

Private Sector Development Support in Action

Sida's Approach, Working Methods and Portfolio
in Russia and Ukraine

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Foreword

This is the final evaluation in a series of three studies on Sida's approach to private sector development (PSD) support. The evaluation was commissioned in response to the first evaluation in the series, and complements the other two by focusing on an alternative way of working and its strengths and weaknesses. It identifies and assesses Sida's PSD approach in Russia and Ukraine by examining Sida's working methods and the relevance of its PSD project portfolios.

Two basic approaches are contrasted for the purpose of the evaluation, labelled organic and rationalistic. 'Organic' refers to a gradual and opportunity-driven process based on learning-by-doing. 'Rationalistic' refers to a conscious planning perspective, based on systematic analysis and clear priorities. The evaluation finds that Sida's approach to PSD support at the time of the evaluation was predominantly organic. This is reflected in both the working methods – in terms of reactive project selection, flexible implementation and informal feedback – and in the PSD portfolios, which have remained fairly stable over time.

The main conclusion is that the organic approach appears to have been well functioning in terms of supporting feasible projects at local level, but the overall portfolio relevance seems to have suffered. Although unable to draw any firm conclusions concerning relevance, the evaluation suggests that the relevance of at least the early PSD portfolios in Russia and Ukraine was limited. By suggesting a trade-off between feasibility and relevance, it also highlights the distinction between efficiency at project level and efficiency at overall societal level.

Another conclusion is that although Sida's experience has been transformed into tacit and personalised knowledge, it has not been expressed in explicit directives. An implicit, as opposed to explicit, programme theory for PSD support creates vulnerability and a risk for inefficient knowledge transfer with staff turnover. The evaluation concludes that Sida should urgently reconsider its current approach to PSD support in Russia and Ukraine, and makes a number of recommendations to this end.

Stockholm, February 2004

Eva Lithman
Director, Department for Evaluation and Internal Audit

Preface

The complexity of the transition processes in Russia and Ukraine have been analysed and debated ever since the Soviet Union was dismantled. It is widely acknowledged that a well-developed private sector plays an essential role in that process. Consequently, the main goal is to improve the function of the private business sector in these two transition countries.

Major efforts have been made by many donor countries to support this transition process, particularly by Sweden through Sida. Sida and its predecessor in the support of Eastern European transition economies, BITS, have been active in this region for nearly one and a half decades. During that time, Sida has developed a specific approach to working in this region. This report is an evaluation of Sida's approach to private sector development in Russia and Ukraine.

The report was commissioned by Sida/UTV and written by an evaluation team from EuroFutures. A reference group was attached to the evaluation team. Throughout the working period of approximately one year, a number of external experts made valuable contributions from their respective fields of knowledge. Mr Bengt Dennis provided knowledge of macroeconomics and economic development in Eastern Europe. Mr Anders Bornefalk contributed with expertise on transitional processes. Mr Malcolm Dixelius acted as general expert on Russia and Eastern Europe.

Mr Lennart Widell provided valuable comments, primarily on evaluation methodology. And finally, Professor Erik Berglöf played a significant role by contributing valuable comments on the various draft reports and thus enhancing the final report. Euro Futures wishes to thank all those experts and personnel at Sida and elsewhere who contributed to the evaluation by answering questions, and participating in discussions and seminars.

Although all external input has been thoroughly considered, the evaluation team is ultimately and independently responsible for the results and recommendations.

Stockholm, December 2003

Carl Fredriksson
EuroFutures AB

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List of Abbreviations

BDC	Business Development Centre
BITS	Beredningen för Internationellt Tekniskt Samarbete (Swedish Agency for International Technical and Economic Cooperation)
CIS	Commonwealth of Independent States
EBRD	European Bank of Reconstruction and Development
ERO	Enheten för Ryssland/OSS (Division for Russia /CIS)
EU	European Union
GDP	Gross Domestic Product
IFC	International Finance Corporation
IMF	International Monetary Fund
KM	Knowledge Management
KTS	Kontraktfinansierat Tekniskt Samarbete (Contract-Finance Technical Cooperation)
M	Motivation
NGO	Non-Governmental Organisation
O	Opportunity
OECD	Organisation for Economic Cooperation and Development
OSS	Oberoende Staters Samväld (in Swedish, see above CIS)
PBS	Private Business Sector
PSD	Private Sector Development
SEK	Swedish crown
Sida	Swedish International Development Cooperation Agency
SITE	Stockholm Institute for Transition Economies
SME	Small and Medium-sized Enterprise
SR	Skills and Recourses
Tacis	Technical Assistance to the Commonwealth of Independent States
ToR	Terms of Reference
UFA	Ukrainian Farmer Association
UN	United Nations
UNDP	United Nations Development Programme
UK	United Kingdom

USA	United States of America
USD	US Dollar
UTV	Sekretariatet för Utvärdering och Intern Revision (Department for Evaluation and Internal Audit)

Executive Summary

Introduction

The complexity of the transition processes in Russia and Ukraine has been analysed ever since the Soviet Union was dismantled. It is widely acknowledged that a well-developed private sector has played an essential role in that process. Consequently, one of the main goals has been to improve the function of the private business sector (PBS) in these two transition countries.

Major efforts have also been made by many donor countries to support this transition process, not the least by Sweden through Sida. Sida and its predecessor in the support of Eastern European transition economies, BITS, have been active in this region for nearly one and a half decades. During this time, Sida developed a specific approach to working in this region.

Four major tasks have been defined for this evaluation. In this study, we aim to:

- 1 *describe and create an understanding of the Sida approach* to private sector development (PSD) support in Russia and Ukraine, in terms of its explicit or implicit programme theory and as practically expressed in the working methods and portfolio design,
- 2 *assess the performance of this approach*, in terms of the relevance of Sida's portfolios for PSD support compared to existing knowledge in the field,
- 3 *suggest possible improvements in the Sida approach*, e.g. in terms of lessons learnt and using existing knowledge more effectively, and
- 4 *draw lessons for other Sida departments* on how to approach PSD support

Points of Departure for the Study

PSD support is defined differently in different market economies. PSD is a *political concept*. In this study, we have defined PSD as *interventions aimed at improving factors crucial to the development of a well-functioning PBS*.

The study has been divided into the following four stages:

- 1 A *pre-study* with initial interviews and examination of documents

- 2 A *main study* based on interviews with Sida staff, examination of the total PSD portfolio and field studies
- 3 *Feedback* to Sida through two seminars with Sida-East
- 4 Documentation

The basis for the main study has been formed by all ongoing PSD projects in Russia and Ukraine between 1996 and 2002. In total, the PSD portfolio consists of 44 projects. The projects are identified in lists of Sida's ongoing projects for the period 1995-2002, and the result reports for Russia and Ukraine during the same period. Of these, 20 projects have been studied in more depth through desk research. Six of these (three projects in Russia and three in Ukraine) have been visited during field studies. In total, about 40 people have been interviewed, some on several occasions.

In order to explain Sida's portfolio and methods, we have studied the set of arguments or reasoning that are embodied in the explicit or implicit 'programme theory', i.e. the underlying reasoning of the program. In this evaluation, two fundamentally different perspectives have been defined in order to analyse the programme theory; the *rationalistic* vs. the *organic* perspective. In a broad sense, the first can be said to represent a more quantitative, general neo-classical tradition, while the other represents a more qualitative perspective that is sometimes called neo-Austrian or human-action theory.

As a point of departure, we have also examined the *environment* that Sida has to manage in Russia and Ukraine in order to accomplish its task. Firstly, attention has been paid to the economic/political situation in the two countries. Secondly, Sida is not the only Swedish policy instrument that is active in these transition economies. Thirdly, we recognise that Sida, in a sense, competes with other donors when it comes to setting up PSD programmes.

Empirical Findings on PSD Portfolio and Approach

Sida's approach to PSD support in Russia and Ukraine is multifaceted. An important finding is that Sida has taken on a specific role in the transition process. While the multilateral organisations concentrate on large-scale systems, Sida – with some exceptions – has focused on reforms advocated through local initiatives. The basic idea is that these locally-initiated projects will serve as 'road models' for projects in other areas and regions.

The assessment of the portfolio's relevance is based on a judgement of whether or not it addresses the areas of greatest importance. Initial dis-

cussions on the complexity of Sida's work indicate that relevance – in terms of addressing the most pressing needs – is a necessary though inadequate characteristic of a relevant portfolio. The environmental factors mentioned above create side conditions.

The description and analysis of the PSD support portfolio is based on classifying the interventions into three interrelated categories: (1) projects addressing business opportunities, (2) measures aimed at motivating people to develop businesses and (3) action to enhance skills and resources.

Briefly, the following observations have been made about Sida's portfolio, working methods and approach:

The focus of Sida's *portfolio* has gradually shifted over the years. This development may be due partly to an improved situation for projects with a more institutional focus because of the new regime in Russia, but also to increased knowledge in Sida on how to approach the more systemic issues of PSD in Russia and Ukraine.

However, a comparison of the project portfolios over time shows that renewal in the portfolio is rather low. The largest proportion of projects is follow-ups of projects that have already been initiated.

Sida's *working methods* are very much characterised by the ambition to achieve practical results. Most often, projects are selected based on knowledge gained from previous projects and experience of conditions in the field, political prerequisites, etc. The working method can be described as a risk-minimisation process.

Consequently, Sida works reactively rather than proactively in its selection procedure. Sida argues that projects are usually more successful if they originate from the implementing agency or recipient party.

Sida also seeks to actively involve project partners in order to achieve greater sustainability in the projects. This aim for strong involvement from the parties at both ends is based on both previous experience and contractual forms.

Analyses show that there is a strong belief within Sida that no one solution fits all countries and places. Most projects seem flexible and open in order to adjust to each specific context. Subsequently, there is no standard module for all projects.

However, although there are feedback procedures in all projects, this feedback process has only been supplemented with formal external eval-

uations in approximately half of the projects. In practice, Sida forms its conclusions primarily on the basis of field visits and informal feedback.

We thus find that Sida's *approach* to PSD support cannot be completely classified into one of the two theoretical extremes identified. In accordance with the concepts mentioned earlier, we conclude that the approach is predominantly organic with some rationalistic qualities.

Assessment of Sida's Working Methods and Portfolio

One conclusion from the assessment is that Sida, with its predominantly organic approach, focuses on the level of feasibility of a project rather than the question of overall portfolio relevance. This seems to imply that the early portfolios of PSD projects are of limited relevance. Sida is now gradually developing working methods and a portfolio that places greater emphasis on portfolio relevance.

The analysis of Sida's portfolio and working methods also indicates that Sida has undergone a considerable learning process during its years of operation in Russia and Ukraine. This learning process seems to come from the tacit and personalised knowledge of the Sida-East department rather than explicit directives or other documents. Hence, the programme theory of Sida with respect to PSD support is implicit rather than explicit. There is a great risk that the present order creates vulnerability and inefficient knowledge handover processes when there is a change in personnel.

Consequently, there are few, if any, documents from which conclusions can be drawn concerning the effects of historical and present undertakings. It is difficult to draw conclusions about the relevance of the overall portfolio except in very general terms. The present tendency, to extend these initial projects to other regions and let them grow into a more national scale, cannot therefore be related to a well documented 'road model'.

It is also our conclusion that Sida has now reached a situation where a general discussion on the strategy for continued PSD support in Russia and Ukraine is urgent. Both countries have undergone severe economic crises but are now showing impressive growth figures in average national terms. Both countries have a potentially strong domestic resource base, which makes them very different to other foreign aid-receiving countries. The basic question for Sida to answer is thus, what can a small donor like Sida accomplish in such an environment?

Recommendations

Sida started its support programme at a time when there was very little knowledge in the recipient countries of market economy and private-sector development. It was obvious that the PSD programme at the time had to start as a ‘trial and learning’ process. Sida has now achieved a far better understanding of the recipient countries and the needs at hand. Based on the findings of this study, on observations made during the process and on other sources of existing knowledge, we present the following recommendations for consideration as attempts are made to improve PSD support to Russia and Ukraine.

Firstly, it seems obvious that the Country Strategies can be improved. At present, they are too vague and do not serve as an efficient selection base. This is essential if Sida wants to achieve a more proactive selection process. This, in turn, will make it possible to increase the specialisation and concentration of the project portfolio.

A better fundament, based on concrete Country Strategies, will make it possible to raise the aims in terms of relevance of the project portfolio. At present, there are few projects with an R&D profile. Most projects are in rural development and there is a risk that Russia and Ukraine, even if these projects are successfully implemented, will lag behind in development needs. Thus, Sida should aim to support projects that can be internationally competitive – in terms of addressing the most pressing needs – in new areas.

Secondly, as Sida focuses on working principles that achieve results, less attention has been paid to developing formal implementation methods. However, a more systematic goal-setting and follow-up procedure should be developed. This is specifically important in projects aimed at developing the whole local society. It is our recommendation that Sida attempts to find a more specific focus in those projects.

Thirdly, we recommend that greater emphasis is placed on knowledge management systems that facilitate feedback and learning. Sida’s present project monitoring system is based predominately on trust and long-standing relationships. Sida should implement more self-assessment and evaluation. Sida should also conduct more systematic dialogue with experts and research organisations.

Fourthly, when it comes to practical working methods, maintaining close contact between project managers in the field, the Sida representative in the capital of each country and the Sida-East office in Stockholm is obviously problematic. Sida should develop a better reporting system and consider new technical facilities. This development would also contrib-

ute to better self-learning processes and make activities less dependent on single individuals.

Finally, a general recommendation: it has been noticed that PSD support projects should rarely be completely pre-designed. In a complex setting, it is tempting to choose PSD projects that have proved successful in other countries and cases. But by doing so, Sida runs the risk of prioritising projects that are perceived as feasible and safe while disregarding both their relevance and the relevance of the overall portfolio. The learning process does not come about through copying earlier successful projects, but by identifying the key elements of development and the settings in which these elements can be implemented.

Chapter 1

Introduction

This chapter presents the background and framework of the study. It has been observed that Sida, through its specific department Sida East, has acquired deep knowledge of the transition economies in Eastern Europe. It has also been observed that Sida has developed a specific approach to supporting private sector development (PSD) in these transition economies. This approach is significantly different to the support measures developed for other recipient countries around the world.

The basic aim of this study is to describe and create an understanding of the Sida's PSD approach to transition economies, and to assess the performance of this approach. The study has been carried out in four stages organised in a feedback loop, which is also described briefly in this chapter.

1.1 Background

1.1.1 Sida's PSD Support to Russia and Ukraine

The Swedish International Development Agency (Sida) has been working with Private Sector Development (PSD) support since the early days of the transition process in Russia and Ukraine. This PSD support is organised through a specific department within Sida, Sida-East. It is also worth noticing that Sida-East was originally an independent authority (BITS) that was merged into Sida in the mid 1990s. Thus, Sida-East and its predecessor have been active in the Eastern European area since Soviet Union times. This gives Sida extensive experience in working with transition economies and PSD support.

The objective of Sida's activities in Central and Eastern Europe is outlined in the governmental Letter of Appropriation, which describes the task as *'to promote a security community, to deepen the democratic culture, to sustain a socially sustainable economic transition and to support environmentally-sustainable development.'* In the specific field of economic transition, the stated objective is *'to facilitate the transition from a centrally-planned to a market-based economy. Also, Sida will encourage the development of a business sector, through insofar as possible usage of the Swedish resource base. Future intervention should also be carried out to further the development of the private sector based on the bottom-up perspective that has guided relations so far'*.¹

Over the years, Sida's PSD support to countries of the former Soviet Union has changed focus. Sweden recently phased out its support to the Baltic States and now concentrates on other Central European and former Soviet Union countries. This policy shift makes Russia and Ukraine important targets for future aid.

1.1.2 Scope of the Study

The subject of this study is Sida's work with PSD support in Russia and Ukraine. From an organisational point of view, this task, as already stated, is carried out by the Sida-East department of Sida, and more specifically the ERO division. However, to distinguish between policy level and the organisational structure, the term Sida is used consequently in this report to describe the overall organisation that is ultimately responsible for the approach to PSD support. The term Sida-East is only used in interview contexts and other direct relations with personnel, etc, in that specific department.

Private sector development support is, in practice, a very complex affair and can be described and evaluated from several different vantage points. This study is confined to a description and evaluation of Sida's working methods and project portfolio. The method and contents of the portfolio are affected by a large number of external and internal factors, i.e. the support must:

- ▶ Conform to the Swedish government's policies for foreign aid;
- ▶ Meet the needs and conditions of the relevant country;
- ▶ Fulfil the express ambition to use Swedish resources as a means of strengthening relations between Sweden and the emerging economies of the former Soviet Union;
- ▶ Comply with the systems of other donors and players, where Sida is one of many.

A key element in this evaluation of Sida's PSD support is that two different fundamental perspectives have been defined in the evaluation process. The first perspective is usually called *rationalistic*. The second perspective can be called *organic*. We will explore these concepts in greater detail in Chapter 2, as they are the central parameters of this study.

The objective of this evaluation is to describe and assess Sida's PSD support in Russia and Ukraine from both organic and rationalistic perspec-

¹ See *Letter of appropriation*, 1999.

tives, and thereby increase our knowledge and understanding of PSD support in practice.

1.2 Aim of the Evaluation

The major tasks of the evaluation are to:

- a *describe and create an understanding of the Sida approach* to PSD support in Russia and Ukraine, in terms of its explicit or implicit programme theory and as practically expressed in its methodology and portfolio design,
- b *assess the performance of this approach*, in terms of the relevance of its PSD support and compared to existing knowledge in the field,
- c *suggest possible improvements to the Sida approach*, e.g. in terms of learning and using existing knowledge more effectively, e.g. by incorporating elements through a more rationalistic approach, and
- d *draw lessons for other Sida departments*, from the experience of Sida-East, on how to approach PSD support, e.g. by highlighting the potential opportunities and benefits of adopting a more organic approach

1.3 Methodology

The objective of this study is to create an understanding of Sida's approach as it has been developed over time in the complex interplay between external factors and internal methods. It is about understanding and describing the methodology in a structured way, and qualitatively assessing these methods and comparing them with previous experiences.

The study has been carried out in four stages:

- ▶ A pre-study with initial interviews and systematic research of relevant documents, aimed at creating a basis for further work through greater understanding.
- ▶ A main study, based on interviews with Sida staff, an identification of the total PSD portfolio of 44 projects, and an in-depth study of 20 of these projects including a field study of three projects in Russia and three in Ukraine. In total, about 40 people have been interviewed, some repeatedly, in order to gather the background information necessary to describe the methodology and portfolio and to understand Sida's reasoning.
- ▶ Feedback to Sida from two seminars with Sida-East (the studied unit), aimed at giving a progress report and reaching a greater understanding of the methodology, programme theory and portfolio.

- Documentation of the evaluation in order to facilitate future dissemination of the experiences.

This work has gradually led to a view of how Sida's business-sector assistance – defined as its methodology and PSD portfolio – has been developed through the complex interplay of external influencing factors with the different stages of internal work. Sida's practical work is described in terms of the selection of PSD projects, their implementation and project feedback within the framework of a strategy.

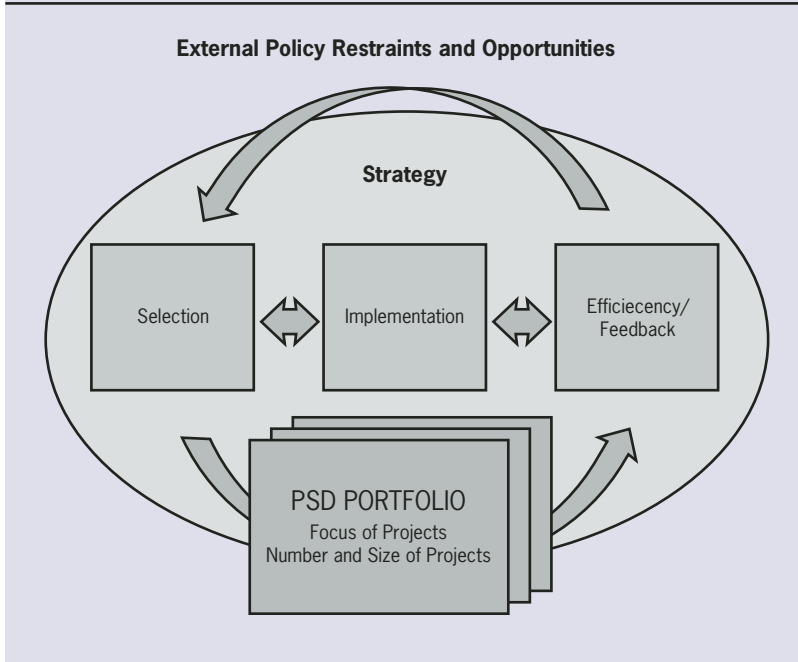
As discussed in the report, all these stages can be designed in different ways, as well as their major, overall perspective, i.e. rationalistic or organic. For instance, from a rationalistic perspective, the concept of strategy could refer to a predetermined plan for the work. In this case, it could be said that Sida should develop a strategy that is then adopted through a selection process before being implemented and evaluated. From an organic perspective, it could be argued that a strategy is something that emerges along the way, i.e. the results of the actual work. In the descriptive parts of this study, the various steps of the work are described: selection, implementation and feedback.

A central feature of this evaluation is the description and assessment of the portfolio. The portfolio is described in terms of the number of projects, their focus and size. The focus lies on 2002, and on developments since 1996. As described in Chapter 4, the studies of practical work show that not only the methodology results in a certain kind of portfolio, but that the reverse is also true: the portfolio affects the methodology.

The method is summarised in Figure 1.1. The methodology is constituted by the three steps that make up the strategy, and leads to a PSD portfolio that can be characterised by the focus, number and size of the projects. The arrows in the model show the connection between the different stages of the work and the portfolio.

The Selection, Implementation and Learning Process, as well as the focus of individual projects are not only a question of Sida's approach to PSD. External factors also influence this process to a large extent. These external factors are dealt with in Chapter 3.

Figure 1.1 Conceptual Frame of Reference



1.4 Overall Plan of the Report

This report is organised into six chapters. The first chapter, Introduction, provides a background to the evaluation assignment and a brief description of the evaluation method, including the empirical basis for the study and the major tasks undertaken.

The second chapter, Conceptual Framework and Methodology, provides a more elaborated presentation of the theoretical platform for the evaluation, including detailed definitions of key concepts and other methodological considerations.

In the third chapter, External Policy Restraints and Opportunities, external economic and political conditions are described from a PSD support perspective.

The fourth chapter, Empirical Findings, describes how Sida's approach to PSD support is reflected in the documentation, interviews and accounts of the empirical observations made by the evaluation team in the field. The chapter is divided into two sections: (i) an explanation of PSD support working methods and (ii) a project portfolio analysis showing the

present situation and changes over time.

Chapter 5, Assessment of Sida's Portfolio and Working Methods, assesses the findings presented in Chapter 4 on the basis of the conceptual framework defined in Chapter 2, and the external conditions for PSD support described in Chapter 3. The focus here is on evaluating the appropriateness of the working methods and the relevance of the Sida portfolio.

The final chapter, Conclusions and Recommendations, provides general conclusions on the strengths and weaknesses of Sida's working methods and present portfolio, as well as recommendations for how the working methods could be improved in the future.

Chapter 2

Conceptual Framework and Methodology

Chapter 2 starts with a discussion of the definition of PSD support. It concludes that the concept is elusive and, to a large extent, contextual. The chosen definition is based on previous work by Sida and Sida's underlying intentions when supporting projects in Russia and Ukraine. This chapter describes the conceptual framework in which the programme theory is based, and presents the differences between a rationalistic and organic approach. Finally, the methodology used in this study is described.

2.1 PSD Support

2.1.1 Point of Departure

PSD support can be understood and defined in different ways. In Sida EVALUATION 01/14, PSD support is defined as 'interventions aimed at improving factors crucial to the development of a well-functioning Private Business Sector (PBS)'. The central wordings are found in the two concepts 'intervention' and 'development'. In that Sida evaluation, factors that affect the development of the PBS are described at macro, meso and micro levels. At macro level, we find the institutions that make up the economic and political system, as well as the social and cultural context. At meso level, there are infrastructure and social capital but not in the sense defined in other studies. No attention is paid, for instance, to specific education programmes. At micro level, different aspects of players' competence and capability are included.

This 'definition chart' is interesting, and in a sense comprehensive. It is, however, an all-encompassing definition of a system approach from which one can draw the conclusion that everything is interdependent. Furthermore, infrastructure is both a main factor at meso level and a sub-factor under the vague concept of linking capital. Thus, this method for structuring PSD is not useful when defining a PSD concept for this study. Neither is it in line with the business policies of industrial countries, especially Sweden. Consequently, an organisation like the OECD is not structured in this way.

One further point of departure worth considering is that PSD support,

in terms of policy development, is defined differently in different market economies. PSD is thus a *political concept* and, as such, dependent upon political considerations. In some countries, infrastructure and labour market conditions are considered part of PSD, while in other countries, only technological developments are considered to affect the development of the private business sector. In some countries, R&D is considered part of the educational sector rather than a PSD tool.

2.1.2 Definition

As concluded from the chart that is presented in the Sida evaluation and referred to above,² PSD can include a number of different factors that directly or indirectly affect the private business sector. These specific factors can vary depending on the political agenda. Thus, the conclusion is that there is no overall definition. PSD support is an elusive concept that has to be defined in each specific context. At one extreme, it could be said that PSD is that which is defined in a specific country during a specific period.

However, this definition is too elusive to be operational. For this study, our definition is based on the Sida evaluation cited above. Thus, PSD is *interventions aimed at improving the factors crucial to the development of a well-functioning PBS*. The key words are ‘*aimed at*’. There are probably a large number of non-intended interventions that will later prove significant for PBS development. In Chapter 4, we have examined and presented all Sida projects in the two countries and from that pool of interventions, selected those that would probably be considered PSD support in a country like Sweden. We have had lengthy discussions with staff at Sida East in this classification work. The considerations were severe in some cases.

2.2 Conceptual Framework

2.2.1 A Contextual View

When providing PSD support, Sida has to address the question of what projects to finance in order to facilitate the transition process of what measures are needed in Russia or Ukraine? Are there business opportunities that require projects to promote privatisation or the securing of property rights – or skills that call for training and business service projects? Or are incentives so weak that they require projects that focus, for example, on improving the tax system?

² Sida EVALUATION 01/04, pp. 20-21.

However, in Sida's everyday work, knowing what local needs to address is not enough. Sida must also consider what other donors are doing, and the role that Sida can play when taking other donors' priorities into account. Sida operations, according to the government's Letter of Appropriation³, are supposed to rest on available Swedish resources. Consequently, access to Swedish consultants and public support agencies is crucial, and determines to a large extent the scope and limits of the work.

The basic outline of Sida's working methods is illustrated in Figure 1.1. The model includes different phases of action. The term 'phase' is used to denote the fact that PSD support is not a simple, logical, linear sequence from political objective to result. Nor can the phases themselves be regarded as clearly identified areas of study. In practice, the different phases are intertwined and occur more or less simultaneously. A number of sub-processes are involved when selecting projects for implementation, as well as for measuring results and providing feedback in order to ensure increased understanding for future activities. Moreover, the phases are embedded in a larger strategic context, which is more or less explicit and conceived either in advance or as a result of action.

Figure 1.1 illustrates the complex interplay between these internal sub-processes and the external factors that influence the processes and the interrelationship between the working methods and the portfolio design. The cyclical arrows represent ongoing processes and organisational learning over time.

The description of the complex work involved in PSD support begins in extensive empirical studies, based on field observations and a large number of interviews and discussions, for example through two seminars with Sida staff. The discussions during the preparation of the Terms of Reference and initial interviews with Sida led to an initial understanding of the portfolio and working methods. This understanding of the practical side of the work with PSD support is based on a larger number of considerations. The portfolio and working methods are results of past experiences, current trends in PSD support, and preconditions defined by the existing portfolio and relations with the Swedish resource base.

