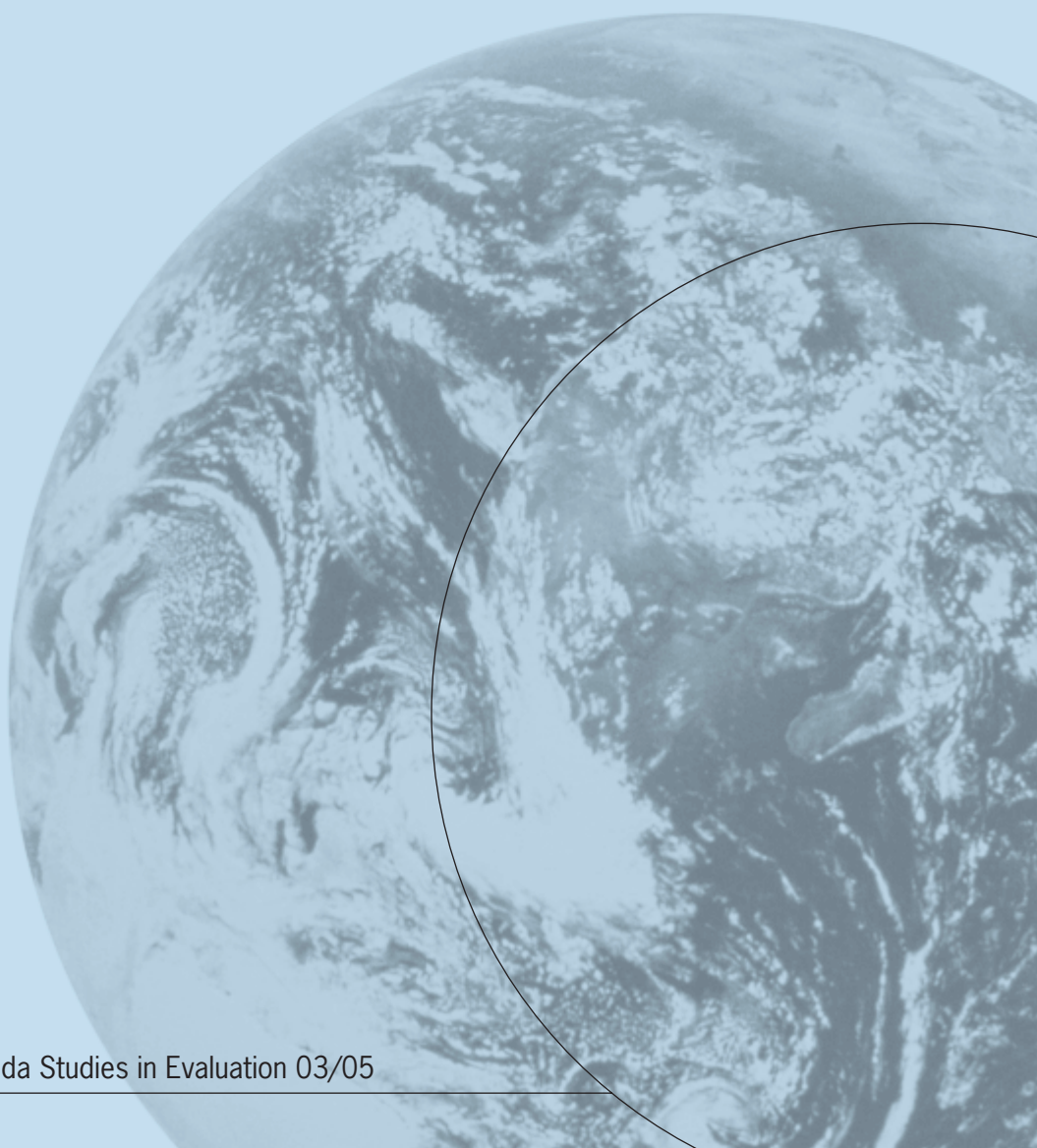


Support for Private Sector Development

Summary and Synthesis of Three Sida Evaluations

Anders Danielson





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Foreword



The present report is an independent interpretation of a thematic series of three recent evaluations of Sida's approach to private-sector development (PSD) support. The report summarises and synthesises central findings of the evaluations, in order to highlight major lessons learnt from and contributions of the evaluations.

The report is written by Anders Danielson, Associate Professor in economics, at the Department of Economics of Lund University. He concludes that, according to the evaluations, 'comprehensiveness' and 'sequencing' of measures are some of the most crucial aspects of a successful approach to PSD support. Central concepts such as an 'enabling environment' and 'market obstacles' are discussed. The author further shows that one implication of the evaluations is that support should first be directed to the development of an enabling environment before the focus is turned to the removal of market obstacles. He also notes the lack of a coherent PSD approach within Sida, as revealed by the evaluations. At the same time the author stresses the importance of context-specific analyses of PSD and of adapting PSD support to each country case. Thus, in order to engineer successful interventions it becomes important to understand the local context of private entrepreneurs, not least in terms of informal socio-cultural conditions.

While faithful to the main arguments of the three evaluations, the report presents aspects selected by the author and hence does not claim to represent the full wealth of information and analysis of the evaluations.

