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SYNTHESIS OF EVALUATIONS ON SUPPORT TO BUSINESS DEVELOPMENT

EVALUATION STUDY 2009/5

Synthesis of Evaluations on Support to Business Development

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Kim Forss, Andante - tools for thinking AB
Henrik Schaumburg-Müller, Centre for Business and Development Studies, Copenhagen Business School

Executive Summary

Background and Purpose
The role of the business sector as a driving force in economic growth and development is generally acknowledged. However, support to the business sector appears more problematic than support in many other sectors and not much is known about overall effects and impact. The purpose of this study is to provide an overview of evaluation findings, studies and research on performance, lessons learned and evidence for effective development cooperation.

Methods
The first step in the study was to build a database of as many evaluations of relevance to the sector as possible, mainly from the past 10 years. 240 reports were found, mainly from the English speaking bilateral and multilateral donor agencies. A selection of 60 reports was established, based on a stepwise approach using randomized and judgmental sampling respectively. In addition to these evaluations, the report makes use of research, technical and policy papers.

Analytical framework
The overall purpose is to show experiences of support to the business sector. There are three major types of interventions: (1) interventions aimed at creating an enabling environment, for example through policy dialogue, privatization measures, developing the legislative framework, labour markets. (2) Interventions aimed at business development services, for example, R&D, standardizations and certification, business management and audits, and at the provision of financial services. (3) Interventions that target specific enterprises with technical assistance, information and advisory services, and provision of equity capital and other forms of finance. The experiences of each type of intervention are treated in the report, and then there is a chapter on business sector programmes and another chapter on trade and trade related capacity building. The aggregated findings are summarized here.

Findings on Sector strategies
Evaluations point to the need for a holistic approach to the business sector, for the importance of macro-level interventions and the need to sequence interventions. They point to common experiences in understanding local needs and specific contexts. Agencies have standardised instruments that are applied uniformly, still the experience is clear that "there is no one size that fits all". Evaluations discuss the issue of coordination amongst donors and the need for local ownership and point to shortcomings and difficulties, often linked to commercial interests of donors.

Findings on the Enabling Environment
The evaluations of interventions supporting the creation of enabling environment were of two kinds, broad sector programmes and specific projects. In case of the former, evaluations point to specific experiences in timing of intervention elements, role and tasks of technical assistance personnel, and combination of instruments. The importance of context, political sensibility and local ownership were underlined. The latter projects faces similar problems of lacking connection between macro-, meso- and micro-levels, questionable commitment and ownership, too short planning horizons, as well as in some cases basic shortcomings in implementation.

Findings on Business Development Services

There tend to be a greater degree of success for support to financial institutions even those targeting SMEs and micro-enterprises than for programmes supporting provision of non-financial BDSs. One possible explanation for this is that the provision of both types of services has moved into a market based framework from a situation of being provided or controlled by public systems - or that the services have simply been non-existent. The markets for financial services have been emerging relatively quickly, but even so support to private equity institutions requires scale of operations, skills and experience of fund managers, a long time horizon and may be more complicated to target towards small firms.

Financial sustainability is a critical issue for all types BDS services but while market interests and repayment are closer to be realized for financial services it appears more difficult to cover costs for non-financial BDS by customer fees. However, very importantly the positive impact of micro-credit found in many donor evaluations is not supported by methodological more rigorous research studies that do not find a positive relationship. Interventions supporting supplier and producer enterprises organised in clusters or value chains have gained increasing importance among donors and the intervention approaches have been improved on the basis of experiences and best practices. There are only few evaluations of the long-term impact and sustainability but the indication is positive and with this kind of intervention it is possible to achieve a systemic impact on the stakeholders and actors operating in clusters or value chains. Furthermore training of labour and youths also shows positive results but only when trained skills are relevant and demand-oriented and labour market stakeholders are involved with effective providers.

Findings on Support at firm level

The outcome of the different forms of direct donor support interventions tends to differ. Direct donor support of non-financial BDS can provide a direct positive impact for the involved enterprises but the programmes are inefficient and lack sustainability. Business partnerships are rarely sustained but may have benefited local partners. Lack of institutional ownership and lack of cost recovery makes the interventions unsustainable. There is no evaluation evidence of spill-over effects. Direct donor credit schemes to enterprises are subsidised and lack sustainability. There is no clear evidence that they have broader development effects. Direct equity funding to private investments have multiple objectives but bilateral donor organizations generally perform well because they can manage their risk exposure. There is generally a trade-off between financial performance and development objectives, which tends to lead to lower performance of investments in Africa than in Asia. Direct intervention projects are costly – the unit cost per enterprise is high and spear effects are rarely demonstrated.

Findings on Trade Capacity Building

The evaluations of trade-related capacity building echo many of the themes from previous types of interventions, such as; the need for integrated approaches; the importance of political commitment and effective local ownership; tailor-made approaches work better and are better adjusted to local context; the most effective interventions have been implemented through small organisations with a practical approach and concrete assistance; the least effective interventions have been diffuse, theoretically dominated, up-stream interventions championed by UNCTAD and other agencies. There are many reservations when concluding on results. It is far more difficult to assess impact of isolated up-stream activities. Very few programmes have developed, let alone used, valid and reliable indicators of achievements.

Conclusions and Lessons Learned

The general conclusions and lessons learned concern major themes such as; the integration of business sector development knowledge in donor agencies, gender and equity, significance of local context, sequence of interventions, size and duration of programmes, sequence of interventions, monitoring and evaluation and donor coordination. The main issues are:

- The findings of the evaluations are uniform and their conclusions by and large support each other – but they are not always supported by more rigorous research studies. This is surprising considering the political nature of issues such as the extent of privatization, private – public partnership, subsidies, legislative development, market reforms and other issues that are of a political nature rather than merely technical.
- While there are quite a few reports and many interesting and valid conclusions around project and programme performance, it is rather difficult to draw lessons for the future. There are four reasons for that:
    - Many of the findings concern mistakes, the evidence shows what not to do rather than what to do, and hence recommendations are often based on speculation about what would work rather than on evidence of what works.
    - Most evaluations are conducted at or near the end of projects, but those few that are done some years later seem to show very different results.
    - There is lack of monitoring data and the evaluations cannot substitute for that lack of basic information about progress and impact
    - The nature of impact in business development programmes can be very fast or very slow and out of proportion to the intervention. The monitoring and evaluation approaches by most agencies are seldom suitable to handling such complex phenomena.
- The nature and dynamics of the business sector is often not fully understood in development agencies and hence the complexity of the sector is not appropriately reflected at the policy level, for example in relation to poverty and gender policies; nor is it sufficiently integrated in country strategies and in related sector strategies.
- The experience of many donors suggests that business sector interventions need to take account of the enabling environment as well as to provide scope for interventions at firm level. Interventions at multiple levels are interdependent and support each other and create scope for more relevant and effective programs. The sequence of interventions is important and it is often better to start at the macro-level, with interventions in respect of sector policies, legislative frameworks, and the development of an enabling environment.

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List of Abbreviations

ADB	Asian Development Bank
AEF	Africa Enterprise Fund
AfDB	African Development Bank
AusAID	Australian Agency for International Development
BDS	Business Development Services
BSD	Business Sector Development
BRAC	Bangladesh Rural Advancement Committee
CBI	Dutch Import Promotion Office
CGAP	Consultative Group to Assist the Poorest
CIDA	Canadian International development Agency
Danida	Danish International Development Assistance
DIPO	Danish Import Promotion Office
DFID	Department for International Development (UK)
DGIS	Netherlands Directorate-General of Development Cooperation
DDA	Doha Development Agenda
EBRD	European Bank for Reconstruction and Development
EDP	Enterprise Development Programme
EPOPA	Export Promotion of Organic Products from Africa
EuropeAid	Directorate for International Development of the European Commission
FDI	Foreign Direct Investment
FinnIDA	Finnish International Development Cooperation
GATT	General Agreement of Tariffs and Trade
GTZ/BMZ	German Agencies for Development Cooperation
IADB	Interamerican Development Bank
IFC	International Finance Corporation
IFU	Industrialiserings Fund for Udviklingslandene
IGO	Inter-governmental organisation
ILO	International Labour Organisation
IOB	Policy and Operations Evaluation Department/Netherlands Ministry of Foreign Affairs
IPO	Import Promotion Office
ITC	International Trade Centre
JITAP	Joint Integrated Technical Assistance Programme
KTPP	Kenya Trade and Poverty Programme
MDG	Millenium Development Goal
MSME	Micro-, Small- and Medium Sized Enterprises
NCP	National Commission for Privatization
NGO	Non-Governmental Organisation
NORAD	Norwegian International Development Cooperation Agency
OECD/DAC	Organisation for Economic Cooperation and Development/Development Assistance Committee
PBS	Private Business Sector
PEF	Private Enterprise Fund
Norad	Nowegian Development Cooperation Agency
NORIMPOD	Import Office in Norad
PSD	Private Sector Development

PRWP	Policy Research Working Paper (World Bank)
RCT	Randomized Control Trial
R&D	Research and development
SADC	Southern African Development Cooperation
SADEV	Swedisg Agency for Development Evaluation
SDC	Swiss Development Corporation
Sida	Swedish International Development Cooperation Agency
SIYB	Start and Improve Your Business Programme
SJSR	Security and Justice Sector Reform
SME	Small and Medium Size Enterprises
SOE	State Owned Enterprise
Swedfund	Swedish Company for Risk Funds
TACIS	Technical Assistance to the Commonwealth of Independent States and Mongolia
TERF	Tacis Enterprise Restructuring Facility
TRCB	Trade related capacity building
TRTA	Trade related technical assistance
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organisation
UK	United Kingdom
USAID	U.S. Agency for International Development
WB	World Bank
WTO	World Trade Organisations

Chapter 1. Introduction

Background and Purpose

In the absence of a dynamic business sector, no countries would reach the Millennium Development Goals on Poverty[1]. Since the beginning of development cooperation many funding agencies have invested heavily in support to the business sector. Several countries have specialized agencies that provide tailor-made support for business development, for example in the form of equity investment capital. Most donor agencies have units or sections that specialize in the business sector, either that sector alone or in combination with other sectors such as trade, mining and other extractive industries, or also with special forms of support, for example credit schemes, technical training, or partnership programs.

However, support to the business sector appears more problematic than support in many other sectors. One of the earliest synthesis reports of aid effectiveness (Cassen, 1986) concluded that there were two major obstacles to aid effectiveness – the military and commercial motives of the donor countries. Inevitably, commercial purposes play a major role in the design of business sector support. In some countries, it is explicitly said that such programmes should be mutually beneficial, that is, of benefit to the business sector in both recipient and donor countries. In most other donor countries, that is obviously assumed. Over the years, many evaluation reports have pointed to low performance of projects and programmes in the business sector. Some of the lessons learned on development effectiveness - for example the move from projects to programmes and sector support as well as the five key principles encoded in the Paris Declaration on aid effectiveness - are particularly difficult to implement in the business sector.

In Denmark, bilateral assistance has been given through special Business Sector Support Programmes in selected countries (Tanzania, Vietnam, Ghana, Kenya and Mali) as well as through a number of business sector development instruments including mixed credits, business-to-business programmes, and the Public-Private Partnership Facility. This also features prominently in the work of the Africa Commission established at the initiative of the previous Danish Prime Minister. Due to the number of individual initiatives it has been difficult to get an overview of the lessons learned on what works, what does not, and why. At the same time, as the sector will be of great importance in the future of development cooperation, not least with the African countries, it is necessary to locate what evidence can be found on how to provide effective aid to the sector. The purpose of this study is thus to provide an overview of evaluation findings, studies and research on performance, lessons learned and evidence for effective development cooperation. Annex 1 contains the terms of reference for this study.

Methods

This report has been designed as a meta-evaluation, that is, a study that uses other evaluation reports. The aim has been to locate and use as many evaluation reports and research papers as possible that have something to say on the subject. The reports that were found are listed in annex 2 and Table 1 presents a summary of where they come from. The starting point in our search was the OECD/DAC evaluation database. We found some 50 reports there. We

[1] The goal formulations of particular relevance to business development are: "To halve, between 1990 and 2015, the proportion of people whose income is less than $1 a day" and "Achieve full and productive employment and decent work for all, including women and young people". See www.un.org.milleniumgoals/poverty

continued our search at the websites of the bilateral and multilateral donor agencies and found another 190 reports. The precise numbers are evasive as the agencies present the same study in several guises, for example as country case studies, final reports, and synthesis reports. One evaluation exercise may thus result in several different reports. There are fewer evaluations than first meet the eyes. Literature searches through bibliographies, reference lists of reports, and through the databases of Elsevier and Sage gave another 25 research papers.

Table 1. Donor agencies and intervention level of evaluations

Donor Agency	Enabling environment*	Business Development Services*	Direct Support to enterprises*	Synthesis or combined levels**	Total
ADB	1	4		1	6
CIDA	4	8	4	6	22
Danida		1	5	2	8
DFID	5	17	15	4	42
EBRD	1	1	2		4
EuropAid			2	3	5
FinIDA			3	3	6
GTZ/BMC	1	1	2	2	6
IADB	1	7	4	2	14
ILO		4	6		10
Irish Aid			1		1
Netherlands/IOB	1	1	2	5	9
Norad		3	8	1	12
Sida/Swedfund/ SADEV	4	4	24	5	36
UNIDO	1	8	29		38
USAID	3	3	8		14
World Bank/IFC			5	5	10
WTO		2			2
Total	22	64	115	39	240

* These categories are derived from the typology of interventions presented below

** This column consists of evaluations that covered two or more of the categories in the previous columns, for example programmes that included support to the enabling environment, business development services and direct support to enterprises.

Once the database was established a sample of evaluations/studies was selected. The selection of a judgemental randomized sample was done as follows:

1. First we selected a fully randomised sample of 10 reports for joint reading, to check the formats for quality control and summary of findings.
2. After that we aimed to get another 20 reports that were randomly selected, but in that process we first made the random selection but discarded studies that were of too low a quality to be useful. We added randomly selected studies until we reached a total of 20 that were of sufficiently high quality.
3. One we had read the 30 randomly selected studies, we reviewed the sample to assess how it compares to the total population and;
    a. Selected additional reports to make sure all major types of interventions were represented.
    b. Selected additional reports to make sure that major categories of recipients were covered and that there was a focus on Africa in the total sample

c. Selected additional reports to make sure that the experiences of major donors were represented

d. The sample was reviewed and we added reports that we knew were significant, widely quoted and solid studies, so that our sample could not be easily criticised for having missed significant studies that would have altered the main conclusions.

4. At the end of the analytical process, we returned to the total sample to assess what we had learnt, compare to the total population, and assess whether there was a need to look at additional reports. In the latter phases we divided labour and at the end of the process we have used a total of 60 evaluations studies for this synthesis report.

With this stepwise development of the sample we (1) get the most interesting and useful reports, (2) have an adequate representation of interventions, countries etc., and (3) have a scientifically acceptable approach to the selection of reports. The randomized selection has made sure that our preconceived ideas of what would be useful and interesting has not dominated the selection process[2].

Typology of Interventions

Development cooperation aimed at strengthening the business sector contains many different types of interventions. The donor agencies take the starting point in the OECD/DAC definition of the *Private Sector* (see page 13), but the words private sector and business sector seem to be used interchangeable. The typology used in this report is based on three different levels of activities;

1. support to create an enabling environment, that is, interventions that aim at policy dialogue on economics, trade policy and the private sector, legislative framework and regulations; privatization, anti-corruption measures, interventions that affect conditions supportive of the sector such as labour markets, infrastructure facilities, etc.;
2. support to business services, that is, interventions that are aimed at services that are in turn directed at businesses or build market institutions, such as standardization and certification, research and development, financial markets and availability of capital, consulting services, etc.;
3. support to specific firms; that is, interventions that directly target actors in the private sector through capacity building programmes, lending schemes, business-to-business programmes, trade promotion (import offices).

Support to business sector development can thus be given in various ways for example in the form of; 1) policy support to establish the conducive macro economic stability and enabling environment to facilitate the operation of the business sector, 2) support to the establishment of market institutions, and 3) improve the capabilities of the actors in the business sector, i.e. enterprise managers, entrepreneurs, wage earners, business service providers etc. The effect of these three types of interventions is not independent of each other, for example may the support to business actors have limited impact if the macro policy environment is not conducive or the market institutions are not in place. Furthermore, to be effective the design of the intervention must take into account existing knowledge, institutions and behaviour prevalent among the actors and the target group for the interventions. Existing knowledge and institutions can both

[2] When we refer to evaluation reports we use the name of the commissioning agency and year of the report, rather than authors or companies that were commissioned. When we refer to research publications and other studies, we use author names. The evaluation reports are found in annex 2, and the full details of references in our list of references.

facilitate or hamper support interventions. It is for example important to take into account existing ownership institutions and credit provision and use before creating new ownership rights or financial institutions. On this basis we can design an analytical framework for the study of business sector interventions[3]

The figure below shows the relationships between government policies, donor supported programmes, and the local institutional context. The first column summarises three policy levels for a government which is keen to promote business sector development. The three levels of policy formulation can be matched by three levels of donor programmes, but these are of course more restricted in scope than the host country government policies are. Finally, the third column emphasises the importance of context, both generally and in respect of each particular level of government intervention policy and donor programme. The essential aspect of this framework is the interdependence between the levels of interventions and between the intervention levels and existing local knowledge and institutions. It means for example that the effectiveness of interventions at firm level will depend on the policy framework and market institutions. Likewise, policy interventions on for example ownership rights to land have to take into account existing local institutional arrangements for land use and ownership. The framework is developed from Sida's evaluation of rural development and the private sector in SSA (Sida, 2003).