2.2.2 Programme Theory

In order to explain Sida's portfolio and working methods, we have studied the arguments behind the action and the extent to which Sida uses a set of arguments to guide its decisions. This set of arguments, or meth-

³ See *Letter of Appropriation*, 1999.

od of reasoning, is embodied here in the concept of an explicit or implicit 'programme theory'.

A programme theory, or the reasoning that underlies a programme, can be defined as: 'the presuppositions concerning what the intervention was designed to achieve and how this achievement was to come about... the reasoning underlying the program.'⁴

In our case, the programme theory is a comprehensive account of what to support, and how this support is to come about. In its basic structure, the programme theory concept comprises arguments on how to select projects and design a portfolio, how to view implementation, and how to evaluate results and generate feedback. The term 'theory' refers to an ideal, which indicates that it is possible, or at least should be an ambition, to expose or outline connections between the method of reasoning and current theories or models.⁵

In practice, all public support schemes have some kind of programme theory. Explicit and comprehensive programme theories are rare, however. Political ambitions are not often translated into concrete theories of action, and if a method of reasoning is presented, its links to theory are tenuous.⁶

In this evaluation, we will ask empirical questions in order to expose the composition of Sida's portfolio and working methods, and the extent to which an explicit programme theory may guide its work. Is there an overt, commonly accepted programme theory that guides Sida in its everyday work? Or does the methodological philosophy rest on an implicit, tacit understanding of what to do and how it should be done?

The following section outlines two complementary perspectives or models for understanding PSD support in order to produce an analytical tool for describing and discussing the Sida-East approach.⁷ In a broad sense, the first can be said to represent a more quantitative, general neo-classical tradition, while the other represents a more qualitative perspective that is sometimes called neo-Austrian or human-action theory.

⁴ Vedung, 1998, p. 138.

⁵ In this case, Vedung's advice that evaluation and monitoring '*should be grounded in social theory*' is used as a point of departure.

⁶ Storey, 1994.

⁷ Note that this dichotomy is made for analytical reasons.

The Rationalistic Model for Understanding PSD Support

A rationalistic⁸ approach is defined as ‘theoretical-deductive’. Briefly, and in terms of our present area of study, this theoretical-deductive or rationalistic form of PSD support can be seen as a departure of action from economic theory, in order to understand the transition processes and what is needed in terms of PSD support. The model implies a theoretical top-down approach.

This perspective is used to some extent in the Sida EVALUATION 01/14 report and referred to in the ToR as an example of a rationalistic approach to PSD support. The report includes a deduction from both theory and the empirical experience of a number of factors affecting Private Business Sector development and support. A comprehensive map of factors that affects the development of the Private Business Sector is introduced and applied throughout the report, which identifies close to 100 different factors at three different levels - macro, meso and micro.⁹

The major conceptual framework for these elements is neoclassical economic literature supplemented with contributions from institutional economics and expert reports from the World Bank Group and others.¹⁰

When referring to the institutional school and the World Bank expert studies, the map not only illustrates traditional microeconomic factors, but also political and social elements at macro level. At meso level, it identifies and describes elements such as physical infrastructure, as well as social factors related to business environments or business-climate issues. On the ‘ground’ at micro level, it shows factors such as access to know-how, capital and business services.

The rationalistic model, as defined here and described in Sida’s EVALUATION 01/14 report, deals with aggregated and well-established concepts such as ‘markets’, ‘market forces’, ‘production functions’, ‘market information’, ‘firms’, etc.

From this angle, PSD support is seen as an activity aimed at developing interventions along a rational sequence and at all levels, starting preferably with macro conditions - the overall foundation for a well-functioning Private Business Sector. These measures emanate from a vast amount of

⁸ *The Hutchinsons Encyclopaedic Dictionary*, 1991, defines the rationalistic approach, on a very general level, as ‘the theory that self-evident propositions deduced by reason are the sole basis of all knowledge’.

⁹ Sida EVALUATION 01/14, p. 21.

¹⁰ References are given to the European Commission, the World Bank, OECD and North, D., 1990, *Institutions, Institutional Change and Economic Performance*.

‘existing knowledge’ on how transition markets work. Based on this understanding, PSD support is designed to create a ‘well-functioning’ market and facilitate the transition process.

Accordingly, critical PSD support measures are directed towards the de-regulation and privatisation of markets. Equally important, they will guarantee an efficient tax system, rules of law, social security safety nets and other conditions at macro level. On a less aggregated level, predominant PSD support measures will secure fair competition through an effective competition policy, as well as providing risk capital for small and medium-sized enterprises and enhancing the diffusion of market information. This ‘diffusion of market information’ is often translated into data programmes and other information devices. Training and advice programmes are often important elements in a rationalistic approach to PSD support.

These kinds of PSD activity are heavily dependent upon external experts, who advise civil servants or politicians on how to create an enabling environment for PSD and consultancy services for potential businessmen or people in established businesses. The solutions are often highly developed and transferred from support programmes in other countries. The general notion is that experts convey knowledge to the target country in an expert-client fashion. The strategy in this model is premeditated and effectively a ‘plan for work’, a scheme for the sequencing of measures.

The rationalistic approach would lead to a point of view in which PSD support is seen as an activity with a clear strategy of what needs to be done to create a desired development. This implies proactive behaviour in the selection process. Based on earlier theoretical and practical experience, the donor chooses the projects he wishes to support. In the implementation phase, detailed project plans are followed. The consultants function as experts who transfer knowledge and know-how. In this phase, actions are governed more by structure than by flexibility. Formal follow-ups and evaluations provide information on the projects that should be terminated, continued or developed. The portfolio is the result of a conscious and pre-determined strategy.

The Organic Model for Understanding PSD Support

An organic approach¹¹ in this context is based on ‘empirical-inductive’ methodology, and seen as a process in which the support system inte-

¹¹ *The Hutchinsons Encyclopaedic Dictionary*, 1991, defines the organic model as being ‘*organized or arranged as a system of related parts*’.

racts with the environment.¹² In its general structure, the activities of the donor are essentially ‘context-dependent’ and the system evolves from a process of trial and error.

Economists, who focus on processes and dynamism in their work, use the organic model as a point of departure. This approach is often referred to as the Schumpeterian view of economics.¹³ According to this school of thought, economic development is seen as numerous processes driven by businessmen (entrepreneurs) who recognise opportunities.¹⁴ Business and private sector development is seen as an ongoing process in which entrepreneurs seize business opportunities through innovation and/or imitation.

In the organic economic model, the focus lies on the entrepreneur’s ability to find information and translate it into profitable business operations.¹⁵ People who act and change in a transition process are important here. Lachmann sees ‘in spontaneous human action the mainspring of economic events’.¹⁶ The entrepreneur acts in a world of uncertainties. He or she has no ‘correct’ assessment of the business context, or of a possible enabling environment. The entrepreneur makes decisions and acts to a large extent on intuition.

Applied to PSD support, the organic model implies that the ability to be efficient over time is very closely linked with the donor’s capacity to act successfully in a unique, changing context. The organic model does not allow for premeditated homogeneous, definitive ‘market conditions’ or ‘general production functions’. Consequently, there is a complete lack of simple, generally relevant knowledge on how to run businesses and on the PSD measures that are required to create an ‘enabling environment’ for PSD.

As will be dealt with later, the support given to the processes of forming new businesses or enabling established companies to grow has a different *raison d’être* or logic to traditional expert-client relations, where specific solutions are presented. PSD support, with its origins in this organic economic school, concerns the development of information and business ideas on a mutual basis between the aid organisations’ agents and partners in the target country or region. The process rests largely on symmetrical relations between all parties.

¹² Cf. Nagel, 1961.

¹³ Schumpeter, 1935.

¹⁴ Cf. Kirzner, 1997.

¹⁵ Kirzner, 1973.

¹⁶ Lachmann, 1986, p. 19.

A PSD support programme, according to this view, comprises a number of independent players who interact in various ways. This evaluation looks at the cooperation between Sida-financed consultants, other donors and existing or potential entrepreneurs in the recipient country. It is a matter of cooperation between civil servants and representatives who are able to affect the business environment.¹⁷ With this interactivity, the substantial content of a PSD support process cannot be exactly defined in advance, but must be seen as the interactive outcome of a large number of interrelated activities and negotiations.

Thus, the organic model does not imply a premeditated and fixed strategic plan. Strategy, in an organic sense, emerges as a result of innumerable considerations and decisions that arise during the course of the work. It is more or less a continuous shaping of the PSD support programme.¹⁸

The organic approach rests on continuous adaptation to changing conditions and opportunities. The selection of projects is often based on the projects that are available and possible to implement. In the implementation phase, constantly changing conditions lead to a need for flexible PSD support. The working method also demands flexibility. A clear dimension in the organic perspective is that both the donor and the recipient work in symmetrical forms. It is a mutual development process, rather than an expert-client relation. From an organic perspective, 'entrepreneurship' or the ability to adapt and make decisions based on professional experience and so-called silent knowledge are important. From this perspective, it is natural that more trust is placed in informal meetings than formal evaluations.

Rationalistic vs. Organic – Suggested Concepts

The two models described above have been simplified in order to serve as templates or models for describing Sida's work. In the empirical descriptions, the following concept pairs will be used to capture Sida's working methods:

- ▶ Rationalistic or organic approach
- ▶ Formal or 'emerging' strategy
- ▶ Proactive or reactive selection
- ▶ Predetermined or flexible implementation

¹⁷ This is based on the assumption that civil servants and politicians act as 'entrepreneurs' and are 'context-dependent' in the same manner as business entrepreneurs.

¹⁸ Cf. Giddens, 1984.

- ▶ Asymmetric or symmetric implementation
- ▶ Formal or informal follow-up

We will return to these concepts below.

2.3 Assessing Performance

A traditional, quantitative assessment of the relevance of PSD support could start with the evaluation of every single project according to its specific relevance. But evaluating a single project as such is a resource-consuming task. In this study, the evaluation sample comprises 44 projects.

In order to assess the methods and portfolios with a reasonable work volume, an indirect method has been chosen. This method hinges on an assessment of Sida's work methods based on 'existing knowledge' of what characterises a well-functioning working method. In the same way, the portfolio is assessed in relation to 'existing knowledge' of what constitutes a relevant portfolio. A large number of external factors must be weighed together here to determine whether the portfolio is relevant. These factors are described in greater detail in Chapter 3.

2.3.1 Well-functioning Working Method for PSD Support

Existing knowledge from PSD programmes supports the idea that a well-developed programme theory is needed to guide actions in continuously changing contexts in the target area.¹⁹ In other words, a road map must be drawn with references to both theoretical considerations and concrete field experience.

A well-functioning support agency must thus be able to *identify and develop a programme theory* or map that explains not only what needs to be done but also how to do it. Furthermore, the map must be continuously updated in order to match the changing context as the transition process – with its myriad of sub-processes – evolves.

The rationalistic approach, as defined in this evaluation, assumes that support agencies need to account for theoretical and empirical knowledge in logical sequences when forming PSD support. The general strength of this approach is that existing experience is factored in, which reduces the risk for repeating the mistakes of other organisations. However, with a predominantly rationalistic approach, the organisation runs the risk of

¹⁹ Cf. Nord-REFO, 1996, p. 5.

becoming too focused on developed theories and tested methods, and consequently does not place enough emphasis on the specific contexts of the country in question. One pitfall when revising initial theories and conceptions could be to ignore findings from the field.

The organic approach, on the other hand, focuses on the idea that the support will emerge from a process of trial-and-error and learning, and will constantly be adjusted to the specific context to ensure its efficiency. In a rapidly changing environment, where existing knowledge on efficient practices and solutions is limited, the organic approach may well be an appropriate method for achieving objectives.

Generally speaking, a public support programme has to meet two distinct challenges. At project level, each undertaking is supposed to be viable and result in sustainable change or transition. One hypothesis here is that adherence to an organic, symmetric approach will bring certain advantages. The rationalistic approach, on the other hand, with its focus on more aggregate findings, is often advantageous in the overall selection of projects, and thus produces a relevant portfolio. A first and distinguishing criterion for the assessment, based on the evaluation team's long-standing practical and theoretical knowledge, is that PSD working methods *contain a program theory that accounts for both rationalistic and organic elements*.

In order for the programme theory to be effective, it must be thoroughly recognized and understood throughout the organisation. All staff members involved in specific project decisions and portfolio design must be able to describe and explain the organisation's road map and its implications. Consequently, and depending on organisational structures and prerequisites, vital parts of the programme theory must be explicit. When there is a turnover of personell, for instance, the programme theory needs to be (at least partly) explicit in order to simplify the process of spreading the knowledge that is gained throughout the organisation and to new employees.

The degree of 'explicitness' is judged by how the organisation works (i.e. its culture, administrative systems, knowledge management systems, etc). An explicit programme theory does not necessarily appear in written documents only. It must be revised verbally, through operations and ongoing discussions in the organisation. According to existing knowledge of organisations in action, a well-functioning PSD support agency must incorporate processes that identify and develop an *explicit and sustainable programme theory*.²⁰

²⁰ Cf. Nonaka, 1991.

Chapter 5 discusses the extent to which Sida's PSD work in Russia and Ukraine is characterised by a developed programme theory that includes both organic and rationalistic components that are recognised by those working with the support.

2.3.2 A Relevant Portfolio

The assessment of a portfolio's relevance begins with the question of whether or not the projects in Sida's portfolio address the areas of greatest importance in terms of positive development of the private sector. Initial discussions on the complexity of Sida's work indicate that relevance - in terms of addressing the most pressing needs - is a necessary but insufficient characteristic of a relevant portfolio. There are side conditions. The objectives of Sida's activity, as defined in the Letter of Appropriation, show that PSD activities must be carried out in a manner that optimises the utilisation of the Swedish resource base, as well as favouring Swedish interests.

Chapter 3 discusses the consultants and other resources that are available, and if and how these Swedish resources can be used to strengthen the development of the private sector in Russia and Ukraine. But tackling the most urgent needs and utilising Swedish resources is not enough. Equally important is Sida's role in relationships with other donors in these countries. The chapter ends with a summary of the various aspects that should be present when assessing the relevance of Sida's portfolio. These aspects can be seen as restraints when developing a relevant portfolio and form a platform for the analysis in Chapter 5.

The understanding of PSD support has changed over the last ten years. The earlier PSD support model²¹ was predominantly based on market failure theories and the need for market interventions. In the mid 1990s, the notion of entrepreneurship was added to the PSD support concept. In several OECD reports²² and in the so-called new consensus²³, the acting entrepreneur in a facilitating business environment is emphasised.

In accordance with contemporary perspectives, PSD support in this report is seen as the facilitation of development processes *driven by people who are skilled and motivated to do business in open and changing markets.*²⁴

²¹ OECD, 1991, *Industrial Policy in OECD Countries*, see also Kolodko, 1999, *Ten Years of Postsocialist Transition*, the discussion on the Washington Consensus.

²² OECD, 1995, *Thematic overview of Entrepreneurship and Job Creating Policies*, OECD, 1998, *Fostering Entrepreneurship*, and OECD, 2001, *Entrepreneurship, Growth and Policy*.

²³ Kolodko, 1999, *Ten Years of Postsocialist Transition*.

²⁴ OECD/Atlantic Canada Opportunities Agency, 1996, *The Implementation of an Entrepreneurship Policy in Canada*, and Boter, H., Hjalmarsson, D. & Lundström, A., 1999, *Outline of a Contemporary Small Business Policy*.

In a well-functioning Private Business Sector, people are *skilled* enough to start and run businesses successfully. Another condition is that people are *motivated* to become entrepreneurs and run businesses. But what spurs them into action? Scholars like North²⁵ have shed light on the institutional milieu that is needed to facilitate a dynamic market economy where people are motivated to act. Key concepts are ‘positive attitudes to business’, and ‘values enhancing innovation’. Motivation and incentives are, of course - as in the neoclassical tradition - linked to profit opportunities. From an institutional viewpoint, the emphasis lies more on non-monetary incentives, such as status and ideology.

Another vital notion is the existence of opportunities on *open and changing markets*. The Austrian²⁶ view of entrepreneurship, which originated with Schumpeter and was further developed by Kirzner²⁷ and Lachmann²⁸, has opportunities and entrepreneurship as its central themes. Markets are regarded as processes that incorporate continuous learning and experimentation. In this view, entrepreneurs introduce new ideas and exploit ever-changing opportunities. Thus privatisation, deregulation, and to some extent re-regulation constitute a core theme in the Austrian approach to fostering new entrants and entrepreneurship.

Discussions on PSD support and measures to foster new entrants and entrepreneurship can thus be summarised into three interrelated types of intervention: (1) projects aimed at addressing business *opportunities*, (2) measures aimed at motivating people to develop businesses and (3) action aimed at enhancing *skills and resources*.

Opportunities

A well-functioning PSD policy in Russia and Ukraine must focus on creating opportunities for private business. In the transition economies, the dismantling of the communist system and the privatisation process formed the departure point for all PSD activities and enabled the development of private business. As already discussed, the results of the privatisation process have so far proved disappointing.²⁹ Large sectors of the Russian and, in particular, Ukrainian economies are still state owned. In many cases, newly privatised companies are still run as

²⁵ North, D., 1990, *Institutions, Institutional Change and Economic Performance*.

²⁶ Kirzner, I., 1997, *The entrepreneurial discovery process and the competitive market process – An Austrian Approach*, Journal of Economic Literature, March 1997.

²⁷ Kirzner, I., 1973, *Competition and Entrepreneurship*.

²⁸ Lachmann, L.M., 1986, *The Market as an Economic Process*.

²⁹ The World Bank Group/OECD, 2002, ‘Assisting Russia’s Transition – An Unprecedented Challenge’.

monopolies with the capacity to bar entry to competitors. There is much to be done before true business opportunities for new entrants prevail.

Opportunities do not only arise from dismantling dominant power structures and monopolies, and allowing private firms to provide public-financed services. Equally important are measures designed to open foreign markets and create opportunities for trade and direct foreign investment.

One strategic pillar for furthering the PSD support programme in Russia, and even more so in Ukraine, is to continue pushing for the widening of business opportunities. Encouraging greater privatisation can do this. Another solution is to promote cooperation between public interests and private players in the provision of infrastructure and social services, and stimulate trade.³⁰

Experts have called for a number of different activities in order to establish a functioning market economy. Most often noticed is *rule setting*, i.e. the establishment of different general business laws. These actions can only be carried out at central level. Other activities focus on the *dismantling of different types of barriers*, such as the privatisation and facilitation of inward and outward investments.

Motivation

Creating business opportunities is a necessary but insufficient condition for a well-functioning PSD in Russia and Ukraine. Without motivation, no real development can occur. What is needed is a business climate based on a large number of hard and soft motivators.

The potential for profit is central to economic theory. A prerequisite is the guarantee of *property rights*; equally important are *tax systems* and *tax regimes* that provide incentives for private business, as well as *subsidies* for start-ups and *service facilities* like business development centres. There is also a definite need in societies like Russia and Ukraine for massive *information*, as the vast majority of people have no knowledge of market systems or business creation.

The *institutional structure*, *societal values*, and other soft motivating factors, such as *general confidence in society*, are also crucial conditions. Russia and Ukraine still have a long way to go before trust and values resemble those found in efficient Western market economies.

³⁰ World Bank, 2002, 'Doing Business – A New Publication'.

Skills and Resources

Opportunities and incentives are crucial, but insufficient on their own. Without proper skills and resources, no real development can occur. Both Russia and Ukraine are in a position today where people have basic knowledge, i.e. they can read and calculate, but this knowledge is not fully utilised. This situation is both disappointing and challenging; there are many well-educated engineers working as taxi drivers or in restaurants. The system works far below its full potential when so many people are not earning a living from their professions.

There are many sides to this. PSD support in western market economies, with its focus on small business policy for example, has been heavily directed towards enhancing skills and resources and has often been designed to eliminate market failure. The rationale, based on price theory and applied industrial economics, is that new entrants and SMEs have difficulties raising *loans* and *venture capital* at reasonable prices, if at all. Moreover, the supply of information and business services to SMEs is usually too meagre to be efficient. International donors traditionally provide transition economies with finance, *business advisory services* and *training*.

There is a growing consensus that skills and a willingness to act (i.e. entrepreneurial alertness) is of great importance in PSD, and that these must be addressed in PSD support. Opportunities should not be taken for granted. In business activities, information must be acquired and converted into profitable and sustainable business deals. A functioning market demands an effective information system; yet what we find in transition economies is underdeveloped markets and obstructed information diffusion. Consequently, PSD support is often directed towards financing as well as *training, information and contacts*, at both local and regional levels, and across borders.

2.4 Methodology

The empirical work is divided into the following independent phases.

2.4.1 Pre-study

This phase has been carried out by studying documents, through interviews with Sida and through the preparatory work described in the Terms of Reference. But this pre-understanding has also been developed through the evaluation team's own experiences in working with and evaluating PSD support at national, regional and local levels, in Sweden, Russia and the Baltic countries.

2.4.2 Main Study

The pre-understanding serves as a basis for the model that has been presented and that guided the descriptive and evaluation work. It should be noted, however, that in the type of analysis found here, the model can also be seen as part of the evaluation's results. In practice, the interviews carried out, based on the interview form (see appendix III) that grew from the pre-understanding, have contributed to the formation of this model. This model is then used to structure the description and assessment of the working method and portfolio. This can be described as a dialectical approach.

Written information about the working method and portfolio design has been gathered from several different sources. Descriptions of Sida's PSD support in a number of strategic documents, such as evaluations and internal planning documents, provide a basis for further studies. The evaluation team has also learned about the present conditions for running PSD support programmes in Russia and Ukraine via reports and expert documents. Reports from the World Bank Group, OECD, EBRD, UN and other donors, along with reports from researchers at the Stockholm Institute for Transition Economics (SITE), have been of particular interest. Project files have also been studied.

Interviews and discussions with Sida personnel, field officers, consultants, experts, other donors, local partners, stakeholders and experts linked to projects in Russia and Ukraine constitute the most important sources. In total, more than 40 people have been interviewed, many of them several times. When gathering information, we aimed to cover the whole PSD support programme and show the programme theory in action. In effect, all personnel from Sida-East in Stockholm who work with Russia and Ukraine have been interviewed. In addition, two seminars were held with the Sida-East department.

Three PSD projects in Russia and three in Ukraine were selected from the overall project portfolio for a further in-depth study, in consultation with Sida-East. These projects were studied during three *field study missions*. Two projects were studied on an initial visit to Moscow, Saratov and Obninsk in Russia: *Land Cadastre and Land Information System* and *Develop Your Business*. On a second journey to Murmansk in Northwest Russia, an analysis was made of the *Diversification of Industry in Olenogorsk project*. The third and final field study mission was to Ukraine, where the project team met representatives of *Agribusiness Development and Reform in Ukraine*, *Implementation of New Methods in Ukrainian Agriculture* and the *Crimean Integration and Development Programme* in Kiev, Kakhovka, Cherson and Simferopol (Crimea).

A further ten projects in Russia and four in Ukraine were studied on a *desk research* basis, including interviews with area managers from Sida-East. The 20 projects selected, for both in-depth field studies and desk research, cover almost half of Sida's PSD support projects. Finally, all PSD projects were studied in order to establish and characterise the entire PSD portfolio.

The project selection process was designed to obtain a reasonable geographical spread of projects, and a balanced mix of various measures. The purpose of the empirical studies was not to evaluate single projects, but to compile a variety of projects that would give an appropriate picture of Sida-East's working methods and a portfolio. A comprehensive summary of all the projects studied in the evaluation can be found in Appendix VI.

2.4.3 Feedback

Great emphasis has been placed on the work's practical usage for Sida. Repeated discussions with heads of units and area managers, as well as two seminars with Sida-East (the studied unit) took place to ensure feedback of the results. Discussions and seminars have also contributed to a greater understanding of Sida's work methods, programme theory and portfolio.

As mentioned above, the conceptual framework and empirical investigation have been undertaken dialectically, where interviews and field studies formed a basis for the theoretical framework and vice versa.

Chapter 3

External Policy Restraints and Opportunities

This chapter aims to give a contextual description of the external environment in which Sida support is intended to function, and in which the relevance of its PSD portfolio will be assessed. It has been noted that the situation in Russia and Ukraine is fairly tough, and can be described as an area of economic backwardness. It has also been recognised that the situation in these two countries is different to other 'Sida countries'. The two countries were formerly parts of a developed super power (in some aspects) with a strong administration and well-educated population. It has also been noted that Sida operates in a context of intervention by a large number of other donors to whom Sida has to adapt or at least account for. Finally, it is also stressed in this chapter that Sida is only one part of the Swedish policy devoted to developing the business sector in Russia and Ukraine and that Sida is subject to another political restraint, i.e. that Sida will, wherever possible, utilise the Swedish resource base when implementing selected programmes and projects.

This chapter aims to place Sida's PSD support to Russia and Ukraine in the context of these two countries' development and transition, which will then serve as a basis for assessing the relevance of this support. The development of the two countries is vitally important for Sida's PSD support, as it determines local needs and recipient capacity. What Sida can or cannot do in Russia and Ukraine is primarily dependent upon the situation in these two countries.

In addition, there are three other external variables in relation to Sida's PSD support, namely (i) what other donors are doing in Russia and Ukraine, (ii) the existence of other Swedish foreign policy measures directed at Russia and Ukraine and (iii) available Swedish resources. These three variables are briefly discussed in three subsequent sections. Finally, conclusions are made about the potential needs and means of reform for the future.

3.1 The Situation in Russia and Ukraine – Local Needs and Recipient Capacity

It has been amply testified in research, annual reports and the media that former CIS countries have experienced harsh social times during

the past decade and a sharp decline in economic activity. Only over the past two or three years have countries such as Russia and Ukraine shown signs of more sustainable recovery. However, this recovery appears to be largely dependent on growth in the global economy, favourable international loans and a few specific sectors of the economy in those countries, such as the Russian oil sector.

In this section, we will concentrate on the three main aspects that directly or indirectly influence the successful operation of Sida in these countries.

3.1.1 Economic Backwardness

All transition countries experienced severe contraction in the initial phase of transition in the 1990s, as shown in Figure 3.1. The decline in GDP amounted to as much as 45 per cent in Russia and almost 65 per cent in Ukraine. As a comparison, the decline in Central and Eastern Europe varied from 13 to 25 per cent. The first years of transition saw great turbulence; productivity decreased sharply, and savings and investments fell.

In Central and Eastern Europe, the downward slope of economic activity was reversed after three to four years. Since the mid 1990s, all Central European countries except for the Czech Republic have experienced stable GDP growth. In Russia and Ukraine, however, the total GDP is still far below the level of 1989 before the transition started. As shown in figure 3.1 below, growth in Russia and Ukraine since the crisis of 1998 has only partially restored the economy, and Ukraine is still lagging behind.

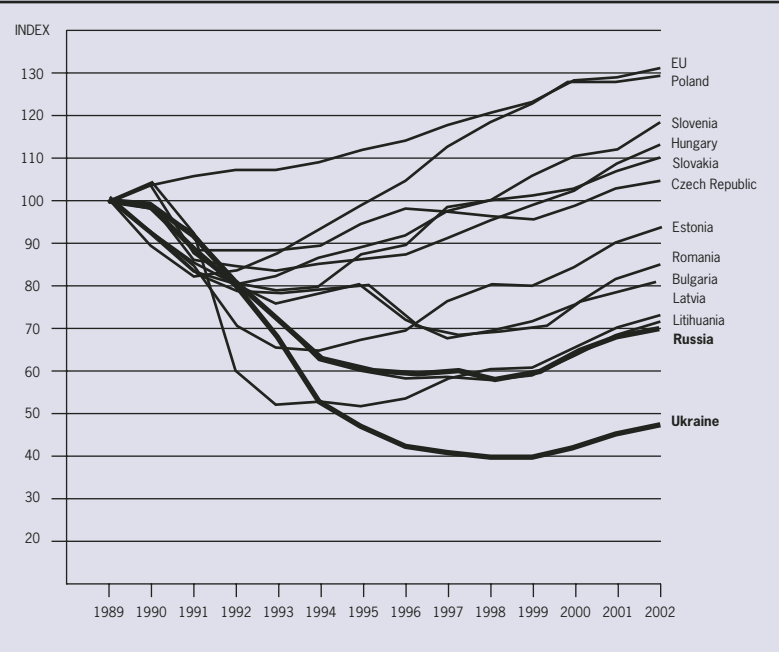
Thus, the economic performances of Central European countries and CIS countries differ considerably. In fact, a great divide is developing 'between transition countries where economic development has taken off, and those caught in a vicious cycle of institutional backwardness and macroeconomic instability'.³¹ This great divide is seen in GDP growth as well as investments, government finance, income inequality, institutional infrastructure and financial development. There is a major difference between the two groups, one of which has never experienced democracy or a market economy system in modern times.