Stockholm, November 2003

Eva Lithman

Director

Department for Evaluation and Internal Audit

Table of Contents

| | | |
|---|--|----|
| 1 | Introduction | 1 |
| 2 | Brief Summaries of the Evaluations | 2 |
| 3 | Views on the Private Business Sector and Conditions for its Development | 4 |
| | 3.1 Definition of the Private Business Sector | 4 |
| | 3.2 Relation to Poverty Reduction | 4 |
| | 3.3 First Things First | 5 |
| | 3.4 What is an Enabling Environment? | 6 |
| | 3.5 Market Obstacles | 7 |
| 4 | Lessons about How to Support Private Sector Development and Why | 9 |
| 5 | Sida's Approach to Private Sector Development Support | 12 |
| 6 | Main Recommendations from the Evaluations | 16 |
| 7 | Some Concluding Remarks | 18 |
| | References | 19 |
| | Appendix: Terms of Reference | 20 |

Chapter 1

Introduction

This report summarizes and synthesizes the findings from three recent Sida commissioned evaluations on Private Sector Development (PSD) support and attempts to highlight the major lessons learnt from and the contributions made by the evaluations. It addresses two questions. First, what are the (theoretical) perspectives of the evaluations regarding PSD support in general and Sida's support in particular? Second, what are the findings regarding Sida's approach to PSD support? The report is structured as follows: Section 2 provides a brief summary of the evaluations. Section 3 outlines their ideas of a "well-functioning" private business sector (PBS). Section 4 discusses lessons on the how and why of PSD for supporting PSD. Section 6 discusses a few of the main recommendations from the evaluations, and Section 7 offers a few concluding remarks.

The task of this report is not to assess the extent to which the evaluations follow their Terms of Reference, nor is it an attempt to evaluate the evaluations. I will frequently refer to the evaluations, and therefore I abbreviate them as follows:

- General* Sinha, S. et al. (2001): *Approach and Organization of Sida Support to Private Sector Development*, Sida Evaluation 01/04, Stockholm: Sida.
- Rural* Havnevik, K. et al. (2003): *Rural Development and the Private Sector in Sub-Saharan Africa: Sida's Experiences and Approaches in the 1990s*, Sida Evaluation 03/18, Stockholm: Sida, forthcoming.
- East* Fredriksson, C. et al. (2003): *Private Sector Development Support in Action: Sida-East's Work in Russia and Ukraine*, mimeo dated June 2003, Stockholm: Sida.

Chapter 2

Brief Summaries of the Evaluations

This section summarizes the scope and main conclusions of the evaluations. Main recommendations are discussed in the penultimate section. The remainder of the report discusses in general terms a framework for analysis of PSD, and Sida's approach to PSD support.

General provides a comprehensive analysis of Sida's organization of and approach to PSD support with a focus on projects that were ongoing in 1999. The analysis of Sida's activities was supplemented by interviews with staff, and findings were evaluated against a broad and useful theoretical framework that organizes the various components that affect the development of the PBS. The evaluation offers concrete conclusions, both on PSD in general and on Sida's support (some of these are discussed below).

The most important conclusion is that while efficient PSD support is likely to be comprehensive, multisectorial (and possibly multi-disciplinary), and carefully sequenced, most of Sida's current (that is, as of 1999) support is fragmented with weak links to other forms of support. This is also reflected in the marginal role allotted to the private sector and PSD in Sida's main policy and strategy documents.

Rural covers Sida's support to rural development in African program countries in the 1990s (the Terms of Reference specify that changes over time – that is, agricultural deregulation – should be one focus of the evaluation). Four programs are selected as “cases” and supplemented with a descriptive analysis of Sida documentation on the rural development portfolio; there is no systematic analysis of quantitative data. The cases are confronted with a framework, inspired by the *General* evaluation, which singles out socio-cultural aspects as being of particular importance (and these are contrasted to formal rules and organizations). The task of the evaluation is to provide answers – possibly tentative and partial – to the following questions: To what extent does Sida's support for rural development take a PSD perspective? How has Sida's PSD support to agriculture been influenced by the extensive deregulation of the 1990s? and To what extent does the support reflect an integrated approach?

Rural's main conclusions are as follows: While Sida's approach to rural development has tended for a long time to focus on the supply side, that is, on raising productivity, recent years have seen increasing diversity in that

markets and decentralization have come to play increasingly important roles. While this appears to be a result of deregulation of the agricultural sector, many Sida projects are still characterized by limited market orientation, a shallow treatment of socio-cultural aspects, and a moderate, at best, role for the private sector. However, central Sida documents show that Sida to an increasing (although still small) degree takes a PSD perspective and supports non-governmental structures (such as offering training through Chambers of Commerce). Sida appears to be moving towards an integrated perspective with regard to PSD support. Much of this is interpreted as the result of the organizational changes of the mid-1990s: technical departments are less involved in the formulation of plans and act more as the suppliers of competence to embassies and regional departments at Sida/Stockholm.

In *East*, focus is on Sida's PSD support to transition economies. The evaluation covers Sida's support to PSD from 1996 to 2001 in Russia and Ukraine. A descriptive analysis of the portfolio is supplemented by field studies of six projects: three in Russia and three in Ukraine. A further in-depth desk study of 14 projects, ten in Russia and four in Ukraine, were singled out for analysis. Data analysis is supplemented by extensive interviews with Sida personnel – in Stockholm and in the field. Results from the analysis were contrasted to a framework, which was set up to evaluate Sida's PSD approach in terms of Sida's working method and the relevance of its PSD portfolio. Through its focus on working methods, the framework used has a much stronger emphasis on the micro-level than the one developed in *General*.

The evaluations conclude that Sida-East's PSD support appears to have been fairly well functioning in the past, but a potential for improvement exists, particularly concerning the development of a more explicit theory to guide PSD support and to facilitate specialization to improve allocation of resources for support.

