Meta-Evaluation

Private and Business Sector Development Interventions

Danish Impact Promotion Office

Business-in-Business Programme
Danish – South Africa

Private Sector Development Programme

Mixed Credit Programme

Business Sector Support Programme
Tanzania

The Industrialization Fund
for Developing Countries

2004/5
2004/3
2004/1
Meta-Evaluation

Private and Business Sector Development Interventions
Responsibility for the content and presentation of findings and recommendations rests with the authors.

The views and opinions expressed in the report do not necessarily correspond to the views of the Danish Ministry of Foreign Affairs, the recipient governments, or the implementing organisations.

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Preface

A meta-evaluation is an instrument used to aggregate findings from a series of evaluations. It also involves an evaluation of the quality of this series of evaluations and its adherence to established good practice in evaluation. The objective of this Meta-Evaluation is to provide an overview of, and a perspective on, the major Danish instruments applied in private sector development. It is based on and presents summaries of existing evaluations of each instrument. These discussions take place against the background of an analysis of the current development context, and of recent policy debate around private sector development. Finally, this Meta-Evaluation presents some common lessons learned, in a form that present input to the policy formulation and that should allow elaboration of more precise guidelines for the design and implementation of future instruments in this field.

This Meta-Evaluation is based on seven evaluations, desk studies, literature searches and interviews with Danish stakeholders. It is important to note that there is a broad correspondence between most of the underlying arguments found in the evaluations examined, and the evolving consensus within the international policy debate on PSD. Hence, although sometimes problematic in detail, these evaluations generally have applied state-of-the-art thinking to their subject matter.

The views and opinions expressed are those of the independent consultants and do not necessarily correspond with the views of the Danish Ministry of Foreign Affairs, the authors of the evaluations reviewed or the implementing organisations.

Copenhagen, December 2004
Danida’s Evaluation Department
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<tr>
<td>BSSP</td>
<td>Business Sector Support Programme, Tanzania (Extended as BSPS)</td>
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<td>BSPS</td>
<td>Business Sector Programme Support</td>
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<td>B-t-B</td>
<td>Business-to-Business Programme for South Africa</td>
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<td>CIDA</td>
<td>Canadian International Development Agency</td>
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<td>CMC</td>
<td>Committee for Mixed Credits</td>
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<td>CRDB</td>
<td>Co-operative Rural Development Bank, Tanzania</td>
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<td>CTI</td>
<td>Confederation of Tanzanian Industries</td>
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<td>DAC</td>
<td>Development Assistance Committee (OECD)</td>
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<td>Danida</td>
<td>Danish International Development Assistance</td>
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<td>DFI</td>
<td>Development Finance Institution</td>
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<td>DIPO</td>
<td>Danish Import Promotion Office</td>
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<td>DKK</td>
<td>Danish Kroner</td>
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<td>EU</td>
<td>European Union</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>FEDHA</td>
<td>Fedha Ltd. Venture Capital Investment Fund</td>
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<td>GNI</td>
<td>Gross National Income</td>
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<td>GNP</td>
<td>Gross National Product</td>
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<td>IFC</td>
<td>International Finance Corporation, part of World Bank group</td>
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<td>IFU</td>
<td>The Industrialization Fund for Developing Countries</td>
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<td>IGF</td>
<td>Investment Guarantee Fund</td>
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<td>ILO</td>
<td>International Labour Organisation</td>
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<td>KfU</td>
<td>Centre for Transfer of Appropriate Technology</td>
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<td>LDC</td>
<td>Least Developed Countries</td>
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<td>LIC</td>
<td>Low Income Countries</td>
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<td>LMIC</td>
<td>Lower Middle Income Countries (WB classification)</td>
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<td>MC</td>
<td>Mixed Credit</td>
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<td>MCP</td>
<td>Mixed Credit Programme</td>
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<td>MoFA</td>
<td>Ministry of Foreign Affairs (Danish)</td>
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<td>MLYDS</td>
<td>Ministry of Labour, Youth Development and Sports, Tanzania</td>
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<td>ODA</td>
<td>Overseas Development Assistance</td>
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<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>OHS</td>
<td>Occupational Health and Safety</td>
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<td>PPP</td>
<td>Public Private Partnerships</td>
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<td>PS</td>
<td>Private Sector Development Programme</td>
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<td>PSD</td>
<td>Private Sector development</td>
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<td>R&amp;D</td>
<td>Research and Development</td>
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<td>SA</td>
<td>South Africa</td>
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<td>Sida</td>
<td>Swedish International Development Cooperation Agency</td>
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<td>SME</td>
<td>Small and Medium sized Enterprise</td>
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<td>SPS</td>
<td>Sector Programmes Support</td>
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<td>TA</td>
<td>Technical Assistance</td>
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<td>ToR</td>
<td>Terms of Reference</td>
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<td>TRDA</td>
<td>Trade Related Development Assistance</td>
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<td>TUCTA</td>
<td>Trade Union Congress of Tanzania</td>
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<td>VETA</td>
<td>Vocational Education and Training Agency, Tanzania</td>
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<td>UMIC</td>
<td>Upper Middle Income Countries (WB classification)</td>
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<tr>
<td>USD</td>
<td>United States Dollar</td>
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<td>WB</td>
<td>World Bank</td>
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Executive Summary

Significant changes have taken place over the last decades in all public development agencies’ perception of the role of the state in reduction of poverty. The private sector has gradually been assigned a bigger role as “an engine for economic growth”, and has as such increasingly been regarded as the prime generator of socio-economic development that indirectly reduces poverty. Danida has, during this period, established and financed a variety of private sector development intervention instruments, and is, in this regard, in the forefront among donors working in this area.

The period since donors first began to establish private sector development programmes has witnessed changes in the private sector itself, and in the understanding of its potential role. Within the private sector, on a global scale, information and communication technology and financial and business services have experienced particularly dynamic growth and broadening application. For development of the private sector – particularly in developing countries – the roles of markets, market institutions and of international trade have all received greater prominence. To maintain and improve efficiency and effectiveness, development instruments or programmes need to reflect the implications of these changes and be adjusted accordingly.

This Meta-Evaluation attempts to draw lessons learned from earlier evaluations of some of the major, direct intervention instruments used by Danida for development of the private sector. A series of evaluations that were nominated for the Meta-Evaluation have been compared and assessed in the context of the current development thinking, mainly in order to reflect on the overall composition of Danida’s portfolio, as well as on the individual instrument that comprise it, and on whether there is room for improvements.

In many respects, the findings presented here broadly correspond to those found in OECD’s Development Assistance Committee’s (DAC) recent peer review of Danish development assistance (DAC 2003). These underline that Danida is at the forefront of international ‘best practice’ in its business environment and private sector development (PSD) support, but at the same time that these instruments need to be reviewed in the light of current developments.

The instruments established by Danida for PSD operate in a dynamic setting both in Denmark, as well as in the recipient countries. Each instrument was designed in accordance with assumptions prevailing at the time of its design. With changes in economic and policy environments, a need arises for adaptation of activities and for re-focussing on new goals. The needs of the resource base in Denmark have also changed over time, and different constituencies within the resource base have different and evolving expectations vis-à-vis PSD instruments. In Denmark, the changing context has been reflected in the pragmatic development of new instruments, assumed to better suit the new demands and conditions. Meanwhile, earlier instruments have generally continued, albeit in some cases with less funding.

Danida has in many respects advanced ahead of other donors in this sector, and in line with developments in current international thinking. In recent years, this has entailed more interventions targeted on the macro- and meso-level, as well as ones taking the form of indirect rather than direct assistance. The change in PSD approach parallels the
change in development policy generally, where programme support has replaced project support. Initially, the inspiration for these changes arose directly from experiences gathered in the course of sector policy support in the partner countries concerned, while the more recent generation of instruments also reflects current theories. This is exemplified in the innovative and ambitious Trade Related Development Assistance components of the second generation of Business Sector Programme Support. At the same time, a strong emphasis on the micro-level has been retained, linked to participation in development assistance by different groups of Danish enterprises.

The generally pragmatic logic followed by Danida in building up its portfolio of PSD interventions has led to a collection of instruments which, while spanning the full range of relevant contributions, have not been consciously designed to complement each other. In a number of cases, clearly defined objectives, targets and indicators were not specified at the design stage, and remain unspecified even today. In the case of micro-instruments, this concerns not only poverty reduction but also business development targets and indicators. This has entailed that the evaluations undertaken of some of these programmes have had to invent such objectives, targets and indicators for them. In most, but not all, cases this was done in ways roughly reflecting ‘state-of-the-art’ thinking on PSD. When set in the context of insistence on a highly restrictive interpretation of commercial confidentiality, resulting evaluations have thus sometimes appeared subjective and qualitative.

One lesson learned is that there is a need to establish clear and unambiguous objectives and a few, simple and operationisable targets and indicators each instrument. These should be provided in the design stage, but where this has not occurred, they should be supplied retrospectively. This will help to establish how the portfolio might be rationalised and developed further, as well as how individual instruments can be improved on the basis of building on successful experiences and avoiding repeating unsuccessful ones. The targets and indicators concerned should, wherever possible, be quantitative, without being highly technical.

A relevant overall portfolio of PSD programmes is one that combines interventions aimed at recipient country business environments with ones aimed at developing recipient country private sector capacities, while incorporating a direct link to poverty reduction. With respect to development effects, interventions at meso- and macro-levels have a higher probability of relevance than micro-level ones, although micro-level instruments may also have direct and indirect development outcomes when well designed. A lesson learned is that interventions aimed at all levels should be targeted more on local market deficiencies identified by an assessment of the actual conditions. In relation to this consideration, it is clear that the overall development relevance of the Danish portfolio has increased over time.

Selecting interventions that maximise outreach and spillover in the recipient country is likely to best fulfil the goals of strengthening both the business environment and private sector capacity in pro-poor ways. A lesson learned is that where the interventions are targeted at locally identified bottlenecks in the recipient country, the development impact has been greatest. This reinforces the argument for a focus on identifying market failures and selecting instruments according to their likely development outcomes, taking into account the scales of resources available and the markets they are targeted at. More generally, it is important to recognise the relevance and impact-related arguments for adopting those types of instruments that are aimed at institutional beneficiaries.
While it is generally acknowledged that a greater focus on macro- and meso levels will enhance the aid effectiveness, effectiveness benchmarks for macro- and meso-level targeted instruments are also only weakly developed and applied at present, not only by Danida, but also by donors generally. This is an area to which greater attention needs to be devoted. A lesson learned is that evaluation of the effectiveness of particularly the micro-level instruments has been found difficult and sometimes short of optimal quality, due to a lack of clear programme targets.

Danida has begun to consider efficiency issues in relation to choice of instruments, but could probably, with benefit, go further in the direction of indirect interventions. The latter are likely to have high levels of efficiency because of broader outreach. A movement in this direction needs not necessarily compromise the involvement of the Danish resource base. Indeed, as in the case of an increased focus on the meso- and the macro-levels it could be seen as an opportunity for increasing the involvement of sectors (e.g., financial services) that are currently under-represented in involvement in the active resource base. A second means by which efficiency issues could be given greater weight, is by giving greater prominence to the promotion of catalytic effects, in instruments’ objectives, design, as well as monitoring. Efficiency could further be increased by continuing the process of untying or making stronger efforts to increase competition in programme implementation by other means.

It is a lesson learned that assumption of ownership, involvement of local actors and building of institutions in recipient countries on the basis of the transfer of regulatory, facilitation and intermediation competences is a necessary condition for the non-financial aspects of sustainability. However, at least for financial sustainability, this is not sufficient. Interventions aimed at setting up or restructuring firms and institutions have to ensure that their costs can be covered. In the case of business institutions, financial sustainability implies capacity for self-financing. This has implications for the range of competences that need to be transferred, and for how such transfers are themselves financed. Subsidies may only be justified temporarily, on grounds of very high positive spill over effects such as the supply of products or services that are absent or difficult to gain access to, at least for targeted (e.g., poorer) segments of the population.