It is obvious to most observers that the governing of the transition process, especially in Russia and Ukraine, has been far from successful. The economist Joseph Stiglitz has dubbed Russia and other CIS countries as the 'failed transitions'.³²

³¹ Berglof and Bolton, 2002, p. 77.

³² Stiglitz, 2000.

Figure 3.1 Real GDP in Some Transition Countries and the EU 1989-2002 (Indices, 1989=100)



Sources: Economic Survey of Europe, 2002, No 1, ECE; Transition report update, May 2002, EBRD; OECD Economic Outlook, Volume 2002/1, No. 71, June, OECD

Furthermore, it should be noted that the broader context in which Sida operates in these two countries is basically unfavourable. One obvious reason, and one that has not been analysed in depth, is that neither people nor decision-makers understood the market concept. Most people in former communist countries equated a market economy with wealth. Reality was in fact the opposite. Thus, people were not prepared for the significant loss of private economic welfare and the new rules that the introduction of a market economy would bring.

3.1.2 Increasing Social Gaps

In making his provocative statement, Stiglitz refers not only to pure economic conditions but also to the social sector and welfare state. For example, income inequality has increased so radically over the past ten years that these countries will soon become some of the most unequal in the world.³³ According to the World Bank, there are several reasons for this dramatic increase in inequality. Most crucially, the prevalence of widespread corruption and rent seeking, and the usurping of the state by narrow, vested interests that have turned policy making to their own advantage at a high social cost, have led to a collapse of wage and in-

come opportunities.

All this raises the question of whether countries with less successful transitions can learn from those that have succeeded. Where have countries like Russia and Ukraine gone wrong, while Poland and Hungary have succeeded? Developmental discrepancies between these countries also raise the issue of deciding which elements should form the basis for a new consensus among influential financial and political organisations for continuing to support the transition of countries such as Russia and Ukraine.

Poor performance is problematic not only from a long-term, national view. The development of economies such as Russia and Ukraine, with their strategic geopolitical positions in Europe and huge populations, is important to other European countries and to the European Union in particular. A deteriorated political and social environment in these countries will probably affect surrounding countries, and the expansion of the European Union will soon bring Russia and Ukraine directly onto its borders.

Thus, Sida - as well as other donors - have had to implement its strategies in dissonance and in an atmosphere of mistrust. Another conclusion can also be drawn. Unlike other countries receiving foreign aid, the people of former communist countries were once relatively rich. They are used to a system that provided them with food, clothes and shelter. This widespread resistance and scepticism to new ideas is based on personal experience.

3.1.3 Political Unrest

In Russia and Ukraine, there has also been a lack of a broad social consensus on the goals of reform. The collapse of the centrally-planned system was not based on a social movement but on arrangements by political leaders who saw it as a means for consolidating their power in a new situation. The organisation of transition reform was very much based on alliances between politicians and powerful enterprises. This strong connection between powers in society resulted in a state of only partial reform, which focused on liberalisation and privatisation.

This partial-reform state was characterised by unclear economic relations between the state and newly privatised enterprises, and barriers to entry, which created considerable opportunities for rent seeking by enterprises. As pressure from other groups in society was weak, the direct

consequences of political support for the early winners of partial economic reform were minimised.

Furthermore, the situation in the first years of independence for the newly born countries was considerably turbulent. The Russian opposition took advantage of widening social gaps, and after a few years, President Yeltsin was demoted from a national hero to a much-criticised leader. Ukraine also saw burgeoning opposition to its government. Thus, the political leadership of these two countries has been characterised by weakness and corruption.

Without probing too deeply into the internal political struggles of each country, there are at least two issues that have a bearing on this study. Firstly, Russia and Ukraine have adopted democratic systems, and can thus be described as both technocracies and democracies, with a lasting legacy from the old authorities. Consequently, each country has to deal with a tenacious bureaucratic infrastructure. Furthermore, the existence of a former strong bureaucracy that was basically afraid of losing power and longed for the good old days has made all donors' jobs extremely difficult.

Secondly, the sheer size of the countries and the vast distances between local and central levels creates a physical, formal and mental dimension. In Russia, the combination of political instability and economic backwardness has strengthened the regionalisation of the country, where governors in many 'oblasts' have been striving for a high degree of independence. Thus, the country has also had to deal with local and regional centres of power that do not always act in accordance with common national strategies.

Consequently, it is fair to say that Sida and other donors in Russia and Ukraine did not come to two homogenous countries, but to a large number of semi-independent duchies. The regionalisation of Russia in particular has hindered the evolution of a coherent Country Strategy.

3.1.4 Conclusions – From 'Shock Therapy' to 'Gradualism'

Russia and Ukraine are two of the main examples of fundamental transition over the last decades and much can be learned from them. In the initial phase, most international advisors advocated a fast and profound change in the former Soviet economy.³⁴ Nothing in the Soviet economy was considered worth keeping or rebuilding. This Machiavellian type of reform was later referred to as 'shock therapy'.

³⁴ Cf. Åslund, 1995.

As described above, the failures of the transition are many. Economic growth did not take off as predicted, and the billions of dollars poured into the countries by international donors to support the transition process were insufficient. A large proportion of the reform money was lost in corruption. This led to serious criticism from researchers and other members of the international community of how the transition was handled by the international donor society.

The World Bank and the International Monetary Fund (IMF) was heavily criticised for being too market-oriented and focusing too much on sustainable macroeconomic stability and structural reforms such as liberalisation, deregulation and privatisation in order to open the markets of the post-socialist economies. The set of policies and technical assistance that were applied during the first ten years of the transition was largely based on the 'Washington consensus'. This consensus was a result of a mutual understanding in Washington during the 1980s concerning the approach that was needed in the developing countries. This consensus has significantly influenced the path of development in Eastern Europe and the former Soviet Union.

However, it is not the content of the consensus per se that has been the target of criticism; most economists agree on the necessity of macroeconomic stability and structural reform. Criticism has focused more on the manner of implementation, i.e. the pace, lack of control, and failure to adjust to the specific context of the countries in question. Consequently, most recent literature and debate has centred on the need for a new consensus based on the lessons learned from the first less-successful ten years of transition. According to many parties, this new consensus should rest on institution building, improving corporate governance by the state sector and redesigning the role of the state.³⁵

In this context, institution building is used in its broadest sense to include formal rules, behaviour, unwritten laws, and the actions and attitudes of individuals who govern enterprise, households and markets, financial institutions and the role of the state (for example, institutions for establishing and enforcing a market-oriented legal system, labour market regulations and pension systems).³⁶ There are indications that the next stage of the transition process will focus on issues such as developing the human, natural and environmental capital, as well as social cohesion and stability.³⁷

³⁵ Cf. de Vylder, 2002, and Kolodko, 1999.

³⁶ For a discussion on the concept of institutions in the transition process, see *Transition Report 1999*, EBRD, pp. 4-13.

³⁷ These are important issues for 2003 according to the *World Development Report 2002*, World Bank.

One further conclusion from a PSD perspective is that the governments of these transition economies need to strengthen their relations with potential entrants and prevent the early winners of privatisation and liberalisation – the ‘oligarchs’ – from undermining further reforms. What is most important for Russian and Ukrainian governments in this situation is appearing credible to potential entrants in their commitment to carrying out economic reform. These new entrants, small entrepreneurial firms as well as large, probably foreign-owned companies, will play an important role as success models in a new era.

3.2 Sida and Other Donors

Sida provides PSD support in the context of the above-mentioned needs and relevant PSD support measures. Support activities must also be seen from a perspective of cooperation with Russian and Ukrainian counterparts. Furthermore, the work of Sida is largely dependent upon the prioritisation and actions of other donors.

The descriptions of international donor activities in Russia and Ukraine below are based on reports presented by Sida’s country representatives in Russia and Ukraine concerning the status of international support to the respective countries.

3.2.1 Sida – a Small Player in the Donor Arena

When evaluating Sida’s PSD activities in Russia and Ukraine, it is important to account for the limited size of its support to these countries in relation to other bilateral donors and multilateral organisations. Although Sida will never be a major player amongst donors in Russia and Ukraine, it may – as will be further developed in this report – still have an important role to play. Through the EU, for example, Sida is part of a growing European network process.

Russia and Ukraine constitute a highly interesting geographic area for the EU, both in political and economical terms. The enlargement process means that the EU will soon border directly with these two countries and it is quite natural, therefore, that the social and economic stability of these countries becomes a crucial item on the political agenda of European countries. The sheer size of Russia and Ukraine (with populations of 145 million and 50 million respectively), combined with growth prospects, also makes this a priority area for Western companies. Much of the effort regarding foreign support and the cooperation of the European Commission over the next decade will probably be devoted to these two countries.

It is finally worth stating that Sida is an independent donor and also en-

gaged in multilateral agreements with UN, IFC and Tacis for example. An efficient support concept from the international community of donors and banks should focus more on partnerships and alliances between the different levels. Naturally, many of the reforms suggested by the World Bank must be dealt with at national level when negotiating new and existing programmes and loans.

3.2.2 Bilateral and Multilateral Support to Russia³⁸

Support to the Russian transition process has been substantial over the past ten years. Since 1991, the World Bank and EBRD have granted loans of USD 10 billion and € 4 billion respectively. A general trend, however, is that financial support to Russia from major donors is decreasing, and from some donors dramatically so. From 1994 to 2000, bilateral foreign aid from the USA decreased from an annual contribution of USD 1.2 billion to USD 60 million.

In the second half of the 1990s, American (USD 2.3 billion) and European support (€ 2.4 billion) to Russia was roughly equal, amounting to a total of approximately SEK 45 billion. EU support is mainly channelled through the Tacis programme. As a comparison, Swedish bilateral support to Russia for the corresponding period amounted to approximately SEK 1 billion.

Practically all bilateral support from EU countries is directed to the European parts of Russia. The main bilateral donors include the USA, Canada, the UK, Denmark, France, Norway, Finland and Sweden although the latter countries constitute a comparatively small share in relation to the total volumes. In principal, all bilateral donors provide support to PSD.

The administration levels to which assistance is directed reveal the main differences in approach. Some countries, like Germany, have a high number of experts working as advisers at central level, while other countries like Norway, have none. Another significant difference in PSD support is the level of assistance given to the donor country's own consultants involved in the projects. While American and Canadian economic cooperation projects give high priority to their own businesses, the UK economic support schemes to Russia completely exclude UK businesses.

Concerning the general change from central to local activities, Swedish support differs from that of other donors, in the sense that Sida currently seems to have changed focus from local and regional levels to the federal level.

38 The figures in this passage are derived mainly from EBRD and the World Bank.

3.2.3 Bilateral and Multilateral Support to Ukraine³⁹

Ukraine has received bilateral and multilateral support from international donor organisations since 1991. No figures on total international aid to Ukraine are currently available, but official statistics from the Ukrainian Ministry of Economics and European Integration give some idea of the magnitude of the donations from different countries and organisations, and the relation between them.

The USA is by far the largest of the bilateral donors and provided financial support amounting to USD 210 million in 2001, which corresponds to some 77 per cent of the entire technical aid to Ukraine. The remaining volume is divided primarily between the UK, Canada, Germany, the Netherlands, Japan, Switzerland and Sweden. In total, Sida's financial support corresponds to approximately one per cent of the total international aid. This is not only in the form of bilateral support, however, as Sida is also a partner or sub-donor in larger multilateral organisations.

The major multilateral organisations active in Ukraine are: the EBRD, the EU (mainly through Tacis), the UN, the IMF and the World Bank (including the IFC). Projects with national coverage or that aim to change or restructure governmental frameworks, national legislation or institutional structures (for example) are usually handled by larger organisations, or countries whose bilateral assistance substantially impacts the country's economy.

In Ukraine, all multilateral organisations provide some kind of support to PSD, although economic development is not a prioritised area for the UN. For the EBRD and EU/Tacis, PSD support consists primarily of SME development and restructuring of the business environment, while the IMF and World Bank focus more on promoting an enabling environment for PSD institutional economic reforms at central level.

Roughly half of the bilateral donors prioritise PSD development. Japan, the Netherlands and Switzerland concentrate mainly on social and environmental issues. On a larger scale, the UK, Germany and the USA are the dominant PSD support donors, which for the USA and UK has primarily consisted of technical assistance to the private sector, with a partial focus on business development centres. German support has largely consisted of economic and legal advice.

³⁹ The figures in this passage refer to an untitled mimeo of listed amounts of foreign aid to the Government of Ukraine, Ministry of Economics and European Integration that were provided during a field visit to Kiev in autumn 2002.

3.2.4 Conclusions – the Role of Sida from an International Donor Perspective

Quantitatively, Sida plays a minor role in the development of Russia and Ukraine. Other donors, especially the multilateral organisations, can impose a much stronger impact, as their resources are many times greater than Sida's. This could imply that Sida's role in the restructuring process of Russia and Ukraine is marginal.

However, Sida has assumed a somewhat specific role in the transition process. While the large multilateral organisations concentrate on large-scale systems such as developing the basic financial system, Sida - with some exceptions - focuses more on generally important reform questions advocated through local initiatives. The land cadastre project is a typical example that has gradually spread to other regions and is now attracting great interest at central level. The basic idea seems to be that these locally initiated projects serve as 'transition models' to be copied in other areas and regions.

Furthermore, Sida has also a stronger stake in PSD compared to many other bilateral donors. Not that Sida has ignored the importance of health care reforms or democracy reforms, etc, on the contrary. Sida seems to have accounted for the difficult balance between the reforms that are required for creating resources and other reforms, etc; on the contrary. Subsequently, Sida seems to have acquired a somewhat unique position in a number of local Russian and Ukrainian markets. Sida is probably better known in a number of regions (especially western Russia) than in the capitals of Moscow and Kiev.

3.3 Sweden's Foreign Aid Policy

3.3.1 Sida-East

According to the Government's Letter of Appropriation for 2002,⁴⁰ Sida supports security, democracy, socially sustainable economic development, sustainable environment and gender equality. Sustainable economic development is the equivalent of PSD support to a certain extent, except for activities that are solely directed towards social security and social welfare. The main areas are business development and governance. In the Letter of Appropriation, activities for strengthening institutions and rules of law are stressed as basic to an open and workable market economy. Swedish companies, organisations or public bodies will, in general, provide support.

⁴⁰ *Letter of Appropriation*, 2002.

The general guidelines presented in the Letters of Appropriation are translated into specific and more detailed Country Strategies for Russia and Ukraine. These strategies are developed in close cooperation between Sida and the Ministry for Foreign Affairs, and then endorsed by the Ministry. The Country Strategies elaborate on objectives, strategies and activities, and in this case, cover a three-year period from 1999 to 2001, i.e. the years covered by this evaluation.

In the document for Russia, and for Ukraine, the Country Strategy illustrates strategies and priorities. A guiding principle is to accomplish concrete results at local level, which will strengthen civic society and, in turn, create public trust and support for the transition process. With local support, according to the Strategy, the initiatives and elements of transition will spread to other areas and levels of society.

In geographical terms, Northwestern Russia, Barents and Kaliningrad have been prioritised. This is partly a remnant from the earlier BITS period, when the Soviet Union still existed and support was directed to the 'bordering regions of the Baltic Sea', which supposedly had historical relations with Nordic countries. During that time (around 1990), specific interest was paid to development in Estonia and Latvia, which at the time were still part of the Soviet Empire.

The main political argument is still the comparative advantage that western Russia has in terms of providing prospects for business exchange and the development of mutual benefits in relation to the Swedish market. The question of the country's size, however, is another factor to consider. It would have been more difficult to begin by initiating projects in the eastern regions of Russia, some of which are ten to twelve time zones away. When looking at the selected business initiatives, these regions of Russia look eastwards for cooperation, for example with Japanese businesses and huge multinational firms. All current projects in Russia that are financed by Sida-East are located west of the Urals.

The Country Strategies do not, however, formulate detailed plans for the selection and implementation processes of projects in different sectors. The sector selection is based on the knowledge of what needs to be prioritised in order to support the reform process in each region. Swedish political and economic interests, and specific areas of Swedish expertise are also taken into consideration, however. In other words, the country Strategies function as a broad delimitation of Sida's project activities in terms of geographical and, to a lesser extent, sector focus.

3.3.2 Other Initiatives

In addition to the PSD projects emerging from the above process, i.e. that relate to the Country Strategies and Sida's general PSD support in Russia and Ukraine, there are parallel activities that also impact Sida's work.

One extensive programme in the overall Swedish foreign policy towards Russia and Ukraine is the Baltic Billion Funds. The Swedish Parliament has approved SEK 2 billion, through the Baltic Billion Funds 1 and 2 respectively. These funds are aimed at stimulating economic exchange, growth and employment in Sweden and the Baltic Region, and strengthening the position of Swedish companies in the region.

Another example is the StartEast Programme. The StartEast Programme is a separate PSD initiative, administered by ALMI Företagspartner and financed by Sida. The StartEast Programme was launched in 1994 and aims to initiate productive and profitable commercial activities by:

- ▶ Transferring knowledge and competence from Swedish firms to partner companies
- ▶ Facilitating the establishment of Swedish SMEs in the recipient countries

It is apparent that both the StartEast Programme and Baltic Billion Funds are very much related to Sida's PSD support in terms of both focus and geographical coverage. In its internal policy and strategy formulation of how to approach PSD support in Russia and Ukraine, Sida-East must account for these other parallel Swedish activities.

Cooperation with the EU, in the context of Phare and Tacis, has also influenced all Sweden's development assistance work in Central and Eastern Europe in the years covered by this study. In this area, the Ministry of Foreign Affairs is directly responsible and Sida participates at steering committee level.

3.3.3 Conclusion

It can thus be concluded that other activities and initiatives by the Swedish government and other Swedish authorities will also influence Sida's work in Russia and Ukraine. The Swedish Farmers Association for instance is involved in a number of projects, some of which are financed through Sida, others through the EU or for instance Danida (the Danish International Aid Authority). There is a cooperation with Danish Farmers, still others through the Baltic Billion Fund or specific Swedish authorities and, last but not least, projects have been organised and financed through local initiatives in cooperation with the farmers' own as-

sociation for international assistance ('Utan Gränser').

Consequently, donor activity is in itself a market, with large numbers of competing and complementary actions carried out by a number of donors and interested parties. Sida's direct work with PSD support in Russia and Ukraine within the framework of ordinary appropriation is therefore highly dependent on other actions and programmes, on direct decisions by the Swedish Ministry for Foreign Affairs, and Swedish participation in EU programmes. A specific task for Sida, therefore, is to co-ordinate its activities so that they complement actions implemented outside of the ordinary policy apparatus of foreign aid.

3.4 Swedish Resource Base

3.4.1 A Large Number of Players

A fundamental prerequisite for implementing PSD projects is access to adequate resources, i.e. consultants and other implementing agencies. As a general rule, Sida's policy states that Sida should primarily seek Swedish partners for its projects, as part of an overall political strategy to strengthen competencies among Swedish players, and build fruitful and long-term relationships with partners in Russia and Ukraine.

The term 'Swedish resource base' is difficult to define. It consists of both private and public players that provide expertise and consultancy activities. In this case, the resource base is defined as the potential implementing agencies for PSD projects in Russia and Ukraine, which in fact is a sharp delimitation. In short, the Swedish resource base of potential interest for PSD projects in Russia and Ukraine can be divided into four different categories:

Public Players

This category includes everything from public authorities (or their respective international implementing agencies, when applicable) to separate university institutions. It should be noted that the number of players has increased over the past decade. An important reason for this is the general liberation of responsibilities combined with a significant stiffening of the resources that are available through ordinary budget allocations. This has 'pushed' many authorities into the consultancy market.

Private Players

The private player segment is perhaps the most difficult to categorise. PSD is a broad area as such and the potential implementing agencies for PSD support projects can consequently be found in a large variety

of sectors. Theoretically, the private players consist of several thousand consultant companies. In practise however, few of them are willing to stay and work in Russia and Ukraine. Many of them are also afraid of the difficulties in evaluating the total costs for operating in Eastern Europe.

Regional Authorities

These consist primarily of county administrations, municipalities and companies related to regional bodies. As national authorities, many local and regional bodies have also experienced sharp budget restraints over the last decennium. Just like national authorities, many local and regional bodies are now turning to different external sources of money, the European Commission for example, in order to start new projects that may benefit long-time local or regional growth. A number of these focus on developing cooperation with neighbouring regions in Eastern Europe.

NGOs

This category includes independent and non-profit organisations and institutes such as 'Utan Gränser', which has already been mentioned. Some of them are very active in Russia and Ukraine. To a large extent, these organisations rely on Sida funding for their undertakings in Eastern Europe. Some, however, find money through other channels, such as EU Structural Funds for example, or other beneficiaries.

3.4.2 Dedication and Knowledge Needed

The above list of potential implementing agencies indicates that Sweden can theoretically mobilise a resource base of some magnitude. In practise, however, there are relatively few players that can in fact participate in foreign aid projects in Russia and Ukraine on a more continuous basis. Most of the activities are subject to short-term contracts and, in many cases, offer an alternative to other preferable projects in Sweden.

Foreign aid activities in Eastern Europe are often very demanding and require a great deal of special expertise and skills. Furthermore, this is not a good market to invest in because local demand is still too low. All projects are financed and basically decided on abroad. At present, consultants focused on Eastern Europe are very few, and dedicated to building a position there in the future.

The complex situation in Russia and Ukraine, especially in regard to PSD support, is similar to that of other aid recipient countries. There are some differences, however. Firstly, knowledge of the local language,

Russian, is preferred for most projects. It is not possible to use ‘international languages’ like English, French or Spanish. A proper understanding of the market requires good knowledge of the local language or close cooperation with someone who knows the language.

Secondly, the strongly bureaucratic societies and well-educated officials in these countries often constitute a greater challenge for any kind of reform project than the situation in many Third World nations, where the implementing agency often starts ‘from scratch’. The Swedish PSD project workers in these countries need to consider local needs on one hand while meeting already-established structures on the other. Hence, a basic skill for implementing agencies is knowing how to negotiate. This is acquired through real-life experience in the respective country.

3.4.3 Conclusion: Large Pool of Resources, but Few Experts

It can thus be concluded that Sida has been instructed to use Swedish consultants and expertise wherever possible. This resource base, up until the present, has theoretically been large but limited in reality. There is a huge Swedish consultant market for all areas that may be required in PSD support but there are few Swedish experts who are willing to make a long-term commitments to Russia and Ukraine.

There are obvious reasons for this. Living in these countries is considered tough and the rewards are limited. Furthermore, the actual knowledge base, up until the present, has been comparatively weak in terms of language knowledge, local experience, negotiation skills, etc. These conclusions have been drawn from discussions with a number of consultants. Thus, the hypothesis is that Sida has had to base its activities in Russia and Ukraine on a relatively small pool of experts during the 1990s.

3.5 Conclusions: a Complex Interplay between Needed Reforms and Available Resources

To summarise, Russia and Ukraine are still far from delivering high-quality and sustainable growth. The general opinion of the international donor community is that Russia and Ukraine, at this stage of the reform process, still need a number of profound institutional reforms in order to make progress in their transition. These changes - termed ‘The Reform Agenda’ by the World Bank - are based on key elements of *discipline* and *encouragement*. Discipline is needed to impel old enterprises to restructure, increase their productivity and strengthen competitiveness. Failure to do so leads to closure. Encouragement is needed to support the creation of new enterprises or reform old ones, including both SMEs and large multinational companies that are willing to compete on the market without re-

ceiving special favours and/or subsidies from the state.

This reform process has been rather successful in those parts of the former Soviet Union that once had democracies and market economies, but much slower in other parts, not the least in Russia and Ukraine. This situation is further complicated by the sheer size of these countries, the lack of basic market understanding and the strength of bureaucracies with roots in the remnants of centralised and planned societies. Hence, in most situations, Sida's PSD support activities have had more to do with unlearning, convincing and stimulating new thinking at every level of decision-making.

It is also worth noticing that market players and/or other donor countries have provided huge amounts of resources – both domestic and foreign – in these countries. The combination of weak governance by central authorities and the vastness of these two countries gives rise to a large number of local/regional activities, none of which are correlated. There are obvious and major hurdles to developing central institution building, which has been implemented successfully in the regions. Yet on the other hand, starting locally regionally and relying on learning effects, so that projects provide a road model and set standards all over the country has also proved problematic. Sida, with its relatively small resources in terms of both money and potentially available experts, has had to strike a delicate balance between activating locally and impacting nationally.

Chapter 4

Empirical Findings

This chapter describes Sida's working methods for PSD support and analyses the PSD project portfolios for Russia and Ukraine. The empirical findings show that Sida generally exercises a local/regional result-oriented approach when selecting and implementing its PSD projects. Reactivity rather than proactivity, as well as a high degree of flexibility and adaptation to the milieu in which the projects are carried out, signify the result-orientation.

Sida also focuses on significant involvement of the recipient party and a symmetric transfer of know-how. Concerning Sida's feedback and internal learning processes, these consist of both informal assessments of the projects, including progress reports and field visits, and formal external evaluations.

The portfolio analysis indicates that Sida's focus has shifted from skills and resource-oriented projects to projects aimed at improving PSD opportunities and motivation. A comparison of projects portfolios in 1996 and 2002 also shows a rather limited change in the composition of the portfolio over time. This tendency also applies for Sida's utilisation of the Swedish resource base.

4.1 A Three-step Analysis

The portfolio analysis is based on comparisons of the project lists for ongoing projects in 1996 and 2002 respectively. The selection of projects was accomplished in three steps. Firstly, 44 projects from the 2002 project lists for Russia and Ukraine were classified as PSD projects. Secondly, 17 of these 44 projects were selected for a desk analysis aimed at analysing Sida's working methods (see above). Thirdly, six out of these 17 projects were studied in the field. The analysis of the project portfolio is based on a total volume of 44 PSD projects and illustrated by examples from the six field studies. In total, 37 projects in Russia and 7 in Ukraine were classified as PSD projects.

The following chapter is divided into two main sections. The first section describes and analyses Sida's PSD project portfolio for Russia and Ukraine and shows, thereby, the working methods in reality. The portfolio analysis is based on the above-mentioned 44 classified PSD projects and includes an assessment of the scope of the projects initiated, i.e. a division between the main segments of focus in the PSD support projects: opportunity (O), motivation (M), and skills and resources (SR).

In this section, we also look briefly at Sida's utilisation of the Swedish resource base.

The second section describes the working methods of Sida in terms of PSD support. We describe Sida's selection process and give an account of implementation of the PSD projects financed by Sida, including the manner in which the organisation relates to the implementation process. This is followed by a description of Sida's efficiency assessments and feedback processes. In this section, we have systematically attempted to refrain from subjective estimations or valuations regarding the different aspects of the working methods. The findings presented are based on desk research of the project material and reports, but primarily on interviews with Sida-East's personnel and the experience gained from field visits. The section ends with a desk analysis of 17 selected PSD projects in Russia and Ukraine, which highlights tendencies in Sida's approach towards selection, implementation and feedback processes.