All three evaluations thus note the lack of specific Sida guidelines for supporting the private sector. In addition, the fragmented character of Sida's PSD support is considered an obstacle to more efficient interventions. With the possible exception of *East*, the evaluations also note the lack of explicit sequencing.

Chapter 3

Views on the Private Business Sector and Conditions for its Development

This section presents and discusses the ideas of the PBS and the conditions needed for it to develop and become well functioning, as reflected in the evaluations.

3.1 Definition of the Private Business Sector

Most Organisation for Economic Co-operation and Development (OECD) donor countries appear to agree on the basic definition of the PBS, the rationale for providing PSD support, and the mechanisms for how such support can contribute to achieving development objectives (which is taken to be poverty alleviation). Following OECD (1994), the PBS is characterized in three dimensions: ownership is basically private, exchanges take place in competitive markets, and private initiative and risk-taking set activities in motion. Although most informal activities are thus included, subsistence activities are excluded, as are activities that are not primarily motivated by profits or organized on a collective or cooperative basis. This is the standard definition of the private sector, and it is the one adopted by *General* for the theoretical framework. It can be argued, I hold, that this definition is too narrow, as it excludes economic activities that are quantitatively important such as subsistence agriculture. However, a *well-functioning private business sector* (cf. below) is likely to provide opportunities for subsistence producers to participate in market activities, so the exclusion of subsistence activities from the PBS is not necessarily a short-coming: the important point is that the PBS is defined with private economic activity and profit-seeking as the guiding principles.

3.2 Relation to Poverty Reduction

The rationale for PSD support – as embraced by virtually all OECD donors, and *General* follows suit – can be addressed using four basic assumptions. First, poverty reduction is the main objective of development cooperation. Second, a central component of development is economic growth. Third, economic growth is best achieved through private market activities. Fourth, the role of the government is to ensure that the private sector thrives – to

produce and maintain an “enabling environment” and to design and uphold the rules of the game. From these assumptions, it is clear that the basic role of PSD support is twofold: to remove obstacles to PBS growth – “market obstacles” – and to enable the government to produce an enabling environment.

It appears that both the OECD consensus (summarized in Schulpen and Gibbon, 2002: 2) and the evaluations hold that as soon as market obstacles are removed and the enabling environment is in place, growth will come about more or less automatically, and this, again more or less automatically, will decrease poverty. This assumption is potentially a weakness as it appears to sweep important issues – such as the wide differences in poverty elasticities between countries or the quality of government institutions – under the carpet.

The Enabling Environment

An “enabling environment” refers to conditions that must be in place at the macro or branch level and that are central for the workings of private businesses. These include that resource allocation is largely determined by the market and that prices are set on the basis of competitive exchange, that there are stable and secure conditions that prevent narrow self-interest from damaging the public interest, and that there is a high degree of flexibility for entering and exiting markets. Consequently, the creation of an enabling environment is largely the responsibility of the state. See *General* p. 30 for a more elaborate discussion.

Market Obstacles

“Market obstacles”, in contrast, refers to impediments that prevent a specific market from working well. The literature on private sector development (and the evaluations) often refers to the triple “opportunity, motivation, access” to characterize why a specific market does not develop in spite of the existence of an enabling environment. Even if the term is used differently from in economic textbooks, it refers to a lack of production factors, broadly defined. *General* (pp. 39–41), using a slightly different classification, contains a discussion of these production factors.

3.3 First Things First

While the PBS cannot grow unless both market obstacles are removed and an enabling environment is in place, there also seems to be a consensus – as reflected in the evaluations – that the creation of an enabling environment will improve the workings of the PBS even in the presence of market

obstacles, but not vice versa. This means that the functioning of the PBS may improve if resource allocation is moved to the market, even if micro-level obstacles are still in place (such as a lack of credit or skilled labor). By contrast, increasing the supply of credit or skilled labor in an economy in which resources are allocated by non-market means is not likely to improve the workings of the PBS. Consequently, the evaluations would seem to suggest that PSD support should address the issue of the enabling environment before it turns to market obstacles. It is important to note that it would be unproductive to wait with micro-level interventions until all conditions for an enabling environment are in place. The important thing is that there must be a move towards a better environment before interventions aimed at changing access, capability, and competence at the micro-level are likely to be efficient (*General*).

The implicit assumption in this line of reasoning is that actors in the PBS respond to profit opportunities with whatever resources they have at hand. While this seems to suggest some kind of economic man *à la* economics textbooks, I would like to argue that it is important to appreciate that some actors may not behave in this way – either because they have not been previously exposed to the workings of markets or because exchange takes place under different socio-cultural constraints. The literature contains several examples – some of which are mentioned by *Rural* – in which villages do not compete with each other to sell their crops: the price they ask is instead determined by the village chief.

3.4 What is an Enabling Environment?

When restrictions on the macro or meso level change, profit opportunities usually change too. This may be because the government has changed a macroeconomic variable, such as the exchange rate; because property rights have been strengthened so that transfer of ownership becomes less costly; because trade restrictions have been changed; or because certain tax rates have been altered. It is important to recognize that in general, new profit opportunities arise whenever variables affecting the PBS are changed *irrespective of the direction in which they are changed*. Thus, opportunities to profit arise when, for instance, the price of foreign exchange increases (the country's own currency is devalued or depreciates), because exporters' revenue is likely to increase. The same happens when the currency is revalued or appreciates, because costs for importers are likely to fall. In short, most changes in the enabling environment trigger a redistribution of income and a change in the pattern of profitable opportunities.