A range of important lessons arises from examining the evaluations of individual interventions, over and above those that arise from looking at the Danish portfolio as a whole. Two closely related points will be mentioned here that could be made in relation to most of the individual instruments. Firstly, until very recently most of the interventions reviewed were designed without clear statements of objectives, anticipated outcomes, or indicators or benchmarks of success and failure in relation to these outcomes. While these issues are currently being addressed for many of the instruments, including all new ones, they need to be addressed for all instruments in active use. Secondly, the absence of such frameworks has increased the scope for evaluators themselves to rely excessively on intuitive tests and qualitative evidence. Evaluation of Danish business and private sector development instruments needs to be consistently thorough, but it can only become fully comprehensive when instrument design takes place in a more coherent way.
1. Introduction

A meta-evaluation is an instrument used to aggregate findings from a series of evaluations. It also involves an evaluation of the quality of this series of evaluations and its adherence to established good practice in evaluation. The objective of this Meta-Evaluation is to provide an overview of, and a perspective on, the major Danish instruments applied in private sector development. It is based on and presents summaries of existing evaluations of each instrument. These discussions take place against the background of an analysis of the current development context, and of recent policy debate around private sector development. Finally, this Meta-Evaluation presents some common lessons learned, in a form that present input to the policy formulation and that should allow elaboration of more precise guidelines for the design and implementation of future instruments in this field.

The Danish Ministry of Foreign Affairs/Danida has been among the first and most active bilateral donors in the area of support to developing country private and business sector development. In 1967, it established IFU, The Industrialization Fund for Developing Countries. The Danish Import Promotion Office (DIPO), a centre for promotion of import to Denmark from developing countries, was initiated in 1977. In 1991, the Centre for Transfer of Appropriate Technology (KfU) was set up. The Private Sector Development Programme (PS) was established in 1993 on a pilot basis in Ghana, India and Zimbabwe, the same year as the Mixed Credit Programme (MCP) was initiated. A Business-to-Business programme for South Africa (B-t-B) was initiated in 1994. The Business Sector Support Programme in Tanzania (BSSP) was launched in 1998. Several of these programmes have, subsequently, been expanded in scale and in scope. In addition, Danida has also assisted private sector development (PSD) through its support to various sector programmes (SPS), as well as through smaller bilateral programmes implemented through other institutions or Non-Governmental Organisations (NGOs), as well as through a number of pluri- and multilateral institutions. The Evaluation team was not asked to consider the latter areas of assistance in this report.

All the programmes or instruments named above have been subject to evaluation, carried out in order to assess achievements relative to planned goals, as well as their performance seen in the perspective of the overall objective of promoting economic and social development. By comparing and analysing these evaluations, this Meta-Evaluation will assess to what extent the planned impacts have been achieved effectively and efficiently. Additionally, the Meta-Evaluation presents a more general discussion of the cost-effectiveness of the interventions and the overall sustainability of their impacts, with a focus on their contribution to the overall objective of alleviating poverty through economic and social development, as well as on their secondary (though often inexplicit) objective of involving the Danish business community in development assistance.

After the changing context is presented in Chapter 2, summaries of existing evaluations are presented in Chapter 3. In Chapter 4, the instruments are assessed in a contemporary development perspective, as well as against the conventional evaluation criteria. Chapter 5 draws the lessons learned. This Meta-Evaluation is based on desk studies, literature searches and interviews with Danish stakeholders. The views and opinions expressed are those of the independent consultants and do not necessarily correspond with the views of the Danish Ministry of Foreign Affairs, the authors of the evaluations reviewed or the implementing organisations.
2. The Context

The roots of donor interest in private sector development lay in the early 1980s, when the thinking of the international financial institutions moved sharply away from seeing the state’s role in development as central. Correspondingly, the private sector and market forces now became perceived as more efficient, more productive and more conducive to promoting the economic growth necessary to achieve poverty reduction. Privatising state-owned enterprises, ‘unleashing’ market forces, increasing competition and paring back the state’s role became viewed as the optimal means of attaining development goals, including poverty reduction. Bilateral donors could not ignore this private economic development model, which, amongst other things, promised to mitigate a growing sense of aid fatigue. An increasing number of donors, therefore, either adopted new PSD programmes, reworked existing ones with PSD dimensions, or re-designated activities previously classified under other headings as PSD.

2.1 The origins of Private Sector Development assistance

For most bilateral donors, this development tended to run ahead of the formulation of formal policy statements. By the time that these emerged, mostly in the second half of the 1990s, expectations concerning PSD interventions had themselves matured. Early enthusiasm that the market spontaneously would provide solutions to each and every development problem was tempered; largely as a result of the often lagging supply response to the market reforms which had been introduced in Sub-Saharan Africa and in Central and Eastern Europe. In donor thinking, a partial rehabilitation of the state occurred, not least as a facilitator of market development through provision of an ‘enabling environment’ for PSD. At the same time, it became widely acknowledged that while PSD was a necessary condition for poverty reduction in developing countries, it was not a sufficient one. A role for the state existed in the provision of public goods – infrastructure, schools, and hospitals – and in providing stable and predictable incentives for private sector activity to encompass the broadest possible cross-section of the population of developing countries.

The first, and still most authoritative, statement of donor PSD policy is found in the OECD-DAC’s Guidelines of 1994. These open by affirming that PSD ‘promotes efficient economic growth and development and is a source of wealth, dynamism, competitiveness and knowledge’, before going on to observe that by creating jobs and income PSD ‘leads to more equitable diffusion of the benefits of growth’. In the case of micro-enterprises, ‘these factors are further enhanced by virtue of their particularly direct impact on poverty alleviation’. Moreover, the more efficient resource use stimulated by PSD creates a larger and more sustainable tax base that can provide the resources for improved social development.

The main section of the Guidelines focuses on the design of PSD interventions. The case is made for tailor-made national PSD strategies, based on detailed assessments of recipient country business environments. On the one hand, these can serve as a basis for dialogue with partner governments around the policy environment, and on the other hand, they can be used to identify priority areas for broader assistance that ‘helps markets work more efficiently’. The Guidelines state that PSD support in Least Developed Countries (LDCs), as opposed to middle-income developing countries, is best targeted
at the ‘enabling environment, strengthening institutions and establishing threshold conditions for business’. They emphasise the importance of donor coordination and of inserting PSD dimensions in all programmes, and they conclude by prescribing a framework of six principal areas for donor activity:

- The ‘enabling environment’: assistance to strengthen reforms and institutions in the spheres of infrastructure, macro-economic policy, market efficiency and sensible regulation.
- Financial sector development and reform: assistance aimed at developing financial markets (as opposed to merely strengthening existing financial institutions), including rectifying key areas of market failure (e.g., credit to under-served groups).
- Privatisation and public enterprise reform.
- Enterprise development: assistance aimed at strengthening business development services, promoting human resource development and technology transfer, and promoting Foreign Direct Investment (FDI). Within this general heading there is a somewhat qualified endorsement of enterprise development through business-to-business twinning, which already had become bilateral donors’ favoured PSD instrument.²
- Micro-enterprise development: assistance to address impediments to their operation and establish sustainable local support/development institutions.
- Environmentally sustainable business development: assisting the development of environmental action plans and transfer of cleaner technologies.

Recent salient developments

At the international level, recent salient developments comprise publication of the first generation of policy research on PSD, the emergence of certain new directions in PSD policy (in some cases reflecting the results of this research) and developments in the sphere of aid tying. Research by Schulpen and Gibbon (2002) reviewed the PSD policies and programmes of a large majority of bilateral and multilateral donors active in the field during the 1990s. In relation to policies, it found that:

- Most donors tended to reproduce the DAC framework of actions without indicating areas of priority for their own interventions or, where they did so, the rationales for these choices.
- None attempted to further develop the analytic linkage between PSD and poverty reduction.

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1. Two others, institutional development and donor coordination, are mentioned as cross-cutting areas for action.
2. 'Historically, donors have tended to provide assistance in ways benefiting both donor and recipient country enterprises in this area. Greater emphasis should be placed on appropriately responding to recipient country enterprise needs…Most donors have had only marginal success in achieving lasting and mutually beneficial business partnerships with developing country enterprises…Donors should make concerted efforts to share their experiences and lessons learned in this area…Where (such) linkages are being promoted, the recipient country enterprise should be the pro-active partner…Technology transferred via such arrangements must not (be) motivated by commercial interests. (It) should be provided in response to locally-defined needs, drawn where possible on local expertise and (be) delivered through local intermediaries…' (OECD 1994, 21-22).
2. The Context

- No bilateral donors provided *national PSD assessments* that could form a knowledge base for tailored interventions; while one or two multilateral donors provided them, these were confined to lists of ‘deficits’ in the ‘enabling environment’ (standardised lists of what this environment should ideally contain).
- No donors referred to the DAC’s reservations concerning prevalent forms of enterprise support, or reviewed the experiences of other donors in this field.

In relation to *programmes*, the above-mentioned research found that:

- Leaving aside lending for structural adjustment and privatisation of state-owned enterprises, the most frequently encountered form of PSD assistance was *direct support to enterprises*. Besides programmes solely dedicated to supporting donor country investment or exports, a common area of bilateral activity was business-to-business twinning arrangements.
- In most cases, there was only a *weak relation between aid priority countries and destination countries for assisted investment and loan capital*. Out of the USD 770 million provided by bilaterals for equity investment during 1995-2000, only 12.6% went to LDCs; out of the USD 3.77 billion invested by the International Finance Corporation (IFC) over the same period, only 8.1% did.
- *Lending through local intermediaries* was only common in the case of micro-enterprise support.
- A ‘division of labour’ had emerged where multilaterals provided the greater part of ‘enabling environment’ support and bilaterals were largely marginal in this field.
- There was almost a *complete absence of donor coordination* in regard to direct support to enterprises.
- Available evaluations of bilateral programmes systematically criticised *weak integration between PSD activities and general aid objectives*, lack of focused objectives for specific interventions and absence of clear guidelines.

According to these authors, the major lessons of their surveys are that donors need to clarify better the objectives of their PSD activities, and, in particular, how these objectives relate to poverty reduction and institution building in recipient countries; that their activities should more clearly address the problems and priorities of (LDC) partner countries, rather than risk being supply-driven from the North; and that – with the latter in mind – PSD support should be untied.

Subsequent policy research has arrived at broadly similar general conclusions (cf. Odedokun (ed.) 2004). At the same time, this research has focused in more detail on *programmes involving direct investment in and lending to enterprises*, and on *direct (i.e., firm-level) provision of Technical Assistance (TA) for business development*. In a review conducted for the World Bank, Batra & Mahmood (2003) – summing-up their own and other’s work in these areas – found that:

- For such types of intervention *cost-benefit analyses are almost unknown* and even detailed impact analyses are rare.
- Those analyses conducted suggest *generally very limited impacts*, due to the limited scope of most such programmes (accentuated often by low uptake).
• Investment/lending programmes generate *at best mixed impacts* for those enterprises supported. There is no clear impact on levels of enterprise profitability.
• Business development TA programmes typically involve *high levels of spending per individual project, and low project completion rates*. Usually, only around half of all enterprises assisted are viable at time of project completion, and most viable enterprises would probably have implemented the changes involved anyway.
• *Sustainability results are mixed*, although assessments often examine cost-recovery only.