Figure 1. Analytical Framework for Business Interventions

Type of intervention	Donor interventions	Socio-economic institutions and knowledge
Policy and framework factors (enabling environment)	- Market based economic policies (doing business regulations)	- Existing traditions and power relations
Market mechanism and institutions (restrictions in markets)	- E.g. restructure financial institutions	- Existing forms of credit provision - Existing market and exchange mechanisms
Capability support to firms	- E.g. support new knowledge and technology	- Existing knowledge and technology

Limitations

Even though this study aims to sum up donor experiences of business sector support, it suffers from several limitations. First, there is more knowledge available than we have located. As an example, the European Commission's database presents 4 evaluations in the field of the private sector and trade. But as the private sector is one of the main intervention areas, there is bound to

[3] The framework is inspired and developed on the basis of Havnevik et al. (2003) "Rural Development and the Private Sector in Sub-Saharan Africa" chapter 5.

be more knowledge of impact and effectiveness somewhere. But as that knowledge is not listed in public evaluation reports it cannot be included here. The same holds true for many other development agencies.

Second, the evaluation reports included here are mainly in English and it is only agencies that have websites in English that are used. The study is limited by not drawing on the experiences of the whole donor community.

The business sector is elusive and the boundaries to other programme areas are permeable. There are major programmes in, for example, agriculture and agribusiness[4], telecommunication and other infrastructure (power, transport) where the business sector plays a role and is a target, for example through opening up for competition, privatisation of services, and enhancing effectiveness. Our search for information has taken its starting point the OECD/DAC classification of what constitutes private sector development, but there is a lot of support to the business sector in other programmes[5].

The study is affected by the vagueness of success criteria. It is not always clear what the objectives of assistance were. Sometimes there were a great many objectives and contradictory objectives. Very few evaluations relate to the overall objective of poverty alleviation and this is rarely a benchmark for success of business sector programmes. Even when evaluations conclude that a programme has been successful, the reader is often left to wonder why this was so and what criteria were applied. We could not be assured that an independent and external evaluator of a World Bank programme would apply the same standards of success and achievements as another independent and external evaluator of, say, a DFID programme.

Profits, survival and growth are basic success criteria in the business sector. None of the evaluation reports in the database was completed after 2008, that is, after the onset of the financial crisis and ensuing recession that has deeply affected the business sector globally. Some conclusions would have looked quite different if the evaluation fieldwork had been repeated in 2009.

With these reservations in mind, we assume the report still captures the most relevant experiences of some major donor organisations.

[4] As an example, in recent years major sector programmes in agriculture have contained training programmes for entrepreneurs, support to business development services, institutional development in the form of R&D, standardization facilities, microcredit schemes, etc, that is, all the major components of any private sector development programme. But so are also most actors in the agriculture sector private and business-minded.
[5] Sida (2004) concludes that private sector projects account for 7% of the total volumes of aid, but if looking at real contents of all programmes, a total of 35% could be estimated to concern the private sector.

Chapter 2. Description of the Evidence Base

Reviews, Evaluation and Research

There are 240 reports in the database in annex 2 and in addition we have 25 research papers published in the scientific journals of interest in development cooperation. A significant number are synthesis reports such as overviews, policy analysis, and policy summaries (that border on being evaluations – systemic and arriving at conclusions of worth and merit). The majority of publications are evaluations or reviews. In spite of the efforts of OECD/DAC there is still no common approach to monitoring and evaluation among donor agencies. While the definition of evaluation as such is clear and shared, the practice of what constitutes an evaluation differs. There are two problems.

First, products (reports) that are called evaluation do not always have a content to match that title. The most common definition[6] of evaluation says that evaluation is a "*systematic inquiry in to the worth and merit of an object*". The OECD/DAC definition and the definitions adopted by donor agencies, elaborate on that basic definition. Nevertheless, sometimes products are called evaluation even though they are neither systematic nor arrive at conclusions on worth and merit.

Second, there is much information which is both systematically gathered and analysed and that arrives at conclusions on worth and merit. The database contains monitoring reports and reviews that are of interest and that are de facto evaluations. Many of these are more specific, that is, they evaluate a project or a programme, and perhaps do so before it has come to an end, and thus they are called mid-term reviews. But their evaluative focus can be quite strong. Many policy studies, sector experience assessments, and the like are not called evaluations either, but build on systematic review of experiences and are evaluative. These studies tend to be broader in scope and more closely connected to decision-making.

The distinction between research and evaluation can be difficult. Evaluation builds on scientific method, but it is applied to practical questions and it must arrive at a conclusion of worth and merit. Research can be descriptive, develop hypothesis, it can present an overview of a field, without necessarily arriving at a conclusion of worth and merit. Given that distinction, the two have much in common and research does often conclude on worth and merit as well.

What constitutes evidence?

The discussion of what is to be counted as an evaluation and what should not be counted as evaluation relates to the nature of evaluative evidence. Often, when the term evidence is used, it signifies knowledge gained through randomized controlled trials, or experiments (RCTs). In a recent survey of aid evaluations, Forss and Bandstein (2008) found that less than 5% of all evaluations have a design that can be called an RCT, and about equally few have some form of quasi-experimental approach. The impression that we have formed so far is that even fewer of the evaluations on support to the business sector have an RCT design or a quasi-experimental design. The case study with a narrative approach to analysing causality and contribution/attribution is the dominant design in the studies. The database contains one evaluation that has a quasi-experimental design (World Bank, 1998).

[6] The Program Evaluation Standards, Sage Publications, 1994

RCTs may not always be the best and most relevant design in order to produce evidence of results. Many interesting things can be said about the processes and results of development cooperation with the use of case studies, quasi-experimental designs, narrative analysis, contribution analysis, etc. RCTs are expensive and often not good enough as they seldom have any explanations of process. Nevertheless this uniform approach (lack of experimental and quasi-experimental approaches) to design is a weakness. The evaluative evidence around the business sector would have benefitted from more plurality in design.

Characteristics of the Business Sector Evaluations

In our first random selection of 10 evaluations we had to discard 3 because of their low quality. In the second selection of 20 reports we had to discard another 8. When we looked for additional information, for example looking for studies on policy dialogue, we found that the chances an evaluation would have valid and reliable conclusions to be some 50%. We had to discard one evaluation out two chosen. The database is thus a glass that is half full, or half empty, depending on how you wish to see it.

There are three major problems. First, many evaluations do not describe their methods at all. In particular their choice of case studies, of interview respondents, and places to visit, is not described and hence the reader cannot assess the methodological choices at all. Second, empirical data of many evaluations is restricted to interviews with project managers, desk officers in donor agencies and recipients in a managerial position. The voices of clients, customers, shareholders, ordinary disinterested people, are seldom heard. Third, most evaluations are conducted while projects and programmes are still ongoing (which is not surprising as they are often meant to provide decision support on whether to continue, change or conclude programmes). The few evaluations that have been conducted several years later often present a rather different picture. Both Sida and CIDA financed partnership programs. The CIDA evaluation was done while the programme was ongoing and concluded that the partnership between firms was mutually beneficial. The Sida evaluation was done four years after the programme had finished and found that 10% of the partnerships remained alive. Timing is important!

When evaluations conclude on impact the worst scenario is often that the project had no visible impact. In business development more than in other programmes, the worst case scenario is actually that the projects may have a highly negative impact - they cause damage. Some evaluations point to companies going bankrupt, viable operations lured into credit programmes where they become indebted, etc. This reflects the non-linear connections between cause and effect that characterise the sector. Few evaluations recognize such risks and that limits their perspective on the dangers as well as the opportunities of business sector development.

Chapter 3. Evaluation of Approaches to the Business Sector

Approaches to the Sector

The discussion of the business sector/private sector[7] development presupposes a definition of the sector. The donors often refer to the 1995 Development Assistance Committee's (DAC) Orientations for Development Cooperation in Support of Private Sector Development. The DAC considers the "*Private Sector*" as "a basic organizing principle for economic activity where private ownership is important, markets and competition drive production, and private initiative and risk-taking motivate economic activity"**.** This chapter looks at how some donors approach the sector and how they evaluate the strategic approach – as opposed to project and programme evaluations.

One of the earliest studies of the sector in our sample was commissioned by CIDA. This synthesis study (CIDA, 2002) builds on five evaluations, each assessing support in one of the five categories that define that agency's private sector programme (these are presented in Table 2).

Table 2. Programming categories CIDA's private sector development programme

Category	Description
Enabling Environment	Development and implementation of appropriate national policies (macroeconomic, economic, and social policies) and building of institutional capacities (e.g., improving regulations, decreasing corruption, or enforcing the rule of law) which shape the conditions under which PSD takes place within a country.
Capacity Development	Development of small and medium enterprises (SMEs); specialized Canadian training institutes to undertake development work; Canadian educational institutions to develop programmes offshore; and organizations which specialized in SME service delivery.
Linkages	This is the most commercially oriented PSD category and includes: CIDA's Industrial Cooperation and Renaissance Eastern Europe programs; the enterprise linkage projects (e.g., Enterprise Thailand); and technology transfer projects focused at linking the Canadian and developing country private sectors.
Local Enterprises	This covers micro-finance and micro-enterprise development projects. In addition, a policy dialogue analysis of CIDA's participation in the Consultative Group to Assist the Poorest (CGAP) was undertaken. CGAP is a multi-donor initiative in the micro-finance area.
Economic Integration	This covers: trade and economic integration projects focused on the increasing global trade picture including General Agreement on Tariffs and Trade (GATT), World Trade Organization (WTO), and Regional Trade groups; and balance of payments support and food aid supporting structural adjustment programs.

Source: CIDA, 2002, pp. 1 – 2.

[7] Though there is a distinction between the words "business" and "private" this report uses the terms interchangeably. A "business" does not have to be privately owned, there are state-owned businesses in many countries. Business could be run by NGOs. But the spirit of being business-minded is often associated with the private sector and when looking at the evaluations in our database, it seems that there is no consistent use of the one word or the other. They are used synonymously.

CIDA takes a broad view of the private sector starting at the macro-level of policy dialogue and the rule of law to activities in the field of trade, food aid and balance of payments support. While the evaluation does not address the sector definition as such, it does conclude that: "*the very broad range of initiatives undertaken has meant that the results have been scattered across projects. Limited synergy exists within the PSD priority. The investments to date have been thinly spread over a wide range of areas. The Agency should consider whether future investments in PSD would be better concentrated on fewer areas*". That finding is closely related to the structure of the programme categories.

The evaluation points out that that there is a need for a clearer conceptual framework within CIDA to guide PSD programming and that private sector development has been plagued by a lack of clarity in concepts and definitions. Many of the internal Canadian debates regarding CIDA's PSD programming have focused on issues that place principles at odds with each other without ever resolving fundamental objectives. "*Should the focus be aid or trade? Should the overriding objectives be commercial or developmental? The character of these debates has left many CIDA staff with a certain residual cynicism concerning the PSD priority. Often, PSD was felt to be a code word for "Canadian private sector interests"*" (CIDA, 2002, p.11).

The evaluation concludes that PSD support has produced valuable results in areas such as improving the enabling environment, creating jobs, and assisting with the integration of developing countries into the global economy. Evidence indicates that the programmes for which poverty reduction results have been observed in a consistent manner are the ones targeting micro-finance and micro-enterprise development and small and medium enterprise development. As most donor agencies support the private sector against a background of poverty alleviation as the main goal, this is a significant finding.

As an example of a conceptually focused programme, Danida's PSD programme started in 1993[8]. During the first three years the programme had a small enabling environment component, but this was left out after the first three years. The programme consists of business-to-business co-operations that are supported with technical assistance and finance for the partners to initially visit each other, for special studies required for assessing the scope of the co-operation and for subsequent feasibility studies (Danida, 2001). A start-up facility can also be provided to further prepare the partners´ co-operation and for initial technology transfers (of up to DKK 0.5 million).

The programme was subjected to a comprehensive evaluation in 2001. The evaluation concludes that the design is narrowly focused on individual private business-to-business co-operations with limited concern for broader aspects of development of the private sector as a whole and for the role of the private sector in overall development. Consequently, the development impact of the programme was found to be limited and less than optimal. The Canadian and the Danish PSD programmes (which is only a part of Danish support to the sector) seem to represent opposite ends on scale of what such a programme may include – from very broadly defined to narrowly focused on business to business cooperation. The choice of what to include in a PSD programme is open, but broadly defined programmes seem to risk being fragmented and the focused programmes lack critical connections to other parts of the sector.

[8] Danida has six types of private sector development interventions out of which the PSD programme is one. The others are the Danish Import Promotion Office, The Business Sector Programme Support, The Mixed Credit Programme, The Business-to-Business Programme, and the Industrialization Fund for Developing Countries. These were all evaluated in a meta-evaluation (Danida, 2004) to which we return later.

Sida's PSD policy review was also one of the earliest, published in 2001. The report notes that, to be effective, PSD support needs to be multi-sectoral and multi-disciplinary, integrated with other interventions. The report concludes that interventions in the sector should address a cluster of inter-linked factors rather than factors on their own. Within a cluster, macro- and meso-level factors should be addressed before micro factors. The sequencing of interventions should prioritise the conditions that affect the organising principle and provide incentives to firms before engaging in PSD support directly targeting companies. A pragmatic approach that addresses country-specific conditions is, however, essential. Country analysis should include analysis of the PBS, its performance and characteristics. PSD support interventions should be integrated with other development assistance, integrated into country strategies. The leadership role in the design of interventions should be local. Micro-level interventions should be designed in a way that ensures that markets are not distorted. These conclusions are similar to those of Danida (2001 and 2004) and also resonate in the evaluation from the EU, four years later on. The EU commissioned a major evaluation of its private sector programme (EU, 2005). The evaluation looked at the programme implemented between 1994 and 2003, so it is a little bit more recent than the other three.

Concepts and Management

The EU report (2005) notes the same weakness in terms of overall strategy and conceptual guidance as the other reports do. Whilst the strategy is comprehensive at covering most dimensions of PSD, one major weakness is the ambiguity on the message conveyed (the activities included in the EU PSD programme are listed in Table 3). The evaluation notes that the strategy gives priority to macro-level interventions but also leaves much room for micro-level programmes. This ambiguity is reinforced by a second weakness; the fact that little orientation is given to prioritise among the areas of intervention proposed. This means that the strategy is too open, scattering efforts among all sorts of programmes in different areas, with different focuses and with different degrees of success. A second consequence of these two limitations is that a majority of the EC staff responsible for implementing Community support to PSD lacks the necessary strategic vision on how to support PSD (EU, 2005, p.16), with direct consequences on the implementation: uneven implementation in the field and a limited contribution to the competitiveness of the private sector - even for more recent programmes.

Table 3. Activities contained in the EU Private Sector Development Programme

Activities included in the Community Support to Private Sector Development
Support for institutional and structural reforms with an indirect effect on PSD, including budget Support
Support for institutional and structural reforms with a direct effect on PSD
Support to local financial institutions & the reinforcement of a reliable financial system
Direct capital contributions to local companies or to financial intermediaries
Support to intermediary organisations representing the private sector
Support to facilitate partnership between firms (meetings, workshops, forums, etc.)
Encouragement of trade and investment between European and local companies
Encouragement of transfers of know-how and technologies & support to cooperation between industry and scientific research
Support to enhance human resources and capacities (training, etc.)
Support for the development and creation of SME's and micro-enterprises
Upgrading of local firms (TA, development of management skills, etc.)
Support to firm's restructuring and privatisation

Source: EU, 2004, p.9

Managerial and organisational issues

The EU evaluation provides critical comments on implementation of the strategy, more so than do the other evaluations. There is, for example, no methodical process to select an intervention area when programming a country PSD strategy. For a given area of intervention, the degree of effectiveness in improving business sector competitiveness will vary depending on a number of factors, including the degree of priority attached to this area in that country, the comparative advantage of the EC in that area and the preconditions that need to be met before intervening. The EC does not systematically assess these factors, let alone take them into account when selecting its areas of intervention in a given country (EU, 2005, p.51).

The Sida evaluation points to the difficulties of integrating PDS in a large organisation where most of the staff members do not have any business background (Sida, 2001,p. 93 -101) . The evaluation notes that the understanding of the role that the PBS can play in achieving Sida goals is not reflected in most departmental strategies or in country analyses and strategies. Moreover, the understanding of the impact of the PBS on Sida goals at the level of project interventions is poor. For example, with respect to the goal of poverty reduction, only 5% of projects were classified as having an (intended) impact on poverty. The evaluation suggests three possible reasons for this. The first is that there was/is an overall perception amongst Sida project officers that poverty reduction is concerned only with actions that have a direct impact on the poor. The second could be that the relationship between growth and poverty reduction is not clearly understood within Sida as a whole. Third, and perhaps most importantly, Sida does not have a clearly elaborated policy in relation to the role that the PBS could play in poverty reduction. Since then, Sida has developed a PSD strategy, so the situation may be different now.