If all changes create profit opportunities, how then do we discriminate between desirable and undesirable changes in the enabling environment? What change is good for PSD? The first thing to note is that if potential opportunities are to be realized, private individuals must be able to respond to and capture the new opportunities for profit. Second, any change in the

environment that elevates the role of the markets as the basis for exchange is important and thus desirable. Third, economic efficiency is a core concern: a change in the enabling environment that increases allocative efficiency is judged to be desirable. The corollaries of this are that a high degree of competition is helpful, as is high flexibility with respect to entering and exiting markets. Fourth, prices reflect relative scarcity, meaning that the presence of taxes and subsidies should not distort the information disseminated through the market to producers and consumers. Fifth, a change in the environment that increases stability and security in the market is thought of as desirable as it decreases the risk involved (for private entrepreneurs) in taking long-term decisions.

Several other factors could be listed, but the main point should be clear: the environment becomes more enabling (and the PBS potentially better functioning) when conditions at the macro and meso levels move towards conditions that characterize general equilibrium in economic theory. The standard definition of the PBS, referred to above and used, for example, in the *General* evaluation, clusters these conditions into three characteristics: that private ownership is an important factor, that markets and competition drive production, and that private initiative and risk taking set activities in motion.

3.5 Market Obstacles

However, even if the environment is enabling, production in the PBS may fail to grow. In that case, the cause may be found in the presence of market obstacles – restrictions at the level of the individual market (or firm) that prevent output from growing. The literature – including *General* and *East* – categorize these obstacles into three groups: opportunity, motivation, and resources.¹ Lack of *opportunity* means that private actors cannot access markets: it is possible to produce but not to sell profitably. Actors may fail to respond to an improved enabling environment because the lack of accessible markets – possibly because no markets exist – does not render production profitable.

The second market obstacle is lack of *motivation*, that is, incentives for production. It is possible that incentives for expanding production may be lacking, despite an improving environment, because other constraints are binding. One example is the slow response of African cash-crop farmers to higher farmgate prices (created by a combination of agricultural liberalization and a devaluation of the currency): markets may exist, but transaction costs are too high.

¹ I follow *East* in this classification. A similar classification is provided by *General*: access, competence, and capability. In my view, the latter categorization blurs the distinction between meso and micro levels and is thus less useful for an analytical discussion. Note that even if *General*'s classification differs from that in *East*, the former devotes several pages to discussing various factors restricting actors on the micro level (cf. *General*, pp. 39–44).

The final factor is lack of *resources*. Actors in the PBS may fail to respond to an improved environment because they do not have access to adequate resources for an expansion of production. The term “resources” is used here in a broad sense. It covers not only standard factors of production such as skilled labor and capital but also entrepreneurship.

It may be useful to divide possible obstacles to PBS growth into three categories: macro, meso, and micro. For analytical purposes, the former two have a bearing on the *enabling environment* – the economy-wide and branch-specific conditions under which PBS producers operate – while the micro category refers to obstacles that are specific for individual markets and firms.

Chapter 4

Lessons about How to Support PSD and Why

The role of PSD support is to assist the PBS in becoming better functioning. To do this, PSD support should (i) help to improve the enabling environment and (ii) assist in removing market obstacles. Although general remarks on the proper role and design of PSD support can be given (and will be given here), it is important to recall a point made in both *General* and *Rural*: the analysis underlying PSD support must be context specific, since the critical barriers are likely to vary from case to case. As will become evident below, a blueprint for efficient PSD support cannot be given; in all cases such support requires careful analysis of the economy in question.

The concept of a well-functioning PBS and the division of obstacles into different categories suggest that the order in which interventions are made – the *sequencing* – matters. Both *General* and *Rural* emphasize the need for a comprehensive approach, that is, that PSD support should be delivered in packages rather than as isolated interventions. One difference between PSD support and much traditional aid, however, is that the former should be multi-sectorial. The PBS is best viewed as a way of doing things rather than as a sector, so any support geared to remove obstacles that hamper PSD will cut across several sectors at once.

General emphasizes this point and adds that many of the factors that affect the development of the PBS are interrelated; they work in clusters. PSD support, therefore, must be carefully sequenced, from the broadest level (that is, the macro level in terms of *General's* framework), to the level of the firm. This echoes one of the major points made in *Rural*: namely, that interventions designed to remove one obstacle often fail, since there are other binding constraints.

The major lesson to be learned from the evaluations' finding with respect to PSD support in general is the importance of comprehensiveness. The PBS may fail to develop despite massive PSD support because there may be several binding constraints, not all of which were targeted. To develop markets that are characterized by competitiveness, ease of entry, and non-discriminatory practices requires, moreover, individuals who know and accept the rules of the game. Neither in rural Africa nor in Ukraine or Russia is the market the only (or even the dominant) organization for exchange, so improving market access or creating an enabling environment does not necessarily increase competition. Consequently, multi-faceted, multi-sectorial

Sequencing and Comprehensiveness

If obstacles to the development of the PBS (as reflected in the growth of output, employment, and productivity) often come in clusters and can be categorized into different levels, what are the implications for PSD support? *General*, with support from *Rural* and possibly *East*, provides two important conclusions on sequencing and comprehensiveness.

The first is that isolated interventions – such as to increase the supply of risk capital, to improve business skills, or to remove trade barriers – are less likely to succeed than concerted efforts aimed at simultaneously removing several barriers. Efficient PSD support addresses several factors at once, both in the same cluster and at different levels. Thus, for instance, an intervention to increase farmgate prices for cash crop farmers may fail to increase supply unless action is also taken to improve access to markets and finance. This suggests that PSD support often needs to be supplemented with aid, the primary purpose of which is not to support PSD. Complementarity is important.