Batra & Mahmood draw two main conclusions from these findings:

• Firstly, that it is time to apply the same reasoning to both these forms of support as was applied to micro-enterprise assistance a decade ago – namely, that greater impacts would probably be generated if enterprise support was channeled through local intermediary agencies, preferably in the context of a competitive local market for the services concerned.
• Secondly, although no attempts have ever been made to calculate the opportunity costs of these kinds of assistance, it seems likely that the same amount of investment in PSD support directed at the enabling environment would have yielded higher returns.

A small number of recent donor agency policy documents on PSD seek to address at least some of the concerns raised in the policy research described above. Statements on PSD of both the Asian Development Bank (2000) and the *World Bank* (2001) refer to the necessity of ensuring that PSD programmes and projects explicitly incorporate broader aid objectives. In this connection, much emphasis is given to so-called ‘output-based’ support to private or public-private infrastructure projects. In such arrangements, public support is triggered where project design incorporates specific impacts for targeted groups as an intended outcome. In some versions, additional funding may be made available where further development objectives are also incorporated into the design.

Much further-reaching revision in thinking is evident in the Canadian International Development Agency’s (CIDA) recent (2003) statement on PSD. This is unusual in that its core is a list of principles that will, henceforth, guide the agency’s interventions in the area, rather than the more conventional rehearsal of the role of the private sector in development. The central principles proposed are as follows:

• There will be a *single institutional focal point* for all Canadian PSD interventions.
• CIDA’s aid effectiveness norms will be applied to all PSD interventions.
• *A common analytic framework* (still being developed) will underpin the full range of CIDA interventions in the field.
• PSD country strategies will be based on *locally owned poverty reduction and economic development strategies*, as well as ‘specific knowledge of the real capacities, modes of operation and internal relations found in the (recipient’s) private sector’.
• CIDA will focus its PSD assistance more on *business development service provision*. This will be coordinated with other donors and will seek ‘a greater basis in sustainable local networks’.
• At the planning stage, ‘full consideration’ will be given to *untie all PSD support*. 
The (somewhat loose) commitment to untying expressed here partly reflects an acceptance of the policy research literature’s critical characterisation of most existing bilateral PSD activity as supply- rather than demand-driven. However, it is also intended to address DAC’s recent (2001) Guidelines on aid tying to LDCs. These go well beyond earlier rules (which obliged members to untie all purchases for commercially viable projects in non-LDCs) by requiring members to now untie – or cease reporting as Overseas Development Assistance (ODA) – all LDC-related contracts for goods and commercial services. The new rule covers virtually every category of aid, including sector programme support, investment project aid and investment-related TA.3

The Swedish International Development Cooperation Agency’s (Sida) recent (2003) PSD support guidelines parallel those of CIDA in important respects.4 The organisation’s main priorities in relation to PSD are listed as:

- Promotion of a sound business environment.
- Development of efficient markets, through interventions to correct market failure.
- A focus on markets where the poor are important players (primary sectors and the informal economy).
- Support to reform of public enterprises based on ‘output-based’ public-private partnerships.
- Direct support entailing subsidies to enterprises only where there are clear positive externalities, e.g., where the market for needed goods or services are extended or deepened.

The international PSD policy consensus thus appears to be moving in the direction of assuring greater macro- and meso-focus for interventions, and emphasising indirect rather than direct interventions (unless these also have demonstrable impacts beyond the micro-level). A complementary tendency has been a revival of interest in the international trade regulation context for economic development in partner countries. This is expressed in the emergence of ‘trade-related development assistance’ (TRDA), i.e. support to the more effective participation of developing countries in international trade as a subject of development assistance in its own right.

At the same time, it can be noted that the practice of donors, both multilateral and bilateral, as yet reflects only weakly this consensus. While the leading multilaterals do focus on the macro-level, very few bilaterals have programmes targeting the general business environment in partner countries and only a few others are actively involved in TRDA – besides Denmark the main actors here are DfID (UK), Switzerland and USAID. At the same time, there are few or no signs of programmes involving direct support to enterprises being cut back, or of ‘output-based’ conditions being mainstreamed within them. IFC – easily the main source of public direct lending to developing country private sectors – is adopting monitoring procedures that will measure the development impacts of micro-interventions,

3. A partial exception is given to the category of freestanding TA, while it is stated that decisions on untying of food aid are being made in other fora.

4. Like CIDA’s, Sida’s new guidelines follow in the wake of a critical ‘meta-evaluation’ covering a number of interventions. In Sida’s case this concluded that ‘Sida’s PSD support is often disappointing. Support…is often aimed at the micro-level and given to isolated projects with few apparent links to other aid. The private sector does not figure prominently in strategy documents such as country analyses, nor do the Letters of Appropriation focus on the private sector.’ (Danielson 2003, 18).
but it is unclear whether borrowers will be required to incorporate meso-or macro-level development goals into project design. Canada and Sweden, the bilaterals whose policy statements best reflect the emerging consensus, still retain programmes entailing direct support to enterprises, including in Canada’s case a large enterprise-to-enterprise matchmaking programme. Finally, although tying of PSD and other support may be on the wane on a de jure basis, it is far from clear whether much de facto change is likely in this area.

Given that PSD assistance generally has existed for less than a decade and a half, and that it has been subject to a specialised policy discussion for less than five years, this situation is hardly surprising. Nonetheless, it does pose a serious challenge for donors, and should lead them to address, explicitly, where their main focus within this field should be.

2.2 The Danish context

Apart from the new generation of Business Sector Programme Support (BSPSs) launched 2003-04, all Danida’s current PSD instruments date from between 1966 and 1998. No formal statement of strategy in relation to this collection of instruments emerged until 1999, though. This is by no means an exceptional situation amongst bilateral donors, where some still have not developed a formal rationale for their activities. In any event, it means that the Danish context is best introduced by an overview of instruments and their evolution over time.

Figure 2.1: Danish bilateral PSD interventions, 1966-present

<table>
<thead>
<tr>
<th>Programme</th>
<th>Objective</th>
<th>Direct Beneficiaries/ Coverage (2004)</th>
<th>Modality</th>
<th>Funding/Portfolio magnitude</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Guarantee Fund (IGF) 1966-</td>
<td>Insurance against losses due to political risks</td>
<td>Danish foreign investors/ Dev. countries with GNP p.c. &lt; USD 3,000</td>
<td>Subsidised risk cover (capital and earnings)</td>
<td>Investments guarantee portfolio. (2003) DKK 735 million</td>
</tr>
<tr>
<td>Industrialization Fund for Developing Countries (IFU) 1967-</td>
<td>Promote economic activities through Danish FDI</td>
<td>Danish foreign investors/joint ventures/Dev. countries with GNI p.c. &lt; USD 5,128</td>
<td>Equity, loans and guarantees</td>
<td>Accumulated funding (2003) DKK 1.050 billion</td>
</tr>
<tr>
<td>Danish Import Promotion Office (DIPO) 1977-</td>
<td>Promote imports from developing countries</td>
<td>Dev. country exporters and DK importers/ Concentrated on PS and B-t-B countries since 2001</td>
<td>Contact mediation; info provision; assisting trade fairs</td>
<td>Accumulated funding (2003) DKK 45.5 million</td>
</tr>
<tr>
<td>Centre for Technology Transfer (KfU) 1991-97</td>
<td>Increase Danish companies/ Capacity to transfer technology Denmark</td>
<td>Danish companies/ Information and TA</td>
<td>Accumulated funding (1997) DKK 26.9 million</td>
<td></td>
</tr>
<tr>
<td>Mixed Credit Programme (MCP) 1993-</td>
<td>Provide subsidised loans to finance overseas projects</td>
<td>Danish suppliers (untied window since 2002)/ Dev. countries with GNI p.c. &lt; USD 3,348</td>
<td>‘Grant element’ of 35-50% of loan</td>
<td>Accumulated funding (2003) DKK 2.540 million</td>
</tr>
</tbody>
</table>
Programmes

In all, Denmark has organised seven or eight different types of bilateral PSD interventions over the years. It has also been closely involved in several plurilateral and multilateral ones. On the plurilateral side, these include the Nordic Development Fund and the NORSAD Fund. On the multilateral one they include IFC, the International Trade Centre and the consultancy trust funds of various international agencies. In addition, Denmark has PS elements incorporated in many of its bilateral programmes dedicated to sectors other than the Private/Business sector, as well as sponsoring a number of programmes at different levels, which – while not having PSD as an objective – incorporate a relation to PSD in developing countries, or to the Danish private sector, or both. These include the Import Support Programme (2002-04) and the Danish Cooperation for Environment and Development (Danced) programme, support to vocational education, to the International Labour Organisation (ILO), and to the World Food Programme. This makes Denmark one of the most active bilateral donors in the sphere of PSD. Its activity can be divided into three broad periods. From the 1960s through to the end of the 1980s, the focus was exclusively upon supporting Danish FDI and, to a much lesser extent, promoting imports from developing countries. These emphases continued into the next period, from 1990-97, when they were supplemented in two important ways. Support to Danish FDI was extended to embrace partnership activities with local companies based in Danida programme countries. At the same time, support to certain Danish exports to developing countries (goods and services for infrastructure projects) was given a special window in the form of the MCP. The great bulk of this

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5. It is worth noting that, through its support to ITC, Danida also provides significant support to TRDA at multilateral level.
body of aid was in the form of direct assistance to enterprises and was tied, formally or informally. Virtually all of these activities continue into the third period (1998-present).

However, this period has seen an important departure in Denmark’s bilateral interventions. These have been added to by including programmes whose principal beneficiaries are partner country public and private institutions, including trade-related institutions (BSSP/BSPS). The three BSSP/BSPS programmes involve high levels of financial commitment (DKK 150 million per country over five years); only one of the 16 PS country programmes6 has been on this scale financially. As such, BSSP/BSPS has accounted for the lion’s share of new financial commitments in the area since 1998. In the short-term, at least, this trend will continue, as planning will start for a fourth BSPS programme later this year.

BSSP/BSPS is not entirely revolutionary, since at least in Tanzania many of its first phase components were inherited from other programmes. But while the profile of Danish bilateral PSD interventions up to 1998 had largely the same make-up as those of bilateral donors generally, the focus of BSSP/BSPS, in terms both of objectives (the business environment and TRDA) and recipients, gives Danish PSD activity today a dynamic and innovatory profile, when seen in a global setting. In particular, the incorporation of TRDA within BSPS means that Denmark is one of the few donors coherently linking support to regulative reforms with directly complementary support for capacity building, both on the export supply-side and on the trade policy development/trade negotiating competence side.

Policies
As suggested above, Danish PSD policy and strategy has tended to be formed around programmes, rather than vice-versa. The first document seeking to present a coherent justification for the full range of Danish PSD interventions (and a road-map for their future development) dates from the preparations in 1999 for the formulation of Danida’s overarching ‘Partnership 2000’ strategy. This document (Danida 1999) opens with an orthodox restatement of the rationale for PSD, before identifying three major priorities for Danish interventions:

- Supporting partner countries to develop a positive business climate, a well-functioning financial system and an effective legal system.
- Directly promoting private business activity in these countries, not least in relation to Danida’s main sector programmes.
- ‘Strengthening development cooperation overall through the involvement of Danish business life in long-term cooperation’ (p. 10).

A direct link to Danida’s over-riding objective of promoting poverty reduction through pro-poor growth is provided in the form of a reference to the need for greater focus on advancing the growth of Small and Medium sized Enterprises (SMEs) and ‘addressing the issue of the informal sector’, but these concerns are not the main ones evident in the four concrete proposals for new directions for PSD activities:

6. The Ghana programme. The PS Programmes in Egypt and Vietnam have also exceeded DKK 100 million in disbursements.
2. The Context

- **Expand the PS to all DAC countries** with per capita GNP lower than USD 2,500, and to include a loan component in all PS national programmes (at the time it was present only in three).
- **Open an untied MCP window** to retain conformity with DAC requirements.
- **Design a new Guarantee Facility for medium-scale Danish companies’ bidding for Build-Operate-Transfer (BOT) projects**, and offering cover against a broader range of risks than the IGF facility.
- **Pushing multilateral institutions to break larger supply contracts** into smaller units and/or to require sub-contracting.