Echoing these findings, an ADB (2007) evaluation notes that an important feature of its Private Sector Development Strategy was the need for regional departments to use ADB's country strategies to interlink public and private sector planning and operational activities. Country-specific Private Sector Assessments were required to be prepared to support that process. The evaluation found that, except in a few countries, private sector development road maps were not included in country strategies, and the Private Sector Assessments did not appear to have influenced significantly the preparation of country strategies (much like the findings of the EU and Sida evaluations). The Bank's evaluation department had prepared nine Country Assistance Program Evaluations since 2000. A review of these documents indicated that at the strategic level, ADB had failed to develop clear programmes in the country strategies for the development of synergies between public sector and private sector operations (ADB, 2007, p.38).

Effectiveness of Subcomponents

The EU evaluation is particularly interesting as it is one of few evaluations that compares performance across areas of intervention. It concludes that many EC business environment programmes have been successful, in large part due to their high relevance[9]. However, while it is a key precondition for successful implementation of macro-level programmes, strong political involvement of partner governments is not systematically ensured. That said, some EC practices have positively influenced government involvement, for example through minimising delays, consulting all relevant stakeholders, entering into joint implementation with other donors and proposing reforms at provincial rather than central level when applicable. Furthermore, support to intermediary organizations has been an effective way of influencing government policies.

[9] This is one example of an evaluation criterion that sounds precise but is open to many different interpretations, as relevance could never be automatically connected to success. Relevance is certainly a precondition for successful programmes, but much could happen along the way of implementation before an intervention could be said to be successfully completed.

The conclusions in respect of financial services differ from that of the CIDA evaluation, which found these to be the most effective in terms of poverty alleviation. Most meso- and micro-level EC interventions in the financial sector were unsuccessful at addressing the obstacle of access to finance. Programmes aimed at financing specific investment projects through direct capital contribution had usually been successful in delivering expected outputs, but unsuccessful with regards to the objectives of the EC PSD strategy. Finally, the PSD Guidelines are not sufficiently clear regarding the role of the Commission in interventions in the financial sector (EU, 2005, p.48).

Despite the positive evolution towards a greater focus on reinforcing local BDS markets, EC programmes do not adequately address the failures of such markets and in consequence have been unsuccessful in reinforcing local BDS markets (EU, 2005, p. 50). Two factors help explain the inadequacy of EC solutions to existing market failures: first, the EC neither assesses market failures sufficiently nor devises adequate supply-side solutions.

The Sida (2001) study shows that within the PSD interventions, considerable attention was paid to macroeconomic stability, but little to the state of development or needs of the private sector. A surprisingly small amount of support was allocated to the macro level - only 2% of budgeted expenditure. The evaluation notes that while Sida staff understand the role that they play in contributing to the conditions for a well-functioning PBS, in practice they do not take full account of the need to develop these conditions, nor the relationship between factors. Given the fact that the donor agencies operate in many countries where the enabling environment for PSD is weak, one would expect to see more interventions at the macro-level.

In balance, interventions at meso- and micro-level in terms of budgeted expenditure were roughly equal in the Sida programme, with the majority of micro-level interventions focused on human resource development. Less emphasis was accorded to market access, the removal of structural barriers, business development services etc. Furthermore, the Sida evaluation points to an unwarranted predominance of interventions that address individual factors, with only seven interventions working at more than one level. The understanding of how the factors that create the conditions for a well-functioning business sector are linked was not well developed at Sida.

Intervention Channels

With respect to the mechanisms used by Sida non-governmental channels were not used much. Most interventions were provided either directly or through government. Several Sida officers expressed concerns about using any channel other than government. According to the evaluation (Sida, 2001, p. 106) this needs to be addressed, as non-governmental channels are almost always cost-effective in providing support to businesses at the micro level. Chapter 7 brings up a similar conclusion from Dutch support to trade, which found that the most effective support was channelled via NGOs. The principles of PSD support at the micro level – of not distorting the market, effective outreach, sustainability and the need to create a demonstration effect – are also not adhered to consistently, although there is some recognition of their importance.

Ownership and Sustainability

All the above-mentioned evaluations and the Danida evaluation (2004) in particular point to the importance of local ownership and the fact that this is often absent from the PSD programmes. It is a lesson learned that ownership, involvement of local actors and building of institutions is a necessary condition for sustainability. However, at least for financial sustainability, this is not sufficient. Interventions aimed at setting up or restructuring firms and institutions have to ensure that their costs can be covered. In the case of business institutions, financial sustainability implies capacity for self-financing. This has implications for the range of competences that need to be transferred, and for how such transfers are financed. Subsidies may only be justified temporarily, on grounds of very high positive spill-over effects such as the supply of products or services that are absent or difficult to gain access to, at least for targeted (e.g., poorer) segments of the population. Moving from the past evaluations quoted here, it appears that the issue of institutional sustainability has been addressed in the new generation of programmes targeted at the macro- and meso-levels, at least in the form of a focus on transfer of institution-building competences[10]. It is, however, not clear whether the issue of financial sustainability has been given the same degree of attention. In respect of Danish micro-level interventions, hard data on sustainability has been reported only very recently as in the form of enterprise survival rates in the PS programme. It is, in this case, not clear whether attempts have been made to identify what factors have been associated with sustainability and lack of sustainability.

Donor Coordination and the Paris Declaration

The programmes mentioned here predate the Paris Declaration with several years, yet the problems of donor coordination were an issue. In both the Danish, Swedish and Canadian programmes there were business–to–business components, and it would always be rather difficult to coordinate such programmes. The national interests are paramount and the motivations of individual entrepreneurs are not easily coordinated. The EU evaluation concluded that the effectiveness of coordination practices has improved although it is still quite varied. Sharing of information between donors and with the government had, at the time of the evaluation, improved significantly but few joint activities or projects were still in evidence. Furthermore, the risk of overlap was found to be important, especially for meso- and micro-level interventions. National interests in such interventions hamper effective coordination (EU, 2005, p.39). The evaluators conclude that, in spite of this, donor coordination is possible in specific areas where conflicts of interest are less in evident (e.g. legal and regulatory framework, institutional capacity and policy dialogue) as well as in areas in which the potential for coordination across areas of intervention is high, such as local economic development.

Still, the evaluation team found that co-operation between donors was virtually absent from PSD project practice (EU, 2005; p. 41). There was little evidence of distribution of tasks, joint activities or joint projects. Few projects were multi-donor; each donor had its own portfolio of projects to finance and manage. In Zambia, only three PSD-related programmes (out of a sample of some 23) were identified as being jointly funded. Moreover, the degree of success of the few multi-donor projects varies from one country to another. The evaluation quotes projects in Ghana and in Egypt that were globally successful, whereas the micro-finance programme in Uganda was considered a failure.

In conclusion, the risk of overlap was found to be high especially for meso- and micro-level interventions. While it was difficult for the evaluation team to seek detailed information on the beneficiaries of the different programmes funded by donors or the partner government, the evidence revealed a high degree of overlap (Mexico, Zambia). In Zambia, for example, there were 21 micro-level programmes all targeting private sector competitiveness; given the size of the private sector in that country, it would be surprising if no overlap existed. A different situation was found in Morocco, where several interviewees confirmed there was little overlap between donor activities, and similarly in Vietnam the evaluation concluded that overlap is rare. The risk

[10] Danida; Business Growth and Development. Action Programme for Danish Support to PSD in the Developing Countries

for overlap is certainly higher in the priority countries of most donors, that is, in the least developed countries in Africa.

PSD in Other Sectors

Private actors are active in many fields, there are entrepreneurs and firms in agribusiness, forestry, mining, fisheries and in infrastructure development. In many countries private firms operate in the health and education sectors, indeed these are often high-growth sectors with huge potential for business. There are of course public entities as well, and in many cases development cooperation in, for example, the power sector, has included policy dialogue on the transformation of public utility companies to private organisations. When donor experiences with PSD are assessed, interventions such as these should not be forgotten.

Norad has evaluated its support to the petroleum sector (Norad 2006) and in power-related assistance (Norad, 2005 and 2007). The evaluators concluded that project finance for large projects, involving private sector funding is a challenge. Project finance is linked to the institutional arrangements that are put in place. International and bilateral financial institutions play a large role in raising commercial funding, and in covering some of the risks. Private sector funding on the equity side may be minor and tied to contracts, by which a part of the investment flows back. On a more general level, the perception of investment risk is formed by the track record of good governance in the host country. On institutional capacity development, the challenge for cooperation partners is to gain a deeper understanding of the capacity development needs, and how to address these with a view to the numerous obstructions.

The World Bank (2000) conducted an evaluation of its performance in promoting private sector development in the electric power sector. That report's main message was that the private firms have delivered expected benefits and good outcomes where countries showed a commitment to advancing reforms, and PSD programmes were properly implemented. However, the quality of outcomes depended on the objectives pursued and on the types of assistance provided. Most countries were in the early stages of reforming and deepening private sector involvement in their power sectors. The World Bank pursued multiple and complex reform objectives through a range of instruments across all regions - and achieved good results where country ownership and sustained political commitment existed. But the World Bank underestimated the complexity and time required for reforms to mature and achieve lasting and equitable country-sector outcomes; it obtained poor or, at best, mixed results where reforms were weak or reversed. On the other hand, a focus on the single reform objective of private sector participation and responding to market demand for new generation achieved good project-level outcomes overall.

The study also points out that there is no single blueprint for sector reform and PSD. It is an evolving menu of options covering various combinations and sequences of reform steps driven by country-specific objectives and conditions. In addition, poverty reduction and environmental mainstreaming ("doing good" in addition to "doing no harm") have not been intrinsic components of sector reform and PSD strategies. Independent power producers have had a critical role to play in relieving supply bottlenecks, in leveraging public sector financing capacity, and in demonstrating early wins. But lack of timely reforms in the distribution subsector can jeopardize the gains in the generation subsector.

The ADB (2007) concludes that the general lack of synergy between public and private sector operations is disappointing. ADB's experience in the power sector provides some examples of good practices that should be used in other sectors. ADB has supported the restructuring of the power sector in many countries. An important element of power sector reform is the creation of opportunities for private sector participation in areas such as generation. Although reforms in most countries have been slower than originally envisaged, progress is being made. Private sector investment in the power sector, including in projects supported by ADB, has increased in the Asia and Pacific region, and energy projects have been successful. In some cases where problems arose with tariffs for private financed projects, ADB was able to use its access to policy makers to mitigate some of the negative financial consequences for its private sector clients through policy dialogue. The evaluation concludes that in comparison to the energy sector, apart from India, where the government is scaling up private financing for airports and roads, progress on private sector participation in the transport and water sectors has been limited.

Concluding Remarks

The strategic perspective on Business Sector Development is important, still there were only six evaluations at that level of aggregation among the 240 evaluations in the database. None of the strategic evaluations was younger than five years; they all date between 2001 and 2005. They are important though, they point to issues such as the sequencing of interventions, the balance between macro-, meso-, and micro-level interventions, the integration of the business sector in the instruments of development cooperation – strategies, policies, country frameworks, etc. They also point to coordinating issues and human resource development needs in the agencies. Evaluations of projects and programmes at lower levels are not so likely to capture and elaborate such constraints.

There is a striking level of coherence between the different evaluations, in that they mirror each other in pointing to the need for a holistic approach to the sector, for the importance of macro-level interventions and the need to sequence interventions. They point to common experiences in understanding local needs and specific contexts. Agencies have standardised instruments that are applied uniformly, still the experience is clear that "there is no one size that fits all". The evaluations discuss the issue of coordination amongst donors and the need for local ownership, but much has happened in the field of aid coordination and these evaluations are probably too old for their analysis to be relevant – but whether the rhetoric has been followed by practice since the Paris Declaration was signed remains to be seen.

Chapter 4. Experiences of Supporting an Enabling Environment

Defining an Enabling Environment

In 1996, the OECD's Development Assistance Committee produced the report entitled *Shaping the 21 Century: the Role of Development Cooperation,* which states that enterprise-based economic growth is essential for decisive reductions in poverty over time. This document, influential among bilateral donors, asserts that development progress is contingent on a strong commitment to an effective policy environment and key development priorities aimed at pro-poor growth. The report also encourages donors to provide increased financial support for such policies, combined with an emphasis on participation and capacity-building.

The definition of what constitutes an enabling environment varies among donor organisations and to some extent it is a political issue. The choice of policies to stimulate growth and development is a political choice and it cannot be reduced to a technical issue only. Still, there is a widespread consensus around issues such as the rule of law and absence of corruption. Other issues are controversial, such as the speed and content of privatization policies.

Support to an enabling environment contains a mix of interventions concerning national policies (macro-economic, social and political) and institutional capacities (e.g., enforcement of the rule of law, effectiveness of regulatory instruments, combating corruption). The object of interventions should be issues which are either conducive to, or hinder the development of the private sector. It is a critical segment of development programming given its potential to influence events from the sector to the individual firm level, for instance policies related to property rights or incentives to support the development of grass-roots savings and credit organizations. In addition, structural adjustment programmes addressing inflation, fiscal deficits, the privatization of state enterprises, etc. help determine the extent to which a given country is "enabled" to accede to global markets and attract foreign direct investment.

Enabling environment is squarely positioned at the juncture of national and international PSD initiatives and has strong linkages to other interventions such as Business Services, Micro-finance and Small Enterprise Development, and Trade and Economic Integration. Furthermore, efforts to redefine the respective role of governments and private sector operators in the delivery of essential services (e.g., infrastructure, education, water and sanitation, etc.) as well as efforts to strengthen capacities to develop sound policies (e.g., decentralization, increased influence of civil society in policies and decisions, etc.) are related to Human Rights, Democratization and Good Governance. Empirical studies show that gains in these areas have a positive influence on economic growth and ultimately the reduction of poverty. In this chapter we look at donor experiences in three critical areas; policy dialogue, legislative reform, and labour market interventions.

Policy Dialogue

There are many forms of policy dialogue, and many interventions occur in forms that are not evaluated as specific projects. One of the best documented major policy projects seems to be DFID experience with privatization of state-owned enterprises in China (DFID, 2004). Since 1999, DFID had been working with the Government of China and other partners to use development of the private sector as a way of reducing poverty. The Programme came to an end in 2007, with China having achieved the first Millennium Development Goal of halving the proportion of people living in extreme poverty. The British PSD programme in China had many components, but policy dialogue was prominent and in this section of key interest (DFID, 2007, p.9)

The programme was evaluated twice. The first evaluation (DFID, 2004) observes that the understanding of what makes aid effective is changing. Evidence and experience challenged traditional approaches to 'conditionality'. In China, DFID set out a new approach to building a successful partnership for poverty reduction. It was emphasised that China must have room to determine its own policies for meeting the Millennium Development Goals, and DFID concluded that the use of aid was most effective if the Chinese could predictably rely on it as part of their long-term plans.

The programme essentially relied on advisory services to achieve SOE restructuring. This approach looks, again in retrospect, to have been insufficient (DFID, 2005). While there was government pressure on SOEs to reform and commercialise, the project did not seem to have been positioned to act as an effective instrument to deliver these Government objectives. Market forces bearing on the private sector and motivating them to seek means of business development were probably less acute and more diffuse for the SOEs. The advisers were short of entry points to SOE management, and for example they never succeeded in establishing a role for themselves in debt management, a key area for SOE Reform in China.

The evaluation (DFID, 2005) refers to an alternative approach that had been adopted in an Enterprise Restructuring Project in Poland. The Polish authorities launched a programme to clean up the bad debt portfolios of a group of public sector banks before the privatisation. The Banks were recapitalised to a pre-determined level and set up debt work-out units (with UK consultant support). The work-out units worked with enterprises to restructure debts and turn round enterprises where feasible and liquidate unviable enterprises. The banks had a financial incentive to improve their portfolios and leverage on the enterprises with the possibility of foreclosure. Bringing together the banking and enterprise aspects of debt restructuring might also have worked in China, though it would have had to be in the context of a Government approved policy and programme (DFID, 2005).

Apart from the experience in China, DFID has also evaluated its policy dialogue on privatization with the government of Sierra Leone. (DFID, 2007) The National Commission for Privatisation (NCP) was the agency responsible for oversight, reform and privatisation. Apart from some of the enterprises in the financial sector, almost all the enterprises (state-owned) operated at a loss, had excessive debt and were over staffed but did not have the funds available to pay off the excess staff. Many of the enterprises operated in sectors where the policy, legal and regulatory framework was outdated, unclear, or completely nonexistent and a complete restructuring of the legal framework was required. All these were issues that still needed to be resolved in the process of divesting the enterprises. In a number of sectors, but particularly in the power and telecoms sectors, there was lack of leadership and the focus needed to achieve the required sector reforms. Task forces needed to be established to develop sector strategy, coordinate government activities and drive the reforms forward in these sectors.

The NCP did not have a strategic plan in place to guide its communications programme and it generally had a reactive rather than proactive approach. Similarly, the government did not have a programme to deal with redundant workers, with enterprises only meeting their minimum legal requirements, and sometimes not even that, when making workers redundant. For both these areas options for comprehensive programmes were to be developed by the second quarter of 2007 for consideration and adoption by the NCP and the Government of Sierra Leone.

These DFID experiences around policy dialogue and privatisation in China, Sierra Leone and Poland thus point at the possibility of achieving results (Poland) but also at the necessity of having vital links to other programmes and of having prepared the programmes only after comprehensive feasibility studies and thorough assessment of the political and social aspects of the task.

Legislative Framework

Security and Justice Sector Reform (SJSR) has assumed an increasingly prominent role on the international policy agenda. The UK Government has many years of experience in SJSR – often combining work on 'security sector reform' and 'safety, security and access to justice'. SJSR activities have been carried out in some 20 countries in sub-Saharan Africa since 2000, primarily with funding from DFID.