4.2 Sida's PSD Project Portfolio for Russia and Ukraine

Sida-East was established in 1995, when the 'Swedish Agency for International Technical and Economic Cooperation' (BITS) was incorporated with Sida. In its former capacity, BITS was involved in PSD projects, some of which accompanied the organisation to Sida. For natural reasons, the project portfolio of Sida-East during the initial years (1995-1996) generally reflected the previous work of BITS. In fact, the early project lists show that relatively few projects were initiated during 1995. Obviously, this also affected the PSD projects.

The empirical findings below are based on three steps. Firstly, from a total of 25 projects in Ukraine and 106 in Russia, according to the most recent project list available (August 2002), 7 projects in Ukraine and 37 in Russia were classified as PSD projects. The selection is based on the PSD definition presented in Chapter 2 and discussions with area managers at Sida.

Secondly, from these projects, 17 were selected for desk analysis, which ends the first section of this chapter describing Sida's working methods. The desk analysis is performed mainly to find patterns in Sida's different segments of the approach to support PSD (selection, implementation and feedback/learning).

Thirdly, three PSD projects in Ukraine and three in Russia were chosen for field studies. These projects have been analysed from project documentation and summaries of existing evaluations, supplemented with a large number of interviews in Sweden and in the field.

The three projects in Russia were: *Land Cadastre and Land Information Systems*, *Develop Your Business* and *Diversification of Industry in Olenogorsk*. In Ukraine, the three projects visited were: *Agribusiness Development and Reform in Ukraine*, *Implementation of New Methods in Ukrainian Agriculture* and the *Crimean Integration and Development Programme*. These six projects were selected because of their variety in terms of geographical spread, central/local target groups, sector focus and the division between projects focusing on institution building and skills building.

4.2.1 Method for PSD Project Portfolio Analysis

In addition to the current PSD projects that have been studied, an attempt has been made to describe and analyse the changes over time of Sida's PSD project portfolio for Russia and Ukraine. In this analysis, all 44 PSD projects for Russia and Ukraine on the list from August 2002 are included. This portfolio is compared with the equivalent list for 1996.

The selection of projects for the PSD portfolio analysis is based on the PSD definition presented in Chapter 2, which divides PSD support projects into three main categories: projects with a focus on *opportunity* (O), *motivation* (M) or *skills and resources* (SR). This categorisation has been applied when identifying the PSD portfolios of ongoing projects in 1996 and in 2002 respectively. This means that the projects are on the lists of ongoing projects sometime during the period 1995-2002, and the result reports for Russia and Ukraine during the same period.

It must be stated, however, that Sida's own project categorisation provides little guidance when selecting and identifying PSD projects, as the PSD definition is rarely used in the project lists nor in the result reports that are presented by Sida. Furthermore, the categorisation of projects in the separate result reports differs for Russia and Ukraine. There is a sector named PSD for Ukraine, but only two of the projects in the present portfolio are sorted under that category.

The analysis of the PSD sector is therefore reliant on our interpretations of the written project descriptions combined with the opinions of the area managers at Sida-East. Given the complex nature of several PSD projects, the issue of categorisation has sometimes been problematic. Most projects have a variety of aims and implementation segments that can be classified under more than one category. In our categorisation, however, the segment that constitutes the main focus of the project determines the category under which it is classified.

The categorisation issue has been particularly challenging for projects focused on motivation. For 'motivation projects', where the activities involve direct action for promoting PSD in terms of beneficial tax solu-

tions or supporting activities from public administration, the definition is quite clear.

Difficulties appear for all projects where different kinds of incentive measures are primarily soft factors, sometimes as elements of ‘SR projects’. Typical examples are rural small-scale projects at local level aimed at starting businesses based on existing skills and resources. While skills and resources constitute the foundation of these projects, the key element of the activities is in fact motivating and encouraging people to take the first step towards private enterprise.

‘Motivation projects’ are a relatively new phenomenon but, as will be shown later in the chapter, increasingly important.

Also noted is that the issue of geographical spread is more emphasised for projects in Russia than in Ukraine. Unlike Ukraine, the lists for Russia are provided regionally and the division between regions and changes over time is included.

The description and analysis is based on the total stock of projects at given times (1996 and 2002). This means that individual project budgets may occur in both 1996 and 2002. Nevertheless, the figures show the difference in actual PSD project volume and content for 1996 and 2002 respectively, which are the main issues of interest in this case.

Table 4.1 PSD Project Portfolio for Russia and Ukraine in 1996 and 2002

	Ukraine Portfolio 1996	Ukraine Portfolio 2002	Russia Portfolio 1996	Russia Portfolio 2002
Total PSD commitment in MSEK	6.6	61.0	160.1	255.4
Total number of projects	1	7	37	37
Number of projects per category (MSEK)				
Opportunities	1 (6.6)	5 (41)	6 (56.9)	15 (97.8)
Motivation	-	1 (1.6)	6 (10.5)	8 (39.1)
Skills/ Resources	-	1 (18.4)	25 (92.6)	14 (118.5)

Source: Project lists, result reports and interviews with Sida-East.

4.2.2 PSD Project Portfolio Analysis

As has been stated in Chapters 2 and 3, the pace of development has been different in Russia and Ukraine. This applies particularly to the speed of privatisation, which has been significantly higher in Russia. This fact has also affected the design and volume of the bilateral support provided to each country.

Ukraine

As shown in Table 4.1 above, only one project has been defined as a PSD project for Ukraine in 1996; a land cadastre project categorised as an opportunity-building project.

From 1996 to 2002, the PSD project portfolio for Ukraine increased almost tenfold in regard to the total financial volume. Meanwhile, the difference in project content of the PSD projects has, in a sense, not changed very much. Of the seven PSD projects included in the 2002 portfolio, a clear majority (5 projects) were still categorised as O projects. A large proportion, SEK 18 million out of approximately SEK 62 million, was still being directed to the development of cadastral systems in 2002. New projects in the Opportunity category include sector development projects in agriculture and forestry (among other areas) as well as a project aimed at creating opportunities for local self-government in the City of Irpen. The latter is a typical example of a project with elements that could fall into several categories.

The fact that PSD support to Ukraine has maintained its focus on opportunity-strengthening projects may reflect the stage of development in the Ukrainian private sector. The need for structural change is still apparent in Ukraine because of the relatively slow progress towards privatisation, deregulation and other prerequisites for starting private businesses.

The motivation and skill/resource categories only contain one project each in the list for 2002. The project falling into the motivation category is Sida's contribution to the business development part of the UN-DP's *Crimean Integration and Development programme*. This project is one of the field projects studied in the evaluation and is an example of the above-mentioned problems concerning the motivation category. While the *Crimean Integration and Development programme* includes capacity-building activities such as the establishment of small credit institutions and business development centres, its main aim is to mobilise local entrepreneurial forces, primarily via local structures, as well as directly through the project, and guide them towards private businesses.

The SR project is also one of the field projects: *Implementation of New*

Methods in Ukrainian Agriculture, and a very hands-on initiative for creating business opportunities through the implementation of new, effective farming techniques.

Russia

By 1996, bilateral support for Russia had been active for a longer period than in Ukraine, which can be seen by the support provided to the PSD sector as shown in Table 4.1 above. As many as 37 PSD projects were already under way in 1996, a majority of which (25) have been classified under the skills and resources category. The focus of many of these projects lies on education and training. Management training projects are common, as are sector-specific training and/or seminars. Many of these management and training courses are directed towards women. The re-training of former officers and the training of trainers are also common.

The vast majority of SR projects are small-scale, with budgets of under SEK 3 million. The only outstanding exceptions are a management training project in St Petersburg (SEK 9.7 million) and a joint Nordic initiative: *Regional Venture Fund for North West and West Russia*, to which the Swedish contribution amounted to some SEK 47.6 million. One hypothesis is that Sida was aiming for an initial assessment of needs in the Russian field through a series of small-scale SR projects in sectors considered high priority and/or potential. The Russian regime at the time, under President Yeltsin, was often difficult to handle according to Sida, which is another reason why large-scale projects were avoided at the time.

The Swedish political priorities in 1996 are also clear, particularly concerning the geographical focus. With only one or two exceptions, all projects are situated in the Barents Region and the westernmost parts of Russia (i.e. in regions close to the Swedish border).

The remaining twelve projects from the 1996 list are equally divided between the opportunity and motivation categories. The six O projects, with a Sida commitment of SEK 57 million, deal exclusively with cadastral and land information issues.

Motivation is the category with the least priority in the 1996 PSD project portfolio in terms of financial support allocation, with a total volume of approximately SEK 11 million for six projects. The M projects are characterised by initiatives to create regional strategies and incentives to promote a business sector at local and regional levels. The activities also included an incentive measure through the creation of an official Russian Quality Award aimed at promoting and acknowledging quality in Russian industry.

When looking at the 2002 PSD portfolio, it can be seen that the number of projects (37) has remained stable since 1996. However, the total project volume has risen by 60 per cent, from some SEK 160 million in 1996 to approximately SEK 255 million in 2002.⁴¹ At the same time, the focus has shifted in the PSD project portfolio, at least in terms of the number of projects. The number of SR projects decreased sharply from 25 to a mere 14 in 2002, while the number of O projects more than doubled. The number of M projects is largely the same (from 6 to 8).

The O projects were individually the most costly in the 1996 portfolio, but decreased in terms of average financial volume, from SEK 9.5 million to SEK 6.5 million/project, from 1996 to 2002. Apart from the O projects, there is a general trend towards individual projects becoming financially larger in the motivation and skills/resources categories. In the 2002 portfolio, the SR projects are in fact the largest in terms of Sida's financial volume. The projects increased from an average of SEK 3.7 million in 1996 to SEK 8.5 million/project in 2002. The M projects increased from SEK 1.8 million to SEK 4.9 million/project.

In other words, Sida now devotes more energy to larger projects. According to Sida personnel, the shift in focus from skills/resources to opportunity projects and the increased volume of individual projects are largely due to higher levels of knowledge within the organisation. This may also reflect the development of economies where knowledge of market concepts has increased. The political climate in Russia under President Putin's rule has been a facilitating factor, according to interviews with Sida-East. This development has also enhanced Sida's reputation in the eyes of its counterparts in Russia.

Due to Sida's success with the land cadastre projects, emphasis still lies on projects in the O category. However, O projects have been added in other fields, such as cross-border cooperation. The M projects in 2002 were often started through local initiatives, and designed to enhance skills at grassroots level and motivate people into making commercial use of these skills. Other activities aimed at motivating local entrepreneurship include cross-border cooperation between Russia and its Baltic neighbours, and the strengthening of local chambers of commerce.

Even though the SR project category has been downsized in relative terms, it still covers 46 per cent of the total PSD portfolio. In this category the portfolio retains a certain focus on management training for women but more emphasis is also placed on skill-enhancement in the forestry

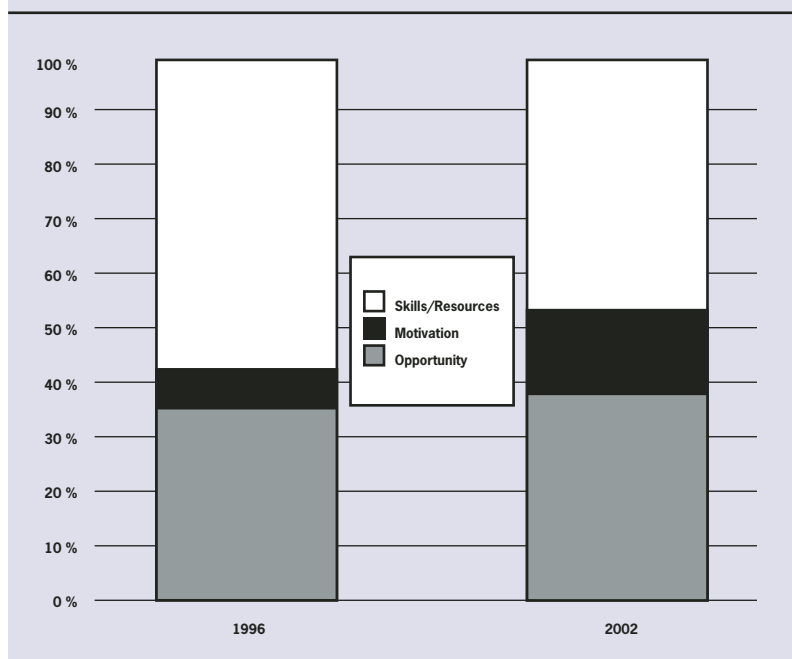
⁴¹ As the sums include the total stock of projects for each year, some projects may have been counted twice.

and agriculture sectors. A somewhat greater focus lies on strengthening business service resources (e.g. postal and transport).

Looking at the number of projects, there has clearly been a shift within the PSD portfolio in Russia from SR projects in 1996 to O projects in 2002. However, in relative financial terms, the difference is not substantial. Figure 4.1 below shows each category's share of the total financial volumes of the PSD portfolios in 1996 and 2002. O projects increased by around two percentage points during this period, from 36 to 38 per cent, while the share of SR projects was reduced by little more than 10 percentage points, from 58 to 46 per cent. M projects, on the other hand, enjoyed a significantly larger share of the total Sida commitment - an increase from 6 per cent in 1996 to 15 per cent in 2002.

Hence, in financial terms, a partly different picture emerges. During the period, the share of M projects doubled at the expense of SR projects, while SR projects still account for the largest share of the portfolio.

Figure 4.1 Share of Categories in the PSD Portfolio in Russia 1996 and 2002 (% of the total financial volume)



Source: Project lists, result reports and interviews with Sida-East.

The change in the Russian PSD portfolio has also had a geographical impact, as shown by Table 4.2 below. While only one project was based

in Moscow in 1996, as many as seven are now located in the environs of the capital. Naturally, greater emphasis on large-scale projects with national impact has shifted the geographical focus to central levels in Moscow.

**Table 4.2 Regional Division of PSD Projects in Russia
1996 and 2002 (no. of projects)**

Regional Division of Projects in Russia	1996	2002
Leningrad Oblast	-	3
Barents Region	20	10
Kaliningrad	4	4
St Petersburg	7	6
Novgorod	4	3
Pskov	1	4
Moscow/ Central Russia	1	7

Source: Project lists, result reports and interviews with Sida-East.

Some of the projects from the 1996 PSD portfolio still remain in the 2002 portfolio. Many of the regional land cadastre projects, as well as the related Novgorod training centre, are still active in the same, or developed, form. The Regional Venture Fund for North West and West Russia is also still active, as is the Women's Management Institute in the Barents Region. The Kaliningrad Business School project from 1996, focused on establishing a functional business training programme for business managers, has broadened its scope, and has now, in 2002, developed into three projects: *Kaliningrad International Business School*, *Dissemination of the Develop Your Business-Programme* and *Regional Partnership Programme*. In the 2002 PSD portfolio, Sida's commitment to these business-training projects amounted to SEK 35 million, which is a significant increase from SEK 3.4 million in 1996.

In total, the projects still active since the 1996 portfolio currently account for about SEK 150 million, or almost 60 per cent of the whole PSD portfolio for 2002. Taking into account all the new regional cadastre projects that originate from the first cadastre initiative, the volume increases to SEK 200 million, or 78 per cent of the total portfolio. This implies that the basic foundations of the Sida PSD portfolio have not changed to any significant extent. Only a little more than 20 per cent of

the projects can be regarded as completely new and without direct roots in any project that existed in the portfolio seven years earlier.

4.2.3 Analysis of Sida's Use of the Swedish Resource Base

The main purpose of this analysis is to look at the division of players selected to implement the PSD projects, and to trace possible patterns or tendencies in Sida's selection process. Another purpose is to look at deviations over time in terms of new implementing agencies that have been selected for the PSD projects during the five-year period under study.

In the table below, the implementing agencies have been divided into five different categories:

- 1 Public authorities,
- 2 Private players,
- 3 Regional authorities,
- 4 NGOs, and
- 5 International organisations.

The four first categories constitute the Swedish resource base. A few Sida-financed PSD projects have been implemented by international organisations, which constitute the fifth category.

This assessment is based on the same lists as the previous portfolio analysis and, consequently, the number of projects for each year and country is the same. However, as shown in Table 4.3, the number of implementing agencies often exceeds the number of projects, which is explained by the fact that for some PSD projects two implementing agencies have been selected. The figure under each category shows the total number of players from that category involved in the total number of PSD projects for that year. Several players occur in a number of different projects.

The figures in parentheses show two different things. Firstly, the figures for 1996 show the total number of *different* specific implementing agencies from each category. Secondly, the figures for 2002 show the number of *new* implementing agencies compared to 1996.

As seen in the table below, public and private players are the most commonly used implementing agencies in PSD projects in Ukraine. The number of international implementing agencies is also comparatively high, constituting 25 per cent of the implementing agencies in 2002. The player for the sole PSD project in Ukraine in 1996 was also used in

2002. Also for the PSD projects in Russia, public authorities and private consultants are the most commonly used, corresponding to 44 and 28 per cent of the total number of implementing agencies in 1996.

What is notable, however, is that of the 17 public players selected for the different projects in Russia in 1996, there are in total only 8 different implementing agencies. As regards private players, however, there were different consultants in practically all projects. The third biggest category is NGOs, which amount to about one fifth of the total number of implementing agencies. Regional authorities have been used to a minor extent in the PSD projects in Russia and Ukraine. Regional authorities were never reused during the period 1996 to 2002. The total number of international implementing agencies in the Sida-financed PSD projects is limited, which most probably is due to Sida's general policy to use Swedish consultants in their projects when possible.

Table 4.3 Implementing Agencies (ia) in PSD Projects in 1996 and 2002 in Russia and Ukraine by Category: Number of ia, Number of Different ia and Number of New ia

	Public authorities	Private consultants	Regional authorities	NGOs	International organisations
Ukraine 1996 (1 project)	1 (1 ia)	0	0	0	0
Ukraine 2002 (7 projects)	3 (2 new ia)	3 (3 new ia)	0	0	2 (2 new ia)
Russia 1996 (37 projects)	17 (8 ia)	11 (10 ia)	2 (2 ia)	8 (8 ia)	1 (1ia)
Russia 2002 (37 projects)	19 (4 new ia)	8 (4 new ia)	2 (2 new ia)	6 (3 new ia)	2 (2 new ia)

Source: Project lists, result reports and interviews with Sida-East.

There is little deviation in the distribution of players in the respective categories from 1996 to 2002. It can also be seen that many of the players used in 1996 were also selected as implementing agencies in 2002. 50 percent of players from the public authority category in 1996 were still used in 2002. Regarding private players and NGOs, the respective figures are approximately 40 per cent.

4.3 Sida's Working Methods

As previously stated, Sida's approach has been defined as three sub-processes that are in many ways interrelated. The sub-processes are: selection, implementation and feedback processes. It is important to point out that the overarching strategy of Sida has impacted the entire process of the approach to PSD support - from selection and implementation to result analyses and internal learning processes at Sida.

The description of Sida's working methods is based on desk research of

the material obtained from Sida, but more importantly on interviews with personnel at Sida-East, and interviews and experiences from the field visits to Russia and Ukraine.

4.3.1 Selection

The selection of projects is one of the main pillars of the strategy. It seems easy in theory, but is not in practice. In fact, the selection process is complex, highly dynamic and multifaceted. Projects evolve in many different ways and are brought to Sida on the basis of varying pre-requisites.

According to interviews with Sida-East, the complexity of the entire process of obtaining growth in the private business sectors of Russia and Ukraine (i.e. of achieving successful PSD projects) affects the project-selection process. Over time, Sida has come to the conclusion that it cannot depend on simple principles or strict guidelines when choosing projects; there must be a mix of knowledge obtained from longstanding experience and more formalised guidelines.

Thus, Sida works pragmatically in this selection process in the sense that it seeks solutions and combinations that are expected to work in practical terms. In short, this means that the selection of projects is based on knowledge from previous projects and other relevant experience regarding conditions in the field, the attitude of different receiving partners, partner combinations that have proven successful in the past, etc. As a small player in the donor arena, Sida does not attempt to make fundamental changes through large-scale projects, but rather to bring about a significant change through small-scale projects or in areas where it can mobilise adequate expertise.

Another important aspect of the selection is the philosophy of working closely with the recipient parties in Russia and Ukraine. While this relationship is partly obtained through so-called KTS contracts, it also calls for Swedish consultants who are familiar with the field conditions of Ukrainian and Russian markets. In other words, the selection process is often based on the existence of consultancy firms or individuals with extensive knowledge of the recipient countries, as well as past field experience.

A Gradual Change in the Selection Process

As a result, Sida is generally more reactive than proactive in its selection process. Sida does not invent projects; it evaluates proposals from Swedish consultants and/or initiatives taken by recipients. Our desk analysis presented later in this chapter shows that a majority of the projects analy-

sed were the result of a reactive selection. Sida does not normally carry out a thorough ex ante analysis, identifying the rationale for focusing on a particular sector or starting a specific project. It rather reacts to proposals forwarded by consultants or recipient partners with whom relations have previously been established. Having said that, this *reactive* approach can also be regarded as a formerly *proactive* initiative. Today, Sida is often contacted by potential implementing agencies (also international organisations) because of its good reputation in certain fields, for example.

In the early stages of foreign support to Russia and Ukraine, the transition process was new and the number of Swedish organisations that were active in these countries was limited. During this period, Sida put energy into simply informing Russians and Ukrainians on one hand, and Swedish organisations on the other, about its willingness to assist in the transition process, and how financial support was available for interesting projects. The next step was to actually identify sectors of particular importance, within the framework of the Country Strategies where Swedish expertise could be used specifically, and to ‘market’ support to these sectors in Russia and Ukraine.

At the same time, Russian and Ukrainian counterparts were informed that initiatives and commitment were also expected from their end in order to start individual projects. As the process commenced, and the receiving end became more comfortable in its proactive role, Sida began receiving project proposals. The Swedish consultants in the resource base also began to understand the benefits of emerging markets and became more involved in the project initiation. Sida’s PSD project portfolio for 1996 shows that, in Russia in particular, the initial PSD projects were mainly small-scale SR projects that provided Sida with a more concrete idea of Russian needs and how to approach them efficiently.

Although this proactive role from Sida is still very much needed in some sectors, the development of Sida-supported projects in the PSD sector shows that Ukrainian and Russian markets have matured enough to be largely self-driven (e.g. in initiating new projects). Sida will still promote project ideas that are new or particularly relevant. Many activities, however, have gradually become political priorities. It should finally be noted that the gradual strengthening of general procurement rules in Sweden seems to have impacted selection activities in Sida, and more initiatives and proposals are now open for tender.

Consultant Relationships Built on Trust and ‘Track Records’

The extensive knowledge obtained by consultants with previous field experience in Russia and Ukraine helps them present new project ideas to

Sida that will probably be well received. These new projects are typically further development or spin-offs from previous projects. The transferral of a successful project to a new geographic region, or the establishment of frameworks may cater for the sustainability of a terminated project.

Some consultants have worked in the recipient countries before applying for Sida support to start a project. These consultants have an advantage over their competitors in a public procurement tender as they have extensive previous experience; they have already established contacts with counterparts in the recipient country and they are familiar with local conditions.

The Implementation of New Methods in Ukrainian Agriculture, located in the Cherson *oblast* in Southern Ukraine, is a case in point. The Swedish firm, Swedeagri, was already working in partnership with the Chumak factory in the Kakhovka district when it presented a proposal to Sida for a project that would help local farmers increase production and improve their farming methods. Sida was positive to the idea and sent an evaluator to the region to assess the relevance of the proposal. Once the project idea had been accepted and Sida formulated the Terms of Reference, a public procurement tender was announced, based on the KTS framework. It was then up to the recipient party, i.e. the Regional Administration in Cherson, to select the implementing consultant for the project. They chose Swedeagri over three other interested parties. According to interviews with Sida-East, in KTS tender situations where such an option is available, the recipient parties usually choose Swedish consultants with whom they are already familiar.

Projects may also spring from joint proposals presented by a Swedish consultant in cooperation with a Russian or Ukrainian counterpart. This is typically the case in follow-up projects or additional phases of an ongoing project. This is also how the project, *Diversification of Industry in Olenogorsk* in the Russian part of the Barents Region was initiated. The previous comparison of project lists from 1996 and 2002 also shows that the land cadastre and land information projects are examples of how a successful project can easily spawn new projects in the same domain. In Russia, the number of PSD-related land cadastre and land information projects increased from five in 1996 to eleven in 2002.

The analysis of Sida's project portfolio shows that its selection method, which often gives priority to the continuation of previously successful projects, has deviated little over time. From 1996 to 2002, only about 20 per cent of the projects could be regarded as completely new.

Multilateral Cooperation

Another important factor in the selection process is Sida's cooperation with other donors, particularly larger multinational organisations. Sida can support projects or parts of more extensive aid programmes managed by larger international organisations, such as the EBRD, the World Bank or different UN organisations. This support can be initiated in different ways, which include Sida being approached by a multilateral organisation and invited to support part of a large aid programme.

In Ukraine, Sida is presently cooperating in multilateral PSD-related projects together with, or as a sub-donor to, the UNDP and IFC⁴², making the UNDP and IFC the implementing agencies of the respective projects. Another situation is when Sida takes over a project or part of a project that has already been started by a larger organisation. This was the case in Russia with the *Develop Your Business* project, which had been initiated and run by the EBRD before Sida took over. Other important bodies have also approached Sida, including the World Bank, in relation to specific regions or sectors where Sida can display a previous record of field experience or expertise, and been invited to participate in the project as a partner.

Sida's support to larger international organisations is generally based on trust and the perception of a coherent view, based on experience from previous cooperations on how to handle support to different components of PSD. As regards the UNDP, Sida has a formal policy stating its general view vis-à-vis the organisation in question, which according to the staff of Sida-East has impacted the selection of joint PSD-support activities.

Continuation and Termination of Projects

The PSD projects financed by Sida often consist of several phases. However, the follow-up phases of individual projects are not usually agreed upon in advance. The follow-up phases of individual projects are based partly on a quality assessment of the projects using project documentation, intermittent project evaluations and follow-up field visits carried out by Sida-East and its country representatives. The other factor that determines Sida's decision on the continuation of a project is the arguments presented by the Swedish consultant and the recipient partner for why this should take place, as has been stated by Sida and the implementing agencies interviewed.

⁴² The United Nations Development Programme and the International Finance Corporation.

In other words, Sida does not specify any formal criteria in advance for how and when a project should be terminated. For projects with a special purpose, i.e. training courses in a specific subject, the continuation issue may not be relevant. For most PSD projects, however, in particularly complex and comprehensive projects (such as the land cadastre projects in both Russia and Ukraine), the termination process can prove very difficult, as the implementing agencies and receiving partners can often show how continued support is needed.

In both Russia and Ukraine, the land cadastre projects have consisted of three to four phases. In Ukraine, the project will now terminate because the World Bank intends to support an expansion of the land cadastre project with a massive contribution of USD 100 million. Sida will consequently terminate its financing of the project, primarily because its future participation will be comparatively insignificant due to external factors.

4.3.2 Implementation

The majority of projects supported by Sida are managed within the framework of KTS and are thereby the official responsibility of Swedish and foreign contract parties, which makes the formal role of Sida rather limited in the actual implementation process. As the financing organisation, however, Sida sets the framework for implementation of the projects. Hence, Sida is ultimately responsible to the Swedish Government for the outcome of Swedish support to PSD sectors in Russia and Ukraine. In other words, regardless of the contractual framework or the implementing agency, the implementation process of the projects is considered on the basis of Sida's role as financier. This relationship implies that Sida has final jurisdiction in the implementation of PSD projects.

The implementation of PSD projects is often interwoven with the selection process. Sida makes the financial decisions concerning projects. Sida also plays a central part when formulating the conditions for the project assignments by drafting the Terms of Reference and contractual frameworks. In this way, Sida influences both the scope and implementation of the projects.