The document also announced the intention to initiate new BSSP/BSPS programmes, although it mentioned that this would probably occur only in programme countries where other sector programmes were closed (for capacity reasons). In fact, Danida’s emphasis on BSSP/BSPS has proved much stronger than this indicated, for such programmes have been opened in two new countries, and another is planned, without any other sector programmes being terminated.

Partnership 2000 (Danida 2000) incorporated the 1999 document’s list of priorities for future interventions, but highlighted only one of its proposals for new directions, namely to enlarge the private sector dimension of programme support. Instead, it broadened support to partner country business environments to include ‘support to a well-functioning labour market’ and to interventions on the so-called ‘cross-cutting issues’. It also identified TRDA as an area of future activity.

In 2001, Danida produced a new ‘programme of action’ on PSD, operationalising the emphases of Partnership 2000 (Danida 2001), and adding ‘building capacity in information technology’ as a priority. The programme discussed several areas for new initiatives, or placing stronger emphases on certain dimensions of existing ones, including on business information/advisory/development services, the development of regional markets, and micro-finance. During 2003, Danida issued a new statement of over-arching policy, ‘A World of Difference’ (Danida 2003). While radical in many of its proposals, this document indicated relatively little change in emphasis concerning PSD. It did, however, make frequent references to TRDA, coupled with a commitment to increase TRDA assistance. It also made a commitment to provide DKK 100 million over five years to support the development of Public Private Partnerships (PPPs) and to strengthen PS support in unelaborated ways. In summer 2004 Danida announced five new programmes within this framework. These included support for Danish companies to incorporate Corporate Social Responsibility initiatives and training in their activities in partner countries; support to management capacity building in partner country businesses; support to enhanced public and private research capacity within partner country agricultural sectors; and support to participation by Danish companies in the privatisation process in Vietnam.

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7. From the mid-90s until 2003, Danida categorized gender equality, human rights/democratisation and the environment as ‘cross-cutting issues’, which should be incorporated into all its programmes rather than be the subject of dedicated programmes of their own.

8. Micro-finance was to be pursued through Danish membership of the Committee of Donor Agencies on Small Enterprise Development, rather than bilaterally, however.
## 2. The Context

<table>
<thead>
<tr>
<th>Level</th>
<th>International Countries</th>
<th>Macro State</th>
<th>Meso Branch</th>
<th>Micro Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elements</td>
<td>• Free and rule-governed international trade</td>
<td>• Trade policy</td>
<td>• Chamber of commerce</td>
<td>• Access to technology, expertise and capital</td>
</tr>
<tr>
<td></td>
<td>• Access to international markets</td>
<td>• Privatisation</td>
<td>• Employers organisation</td>
<td>• Management and entrepreneurship</td>
</tr>
<tr>
<td></td>
<td>• Debt reduction</td>
<td>• Exchange rate and monetary policies</td>
<td>• Labour unions</td>
<td>• Market access</td>
</tr>
<tr>
<td></td>
<td>• Donor policies and practices (including coordination)</td>
<td>• Public budgets</td>
<td>• Intermediary financial institutions</td>
<td>and information</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Labour market policy</td>
<td>• R&amp;D institutions</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Observance of labour standards</td>
<td>• Training institutions</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Fiscal policy (tax)</td>
<td>• Sector level market-institutions</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Inflation reduction</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Financial institutions (capital market)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Balance of payment regulation</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Physical infrastructure and human capital
- Education and skill training
- Health
- Roads, railways, harbours, electricity, telecommunications etc.
- Intellectual capital
- Social security and pension schemes

Good governance
- Fight against corruption
- Transparency
- Legal system

This overview of Danida’s PSD programmes and policies suggests three main trends. Firstly, PSD has become a steadily more significant area of development assistance for Danida. Secondly, although the central focuses of Danida’s more traditional programmes now no longer correspond to the current direction of international discussion, they do not deviate from those of a majority of bilateral donors. Thirdly, Danida’s BSSP/BSPSs are both innovatory and are generously funded by bilateral standards.

BSSP/BSPS programmes, and the high level of commitment to them signalled by their funding situation, answer to a large degree the ‘best practice’-related challenges proposed
in the recent policy debate. As indicated, one such challenge is to move further from more direct assistance modalities in the direction of more indirect ones, where the focus is on building capacity in institutions in partner countries with potentially far broader (and sustainable) outreach than Danish ones can command. Another is to move further in the direction of supporting the development of markets at meso and macro levels, as illustrated in Table 2.1, rather than of individual firms – or of reframing support to firms in terms of outcomes beyond the micro-level itself. This partly implies a focus on strengthening support to partner country institutions, in ways directed to improving their market-facilitating contribution. Another challenge is to extend the focus on donor coordination. Amongst other things, this may entail untying an increasing proportion of PSD-related assistance.

Addressing these challenges poses a further issue of a quite different order. This is that of retaining a significant role for Danish enterprises as recipients and implementing agents of Danish PS support. If the Danish business community is to retain this role, then this is most likely to be achieved through an adaptation of implementation functions, which may, in turn, entail participation by previously uninvolved elements of the resource base (e.g., the financial sector).

2.3 Evaluating PSD

In the light of the earlier discussion, this section seeks to elaborate how evaluation criteria might be applied in relation to PSD. The elaboration provided takes as points of departure not only the standard DAC/Danida evaluation criteria, but also the recent policy discussion described above – including work by IFC (and the Multilateral Development Bank Evaluation Consultative Group) on new criteria for direct lending. These reflect concerns to specify more precisely both the development and the business outcomes that might be expected of micro-level interventions.

Relevance

General definitions of ‘relevance’ have differed slightly between DAC members. Danida defines it in terms of consistency with recipient country needs and priorities, while the World Bank adds the dimension of consistency with global development priorities (e.g., the Millennium Development Goals). Using the broader version of this definition as a basis, the yardstick for relevance in relation to PSD can be defined in terms of consistency with developmental objectives. This encompasses promotion of pro-poor growth; building a more ‘enabling’ business environment; and strengthening the capacity of the private sector itself (or perhaps particular sub-sectors of it) to fulfil specific micro-, meso- and macro-economic, poverty-reducing, socio-political and environmental objectives. Annex V provides a list of the variables that may be considered to comprise more specific objectives under each of these headings. The main innovations suggested, relative to more traditional accounts, concern (strengthening of) markets for financial, business and producer services – all consistently highlighted as deficiencies in what CIDA calls ‘real… recipient private sectors’, particularly in Sub-Saharan Africa.

However, criteria of relevance need to be applied not only in relation to the consistency of programmes with more general principles concerning what PSD – and ‘development’ more broadly – entails. They should also be applied to the consistency of instruments with up-to-date knowledge concerning how to meet one or more given immediate objectives within specific PSD programmes. Different methodologies have been proposed over
time, for example, to promote exports or transfer of technology, and to implement infrastructure projects. Instruments may be more or less relevant to these more immediate objectives according to the extent to which they reflect existing knowledge of the technical field concerned. Hence, one can distinguish the PSD relevance and the ‘technical’ relevance of instruments and programmes.

**Impact**

Measuring impact entails identifying a broad range of variables that may be affected (intentionally or unintentionally) by a specific intervention. Selection of the range of variables that should be monitored should not be confined to those that the programme explicitly seeks to address, or even these together with those which common sense suggests may be encompassed by likely side effects. Even though many PSD programmes do not have market development as an objective, their evaluation should, nonetheless, consider effects on markets, since theoretically and empirically it is being increasingly recognised that effective and broadly-based PSD entails the latter’s expansion and deepening.

Recent work by the multilateral development banks on evaluating PSD interventions (e.g., IFC 2003) has been concerned with elaborating micro-, meso- and macro-level impact measures for programmes comprising direct support to enterprises. At micro-level, measures of business impact are proposed that include (different forms of) financial rate of return in relation to capital cost, as well as turnover, value-added, profitability and follow-on investments. Proposed measures for macro-level impacts arising from micro-level interventions include net changes in employment, net forex effects and magnitudes of tax transfers resulting from changes in employment and business performance.

IFC’s interventions are typically directed at larger enterprises in recipient countries, and usually involve very substantial transfers. In the context of bilateral programmes where recipient country target firms are more likely to be medium-sized and where associated transfers are likely to be relatively small, it is more realistic to expect that assistance will have measurable meso-level impacts (e.g., on the size, scope and nature of particular markets), than macro-level ones.

Discussion with Danish stakeholders suggested that these were confident that, should Danish interventions be subjected to more rigorous monitoring of business performance, the results would be positive. There was no opposition to such monitoring, which should serve as a guide to the improvement of programmes. However, it was very reasonably added that – for such monitoring to be useful – proposed macro-level impact indicators should take into account the magnitude of support made available on the one hand, and the scale of the recipient country economy on the other (or simply be omitted).

**Effectiveness**

Evaluating effectiveness entails forming a judgement concerning the extent to which an intervention’s initial objectives have been met, taking into account their relative importance and changes that may have taken place in the objectives. This, in turn, entails devising benchmarks for certain of the impact variables already selected. Secondly, it involves forming judgements about the reasons for these benchmarks being overshot, met or not met to different degrees. In relation to the market development variable elaborated above, benchmarks could express a specific percentage increase in market size.
over a fixed period; a specific increase in numbers of services offered in terms of a multiple of the baseline, over the same fixed period; specific percentage declines in average prices and in shares of subsidies in average prices over a fixed period; and a specific percentage increase in the share reached of a total target population – all taking into account the size of the intervention on the one hand and the size of the existing market on the other. Using such measures is preferable to recording simple increases in the numbers of a target population reached, which normally sounds much more impressive than it is.

Developing effectiveness benchmarks for direct support instruments would entail supporting research on local norms for business performance in specific national and sectoral environments, and for enterprises of different sizes in these contexts. This would help to build into benchmarks recognition of prevalent risks and transaction costs.

Efficiency
Efficiency refers to the cost-effectiveness of a development initiative, in relation to the objective(s) achieved. It encompasses both donor and recipient performance, at all the different stages of the project/programme cycle (design, implementation, etc.). In relation to PSD, choice of direct versus indirect interventions is a fundamental issue, not only for impact, but also for efficiency. Insofar as local intermediaries are likely to be able to reach larger numbers of beneficiaries, and since developing their capacity is likely to have other positive spillover effects too, it is likely that channelling assistance through them will be more cost-effective. It is unlikely that all local intermediaries will have the necessary potential for performing such a role, and careful search and assessment is a necessary precondition. Even where no suitable local partner is available, it may be more cost-effective in the longer term to work with recipient country organisations/authorities to develop one, rather than to disburse funds directly.

A second efficiency issue in relation to PSD assistance is that of aid tying. It is likely that at least the investment-related TA components of such programmes could be provided more cheaply on the basis of competitive tendering (DAC estimates that, in general, tying adds 20-30% to recipient costs, averaging across different categories of assistance). This advantage needs to be balanced against the political advantages following from retaining the involvement of the Danish resource base. In the case of PSD support directed at enterprises or at institutions supplying services to enterprises, cost effectiveness has only been measured exceptionally. One reason is that, while the principles of cost-benefit analysis are relatively straightforward, the methodologies entailed are normally complex and dependent on measurement of a range of variables that firms themselves do not collect data on, as a matter of course.

Under the category of efficiency, IFC (op. cit.) discusses the aggregate catalytic effect of an entire programme of lending, in terms of total investment of participating companies as a multiple of programme disbursement. This usefully extends the discussion of donor cost effectiveness into the area of donor added value.