In assessing effectiveness, a review (DFID, 2007) examined the objectives of UK interventions and the extent to which they have been achieved. Five issues emerged as particularly important for achieving effective interventions: 1) understanding the country context, 2) programme design and implementation; 3) contribution of interventions to achievement of objectives; 4) monitoring and evaluation; and 5) collaboration with other international actors. One theme that runs throughout the examination is the need to understand the highly political nature of SJSR processes and to shape programming accordingly. This is a critical aspect of country context and is essential to designing and implementing effective interventions. Additionally, since the UK is often the only or the major external actor supporting SJSR, experience suggests that UK interventions would be more effective if they were part of a strategic approach that links with other SJSR interventions or with reforms in governance, the public sector or public finance management and draws to the extent possible on civil society expertise.

Despite the fact that the UK plays a dominant role in SJSR in sub-Saharan Africa, experience has shown that harmonisation of international efforts is often necessary to maximise the effectiveness of SJSR programming. In the DRC it was evident from the outset that the Country Team would need to devote considerable effort to harmonisation of international efforts. In Sierra Leone, this lesson was learned over time, particularly with regard to the international financial institutions.

Overall, the review found that UK SJSR interventions have been partially effective within different programmes (with the possible exception of Sierra Leone). 'Partial effectiveness' means that programmes generate some useful outcomes but cannot produce a multiplier effect given political blockages. For various reasons, it is often difficult to make course corrections in large, expensive programmes even when it becomes obvious that the political environment is not conducive to the pursuit and achievement of the desired outcomes.

Another example of a project in the legislative sector comes from Sida. Sweden supported the building of institutional capacity for arbitration in Sri Lanka since 1992. The project included the following activities, (1) assisting with finalisation of the new draft law; (2) providing information about the new law through the publication of a booklet and a leaflet; (3) training of arbitrators through seminars and courses; (4) developing cooperation between the Arbitration Centre and the Arbitration Institute of the Stockholm Chamber of Commerce; and (5) introducing a system for training law students at Colombo University in the general principles and methods of commercial arbitration. The objective was: "*to bring arbitration law and practice in Sri Lanka in line with modern principles and methods of commercial arbitration in order to attract foreign investors and to meet the demands of the business community in Sri Lanka for speedy dispute resolution*".

The evaluation (Sida, 1998, p.18) concluded that the project had contributed to the objective but far from fulfilled it. Four factors gave it a low degree of efficiency; (1) the project established a new, competing arbitration centre rather than building on the existing centre; (2) Swedish resource persons were primarily used for promotional activities rather than training of trainers (They were used to promote/lobby for the service rather than engaged in training); (3) efforts were spent marketing the new arbitration centre abroad rather than building capacity at home, and (4) limited attention to upgrading the skills of Sri Lankan lawyers at University or College level. The lessons learned point to preparation and design errors; no accurate assessment of the situation on Sri Lanka, no discussion of pros and cons of alternative solutions, the feasibility study done by the organisation who was de facto already involved in implementation. As a result, the project provided considerable subsidies to one of the centres on Sri Lanka and nothing to the other, hence distorting market forces, and the evaluators conclude: "*such distortion is unfortunate in a private sector development project*"

Corruption is generally regarded as an issue that hampers PSD. Corruption within and between public and private sectors has become one of the leading problems for businesses all over the world. The recent inclusion of an anticorruption principle in the United Nations Global Compact, endorsed by more than 3,800 members, further emphasizes the ever-growing importance of the private sector in the global fight against corruption. Just to get an idea of the dimensions of corruption, it is worth mentioning that, according to the World Bank Institute (2004), more than $1 trillion dollars (US$ 1,000 billion) are paid in bribes every year,1 which means that each year the cost of corrupt activities is equal to a full 3 per cent of the world's gross domestic product.[11]. We have not come across any evaluations of interventions against corruption per se, when building the database for this study but there is a UNIDO (2007) paper on the subject, which also draws on the agency's experience from projects. According to UNIDO, non-transparent laws and regulations, the inefficiency of courts, and a lack of transparency in public procurement systems and government spending, are the main factors that make corruption possible and create obstacles to the success of businesses. Improving the business environment for SMEs requires a complex interplay between corporate and government action, and the creation of effective partnerships between the public and the private sector. Frequently mentioned public sector tools to prevent and control corruption include an effective legal and regulatory framework and social policies, enhanced transparency and accountability, and the elimination of government-created barriers that foster cultures of rent seeking.

While improvements in the fight against corruption at a national level will help businesses of all sizes, there are measures that can be taken that have particular relevance to SMEs. For example, certain funds could be made available in order to allow small businesses to go to court and claim damages caused by corrupt practices involving public officials. In cases when SMEs suffer financial or other economic damage as a result of acts of corruption, measures need to be taken to ensure that they have the right to initiate legal proceedings against those responsible for that damage in order to obtain compensation. These and other similar measures that assist SMEs in funding matters constitute an incentive to SMEs to actually use the existing mechanisms in the justice system. Furthermore, it is important that appropriate measures to provide protection against any unjustified treatment for persons who report acts of corruption are in place. In this context immunities from criminal action in case of self-incrimination could be considered to encourage reporting of corrupt activities.

[11] Global Development Research Center, Resources for SMEs: www.gdrc.org/sustbiz/for-sme.html

Labour Markets

There are relatively few evaluations of projects in labour markets. The only ones we found from bilateral donors were evaluations of a set of Sida interventions in Eastern Europe in the late 1990s. The projects provided for institutional cooperation between Latvian and Estonian labour market organisations and the Swedish organisations, usually in the form of study visits, policy dialogue, technical assistance and training. The emphasis of the programmes appears to have been on training. The first evaluation (Sida, 1997) concluded that the programmes had very few visible results (p.8). Even though the planned training programmes took place, the lack of material and financial resources imposed severe problems in implementing the knowledge in practice. The evaluation concludes that future cooperation should be less geared at training. It needs to make sure that the transferred knowledge can be put to use. Another evaluation of labour market projects in Estonia (Sida, 1997) points to the need to coordinate with Phare projects financed by the EU. The latter evaluation criticizes poor monitoring functions of the projects.

While the above two evaluations show rather traditional technology transfer through training and institutional cooperation between labour market boards, the third evaluation (Sida, 2001) treats a more complex programme in Russia. The core of the interventions were to create model offices that meant to transfer the best and most up-to-date Swedish experiences and practices in labour market policy to Russia. These model centres were successfully established, but the evaluation concludes that the overall objectives were not met – the model offices were not an end in themselves but a vehicle to disseminate knowledge to other labour offices in Russia. The dissemination did not work. The evaluation identifies three reasons; (1) the Russian side did not assume responsibility to spear experiences; (2) no clear strategy for disseminating experiences was developed; and (3) people to be responsible for that dissemination were neither appointed nor trained (Sida, 2001, p.13). It would thus seem as if the three Swedish labour market interventions in Estonia, Latvia and Russia have little to show in terms of contributing to an enabling environment.

Another experience of labour market intervention can be seen in an evaluation of an ILO (2007) project on the Philippines. The project sought to facilitate the creation of employment opportunities for young women and men by: (1) supporting efforts of the Government and other partners to formulate and implement an integrated policy and programme package for employment and effecting change in government policies at national and local levels; and (2) implementing action programmes to meet the needs of key youth target groups including school leavers, young people with low skill jobs, unemployed youth in the informal economy and young entrepreneurs.

The evaluation (ILO, 2007) concluded that the general approach was valid and well-conceived. The premises were well supported by employment data, the approach was based on ILO's tested approach, and the strategy provided the necessary combination of macro-, micro- and middle-level interventions that could make a sustainable impact on youth employment. But (obviously) two years was too short to fully achieve the objectives. While an adequate momentum of activity had been secured among the various project partners, things had – by the time of the evaluation - only begun to gel among them, and challenges remained formidable. There appeared to be inadequate "buy in" for the project by the traditional tripartite partners of ILO. The project was described as "*donor-driven,*" "*supply-driven*" or "*manager-driven*," which had weakened ownership and accountability for project outcomes by the project partners. The evaluation explained this as arising from a lack of a national coordinating mechanism to steer the project - partly due to the project having reinforced its "bottom-up" approach in light of the frequent change in leadership and bureaucratic issues which hindered its "*top-down*" components.

Another ILO programme in Morocco was developed and implemented against the background of the drafting of the 2004 labour code and the signature of the free trade agreement with the United States. The provisions of the labour code, along with the impact of globalization, created considerable changes in Moroccan labour relations. The project had two objectives; (1) improved performance of the labour inspectorate in the application of the labour code, and (2) strengthened skills of the project's three partners for establishing institutions and mechanisms for collective bargaining and conflict prevention/resolution.

The project sounds ambitious and the evaluation concluded that it has been managed professionally, but reports could have been timelier and should have included a Performance Monitoring Plan. The design exercise failed to include the development of an overall work plan and the setting of targets, and indicators were ill defined. This affected the design and use of the project monitoring plan and therefore, the mid-term impact of trainings on the labour code and inspection methodology can only be measured through a follow-up survey. The impact on industrial relations of recent training on collective bargaining and enterprise committees cannot be established as yet, but very likely additional activities are necessary to accompany the realization of collective labour agreements and functional enterprise committees. It seems that the goal was relevant but the activities scant and restricted to some training, and there was no clear follow-up or assessment of results. It does not say much for creating an enabling environment.

Priorities among interventions

The CIDA evaluation (2001) notes that the agency had spread its efforts across the macro-, meso- and micro-levels in relation to the enabling environment; however, the analysis revealed that the majority of projects were in the micro level, in support of various initiatives which help to make practical things happen on the ground (e.g., Guyana Business Advisory Program, Hanoi Land Information Management Project, Canadian Comprehensive Audit Foundation Fellowship Program, etc.). In terms of the characteristics of the types of initiatives supported by CIDA over the specified time frame, the most recent projects were focused upon the establishment of market economies and the role of the private sector. Earlier projects, on the other hand often related to industrial or economic development, including governmental involvement in certain sectors of the economy.

For once, the evaluation noted that performance measurement mechanisms had been developed for the majority of the projects reviewed. In almost every project, immediate and intermediate results and spin-offs were adequately documented. Enabling environment projects at the micro- and meso-levels were often designed to ensure sustainability through long term linkages. CIDA and its domestic partners were particularly effective on practical interventions of a technical nature. For instance, the Centre for Property Studies was identified as a compelling example where a Canadian partner was recognized for having developed a world-class field of expertise. The evaluation concludes that there appears to be a comparative advantage for CIDA with respect to meso- and micro-level initiatives where Canadian partners have been found to be effective in the facilitation of entrepreneurial activities, the introduction of new systems and processes and institutional development. CIDA has also made significant contributions to the establishment a limited number of independent policy fora or research institutions; for example, the Malaysia Institute for Economic Research, the Thailand Development Research Institute.

The dual nature of PSD is seldom assessed in evaluation, but this CIDA study observes that meso-level projects often lead to longer term relationships for universities as well as private sector operators (usually well established industrial firms). The Canada-China University Industry Project was an example of a project which focused on building capacity in sectors where Canadian partners can be involved over the long term and where they have proven expertise (e.g. financial services, energy and telecommunications). The Indonesian Infrastructure Services Project had similar implications, where up-front reviews and analyses were expected to lead to strategic knowledge of infrastructure development plans where Canadians may be well positioned to be involved over the long term.

Concluding Remarks

The evaluations of interventions to create an enabling environment were of two kinds: Some were of rather broad sector programmes – over longer periods of time and undertaken in close connection to interventions at several levels, combining training, institutional development and policy dialogue. The lessons learned there point to specific experiences in timing of intervention elements, role and tasks of technical assistance personnel, and combination of instruments. The importance of context, political sensibility and local ownership were underlined.

Other interventions were of a more traditional technical assistance kind, though directed at policy fields that were broadly defined. But there was a difference between the words describing the projects, such "Active Labour Market Policy in Russia" and the actual content, which in that case was limited to intervention to set up model offices in the Russian Labour Market Agency. Many projects face similar problems of lacking connection between macro-, meso- and micro-levels, questionable commitment and ownership, too short planning horizons, as well as in some cases basic shortcomings in implementation.

Chapter 5. Support to business development and financial services

Programme overview

Direct intervention in the market and support to the establishment of business development service (BDS) and financial institutions have been used frequently as an instrument to support business sector development in addition to support to policy formulation and the creation of an enabling environment. This type of interventions is seen as a complement to the establishment of an enabling environment but it is also recognised that BDS market failures may discourage the establishment of and investment in the supply of business services needed for entrepreneurs and private sector development. Therefore support to direct interventions in the markets may be wanted to provide such services for enterprises (Altenburg and Drachenfels 2006). A study of the business sector in Sub-Saharan African countries clearly demonstrates the widespread nature of different market failures that hinders entrepreneurs and enterprises to get access to needed services and develop; the sector is characterised by widespread informality, little upward growth of enterprises and a "missing middle", weak inter-firm linkages, lack of export competitiveness, lack of innovation capabilities and complicated regulations for both property titling and labour (UNIDO 2008).

Aid interventions that support BDS and financial services institutions and providers can be divided into three main categories 1) equity support; 2) support to credit institutions, and 3) support to business development service provision. While institutions providing equity participation take a commercial ownership risk in the enterprises, financial institutions provide credit financing which the lender is supposed to pay back with interests. Aid programmes often combine the interventions as components in the programme and the donor programmes may also include direct support to individual enterprises. The main discussion for this kind of aid has been whether the donor funds should only support the establishment and capacity building of the service providers and leave it to the market forces to regulate the supply and prices of such business services, or if the donors should also subsidize the supply of services. Said in other words, should the donor funds be used to supply business services below market costs as a subsidy to the enterprises? The main argument against subsidizing BDSs is that it distorts market base competition and crow out other local providers. The argument for direct interventions and use of subsidies is that market failures prohibit investments in the provision and supply of essential BDSs (see further Altenburg and Drachenfels 2006).

Equity provision

Both governments and donor agencies have increasingly supported private equity funds (PEFs) often with the aim to support specifically the establishment and development of small and medium size enterprises (SMEs). This section deals with donor agencies support to equity funds in developing countries while the following chapter looks at the financial institutions located in donor countries providing primarily equity funds to individual companies investing in developing countries.

An evaluation study by ADB (2008) looks at the bank's 75 PEF operations and found that the main impact has been mobilization of additional funds and the demonstration of the feasibility of the concept of private equity funds in the region. The business success of the investments has been more modest and is rated "partly satisfactory" by ADB; higher financial rate of returns from investee companies could have been achieved by alternative investments and it does not reach industry benchmark average for Asia.

ADB's PEF operations in Asia have been highly concentrated on investments in India and China. Partly as a result of this concentration the demand for additional equity funds are now declining as private investors are becoming more familiar with investment climate and conditions in these two countries and the additionality analysis shows a declining catalyzing trend in recent years due to the continued focus on the two countries. This might indicate that donor support to this type of equity funds have greater impact at the initial phase of growing private equity provision in a country while it declines when equity investors become more familiar with the investment climate. Following this argument, donor funds for equity provision would have more impact in other less developed Asian countries and most likely in many African countries.

The ERDB's private equity fund operations for MSMEs in transition countries showed according to the synthesis study (EBRD, 2005) that market size and possibilities to diverse risks are important factors to achieve success. Fund managers that invest equity in SMEs must be able to exercise independent professional judgement free of conflicting interests or pressures. Equity funds may need several years to show positive financial returns and it is necessary for the fund to develop realistic exit strategies from investee companies. The synthesis report provides an additional lesson learned noted from experience in markets economies: Many SMEs were not suitable for external equity investment as they lacked growth prospects, owner-managers may not be willing to accept dilution of their control and the personal affairs of the owner-manager(s) may not be separate from the business. While these lessons origin from Australia they may have equally relevance for private equity funds for MSMEs in developing economies.

Support to credit and lending institutions

Donors and in particular the development banks have supported financial institutions to improve the provision of long and short and long-term credit to enterprises. Supply of credit is often assumed to be a major barrier for the growth of enterprises in developing countries. Support to financial institutions are given in many different forms, however, many of the interventions have one or more of the following characteristics:

- The interventions are a combination of financial institutional capacity building and capital supply.
- The intervention is targeted to improve credit supply to a specific group of enterprises typically SMEs and Micro-enterprises.
- The financial institution interventions may be combined with other forms of non-financial technical assistance and business development services provision.

The more controversial debate for this form of interventions has been if the financial services offered to enterprises should be subsidised or not. The tendency in the last decade or two has been that it preferably should be supplied by private institutions on market based terms.

Our sample includes five evaluations (Danida, 2009a, Finnida, 2006, ERDB, 2005, DFID, 1999, WB, 1997) and is supplemented by the studies summarizing findings and experiences from evaluations and research results onf micro-finance schemes (Batra and Mahmood, 2003; Banerjee et al. 2009; Karlan and Zinman, 2009).

