's existence, the total value of grants and loans disbursed to applicants (£1.9 million) accounted for approximately 10% of ESH's total combined funding from SHG and DFID. Recall that the outside expert we consulted estimated that 10-20% was a reasonable share of programme funding going to direct financial assistance. (paragraph 3.11 and Figure 10)

13. **According to ESH's records, ESH disbursed almost £1.1 million in grant funding from FY 12/13 through FY 20/21, and approved an additional £64,000 that applicants later declined.**

    Of the 472 grants for £1,087,663 that ESH issued, 100 (21%) were for less than £500, 175 (37%) were for less than £1,000 and 418 (89%) were for less than £5,000. Overall, two-thirds of the grants (314 of 472) were for £2,000 or less. Almost half of the grants by value (46%) were disbursed to businesses of various sizes through the Micro, Small to Medium Enterprise grant programme. The most value disbursed in any single financial year came in FY 20/21, with a little more than £213,000 granted – much of it to farmers – as ESH was preparing to transfer the majority of its functions to SHG and cease operations at the end of the financial year. (paragraph 3.12, and Figures 11 and 12)

14. Of the 23 loans for £764,000 that ESH issued (including equity shares), 12 ranged from £1,000 to £7,500, another 8 ranged from £20,000 to £83,300, and the final 3 ranged from £100,000 to £184,000.

The three largest loan arrangements composed 53% of the total loan value, with two of these three going to the Mantis hotel. Applicants declined only two loans, totalling £4,000, over the course of ESH's 9 years. According to Enterprise St Helena leadership, it was ESH's policy to avoid competing with the Bank of St Helena and thus ESH's interest rate was set higher than the bank's. In effect this meant that ESH was lending to applicants who could not get a bank loan, and thus the loans ESH approved tended to be riskier in nature. Leadership told us that SHG at times encouraged ESH to provide financing to certain strategic industries and even businesses that were considered too important to fail. (paragraphs 3.13 and 3.14, and Figures 13 and 14)

WHAT ESH ACHIEVED FOR ST HELENA

15. ESH was tasked with achieving specific outcomes beyond DFID's performance targets.

Above we identified ESH's objectives and responsibilities in the original 2012 Framework Agreement with SHG. We further noted that in the agreement's 2017 revision ESH's objectives were consolidated but its responsibilities did not change. Those four objectives, intended to "help Saint Helena become financially independent and improve standards of living", form the criteria against which we assess ESH's contribution to St Helena in the remaining sections:

1. Protect St Helena's future whilst acknowledging the important aspects of its past, through inclusive and sustainable ethical economic development.
2. Encourage private sector, social enterprise and community development and growth, including through innovation and the sustainable economic use and re-use of island resources.
3. Promote investment opportunities and support on-island and inward investors.
4. Make and market St Helena as a desirable, value-driven destination, through targeting niche visitors, tour operators and new markets.

(paragraphs 4.3 to 4.4, and Figure 15)

16. **ESH supported traditional industries like agriculture and fishing, and helped to grow new and already established businesses related to tourism, though attribution for specific economic outcomes was not always clear. Training and other skills development increased the island's store of human capital.**

ESH was the responsible body driving economic development: growth of the private sector was critical to realising the economic potential of the airport. ESH grants and loans to farming – an important part of the island's heritage – led to significant improvements in productivity supporting the 2014 National Agricultural Policy and Implementation Strategy. Farming was the sector receiving the most grants, whether general grants to small businesses or those that were specifically targeted to agriculture. In that sector, analysis of produce imports and other data indicate increased local production. Turning to hospitality and the visitor economy, the early indications of how this sector was developing prior to Covid-19 was in line with predictions, and on the whole conditions were looking reasonably good after only 2.5 years of commercial flights. For example, marine tourism was growing on the back of some significant ESH investments. But many on the island relied on the forecast of nearly 30,000 annual tourists by 2041 with some businesses investing relatively quickly and heavily in their expectation of such numbers. Organic growth in the tourism sector, which was what had been predicted, was left behind in the enthusiasm to be ready for the first commercial flight and for a subsequent rush of tourists. This had an impact on business cash flows in the hospitality sector even before the pandemic. In general, St Helena has attracted more adventure-type tourists and friends and relatives of those living on the island than the high-budget tourists predicted in the business case, which has benefited the self-catering sector. The fishing sector has not fared as well, with value for money of ESH's investment compromised by (1) some fishers' reluctance to stay out at sea for the time required to bring in viable amounts of fish from the sea mounts and (2) the cost of overheads and the state of infrastructure for fish storage and processing. Skills development was a strong feature of both ESH phases, with 952 people trained during Phase 1 in, for example, hospitality, tourism, health, construction and agriculture, mostly to UK accreditation standards. This was followed by a total of 390 individuals trained during Phase 2. (paragraphs 4.6 to 4.27, and Figures 16 and 17)

17. **There is clear evidence of private sector growth resulting from ESH's interventions, along with significant support to social enterprise. In addition, our interviews with grant and loan recipients indicate a generally positive effect, with about three-quarters of sampled business owners who received non-agricultural grants and loans still in operation and optimistic they will be in 5 years' time, while 9 of 10 sampled farmers who received agricultural grants said the same. Most of the recipients characterised the impact of the financial assistance as 'High' and described their interactions with ESH positively.**

This outcome is closely related to the prior one, with St Helena's private sector and wider community benefiting from economic development (and vice versa). ESH was singularly responsible for the promotion of the private sector in the community. Growth in the private sector up until the impact of Covid-19 is evidenced in the number of new business start-ups (approximately 85); notable inward investment, including from the diaspora; the expansion of tourism-related enterprises; and the extent of skills