Sustainability
In evaluation methodology, sustainability is defined as whether the effects of an intervention will continue after the withdrawal of support for it. Sustainability has both financial and non-financial dimensions. Its financial dimensions include whether an intervention will remain operationally sustainable in terms of generating sufficient revenue to cover operating costs. The non-financial element refers to the degree of institu-
tionalisation of the intervention and its outcome, and reflects, in turn, a combination of effectiveness and recipient ‘ownership’. Different PSD interventions raise different kinds of sustainability issue, depending on whether they imply direct or indirect, tied or micro-, meso-, or macro-forms. Indirect interventions, generally, take the form of setting up or assisting an intermediary institution, public or private, whose principal aim is not money-making, but which needs to recover all or most of its costs from clients, in order to survive/expand. In cases where they target poorer groups, such institutions will require external subsidies or cross-subsidise from other more profitable activities. Direct support, generally, takes the form of assisting enterprises to function at least viably. Here, the most appropriate sustainability indicator will be rates of enterprise-level survival, at given points in time after external support has been withdrawn.

2. The Context
3. Private Sector Development Instruments

This chapter presents seven summaries of the evaluations undertaken of the major Danish PSD instruments. Each summary gives a brief description of each instrument and of the findings as presented in the initial evaluation. The evaluation authors have validated the summaries. Finally, the Meta-Evaluation analyses the instruments and the evaluations in a current PSD context.

Danida also supports a considerable number of PSD interventions via multilateral and non-governmental channels, but these are not included and considered in this report. Support to PSD is also provided as integrated components of other Danida programmes and, in particular, in the new generation of Sector Programme Support Instruments.

The PSD instruments are listed in the order that they were established, with the intention to demonstrate their relation to contemporary priorities and policies. It has from the start been a priority to involve the Danish resource base directly in PSD activities, and with a significant or even dominant role in their execution. Involvement of the recipient country business sector has been sought through matchmaking and joint ventures.

With the gradually increasing understanding that business development is a necessary, but insufficient, factor for poverty reduction, combined with changes in the productive sectors both in Denmark and in the recipient countries, the focus of new programmes has, increasingly, changed. From specific project interventions at micro-level, the instruments have moved gradually towards a clearer focus on the enabling environment and framework for business development. The new generation of instruments pay gradually more attention to deficiencies in local conditions and give a more active role to local intermediaries.

3.1 The Industrialization Fund for Developing Countries (1967- ) IFU

The Danish Government established the Industrialization Fund for Developing Countries (IFU) in 1967. A ten-member Board appointed by the Minister for Development Co-operation, who also appoints the Fund’s managing director, governs IFU. During the first years of IFU’s existence, its operations were mainly financed by taxes from coffee and coffee products amounting to DKK 300 million. From 1996-2000, the Danish Government (Danida) provided a capital injection in the amount of DKK 750 million. The Government made a capital withdrawal of DKK 750 million in 2004.

Main objective and elements of the programme

In 1967, IFU’s purpose was to promote industrial development in developing countries by facilitating investments in these countries in collaboration with the Danish industry. The scope for IFU’s investments was broadened in 1971 to include the service and agro-processing sectors. IFU’s current understanding of its mandate is: For the purpose of promoting economic activity in developing countries, IFU has been created to promote investments in these countries in collaboration with Danish trade and industry. The Danish legal text from 1971 has, from the mid 1990s, assumed a wider meaning concurrently with the develop-
3. Private Sector Development Instruments

ment of Danida’s business sector instruments and the general wider perception of private sector and business sector development. An up-to-date translation of IFU’s objective would be: For the purpose of promoting business sector development in developing countries, IFU has been created to promote investments in these countries in collaboration with the Danish business community. Several discussions have taken place over the years on IFU’s objective and mandate, but without resulting in a reinterpretation of the mandate.

IFU can support Danish investments in developing countries by: financing of feasibility studies, buying shares, loans provision, provision of guarantees and securities, and other interventions which would enhance IFU’s objective. The most common mode for IFU’s engagement today is with investment and advisory services in project companies involving Danish companies and, most commonly, local partners. IFU provides risk-willing capital to projects in countries where financing cannot be obtained by the companies on a commercial basis or on reasonable terms and conditions.

### KEY PROGRAMME DATA

<table>
<thead>
<tr>
<th>Programme start: 1967</th>
<th>Status: Ongoing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Danida investment:</td>
<td>DKK 1.05 billion (DKK 750 million from Danida 1996-2000)</td>
</tr>
<tr>
<td>Number of projects/activities financed:</td>
<td>449 projects by the end 2001, hereof disbursements for 348 projects</td>
</tr>
<tr>
<td>Level involved at:</td>
<td>Micro-level (Company)</td>
</tr>
<tr>
<td>Implementation form:</td>
<td>Direct lending/share capital to Danish private firms</td>
</tr>
<tr>
<td>Beneficiaries:</td>
<td>Danish firms</td>
</tr>
<tr>
<td>Geographical coverage:</td>
<td>Developing countries on OECD’s DAC list with a GNI/cap below the World Bank Group IV eligibility limit (USD 5,128 (2003))</td>
</tr>
<tr>
<td>Sector coverage:</td>
<td>All sectors relevant for Danish trade and industry, except certain sectors excluded for ethical or environmental reasons</td>
</tr>
<tr>
<td>Tied:</td>
<td>Danish companies</td>
</tr>
</tbody>
</table>


**Operational issues, major challenges**

It has been a challenge for IFU to generate a sufficient number of projects within its mandate area (tied to Danish firms) and at the same time remain as a revolving fund with sufficient income for reinvestments according to the Danish firms’ strategies without political interference in where and how to invest. IFU has maintained a focus on the demand from the Danish partners for an internationalisation of Danish industry without exploring and developing policy-driven complementary interventions at the meso (or macro) levels for the fulfilment of the development objective to a larger extent. An ongoing and unresolved challenge for IFU is to modify its operational modality to comply more with external requirements of the current development context.

**The evaluation’s assessments**

At the time of establishment in 1967, the IFU modality was in line with current thinking of how to support industrial development in developing countries. IFU’s invest-
3. Private Sector Development Instruments

Investments are today high in a few countries (Lower Middle Income Countries (LMICs) and Upper Middle Income Countries (UMICs)) where investment conditions are better and the investment risk lower than in LDCs and other Lower Income Countries (LICs). This is due to IFU’s investment profile mainly being determined by the Danish partners’ investment strategies. A reinterpretation of IFU’s mandate according to the global needs of how a Development Finance Institution (DFI) composes its project portfolio and pro-actively attempts to attract investments in the poorer developing countries and how it can support business sector development in the poorer countries has not emerged. Therefore, the assessment is that IFU’s services are today less relevant from a global perspective than they could be by directing a larger share of its investments to the poorer countries.

IFU investment projects are generally relevant and they do stimulate the economy in terms of employment, technology innovations, and management practices but the direct impact from one IFU-supported enterprise on the host country’s economy, especially a large economy, is limited. An impact analysis of the development effects is, therefore, difficult. As IFU does not in a systematic manner keep contact with and monitor exited projects, it is difficult to assess long-term development impacts of IFU projects. Most IFU supported projects assessed by the evaluation are found to have positive development effects; however, these are not necessarily directly attributable to IFU, but rather to the Danish partners, especially for the larger partners. The investment projects have, to some degree, resulted in direct employment creation, the conservation of jobs and indirect job creation through sub-contractor jobs. Human capital investments through training and involvement of local staff and changed management regimes have been key features of the Danish enterprises’ activities. Environmental impacts have been the result of applying Danish norms and Danish corporate policy of the involved enterprises.

A major restructuring of IFU’s organisation, implemented in 2002, significantly enhanced the administrative efficiency. The productivity of IFU’s administration has increased with fewer, but larger projects with large Danish partners within a few dominant sectors. IFU does not apply any cost-efficiency criteria for the selection of projects to be supported, and efficiency in reaching development goals is, thus, difficult to measure. IFU’s efficiency in utilisation of the financial resources is low. The volume of investments compared to the resources at IFU’s disposal indicates that the capital utilisation is sub-optimal, probably due to the present market for IFU financing modalities being too limited and/or a lack of bankable projects within its mandate area.

IFU’s objective has been fulfilled to some extent, but not to the full potential, due to the portfolio concentration on low risk countries and the repeated support to Danish partners that have adequate financial resources and profound international experience. Furthermore, the high level of funds maintained in treasury bonds, together with the low level of leverage, have also contributed to the objective not being met to its full potential. The objective of the 1996 Danida contribution has also only to a certain extent been met by the additional financing to poor countries, especially in Africa. When looking at IFU investments in all poorer countries (LDCs and other LICs) there was no remarkable impact of the Danida contribution, indicating that IFU has not been effective in improving the orientation on poorer countries of the project portfolio.

IFU is, as a fund, highly sustainable. Over the 1968-2001 period, IFU has, overall, managed the investment portfolio in a way that it has returned the Fund a total income from project activities of DKK 1.2 billion. In addition, the total financial income over
the same period has been DKK 1.9 billion. The realised losses on share capital and loan principals on all concluded projects have been DKK 591 million. The financial quality of the portfolio and the performance of the invested projects show a varying but slightly improving trend over the last years. This could indicate that the general project performance is better, but since there has been a shift from equity capital towards loans, especially since 1996, it could also indicate that IFU is now less exposed to equity return variations.

**Contextual issues and analysis**

The interpretation of IFU’s mandate as tied to Danish firms restricts the Fund to operate exclusively at the micro-level with Danish firms. By taking its point of departure in the Danish firms’ interests in particular investment projects, the appropriateness of IFU’s interventions vis-à-vis developing country needs may be limited. Identification of projects in the recipient countries according to the country’s particular development needs and a subsequent search for appropriate international investments partners, Danish or not, would enhance the relevance of the investments. Local private firms are crucial for a national business sector development; however, investment support exclusively to particular firms owned by or associated with Danish enterprises may, in many cases, be regarded as a distortion of the local market. Only in two recent cases have exceptions been made where IFU has invested in financial intermediaries, i.e. interventions at the meso level. In these projects, IFU is supporting the local capital market by co-operation and financial support, rather than substituting it by direct financing to particular projects with Danish participation.

IFU primarily provides risk sharing by offering participation with risk capital to the Danish enterprises investing in both developed and less developed markets. There has, however, been a dominance of investments in countries, which are able to attract FDIIs, without assistance from DFIs, and at the same time an under-financing of some projects in their initial stages, as well as an over-financing of other projects (e.g. PS projects). For most of the projects, technology transfer, in terms of technical equipment and procedures, transparent and open management principles and corporate governance – by some described as a cultural change – as well as quality control and monitoring are reported by the project companies to be impacts of the Danish enterprises. Broad-based training locally, and visits to Denmark, have facilitated human resource development, but without much direct reference to IFU.

By increasingly investing in the richer developing countries (LMICs and UMICs), and less in the LDCs, poverty reduction is not as prominent a feature of IFU’s investments as of Danida’s general assistance. The project companies do, to varying degrees, reduce poverty locally by the provision of jobs and demand for services. Since 1999, IFU has had a Code of Conduct, which the project company partners sign on to with the financing agreements. The Code of Conduct stipulates IFU’s commitment in all its business operations to enhance awareness, heighten standards and work for continuous improvement related to good corporate governance, i.e. business ethics, social responsibility, human rights, occupational health and safety, and the external environment. Gender is not an issue in most IFU supported projects. In May 1998, IFU adopted an Environmental Policy targeting improvement of the external and working environment in the individual project companies. Support at the meso level to e.g. labour market organisations for institutional development in the labour market, as well as other external organisational aspects are left to the other project partners.
3. Private Sector Development Instruments

Danida’s response
Concerning IFU’s, strategy and operational modality the evaluation recommended increased focus on poorer countries, as well as a review of IFU’s engagement limits and cooperation linkages with Danida’s business sector instruments and with local financial sectors. Danida will follow the attention IFU gives to investments in poorer countries and with small and medium sized companies, and that IFU undertakes closer cooperation with Danish programmes. Danida pointed to recent adjustments of engagement limits implemented by IFU. Danida did not agree with the recommendation that IFU should promote an enabling business environment or untie its support.