As mentioned earlier, however, Sida does not only focus on implementation methods, but also on working principles that provide results. The cadre of consultants that are repeatedly selected by Sida to manage PSD projects in Russia and Ukraine are often trusted to produce good results and allowed to implement projects with the working methods they consider most appropriate. This principle has been applied in practically all of the six projects that were studied in-depth during the course of the evaluation.

Symmetric and Asymmetric Project Implementation

In the vast majority of PSD projects financed by Sida, it appears that a symmetric approach to project implementation has been applied. Of the twenty projects covered in the desk analysis, sixteen projects were identified as symmetric, two were defined as having both symmetric and asymmetric elements, and only one was defined as primarily asymmetric in its implementation approach.

A common denominator in KTS projects is the close working relation with the recipient party or parties, which is essential in a symmetric working method. Basically, symmetry implies that the relation between the implementing agency and the local counterpart is balanced and based on trusting each other's competencies. In other words, the implementation agency tries to utilise and enhance the existing knowledge of the local counterpart, respect the present structures and conditions in the recipient country, and respect the working environment of the counterpart. This means that both parties are stakeholders in the implementation process and that they contribute to a mutually beneficial project outcome.

The symmetric approach takes different forms in different PSD projects in Russia and Ukraine, and is applied at macro, meso and micro levels. The *Agribusiness Development and Reform in Ukraine* project, implemented by the IFC, is essentially an opportunity-creating project that works at both central and local level. This project is characterised by a symmetric working method at central level, but a more asymmetric working method at local level. At central level, the IFC works closely with the Ministry of Agriculture to jointly reform legislation and national policies in order to create a more enabling environment for the agricultural sector. The concrete results of these efforts are new bills, policy documents and regulatory acts on privatisation, land codes, credit subsidies, etc. At local level, the project focuses primarily on seminars for local farmers, and giving consultant/management advice to the regional administration.

When working in a symmetric relationship, the direct transfer of knowledge from implementing agency to local counterpart can still be a key element in the implementation process, which arguably could be described as an asymmetric element. This is certainly the case for the *Implementation of New Methods in Ukrainian Agriculture* in the Kakhovka district in Ukraine, where the information and training of the drip irrigation technique has been a cornerstone in the implementation of the project. A similar transfer of knowledge has been essential in the *Land Cadastre and Land Information System* project in Russia, which is mainly about introducing new and efficient technology.

The symmetric approach in these projects is characterised by a close relationship between the project management and the local people involved in the projects. A more asymmetric aspect is the introduction of new aims and means regarding taxation purposes and pricing, where recipient partners have neither prior knowledge nor experience.

Focus on Concrete Projects

The main object of many PSD projects working at micro level is to mobilise and stimulate local entrepreneurship (focusing on motivation). The aim is to change peoples' mindsets, help them realise their potential and make use of that potential. One way of doing this has been to work with very concrete projects that lead quickly to visible results. The small-scale farming project in Kakhovka has helped farmers radically increase their production of vegetables using the drip-irrigation technique introduced by Swedish experts. The farmers were helped both on an individual basis and through a pilot farm, which has shown the new technique to other farmers in the region and spread knowledge through imitation.

Concrete economic results were easily obtained in this particular project because activities were located strategically in connection with the Chumak factory, an easily accessible sales channel. Due to the proximity of the factory, farmers can sell their crops and produce direct results in terms of increased income. In connection with training in farming techniques, local farmers have also received advice in financial management and marketing. According to the project managers, this financial advice has been useful not only for economic planning and credit applications, but also from a gender perspective, as the financial administration is often in the hands of the farmers' wives.

Another example of the mobilisation of local competencies and resources is the *Improvement of Local Development in the District of Pryazha*, in the Republic of Karelia in Russia. Here the Swedish project manager has sought to create business ideas almost entirely without financial support. The importance of innovative solutions is highlighted in this project, combined with motivation and encouragement activities and the creation of concrete sales opportunities in the form of regional fairs and marketplaces.

This hands-on approach, which has produced visible results in terms of higher incomes, etc, is said to have a number of subsequent effects. According to descriptions from project staff, the concrete results have inspired individuals to continue working in order to achieve even better results. The success of one person inspires others and a chain reaction that ultimately leads to a geographical spread of knowledge and know-how. In turn, this greater knowledge and know-how raises the confidence of

individual business owners who then demand that local and regional administrations act in their favour. One of the people connected to the *Implementation of New Methods in Ukrainian Agriculture* started as a local farmer in the Kakhovka district and is now the Vice President of the UFA, the Ukrainian Farmer Association. Similar tendencies have been observed in the *Crimean Integration and Development Programme* and the *Improvement of Local Development in the District of Pryazha*. In other words, motivation projects develop gradually into efficient institution-building activities with long-term effects.

Flexible Implementation Methods

Another aspect of the implementation process is related to the means by which project goals are achieved. As regards Sida's PSD support in Russia and Ukraine, the implementation methods vary, largely depending on the implementation level and the different sectors of PSD support. The *Land Cadastre and Land Information System* project in Russia started as a local project designed to reform the land coding system at regional level. The system was built on close cooperation with the regional unit within the Federal Cadastral Services and the aim was to provide knowledge from Sweden on technical methods for improving system efficiency, and to provide information about the benefits of a well-functioning land survey system.

The main objective of the *Crimean Integration and Development Programme* is to 'promote the maintenance of peace and security in the Crimea', which has been carried out through a sequence of activities aimed at facilitating the integration of formerly deported and now resettled people, particularly Tatars. The Sida-financed economic development component of the programme has slightly changed during the course of the project. The first period is described as a phase to support capacity building, during which credit unions, business development centres (BDC) and a micro-finance lending institution were established.

When these supporting institutions were in place, the project realised that the mere existence of a functioning platform upon which the Tatars and other formerly deported people could operate in order to start private businesses was not enough. A lack of self-confidence and inadequate understanding of the entrepreneurship concept among villagers were two of the main obstacles to growing businesses. In other words, although the project initially had an SR focus, the project staff realised along the way that more motivation activities and incentive measures would be required in order to produce results.

The project then tried to target and mobilise people at grassroots level in small-scale initiatives to enhance local business development. The project

promoted job creation and income generation by supporting the set up of local bodies that provided consultancy and training services and financial assistance to existing and potential entrepreneurs. The combination of the creation of functioning conditions for private business development and grassroots efforts to stimulate entrepreneurship and mobilise local forces produced results. According to local project managers, a number of entrepreneurs now run sustainable businesses, and two or three of the Sida-financed BDCs were expected to be self-supporting by 2003.

Another interesting aspect of the flexibility shown by the UNDP's working methods is seen in the project's build-up of the micro credit institution. Once the micro credit institution was operating properly in Crimea, other banks and credit unions imitated its activities; several of them successfully, and the micro credit union was subsequently shut down. The ultimate object of setting up this institution was to promote a micro finance system that would encourage local entrepreneurs to start their own businesses. When the time came, the internal credit market was closed to avoid unfair competition, even though it worked smoothly.

Finally, the stimulation of the Tatars as entrepreneurs is said to have strengthened the entire Tatar community in terms of boosting their self-confidence and desire to make a positive change. The project managers described this development as a valuable step towards the overall goal of maintaining peace and security in the Crimea.

As seen in the above description of the implementation of Sida-financed projects, the aims can develop and differ over time. Some projects will start by building a platform and creating the proper conditions (e.g. by establishing the support institutions), after which they focus on grassroots skill-building that helps local people utilise their conditions, such as in the *Crimean Integration and Development Programme*. Other projects may go from a skills and resource orientation to an opportunity focus (i.e. they have a small-scale focus in the initial phases, and a national or federal impact in a later phase), as has been the case for some land cadastre projects.

Sida's prioritised areas can also affect projects over time. One example is *Implementation of New Methods in Ukrainian Agriculture*. At first, this project was heavily geared towards increasing production volumes for local farmers who were included in the project, primarily by improving production and management skills. During the course of the project, Sida incorporated a complementary gender aspect into the contract in an attempt to secure equal opportunities for both male and female recipients. The local project managers then changed focus in order to increase the emphasis on women in the implementation process.

4.3.3 Feedback and Internal Learning

Sida uses a number of different measures to control the implementation and management efficiency of its projects, and to obtain an idea of the extent to which project goals and objectives have been attained.

Follow-up Reports

According to the project staff interviewed and the Sida-East personnel, the general practise at Sida is that all bilateral projects provide Sida with regular progress reports. These reports are usually written by the consultant who accounts for the activities carried out during the project period and relates them to the goals and expected results of the project plan. The information required is described in depth in Sida's 'Metod-pärmen' (Methodology File).

The consultant and the recipient client are also requested to cooperate with and assist Sida in audits and follow-ups, as well as independent evaluations of the project impact as regards, for instance, interviews and documentation. For the record, the cooperation of project staff is reported by Sida staff as flawless in the field studies undertaken in this evaluation.

Of the 17 projects subjected to desk research, eleven had been evaluated externally. According to Sida, the external evaluations are accounted for in the PSD approach but the limited coverage of these evaluations highlights the role played by the internal assessments of the projects in the feedback process.

Field Visits

Another important part of Sida's feedback and monitoring process is the audits of and field visits to the projects in Russia and Ukraine. Every year, Sida-East personnel perform several field visits, and each area manager is expected to visit every project within his or her area at some stage during the project's implementation period. According to the area managers and heads of divisions at Sida, the field visits are the most useful means of determining the success of an individual project. Field visits are also a tool used by Sida's country representatives in Russia and Ukraine to complement the work of Sida's main office in Stockholm.

In Russia and Ukraine, the field visits are often performed together with the country desk officers in the respective country as well as the Head of Division at Sida-East, sometimes also in tandem with Sida's country representative.

The aims of the field visits are twofold. On one hand, they give Sida general information about the project and how it is carried out, as well as the progress of individual sub-projects. This is done by presenting the local project managers and by organising visits to project activities in the field. Sida's visits may also be arranged in connection with a specific project activity such as seminars or workshops in order to monitor the project in action.

The visits also include interviews with people involved in different ways in the project (e.g. local project staff, Russian or Ukrainian partners, people who are the project targets). Another aim is to discover expressions of discontent from any of the parties involved in the projects, or any internal conflicts.

The assessments performed during the field visits are founded on the Sida officers' practical knowledge of the project and formal reports, but also to some extent on intuition based on past experience. This intuition has been described as the impression given to Sida representatives when they meet the project managers and talk to the recipient clients. Does the project manager seem to know what he or she is doing? Does the project manager get along with the recipient partner? What is the attitude of the people involved in the project to the project outcome, etc?

The experience that leads Sida officers to their conclusions is primarily based on their personal knowledge of the conditions on which the project works, i.e. the usual challenges in a typical consultant-partner-relationship, PSD project and geographic area, etc. The Sida-East personnel claim to have a good method for assessing project efficiency: experience from regular communication with Swedish and Russian/Ukrainian project workers is combined with regular reports and field visits.

Sida's Country Representatives

The country managers are ultimately responsible for assessing Sida's ongoing projects in the country where they are stationed. This responsibility naturally also includes non-PSD projects. Sida's country representatives play an important role in the follow-up and control of multilateral projects, as formal reporting is less frequent in this area. As regards multilateral projects, country representatives develop a picture of projects financed by Sida through regular contact and discussions with representatives from the implementing organisations.

In Ukraine, the Sida representative meets UNDP project managers every month to discuss the Crimean Integration and Development Programme as well as broader issues, such as donor support in different contexts. The representative in Ukraine also has regular contact with IFC

representatives regarding *Agribusiness Development and Reform in Ukraine*, and with the World Bank and other donor organisations.

Despite the size of Russia and the number of Sida-financed projects in the country, Sida currently deploys only one representative in Moscow to cover all of its projects. In practice, this means that the country representative in Russia has a difficult role as regards updating and monitoring individual project activities. According to the country representative in Moscow, the role of Sida's representative in Russia has focused more on the political and economic developments in Russia and their possible impact on Sida's donor activities. In Russia, the Swedish Consulate in St Petersburg also provides information and support.

Sida's ambition is that country representatives follow project activities on a day-to-day basis and keep themselves informed about issues such as political developments, government priorities and other factors impacting Sida's work. According to our assessments and interviews with country representatives, this ambition is currently well fulfilled in Ukraine although not necessarily on a daily basis. The situation in Russia is more difficult to assess, primarily due to the high volume of projects in Russia and the practical difficulties of visiting many of the projects on a regular basis.

Internal Learning Mechanisms

Sida has to deal with many different aspects of the learning process. Work improvement, in general terms, includes a wide variety of issues, ranging from greater knowledge of donor activities, to methods for improving internal efficiency. As regards Sida and the improvement of PSD support, the learning process is a question of implementing projects in the field and assessing the results in relation to Sida's overall aims for PSD support.

Sida-East personnel take part in internal seminars, organised by the Sida organisation, and usually discuss issues of general relevance for donor organisations. Sida-East also organises these kinds of seminars, but they also deal with topics other than PSD support.

There are also recurrent division meetings (for the ERO division, responsible for Sida's cooperation with Russia and CIS) that focus on the efficiency of the internal working process. The entire staff of Sida-East also participates in an annual Strategy Meeting where future activities are planned. These meetings sometimes include elements of internal evaluation, such as where Sida is heading and the design of the project portfolio. According to interviews at Sida-East, these meetings are positive and stimulating, and create consensus on issues for the future but they can also be further

developed and suggestions have not always been implemented

One of the main objectives in Sida's policy on influencing international partners to include Swedish nationals in their projects (if Sida contributes financially) is to obtain relevant information for learning processes within Sida. However, knowledge obtained by Swedes working on projects for foreign organisations is not always assimilated in a systematic and structured manner.

To summarise, the interviews and desk analysis show that Sida makes an effort to assess the different projects through field visits, interviews, written reports and specific evaluations. The formal evaluation approach is weak, however, and should be strengthened to ensure that the information and knowledge obtained from projects is properly processed and utilised.

4.3.4 Desk Analysis

The sections above have given an account of Sida's working methods, based primarily on interviews with Sida-East and findings from field visits to Russia and Ukraine. The desk analysis below is based on 17 selected Sida-financed PSD projects (see Appendix V). All PSD projects were further analysed in the PSD project portfolio analysis above. All seven PSD projects identified in Ukraine (2002) were included in the desk analysis, as well as the projects for Russia. The aim of the desk analysis is to supplement the description of the working methods with an empirical foundation.

In the selection segment, the projects have been divided according to whether their initiation by Sida has been proactive or reactive. As the selection procedure is often ambiguous, a category including both elements has also been included. As for the implementation segment, the projects have been categorised according to whether the implementation conditions are based on a symmetric or asymmetric relation.

Table 4.4 The Characteristics of the Project Portfolio

Selection				Implementation			Feedback	
Country	Proactive	Reactive	Proactive/Reactive	Symmetric	Asymmetric	Symmetric/Asymmetric	Informal	Formal and informal
Russia	1	7	2	9	-	1	5	5
Ukraine	4	3	0	4	1	2	3	4
Total number of projects	5	10	2	13	1	3	8	9

Source: Project documentation and interviews with Sida-East.

Finally, the feedback segment is divided into a formal and informal section, which shows whether a formal evaluation has been carried out for the individual project or whether the feedback process is based solely on internal assessments. The desk analysis cannot assess the quality of internal learning and feedback processes.

Table 4.4. presents the 17 desk-study projects. The presentation should be seen as empirical findings that complete the descriptions of projects studied more thoroughly in the field.

The table shows that in the selection phase, a reactive approach has been most common, although in Ukraine more projects have evolved from a proactive rather than a reactive process. However, for the three Ukrainian projects studied in the field, Sida was reactive in the selection process. As regards implementation, only one project is described as asymmetric. All other projects have been implemented with a symmetric working method or with a mainly symmetric approach and asymmetric elements. Informal feedback procedures exist in all projects, but in 9 of the 17 projects, the informal approach is supplemented with a formal approach in terms of external evaluations.

4.4 Conclusions on Empirical Findings

Sida's approach to PSD support in Russia and Ukraine is complex and multifaceted. The number of projects analysed is comparatively small and categorisations are made from judgements based on discussion with individual officers. The conclusions presented below must therefore be interpreted with care.

4.4.1 Portfolio Analysis

- ▶ *From Skills and Resources, to Opportunity and Motivation.* In the period from 1996 to 2002, Sida shifted its focus from skills and resource-oriented projects to projects aimed at improving opportunities and motivation for PSD. This development may be – and is, according to Sida – partly due to an improved situation for projects with a more institutional focus because of the new regime in Russia, but also thanks to increased knowledge in Sida on how to approach the more systemic issues of PSD in Russia and Ukraine.
- ▶ *Stability in Project Portfolio over Time.* A general comparison of the project portfolios of 1996 and 2002 shows that relatively few (approximately 20 per cent) of the current projects are entirely new. The largest proportion of projects is follow-ups of projects that had already been initiated by 1996, or projects originating from previous project concepts.

The analysis of Sida's utilisation of the Swedish resource base also shows that less than half of the implementing agencies in 2002 were completely new compared to those active in 1996.

4.4.2 Working Methods

- ▶ *Result-orientation.* Sida-East works pragmatically in its selection process by focusing on projects deemed most likely to produce practical results. Most often, projects are selected on knowledge obtained from previous projects and other experience regarding conditions in the field, political prerequisites, the different attitudes of receiving partners, partner combinations that have proved successful in the past, etc. As a minor player in the donor arena, Sida-East has not attempted to make fundamental changes at national level, but to make a significant and concrete impact with small-scale projects, or in areas where it can mobilise adequate expertise.
- ▶ *More Reactive than Proactive.* As shown in the desk analysis, Sida-East works more reactively than proactively in its selection procedure. While the reactive process of selecting projects springs partly from previous proactive activities, Sida-East argues that the projects usually benefit from being originated by the implementing agency or recipient party.
- ▶ *Close Involvement of the Recipient Party.* According to Sida-East, a successful project is based on the close involvement of the recipient party. Sida-East seeks active involvement from its project partners in Russia and Ukraine to ensure a higher level of success and sustainability in the projects. The active involvement of parties at both ends is largely based on previous experience but also on contractual forms. Based on this trust between Sida and the implementing Swedish consultants, implementing agencies are given a relatively high level of freedom in the implementation phase of the projects.
- ▶ *Flexibility and Adjustment to the Context.* Sida-East firmly believes that there is no one solution for all countries and places. Projects must be flexible and open in order to adjust to each specific context. As a project progresses, the project manager may need to consider new circumstances in the field, e.g. by finding new activities to meet the objectives. According to Sida-East, a flexible implementation approach in projects is more likely to produce relevance in a local context and have a sustainable impact. This study also found that, in practice, PSD project implementation is characterised by a high degree of flexibility.

- *Evaluation Procedure Based on Practical Experience.* According to the desk analysis, informal (internal) feedback procedures exist in all projects, but this feedback process has been supplemented with formal external evaluations in approximately half of the projects. In practice, however, Sida-East forms its opinions primarily on the basis of field visits, i.e. informal feedback. Sida-East personnel usually visit all projects in the portfolio during their implementation phases. Based on interviews with the project team on site and on meetings with target groups and other local parties involved in the project, the quality and efficiency of the project is assessed. Sida-East officers have developed an intuitive evaluation method where progress reports are weighed together with impressions from regular field visits.

4.4.3 Character of the PSD Approach

Based on interviews with personal at Sida-East during field visits and on written material, we conclude that Sida's approach to PSD support cannot be completely classified into one of the two theoretical extremes identified in Chapter 2. In accordance with the concepts defined earlier, one could argue that the approach is predominantly organic with some rationalistic qualities.

This statement demands some comments. Firstly, we claim that the *selection* phase is predominantly characterized by an organic approach. From a number of ideas and proposals, some are selected for further inquiries. The first selection is very much based on experience. It is difficult to see how present Country Strategies could generate any specific and exact focus or priority order. The Country Strategies are too broad to serve as a rationalistic selection tool. Instead, the selection phase is mainly reactive and a result of external initiatives from either recipient country bodies and/or consultants.

The *implementation* phase, however, is more rationalistic. Most projects follow a fairly conventional implementation phase as soon as they are adopted into the 'portfolio'. By this we mean that all projects seem to go through a similar production phase of agreements, exchange of documents, payments orders, etc. Of course we do not claim that all projects are rationalistic in an absolute meaning. Whether the implementation is rationalistic or organic in an outer sense is very difficult to assess. It has not been the aim of this project to assess the efficiency of specific projects or whether a good price was obtained or whether the best consultants were engaged (or if there was competition between consultants) in the specific projects, etc. We only claim that given the ToR, recipient body and choice of consultant, the implementation phase follows a pattern that can be characterised as rationalistic in an inner sense.

On the other hand, our field studies show that the implementation process is not completely rationalistic. It is also characterized by a certain amount of flexibility and a willingness to adapt to changing conditions. This implies that even the implementation process, to some extent, is organic.

Finally, the follow-up and *feedback* process can be classified as predominantly organic in the sense that there are few formal procedures that govern the process. This phase does not rely on a formal agenda, written documents or evaluation charts. It must be difficult to determine whether and when specific goals are obtained, whether a project has been successful and should be prolonged, etc. In this sense, most knowledge is 'personalised' i.e. it is owned by the project managers, country representatives and, especially, by the chief officer of Sida-East rather than the organisation as such.

Chapter 5

Assessment of Sida's Portfolio and Working Methods

This chapter includes an assessment of the effectiveness of Sida's working methods for PSD support, and the relevance of Sida's PSD project portfolios for Russia and Ukraine. It finds that although Sida's organic working methods have their merits, Sida's extensive experience in PSD support to Russia and Ukraine has been transformed into tacit knowledge within the Sida-East department rather than explicit directives.

Unfortunately, insufficient systemisation and documentation of experiences runs the risk of jeopardizing important knowledge for the future, especially as regards the turnover of personnel within Sida-East. One weakness in the organic approach is a distinct lack of focus, which could lead to problems when terminating unsuccessful or less relevant projects.

In terms of the relevance of the PSD portfolio, our assessment shows that a closer revision of Sida's approach to PSD support with respect to Sida's resources, the international donor society and Sweden's long-term agenda would make it easier to determine where, when and how Sida should position itself for future aid to Russia and Ukraine.

This chapter is divided into two sections. Firstly, there is an assessment of the relevance of the portfolio, ending with a discussion on the trade-off between theoretical relevance at portfolio level, and concrete implementation success at project level. Secondly, there is an assessment of the effectiveness of the working methods.

5.1 Portfolio Relevance

As previously described and discussed in Chapters 2 and 3 above, the relevance of the portfolio can be assessed in relation to four specific issues:

- ▶ needs in the recipient country
- ▶ the Swedish resource base
- ▶ the work of other donors
- ▶ the Swedish political agenda

5.1.1 Needs in the Recipient Country

In 1996 – and judged on activities in Russia – Sida was focused on improving skills and resources. Obviously, the opinion was that people needed to develop new skills in order to compete in the new labour market, and to start and run businesses. As a result, management and leadership training, and business advisory services, were common features of the project portfolio in Russia. As both Sida and consultants learned more about the needs of the market, the portfolio was developed in terms of content, financial scope and geographical spread. The result, so far, is a more balanced distribution of financial commitment between the three categories of PSD support. The initial emphasis on skills has now shifted to motivation and opportunities.

Existing knowledge of PSD support in Russia and Ukraine, as outlined in Chapter 3, pinpoints the importance of new businesses and entrepreneurs as they help to shape competitive and dynamic markets. A finding from the first decade of transition is that the mere liberalisation of markets and transfer of know-how is not enough to prompt individuals in Russia and Ukraine or foreign investors to invest or start businesses in these markets. For many people in Russia and Ukraine, self-employment is a major step. 70 years of communism have left a greater impression on people's minds than most international experts originally predicted. More effort is needed in the area of motivation.

Due to their strong focus on personal interaction, projects at micro level are difficult to copy. It is also difficult to show any significant spread effects on a more general scale from these local/regional activities. After all, the success of the project is largely dependent on the leadership qualities of individuals from both the Swedish and recipient sides. In the Russian and Ukrainian PSD portfolios, some examples of motivation projects include *Diversification of the Industry in Olenogorsk City*, with a budget of SEK 4.4 million and *Rural Development in Pryazha*, with a budget of SEK 6.3 million. In Ukraine there is one example – *Development of Crimean Tatars* with a budget of SEK 1.6 million.

The aim in this context is not to highlight these projects as best cases, but to stress that their objective is well in line with what is needed today in these countries. Thus, judging by the change in portfolio between 1996 and 2002, the Sida PSD portfolio has changed in the same direction as existing knowledge of PSD (i.e. with a larger emphasis not only on skills and resources but also on opportunity and motivation). It seems however to be difficult to find ways for spreading the knowledge from these projects to serve as a base for the whole country. Many PSD projects have developed from small, local pilots to larger-scale projects with activities in one or more regions. However, in these cases it is a copying process and still financed by international donors.

The Kaliningrad International Business School (KIBS) is one example. When the initial small-scale project succeeded in creating an efficient business-training programme in Kaliningrad for entrepreneurs and managers with their own businesses, the project was developed on a larger scale in Russia. The land cadastre is another such example.

This does not mean that support during the initial phase was wrong. As the KIBS programme and the market for such training developed, for instance, the project spread. The project has now established partnerships with about 10 training institutes in the north, west and central parts of Russia. In addition, each institute has established 'Business Clubs' where members from the training programme gradually take on lobbying activities at regional and national levels. This means that the project once started in Kaliningrad has, to some extent, influenced the general business climate in Russia. The questions are, however, how long can international donors support these programmes, and when should the programmes become self-sustaining.

5.1.2 A Limited Swedish Resource Base

As the description of the PSD project portfolio shows, almost four out of five projects in the 2002 portfolio continue directly or originate from projects in the 1996 PSD portfolio. This is most evident in Russia, where the PSD project portfolio includes a larger number of projects. In Ukraine, there was only one PSD project in the portfolio of 1996 that still exists in the 2002 PSD portfolio.

It can be argued that the consequence of continuing ongoing projects with trusted consultants is that a fairly limited part of the Swedish resource base is used, which may imply that alternative consultants and thereby projects are foregone. On the other hand, there is obviously a fairly limited Swedish market of consultants who are willing and capable of working in Russia and Ukraine. Of course, one of Sida's strengths is establishing long-term relationships with consultants and recipient parties, but with projects that continue for a long time, there is little room for completely new projects and new consultants. The danger of having a relatively small number of new influences is that the portfolio becomes less dynamic, which could also affect its relevance.

This situation is problematic for Sida as it creates a 'Catch 22' situation, i.e. getting stuck with old projects and consultants, which gives little room for change and adaptation. The only reasonable solution seems to be opening up the resource base, which will enable Sida to act on the international consultant market. This, combined with more widespread information about Sida's PSD priorities in Russia and Ukraine, could also serve as a challenge to Swedish consultants.

5.1.3 Other Donors

The Sida PSD portfolio, to some extent, has developed differently to that of other donors. Many international donors have shifted their focus from opportunity projects to skill and resource-oriented projects. The larger international donors initially focused on highly relevant structural changes at central level, aimed at creating large-scale opportunities for private ownership. But as mentioned in Chapter 3, the implementation and timing has been discussed and sometimes criticised. The fact that donors are now moving slightly in the opposite direction and prioritising projects at grassroots level in these former large-scale initiatives can be seen as response to that criticism.

Meanwhile, Sida is also prioritising projects that enhance PSD at central level, which is evident from the increased number of projects in the Moscow region. This opposite development is probably quite natural as Sida's focus on grassroots level has always been strong. In fact, increasing the focus at central level helps balance the portfolio, which is exactly what other donors are striving for.

Another difference between Sida and other donors is industry interests in the home country. For instance, Norway has fishing, gas and oil industries in mind when shaping its PSD support in Russia. Norway appears to have a more pragmatic view, and focuses on creating a win-win situation for both the recipient country and industries at home. For example; Norwegian investments in the fishing industry in Murmansk provide jobs, economic growth and a stronger PBS in the (northern Norwegian) region. The same also seems to apply for Canadian and US support. In Sweden, however, the Baltic Billion Fund handles this ambition.