Particularly in the 1990s development banks contributed significantly to deepening and broadening the financial sector and changed financial institution practices to serve SMEs. The

World Bank (1997) evaluation of its support to SMEs in Sri Lanka shows that policy dialogue and institutional training was more important than the relatively small funds provided for on-lending to the SMEs. The evaluation's impact analysis which used a non-beneficiary control group shows that beneficiary enterprises were the more productive firms but and their growth could only be sustained by their access to credit. While the Sri Lanka firms became well served with long-term credit, their access to short-term credit continued to be limited because the government is crowing them out through its control of depository institutions. Beneficiary firms paid lower interest rates without the credit being subsidized. Some of these findings appear to be specific to the situation in Sri Lanka at that time, but the positive impact of supporting private credit institutions in reforming/transition economies are found elsewhere and also more recently (WB, 1997:61/62). The EBRD synthesis evaluation of delivery mechanisms for MSME financing (including credit and equity) finds that the bank has been broadly successful in developing an effective approach. Main lessons learned from ERDB's many operations in this field include (EBRD, 2005:21):

- In designing the projects for SME and MSE financing more attention has to be given to institutional aspects; particular the financial viability of the credit institutions.
- The selection of a committed intermediary with sufficient institutional capacity to expand activities is essential to success.
- In order to become sustainable, SME/MSE financing projects have to be accompanied by efforts to build up institutional capacity for sub-loan handling. Such assistance including support to strategic and management skills, provided with a subsidy to the receiving institution, is judged to be more efficient than subsidising the sub-loans themselves.
- SME/MSE financing projects should be embedded in a broader framework, which also addresses the legal and supervisory framework for such activities and institutions.
- Institutional sustainability and programme impact on the financial sector and on the target group have to be monitored more closely than has been done in the past.

Support to micro-finance institutions and schemes serving micro-enterprises and small entrepreneurs is widespread among bilateral donors and development banks, donor funds in this area has increased fast and several evaluations are made. Many schemes are implemented by non-governmental organisations and increasingly also by capital funding institutions (Finnida 2006). It must also be recognised that a large share of micro-finance funding is not directed towards enterprises but going to households for investments and consumption. The Consultative Group to Assist the Poor (CGAP) housed in the World Bank is a global resource centre for micro-finance supporting communication of knowledge and experience and formulating guidelines and standards (see further http://www.cgap.org).

From the study of BRAC's micro-credit programme (DFID, 1999) it is found that the impact on income depends on the level of borrowing and the initial income level of the household, and was greatest on moderately-poor households who borrowed more than USD 200. Another study of Grameen Bank's credit programmes shows that cost-benefit ratios are better than many alternative poverty alleviation programmes in Bangladesh. Another recent study of who benefits from the introduction of micro-credits, based on an expenditure survey in slum areas of Hyderabad in India, found that households with an existing business invest in durable goods to expand their business and their profits increase (Banerjee et al. 2009). Households with a high propensity to become business owners see a decrease in nondurable consumption, consistent with the need to pay fixed cost to enter entrepreneurship, while households with low propensity to become business owners see nondurable spending increase. An experimental study from Manila finds that marginally creditworthy micro-entrepreneurs who borrow shrink their businesses relative to the control group (Karlan and Zinman, 2009). They also increase their access to informal credit and that access to more credit substitute for formal insurance. The two last mentioned studies report on effects of micro-finance by existing financial institutions and do not evaluate donor support.

The DFID (1998) also found that its support to the private micro-finance institution Kenya Rural Enterprise Programme had been rather successful and had led to increase in business profits and/or households and increased employment in the benefitting enterprises. However, provision of substantial hard evidence concerning impact on beneficiaries is difficult because baseline data are not available, systematic beneficiary monitoring was not undertaken and efforts to establish the causation of changes was not made. Additional lessons learned from the Kenyan project have been: 1) Acknowledgement of a trade of between sustainability and outreach; the ultra poor wanting to start a business have tended to be underrepresented in the programme, 2) The programme has successfully transferred transaction costs to groups, thus reducing costs born by the institution allowing it to administer small loans relatively poor and dispersed clients but increased the burden in some cases, 3) The programme has to find a better and cost effective mechanism for increasing household savings deposits in order to become fully financial sustainable since its source of loan capital is grant capital finance and not members' savings.

The broad lessons about the design of financial products for private parties, and the basic rules of markets, also apply to micro-finance institutions. Other factors contributing to success include a high degree of management autonomy in the formulation of operational rules; low-cost delivery, innovative and flexible loan terms and conditions, close performance monitoring and servicing of areas with high populations density (Batra and Mahmood, 2003:8). The evaluation in 1999 of 15 completed WB micro-finance schemes rated only five successful and they were unlikely to be sustainable. It concluded that the Bank's comparative advantage lies in supporting policy change rather that than direct lending. However, a more recent evaluation of WB and UNDP micro-finance projects concludes that lack of efficiency continues to be a major problem (CGAP, 2006). The evaluation reveals a disappointing picture. In both agencies, less than a quarter of the projects were judged successful. The rest failed to be financially sustainable and unable to continue to offer clients quality financial services over the longer term without loosing their capital and needing continued infusions of money from governments or donors.

An interesting observation is that many of the projects that the evaluators rated weak or unacceptable had been described as successful by the officers and departments managing them. Most of the discrepancy probably stems from the fact that most of the two agencies' micro-finance projects are designed and monitored by generalists, or staff specialized in other areas, who are not familiar with established norms of good practice in micro-finance, and therefore have difficulty judging performance adequately (CGAP, 2006:4). Many other micro-finance funders may face similar challenges and find the UNDP and WB experiences relevant to their own work.

To conclude, the evaluations of donor support and the research studies testing theories and wisdom of micro-credit policies vary in their results and conclusions but challenge grounded theories of assumed effects of micro-credit schemes. These findings are supported by a recent synthesis impact evaluation concluding that the positive causal impacts of micro-credit schemes generally found in donor evaluations are not supported by research studies where "the most convincing studies find no impact of micro-credit programmes on the level of income" (Danida, 2009:38). This highlights the importance of replicating rigorous evaluation methodologies and test the theoretical assumptions of donor programmes across different settings.

Micro-finance institutions have shown that despite high transaction costs and no collateral by borrowers it is possible to lend profitably to low-income households. However, many of these programmes remain dependent on subsidies. Typically, it is unclear what the subsidy dependence of any particular micro-finance scheme is and what donors are "buying" for it. Sound cost-benefit analyses are missing or rare. Micro-finance schemes hold promises, but better disciplines are needed to target scarce subsidies, where subsidies are required to sustain the schemes. Micro-credit seems to allow households and small potential entrepreneurs to overcome start-up barriers and take a risk although there are no immediate effects on poverty reduction. The tiny microloan itself may, however, not be sufficient to get the small enterprise grow and therefore supply of micro-credit for small enterprise development raise questions of how to support these enterprises to grow to an efficient scale and become viable on market based terms?

Business Development Services

Donors have supported initiatives to supply non-financial business services, which include a broad number of services either provided individually or as a bundle of different services. The Committee of Donor Agencies for Small Enterprise Development (CDASED) says that BDS include training, consultancy and advisory services, marketing assistance, information, technology development and transfer, and business linkage promotion, and mentions the distinction between "operational" business services needed for daily operations and management and "strategic" business services used by the enterprise to address medium- and long-term strategic issues (CDASED, 2001:1). Thereby accounting, quality certification, management services, innovation, research & design and IT services and similar services are also included.

The supported institutions providing these services can be either private market based providers or state owned organizations, for example public vocational training schools, tool rooms, certification institutions etc., but the ownership division is today somewhat blurred. CDASED's ultimate vision is to see the BDS being provided at well functioning markets on commercial terms to all types of enterprises. In this study we have not made a distinction interventions made through public or private providers or whether the services have been provided on commercial terms or not.

The focus has been on evaluations that supported the provision of business services; however, the selected evaluations have not necessarily covered all types of services. The World Bank is a strong advocate for providing these at market based conditions and most efficiently provided by private service providers. Many donors' support is, however, being transferred as a subsidy to the enterprises using the services. Donor programmes of this sort are most often targeted towards specific types of enterprises by size (MSMEs), industry or location, and specific forms of economic organization such as clusters or global value chains.

GTZ and BMZ have worked with support to BDS provision over a long period of time and have on that background found a trend over time in the approach to support BDS, divided in three generations increasingly developing it to a general market development approach that can be used in other sectors as illustrated in the figure below (GTZ, 2006). An interesting aspect of the transition from 1st to 2nd generation is that in the last, the focus is both on private and public providers while only on private BDS in 1st generation. In our sample of evaluations, the majority of interventions independent of time have been target towards public BDS providers. Our sample of BDS evaluations[12] is characterised by 1) covering a very broad range of BDSs from education/training services to advocacy activities, 2) the BDS interventions are often combined with other types of interventions in the individual projects or programmes, and 3) the quality of

[12] GTZ (2007), WB (1997), USAID (2004), CIDA (2001), UNIDO (2000), UNIDO (2007),

the evaluations is in all cases low mainly based on program/project reports and mostly confined to performance and output assessments.

Table 4. Market development approaches

1st Generation	**"Commercially viable", promotion of private providers, improvement of supply of services, stand-alone approaches, less consideration of public entities, special focus on micro- and meso- level activities, subsidising as little as possible.**	**BDS market development**
2nd Generation	**Application of BDS to weaker markets; focus on public and private providers; more systemic approach of interventions, stronger focus on strengthening demand; integration of BDS into LRED, EE, VC concepts and in combination with e.g. financial service development, agroindustrial development, etc.; effective subsidising**	**Market development within private sector promotion**
3rd Generation	**Using BDS market development principles in other services outside the economic sector (health, agriculture, etc.)**	**Market development as a general development**

The evaluation of the USAID Enterprise Development Program (EDP) for SMEs in five Central Asian nations (USAID, 2004) is outstanding because, firstly, the programme contains a bundle of BDSs, practical and highly relevant for enterprise management; accounting, quality management, trade promotion, enterprise improvement and association development, and, secondly, the evaluation has a transparent methodology for its analysis and conclusions. However, the evaluation does not cover all traditional DAC evaluation criteria and its objective is also to make recommendations for restructuring the programme.

To remedy these shortcomings we supplement with a World Bank impact evaluation of support to SMEs in Sri Lanka (WB, 1997). However, this evaluation is not only somewhat old but also study the impact of a number of interventions broadly targeting SMEs including credit provision and policy level support although particular emphasis is given to the effects of non-lending activities. An important reason why the WB can make deeper and more thorough impact studies of its interventions is that it allocates large resources for the evaluations. Furthermore, the scope and size of the Bank's interventions make it meaningful to analyse the impact over time and to use macro-economic indicators or to conduct large scale surveys to measure company level performance. Most other donor interventions are much smaller both in scope and size and make them less suited to apply this type of impact evaluation methodology.

The USAID EDP is a mixed programme supporting BDS providers and supporting SMEs directly (see Chapter 6) in the sense that its beneficiaries are both small providers and individual enterprises using the services offered by the project. It has been implemented by a company from the US, and is evaluated at the end of the second year of the three-year project period. Overall the USAID (2004) evaluation finds the programme as a whole well on its way to achieve its intermediary result: "Increased opportunity to acquire business information, knowledge, and skills" by SMEs, contributing to one of the project's strategic objectives to improve the environment for SMEs. However, not all five components have performed equally well.

The components of firm accounting reforms and quality management have performed well and have benefitted small upcoming BDS providers as well as other enterprises participating directly in the training. The three other components have only to a limited degree contributed to achieve the projects intermediate result. The evaluation points at two main reasons; one, that the EDP's services are given away too freely, distorting the transition to a market based supply of BDS providers crowding out local competition, and second, the design of the components have not been sufficiently adapted to the local context and institutions in the five countries but offered more Western market based standard types of services.

Similar findings are made in several other evaluations that interventions are on their way to achieve intermediary results or objectives. It is much harder to find evaluations that can demonstrate the BDS interventions impact on higher development objectives. The GTZ (2007) evaluation of the private sector promotion project in Nepal gives a relatively low rating to impact as the project is too marginal to observe a positive effect on employment and income. The CIDA (2001) evaluation observes that to make PSD projects more relevant for poverty reduction it is important to address the problems involved in measuring this development impact, and argues that the lack of measures may be because "CIDA officers do not have an adequate system for measuring this impact, they tend to favour projects that involve poor people directly but have only a limited impact on poverty, instead of favouring projects that might appear only distantly related to this objective, but would actually achieve it more effectively" (CIDA, 2001:12). A quite similar discussion is found in the report on supporting value chain development in Asia by GTZ (2008:41).

Establishment of private BDS providers can be organised in different ways. The USAID funded project in Tanzania to provide smallholder agricultural producers with basic technical and business skills is based on the formation of producer associations to be providers. The evaluation finds the project successful in this endeavour and a large number of beneficiaries have benefited from the provided services (USAID, 2006). The project also demonstrated the challenges producers are facing with respect to marketing skills when an effort to market products outside the region was punished for lack of product quality and poor marketing timing. Many of the newly formed associations are weak and it will take time for them to be firmly established. The efforts to establish apex bodies can make the services more effective but again the apex bodies are themselves vulnerable with respect to their sustainability. Interestingly the project was initially designed with a component to policy support to improve the business environment. This component was downgraded in importance and the evaluation finds that government institutions in Tanzania are still too weak to implement policies benefiting the private sector.

Several programmes have had a narrow focus on training entrepreneurs mostly from SME and micro-enterprises in basic business management skills. An example has been the Swedish models of "Start and Improve Your Business" implemented through ILO in several countries. The Sida evaluation (Sida, 2007) of such a programme implemented by ILO and the Vietnamese Chamber of Commerce and Industry through local, mostly public organisations shows that the project has reached its output targets and had successful results. The information suggests that the training has had positive impacts on the businesses of the trainees. Women constituted a high percentage of trained entrepreneurs and trainers. With respect to efficiency, the evaluation observes that the training has mostly been offered for free by the partner organizations and the commercial market for BDS in Vietnam is still too underdeveloped to be able to judge how cost-efficient the training has actually been. Capacity building had taken place but at the end of the intervention there was no organization that could continue to offer the training without a subsidy. Long run viability and sustainability for this type of BDS support will therefore require:

- Supply of the training programme must be able to cover all its costs from stakeholders;
- Passive public BDS providers has to be complemented or substituted with private providers;
- Measurement of impact on beneficiaries has to be improved by using control groups.

Similar results are found from other BDS interventions - that they are relevant and have achieved some results successfully. They are technically sustainable with respect to the impact on beneficiaries but lack financial and institutional sustainability. This is partly a question of the time horizon that one has on the need for heavily subsidised provision of services before a viable commercial market for the BDS matures. This is a central point in the discussion of providing subsidies for BDS through donor projects (Altenburg and Drachenfel 2006). In the case of the Sida evaluation it is worth observing that the project was implemented in Vietnam with one of the most dynamic private sector economies among all developing countries. A mid-term review of a similar Sida/ILO training programme in nine West African countries showed also positive results, however, with less evident impact mainly because of limited local capacity to supply and absorb the training services (Sida 2004) and an earlier impact evaluation in East Africa of the same type of training project also found very positive results but the impact could have been larger had the selection of entrepreneurs been more careful and needed follow-up advice provided (Sida 1994; ILO, 1999; Sida 2000).

In almost all cases the evaluations of BDS support raise the question of sustainability as a most critical issue. Today provision of BDS is seen by most donors as a market based tool to provide supporting services to enterprises, however, previously donors were supporting activities that provided the same kind of BDSs for free to beneficiaries particularly when the services were provided through a public organization. By 2004 the USAID (2004) evaluation finds as a weakness in the entire programme that with some exceptions, "it provides services at no charge. This practise distorts local markets, discourages the growth of indigenous management consulting services, and encourages dependency on donor funding." (USAID, 2004:1). The programme should charge for the marketable services and spin off its most successful components, transforming them into self-supporting, fee-based enterprises. This type of finding is found in other evaluations (GTZ, 2008; UNIDO, 2007).

Training of labour including unemployed youth constitutes an important element in business development policies and donor programmes. Training of workers has high priority for donors. In our evaluation sample there were no high quality evaluations of this type of intervention. However, a recent research study from the Institute for the Study of Labour in Bonn makes a thorough evaluation of three government vocational training programmes for disadvantaged youth in Columbia supported by the World Bank and the Inter-American Development Bank (Attanasio et al. 2009). A detailed cost-benefit analysis shows high positive results – higher for women than for men. The study points at the following factors for the success of the programme: 1) specific skills trained both at on-the-job and in classroom, 2) private institutions provided demand oriented classroom training in close contact with the internship enterprises, and 3) firms and workers got information from the other side facilitating employment. These findings and the success criteria are to a large extent supported by a study on the effectiveness of the World Bank portfolio of lending to vocational education and training (Canagarajah et al. 2002). The conclusion based on WB evaluations, reviews etc. is that the portfolio has shown an average performance compared to other sectors. The importance of stakeholder involvement, sound economic analysis and demand driven and future oriented skills is stressed. The study finds that public sector dominance has hampered effectiveness and led to provision supply oriented skills. Finally, the study confirm the lack of qualitative evaluations saying "poor monitoring and evaluation has bee a drawback in almost all projects" (Canagarajah et al. 2002:37).

In many of these cases, the supply of BDSs have been organized through public institutions that have little experience of operating at market conditions and therefore are unable to continue the BDS activities when donor funding terminate. The CIDA (no date) assessment of 94 PSD projects within the category of "Capacity, skills and productivity enhancement" shows that the results are often unsustainable. Several factors are found to contribute to the poor performance; lack of knowledge by CIDA of the institutional environments, local partner taking insufficient ownership, difficulties in creating institutional linkages, and inability to recover costs.