The second conclusion concerns sequencing. According to *General*, an improvement in the enabling environment is likely to improve the workings of the PBS, even in the face of market obstacles. Removing market obstacles when the environment is unfavorable, however, is less likely to be successful. This suggests that interventions should be sequenced so that the environment is improved before the focus shifts to removing market obstacles. Consequently, obstacles at the macro and meso levels should be addressed prior to obstacles at the micro level.

Hence, PSD support is more likely to have the desired impact if interventions simultaneously address several obstacles and if the focus is on creating an enabling environment before obstacles at the level of the individual market or firms are addressed.

approaches are likely to succeed better than single-factor, focused interventions, particularly if the former are designed with an understanding of the cultural context in mind.

My own reflections on the evaluations' discussions of how to support PSD are two. First, an analysis of what several dominant aid organizations are involved in is missing: the issue of public-private financing of the infrastructure. Browsing through the documentation of some major donors (the World Bank, the Agency for International Development, Department for International Development, Asian Development Bank) reveals that PSD in many cases is more or less synonymous with designing solutions for private finance of infra-structure (cf. Brook and Smith, 2002 for cases and Asian Development Bank, 2000 or World Bank 2002 for strategies). This discussion – that is, on how the activities of the state can be shrunk without a corresponding

decline in the output and quality of services – is absent from the evaluations. It appears important to discuss not only how PSD support should be *organized*, but also how it should be *accomplished*.

Second, many aid organizations – and some authors, for example, Shulpen and Gibbon (2002), suggest that Sida is not an exception – devote considerable effort to point out the importance of high-quality institutions and the role of macro factors for PSD. Yet, on the ground, they are often occupied with micro-level interventions, delivered as financial or technical assistance through projects. This may be unfortunate, because it is far from clear that aid organizations are better at funding hardware than at assisting in the development of institutions.

Chapter 5

Sida's Approach to PSD Support

Does Sida have a clear and explicit strategy for assessing the needs for and designing PSD support? The evaluations give remarkably different answers to this question, although they find a few common elements in Sida's approach.

One such element is the role of economic growth. Sida's PSD support appears to be aimed primarily at increasing the rate of economic growth. Growth of income is seen as the most important factor in poverty alleviation by Sida (cf. Danielson and Wohlgemuth, 2003, for discussion and sources). This, however, does not imply that poverty is defined in income terms alone. According to Sida, there are "strong connections between poor people's material well-being and other dimensions of poverty." (*Rural*, referring to Sida's PSD policy working group). As noted above, all evaluations find that Sida's PSD activities are aimed – directly or indirectly – at increasing output. Consequently, one way to assess the efficiency of PSD support is to see how fast private sector output increases.

General's review of Sida's PSD support reveals several important features. First, PSD support is concentrated in a few departments, particularly the Department for Infrastructure and Economic Cooperation (INEC), the department that supplies most technical assistance. This suggests that PSD knowledge and experience may be scarce in other departments. Second, staff acknowledgement of the importance of the private sector is not reflected in the organization. Interviews with department and division heads, and some project officers, reveal that Sida staff in general appreciate the important role of the PBS for economic growth, but the organization – in terms of sharing knowledge, facilities for retaining and spreading knowledge, and best-practice libraries – does not reflect this appreciation. Third, many staff take a rather limited view of the potential role that the private sector may play and focus instead on those activities that have a *direct* impact on the poor; the indirect links – such as improved national institutions that may stimulate PSD, which in turn affects economic growth – are not always emphasized. Fourth, there is a lack of consensus within Sida as to whether new channels of aid (that is, directly to the private sector) are warranted. Fifth, directions through the government's annual Letters of Appropriations are not explicit and concrete on the role of PSD support. Sixth, this may be one of the reasons why the PBS is accorded a limited role in most country analyses and country strategies. This lack of explicit directions feeds back into staff's interpretation of PSD support as being important only insofar that it affects

poverty directly and may partly explain why operationalization of PSD objectives at the project level is poor.

The framework in *General* for analyzing the PSD and PSD support could in theory be used as guidelines for analyzing the need for PSD support. Judging from the findings in *Rural* and *East*, this has not been the case in practice, and neither has any other analytical framework been used. According to *East*, Sida follows rather than takes the lead in the selection of PSD projects. One reason for this may be that Sweden is a minor player in Russia and Ukraine; another – which surprisingly is not given much attention in the evaluation – is that most of Sida’s PSD support in Russia and Ukraine is provided in the form of contract-financed technical assistance (KTS, to use the Swedish acronym). In KTS, Sida is a facilitator and a financier, not an implementer, so the reactive (as opposed to proactive) role of Sida follows naturally from the choice of instrument. What is more interesting in the case of Russia and Ukraine is that Sida does not appear to follow any framework à la *General*. Instead, a substantial portion of decisions taken are based on assessments and “gut-feelings” by consultants or experienced staff; the approach is described by *East* as being predominantly organic as opposed to the rationalistic approach proposed in *General*. This makes it difficult to assess Sida’s “view of the world” as there is no commonly accepted framework for identifying potential innovations and for charting the impact of Sida’s PSD support. On the other hand, Sida’s track record in Russia and Ukraine demonstrates that a predetermined “model” is not necessarily warranted: it would reduce flexibility and would not prepare the agency for rapid changes in the environment.²