3.2 The Danish Import Promotion Office (1976- ) DIPO

The establishment of DIPO in 1976 was a result of an increased focus on development of the private sector in developing countries and as part of an international trend induced by an increasing awareness of the need from developing countries to increase exports. Prior to the establishment of DIPO, the Danish Ministry of Foreign Affairs/ Danida supported the efforts to increase their exports of developing countries by financing programmes of the International Trade Centre (ITC). However, Danida decided to further support the efforts to increase import from developing countries to Denmark, and thus established DIPO.

Main objective and elements of the programme
DIPO is an integral part of the Danish Chamber of Commerce, but is financed solely by Danida. Its main objective is to facilitate the establishment of contacts between exporters from developing countries and Danish importers. DIPO, therefore, assists exporting companies in developing countries with contact mediation to Danish importers and with market information about the Danish market, as well as practical assistance in connection with company visits. All services are free of charge, but priority is given to the firms from Danida’s programme countries.

DIPO was evaluated in 1990 and 1999, of which the latter resulted in a renegotiation of the contract between Danida and the Danish Chamber of Commerce in 2001 and a revision of the budget, set-up and priorities of DIPO. The annual budget was thus cut from approximately DKK 3.7 million to approximately DKK 1.5 million.

<table>
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<th>KEY PROGRAMME DATA</th>
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<td>Total Danida investment: (1977-98) approx. DKK 40 million.</td>
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<td>Tied: Danish importers and developing country exporters (special priority given to LDC firms)</td>
</tr>
<tr>
<td>Evaluation period: February – April 1999</td>
</tr>
</tbody>
</table>

Source: Danida (2000/1) Evaluation; Danish Import Promotion Office (DIPO).
Operational issues, major challenges
The major operational issue of DIPO is that it has been operating in relative isolation from other private sector development instruments and not been subjected to the same demands as other instruments. It is unclear to what extent its services are responding to demand from exporters in the developing countries or importers in Denmark. As one consequence, the office’s target beneficiary countries were not realigned with those of the other instruments until 2000.

The evaluation’s assessments
The evaluation found that DIPO’s activities, at the time of its establishment, were in line with the perceived needs of exporters in developing countries. However, whereas one of the major barriers to export for enterprises in developing countries in the 1970s and the 1980s was to get in contact with importers, the evaluation highlighted that the major obstacle to export, at present, is lack of access to market information. Furthermore, the findings of the evaluation indicated that export assistance aiming at enhancing the ability of exporters from developing countries to penetrate European markets provides the exporters with better odds for increasing their exports than traditional contact mediation activities. This is reflected by the changes, which have occurred within other import promotion organisations that, increasingly, concentrate their efforts on increasing the capabilities of exporters by means of providing training in export management and product development.

Seen in that perspective, the evaluation found that the relevance of DIPO’s activities was limited, since its main activities are linked to contact facilitation activities and only marginal changes have taken place in its procedures and types of contact mediation services.

One of the major problems encountered by the evaluation was that DIPO had not been systematically evaluating its activities or recorded data to assess the effects and impact of their activities. However, the lack of adequate services and the fact that DIPO, contrary to its agreement with Danida, had not focused its activities on LDCs pointed to the fact that the impact might have been somewhat limited. In addition, although DIPO was operating with a rule of thumb saying that every DKK 100,000 spent by DIPO results in DKK 500,000 worth of imports from developing countries to Denmark. This means that the activities of DIPO should, in theory, have resulted in some DKK 250 million worth of imports, but no data was found to substantiate this rule.

As for the effectiveness of DIPO, it was found difficult to find a ‘yard stick’ to measure the implemented activities. This was, in particular, because the Danish Chamber of Commerce’s agreement with Danida did not specify performance goals for DIPO, nor did it specify the expected outcome of DIPO’s activities. The assessment of the effectiveness of DIPO’s activities must, therefore, be seen in relation to DIPO’s primary objective of increasing import from developing countries to Denmark by establishing contacts between exporters from developing countries and Danish importers, with a focus on the least developed countries. In that respect DIPO, had undertaken a number of different activities to achieve this objective, focusing on both import promotion activities in Denmark and export promotion activities in developing countries. However, the evaluation assessed that DIPO’s main activity – contact mediation activities (including handling of inquiries and business offers) – had produced very limited results.

The 1990 evaluation recommended DIPO to undertake a number of initiatives, of which only a limited number had been implemented at the time of the 1999 evaluation. The central recommendation to concentrate and strengthen activities and to implement
systematic planning and evaluation of all activities had, for instance, not been followed, in spite of the recognition of the importance of having such operational procedures by DIPO's management. Also, contrary to this recommendation, the scope of DIPO's activities since 1990 had been further expanded, but in general, the broad scope of activities had produced limited effects. Generally, the lack of systematic planning and evaluation of all activities had had the implication that certain activities have continued even when effects could reasonably well be expected to be limited. Finally, DIPO, by not having an explicit focus on the import of intermediary or semi-finished goods, has excluded a potentially important market for exporters in developing countries. The activities of DIPO might have had a positive effect on import, if DIPO had targeted the sourcing network of Danish companies.

The review of DIPO's daily routines and procedures disclosed that the organisation of activities indicated a lack of **efficiency** since e.g. records of requests for business offers are registered by hand and few activities are IT supported. Also, the allocation of DIPO's resources in terms of time spent did not appear efficient. Thus, the major part of the resources was spent on contact mediation and informational activities that had limited effects, and the balance between DIPO's use of funds for permanent staff and use of funds for external expert assistance did not appear to be efficient, if the aim was to professionalize and focus DIPO activities and, hence, increase the effects.

As regards the **sustainability** of DIPO and its activities, nothing in the evaluation indicated that DIPO would be sustained, should Danida choose to stop funding. The services of DIPO are provided free of charge. If provided on commercial terms, the firms that most likely are able to afford the services are those that are less likely to be interested in purchasing the same services.

**Contextual issues and analysis**

With its emphasis on contact facilitation, it is evident that DIPO is operating at the firm level without distinctions made according to firm size or own specific capacity. The activities are, therefore, not targeted. It is also evident that the recommended focus on LDC firms had not been implemented after the first evaluation. As a result of the 1999 evaluation, the group of target beneficiaries was narrowed down from LDC firms to firms from Danida's programme countries, and hence aligned with the targets applied for Danish development assistance in general. In addition, as highlighted above, the evaluation found that by not focusing on the outsourcing market in Denmark, possibly valuable effects were not produced.

Concerning DIPO's integration with other private sector related instruments, no external pressure had been applied to induce DIPO to improve synergy with other Danida activities, although obvious synergies and potential for collaboration existed between DIPO's activities and Tech Change, and to some extent also the PS Programme. But, in the perspective of promoting synergies and co-ordination with Danida's other private sector activities, the placement of DIPO in the Danish Chamber of Commerce was deemed inappropriate in the 1999 evaluation.

As a result of the objective to increase imports into Denmark, it is obvious that assistance is tied to coupling the developing country exporters with Danish importers, and that this cannot be any other way. However, the evaluation highlighted that the group of firms targeted in Denmark had been too narrowly defined in that the component and subcontracting market had not been in focus.
DIPO’s activities include only to a limited extent the transfer of technology in the form of competences, as a consequence of the primary focus on contact mediation. As such, relevant TA related to export promotion or to enhancing the capability of exporters to market their products in Denmark has only been carried out to a limited extent, although this approach seems to be the one providing the largest benefits.

The evaluation does not assess, to any particular extent, DIPO’s performance in relation to the overall development objectives of Danish development assistance, nor does it consider effects related to gender, environment and human rights, etc. International trade is assumed to imply many development benefits, but given the specific lack of documentation in this case, such an assessment seems not possible except as a theoretical exercise.

The evaluation’s critical assessment of DIPO’s relevance and its lack of poverty orientation was accepted by Danida and led Danida to adjust DIPO’s target countries and cut its budget to less than half of the original.

Danida’s response
The recommendations of the evaluation were generally accepted by Danida. These included an increased focus on export promotion activities and enhancement of exporters’ capabilities, and concentration of activities on a limited number of developing countries where Danida had PSD activities. The activities of DIPO were changed and the annual budget was reduced as a consequence of the evaluations.

3.3 Danish Centre for Technology Transfer (1991-98) KfU

In order to promote more appropriate and relevant Danish technology for development assistance projects, and thereby improve the opportunities for Danish enterprises to participate in deliveries financed by development assistance, the Centre (Kontaktpunkt for Ulandsteknologi – KfU) was established in 1991. In particular, larger multilateral projects encountered many problems and achieved low levels of success and sustainability. It was at the time assumed that this was primarily due to inadequate and unsuitable technology input. It was also, at the time of establishing the Centre, an objective to increase the participation of the private Danish industrial sector in the development processes. The sector had met with difficulties in making in-roads to the international development markets and, in particular, supplying products and services to the multilateral development programmes. Through provision of general information and specific information about business opportunities, as well as counselling, the new Centre should mobilise and improve the potential of the Danish productive sector in development work. The demand for KfU’s services, however, picked up only after KfU was given the administration of a grant fund, the Subsidy Scheme, financially supporting technology adaptation processes organised by Danish enterprises.

The changing interpretations of the objectives for KfU, under the administration of a large Steering Committee and a Panel, as well as being positioned directly under Danida, put the small organisation with 1.8 to 3.8 man-years through much unproductive hassle and strain, totally outside their administrative control. The Centre was located within the premises of the Danish Technology Institute, facilitating use of relevant technological know-how at the institute. After the evaluation in 1996, the recommended continuation of the information unit and training unit was not followed, but the Centre with all its functions was closed.
3. Private Sector Development Instruments

Main objective and elements of the programme

The initial objective of KfU was to promote the supply of appropriate and competitive Danish technology in development assistance projects, and thereby improve the opportunity for Danish enterprises to participate in deliveries under development assistance.

In 1993, with the establishment of the Subsidy Scheme the objective was revised to: increase the competence of Danish enterprises in participating in transfer of technology to developing countries. Hereby KfU shall further the use and development of appropriate Danish technology in order to increase the development effect of the development assistance, and to strengthen the engagement of the Danish business community in the developing countries in general, and in the development cooperation in particular.

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<tr>
<th>KEY PROGRAMME DATA</th>
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<tr>
<td>Tied:</td>
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Operational issues, major challenges

The Centre put emphasis on dissemination of information related to adaptation and the technology transfer process, to training in technology transfer competence and to actual adaptation of specific technology. Except for the information provision, which worked well, a major weaknesses was identified in the methodology applied by KfU in implementing its functions, i.e. the counselling and, in particular, the administration of the Subsidy Scheme. KfU’s approach was characterised by a predominant focus on the Danish partners with a narrow focus on technical solutions and market conditions. By contrast, little attention was given to the recipients, to the local environment where the transferred technology would be operating, to the constraints as experienced by the developing country partner, and to the assimilation of the technology by recipient countries. In addition, the local commercial and market related elements of the projects were, generally, neglected.

The evaluation’s assessments

Based on the fact that Danida was the sole contributor to KfU, the evaluation assumed it obvious that the activities had to be targeted, as directly as possible, towards the development of the productive sector in the specific developing countries. Involvement of Danish industry should, principally, be determined by this objective, and development of Danish products for potentially increased sales in developing countries fell, as such, outside the definition. But the interventions were found to have only indirect effects in
the developing countries. Moreover, the development effects were almost impossible to verify, except for some very blurred indicators.