Cluster and (global) value chain approaches

Some donors and particularly UNIDO and GTZ have for some time been developing approaches and tools to support enterprises organised in clusters and value chains. The UNIDO cluster approach is based on the philosophy that existing agglomeration of enterprises can be supported by stimulating the supply of relevant business development services that cater to the needs of the enterprises in the cluster (UNIDO, 2000). Several donor PSD projects and programmes are now designed to assist enterprise clusters in various ways. Similarly, GTZ (2005) documents the large number of initiatives that have been taken to support developing country suppliers and producers organised in value chains. Basically both the cluster and the value chain approaches have as their core to stimulate BDS provision to the enterprises organised in clusters and value chains. There are still rather few independent evaluations of cluster and value chain interventions and many of those organised by the donor agencies have a limited focus only on assessment of implementation and outputs/outcomes while the documentation of impacts for beneficiaries and wider development effects is more superficially addressed.

UNIDO has accumulated its experiences of implementing projects supporting clusters, for example in a report of four projects in Central America (UNIDO, 1999) and a report on one project in India (UNIDO, 2000). Key lessons learned from the experiences include: 1) Design and provision of BDS should be demand-driven, 2) Interventions should be business-oriented, production-grounded and targeted at SMEs, 3) Interventions should be multidimensional and people oriented, including all network actors in their strategic and specialised functions, 4) Invest in people supporting training and exposure to best practices, 5) Combine private and public investments to finance networking development services and pursue early elements of market cost recovery, 6) Carefully design evaluation criteria, and 7) There is no single and pre-defined path to be followed in the implementing cluster/network promotion initiatives. The work by UNIDO on support to clusters has also demonstrated how the support can be combined with micro-finance to create synergies (UNIDO, 2005).

A report assesses GTZ (2008) experiences of supporting value chain development in five countries in Asia. It examines and compares experiences in order to contribute to learning and best practices on the premise that by working with value chains GTZ can achieve impacts that are large scale and sustainable, requiring systemic change beyond the individual firm with interventions providing critical skills, new ideas, linkages, associations, standards and regulatory and policy reforms. The GTZ report finds evidence that the approach is effective and identify critical features such as a strong process orientation to analysis, interventions guided by key principles and a process of engagement that is close to the private sector – and more recent innovations in, for example, impact assessment.

The USAID (2008) evaluation of support to three different rural industry value chains in Cambodia finds positive impacts for sales, quality/unit prices and investment indicators compared to baseline figures. Project efficiency is calculated based on increased sales and find a 132% increase over total project cost. The approach was to assist small entrepreneurs to partnering directly with value chain stakeholders to promote new ways of thinking and acting among local business people. It was implemented by a US consulting firm that channelled credit and business services to primary producers' enterprises. The evaluation study does not include a discussion of the financial and institutional sustainability of the intervention. The material on cluster and global value chain interventions is still mainly descriptive focusing on approaches while there were few evaluations of these activities in our selected sample. Besides being a relatively new form of intervention it is often difficult to evaluate the causality between the aid interventions and developments in cluster and global value chains and establish the counterfactual cases since aid interventions often only play a limited role and other external factors and inter-firm relations are more important for changes. The ex-ante intervention design requirements for impact evaluation are likely to be high and require firm level performance data.

Concluding remarks

Reading through the evaluations of the different types BDSs it appears that there tends to be a greater degree of success for support to credit institutions, even those targeting SMEs and micro-enterprises, than for programmes supporting provision of non-financial business services. One possible explanation for this is that the provision of both types of services has moved into a market based framework from a situation of being provided or controlled by public systems or supplies have been non-existent. The financial institutions have in many developing economies more easily undertaken the transition to market conditions than the establishment of markets for non-financial services. Support to private equity institutions require scale of operations, skills and experience of fund managers, a long time horizon and may be more complicated to target towards SMEs. However, other business service interventions may also achieve promising results when adopted to the context like systemic support to clusters and global value chains, and further more training of labour and youths also shows positive results but only when trained skills are relevant and demand oriented and labour market stakeholders involved with effective providers.

Financial sustainability continue to be a critical issue for all types BDS services but while market interests and repayment are closer to be realized for financial services it appears more difficult to cover costs for non-financial BDS by customer fees. Need the provision of these services to be subsidised, the arguments for this should be explicit and transparent. Interventions supporting supplier and producer enterprises organised in clusters or value chains have gained increasing importance among donors and the intervention approaches have been improved on the basis of experiences and best practices. There are only few evaluations in our sample of the long term impact and sustainability of such interventions but the indication is positive. Such interventions could have an impact on the stakeholders and actors operating in clusters or value chains.

Chapter 6. Direct Support to Private Sector Enterprises

Introduction

Many donor agencies have used a variety of aid instruments to support individual private enterprises in developing countries. This kind of intervention is supposed to provide subsidized inputs, financial and non-financial, to private business ventures that would not have been implemented under existing market conditions. It is basically grounded in the notion of market failures that can be remedied through private-public partnerships.

The main argument for direct support to individual developing country enterprises is that inputs, particularly capital, technology and knowledge not available on existing market conditions, can be effectively transferred to business ventures that generate positive externalities and spill-over effects to other enterprises and benefits the society at large. These benefits are also assumed to be more effectively established through partnerships between western firms and firms in the recipient countries. Based on common interests and understanding such partnerships are assumed to be effective transfer mechanisms. It is also believed that donors through the direct enterprise interventions can support social objectives and improvements of the business environment. This is the basis for the public-private partnership models.

The direct interventions include equity participation, credit provision and technical assistance support. The different types of interventions are often combined in a programme or included as components in broader programmes that support institution building and capacity development. The direct support programmes are, like many other types of PSD interventions, often targeted towards SMEs and micro-enterprises, and designed as partnership programmes with the support tied to enterprises from donor and specific recipient countries.

Several donor agencies including BMZ, CIDA, Danida, DFID, Sida, USAID, the development banks and UN agencies are or have been operating such kind of direct enterprise support programmes on a larger scale. The evaluations drawn on in this section are undertaken by Danida, CIDA, USAID, and a World Bank study that draws on evaluations of a large number of World Bank and other donors' interventions (Batra and Mahmood, 2003). In addition we draw on results from other research studies (Binder et al. 2007; Folke, 2009; Kragelund, 2004; Kuada, 2002). Batra and Mahmood (2003) find in their study of evaluations of direct support programmes that they vary in their methodologies and that detailed cost-benefit analyses are rare.

The chapter is organised in the following way: the first section looks at equity participation programmes, the second on credit support schemes and the third on non-financial support schemes organised as either support to individual developing country enterprises or organised as partnership programs. This type of programme is characterised by involving commercial risks not only for the donor agency but also for the other partners involved in the programmes, meaning that the benefits can not only be zero but even negative for the participating private enterprise partners.

Equity participation

Most donor countries and many international agencies particularly, the International Finance Corporation (IFC), have established funding facilities to participate directly with equity capital in business ventures in developing countries. The modalities can vary from requiring a partner from the host country in joint venture partnerships to supporting home country enterprises' foreign direct investments (FDI) without any form of local joint-venture partners. The equity component can be combined with loan facilities and non-financial business development services. In most cases the equity contribution made by the funding organizations will not comply with the OECD/DAC criteria for aid.

In this section we draw on evaluations made by Danida (2001; 2004) and SADEV (2008) in addition to studies from IFC. The main business of the evaluated interventions have been to invest equity funds directly into private and public commercial enterprises thereby promoting investments that most likely would not have been made – thereby the contribution is additional and raise additional funding from other investors. The national organizations are typically obliged to make investments together with a home country firm while the requirements for a host country investor may vary. There will also be limitations to the eligible host countries. The equity support are often combined with other forms of support mainly loans and management support. The organizations are judged both by the financial performance of their investment portfolio and their contribution to development objectives.

While the set up and purpose of the organizations may look simple, the evaluations have difficulties judging their success. This is caused by the following factors:

- The organizations are seen to have a multiple set of sometimes conflicting objectives including contribution to home country firm internationalization; project portfolio financial performance; transfer and spill-over of technology and knowledge; contribution to private sector development and growth; and to specific development objectives like poverty reduction, environment effects, gender equality etc.
- The additionality of the capital contribution is very often hard to identify and substantiate.
- The financial sourcing and management of the organizations; what kind of organization are they and are they supposed to generate surpluses (for own growth or contribute to the public budget) or receive public support?

The evaluation of the Danish Industrialization Fund for Developing Countries (IFU) gives an overall positive score related to the DAC evaluation criteria (Danida, 2004). The evaluation of Swedfund is less positive (SADEV, 2008). The difference seems however to be related to the weight given to the various performance criteria. This may relate to the fact that IFU now is by and large self-financing and accumulates surplus while Swedfund are allocated funds from the state budget.

A number of more principle issues arise from the evaluations:

- IFU accumulates surpluses from its investments in Asia while the performance of projects in Africa generally is much less successful. The evaluation of Swedfund finds that the organization could have allowed for a more strategic picking and choosing more pro-poor growth oriented investments.
- The organizations have developed high human capacity for private sector investment in developing economies. The IFU evaluation finds this a unique expertise that supports the continued autonomous existence of the organization but also has to be modified to comply with changing requirements and conditions in the investment regions. The Swedish evaluation finds that employees need not be experts in all aspects and call for a more regional, functional and sector specialised organization that more easily would attract partners from the Swedish industry.

- The evaluation of IFU points out that the organization's efficiency of utilising its financial resources is low since it has invested its surpluses in cash and bonds.

The International Finance Corporation (IFC) has not been similarly tied to invest together with specific home country partners. However, this may also explain an exposure to higher investment risks, and as was seen from the high vulnerability of the Africa Enterprise Fund (AEF) activities poor performance was associated with this programme's targeting of SMEs in Africa (Batra & Mahmood, 2003). The 2009 evaluation of IFC's development results confirm that specific industry and regional investments gives lower performance results.

Credit support

This type of instrument includes donor funding of concessional credits to enterprises. Again the modality can combine subsidized credit with support to the development and capacity building of the local financial institution distributing the credit and it can be included in a package that include non-financial business development services. Very often the supply of subsidised credit will be target to SMEs and micro-enterprises through micro-credit institutions.

The evaluations from our sample we draw on in this section include an impact evaluation from the World Bank (1997) of support for Small and Medium Industries in Sri Lanka. The bank's support includes several components including concessional credits, however, more importantly the impact evaluation is also a contribution to the more general debate started by interventions in the 1990s about targeted support to SMEs. The evaluation using a control group of SME that did not benefit from the credits, shows increased use of credit and improved performance of the borrowing SMEs. Policy advice for regulating and reforming the financial sector complemented the capacity support to the financial institutions. A similar WB (1998) impact evaluation of support and lending to SMEs in the Philippines also uses a control group and finds a positive impact on job creation but the benefitting SMEs do not become more efficient than non-benefitting SMEs. The Bank support promoted the SMEs export performance. Again the evaluation finds results dependent on the policy and the trade environment.

In addition, the World Bank study (Batra and Mahmood, 2003) concludes that where the investment climate is poor, the Bank's subsidized credit line projects do not perform well. Where they appear to do well, it is not clear if they are cost-effective and provide additionality. The evaluation from 2000 of IFC's AEF investing in SMEs through loans, equity, guarantees and quasi-equity finds that the most significant impacts have been in the form of job creation and linkages with other local enterprises. However, only half of the evaluated projects had significant development impacts, and overall the AEF had poor financial results that limited the development impact of the projects. Although AEF was filling a large financing gap, the results were achieved at a considerable cost (Batra and Mahmood, 2003, p.6).

Finally, we include an evaluation of a financial instrument that supports larger private sector undertakings and infrastructure investment projects; Sida's Independent Guarantee Scheme (Sida 2006). By lowering risks for investors independent guarantee schemes can potentially be an efficient instrument to launch larger innovative projects, contribute to the development of the financial sector and achieve several development objectives at limited costs for the donor. Sida's scheme has, however, only genuinely supported two projects with guarantees and with mixed results. The lack of positive results from the scheme include current market conditions for private infrastructure projects, competing financial instruments, lack of proactive initiatives and cumbersome conditionalities set by Sida. Being a potential useful instrument to support needed large investment projects, the evaluation shows first of all that the operation of the guarantee scheme needs professional financial expertise to operate.

Direct enterprises and partnership programs

Direct support to individual enterprises

The direct non-financial donor support of BDS to individual entrepreneurs and private enterprises that does not involve a partner company but is almost fully implemented by the donor agency was earlier a typical project modality. To some extent it still prevails. Again this type of support can be combined with other forms of support for example concessional credits. It includes a variety of interventions and modalities from assistance to restructuring of privatised enterprises to direct capacity building of local entrepreneurs or small rural enterprises. In most cases the services and assistance are offered on grant terms. The modalities include outsourcing of the project implementation to private firms by the donor agencies or the employment of consultants by the agencies. The evaluations used in this sub-section include SDC (2009), EU Tacis (2001), UNIDO (2007) evaluations. Together they represent a variety of direct donor support to enterprises.

The recent SDC (2009) evaluation of a rural development project to support small entrepreneurs in the sericulture industry in India is an example of traditional and perhaps outdated approach where a management unit was established for the implementation of the project. At a certain stage SDC co-financed its activities in the industry with WB and had the ambition that the project could be a platform for policy dialogue. However, such a dialogue never materialised and the Indian partner in the public sector never took ownership of the project. On the impact side, the evaluation finds that the project had serious flaws in its approach to technology transfer to the users. There was a lack of concern for economic and commercial factors that seriously hampered adoption. This type of projects may have a significant impact on the individual enterprise but it has not been possible to find evidences of spill-over effects. Furthermore, most of these implementation modalities are susceptible to ownership and institutional sustainability.

Donor support to restructuring privatised enterprises has been used both in developing and transition economies. The EU TACIS Enterprise Restructuring Facility (TERF) for Russia established in 1998 as a consultancy instrument of limited duration was evaluated in 2001 (EU Tacis, 2001). TERF operated with a high percentage of subsidies but had also varying degree of client contribution. Low interest and dropouts from the project had a negative impact on average cost per subproject and the programme's overall efficiency. Design and contractual uncertainty were main courses for the lower interest and dropouts. It is hard to identify achievement of objectives from the evaluation but although the consultancy advices are judged relevant and useful the evaluation also demonstrates the difficulties of aligning the business restructuring services when the client only pays a minor share of the costs.

Direct support to partnerships programs

A study from the Global Public Policy Institute in Berlin makes a best practices and lessons learned analysis of six Donor agency partnership programmes included in the benchmarking; CIDA, Danida, BMZ, DGIS, DFID and USAID (Binder et al. 2007). To identify typology models the study specifies the interest by private companies and donor agencies to engage in this type of public-private partnerships. For the *private company* given that the overall objective is profit orientation, three *motives* to engage are identified: 1) companies interest to explore or test new investment opportunities and markets, 2) companies receive support (financial or otherwise) large enough to get an incentive to make an investment that otherwise would have been shunned, 3) companies engage in the partnership if the collaboration translates into an improved operating environment for the investment thereby demonstrably boosting the bottom-line. For the *donor agencies the two main motives* for partnerships are: 1) to attract or mobilize new investments for developing countries, in particular those that have so far been sidelined by the globalization process, and 2) to generate maximum positive private and social externalities or to alleviate potential negative externalities (for example raise social standards or introduce environmentally friendly technologies). On this basis the study identifies three models for the public-private partnerships (Binder et al. 2007, p.16-17):

1: Probing new business opportunities;
2: Fostering sustainable business
3: Corporate development responsibility to strategically improve the operating environment

Using these three basic models the donor partnership approaches can be grouped as shown in table 5.

Table 5. Donor Partnership Approaches

Probing Business Opportunities	**Fostering Sustainable Business**	**Corporate Development Responsibility**
CIDA-INC (study report)	CIDA-INC (investment subsidy)	BMZ PPP (Facility)
DGIS PSOM (study and pilot report)	DGIS-PSOM (investment support)	DGIS PPP
Danida B2B (study and pilot report)	Danida B2B (investment support)	Danida PPP
BMZ PPP (study facility)	DFID BLFC	USAID GDA
		WB DGF

Source: Binder et al. 2007:27

On the basis of the analysis of the programmes and workshops held with representatives from the donor agencies, the study identifies key challenges based on lessons learned for each of the three models.

<u>Probing Business Opportunities (PBO)</u>
- to effectively market the programme to business;
- to ensure a high development relevance within the project portfolio;
- to implement effective safeguards for risk and reputation and management.

<u>Fostering Sustainable Business (FSB)</u>
Some of the same challenges as above but they take on a different significance in the FSB context, and additionally;
- careful project selection in light of the nature of grant mechanisms that are used to cofund investments;
- potential market distortions that may be a consequence of FSB investments;
- impact assessment.

<u>Corporate Development Responsibility (CDR)</u>
- programme marketing;
- project portfolio quality control;

- risk and reputation management
- impact assessment.

In our sample we have the CIDA-INC program (2007) and the Danida Private Sector Development Programme (preceding the B2B program) evaluations (2001 and 2004) plus a mid-term review of the DFID (2005) Business Linkages Challenge Fund from the programmes in the above study. In addition we have the Sida (2003) evaluation of the Enterprise Development Programme in Tanzania and Zambia in the sample. Findings from these evaluations are supplemented with finding from the research by Batra and Mahmood (2003); Kragelund (2004); Kuada (2002) and Folke (2009).