The evaluation of Sida’s experience with PSD support in rural sub-Saharan Africa contains a useful attempt to formulate the arguments that underlie the views expressed in Sida documentation and staff interviews. *Rural* identifies three such “narratives” on the role of PSD for poverty reduction, each being – of course – an idealized version of the actual arguments (a “strawman”, without the usual negative connotation). In two of these narratives, economic growth has a central role to play. The first, the “poverty/market narrative”, emphasizes the role that well-functioning markets potentially can have for the poor. PSD support should emphasize improvement of markets (mainly through governance and institutional reform), not only because markets are functioning badly, owing to weak institutions, but also because traditional projects tend to distort markets. Improving the functioning of markets increases growth and thereby poverty reduction. Lack of informa-

² In addition, KTS requires that the initiative – that is, project identification – comes from partners in the recipient country, and Sida’s role – apart from that as a financier – is to assist in finding suitable Swedish partners. Consequently, Sida has a limited role in designing a comprehensive program for PSD development, and moving to a more proactive and rationalistic approach may jeopardize the basic idea of KTS, that is, that it is driven by recipients and that it utilizes Swedish competence.

tion, competition, and market access are the central obstacles identified in this analysis.

The second story is labeled the “poverty/supply narrative” and sees PSD support mainly as an instrument to help the poor take advantage of market opportunities by increasing production and thus supply. While project interventions may create market distortions, these are often not important, partly because there is often no market that can be distorted in the first place (rural credit markets, for instance). This narrative focuses on the micro plane and suggest that one important reason for stagnant supply is lack of incentives (low farmgate prices, high transport costs due to bad infrastructure).

The third narrative is labeled the “poverty/rights narrative” and has a broader perspective on poverty. Poverty is largely a matter of lack of power, and specific PSD interventions can do little to effect a direct change or to improve the rights of the poor. PSD support may indirectly influence power relations (by, for instance, improving agricultural productivity), but effective and sustained poverty alleviation requires improvements not only in the opportunities of the poor, but also in their rights. This narrative accords well with recent discussions at Sida on how to view poverty – that while economic growth is important, it is far from being the only important dimension – but at the same time goes against the view quoted above that other poverty dimensions are sufficiently closely correlated to income to make income aspects dominant. The emergence of this narrative reveals a potential conflict between in-house views. One view focuses on growth and poverty and the other takes an all-encompassing view of material and non-material qualities of life. The latter view does not necessarily accept the view (quoted above) that non-income aspects of poverty are sufficiently highly correlated to income poverty to justify a focus on aspects of income alone.

The first narrative sees PSD as an objective in itself and PSD support should aim at increasing the functioning of markets. In the second narrative, increased production is emphasized as the major vehicle for poverty alleviation, and PSD is seen as a means to accomplish this. The perspective of the third narrative is even broader, integrating socio-cultural aspects both in the definition of poverty and in the definition of means for accomplishing poverty alleviation.

The first narrative proposes that PSD support focus on the macro and meso levels – through projects and program support to improve the workings of institutions. In the second narrative, projects are the natural way of giving aid by enabling the poor to take advantage of market opportunities. The third narrative suggests a reliance on more comprehensive approaches such as sector-wide approaches and Poverty Reduction Strategy Papers.

It is thus difficult to find a clear strategy for PSD support within Sida. The *General* evaluation suggests one possible framework, but it is quite clear that this is not explicitly used within Sida. *Rural* identifies no less than three differ-

ent “narratives” that appear to guide PSD interventions. *East*, in turn, concludes that much of Sida’s work is being driven as reactions to proposals from counterparts and consultants in Russia and Ukraine (a reactive approach), and PSD support design is often characterized by a high degree of flexibility; the essentially rationalistic approaches suggested by *General* and identified by *Rural* are not prominent.

One reflection is that Sida is a complex organization which uses a variety of instruments to accomplish objectives that are not easily made operational. This may explain the lack of a clear and coherent approach to PSD support. Another reflection is that the adoption of a PSD strategy is not necessarily warranted. There is no clear consensus in the literature on how to “make markets work” or how to start the PSD engine that is supposed to drive growth. To formulate a PSD strategy might then limit flexibility and render integration of PSD support with other kinds of support more difficult. Much research on development over the past two decades has pointed to the complexity of the development process and the difficulty of finding clear and unambiguous links between, say, economic growth and poverty reduction. This thinking is reflected in Sida’s work and has resulted in poverty analyses that are multi-dimensional and that take “soft” factors into account. While this is a step towards increasing realism, it is also something that makes it more difficult to make objectives of aid interventions operational (Danielson and Wohlgemuth, 2003). And this is a challenge for aid organizations. On the one hand, they need to be able to have concrete operational targets against which aid interventions can be evaluated. On the other hand, they need to take the complexity of development into account. Obviously, a high degree of flexibility is necessary to accomplish this. But how this flexibility is to be achieved and attained is something outside the scope of this report.

Furthermore, as pointed out (although not elaborated upon) by *General*, the constraints that hamper PSD and which should be addressed by PSD support are interrelated; this calls for a high degree of flexibility in PSD strategies and for PSD interventions to be integrated with other aid. This also calls for an awareness that many focused interventions may solve one problem while creating another.³ What is needed, perhaps, is not a PSD strategy but an aid strategy that is sufficiently coherent to allow for interactions between different kinds of support and sufficiently flexible to be adaptable to local circumstances. If one accepts the World Bank (2002) view that PSD is a way of doing things rather than a proper sector and that the PBS, for various reasons, has emerged as the most likely engine of growth, the PSD strategy should be a development strategy – not a set of interventions, each with specific objectives. To the extent that Sida considers a PSD strategy, it is important that this is formulated in light of Sida’s view of the world – how Sida thinks of the relations between aid, economic growth, and poverty alleviation.