The evaluation found that the main reason for KfU’s lack of success in achieving results was un-precise and unclear objectives and targets, weak guidance of the organisation, and inability to develop and market technical information and counselling facilities with relevance for the Danish actors in the development setting. The Centre also operated in isolation from the other development institutions. The objectives and targets were unclear for the Subsidy Scheme. In the opinion of the evaluation, the activities of the Centre had been focused on the solutions of other issues than tackling the main cause for the low quality of Danish industrial technology transfer projects. Lack of motivation and participation by Danish industry, apart from the access to funds from the Subsidy Scheme, was seen to be a consequence of a mistaken strategy.

Due to the fact that focus was primarily on the Danish industrial partner, without particular focus on the market potential in the developing countries and with minimal involvement of the local industrial partner, the development impact was found to be limited. The Centre had been formulated under an outdated focus on adaptation of technology in Denmark that resulted in few sustainable improvements in the recipient countries.

The evaluation did not find that the development effects of the interventions and the funds invested were sufficient to justify a recommendation for continued funding after completion of the Centre’s second term, primarily due to the ineffective models of technology transfer applied by KfU. This applied primarily to the Subsidy Scheme, but also to some of the functions of KfU.

Seen in the light of the administrative set-up, decision making structure and unclear guidelines, the evaluation found that the administrative part of KfU should not be held responsible for the lack of efficiency, of clear performance indicators and of few measurable results. The stability necessary for an efficient organisation of the work was rarely present.

Apart from the competence building and human resource development, the interventions of the Centre were not found to be sufficiently sustainable to recommend continuation of the Centre in its existing form. The information section was found professionally well-functioning and useful in promoting general and sufficiently specific information to establish a broad understanding of the complexities inherent in providing development assistance. This section was suggested transferred to another similar institution.

**Contextual issues and analysis**

The Centre’s involvement was primarily at the micro-level in dealing directly with company-to-company projects. The training in technology transfer competence may be classified as micro-level intervention, but this element represented a less significant share of the Centre’s interventions.

The support provided by KfU was tied to Danish companies having established project relations with companies located in developing countries. The perception that purely technical and technological difficulties were the main reasons for limited development had already become outdated during the second phase of the Centre’s existence, when the Subsidy Scheme was introduced to boost interest of the Danish private sector. Fail-
3. Private Sector Development Instruments

ure to include market aspects and the predominance given to the Danish partners in some cases affected the local partner negatively, and had a negative development effect.

In spite of being such a small organisation, KfU was publicly exceptionally visible. Particularly its information products were widely circulated and instrumental in creating awareness of development potentials and challenges, broad based interest, as well as support for development assistance in general. After the termination of the Centre, the function of disseminating public awareness creating information remains a void in the Danish development setting.

With respect to the instrument’s contribution to the Danish development objectives, measuring the achievements in poverty reduction, being the overriding objective of Denmark’s development policy, is found to be negligible, if not at times negative. Within the area of democratisation, good governance and human rights, no intervention had any direct relevance. The issue of gender was not in focus. However, one area that saw impact from the interventions was the effect of focus on external environment and working environment where the Danish culture and examples established models for the partner companies operating in the developing countries.

Danida’s response
The evaluation recommended significant and fundamental changes in the operational modality of the institution. It was recommended that the revised KfU should focus on public relations, training for assimilation of technology, training quality and implementation monitoring. Danida concluded that KfU might not be qualified to take on such tasks and decided instead to terminate its activities at the end of the second phase.

3.4 The Mixed Credit Programme (1993 – ) MCP

Danida’s Mixed Credit Programme was launched in September 1993. The MCP replaced the Danish State Loan Programme. The MCP is compatible with other bilateral donors’ tied concessionary loans under the umbrella of the OECD-DAC “Helsinki Arrangement”. The purpose of the agreement from 1992 was to ensure that such schemes operate in the interest of aid delivery and to avoid trade distortion. The eight-member Committee for Mixed Credits (CMC) is appointed by the Minister for Development Co-operation. The CMC has been granted the authority to approve MC subsidy support, independent of the Appropriation Committee of Parliament, provided that the support remains within the annual budget allocation frame (DKK 300 million).

Main objective and elements of the programme
The Programme had up to 2002 no clearly stated objectives, outputs or indicators of its own. The Document of February 1998 providing the mandate for the MCP stated the purpose as: “The support shall be applied to make the repayment conditions more advantageous for loans that finance Danish project supplies of equipment and services to developing countries.” The 1998 Review of the MCP recommended objectives and outputs, but these have not been formally adopted, although they are generally followed in practice. A Danish mixed credit is a partially tied, interest free or low interest loan with 8 to 15 years maturity, aimed at financing development projects executed by Danish exporters in creditworthy developing countries.
Potential projects valued at over SDR 2 million and with a subsidy level of less than 80% must satisfy one of two key tests – financial non-viability and non-availability of alternative finance – to be eligible for a tied MC. MCs for the LDCs are not subject to these tests. It is a requirement that the commercial contracts are based on international competitive bidding or limited international bidding. In cases where a sufficient number of Danish suppliers exist, the bidding could be limited to Danish suppliers. In special cases, price verification can replace competitive bidding.

**Operational issues, major challenges**

The lack of objectives leaves room for interpretation on how to strike the balance between export promotion and development assistance – including the extent to which poverty reduction and the cross-cutting issues could be incorporated into the project design. The new MCP guidelines from 2001 do not adequately pursue a comprehensive development perspective. The types of impacts to be expected and the indicators needed to ascertain achievement of impacts are not clearly specified in the guidelines and, thus, nor in the appraisal reports. A weakness of the MCP is that it requires a substantial amount of donor interventions to ensure that development projects are appropriately conceived, implemented and operated.

**The evaluation’s assessments**

All the projects evaluated are addressing sector needs and priorities in the recipient countries. In general, the project objectives are consistent with national sector policies and strategies. Apart from a few Chinese projects, all projects are considered **relevant** as far as they contribute positively to the national sector framework. The significance of the MCP as a financing tool differs considerably between the various countries. There

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**KEY PROGRAMME DATA**

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<td>Beneficiaries: Danish exporters and Danish banks</td>
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<td>Geographical coverage: Developing countries on OECD’s DAC list with a GNP/cap less than 80% of the WB limit for 17-year loans (USD 2,348 in 2003/04)</td>
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<td>Tied: Danish suppliers (untied window opened in 2002 for Danida programme countries and South Africa)</td>
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<td>Evaluation period: October 2001 – March 2002</td>
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*Source: Danida (2002/4) Evaluation. Mixed Credit Programme (MCP).*

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9. **Special Drawing Rights (SDR) = USD 1.46 (20.4.2004)**
appears to be no reasons why the MCP could not pursue a higher degree of consistency and coherence with the Danish development policy, without jeopardising the MCP’s special nature.

The MCP projects assessed by the evaluation have contributed positively to public and private sector development – the main emphasis, however, being on the public sector projects. The public sector projects contribute to public sector performance in service delivery or access to and relevance of services. The private sector projects contribute to private sector development potentials or performance, in particular as concerns environment and working environment. Most projects have general developmental impacts on society and in cases functions as demonstrations of introducing new technology and better environmental management; however, depending on the sector the impacts on poverty reduction, gender and democratisation are less evident. Education, health and water sector projects do impact on women’s access to or opportunities in these sectors and such projects also have a clear impact on poverty reduction. These sectors dominate the MCP accounting for almost 60% of the total subsidy amount. Especially energy and industrial (environment) projects have little or only indirect impacts on gender and governance, but they do all have environmental impacts and have when located in the poorer regions created employment and economic development.

The implementation of the projects varies significantly in success, and therefore also reaches different levels of effectiveness. In general, the majority of the projects assessed by the evaluation have met or are likely to meet their immediate objectives. Only a few projects in China and Thailand (water, energy and environment sectors) have not achieved their objectives. A precondition for meeting the objectives is the successful planning, implementation and maintenance of the projects. If the projects were implemented the way they were planned and included the recommendations from the appraisal reports, it would have improved the overall effectiveness of the projects.

In general, the MCP is perceived to have operated efficiently. Around 60% of all projects assessed by the evaluation have generated the intended outputs on time and within the budget frame or are likely to do so. Most inefficiency is due to time delays often caused by external factors and not to cost overruns. Some countries and sectors are more able to create a high level of efficiency than others. The quality of the background information needed for appraisal of projects has not always been sufficient. The feasibility studies carried out, especially in the early days of the MCP, were often weak and incomplete and this complicated the preparation of quality appraisal reports. Furthermore, the recommendations of the appraisal reports were often not fulfilled. In the main MCP countries, after-sales service from the Danish suppliers has not always been satisfactory. Training activities have sometimes been regarded as an appendix rather than as an integrated part of the projects. Poor training has, undoubtedly, reduced efficiency of a number of the early projects.

For the public sector projects, i.e. most projects in China and Thailand, and health and water sector projects in other countries, the question of project sustainability relates very much to how institutionalised the projects are in terms of increased managerial and financial capacities for operation and maintenance. For China, the prospects for the projects’ sustainability are assessed to increase over time, except for very few projects. For Thailand, the prospects for sustainability are good for half of the projects and declining over time for the rest due to weak management and maintenance systems and uncertain budget allocations. For the Latin American projects, which are mostly with the private
sector, the prospects for retaining the positive impacts are good, also in the long-term. For the remaining countries, the prospects for retaining positive impacts from the projects will, in general, be good for more than half of them.

**Contextual issues and analysis**

The MCP is involved at the macro (state) level (with 80% of subsidies paid) and, to a minor extent (20% of subsidies), at the micro (firm) level. Danish private exporting firms are the beneficiaries of the instrument. The MCP is thus not, as such, a business sector development instrument, as the majority of project activities are with the public sector in recipient countries. The MCP’s role is more that of financing procurement of goods and services from Danish firms for specific development projects. Goods and services that could, in principle, be delivered by firms from other countries than Denmark. The process of untying aid within the EU puts an increasing pressure on the tied MCP.

At the time of the evaluation, the MCP was exclusively tied to Danish suppliers. In 2002, an untied window under the MCP was opened for the Danida programme countries and South Africa with an annual budget frame of DKK 50 million. The Danish suppliers have, generally, benefited from the MCP by enhancing their awareness and capability to compete on the international markets. The number of Danish suppliers is relatively small, but those involved are well acquainted with the MCP procedures and requirements through repeated involvement. However, the limited competition may result in relatively higher prices. The impacts on the Danish resource base and MC suppliers are generally positive.

The significance of the MCP as a financing tool differs considerably between the various countries, with the main MCP countries, China and Thailand, having mixed credit programmes from many other countries than Denmark to draw on, whereas the Latin American countries, in general, indicate that no other MC programmes would have been relevant. The recipients consider the MCP competitive with MC programmes from other countries because the Danish MC projects offered better technology, monitoring and training together with attractive prices for the products and services delivered. In those projects that do not properly integrate capacity transfer, doubt is placed on the project’s ability to create long-term development effects.

The MCP fulfils the Danish development cooperation policy to a varying extent depending on the sector, and the national and local contexts. The emphasis on aid quality has increased over time, which results in recent projects becoming more relevant and sustainable. The potential impact on poverty reduction is, in a global perspective, relatively higher in low-income countries and when the poorer areas and segments of the population are targeted in the cooperation countries. The MC sectors (education, health, water & sanitation, energy and industry) offer varying prospects for poverty reduction and for taking the crosscutting issues into consideration. Most projects have indirect impact on economic and social development and thus the potential to contribute to poverty reduction. However, the potential to reduce poverty has not been captured in the design of all projects. Of Danida’s cross-cutting issues, the projects have not all incorporated the environmental mitigation measures and have, in general, placed limited emphasis on gender issues and democratic development.
Danida’s response

Danida generally accepted the recommendations made by the evaluation, including elaboration of strategic guidelines and opening of an untied loan window, but rejected including more specific expertise on the Mixed Credit Committee since this was judged to possess sufficient expertise. The specific recommendations concerning MC operational activities in China, Thailand and Latin America were generally agreed to, and Danida also accepted that there was room for improvement in the programme’s design and appraisal procedures. Danida noted, however, that since the establishment of the programme, operational and procedural matters had been already adjusted and refined and stated that it anticipated that such processes would continue in the future.