Although business partnership programmes have been operated by several agencies for many years and evaluated, a consensus seems to be that very little is known about the development impact of any partnership programme and thereby the achievement of the programmes development objectives (Binder et al. 2007). Although both the CIDA and the Sida evaluations apply quantitative analyses, all three donor evaluations have difficulties of measuring impacts and none of them conclude that the partnership programmes have been a success. For example the evaluation of the CIDA-INC programme concludes that the support has been leveraged by the partner companies to create a number of direct and indirect jobs both in Canada and in host countries but found only few measurable data and adds that the ways in which emerging labour markets function can easily lead to misinterpretation of the data – as a result the evaluation is "unable to reliably quantify the volume of jobs created" (CIDA, 2007, p.15). The Sida evaluation finds that programme related creation of new jobs has been marginal.

On cost-effectiveness the evaluation of the CIDA-INC can only say that the demand for funding from the Canadian companies and number of implemented projects have declined and cost-effectiveness have declined over the years (CIDA, 2007, p.18-19). Cost-effectiveness estimated in different ways for the Sida program are all high apparently because the number of lasting partnerships in the programmes is low (Sida 2003:25).

However, both the Sida and the Danida evaluations point out that the new technologies introduced in the partnerships projects may be labour saving. Therefore contributions to productivity and growth may be more relevant to measure impact and contribution to poverty alleviation. Only the Sida evaluation discusses effects on productivity based on company data, but aggregate programme findings are inconclusive partly because the company data points in different directions for the key variables to measure productivity but more importantly because the causal relationship between the programme interventions and the expected outcomes cannot be established. This is a problem shared by other evaluations. In general, the evaluation of Sida's EDP finds that there is a very long link between the activities, outputs and outcomes of the partnership interventions and the objectives of growth and development of the private sector (Sida, 2003, p.28). The benchmarking of the partnership programmes points at the challenge for these programmes to measure impact (Binder et al. 2007).

Sustainability understood as the continued existence and viability of the partnerships is another critical issue for the partnership programs. Evaluation and ex-post studies report that the survival of partnerships is very low (Sida, 2003; Folke, 2009). In their studies of partnerships in Ghana both Kragelund (2004) and Kuada (2002) question whether the applied partnership model for cooperation between Danish and Ghanaian firms are suitable for the Ghanaian firms and adapted to the business environment in Ghana. The partnerships in Ghana had a high degree of failures and few long term partnerships.

The survival of partnerships is a critical success indicator but break of partnerships does not disclose the possibility for a continued benefit for the local partner and a development impact. However, as the Sida evaluation demonstrates, benefits does not have a lower limit at zero but can for the local partner; the worst outcome is not "no impact", but the EDP programmes could actually be destructive (Sida, 2003, p.18-19).

Concluding Remarks

The outcome of the different forms of direct donor support interventions tends to differ. Direct donor support of non-financial BDS can provide a positive impact for the involved enterprises but the programmes are cost-inefficient and lack sustainability. Business partnerships promoted in this way are rarely sustained but may have benefitted local partners. Lack of institutional ownership and lack of cost recovery makes the interventions highly unsustainable. In our material there is no evaluation evidence of spill-over effects.

Direct donor credit schemes to enterprises are subsidised and lack sustainability. There is no clear evidence that they have broader development effects. Direct equity funding to private investments have multiple objectives but national based organizations generally perform well because they can manage their risk exposure. There is generally a trade off between financial performance and development objectives, which generally leads to lower performance of for investments in Africa than in Asia. Direct intervention projects are costly, the unit cost per enterprise is high and significant spread effects are rarely demonstrated – which could otherwise justify the high cost.

Chapter 7. Support for Development of International Trade

Programme overview

Private sector development is closely linked to trade as selling at a profit lies at the core of business. Nevertheless private sector development is often seen as separate from the trade sector, indeed, they are different categories of intervention in the vocabulary of most donor agencies. Several evaluations point out that interventions in PSD need to be synchronised with interventions in trade, and vice versa. Table 6 presents the objectives of DFID and World Bank programmes in trade. As we can see, those objectives are closely linked to the objectives of private sector development, and in the trade sector as well we can speak of interventions at micro-, meso-, and macro-levels. The multilateral trading system is complex. At the macro-level interventions aim to build the skills and knowledge the partner countries require to deal with trade issues. Most programmes are delivered through a mixture of bilateral aid to national governments, contributions to multilateral organisations working on capacity building and support to non-governmental organisations and to the private sector.

There are not that many evaluations of trade programmes or projects, but those that are tend to be synthesis reports. One example is the UK 2000 White Paper "*Eliminating World Poverty: Making Globalisation Work for the Poor*". Strictly speaking this is not an evaluation, but it sums up the UK experience of trade related capacity building activities between 1998 and up to 2008, which amount to a total of GBP 174 million.

Table 6. Example of objectives of trade related donor programmes.

Objectives of DFID support to trade related capacity building	Objectives of World Bank lending in the trade sector
• increase the volume and value of exports, including widening their range of exports and selling in a wider range of markets	• reduce disincentives for exporting by eliminating the anti-export bias
• increase foreign investment to generate jobs and trade through getting domestic firms to trade more and invest in trade-oriented industries	• expand and diversify exports, thereby increasing foreign exchange earnings
• participate in and benefit from the institutions of international trade, especially the WTO	• make imports more readily available and increase import competition in final products
	• help countries better integrate into the global economy

Source: DFID, 2004; World Bank, 2006

The UK White Paper concluded that: (1) over half the overall funding has been for programmes in Africa; (2) twice as much funding has been allocated to trade development as to trade policy and regulations; (3) nearly two-thirds of trade policy and regulations programmes have been aimed at integrating trade into development plans or poverty reduction strategies; (4) nearly three-quarters of trade development programmes assist small businesses and access to trade finance; (5) nearly a quarter of trade policy and regulations funding has been for training negotiators and helping developing countries develop their negotiating positions.

Other studies have shown that overall trends would seem to indicate that development cooperation has been effective (World Bank, 2006). Exports and imports have risen as a share of the gross domestic product across a wide range of countries. Trade policies have been significantly liberalized. Average import tariffs have fallen steadily over the last decade, although the fall in other forms of protection has been more gradual. Many donor agencies, in particular the multilateral institutions, have both influenced and been influenced by these developments. The World Bank, WTO, ITC and UNCTAD have supported the reform of trade policies and the strengthening of trade-related institutions and infrastructure in its client countries. The amount of aid going to trade has been significant, about 8.1 percent of total World Bank commitments ($38 billion), between 1987 and 2004. As far as our data indicate, no bilateral donor committed nearly as much to the trade sector, but as we will see below, there were a few agencies that allocated substantial amounts to projects and programmes in this field.

Programme level experiences

The Netherlands has funded many trade-related programmes. In the period 1992-2002 a total of € 109.9 million were allocated to 91 activities in the field of trade policy and regulation. An evaluation (IOB, 2005) assessed the results, focusing on multilateral programmes and international organisations. The programmes and organisations were primarily oriented towards trade policy and regulation, rather than trade or business development. The results were assessed on the basis of two objectives: enhancing developing countries' capacity to negotiate at multilateral trade talks and strengthening their ability to formulate a pro-poor national trade policy. The main findings were (IOB, 2005):

1. Large-scale, integrated multilateral trade-related technical assistance (TRTA) programmes were neither efficient nor effective. The two main programmes - Integrated Framework for Trade-Related Technical Assistance to LDCs (IF) and the Joint Integrated Technical Assistance Programme (JITAP) - were broad, country-based programmes. The IF was designed as the principal mechanism for least developed countries to mainstream their national trade objectives and to coordinate the supply of TRTA. The core agencies of this programme are the WTO, the ITC, UNCTAD, UNDP, the IMF and the World Bank. JITAP was designed to address a broad spectrum of trade issues confronting LDCs and other poorer developing countries in Africa. These two programmes were not efficient. Their effects in terms of contributing to country-led and pro-poor trade policy formulation were weak. The disappointing performance of these large-scale, integrated TRTA programmes can be explained by their ambitious design and the limited absorption capacity of the LDCs concerned.

2. Country ownership of the IF and JITAP, in the sense of high political commitment and strong involvement of the private sector and civil society, was weak. At the national level, the private sector and civil society were hardly involved in the IF process, and the key concept and main objective of the IF of mainstreaming trade into development appeared to be very abstract. The private sector saw investment, not trade, as the engine for growth and employment. In fact, the private sector argued that the link between trade and growth works in the opposite direction; an improved investment climate could lead to growth in domestic economic activities, which would then lead to more trade. In some countries, the total lack of political commitment to the JITAP turned it into an empty shell.

3. The design and implementation of nearly all selected TRTA activities devoted too little attention to formulating and using measurable indicators that could provide an insight

into what is actually done with TRTA and what it achieves. In 35 of the 73 activities, the main objective was to deliver an input or an output. In these cases, funding or providing TRTA was considered more important than its effects. In 70 of the 73 activities, the main objectives did not specify the desired situation on the basis of target values or indicators of outcome and impact. Mid-term reviews, policy reviews and other evaluation reports of projects and programmes provided few insights into outcome and impact because measuring and assessing results was not the main objective. Though the reviews and evaluations aimed to improve a specific project or programme, they did not aim to learn from the past by assessing the results achieved previously.

4. The effectiveness of UNCTAD's technical assistance in the field of investment and competition could not be determined. UNCTAD was not a transparent and efficient channel for TRTA. The two TRTA programmes assessed place a strong emphasis on research, analytical reports, seminars and advisory services. However, the use-value of technical papers and regional seminars – in terms of contributing to trade negotiating capacity or strengthening ability to formulate trade policy – could not be determined.

5. TRTA provided by small and single-issue organisations serving non-LDCs was efficient and effective. Unlike UNCTAD, small international NGOs/IGOs did not deliver theoretical papers, extensive analyses and publications aimed at a wide audience. Instead, they provided accessible information, short papers, tailor-made advice and/or facilities for informal exchange, on-the-job training and interactive learning. Technical assistance provided to non-LDCs by these NGOs/IGOs proved to be efficient and effective in strengthening the negotiating capacity of these countries. This can be explained by their thematic focus and demand-led approach, tailoring services seamlessly to the concerns of their clients. This conclusion is strongly supported by evaluation findings from Sida (2008) on a programme working with small Swedish and Dutch firms and NGOs in selected African countries.

The experiences and lessons learned from the World Bank are related but phrased somewhat differently (World Bank, 2006). On the one hand, overall conditionality associated with trade has declined and greater reliance is being placed on floating or single tranche conditions, rather than on prior actions, as was previously the case. The decline in conditionality reflects the move toward more open regimes – which is one of the objectives of the evaluated programme. In more recent years, the shift also reflects the evolution of the Bank's approach toward greater country-owned conditionality and less prescription. On the other hand, four areas of concern emerge:

- First, the literature suggests the importance of macroeconomic stabilization to complement trade reforms. But the Bank sometimes supported trade reforms in the presence of serious macroeconomic instability.

- Second, it is crucial that complementary measures such as removing marketing and price distortions as well as competition policy, reducing labour market rigidities, and improving the regulatory environment (currently more commonly thought of as "investment climate" issues) accompany trade reforms. While this was the case sometimes, compliance with these conditions tended to be the lowest of all conditions, underscoring the political and other difficulties associated with their implementation.

- Third, trade-related projects did not adequately attend to the poverty and distributional outcomes, including labour market dynamics, and this continues to be a major weakness in project design.

- Fourth, the Bank did not take the external environment into account sufficiently, and thus did not distinguish the impact of external trade policies and shocks on trade outcomes for different groups of developing countries. A common criticism of the Bank's trade policy advice is that it has followed a "one-size fits- all" approach.

Selected projects

Two examples of interventions can be mentioned (DFID, 2004). The UK had been providing £15 million for SADC-countries to make commodity and service markets work better for the poor. The programme was expected to contribute to a return in excess of ten times the investment over the project's life and the creation or preservation of tens of thousands of jobs. As a second example, the UK provided £18 million for a business linkages challenge fund. Its purpose was to encourage and support the formation of business links between firms in 20 developing countries in Africa, Asia, Latin America and with international partners. These links can enhance global competitiveness and generate clear benefits for the poor. It involves all stakeholders investing resources – skills, technology, information, facilities, supplies and access to markets. (This illustrates how closely connected trade is to business and private sector development generally.)

The synthesis study (DFID, 2004) quotes a country case study of Kenya (Blouin and Njoruge, 2004) that examined three projects worth £5.5 million; one project, the Kenya Trade and Poverty programme (KTPP), focused on trade policy capacity building. The two others, Enabling Environment for Business and the Business Partnership Programme, supported the improvement of the business and investment climate in Kenya.

The KTPP showed a number of design flaws. First, the project could have been more relevant to Kenya's trading interests if it had done more regionally as opposed to just focusing on the WTO and if it had been better linked to the supply-side of trade development. Performance of the project was satisfactory in the sense that the activities carried out, mostly workshops, were delivered and perceived by the participants as being of good quality. However, the core activities were completed too late and not used to inform the capacity building activities,as originally intended. In terms of mainstreaming trade policy into the national poverty reduction strategy and improving the government capacity to negotiate and implement trade agreements, the impact of KTPP was weak. The linkages made in the KTPP between trade and poverty reduction were relatively weak. No component of the KTTP explicitly focused on trade and gender.

The project "Enabling Environment for Business" included three components. The activities were implemented successfully, but their impact in terms of policy change was still minor. Indeed, DFID expected that the Kenyan organisation through its research and policy work, would be able to be an agent of change and that the project would lead to the adoption of simpler regulations for business. While there was some success in earlier phases this did not continue.

These rather grim conclusions contrast with the World Banks (World Bank, 2006) experiences. The evaluation found the Bank's objectives between 2001 and 2004 were relevant, timely, and largely responsive to the rapidly changing global environment on trade issues. However, given the inherent limitations of the Bank's role in global negotiations and the importance of country-specific policy dialogue, the evaluation still found that more attention should have been given to strengthening the analytical tools, processes, and systematic interactions between the Trade Department and operational colleagues. Moreover, the dependency on trust funds in research and capacity building potentially poses serious challenges to the Bank in determining an independent work programme – and that resonates with the British and Dutch experiences.

Trade-related projects have improved in performance over time. In general, trade adjustment loans have performed better than other adjustment loans in terms of project outcomes (86 versus 78 percent satisfactory), while trade investment loans performed slightly worse than other investment loans (69 versus 72 percent satisfactory, respectively). At an aggregate level, positive project outcomes were more likely to be associated with middle-income countries, low conditionality and good institutional frameworks. Project design, unrealistic assumptions, and unstable macroeconomic environments contributed most frequently to unsatisfactory outcomes for individual projects.

An interesting programme to mention is Sida's funding of organic exports – a regional project that was implemented in Uganda and Tanzania, with some activities in Zambia and Kenya (EPOPA). The most successful part of it was in Uganda. This programme has gone through three phases, starting with a focus on specific export projects and moving towards institutional development and activities to remove specific obstacles in the sector; that is, from the micro-level to meso- and macro-level issues. In terms of result, the evaluations conclude that in 1995, when the project started, there was no organic sector in Uganda. In 2007, there was a sector, constituted of some 100,000 certified smallholder farmers, an additional 100.000 in conversion, and some 40 exporting companies. The value of exported goods was USD 15 million in 2006. When the programme came to an end, the organic sector had an institutional backbone of training programs, civil society organisations, and a certification organisation.

The EPOPA programme has been studied thoroughly (Sida, 2000; Sida, 2004; Sida, 2008; EPOPA, 2008) and there is much information on its progress and problems. The programme reached its objectives; 11 major projects had been completed and 8 of them continue their exports and could expand. Several smaller projects have been completed. The institutional development components, in particular training, have been successful and contribute significantly to the sector. The value added paid into rural communities because of the organic premium was around USD 930,000 in 2006. This should be compared to annual programme expenditure that year of USD 1 million and a total programme cost of USD 11 million. The programme was found relevant and sustainable and the impact has been high. Efficiency and effectiveness are high, but could have been higher. The programme has been hampered by cumbersome decision-making and, at times, by an excessive reporting system. One of the more interesting aspects of the programme lies in its management, the systems of contracting farmers and the incentives provided, and the collaboration with trading companies. The experience of EPOPA seems to stand alone among the evaluations that we have perused for this synthesis study.

Organizational constraints and coordination

At a more general level, the Kenyan case study shed some light on the questions about DFID's TRCB and that also reflects Sida's position on the EPOPA programme (which was far from conducive to the programme). The evaluation (Bouvin and Njoruge, 2004) noted that DFID's officials were very concerned to identify their agency's comparative advantage. DFID would need to identify a role for itself in TRCB that is complementary to other actors' work, and could lead to improvements in donor coordination. There was no such coordination on TRCB in Kenya. Moreover, in order to take advantage of the strengths of DFID's programming in private sector development, the trade policy programmes should be better coordinated with these.

The evaluation concluded that DFID has to make up its mind whether TRCB projects are contributing to sustainable institutional development or are only short-term activities. From the

Kenyan study, it was observed that DFID is still struggling to find ways to move beyond technical assistance to long-term trade capacity building. Indeed, the "studies and workshops" model still dominated its trade policy capacity building programming. We should note that most donor agencies are grappling with this same problem.