³ One example may be project interventions that remove one constraint but distort markets.

Chapter 6

Main Recommendations from the Evaluations

While all evaluations offer a multitude of recommendations, many of these are specific and relate to the objects under study (that is, support to Africa's agriculture and PSD support to Russia and Ukraine). General recommendations relate mostly to the development of an explicit PSD strategy that is integrated with other forms of interventions. It is important to note that Sida's lack of a clear PSD strategy is not necessarily a problem: the document guiding Sida's work – the annual Letter of Appropriation – is often not explicit on the role of the private sector. What is needed, I would argue, is thus increased recognition – in Sida and the Ministry for Foreign Affairs – of the potential role that the PBS can play in achieving Swedish development cooperation objectives. But there is also a need for Sida to integrate a PSD perspective more clearly into country strategies, which is also suggested by the evaluations.

The evaluations make clear that it is difficult to design efficient micro-level interventions, particularly in the absence of an enabling environment. Yet, most of Sida's PSD support appears to have been technical assistance to micro-level projects aimed at removing market obstacles.⁴ There are several drawbacks to this. First, micro-level interventions are likely to be more efficient when macro constraints to PSD have been removed, and many of Sida's partner countries are still characterized by weak macro-level institutions. Second, it renders donor cooperation difficult and costly. Third, project interventions often rely heavily on the supply of finance and technical assistance, with a less prominent role for institutional development. It is not clear that this is optimal from a PSD perspective.

Finally, PSD support does not take place in a vacuum. It is not always clear to what extent Sida's interventions are designed to develop the existing PBS and to what extent it attempts to replace it with an idealized market structure, straight out of economics textbooks. It is important that preparatory analyses for PSD interventions take socio-cultural aspects into account and build on existing structures.

The major recommendations offered by the evaluations can thus be summarized as falling under the following headings:

- Develop a clear strategy for PSD support that takes into account interrelations between various constraints and is explicit on sequencing.

- Integrate PSD support more fully into Sida's normal activities and organization.
- Develop and improve utilization of in-house capacity for identifying and designing PSD interventions.

Chapter 7

Some Concluding Remarks

The evaluations offer – particularly *General* – a theoretical framework that can be usefully employed to understand the obstacles faced by private sectors in low- and middle-income countries and what can be done to remove these. The present discussion has been in rather general terms, but it deserves to be emphasized that the analysis of the PBS and the design of PSD support ought to be context-specific: a country’s political, economic, social, and cultural history influences how private sector development is best supported.

Both *General* and *Rural* emphasize the importance of comprehensiveness and sequencing. This means that efficient PSD support should be designed to attack several problems at once, to be carefully sequenced, and to be integrated with other forms of aid. In addition, when it comes to sequencing, it is important to try to help create an enabling environment prior to attacking obstacles to individual markets.

From this point of view, an analysis of Sida’s PSD support is often disappointing. Support to the private sector is often aimed at the micro level and is given to isolated projects with few apparent links to other aid. The private sector does not figure prominently in strategy documents such as the country analyses, nor do the Letters of Appropriation focus on the private sector.

It is important, however, to keep two things in mind. First, the data classification system probably leaves a lot to be desired: a lot of aid that affects the conditions for the private sector is not classified as such, so Sida’s PSD support is larger, and possibly more equally distributed between departments, than is evidenced by the data. Second, the focus on the private sector as the engine of growth is still relatively new – perhaps a decade among most bilaterals – and it takes time to shift the focus and ways of thinking of a complex organization.

⁴ Classification of interventions may have something to do with this. To quote from *General* (p. 80): Sida’s PSD support “covers projects addressing support to industry, trade and the financial sector, frequently at the micro level, aimed at the competence of firms. The support ... that may have a strong bearing on the development of factors crucial for the development of a well-functioning PBS is largely excluded from this classification.”

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Appendix

Terms of Reference

Sida/UTV

Gun Eriksson Skoog, 2003-02-18

Terms of Reference for a Synthesis Study of Three Evaluations of Sida Support to Private Sector Development (PSD)

Background

Since 2000, UTV has commissioned a series of three evaluations of Sida support to private sector development.¹ Partly as a result of the first evaluation, Sida initiated a process of developing a policy for its future PSD support. The other two evaluations are, among other things, also to serve as inputs into this policy development process. At a more general level, the evaluations are to contribute to Sida's learning about, work with and development of PSD support in analytical, methodological and organisational terms. However, three separate and quite comprehensive evaluation reports make it difficult for Sida staff and others to obtain a clear overview of the collected experience reflected in and lessons learnt from the three evaluations.

All three evaluations focus on how Sida has approached its PSD support, but they nonetheless differ in various respects. They have partly different study objects and examine Sida's PSD approach from partly different angles. They also depart from partly different perspectives and emphasise different aspects of PSD and PSD support. Hence they all do make individual contributions, but it not entirely clear how they relate to one another and what their collected contribution is.

Against this background, the Department of Evaluation and Internal Audit (UTV) at Sida has decided to commission a synthesis study of the three evaluations.