This may lead to the conclusion that overall donor activities in Russia and Ukraine seem to be increasingly particularised over time. In practice, however, as described in Chapter 4, there is some cooperation between donors in Russia and Ukraine, in which the country representatives in each capital play a significant role. A more formal and systematic analysis of the role that Sida can play from an overall perspective has not yet been made. According to discussions with representatives from the World Bank and the UN, Sida plays a vital role as one of several donors in the two countries studied although it seems to be a common view that the role of the different donors needs to be clarified.

5.1.4 The Swedish Political Agenda

When it comes to the Swedish political agenda, the Country Strategies serve as frameworks and terms of reference for the areas in which Sida should work. These frameworks are broad, and there are no signs that Sida deviates from them or the directives. Russia and Ukraine will cer-

tainly remain important countries for Swedish support as European enlargement brings them onto the EU border.

The economic development of these countries will remain an important issue on both the Swedish and European agendas, making Sida's PSD support immediately relevant. There is, nevertheless, more to be done in terms of developing a Swedish donor strategy in these two countries as they integrate different political agendas. Major questions are also how long and according to what criteria a potentially rich country like Russia should receive international assistance and if so, for what reasons. Thus, PSD support might gradually be integrated into the Baltic Billion Fund (or vice versa) where giving money is based on mutual interests rather than an aid perspective.

5.1.5 Relevance vs. Feasibility

When assessing the portfolio, the relationship between relevance at portfolio level and feasibility at single project level becomes obvious.

The ideal case is where portfolio composition is relevant, i.e. it meets the needs of the recipient country, and projects are feasible to implement. The worst case is when the portfolio is irrelevant and contains projects for which implementation is impossible, very difficult or extremely costly. Such cases have not been identified in the assessment of the present Sida portfolio.

It is more relevant to discuss the other two possible outcomes, which are more frequent in the present case. The relevant - unfeasible case could be illustrated by the attempts of small donors to restructure the tax system or to bring about structural reforms that open up markets through privatisation. In the actual portfolio of Sida, a forestry development project in Ukraine could serve as one such example. The project is highly relevant in terms of needs in Ukraine, the size of the country and the Swedish resources that are available. However, due to entrenched interests and political reasons, the area manager has claimed that it will be difficult to implement the project successfully.

The case of minor relevance in terms of overall national development but a more easily accomplished project is also prevalent in Sida's portfolio, and quite possibly in those of other donors. These cases, which were more common in the early portfolios of Sida, consist of solutions that are seeking problems. By way of example, we could mention programmes directed towards enhancing skills and resources, copied from other contexts and recycled in Russia and Ukraine in the form of training programmes, business advisory services, Business Development Centres, etc.

Many of these projects seem to be adoptions of standardised Western solutions without a long-term strategic view. In this respect, one might raise the question of the ultimate value of re-educating doctors in theoretical physics to become shoe dealers or shop owners, which is sometimes the result of these training programmes.

5.1.6 Conclusion on Relevance

One conclusion of this assessment is that Sida, with its predominantly organic approach and at least in the early stages of the transition process, has focused more on the feasibility level of projects rather than the relevance of its overall portfolio. In our judgement, this implies that the early portfolios of PSD projects appear to have limited relevance. Sida is now gradually developing working methods and a portfolio that place greater emphasis on relevance, but it is difficult to draw conclusions about the relevance of the current portfolio.

5.2 Strengths and Weaknesses of the Working Methods

As previously described, the assessment of the working methods is based on two major criteria. A well functioning working method is characterised by:

- ▶ both rationalistic and organic elements
- ▶ an explicit programme theory

5.2.1 A Contextual Approach Demands Efficient Feedback Loops

As described in this report, Sida's working methods can be described as situation-adjusted. This means that they are built upon a great deal of flexibility and adjustment to the context. Hence, the approach is based on a 'learn-by-doing' way of thinking. A project always has to adapt to the specific conditions of its particular environment, the people involved and the framework in which it is active. Thus, Sida's working methods are based on the belief that there is no standard solution for projects.

Over the years, Sida has learned a lot. More than a decade of experience has to be accounted for when continuing PSD support activities in Russia and Ukraine. The sum of experience forms a solid knowledge base that helps Sida make better decisions about how to proceed with PSD support in these countries. If going from practice to theory was rational ten years ago, it could be argued that going from theory to practice has its merits today.

From the beginning, it was natural that limited attention would be paid to external knowledge when initial programmes were shaped. There

were few sources of so-called existing knowledge at that time. Over the years, Sida has met with other donors on a regular basis and engaged external experts to evaluate individual projects. This has created a strong knowledge base that does not seem to be fully utilised. At project level, Sida engages external experts to perform evaluations of specific projects. But corresponding evaluations are not generally made at portfolio level.

Renewal vs. Continuation

As mentioned above, very few new consultants or projects were introduced into the portfolio between 1996 and 2002. This could be due to the strong focus on building relationships between Swedish consultants and their counterparts in Russia or Ukraine. Although these relationships have provided a stable and apparently efficient basis for project development, they could also have made Sida a 'hostage' to its own projects. In such a situation, it would be difficult to reject a joint request for more funding from a project team and its partners in the recipient country.

Sida-East argues that adopting a long-term approach is important, as it takes time for project team members to get to know each other and actually get things started. A symmetrical working method relies on well-functioning relationships based on trust and respect, and these take time to develop. This puts even more stress on the first selection phase. In other words, a more rationalistic approach that makes greater use of experience and findings from earlier Sida PSD projects or other existing knowledge may reduce the risk of Sida becoming locked into its previous decisions.

Towards a More Focused Selection Mechanism

As described earlier, the organic approach adopted by Sida implies being mostly reactive towards external project initiatives. Although projects are preceded by discussions between Sida and a Russian or Ukrainian counterpart, the concrete project initiative usually comes from the project team, i.e. the consultant or public body that is applying for the assignment. Sida has no resources to initiate projects on its own because of its Country Strategy, for instance.

The reactive approach is to some extent an effect of the KTS aid framework. The main purpose of KTS is to create demand-driven projects that ensure engagement from all parties. A strict interpretation of KTS suggests that the role of Sida should be more or less limited to financing, monitoring and evaluating projects, while excluding it from taking an active part in the implementation. A consequence is that Sida has limited, practical influence on the development of the portfolio. Certainly,

Sida decides on the projects that will be accepted, but its influence on project applications is limited.

There are some elements, however, that could be seen as a first step towards a more proactive approach. For instance, Sida now has representatives based in respective embassies in Russia and Ukraine. One of their tasks is to follow up central administrations in the countries in question and the kind of support that other donors focus on. In the future, this may result in a more focused and limited selection process. So far, however, the findings of these country representatives do not appear to be systematically included as input for the project portfolio design.

Tacit vs. Explicit Knowledge

For Sida-East, in order to make sound decisions with a working method that focuses on context, the area managers must have knowledge of the specific contexts of their countries. The specific context includes not only country-specific factors at macro level, e.g. economic development, state of progress in institutional transformation, legislation, etc, but also knowledge of cultural differences, organisational structures and the kind of method that really works, as well as the timing of activities. At sector and project level, these specific contexts may vary, especially in huge countries like Russia and Ukraine. Assessing a project on cadastral services in Saratov demands one set of knowledge, while assessing a project on education for small businesses in Obninsk demands another.

At project level, Sida does not aim to cover all knowledge aspects. Instead, it uses experts to help evaluate many of the more comprehensive and long-term projects in the portfolio. Provided that the experts do a good job, this approach should produce enough knowledge for Sida to form an opinion on any individual project. In addition, projects are regularly evaluated by means of contacts between Sida-East and the project team. In view of the numerous projects that first BITS and later Sida-East have managed, a form of tacit knowledge has developed in terms of what works in different parts of countries like Russia and Ukraine. This tacit knowledge gives Sida-East's area managers a gut feeling about projects, i.e. an intuitive awareness of whether the project is working or not.

Relying on tacit knowledge is problematic at portfolio level, where projects are assessed and selected in relation to other existing or prospective projects. A relevant question could be whether it is more effective to continue supporting a cadastral services project rather than focusing on restructuring financial or fiscal systems, rules of law, etc? And the actual project must be seen in the light of what other donors are doing and the Swedish resources that are available. In order to answer these questions, Sida must have a deep understanding of the finance and treasury sector;

as well as up-to-date information on which way the wind is blowing in the Kremlin. As noted above, the country representatives in Moscow and Kiev can provide much needed information but to a great extent this information should be acquired from external sources. Sida's organic approach today does not seem to draw on such information and knowledge systematically.

5.2.2 The Vulnerability of Knowledge Management

Changes in the PSD portfolios between 1996 and 2002 are best described as a result of steps based on the judgement of area managers. This is a significant feature in Sida's mainly organic working methods. Interviews show that all area managers who decide on the project portfolio together with the Head of Division, appear to work according to the same concepts and express the same notions. There seems to be a functioning 'road map' that is not described in any internal documents. It seems to be part of the organisation's culture.

Another example of what we consider to be an implicit programme theory is the geographical shift in the Russian portfolio. This is probably due to greater confidence from experiences with previous PSD projects in Russia. It appears to be a result of what could be described as the organic development of the portfolio, rather than an explicit strategic move for more effective PSD support. Even though more emphasis is now placed on central level, most projects are still directed towards local and regional levels. This is where Sida-East has most of its established contacts and can also show a track record for gaining credibility.

As described in Chapter 4, we found weak explicit structures within Sida-East for supporting the transfer of knowledge from individual projects to the rest of the organisation. The less frequent use of teamwork also makes it difficult to spread implicit knowledge to other parts of the organisation. Feedback from projects is, to some extent, absorbed at group meetings where all area managers meet but, as the interviews indicate, meetings of this type are not frequent.

Describing the Sida approach in terms of its organic elements pinpoints the crucial aspect of knowledge management within the organisation. Sida-East is an organisation that depends on the knowledge/expertise of its personnel. Systems and methods for managing this knowledge within the organisation are developing to a limited extent. This kind of knowledge management is not unique to Sida-East; it is commonplace in most knowledge-based organisations. One way of reducing the risk of exposure is to develop a more continuous and formal system for transferring knowledge between individual projects at Sida on one hand, and among Sida-East managers on the other.

Given that there will always be some personnel turnover, the Head of Division becomes a critical 'factor' as he/she is the only person with an overview of the current and former activities of the division and is expected to overlap and transfer necessary knowledge between old and new area managers. In this sense, Sida is vulnerable. Sida needs to adopt a more systematic approach to managing important knowledge in order to diffuse it more efficiently throughout the organisation.

5.3 Conclusions

The analysis of Sida's portfolio and working methods indicates that Sida has undergone a considerable learning process during its years of operation in Russia and Ukraine. This learning process, however, seems to take the form of tacit and personalised knowledge within the Sida-East department rather than explicit directives or other documents. Hence, the programme theory of Sida-East in connection with PSD support is implicit rather than explicit. Thus, there is a great risk that this will create vulnerability and an inefficient knowledge handover process when personnel changes.

Consequently, there are few, if any, documents from which conclusions can be drawn concerning the effects of historical and present undertakings. It is also difficult to draw conclusions about the relevance of the overall portfolio, except in very general terms. Sida started with small, feasible projects aimed at providing 'road models' for a market economy at local level. Now there is a tendency to extend some of these projects into other regions or develop them on a more national scale. Whether or not this strategy makes the best use of resources is difficult to say.

We conclude that Sida must now initiate a general discussion on PSD support to Russia and Ukraine. Both countries have undergone severe economic crises but now show impressive growth figures in average national terms. Both countries have a strong domestic resource base if properly utilised. In this aspect, both countries are very different to other foreign aid-recipient countries.

The main point of an agenda for such a discussion should be to draw conclusions from previous work, and to improve the focus on further assistance. There is an obvious need to focus on either geographical or activity terms. Sida cannot cover the whole of these two gigantic countries and spread its resources into so many different activities. There is also a need to clarify whether Sida support should provide start-up facilities or more continuous support to be copied in other regions.

Such a discussion would also uncover new aspects of Sida's working methods. So far, the mainly organic method used by Sida in Russia and

Ukraine seems to have been successful at project level. Sida has obtained good relations at local and regional levels and most of the projects seem to have been completed successfully. This does not mean that the programme has left its mark at a more general level.

There is also a risk embedded in Sida's present working methods. The organic approach does not adequately clarify the focus of a project in terms of goals to be achieved, the resources that are needed, when a project is to be considered terminated and what the next steps should be. Consequently, it may prove difficult to terminate projects that are still developing and that have been gradually modified. The broad area of aims and means of new potential PSD activities will make Sida's situation even more difficult in the long term. With limited staff at hand, Sida-East will not be able to build up its own expert competence in all fields. Thus, Sida will have to rely on project owners and recipients if it cannot recruit its own cadre of experts.

Chapter 6

Conclusions and Recommendations

As concluded from previous chapters, the PSD approach – and support – adopted by Sida in Russia and Ukraine has both strengths and weaknesses. In this final chapter, we present our main conclusions and recommendations. Our conclusions and recommendations focus more on Sida’s PSD approach and working methods, and less on the character and relevance of the PSD portfolio. The reason for this is that we find it difficult to make any judgement of portfolio relevance in such a broad area as PSD in countries the size of Russia and Ukraine. To make any judgement on the relevance of Sida’s portfolio, it must be put into the overall picture of other donors’ activities, and activities initiated by the governments of these countries and the private sector. That is not the mission of this study.

Also note that our recommendations, apart from being based on the analysis conducted and reported in this study, also draw on other observations made throughout the process. The recommendations are also based largely on our general experience and knowledge of Sida, PSD support, programming and a number of other missions to the two transition countries.

It should be stressed from the beginning that the question of PSD support is very complex and that there are no ready-made solutions for how to improve Sida’s activities in Russia and Ukraine. As repeatedly stressed, Sida cannot conduct its policy on its own; it must adapt to a continuously changing environment. Our main recommendation is that Sida limits its PSD support to Russia and Ukraine in some aspects.

6.1 General Conclusions

Sida was a pioneer amongst foreign donors in Russia and Ukraine. At an early stage, Sida (at that time BITS) choose to focus on relatively small, local projects in western Russia and then later in Ukraine. The basic aim was to find feasible projects that, except for solving the present problems of the regions in question, could be used as ‘road models’ and archetypes for other regions. Except for the land cadastre project, Sida did not become involved in developing and improving any overall na-

tional institutional system like customer control, taxation, business legislation, etc. This strategy seems to have been successful in getting things started at the beginning.

At a general level, our main conclusion is that Sida's mainly organic PSD approach appears to have functioned well, in terms of supporting feasible (and possibly successful) projects at local level. However, due to the focus on project feasibility, the overall relevance of the PSD portfolio seems to have suffered. Although it is difficult to draw any firm conclusions about relevance, our analysis suggests that the relevance of the early portfolio in Russian and Ukraine was limited. The relevance of the portfolio may have improved over time, but it may also have remained limited.

The situation in the recipient countries has changed considerably and more knowledge has been acquired. The economies of the recipient countries are now growing at a considerable pace. Furthermore, Sida has learnt a great deal about the recipient countries and about the project market as such. A relevant question now is whether Sida should continue being active in a large number of smaller projects, or whether it ought to focus on a smaller number of larger projects. Thus, another important conclusion is that Sida has come to a point where its present strategy should be systematically revised.

Accordingly, there are a number of questions that have probably been discussed within Sida-East, but should seriously be addressed. Questions about the approach in Russia and Ukraine can be organised under the same three headings presented in Figure 1.1 in Chapter 1:

- ▶ Selection
- ▶ Implementation
- ▶ Feedback

It is worth stressing that these headings are interrelated. A change in one parameter will call for the adaptation of others. It should also be remembered that Sida has limited resources. Additional resources will be required if the aim is to introduce measures that widen the scope of Sida's actions.

Thus, one conclusion is that more time and effort must be spent on selecting and monitoring projects to eliminate the risk that learning processes will suffer. The saying, 'Something's gotta give' is also valid here. Within the framework of existing resources, concentrating and specialising Sida's measures should be a key issue for future PSD support in Russia and Ukraine.

6.2 Eligible Improvement of the Selection Phase

6.2.1 Observations

It has been concluded in this evaluation that Sida has developed a mainly reactive approach in the selection process. The original project ideas and proposals come from Swedish consultants and/or some local players in the recipient countries. Sida-East has not been staffed to propose and make its own analyses, or to develop projects based on general findings in Country Strategies or other specific investigations.

This does not mean that Sida should sit and wait for ready-made solutions. On the contrary, the selection phase is usually characterised by intensive dialogue between Sida-East and the project partners. This dialogue is checked and interpreted from the perspective of existing Country Strategies. The Country Strategies are general, however, and offer little guidance when making decisions about specific project proposals. Thus, the Country Strategies are far from useful.

The analysis also points to the fact that many of the initial projects have been extended for a long period of time. Handing over already-started projects to new project owners has been problematic. Prolonged projects have been beneficial for continuity and probably also the learning process. However, it limits the space for new projects. The land cadastre projects have run for many years and consumed huge amounts of resources, or approximately SEK 110 million (in total 11 of the 44 analysed projects), which corresponds to one-third of all the resources classified as PSD support.

Thus, renewal of the portfolio can be considered as low. There is a gradual renewal of the project stock but it is difficult to see any systematic change except for what was earlier classified as a shift towards more opportunity and motivation-oriented projects. Another shift has been the ‘Centre Eastward’ movement. Originally, most projects were found at local level, close to the western borders of Russia. Over time, more projects have been implemented in the vicinity of Moscow.

It is also worth noticing that few joint projects involve more than one donor organisation. Cooperation between donor organisations is either weak or non-existent. This also applies to Sida’s activities in Russia and Ukraine. Weak cooperation between donor organisations, according to some interviews, hinders further progress and efficiency. Some even say that donors compete. In any case, few foreign donors currently aim to develop a common and comprehensive strategy in order to build a joint platform for PSD support in the countries concerned. Thus, Sida will have to act alone if no steps are taken to unite the different donor organisations.

6.2.2 Recommendations

- ▶ Improved Country Strategies. Present Country Strategies are too vague to serve as an efficient selection base. They should be more focused and contain specific, necessary elements including analyses of the countries' needs, Swedish policy, the available resource base and other donors' activities.
- ▶ A more proactive selection process, based on greater understanding of Russian/Ukrainian conditions. The selection process should be clearly stated in the Country Strategy, in order to increase the specialisation and concentration of the project portfolio. Sida should appoint specific expert committees in some areas to develop Country Strategies and select project proposals.
- ▶ More internationally competitive projects in new areas. Based on the analysed project list, one could conclude that there are very few projects with a high R&D profile. Most projects are in rural development and even though these projects are successful, Russia and Ukraine could still lag behind. A rural and agrarian emphasis is not in line with OECD proposals, etc, for most other countries. The trend in Western economies is towards support for building clusters and facilitating the development of innovation systems. Both Russia and Ukraine have high educational standards with impressive research in some areas according to international sources like the European Space Agency.

6.3 Improvement of the Implementation Phase

6.3.1 Observations

The evaluation shows clearly that Sida does not – and should not, we argue – play an active role in the implementation process. However, as the financing organisation, Sida sets the framework for implementing projects. Regardless of the contractual framework or implementing agency, the implementation of projects has to be carefully considered and monitored by Sida. An enhanced and more formalised reporting system is needed to improve the monitoring process.

6.3.2 Recommendations

- ▶ More systematic goal-setting and follow-up procedures. As mentioned earlier, however, Sida does not focus solely on implementation methods as such, but on working principles that provide results. The cadre of consultants that are recurrently selected by Sida to manage PSD projects in Russia and Ukraine are often trusted to deliver good results and permitted to implement projects with the working methods they consider most appropriate.

- ▶ A more specific focus for every project. Several PSD projects, such as the projects in Murmansk and Archangel, are aimed at developing the whole local society. These projects require a broad systematic approach, built on a set of critical activities in the community when implementing the project. Findings related to the Swedish government's support to ailing municipalities in northern Sweden show similar characteristics. Local PSD support often consists of a series of activities starting with a vision of the future, a scenario of future possibilities, and an identification of the players and the steps needed to realise this vision. In such a development process, intense interplay is required between local politicians, civil servants, the business community and potential entrepreneurs. However, this broad scope usually gives an unclear picture of what is desired from every single project.
- ▶ Regular in-depth field activities. Field studies have shown that close contact between the project manager in the field, the Sida representative in the capital of each country, and the Sida-East office in Stockholm is difficult to maintain. To improve the monitoring process, more intense interaction with the Sida representatives at the embassies in Moscow and Kiev should be established. In addition to organisational design measures and Intranet solutions, intermittent in-depth evaluations should be carried out. Evaluations that focus on in-depth field studies provide experience in the actual field activities that are of particular interest. These activities should be undertaken at least yearly.

6.4 Improvement of the Learning Phase

6.4.1 Observations

According to our conclusions, one of the current weaknesses in the Sida-East approach is dependence on a handful of key staff individuals. They have full overview of the current and former activities of the division. This knowledge base does not correspond with formal documentation routines. It has previously been concluded that much of Sida's knowledge is tacit. If one or two employees leave, much of this knowledge can disappear with them.

Making Sida-East less vulnerable is a matter of translating a commonly held implicit programme theory into 'immaterial' or 'structural' capital. The essence of this process would be to identify and organise a system for handling information, or a 'knowledge management system' system (KM system). In short, this system would enable the organisation to 'store and share' knowledge.

In practice, the system would include division meetings, administrative and reporting routines, and other facilities for storing and sharing infor-

mation. The general view of KM systems is that active involvement and interest from top management and senior staff is crucial to their success. One additional measure is an efficient Intranet system. Elements of a KM system are described, and more detailed recommendations are given in Appendix IV.

6.4.2 Recommendations

- ▶ More emphasis on KM systems to facilitate feedback and learning. The present project monitoring system at Sida-East is predominately based on trust and long-standing relationships between Sida and representatives and consultants in the field. This interaction with projects is further supported by regular field-visit assessments, which rely on intuition and professional experience. However, in a rapidly changing and highly complex environment, there are reasons for improving the formal monitoring system. Sida should also make more self-assessment reports and evaluations.
- ▶ More systematic dialogue with expert and research organisations. A learning process is not solely about documentation and writing formal monitoring systems. To a much higher degree, it is about motivating people to learn from each other. This is difficult in most organisations. An internal job-rotation system could be implemented to encourage 'field-service' and 'analytic work'. This would increase both the organic understanding of field activities and the rational knowledge of PSD support processes.
- ▶ Improve the learning process by continuously attaching the issue of macro contributions to projects. Field studies made in this evaluation also indicate that more knowledge is needed about relations between business development support at a micro level and the creation of an 'enabling business environment' at macro level. An important question to address is how single projects aimed at enhancing skills and motivation at grassroots level can be designed to gradually affect the overall business climate.

6.5 Concluding Remarks

The main conclusion is that Sida's primarily organic approach to PSD support in Russia and Ukraine appear to function well in terms of project feasibility at local level, but the relevance of the overall PSD portfolio appears to have suffered. There are hence reasons to reconsider the present approach. Both Russia and Ukraine are now turning into growth economies, the concept of market economy will soon be well known in both countries and local markets will soon be integrated into the world economy.

This raises a number of questions concerning the extent to which the present Sida portfolio is relevant for further success. As Sida's resources are scarce, present working methods should be reconsidered. The main recommendation is therefore that Sida develops more focused Country Strategies in the future.

Within a delimited scope of action, one recommendation to Sida-East is to continue developing relations, alliances and networks. These networks should include experts and consultants in order to acquire the knowledge and expertise required to tackle the broad array of tasks that still remain. They should also include closer cooperation with other donors and a manifest readiness to cooperate in specific projects. A comparison with private financial institutes that have experience in syndicating projects would be interesting. Cooperating with other units and purchasing expertise from external sources will provide the knowledge that is needed to manage a more focused portfolio.

Finally, it is worth noticing that PSD support projects are rarely pre-designed. As has been discussed at length in this evaluation, PSD support projects emerge from an understanding of the recipient country's needs, the available Swedish resource base, the activities of other donors and the experience and expertise possessed by Sida. In this complex setting, it is tempting to support PSD projects that have proved successful in other countries and cases. But by doing so, Sida runs the risk of prioritising projects perceived as feasible and safe, regardless of their relevance and the relevance of the overall portfolio. The learning process does not come about by copying earlier successful projects, but by identifying the key elements of development and the settings in which these elements can be implemented.

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Appendix I

Terms of Reference

Sida/UTV

8 May 2002

Gun Eriksson Skoog

Evaluation of Sida Support for Private Sector Development in Russia and Ukraine

1 Background

In 2000, the Department for Evaluation and Internal Audit (UTV) commissioned an evaluation of Sida's approach to and organisation of its overall private sector development (PSD) support. As a complement to the evaluation, two in-depth evaluations of PSD support were conducted: one of agriculture and rural development, the other of Sida-East department's PSD support of two transition economies in Eastern and Central Europe. Both complementary evaluations have been pending the results of the overall evaluation, which has now been completed and published (Sida EVALUATION 01/14)¹, and are in the process of being launched.

Sida's PSD support to Russia and Ukraine is the subject of the present evaluation.² Given the planned, gradual phasing out of support to Baltic countries and other so-called EU candidates, the corresponding relative increase in the importance of support to Russia and Ukraine, as well as the complexity of their reform processes, these two countries were selected from the other transition economies of Eastern and Central Europe.

¹ Sinha, Sunil *et al.* (2001): *Approach and Organisation of Sida Support to Private Sector Development*, Sida EVALUATION 01/14, Department for Evaluation and Internal Audit, Sida, Stockholm.

² By PSD support we mean support for the development of a private business sector (PBS) in the partner countries, not the creation of development opportunities for the Swedish PBS in these countries.

2 Points of Departure

2.1 Overall Evaluation Suggesting a Rationalistic Approach

Sida EVALUATION 01/14 serves as a point of departure for the present evaluation and has implications for its focus and underlying perspective. The study object is also, in this case, total PSD support to the two countries (although individual activities may be examined in further detail). The focus will lie on the approach, and a broad, integrated and holistic perspective of the private business sector (PBS) and PSD support will be adopted. Similarly broad definitions of central concepts will be used.³

Against the background of the overall evaluation, it is worth taking a closer look at how PSD support has been approached in practice - in this case, in Russia and Ukraine. While Sida EVALUATION 01/14 shows that a broad, integrated and holistic approach has not been applied by Sida at large, it implicitly suggests that Sida-East may have performed better in this respect.⁴ However, this has not been established. Having examined both documentation and practical experience, the overall evaluation identifies crucial conditions for a well-functioning PBS and describes the implications of how PSD support is approached and organised. It suggests, in general, that a cluster of factors at macro, meso and micro levels is important for a well-functioning PBS, and that PSD support requires a careful combination, integration and sequencing of interventions at all levels.

These general lessons about how to approach and organise PSD support appear to confirm experiences from other transition economies in Eastern and Central Europe. The importance of combining, integrating and sequencing measures at different levels, seems particularly relevant to the transition process itself in light of the characteristic complexities, interdependencies, uncertainties and inconsistencies. In Russia and Ukraine, where all economic and political systems are undergoing this transition, PSD support promotes a systemic transition of the entire business sector – from a centrally planned system to a market

³ See Sinha et al. (2000) and the background paper prepared by UTV for that evaluation, Eriksson Skoog, Gun (2000): *Evaluation of Sida Support to Private-Sector Development: The Private Business, Sector and its Development: Definitions, Preconditions and Sida Support*, UTV Working Paper 2000:4, Department for Evaluation and Internal Audit, Sida, Stockholm.