The evaluation of Dutch trade programmes also noted that coordination between The Hague and Dutch embassies was poor in the countries visited (in relation to the two trade programmes mentioned above). The embassies either had a negative opinion of the programmes or hardly knew about them. They preferred to concentrate on their own bilateral aid projects. In theory, one of the advantages of supporting multilateral programmes is a reduction in duplication, transaction costs and donor administration. In practice, this took an extreme form in the countries visited: there was no active involvement or monitoring of the multilateral programmes at all by the Dutch embassies.

The evaluation by the European Commission (2006) focuses on the working procedures of the donor agencies in the field of trade. The conclusions are that considerable effort has been made to develop co-ordination mechanisms at various levels. While the design of the mechanisms is adequate, in practice co-ordination has not led to the expected benefits or results. It has led to improved information sharing and avoidance of duplication but awareness of TCB issues and the capacity to address their complexity remain limited. Moreover co-ordination has not brought about an allocation of activities based on the respective experiences of EU donors such as would facilitate strategic responses to the TCB needs of partners. It would be important to articulate goals of the poverty reduction strategy and mainstream these in national development plans. The frequent absence of such a focus has limited the contribution of TCB programmes to comprehensive capacity-building in partner countries.

The International Trade Centre

Established initially as part of the Secretariat of the General Agreement on Tariffs and Trade (GATT) in 1964, ITC became a joint body of the GATT and the United Nations in 1968. The regular budget was to be funded half by the GATT and half by the United Nations (UN). ITC was also expected to receive technical assistance funding from the UN system and from contributions by bilateral donors. ITC developed rapidly as a provider of technical assistance to developing countries in trade development until 1990. This expansion, however, was followed by a decade of retrenchment as funding from the United Nations Development Programme (UNDP) for technical assistance declined sharply and bilateral trust funds were constrained, coincident initially with a delay in the transition of senior management. As a result, total resources shrank, and reliance on the regular budget increased. Since 2000, ITC has expanded technical assistance as donor funding has increased for TRTA, reflecting the new emphasis on partnership for development in the Millennium Development Goals (MDGs) and the specific commitment to increase TRTA in the Doha Development Agenda (DDA).

Several donor agencies decided to undertake a joint evaluation of ITC and this report was published in 2006 (DMI Associates, 2006). Overall, ITC has a strong emphasis on global and generic products, reflecting the emphasis in the United Nations on utilisation of regular budget resources for the "benefit of all". Such products, however, have a lower visibility at the country-level than country-specific projects, and their outcomes and impacts are more difficult to assess. In addition to global and generic products supported by the regular budget, the Global Trust Fund, which accounts for a large share of extra-budgetary resources, is also focused on global products and networks.

The evaluation points to a number of critical factors in relation to ITC'cs mode of operation, including the split between regular budget and extra-budgetary resources, policies and practices with the regular budget, and the management processes of ITC, create incentives for product proliferation. The fixed costs of product development are not measured systematically and there is a lack of analysis of unit costs, and an absence of systematic tracking of the utilisation of global products makes it impossible to determine if the investment yields a suitable return. More generally, there is a lack of a systematic process for monitoring results and outcomes achieved with ITC products and through ITC projects, including results in terms of the targets for MDG 8 as well as other MDGs, in particular poverty reduction and gender equity (with is supported by the experience from the Netherlands quoted above). More broadly, poverty reduction, gender equity and other development objectives require attention in programme and project design and implementation, as well as in monitoring and evaluation.

DMI Associates (2006) point out that evaluations of various types have been undertaken by ITC for many years, and these are generally of good quality and have been a consistent part of operational management. More precise written responses of ITC management to evaluations, however, would provide clearer guidance on how lessons learned should be applied in future. Discontinuation of the earlier practice of submitting regular programme evaluations for review by a core supervisory body has also removed an opportunity for discussion of lessons learned and how practices might be adapted to improve effectiveness and results. An external review of evaluation findings is increasingly seen as an important element in the system of checks and balances in other multilateral agencies. Responsibility for the evaluation function is currently shared with operational responsibilities, raising the question of whether there should be a greater distance between operational and evaluation roles. ITC is at an early stage in the introduction of results based management, and key constraints need to be addressed.

Import Support Programmes

Many donor countries have sought to encourage trade through some form of import support facility, among them Denmark. The only evaluation that we have come across is the one commissioned by Danida (2000). The overall objective of the Danish Import Promotion Office (DIPO) wass to increase imports from developing countries to Denmark and to assist exporters to increase their exports. In its undertaking of these activities, DIPO was to give special concern to the least developed countries (LDC's). DIPO operated as an integrated unit of the Danish Chamber of Commerce, but fully financed by Danida. Since its foundation in 1977, DIPO received more than 40 million DKK from Danida (up to 1999). In 1998, the office had five employees and total expenditures of 3.5 million DKK.

The evaluation concluded that access to specific market information is the primary need for export assistance for exporters. The evaluation also concludes that export assistance that aims at enhancing the capability of exporters from developing countries to penetrate European markets provides the exporters with better odds to increase their exports than traditional contact mediation activities. This is also recognised by other IPO's who increasingly are concentrating their efforts on increasing the capabilities of exporters by means of providing training in export management and product development as well as providing exporters relevant market information.

In light of a shift in the needs for export assistance, DIPO's activities cannot be characterised as relevant2. DIPO's main activities are linked to contact mediation activities and do not correspond to the needs expressed by exporters and importers. Nor are they directed with sufficient strength towards the barriers that exporters and importers identify as the most important obstacles to export. DIPO has focused on contact mediation activities since the start of operations in 1977, and only marginal changes in procedures and types of contact mediation activities undertaken have taken place.

The Danish Chamber of Commerce's agreement with Danida does not specify performance goals to be reached against which DIPO's activities can be assessed, nor does it specify the expected outcome of DIPO's activities. Based on the analysis performed by the evaluation team as well interviews conducted with exporters and importers, it is concluded that DIPO's main activity – contact mediation activities (including handling of inquiries and business offers)– have produced very limited results. DIPO does not systematically evaluate its activities, or records data to assess the effects. Therefore DIPO has not been able to provide the evaluation team with the data necessary to perform an overall assessment of the effect of DIPO's activities on the promotion of import from developing countries, nor is it possible to make an assessment of which of DIPO's many activities have had the most important effect.

Furthermore, the evaluation concludes that, contrary to the agreement with Danida, DIPO has not – to the extent possible - given a special concern to the poorest developing countries in its undertaking of fact finding missions, purchase delegations and seminars. Thus, only between 17% and 38% of these activities have taken place in LDC's.

Compared to other IPO's, DIPO is a small operation. The Dutch IPO, CBI, and the Import Office in NORAD (NORIMPOD) that were studied as part of the evaluation operated with a considerably larger budget than DIPO both in total and per employee. CBI and NORIMPOD have both made a strategic choice of target group and focus their main activities on, respectively, exporters from developing countries and importers from developed countries. NORIMPOD revised its strategy in 1999, and will in the future have a greater focus on export promotion activities. DIPO has not made such a choice but focuses on both target groups with a shifting intensity of activities.

Due to lack of data and the difference in the nature of activities and organisational set-up of the three organisations, a direct comparison of the effectiveness and the efficiency between DIPO and its sister organisations in Norway and Holland cannot be made. However, three points related to this topic should be made:

- CBI's performance contract with the Dutch Foreign Ministry allows a continuous monitoring of the development in effectiveness and efficiency and serves as a basis for dialogue between CBI and the Dutch Foreign Ministry concerning a continual increase in effectiveness and efficiency.
- Both organisations have a specific strategic focus for their activities that provide them with higher odds for a high degree of effectiveness and efficiency. Applying a specific strategic focus on either export promotion or import promotion is especially relevant when operating on a limited budget as is the case for DIPO.
- The fact that CBI compared to DIPO uses external experts to a much higher extent allows them to provide more professional services, tailor-made for specific needs, and thus increase efficiency.

The overall findings seem to be supported by the past experience of Sweden. The Swedish Import Promotion Office was discontinued in the year 1990 following an evaluation and assessment of its policy relevance (SOU, 1999:17)

Concluding remarks

Compared to the number of evaluations concerning business sector development generally, there are very few that are specifically devoted to international trade – in fact, only some ten reports quoted here in the total sample of 240 reports. We have not found any relevant research papers on donor interventions to support international trade. The evaluations quoted here echo many of the themes from previous chapters, such as;

- The need for integrated approaches covering macro, meso- and micro-level issues
- The importance of political commitment and effective local ownership, particularly for macro- and meso-level interventions
- Tailormade approaches work better as they are better adjusted to local context
- The most effective interventions appear to have been operated through small organisations with a practical approach and concrete assistance
- The least effective interventions appear to have been diffuse, theoretically dominated, up-stream interventions championed by the UNCTAD and other agencies.

There still many reservations when concluding on results. It is far more difficult to assess impact of isolated up-stream activities. Very few programmes have developed let alone used valid and reliable indicators of achievements.

Chapter 8. Conclusions and Lessons Learned

Conclusions

In sum we have read 60 evaluation reports and a number of research papers on business sector development. There are few policy debates that resonate in these texts. On the contrary; the picture that emerges is relatively consistent. There is a rather high degree of unanimity concerning strengths and weaknesses of development cooperation in the sector (much of the latter, less of the former). That is in itself rather surprising, considering the complexity of the sector, the different vantage points of agencies, and the different motives that permeate development cooperation in this field. There is a wealth of detailed findings, but the major conclusions of the reading are presented below.

Business Sector Growth in a Global Perspective

If this report had been written a year ago before the global financial crisis, it would have been possible to speculate on the effectiveness and impact of global efforts in business sector development. At that point in time the global community made significant advances in poverty alleviation and most regions of the world could point to at least a decade of high growth rates. Apart from the major economies of India, China and other Asian nations, a number of African, Latin American and European countries were successful in stimulating investment, enterprise development, and entrepreneurship. International trade and direct investments were growing and global trade regimes were getting more liberal. The business sector prospered.

Contribution Analysis

Did support from the donor agencies have a role to play in that development? While it would be naïve to say that donor agencies' business sector programmes triggered growth, one could point to a measure of contribution – both in terms of creating an enabling environment for the business sector as well as for more direct forms of support, and some evaluations actually claim that interventions had such an effect. The supplies of investment capital through the multilateral financial institutions and bilateral donor programmes, and the technology transfer through various projects fit into an overall picture of competitive business sector performance.

Learning from Mistakes

Nevertheless, the overriding message that comes out of the evaluations is that programmes have not been particularly successful and evaluations primarily point to mistakes (with the exception of experiences with policy dialogue). There is certainly a substantial amount of partial successes, meaning that some objectives were reached but not all – and not reaching much beyond a particular institution or firm. Not more than a handful of evaluations present full success stories. Most of the learning that is to be had from past evaluations is learning from mistakes. This affects the nature of evidence. The evaluations primarily provide learning on what not to do – but they can only hypothesize about what should have been done instead. There is a lack of positive evidence on how to successfully support business sector development.

Obstacles to Learning

There are many reasons for the lack of analysis. The first is very simple and relates to timing of evaluations and the questions asked. Most evaluations are done when a project comes to an end and most of time that is much too early to see the real impact and in particular, to see what the spread effects are and if the impact is sustainable. Evaluations often have a narrow project and programme focus and are seldom asked to put projects and programmes into the larger picture of the host countries' business sector development.

The second reason relates to the practice of monitoring and evaluation. Almost all the evaluations quoted above point to a weakness in monitoring systems, for example in setting indicators of performance and using these to monitor and evaluate progress. When the final evaluations are done it is too late, and even though comparatively well resourced, these evaluations cannot in a few weeks time do the data collection that should have taken place during years of implementation.

The third reason relates to the nature of impact. Business sector development is basically a non-linear phenomenon, where the unexpected happens, small inputs can be exponentially magnified, and reversed, and where it may take long for the effect to become visible, or it may happen immediately. Knowledge leaks, unintended consequences and increasing rates of return affect the sector - the textile industry in Bangladesh proves the point; unexpected growth from nil to an explosion in not much more than a decade. The point is that traditional evaluation methods have difficulties capturing and explaining such developments.

The conclusion is that there is relatively little knowledge of the effectiveness and impact of business sector development in spite of hundreds of evaluation reports and much practical experience of implementing business sector programmes among major donor agencies.

Understanding the Business Sector

The state of knowledge on business sector development has consequences for the organisational life of donor agencies. Several evaluations have shown that major aid instruments often neglect the business sector, (instruments such as policy documents, sector and country strategies, guidelines for country strategy development and assessment, and the donor coordination mechanisms). In particular, analysis of poverty alleviation and policy development on poverty, equity, environment and human rights fail to operationalise the role of the business sector.

The business sector/private sector is difficult to understand and it interlinks with other sectors in complex ways. Several evaluations point to the importance of such interlinkages and the need to translate them into management and operational understanding in agencies. While sector programmes in, for example, health and education have marginal links to the private sector (though perhaps less marginal than first imagined) other sector programmes in, for example, agriculture and infrastructure development are almost synonymous to private and business sector development. The enabling environment for one is similar to that of the other. Agricultural extension services have much in common with business development services, and the development of skills among the economic actors – small scale entrepreneurs in particular, have much in common and often include the same basic competences.

Gender and equity

Women are stakeholders in the business sector, as policy makers, entrepreneurs and managers, employees and consumers, etc. Few of the evaluations in our review undertake any analysis of gender and equity; they do not present gender specific data and they do not discuss whether the projects and programmes affect men and women differently. There are few discussions around affirmative action to promote the role of women in promoting the business sectors. There are exceptions to the rule and in particular UNIDO has published a number of technical papers and policy papers on women entrepreneurs. There is a need to pay more attention to gender aspects in all phases of business sector development, from planning, through implementation and to monitoring and evaluation.

Lessons Learned

Given the nature of the knowledge base, what could then be learnt from the evaluations and the accumulated research in the field? First, scientific research rarely focuses on development cooperation in the business sector and what is to be found primarily analyses programmes in support of specific enterprises through various technology transfer programmes. We have only found some research papers on projects and programmes aimed at the enabling environment and very little on business support services. An exemption seems to be the interest for micro-credit schemes where, however, many donor evaluations and research studies tend to arrive at quite different results. Second, much of the learning offered is very specific, for example on the need to develop arbitration capacities in Sri Lanka, given the institutional context, the legislative framework and the nature of business disputes in that country. Useful things to know, but not of a general applicability. Instead, the learning that is offered is of a general and abstract nature that follows logically from the approach to the sector and the available evidence.

Significance of Local Context

One of the main messages that come out of all evaluations is the overwhelming importance of knowing the local institutional context and incorporating that into the preparation of projects and programmes; the political structures and the policies in respect of private sector development and related fields (macroeconomics, trade, labour market development, etc.). Due to the multi-layered nature of the sector and the impact that macro- and meso-level features has on actors in the sector, it is necessary to develop interventions against the background – and taking into consideration, such issues. Interventions in the sector are still seen to be implemented by outside consultants without any firm anchoring to local organisations. The necessary knowledge and insights must be obtained by working closely with and through the host country structures – and thus also build ownership and coordination with local governments and the private sector actors into the programme from the beginning.

Sequence of Interventions

Many evaluations suggest that upstream interventions concerning the enabling environment and business service development need to predate direct support to firms, and the evidence seem to suggest that such interventions tend to be more successful (but there are many question marks concerning how valid and reliable the conclusions are). Nevertheless, sequencing is important even though the direction may be less certain; there are times when, for example, the demand for business services need to be cultivated before the service is developed. But it is also likely that many efforts to affect change at enterprise level fail because overall conditions are not ripe. This affects a large number of technology transfer programmes, entrepreneurial training programmes, and business-to-business programmes. The evaluations here suggest that timing as well as a holistic approach to programming taking into account the necessary environmental factors, would be vital for effect and impact.

Size and Duration of Interventions

Business sector project and programmes are often portrayed as a host of scattered interventions, often of a small size. That makes them difficult to coordinate and also difficult for them to address more than one problem at a time. The evaluations do point at projects that have been relatively successful, and it seems that these interventions have been of long duration (ten years or more) and they have integrated activities from the policy level to business skills and support to firms. The linkages have helped the programmes gain credibility and build policy inputs on practical experiences.

No one size fits all

In particular a number of multilateral agencies come under heavy criticism in the evaluations. Synthesis reports that take a look at a broader set of issues and problems and that adopt a comparative perspective on channels of intervention and country experiences, point out that the broad multinational approaches do not show much result. There was a tendency to offer isolated training that could not be followed through to action and impact, an emphasis on theoretical papers and analytical studies that were poorly connected to local realities. But many bilateral programmes were also criticised for adopting uniform solutions to diverse problems. This brings us back to the importance of local context and programme preparation that build on such knowledge.

Donor coordination

Most of the evaluations quoted in this report were completed before the Paris Declaration was signed in 2005. Their concern for the lack of donor coordination should be seen in that light. But it also remains to be seen whether business sector interventions are better coordinated now – some of the factors that constrain coordination are still in place. First of these is the commercial nature of some projects and the fact that some interventions are expected to be of mutual benefit to donor and recipient. That makes coordination among many donors difficult. Second, many donor programmes are global in nature as they offer a specific service, for example access to equity financing, specific technical training, or the like. They are thus coordinated globally, from the donor point of view, and the scope for coordinating at country level may be very limited. But the fact that it is difficult does not mean that it should not be done and it is obvious that effectiveness and impact suffer from the lack of coordination. There is a need to focus efforts and develop new modalities of donor coordination in business sector support.

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