¹ 1) Sinha, Sunil et al. (2002): Approach and Organisation of Sida Support to Private Sector Development, Sida Evaluation 01/14, UTV, Sida, Stockholm. 2) Havnevik, et al. (2003): 'Rural Development and the Private Sector in Sub-Saharan Africa – Evaluation of Sida's Experiences and Approaches in the 1990s', work in progress, Rural Development Centre, SLU, Uppsala. 3) Hjalmarsson, Dan et al. (2003): 'Private Sector Development Support in Action – An Evaluation of Sida-East's Work in Russia and Ukraine', work in progress, EuroFutures, Stockholm.

Purpose

The purpose of the synthesis study is to *summarise* and synthesise lessons that can be learnt from the three evaluation, and to *make those lessons more easily accessible* to, in the first place, Sida staff involved with policy oriented, analytical and other work related to support to private sector development.

Lessons shall be summarised and synthesised as regards both 1) Sida's approach to and actual PSD support, as well as 2) the different aspect of and perspectives on what PSD and PSD support implies and requires reflected in the evaluations.

By synthesis we mean the identification of collected observations and lessons, through a comparison of all three evaluations, that do not emerge from the individual evaluations.

Tasks

The synthesis study is to *review and compare* the three evaluation reports, with respect to:

- a) findings, conclusions and recommendations that concern Sida's approach to and actual PSD support, as well as
- b) perspectives and foci adopted by the three evaluations on what PSD and PSD support implies and requires.

On the basis of that review and comparison, it is to *discuss, report and conclude* in accordance with the following:

As Regards Findings, Conclusions and Recommendations about Sida PSD Support (a)

1. *Summarise* the findings, conclusions and recommendations of the evaluations in a comprehensive manner.
 - What do all these evaluations tell us?
 - What are their individual and collective contributions?
 - What is the collected experience revealed by these evaluations?
2. *Compare* the findings, conclusions and recommendations of the evaluations and consider how they relate to one another.
 - How do the findings, conclusions and recommendations differ, coincide, complement, contradict or otherwise relate to one another?
3. *Synthesise* the findings, conclusions and recommendations.
 - Does the collected picture reveal lessons that the individual evaluations do not?
 - Are there any new patterns emerging?
 - Are there any questions remaining or issued uncovered as regards Sida's approach to and actual PSD support – and in the light of this, any need for further evaluations or other studies?

As Regards Perspectives and Foci on PSD and PSD Support of the Evaluations (b)

4. *Account* for the perspectives and foci on PSD and PSD support adopted by the different evaluations:
 - What are their respective perspectives and foci on PSD and PSD support?
 - What are their individual and collective contributions in these regards?
5. *Compare* the perspectives and foci provided by the evaluations and examine how they relate to one another.
 - How and why do the perspectives and foci differ or coincide, complement or contradict or otherwise relate to one another?
6. *Synthesise* the perspectives and foci of the evaluations, by examining the extent to which the individual contributions may offer additional value in combination.
 - To what extent can the perspectives and foci be combined or linked into a comprehensive approach to PSD?
 - Are there any missing perspectives or aspects of PSD support, missing linkages between them, or otherwise remaining questions – and, in the light of this any knowledge or focus in need of elaboration?
 - Are there any new patterns emerging or can any new lessons be learnt?

The tasks can be further specified, delimited or modified, if found necessary, during the course of study process, through agreement between the consultant and UTV.

The task further includes presenting the report at and participating in a seminar at Sida.

The Report

The synthesis report shall comprise some 10, or at least no more than 15, pages. It shall be brief and concise, well structured, read well and the lessons shall be presented in a clear and pedagogical manner. The report shall be produced in a draft as well as a final version, and written in such a way that Sida can publish it without further editing. It shall be written in English.

The task of summarising (Task 1 above) does not imply that all the findings, conclusions and recommendations of the individual evaluations shall be accounted for separately in the report. Instead, summary statements shall be given. Neither shall the details of the perspectives and foci of the evaluations be accounted for individually.

The report shall be self-sustained, and thus needs to provide an introductory – but brief – presentation of the three evaluations, in terms of their partly different study objects, evaluation questions and methodological approaches.

The further outline of the report shall be agreed between the consultant and UTV.

Time and Resources

Performance of the task shall require a maximum of 4 man weeks.

The tentative time schedule for the study is as follows:

- Consultant draft report submitted to Sida Sunday 16 March
- Sida comments on draft submitted to consultant Friday 4 April
- Consultant final report submitted to Sida Monday 21 April
- Sida seminar for presentation of the report etc. Week 17 or 18
(22 April–2 May)

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Support for Private Sector Development: Summary and Synthesis of Three Sida Evaluations

Private-sector development (PSD) is today recognized as a precondition for sustainable development and poverty reduction, and PSD support is coming to the fore of development cooperation. Sida recently commissioned a thematic series of three evaluations of its approach to PSD support. The present report summarizes and synthesizes central findings of the evaluations, in order to highlight major lessons learnt.

The report concludes that 'comprehensiveness' and 'sequencing' of measures are crucial aspects of a successful approach to PSD support. It discusses central concepts such as an 'enabling environment' and 'market obstacles', and shows that the evaluations imply that, in general, support should first be directed to the development of an enabling environment at the macro level before the focus is turned to removing market obstacles at the micro level. The report stresses, however, the importance of context-specific analyses of the environment and obstacles to PSD – and a consequent adaptation of PSD support – in each country case.

Whereas there clearly has been a lack of a coherent PSD approach within Sida in the past, Sida has recently adopted policy guidelines for its future PSD support. Still, within Sida as well as internationally, learning about how to successfully support PSD is likely to be a continuous process. This summary and synthesis report aspires to make a contribution to that end.



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