⁴ Sida-East does not appear to have directed support predominantly to firms at micro level. It has also supported interventions that affect the markets and incentives of firms at both meso and macro levels. (Sida EVALUATION 01/14, Section 4.4.2, p. 86, and Appendix Table C3.) This is also suggested by Sida-East's own descriptions of its PSD support in various documents.

economy: a private business sector. Systemic transition is not only a goal in itself; the transition process and its characteristics constitute the very context in which Sida-East acts. Hence, Sida both influences and is influenced by the transition. The transition process and its characteristics – such as gradual and incremental change, time-consuming learning, partial resistance to reform and the socialist heritage – also impose constraints on Sida-East’s working methods and portfolio design, as they require consideration and adaptation.

This discussion suggests that PSD support will be approached and organised in a systematic and rational manner – based on thorough analysis, clear priorities, and a careful combination, integration and sequencing of measures, i.e. *a rationalistic approach*.

2.2 The Limited Role of Sida Demands an Organic Approach

The second point of departure is the argument that such a rationalistic, systematic, holistic and integrated approach is not, and perhaps cannot, be applied by Sida-East; that this approach is not compatible with the role that Sida plays in Russia and Ukraine, nor with Sida-East’s working methods. The approach may rest on the misunderstanding or faulty assumption that Sida designs or participates in the design of reform strategies, which is not the case. The partner countries design and run the transition process; Sida merely contributes to and supports the processes that are already in place. The fact that Sida is a relatively small player, due to the smallness of its support to these two large countries, is given as an important reason. Sida plays a limited role in these two countries and can only influence central policymaking to a limited extent. It is also argued that the rationalistic approach is based on a further misunderstanding – that the goal of Sida support is to reduce poverty. In Russia and Ukraine, supporting partnership in the Baltic Region is part of the overall goal, and this will be carried out by utilising the so-called Swedish resource base. This implies that the scope of Sida-East could be circumscribed by this requirement, i.e. that only using Swedish consultants when cooperating with these countries will further limit the role that it can play.⁵

As a consequence, it would appear – and this is also maintained by staff – that Sida-East *adopts a more organic approach* in its working methods and the de-

⁵ In addition, both the government budget proposal (Government of Sweden, 2001, *Europa i omvandling*, Proposition 2000/01:119, submitted to Parliament on 5 April, Stockholm) and the former Country Strategies for Russia and Ukraine (Government of Sweden, Ministry of Foreign Affairs, 1999: *Landstrategi Ryssland 1 januari 1999 – 31 december 2001* och *Landstrategi Ukraina 1 januari 1999 – 31 december 2001*) suggest that PSD interventions be made in relation to investments by Swedish enterprises.

sign of its PSD portfolio.⁶ This possibly organic approach is said to imply, for instance, that interventions are not only determined by the most pressing problems, but also by opportunities and the potential for change to occur during the course of the process. Interventions are considered to be opportunity-driven.⁷

2.3 Revision and Operationalisation of Country Strategies

The third point of departure is that Sida is currently in the process of reformulating the Country Strategies for Russia and Ukraine. These new strategies will be valid for the 2002-2004 period. Where the current evaluation may not serve as input into this formulation, it will provide lessons for the operationalisation of these two Country Strategies, where a broad definition of PSD support will feature strongly. Hence, further knowledge of successful portfolio design and working methods for PSD support may prove useful for the implementation of the strategies.

2.4 Development and Implementation of Sida Policy for PSD Support

The fourth point of departure is that due to the recommendations of Sida EVALUATION 01/14, Sida is currently in the process of developing an overall Sida policy for PSD support.⁸ During the remainder of 2002, a project group will draft the policy, which will be presented by February 2003. Lessons learnt from Sida-East's experience of PSD support may prove useful for both the development of the policy and its eventual implementation throughout the Sida organisation.

3 Evaluation Questions, Purpose and Tasks

Against this background, the following overall evaluation questions can be posed:

- 1 What is Sida-East's practical and theoretical, or organic, approach to PSD

⁶ Cf. the distinction between pragmatic and organic approaches to understanding social phenomena, such as institutional change, where pragmatic institutions refer to those that are the result of planned and conscious design, and organic institutions are those that emerge spontaneously and unintentionally through social interaction. See e.g. Eriksson Skoog (2000), pp. 50-51, for a brief discussion.

⁷ See further Appendix B.

⁸ See protocol from Sida management meeting, 2 April 2002.

support in Russia and Ukraine?

- 2 How does this approach perform, compared with existing knowledge in the field, when reflected e.g. in a more rationalistic approach?
- 3 How can Sida-East's approach be improved?
- 4 How can Sida-East's experience contribute to existing knowledge on how to approach PSD support?

The *underlying purpose* of seeking answers to these questions, and thus to the entire evaluation, is firstly to visualise Sida-East's aid, practice and theory (the 'approach') in terms of its PSD support. Secondly, to assess the merits and demerits of this approach. Thirdly, to make Sida-East staff aware of and reflect upon its own approach, merits and demerits, and to learn lessons from this experience. These lessons will influence the operationalisation of PSD support within the framework of the Country Strategies in the making. Finally, to learn lessons from Sida-East's experience in approaching PSD support, and to disseminate these lessons throughout Sida, particularly in relation to the current formulation of an overall Sida policy for PSD support and its eventual implementation.

The *major tasks* of the evaluation are thus to

- a *describe and create an understanding of Sida-East's approach* to PSD support in Russia and Ukraine, in terms of its explicit or implicit programme theory and as practically expressed in its working methods and portfolio design,
- b *assess the performance of this approach*, in terms of the relevance, impact and sustainability of PSD support, compared to existing knowledge in the field,⁹
- c *suggest possible improvements to Sida-East's approach*, e.g. in terms of learning from and utilising existing knowledge more effectively, possibly by incorporating elements of a more rationalistic approach, and
- d *draw lessons for the rest of Sida* from the experience of Sida-East on how to approach PSD support, e.g. by highlighting the potential opportunities and benefits of a more organic approach.

Performing these four major tasks involves a number of sub-tasks, a number of sub-questions, and a number of methodological considerations. The order

⁹ This task was later revised to include an assessment of relevance only, not impact and sustainability.

in which they are carried out and the methods used will be established by the consultant, in agreement with UTV. The following guidelines on contents and methods will apply, however.

4 Description of Sida-East's Approach to PSD Support

A major task is to visualise – describe and clarify – Sida-East's theoretical and practical approach to PSD support in Russia and Ukraine, in order to create an understanding and eventual assessment. The task involves, firstly, identifying the explicit or implicit programme theory on PBS transition and PSD support that applies within Sida-East. Secondly, it requires an account of the practical expressions in the approach, in terms of a) the way in which Sida-East works and b) how Sida-East designs its PSD portfolio. Finally, any organic and rationalistic elements of the approach will be identified, including the manner and extent to which the approach may be considered organic. A conclusion on its – possibly organic – character will be drawn.

4.1 Programme Theory

Whether explicitly formulated or actually perceived, the staff of Sida-East probably works according to an implicit 'programme theory' in relation to its PSD support. This programme theory includes implicit knowledge, ideas and assumptions about what to do, why and how. An attempt will be made to identify and paint a picture of this programme theory – probably through interviews and document analysis.

The following sub-questions may need to be answered: Does Sida-East work according to any explicit theory, model or hypothesis? If not, what implicit assumptions, ideas, theories, models, if any, underlie its work? Or does it work without any identifiable theory? More concretely, what are the prevailing views on the following issues: What is PSD and PSD transition? What is PSD support? What is the role of development co-operation? What is the role of Sida? etc.¹⁰

¹⁰ In fact, the task involves tracing Sida-East's view on the same issues that the evaluation will establish existing knowledge, as discussed in Section 5.2 below.

4.2 PSD Portfolio and Portfolio Design

In order to account for how Sida-East designs its PSD support, all PSD support portfolios in Russia and Ukraine should be mapped. The relevant period has not been established, however – possibly 1999-2001, adding 1995, for example, to enable a comparison and trend analysis. A broad definition of PSD support will be used, and the exact definition and how it is applied should be clearly stated.¹¹

Describing the portfolios involves depicting their size, components and structural patterns. Changes in these aspects should also be accounted for,¹² including trends, the sequence of intervention exits and entries, and how the portfolio design has evolved over time. The latter is important in order to detect and clarify how Sida-East actually designs its portfolio. What determines Sida-East's decisions on expanding, downsizing, modifying, adding to or excluding from an existing portfolio? On what analyses and criteria are these decisions based? How are these interventions selected and prioritised? Detecting the sequential modifications of the portfolios is only one step along the way to deriving an answer, however. We also need to know more about Sida-East's working methods.

4.3 Working Methods

The way that Sida-East works, i.e. its working methods, will be traced and presented. This involves answering questions about how Sida-East actually deals with the problems of PBS transition and PSD. How does it relate and adapt to the characteristics of the transition process, the constraints imposed and opportunities provided? How does Sida-East adapt and utilise its limited role? How does it combine, integrate and sequence interventions? More specific questions might be: What strategies does Sida-East employ? To what extent are activities co-ordinated with other players? Does it network or build alliances and with whom? Does Sida-East absorb and base its own work on the analysis of others, its partners? Does it 'marry' development cooperation activities with commercial activities?

Conversation notes from discussions between staff of Sida-East and UTV – see Appendix B – may serve as a point of departure for describing and under-

¹¹ Apart from what is actually referred to as PSD support within the area 'economic transformation' in the government budget proposal, all interventions related to land registration and cadastral services, and several interventions related to public administration and infrastructure are likely to be included in the term PSD support. The inclusion of some interventions in the 'deepening of democracy' area, notably support to the judicial system, should also be considered.

¹² When accounting for the structure and structural changes in a portfolio, Sida EVALUATION 01/14 might provide some useful categories.

standing Sida-East's working methods. Sida-East staff depicts its departmental culture as action-oriented ('pang-på-rödbetan'). Its working methods, at least within the Division for Russia and OSS, are referred to as organic, opportunity driven, flexible, individual-dependent, based on no prior analysis of priorities but relying on strategic alliances, linked to Swedish investments, limited cooperation at central administrative level, etc. The working methods also include the so called KTS scheme, which is the standard 'aid form' within Sida-East.¹³

In order to study the working methods employed by Sida-East for its PSD support, it is necessary to monitor the causal and sequential working processes in a number of PSD interventions in both Russia and Ukraine. If possible, both ongoing and completed projects will be studied¹⁴ in order to trace and understand the decision-making and actions in projects that have been closed for one reason or another. However, studying these projects may pose particular methodological difficulties, and one may have to rely on document analysis to a greater and perhaps exclusive extent. For the same reasons, successful as well as less-successful projects will be examined. In general, the projects selected will illustrate the different relevance aspects of Sida-East's working methods.

Additional criteria for selecting projects will be determined by the consultant in agreement with UTV. In the case of Ukraine, an attempt will be made to avoid the unnecessary overburdening of projects that have already been scrutinised in the so-called KTS evaluation, and a related KTS audit by UTV. The number of projects to be examined will also be determined in agreement, given the resource constraints and other practical considerations of this evaluation.

Not all interventions in the portfolios can be examined in detail. Hence, one may also need to rely on secondary data in terms of previous project evaluations and so-called results reports – in particular because of the type of process information discussed above, but also in relation to performance information (discussed below).

In order to trace the working methods (and portfolio design) of Sida-East, interviews with staff shall also take place. However, the few staff working with Russia and Ukraine will not provide a sufficient basis for drawing conclusions, which is why a broader selection of staff should be interviewed. There may also be documentation that reflects accumulated knowledge of Sida-East's working methods.

¹³ KTS is an abbreviation for 'Contractual Technical Co-operation' in Swedish. For insights into the KTS method and its application, in the case of Ukraine and in general, see UTV's documentation for the so-called KTS evaluation.

¹⁴ The terms intervention and project are used interchangeably here.

4.4 Characteristics of the Approach

In order to establish the organic – or rationalistic, for that matter – elements and overall character of Sida-East’s approach to PSD support, the concepts of ‘organic’ and ‘rationalistic’ must be clearly defined, and thereafter consistently applied.

In order to avoid conceptual confusion, especially for Sida-East staff, these and other concepts must be clearly linked to other related and relevant concepts used by Sida-East and other recent UTV studies concerning Sida-East.¹⁵ How does the concept ‘organic approach’ relate to the concept ‘KTS’, for example?

5 Assessing the Performance of Sida-East’s Approach

Once Sida-East’s approach to PSD support has been accounted for, its performance can be assessed, which is the second major task of this evaluation. This basically involves answering the general question: ‘Does Sida do the right things in the right way?’ or ‘Does Sida address the right problems in the right way?’ In order to answer these questions, we need to know, firstly, what the actual needs and problems of PSD transition in Russia and Ukraine are, and secondly, what existing knowledge in the field can tell us about how we can contribute to their solution. A ‘conceptual framework’ that summarises the answers to these questions will be established. It will serve as a point of reference for assessing the performance of Sida-East’s approach.

While assessing the performance of Sida-East’s approach involves considering the actual problems and existing knowledge of how to address them, it should also consider the constraints and opportunities faced by Sida-East and its support. These constraints and opportunities are created by the different contexts in which Sida-East operates and must be considered.

Establishing whether and to what extent Sida-East addresses the right problems in the right way, given the constraints and opportunities that it faces, amounts to assessing the performance of its PSD support in terms of relevance, impact and sustainability. In order to assess the relevance, impact and sustainability of the support, the composition of the overall PSD portfolio, as well as the outcome of its component interventions, will be examined.

Thereafter, and finally, the performance of Sida-East’s possibly organic approach can be assessed in relation to existing knowledge, in terms of a possibly more rationalistic approach.

¹⁵ More particularly: the so-called KTS evaluation and KTS internal audit.

5.1 Problems of PBS Transition in Russia and Ukraine

The relevance, impact and sustainability of PSD support can only be judged in relation to the actual problems that need to be addressed. The specific nature, needs and problems of the process of PBS transition and thus PSD in Ukraine and the parts of Russia where Sida-East operates will be identified and briefly presented.

5.2 Existing Knowledge on How to Support PSD Transition

Once the problem of how to address Swedish PSD support has been identified, an account will be given of what we already know about how to address those problems. What does a well-functioning PBS, PSD and PBS transition require? This task involves, firstly, a brief account of the crucial conditions for a well-functioning PBS and the implications for PSD support. Here Sida EVALUATION 01/14 will serve as a point of departure, in particular Chapters 2 and 3, but additionally or alternatively sources of information that may be needed. In particular, a summary account of the lessons on e.g. how to combine, integrate and sequence reform measures from over ten years experience of transition in the business sector of Eastern Europe may be warranted.¹⁶ Furthermore, it requires an account of the general characteristics and dynamics of a systemic transition process from socialism to a market economy, as suggested in Appendix A. Care must be taken to not simply list the different factors, but to account for their relative importance and the interrelationships.

5.3 Conceptual Framework

The descriptions of the character and problems of PBS transition, and existing knowledge on how to support them will be well founded in the documentation and presented concisely. No new analysis is required, existing analysis will be relied upon. This task involves producing an informed summary and synthesis of already existing knowledge. These descriptions will produce a concise and coherent conceptual framework. Conclusions will be drawn on the type of approach to PSD support that this framework suggests, in terms of the problems to address and how to address them. In a similar manner to the approach of Sida-East, it will be described in terms of its rationalistic - and possibly organic elements and characteristics.

¹⁶ See e.g. World Bank (2002): *Transition: The First Ten Years – Analysis and Lessons for Eastern Europe and the Former Soviet Union*, Washington, D.C., and Kolodko, Grzegorz W. (1999): *Ten Years of Postsocialist Transition. Lessons from Policy Reforms*, Policy Research Working Paper 2095, World Bank, Washington D.C., April.

5.4 Contextual Constraints and Opportunities for Action

The context in which Sida-East operates, and the constraints and opportunities that this context creates for its actions and how it can approach PSD support, must be described to enable an assessment of Sida-East's approach. This task involves identifying constraints and opportunities within both the local context in Russia and Ukraine, and the Swedish aid context. The focus will be on two contextual aspects: the characteristics of the transition process, and Sida's limited role.

The constraints that are related to transition dynamics and characteristics of systemic change, and the way that they may limit Sida's scope, will be described. For instance, how does corruption and resistance to reform in public organisations constrain Sida's options, and what constraints does uncertainty impose? Regarding Sida's limited role, the limitations posed by being a) a small player and b) restricted to utilising Swedish competence, and the source of these limitations will be clarified. Care must be taken to distinguish carefully between binding constraints and those that are self-imposed¹⁷. One may also want to discuss the extent to which other perceived constraints are actually external and binding or whether they are self-imposed as a result and reflection of working methods, such as some of the guidelines in the current Country Strategies.

Not only constraints, but also opportunities for action are created by the context in which Sida-East operates. Any institutional context provides both. Hence, the characteristics of the transition process should provide opportunities for action, as will Sida's limited role and restrictions. An attempt to identify any such opportunities will be made. The fact that Sida is only one of several donors and other players shall also be considered.

5.5 Studying Relevance, Impact and Sustainability

As suggested above, the general question can be reformulated in terms of evaluation criteria: has the approach of Sida-East to PSD support produced relevant support with a sustainable impact? By relevant we mean the extent to which the individual interventions, as well as their combination, integration and sequencing, have been an appropriate choice, given the needs and problems of PBS

¹⁷ For instance, if the limited role of Sida is traced to its relatively small resources and a lack of country programming and bilateral agreements, these are external constraints. However, its little cooperation with central authorities may be partly a chosen strategy, not necessarily the result of its limited role, and thus not a binding constraint. Similarly, just because using Swedish competence is mandatory, the same does not apply for interventions in relation to Swedish investments – they may be freely chosen.

transition in Russia and Ukraine. By impact we mean intended or unintended, positive or negative, short or long-term effects. By sustainability we only refer to potential sustainability, i.e. the likelihood of contributing to a sustainable outcome of the PBS transition after donor withdrawal, as the actual sustainability of the outcome of the interventions can probably not be examined, given the short period of time that is studied. These evaluation criteria need to be further defined and delimited (especially the impact criterion) by the consultant in agreement with UTV.

In order to assess the relevance, impact and sustainability of PSD support, we need to judge a) the composition of the overall PSD portfolio, and b) the outcome of its component interventions. Are the portfolios properly designed – their size, components and structural patterns, changes, trends and the sequence of intervention exits and entries – and are the interventions properly combined, integrated and sequenced? Are the most central problems addressed and are they addressed in the right way? However, the approach to PSD support cannot be properly assessed until we know the outcome of the portfolios. Although the portfolios are well designed their outcome may not meet their expectations.

In the same manner as Sida-East's working methods, the study of outcomes of PSD interventions should be based on a selected number of projects, as the overall portfolio is too large. The choice of projects must be based on criteria that enable the study of working methods as well as outcomes. Criteria for selecting projects for the study of outcomes must be established. Both successes and failures will be included, as well as projects that are both problematic and extremely successful, in order to understand why they perform the way they do. There should also be projects for other reasons. Projects must be chosen so that different performance criteria can be studied. Again, case studies can be complemented with secondary information about performance that is presented in project evaluations and results reports.

5.6 Performance of Organic vs. Rationalistic Approach

When the conceptual framework has been established, when Sida-East's approach to PSD support is depicted and when the outcome has been identified, the performance of the approach can be assessed in relation to existing knowledge. To a certain extent, this task entails comparing Sida-East's possibly organic approach with a possibly more rationalistic one, for example, how does the organic approach perform, given what we know is required – in terms of a holistic perspective, integration, linkages and sequencing, etc – in relation to a rationalistic approach? An account for the pros and cons of Sida-East's organic approach

will be given, as well as the extent to which the approach performs well, an explanation of why it performs well and the conditions in which it is made.

6 Lessons and Recommendations

The third and fourth tasks of this evaluation involve drawing lessons from the analysis and making recommendations for Sida-East, in particular, and Sida at large. The lessons may be drawn from two areas. Firstly, lessons that can be learnt from Sida-East's practical experience and its performance in relation to existing knowledge in terms of theoretical and practical approaches to PSD support in the future. This involves exploring whether Sida-East can improve by adopting a more rationalistic approach. Secondly, Sida-East's experience of a possibly organic approach may have something to teach us about how to approach PSD support in general – and thus make a contribution to existing knowledge as well as Sida's approach to PSD support in general. All lessons will be identified. Furthermore, lessons from PBS transition in general, and from Sida-East's experience of PSD support in particular, may also prove useful in a development context, and will be taken into account.

In this regard, lessons learnt from 'comparing' approaches or paradigms are crucial. The possible gap between paradigms raises questions as to whether Sida-East's possibly organic working methods and the design of its portfolio are compatible with a more rationalistic approach to PSD support and transition? Would a more rationalistic approach be preferred for the relevance, impact and sustainability of the support? Or is in fact a more organic approach the most appropriate way to support PSD, given Sida's limited role and the constraints imposed by the characteristics of the transition process itself? Or is there a third way, where an organic approach could be combined with a rationalistic one, and the benefits of both can be enjoyed? Hence, could opportunity-driven organic support be co-ordinated and integrated into a more holistic approach with more of an overall perspective for better PSD support without losing its benefits along the way? These questions will be discussed. Care should be taken, however, to avoid exaggerating the contradictions between the two approaches. They are not necessarily contradictory; they may well complement each another.

7 Time Frame, Reporting and Budget

A major part of the evaluation will be conducted during 2002, with a delivery deadline for a draft report in late November (or early December). As the details of the time schedule must be worked out in agreement with the consultant and UTV, a tentative schedule could be:

Agreement between UTV and the consultant	April 2002
Start-up: Document collection, data inventory, design of overall and empirical method, including analytical steps, project selection, conceptual-framework sketch, discussions with UTV and Sida-East	May, 2002
Delivery of Inception Report, reference group meeting	June 2002
Interviews in Sweden and document analysis.....	Aug-Sept 2002
Field studies (not until after the summer in Ukraine).....	Sept-Oct 2002
Oral field study debriefing, reference group meeting	Oct 2002
Writing of report.....	Oct-Nov 2002
Delivery 1st draft report.....	Late Nov-Early Dec, 2002
Reference group meeting	Dec 2002
Delivery 2nd draft report, presentation at Sida-East meeting	Early Jan 2003
Revision of report	Jan-Feb 2003
Delivery of final report	Late Feb 2003

Throughout this process, the evaluation requires regular contact with UTV and a reference group. Formal reporting will consist, firstly, of an Inception Report, where the method for conducting the evaluation is presented, including the theoretical approach and conceptual framework, the selection of projects and details of the empirical method. The Inception Report will be handed in and discussed with UTV and the reference group no later than mid-June (not during week 24, however). After the field studies, oral reports will be presented at a meeting with the reference group. Feedback will then be given to all those interviewed (in Russia, Ukraine and Sweden), who can then respond as a means of quality assurance, information and courtesy. A complete 1st draft report will be submitted in late November (or early December), and presented at a reference group meeting in order to enable the preparation of a possible 2nd draft report before presentation at a Sida-East meeting of field staff in early January 2003. The final report will be submitted in late February 2002. The evaluation work is estimated to require 30 working weeks, of which 6-10 weeks are for field studies that must be further discussed and agreed upon with the consultant.

The consultant will keep UTV informed on the progress of the work, and notify UTV in advance if there are any problems that could affect the outcome of the assignment. The responsibility for gathering all data, including photocopies of documents at Sida, rests with the consultant. The report will be written in English, in a professional but pedagogical and non-technical style. It will maintain a clear and logical structure and high analytical standard, implying for instance that conclusions and recommendations are well founded in the preceding analysis. It is crucial that different sections are combined into a consistent and coherent whole, with clear and close linkages between theoretical and empirical

elements for example, and consistent terminology. Technicalities and details will be deferred to appendices. The report will include an executive summary. The size of the report will be agreed upon with UTV. All reports will be written in a Word 6.0 for Windows-compatible format, and submitted in three hard copies and electronically. They will be presented in a manner that enables publication without further editing. The assignment includes the production of a summary according to *Sida Evaluations Newsletter – Guidelines for Evaluation Managers and Consultants* (Appendix C).

Appendix A:¹⁸ Mimeo on transition and the PBS

Appendix B: Discussion notes from talks between Sida-East and UTV

Appendix C: *Sida Evaluations Newsletter - Guidelines for Evaluation Managers and Consultants*

¹⁸ Note that the appendices are excluded here.

Appendix II

Interview List

- Business Development Centre BDC, Bakhchisaray, *Usmanov Edem*
- Business Development Centre BDC, Belogorsk, *Ovsepyan Tatyana*
- Business Development Centre BDC, Simferopol, *Mamutova Vasfie*
- Business Development Centre BDC, Sudak, *Mustafaeva Dilyara*
- Central Agriculture and Food Organisation, *Stepanovij Avramenko Vladimir*, Head of Administrative Board
- Centre of Land Reform Policy in Ukraine *Korchakova Natalya*, Director
- Chumak, *Sturen Lolo*, Board Member
- CIDP, *Bakhshish Edem*, ex Component Manager of Crimean Integration Development Programme
- CIDP, *Leshchenko Oksana*, Senior Programme Manager, UNDP
- Credo Association for Enterprise Support *Sheikhislyamov Alim*, Director
- Department for Financial Credit Mechanisms and Insurance, *Hudzh Elena*, Director
- District Administration in Kakhovka, *Andreivij Burlaka J. Nikola*, Deputy head
- Elikor, Kaluga, *Aleksandrovich Meerovich Leonid*, Director
- Embassy of Sweden, Moscow, *Eduards Krister*, Counsellor, Development Co-operation
- Express-Volga Bank, Saratov, *Gennadbeovich Zubakov Evgeniy*, Director
- Federal Land Cadastre Service of Russia, Moscow, *Sazonov Nycolay V.*, First Deputy General Director
- Federal Land Cadastre Service of Russia, Moscow, *Skufinskiy Oleg A.*
- Federal Service for Land Cadastre of Russia, Moscow, *Vasilyevich Tikhonov Vladimir*, Head of Division International Projects
- French-Russian Institute of Business Administration (FRIBA), Obninsk, *Sotnikov Anatoly A.*, Rector
- Goskomsem, Land Committee, Saratov, *Gennadbeovich Zakvriagin Oleg*
- Gromada Credit Union, *Polozova Larisa*, President

- IFC, *Johnson Ebbe*, Regional Project Manager Agribusiness Development Project in Ukraine
- IFC, *Karlberg Åsa*, Regional Project Manager Agribusiness Development Project in Ukraine
- IFL Emerging Markets, *Fehrling, Christer* General Manager
- IFL Emerging Markets, *Rosenius, Ingrid*, General Manager
- Interbis, *Mamutova Vasfye*, Managing Director
- Iokis, Kaluga, *Vladimirovich Ivankin Sergei*, Director
- Kaluga City Administration, Kaluga, *Mikaylovich Iliokin Anatoliy*
- Medbiopharm Ltd., Obninsk, *Roziev Rakhimjan A*, Director
- Ministry of Economy, Moscow, *Suhoterina Tatyana*, Deputy Minister of Economy
- Norwegian Consulate, Murmansk, *Vaaja Nina*, Consul
- Olon, Olenogorsk, *Vasilbeovich Vasin Viktor*, Director
- Regional Council, Saratov, *Aleksandrovich Olbyanov Aleksandr*, Director Economic Department
- Scanagri, *Bjerlestam Sven*, Team Leader
- Scanagri, *Davelid Markus*, Managing Director
- Sheila Co, Obninsk, *Sarychev Vladimir A*, General Director
- Sida-East, *Håstad, Elsa*, Area Manger
- Sida-East *Hedlund, Anders*, Head of Section
- Sida-East *Gyllhammar, Kerstin*, Area Manager
- Sida-East, *Lindvall, Kristian*, Area Manager
- Sida, *Gustafson Ulrika*, Area Manager Department for Central and Eastern Europe
- Sida, *Salomonsson Kristina*, Area Manager Department for Central and Eastern Europe
- Swedegroup, *Grahm, Leif*, Manager
- Swedish Centre, *Rahm Mattias*, VD
- Swedish Embassy in Kiev, *Danielsson Christina*, Sida-representative in Kyiv
- Swedish Embassy in Kiev, *Peterson Åke*, Ambassador in Ukraine
- Swedsurvey AB, Moscow, *Olsson Åke*, Area Manager
- The Ministry of the Agrarian Policy of Ukraine, *Gudz Olena E*, Associate Professor (Candidate of Economics)

The State Fund for Development of Small Business in Murmansk Region
(Formap), *Babkina Galina V.*, Deputy Director,
Ukrainian Farmers Association UFA, *Kirijenko Leonid*, Vice chairman,
Ukrsots Bank, *Nagorny Ivan I.*, Bank Executive
UNDP, *Basnyat Manoj*, Deputy Resident Representative & Country Programme Director
UNDP, *Harfst Jan*, International Programme Co-ordinator
UNDP, *Jamsran Ulziisuren*, Regional Development Advisor
UNDP, *McLaughlin Carol*, Business Development Advisor
World Bank, *Kaliberda Aleksander*, Economist
Kislitsina Elena V., Head of Economic Department, Moscow
Mogila Vitalij, Farmer from the project target group in Kakhovka
Tsukanov Grigorij, Farmer from the project target group in Kakhovka

Appendix III

Outline of Questionnaire

Introduction

Aimed at describing and explaining the work of Sida-East, the questionnaire consists of a set of questions that cover all four areas or 'contexts', and empirical checks that are discussed in the Inception Report and Chapter 2 of the main report. The questionnaire will be used in all interviews, and cover the whole programme from several different angles. The general questionnaire will be adjusted to each specific situation e.g. in the field, and questions will be tailored to specific projects. The general questions below will also be 'translated' into concrete everyday language that is easy for interpreters to use, for example. Two types of questions will be asked. Firstly, *open questions* about the overall work and action in each 'context'. Secondly, *questions derived from a pre-understanding of Sida-East's work*. Initial interviews and discussions with Sida personnel, desk research and consultations of experts will provide a basis for this pre-understanding of Sida's work.

How does Sida-East Work?

Open questions: How does Sida-East work – the Sida-East approach? The respondent will give his/her views on the programme/project at large. This introduction will be related to the programme or project at hand.

How is the work organised/what working methods are used?

Is the work guided by any common understanding of problems, opportunities or required interventions – a programme theory?

The Context of Strategy

Open questions: How are the programme/project objectives formulated? How is the strategy-formulation process organised? What factors influence goal and strategy formulation?

Are there any theoretical or practical guidelines for strategy formulation? What – if any – theoretical models have had an impact on goal and strategy formu-

lation? Note again that all these questions should be reformulated according to their specific context.

Questions derived from a pre-understanding of Sida-East's work: Why these objectives? Who has the strongest impact? (Ministry of Foreign Affairs, other Swedish stakeholders, other foreign donors, project managers, etc)

In what way are research, field knowledge and previous experience fed back into the process of strategy formulation?

The Context of Selection

Open questions: How is the selection process organised? Why was this project selected? What factors have influenced the selection of projects? How do theoretical models/perspectives influence the selection process?

Questions derived from a pre-understanding of Sida-East's work: How are project proposals identified? Is Sida-East proactive, does it initiate projects or does Sida-East react to external proposals?

Is the portfolio a result of open project selection, or an ad hoc-process?

What impact and importance can be attributed to the KTS approach (that Sida-East matches Swedish resources with receiving partners in Russia/Ukraine)? How does the Swedish Public Procurement Act affect the KTS process?

What role – if any – does the Country Strategy play in the project selection process?

For individual projects, questions such as: Why this project? Does this project compete with others? etc will be asked.

The Context of Implementation

Open questions: What factors have influenced the implementation process? Name critical factors. How is the implementation process organised? How is the interplay between Sida-East in Stockholm and consultants in the field organised? How is the question of sustainable results dealt with?

Questions derived from a pre-understanding of Sida-East's work: How is the concept of partnership converted into action? Is the relation between the Swedish part and

the Russian/Ukrainian part symmetric or asymmetric i.e. expert-client relation or partner-partner relation?

In what way is KTS seen as an instrument for achieving sustainable results?

How – if at all – are the recommendations in Sida-East’s methodological handbook (‘metodpärmen’) applied? Specific questions will derive from ‘metodpärmen’.

Does Sida-East stress flexibility? How is this carried out in practice?

Does Sida-East stress accountability?

How are concepts such as trust and ‘face validity’ applied to actual situations, for example, in field visits and when monitoring projects?

How, and on what grounds, are projects terminated?

In what way is ‘learn-by-doing’ present in the project implementation process?

The Context of Efficiency and Establishing Feedback¹

Open question: Describe the objectives of the programme/project? Players will be asked about relevance (alternative costs/how could resources be better utilised?), impact (goal attainment and side-effects of total programme and actual projects) and sustainability (reflected in discussions on potentially more sustainable methods for using resources, a type of alternative cost reasoning).

Describe how feedback and learning processes are organised?

Questions derived from a pre-understanding of Sida-East’s work: Is the project (and the programme) *attaining its goals* according to Governmental Bill 2000/01:119 and the objectives related to specific projects?

- 1 Sustainable economic growth and transition
- 2 Using the Swedish resource base

¹ Questions aimed at gathering information on both the approach to measuring efficiency and assessing the actual outcome and result.

- 3 Increased trade and cooperation between Sweden and Russia/Ukraine
- 4 Democracy
- 5 Security
- 6 Gender equality
- 7 Ecological sustainability

Describe the more detailed objectives linked to the project: quantitative and qualitative goals (these goals are stated in the formal decision of granting funding to the project, these goals will be described in the preparation phase)

Positive side effects: Synergies, positive external effects and clustering of resources?

Negative side effects: Displacement effects when job creation is maintained at the expense of jobs lost elsewhere.

Unanticipated effects: Problems due to unfair competition between players supported by the programme and those not eligible to support or dead weight i.e. the results come about without intervention.

Are *sustainable results* attained? (Will the project and the result of the project be sustained after Swedish support is terminated?)

Finally, a discussion on the *alternative use of resources*: how could a reallocation of resources generate an even more efficient programme? (Talking about alternative costs is a means of viewing other possible strategies and priorities – a re-opening of the strategy- formulation process).

Conclusions on the Overall Approach

Summarising questions: What could have been done more effectively? What could be done to improve the programme/project?

Note that all questions must be adapted to the specific context!

Appendix IV

Some Elements of a Knowledge Management System

Private companies and public bodies are putting more emphasis on so called Knowledge Management systems, KM systems. International and Swedish experience from using KM systems is emerging.

There are several ways of defining KM systems. One has been introduced by multinational KPMG Consulting (2000) in a special report on the subject. This report defines KM as:

The systematic and organised attempt to use knowledge within an organisation to improve performance.

In a study by Pinelli & Barclay (1998) focusing on research institutions in the US, KM is defined as:

Identifying and mapping both the tacit (unarticulated and informal) and explicit (articulated and formal) knowledge of organizations; importing potential useful knowledge from the external environment; making relevant knowledge available to users in forms that best meet their knowledge requirements, windowing and filtering out unnecessary or irrelevant information; creating new knowledge that can provide competitive advantage; sharing the best methods and practices for completed knowledge-based work, and applying strategies, techniques and tools that supports the foregoing activities.

KM is thus about gathering, compiling, using and transferring knowledge.

Hansen, Nohira & Tierney (1999) explain how Andersen Consulting, Ernst & Young, McKinsey & Company and Bain & Company have chosen different strategies in the KM system development. KPMG Consulting (Knowledge Management Research Report, 2000) presents findings from over 400 companies that implemented a KM system. Swedish experience has been compiled in two reports from the University of Linköping (Almgren m fl 2000, respectively Nordman m fl 2000), where the KM activities of Swedish WM-Data and Cap

tation of KM systems in organisations or units such as Sida-East.

A Workable KM System at Sida-East Should Meet the Following Requirements

- ▶ Identifies the need for interplay between Sida-East at large and the country representatives stationed at Swedish Embassies abroad.
- ▶ Identifies and handles the necessary interaction between different parts of Sida-East, i.e. different area managers and functional units.
- ▶ Identifies and facilitates feedback from projects in the field.

General Components in a KM System

- ▶ A platform consisting of an Intranet system, an efficient telephone network and meeting places.
- ▶ A stringent KM strategy i.e. with focus on a person-to-document strategy or person-to-person strategy. In PSD support, a person-to-person strategy is most likely.
- ▶ A firm human resource strategy, including training and incentive structures that facilitate the implementation of the KM strategy.

In practice, a KM system can include the following elements:

Intranet

- ▶ A personnel register
- ▶ Profiling of individual competencies to facilitate team or project management, discussion or focus groups, etc.
- ▶ Special Interest Group (SIG) systems to facilitate informal chatting and problem-solving
- ▶ Calendar systems
- ▶ Time and project reporting
- ▶ Registration and documentation of ongoing projects
- ▶ Archive for finished projects, with search function
- ▶ Internal and external databases

Tools and working methods

- ▶ Project management system
- ▶ Monitoring and evaluation modules
- ▶ Organisational or Programme development modules

Recommendation

That Sida-East embarks on the implementation of a KM system with the following prerequisites:

- ▶ An Intranet platform linked to Sida at large
- ▶ A KM strategy that is consistent with the aims and objectives of Sida-East, including a person-to-person system rather than a document-to-person system
- ▶ A well-functioning KM system with training and an incentive structure that facilitate its implementation. The implementation must emanate from top management and result in a changed attitude and 'information-sharing'.

Appendix V

Desk Research of 17 selected Projects

Project Name	Project in Brief	Selection	Implementation	Result/Feedback
UKRAINE				
The Crimean Integration and Development Programme	<ul style="list-style-type: none"> ▶ UNDP and Crimean Regional Government ▶ Start 1999 ▶ MSEK 1.8 ▶ Support of Economic Development Component 	<ul style="list-style-type: none"> ▶ Reactive ▶ No tender ▶ No KTS 	<ul style="list-style-type: none"> ▶ Symmetric ▶ Focus mainly on capability building ▶ Multilateral ▶ Micro level 	<ul style="list-style-type: none"> ▶ Phase 1 ▶ No evaluation ▶ Field visits from Sida ▶ Reporting in the form of annual reports from UNDP
Agribusiness Development and Reform in Ukraine	<ul style="list-style-type: none"> ▶ IFC and Min. of Agriculture, State Committee for Land Resources, President adm. and Minister Cabinet ▶ Start 2001 ▶ Sector: Agriculture ▶ MSEK: 6 ▶ Legislative and policy reform and farm reorganisation and agribusiness training 	<ul style="list-style-type: none"> ▶ Reactive ▶ No tender ▶ No KTS 	<ul style="list-style-type: none"> ▶ Asymmetric ▶ Focus mainly on institution building ▶ Multilateral ▶ Macro and meso level 	<ul style="list-style-type: none"> ▶ Phase 1 ▶ No evaluation ▶ Field visits from Sida ▶ Reporting mainly to Sida representative in Kyiv and annual reports from IFC to Sida
New Agricultural Methods in Ukraine	<ul style="list-style-type: none"> ▶ Swedeagri and Cherson Oblast Administration ▶ Start 2000 ▶ Sector: Agriculture ▶ MSEK: 7.7 ▶ Knowledge transfer of agricultural techniques and economic management training 	<ul style="list-style-type: none"> ▶ Reactive ▶ Tender ▶ KTS 	<ul style="list-style-type: none"> ▶ Symmetric ▶ Focus mainly on capability building ▶ Bilateral ▶ Micro level 	<ul style="list-style-type: none"> ▶ Phase 1 ▶ Evaluation ▶ Field visits from Sida ▶ Reporting according to guidelines
Public Procurement Assistance	<ul style="list-style-type: none"> ▶ SIPU International AB and Ministry of Economy in Ukraine ▶ Start 1997 • Support in public procurement training ▶ MSEK 2.4 ▶ World Bank (leg.support) 	<ul style="list-style-type: none"> ▶ Proactive ▶ No tender ▶ KTS 	<ul style="list-style-type: none"> ▶ Symmetric ▶ Focus mainly on institution building ▶ Bilateral ▶ Macro level 	<ul style="list-style-type: none"> ▶ Phase 3 ▶ Evaluation (KTS) ▶ Field visits from Sida ▶ Reporting according to guidelines?

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Project Name	Project in Brief	Selection	Implementation	Result/Feedback
UKRAINE				
Development of Local self-Government in Irpen	<ul style="list-style-type: none"> ▶ SALA IDA and Administration of City of Irpen (signing party). Representatives from parliament and government in the steering committee of the Irpen Experiment ▶ Start 1995 ▶ Support the implementation of the Law on administrative and legal experiment in the Irpen region ▶ MSEK 8.5 	<ul style="list-style-type: none"> ▶ Proactive ▶ No tender ▶ KTS 	<ul style="list-style-type: none"> ▶ Symmetric ▶ Focus mainly on institution building (but certain sub projects more capability building) ▶ Bilateral ▶ Meso level 	<ul style="list-style-type: none"> ▶ Phase 2 ▶ Evaluation ▶ Field visits from Sida ▶ Reporting according to guidelines?
Ukrainian Forestry Sector Master Plan, Phase 2	<ul style="list-style-type: none"> ▶ Scandiaconsult Natura/ National Swedish Forestry Board and State Committee of Forestry in Ukraine ▶ Start 1998 ▶ Assisting Ukraine in its effort to develop a plan for the forestry sector. An objective is to produce a draft National ForestryPolicy ▶ SEK 6130000 in total 	<ul style="list-style-type: none"> ▶ Proactive ▶ Tender ▶ KTS 	<ul style="list-style-type: none"> ▶ Symmetric and asymmetric ▶ Focus mainly on institution building ▶ Bilateral ▶ Macro level 	<ul style="list-style-type: none"> ▶ Phase 2 ▶ No evaluation ▶ Field visits from Sida ▶ Reporting according to guidelines
Development of Cadastral and Land Information System	<ul style="list-style-type: none"> ▶ Swedsurvey and Dept. of Geodesy, Cartography and Cadastre ▶ Start 1991 ▶ Contribute to establishment of a countrywide system for real estate, registration, mapping and valuation. ▶ MSEK 18 	<ul style="list-style-type: none"> ▶ Proactive ▶ No tender ▶ KTS 	<ul style="list-style-type: none"> ▶ Symmetric and asymmetric ▶ Focus mainly on institution building ▶ Bilateral ▶ Macro level 	<ul style="list-style-type: none"> ▶ Phase 4 ▶ External evaluation was made in 1998 (Sida Evaluation 98/24) ▶ Field visits from Sida ▶ Reporting according to guidelines

Project Name	Project in Brief	Selection	Implementation	Result/Feedback
RUSSIA				
Develop Your Business (DYB)	<ul style="list-style-type: none"> ▶ Swedish Institute of Management (IFL) and Kaliningrad International Business School (KIBS) ▶ Start 1995 ▶ Sector: Management and Training ▶ Increase management competence among top executives in the SME sector in Russia. ▶ Total Sida contribution so far: ca MSEK 39 	<ul style="list-style-type: none"> ▶ Reactive. A result of an EBRD initiative. ▶ IFL was appointed through tender procedure by EBRD. ▶ KTS 	<ul style="list-style-type: none"> ▶ Symmetric ▶ Focus mainly on capability building ▶ Bilateral ▶ Micro level 	<ul style="list-style-type: none"> ▶ There are a number of phases divided into Regional Partnership Program IB, IIB III I, IC and Dissemination of the DYB programme phase I and 2 ▶ An audit has been made on IFL ▶ Field visits from Sida on many occasions ▶ Reporting according to guidelines
Land Cadastre and Land Information System	<ul style="list-style-type: none"> ▶ Swedesurvey and Rozem Cadastre ▶ Start 1991 ▶ Sector: Cadastre ▶ Contribute to establishment of a countrywide system for real estate, registration, mapping and valuation ▶ Total Sida contribution so far: ca MSEK 100 	<ul style="list-style-type: none"> ▶ Reactive/proactive ▶ No tender ▶ KTS 	<ul style="list-style-type: none"> ▶ Symmetric and asymmetric ▶ Focus mainly on institution building ▶ Bilateral ▶ Macro level 	<ul style="list-style-type: none"> ▶ Phase 4 ▶ External evaluation was made in 1998 (Sida Evaluation 98/24) ▶ Field visits from Sida ▶ Reporting according to guidelines
Diversification of Industry in Olenogorsk	<ul style="list-style-type: none"> ▶ Swedegroup and Murmansk Regional Administration ▶ Start 1998 ▶ Sector: Trade and Industry ▶ Facilitating differentiation of industry in a monocompany town. Training and seminars. ▶ Total Sida contribution MSEK 4.4 	<ul style="list-style-type: none"> ▶ Reactive. ▶ An initiative from Formap in Murmansk. ▶ No tender ▶ KTS 	<ul style="list-style-type: none"> ▶ Symmetric ▶ Focus mainly on capability building ▶ Bilateral ▶ Micro level 	<ul style="list-style-type: none"> ▶ Phase 3 ▶ Project is terminated in Olenogorsk but has transferred to four other municipalities in the Murmansk region ▶ No external evaluation has been made from Sida ▶ Field visits from Sida ▶ Reporting according to guidelines
Business Development for Women	<ul style="list-style-type: none"> ▶ Språngbrådan AB and International Inst. Women and Management (IWM) ▶ Start 1999 ▶ Sector: ▶ Support the development of networks among businesswomen in Russia. ▶ SEK 1,2 million of which 219000 from Sida (Tacis the rest) 	<ul style="list-style-type: none"> ▶ Reactive ▶ No tender ▶ KTS 	<ul style="list-style-type: none"> ▶ Symmetric ▶ Focus mainly on capability building ▶ Multilateral ▶ Micro level 	<ul style="list-style-type: none"> ▶ Phase 1 ▶ No evaluation ▶ Field visits from Sida ▶ Reporting according to guidelines
Russian Quality Award (RQA)	<ul style="list-style-type: none"> ▶ Recomate and Gosstandard (committee for standardisation, metrology and certifying) ▶ Start 1996 ▶ Sector: Industry ▶ Creating a RQA to promote quality thinking in Russian industry as well as in other parts of society. Training in TQM. ▶ MSEK 6 this phase. MSEK 15 in total. 	<ul style="list-style-type: none"> ▶ Reactive ▶ No tender ▶ KTS 	<ul style="list-style-type: none"> ▶ Symmetric ▶ Focus mainly on institution building ▶ Bilateral ▶ Macro level 	<ul style="list-style-type: none"> ▶ Phase 3 ▶ Evaluation ▶ Field visits from Sida ▶ Reporting according to guidelines

APPENDIX V

Project Name	Project in Brief	Selection	Implementation	Result/Feedback
RUSSIA				
Regional Tax Administration Leningrad Oblast	<ul style="list-style-type: none"> ▶ Tax authorities Västerås and Tax administration Leningrad Oblast ▶ Start 2000 ▶ Transfer of know how on efficient administration on taxes. ▶ SEK 859000 	<ul style="list-style-type: none"> ▶ Reactive ▶ No tender ▶ KTS 	<ul style="list-style-type: none"> ▶ Symmetric ▶ Focus mainly on institution building ▶ Bilateral ▶ Meso level 	<ul style="list-style-type: none"> ▶ Phase 1 ▶ No evaluation ▶ Field visits from Sida ▶ Reporting according to guidelines
WTO Russia – Feasibility Study	<ul style="list-style-type: none"> ▶ Stockholm Inst of Transition Economics and East European Economies. Russian part is Ministry of Economic Development and Trade (initiator but not signing) ▶ Start 2001 ▶ Inventory of previous research on the effects of a Russian membership in the WTO ▶ SEK 251000 	<ul style="list-style-type: none"> ▶ Proactive ▶ No tender ▶ No KTS 	<ul style="list-style-type: none"> ▶ Symmetric ▶ Focus mainly on institution building ▶ Bilateral ▶ Macro level 	<ul style="list-style-type: none"> ▶ Feasibility study for a possible start of a phase 1 ▶ No evaluation ▶ Field visits from Sida ▶ Reporting according to guidelines
Development of Kaliningrad Regional Post, Kaliningrad	<ul style="list-style-type: none"> ▶ Swedish Post through Baltic Logistic Systems AB and Kaliningrad Regional Post ▶ Start 1995 in St Petersburg, 2000 in Kaliningrad ▶ Sector: Infrastructure ▶ Transforming Kaliningrad Post into a modern and customer oriented postal service. ▶ MSEK 3.72 this phase MSEK 10.6 in total since 1995 	<ul style="list-style-type: none"> ▶ Reactive ▶ No tender ▶ KTS 	<ul style="list-style-type: none"> ▶ Symmetric ▶ Focus mainly on institution building ▶ Bilateral ▶ Meso 	<ul style="list-style-type: none"> ▶ Phase 1 in Kaliningrad but phase 4 in St Petersburg ▶ Evaluation ▶ Field visits from Sida ▶ Reporting according to guidelines
Strengthening the Capacity of the Chamber of Commerce in Pskov	<ul style="list-style-type: none"> ▶ Chamber of Commerce in South Sweden and the Chamber of Commerce in Pskov ▶ Start 2000 ▶ Sector: Trade and Industry ▶ Transfer of know-how on how to manage a Chamber of Commerce ▶ MSEK 1.7 of which 1.3 from Sida (the rest from Russian counterpart) 	<ul style="list-style-type: none"> ▶ Reactive ▶ No tender ▶ KTS 	<ul style="list-style-type: none"> ▶ Symmetric ▶ Focus mainly on capability building ▶ Bilateral ▶ Micro level 	<ul style="list-style-type: none"> ▶ Phase 1 ▶ No evaluation ▶ Field visits from Sida ▶ Reporting according to guidelines
Transfrontier Co-operation Programme for Kaliningrad and Pskov	<ul style="list-style-type: none"> ▶ Various. EastWest inst. In Czech Rep is implementing agency ▶ Start 2001 ▶ Sector: Democracy ▶ Strengthening co-operation with Kaliningrad and bordering regions ▶ MSEK 4.5 of which 2 million from Sida (Mott Foundation, Open Society Institute, Danida the rest) 	<ul style="list-style-type: none"> ▶ Reactive ▶ No tender ▶ No KTS 	<ul style="list-style-type: none"> ▶ Symmetric ▶ Focus mainly on capability building ▶ Multilateral ▶ Micro level 	<ul style="list-style-type: none"> ▶ Phase 1 ▶ No evaluation ▶ Field visits from Sida ▶ Reporting according to guidelines

Appendix VI

List of PSD-projects in Russia and Ukraine¹ (2002)

UKRAINE Portfolio 2002			
Project Name		Sida Commitment (SEK)	Category
Development of Local Self Government in Irpen		8,460,000	O
Agribusiness Development and Reform in Ukraine		18,000,000	O
Implementation of New Methods in Ukrainian Agriculture		7,781,000	SR
Development of Cadastral and Land Information System, Phase 4		18,000,000	O
Public Procurement Assistance, Phase 3		2,360,000	O
Ukrainian Forestry Sector Master Plan, Phase 2		6,130,000	O
<i>Development Among Crimean Tatars</i>		<i>1,640,000</i>	<i>M</i>
TOTAL		62,371,000	5 O 1 SR 1M

¹ Bold = Desk research projects and field study projects. Italics = Field study projects.

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RUSSIA Portfolio 2002			
Project Name	Region	Sida Commitment (SEK)	Category
Women's Resource Centres in Leningrad, WERAN	Leningrad Oblast	10,000,000	SR
Land Information System and Cadastral Register	Leningrad Oblast	5,820,000	O
Regional Tax Administration	Leningrad Oblast	859,000	M
Regional Venture Fund for North West and West Russia	The Barents Region	47,562,000	SR
Technoparks Apatity and Murmansk	The Barents Region	400,000	SR
Women's Management Institute – Phase 1-4 (1995-2002)	The Barents Region	4,291,000	SR
Land Information System and Cadastral Register, Murmansk	The Barents Region	2,300,000	O
<i>Diversification of the Industry in Olenogorsk City</i>	<i>The Barents Region</i>	<i>4,361,000</i>	<i>M</i>
Rural Development Pryazha	The Barents Region	6,251,000	M
Land Information System and Cadastral Register, Karelia - Phase 1-3 (1994-2002)	The Barents Region	9,756,000	O
Land Information System and Cadastral Register, Arkhangelsk (1994-2004)	The Barents Region	16,897,000	O
Land Information Exchange Project	The Barents Region	3,548,000	O
Local Democracy and Rural Development	The Barents Region	6,955,000	M
Transfrontier Co-operation Programme for Kaliningrad and Pskov	Kaliningrad	2,000,000	O
Land Information System and Cadastral Register, Kaliningrad (1996-2002)	Kaliningrad	8,764,000	O
Kaliningrad Int. Business School, Phase 5	Kaliningrad	3,590,000	O
Development of Kaliningrad Regional Post	Kaliningrad	3,720,000	SR
St Petersburg City Card	St Petersburg	2,100,000	M
Public Transport Sector, Phase 1	St Petersburg	873,000	SR
Development of Postal Service in St Petersburg – Phase 1-4 (1995-2003)	St Petersburg	10,602,000	SR
Land Cadastre and Land Information Systems, St Petersburg	St Petersburg	8,990,000	O
Master's Degree of Bank and Finance	St Petersburg	6,755,000	SR
Business Development for Women	St Petersburg	219,000	SR

RUSSIA Portfolio 2002			
Project Name	Region	Sida Commitment (SEK)	Category
Novgorod Training Centre for Land Cadastre Systems – Phase 2-4	Novgorod	10,076,000	O
Land Cadastre and Land Information System – Phase 2-4	Novgorod	11,561,000	O
Strengthened Consumer Protection	Novgorod	322,000	O
Creation of a Model Farm for Efficient Milk Production	Pskov	1,070,400	SR
Cross-border Co-operation between Estonia, Latvia and	Pskov	2,210,000	M
Land Information System (1996-2003)	Pskov	8,516,000	O
Strengthening the Capacity of the Chamber of Commerce and Industry of the Pskov Region	Pskov	1,250,000	M
WTO Russia – Feasibility Study	Moscow/ Central Russia	251,000	O
Regional Partnership Programme	Moscow/Central Russia	23,993,000	SR
<i>Dissemination of the DYB-Programme</i>	<i>Moscow/Central Russia</i>	<i>7,374,000</i>	<i>SR</i>
Training of Regional Chief Foresters	Moscow/Central Russia	1,630,000	SR
Russian Institute of Quality/Russian Quality Award – Phase 2-3 (1996-2002)	Moscow/ Central Russia	15,099,000	M
Nordpraktik – New Managers for Russia	Moscow/Central Russia	9,000,000	SR
<i>Land Cadastre and Land Information System in Saratov</i>	<i>Moscow/Central Russia</i>	<i>5,398,000</i>	<i>O</i>
TOTAL	3 Leningrad Oblast 10 Barents Region 4 Kaliningrad 6 St Petersburg 3 Novgorod 4 Pskov 7 Moscow/ Central Russia	273,594,000	37 Projects: 15 O 8 M 14 SR

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Private Sector Development Support in Action

This evaluation identifies and assesses Sida's approach to private sector development (PSD) support in Russia and Ukraine, by examining Sida's working methods and the relevance of its PSD project portfolios in 1996 and 2002.

It finds that Sida's approach to PSD support at the time of the evaluation was predominantly organic, reflecting a gradual and opportunity-driven process based on learning by doing – as opposed to a more rationalistic and conscious planning perspective based on systematic analysis and clear priorities.

The main conclusion is that although the organic approach appears to have been well functioning in terms of supporting feasible projects at local level, the overall relevance of the portfolio seems to have suffered. The evaluation argues that Sida should reconsider its current approach to PSD support in Russia and Ukraine.

This is the third evaluation in a series of studies on Sida's approach to PSD support. It complements the other two by identifying the strengths and weaknesses of an alternative way of working. By suggesting a trade-off between feasibility and relevance, it also highlights the distinction between project level efficiency and efficiency at overall societal level.



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