3.5 Private Sector Development Programme (1993 – ) PS

The PS Programme was initiated in 1993 with a three-year test period (1993-1996) in India, Ghana and Zimbabwe. A second phase, for a five-year period (1996-2001) was approved in 1996, adding three new countries, Uganda, Vietnam and Egypt and abolishing the “enabling environment” component in the original design. In 1999, the PS Programme was expanded to cover an additional five countries, i.e. Bolivia, Mozambique, Nepal, Nicaragua and Tanzania. Later the same the year Bangladesh replaced India as a PS Programme country.

Main objective and elements of the programme

The PS Programme is part of Danish development assistance and is, therefore, subject to its general development objectives: poverty reduction; gender equality; environmental protection and democracy. These objectives are to be achieved by contributing to economic growth and social development through facilitating business-to-business co-operations between private companies in the developing countries and Danish companies.

The total budget for Phase I was DKK 180 million, while that for Phase II was DKK 853 million, of which DKK 103 million were for administration. Business-to-business co-operation is supported with technical assistance and finance for the partners to initially visit each other, for special studies required for assessing the scope of possible co-operation and for subsequent feasibility studies. A start-up facility can also be provided to further prepare the partners’ co-operation and for initial technology transfers of up to DKK 0.5 million. Further support can be received under a Partnership project facility, typically up to DKK 3 million.

A PS-Secretariat in the Ministry of Foreign Affairs has the overall management and implementation responsibility. PS-Coordinators manage the PS-Units located at the Danish Embassies in Ghana, Zimbabwe, Vietnam, Egypt, Bangladesh and Uganda.
3. Private Sector Development Instruments

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<tr>
<td>Programme start: 1993</td>
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<td>Status: Ongoing</td>
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<td>Total Danida investment: DKK 1.03 billion (Phase I + II (1993-2001))</td>
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<td>Number of projects/activities financed: 446 projects (-2004 (187 partnerships &amp; 259 start-ups))</td>
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<td>Level involved at: Micro-level (Company) (Initially also meso-level support)</td>
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<tr>
<td>Implementation form: Secretariat in Danida and Programme Coordinators in the relevant Embassies; matchmaking by the Confederation of Danish Industries and the Danish Federation of Small and Medium-Sized Enterprises</td>
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<tr>
<td>Beneficiaries: Partnership companies</td>
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<tr>
<td>Geographical coverage: Danida Programme Countries</td>
</tr>
<tr>
<td>Sector coverage: All sectors relevant for Danish trade and industry, except certain sectors excluded for ethical or environmental reasons</td>
</tr>
<tr>
<td>Tied: Danish companies</td>
</tr>
<tr>
<td>Evaluation period: January-March 2001</td>
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Operational issues, major challenges
Two main operational issues related to the implementing intermediaries were highlighted by the evaluation. One was that the set-up with the PS-Units located at the Danish Embassies in the respective countries was found to be rather elaborate. The other concerned the roles played by the Danish Federation of Small and Medium-Sized Enterprises and the Confederation of Danish Industries. There are potential conflicts of interests arising from, on the one hand, assisting the PS-Secretariat and the PS-Units in implementing the PS Programme, and on the other, up to 1998 directly benefiting from support under the PS Programme as well.

More generally, a focus on strictly enterprise-level outcomes, lack of priority setting and limited impact assessment was said to imply that the composition of the programme portfolios was less than optimal. Portfolios are dispersed, with projects thinly spread over many types of enterprise and sector, generating few synergy effects. Opportunities for demonstration and dissemination of experience, of providing “good examples” etc. are typically not exploited, and spin-off effects on other parts of the private sector are very limited.

The evaluation’s assessments
Of the five evaluation criteria, the evaluation focuses to a large extent only on the impact of the PS Programme. In this respect, the development impact of the PS Programme is assessed at three levels: The immediate objective of improved local partner businesses, which is assumed to contribute to the intermediate objective: Private sector development. This in turn is assumed to contribute to the development objective of promoting sustainable and socially balanced economic growth.
In terms of the immediate objective, the PS Programme is found to have been reasonably successful. The co-operations established, in general, resulted in relevant technologies being transferred from the Danish to the local partner. Technology transfer is defined to include not only specific technical aspects, but also organisational, marketing and management expertise. This is assessed as having contributed to important improvements for the local businesses, though many local beneficiaries also face other constraints limiting the effects and longer-term sustainability of the technology transfer. From the point of view of the local partner, the PS Programme, however, appears rather successful.

In contributing to the overall development of the private sectors of the respective countries, the PS Programme is considered less successful. There are clear, direct positive effects on employment and foreign exchange earnings in a number of the individual local companies, and important instances of improvement in environmental and gender aspects in partner companies. However, this was offset by the thin spread, lack of synergy and lack of demonstration effects of the portfolio, as referred to above.

The evaluation assessed the PS Programme’s contribution to growth and social development mainly in terms of its performance in respect of job creation and improved international competitiveness. Lack of priority setting implies, however, that the project portfolios do not consistently reflect these concerns. It is also argued that the segments of the private sectors being supported are not necessarily those which have the highest growth potential, or which would contribute most to socially balanced growth processes. The PS Programme does not, for example, consistently prioritise support to small and medium sized enterprises, which might be expected to generate broad-based growth.

In sum, the evaluation assesses that the PS Programme has been reasonably successful with respect to attaining its immediate objective, but that it has been much less successful in contributing to the overall development of the private sectors of the respective countries. Further, the PS Programme is seen as, generally, paying very little attention to the issue of economic growth and social development, seriously affecting its impact at this level.

Contextual issues and analysis

The PS Programme is operating at the firm level, but in terms of e.g. impact, the evaluation criticised that overall issues are neglected when PS Programme impact is assessed and discussed.

The evaluation’s treatment of issues other than impact, and to a lesser extent, efficiency is – as noted – patchy and unsystematic. The evaluation nonetheless addresses Danida’s cross-cutting issues. In terms of gender, it is stated that the PS Programme does not offer any specific tools for improving women’s socio-economic conditions. It is, however, assessed as having positive impact on women’s conditions in cases where women receive training or when jobs are created for women, although such positive effects appear to be somewhat coincidental, as the business partnerships supported will tend to follow ‘the norms of the country’. As in the case of gender, the PS Programme is not designed to address issues of e.g. labour rights as such, but PS guidelines specify that ILO conventions have to be implemented, although partner firms did not seem to be fully aware of the content of these conventions. In the present design and implementation of the PS Programme, there is no focused concern for transferring Danish traditions for labour rights and democratic practices in the work place. Nor are there explicit strategies for
how to approach these concerns in the context of the individual countries. As regards the environment, the PS Programme has a facility supporting improvements in external and working environment, and the PS guidelines recommend that environmental issues be taken into consideration at the earliest possible stage in project planning. The extent of the use of this facility varies from country to country. In ‘old’ PS-countries, it has been widely used and has achieved good results. In the new countries, the use of the environment facility is less widespread, but the general assessment is relatively positive as regards the environmental impacts of the PS Programme.

Danida’s response
A redesign of the programme to bring its activities more in line with specific country strategies, recommended by the evaluation, was strongly rejected by Danida – arguing that there was no need for specific PSD strategies. The recommended reconsideration of objectives and strategy as well as reintroduction of enabling environment support and more support instruments was found unnecessary since Danida had decided to maintain business to business as the main focus for the programme. Some adjustments would continue but without a major change of focus.

3.6 The Business-to-Business Programme (1995 – ) B-t-B

The B-t-B Programme was launched in June 1995. The B-t-B was to be implemented as part of Danida’s transitional assistance to South Africa (SA), and end 1998. In 1998, however, the B-t-B was extended to 2001. In April 2000 it was proposed that the B-t-B be further extended without a definite time limit.

Main objective and elements of the programme
The objectives of the B-t-B are to develop and strengthen business opportunities and to create jobs for the previously disadvantaged population groups of South Africa. This is to be achieved through support to the development of commercially viable businesses through capacity building, transfer of skills, know-how, technology and access to capital and markets, based on the formation of business co-operations between Danish companies and selected black-owned or controlled South African small and medium-sized businesses. The long-term objective is that the private partners can continue the partnership without support. The B-t-B covers expenses connected with the transfer of management, business skills and technology from Danish to South African companies. Limited support can be given for preparatory activities and loan guarantees. The proceeds from the repaid loans are paid into KHULA – a fund established by the Government of SA with the purpose of giving access to credit for the development of Small, Medium and Micro-Enterprises (SMMEs).

On the Danish side, the B-t-B was in the hands of a Co-ordinating Unit (CU), which had a section in Danida in Copenhagen and one in Pretoria situated at the Royal Danish Embassy (RDE). The SA partner is the Centre for Small Business Promotion (CSBP) within the Department of Trade and Industry (DTI). To initiate the programme, the Finance Committee of the Danish Parliament approved the first DKK 80 million in 1995. The next DKK 80 million were approved in April 1997 and, subsequently, DKK 30 million were approved in June 1998.
3. Private Sector Development Instruments

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<th>KEY PROGRAMME DATA</th>
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<tr>
<td>Programme start: 1967</td>
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<td>Number of projects/activities financed: 50 partnerships supported by December 2001</td>
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<td>Level involved at: Micro-level (Company)</td>
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<td>Beneficiaries: Partnership companies (SA Previously Disadvantaged Individuals)</td>
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<td>Sector coverage: Production sectors and services. Agents and retailers are excluded as are other sectors for ethical or environmental reasons</td>
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<tr>
<td>Evaluation period: April – August 2000</td>
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</table>


Operational issues, major challenges
The major challenge for the B-t-B was to reach the target of supporting establishment of 50 long-term commercially viable partnerships between black owned or SA controlled and Danish businesses by the end of 2001. This target proved to be difficult to achieve. One of the more prominent reasons was the lack of interest for the B-t-B shown by larger Danish firms.

The evaluation’s assessments
There is no doubt that the B-t-B, in overall terms, was relevant with respect to the objective of supporting black’s economic empowerment, but the evaluation’s assessment was that due to changes in the context, including South African priorities and policies in the area, a number of issues should be revised in order to realign the B-t-B with current priorities. In particular, it was found that the objectives of the B-t-B were too narrowly defined, compared with the present SMME strategy and practise in South Africa. For instance, it was recognised that the insistence on the majority of shares to be held by previously disadvantaged individuals from the outset might not always be to the benefit of the partnership and that ownership is only sustainable when combined with profound managerial skills.

The results as regards impact were mixed and varying with the assessed potential of the partnerships. For instance, in partnerships with so called ‘Demonstrated Financial Potential’, a positive effect with regard to empowerment of individual South Africans has been noted, while there were no clear signs of earnings/creation of shareholder value. On the other hand, the evaluation found that in the cases where the partnership failed, the local partners lost everything. Hence, in addition to not creating any shareholder-value, the B-t-B had a very negative effect on the social situation for these South Africans leading to a number of situations of disempowerment. The same impact pattern was noted as regards the overall effect of training where the SA-partners from firms with ‘Demonstrated Potential’ were clearly satisfied with the TA received from the Danish partners, while those from firms with ‘Unclear Potential’ expressed much more dissatisfaction with their technical assistance. When impact was measured as level of
employment creation it was concluded that the B-t-B had only played a very limited role; the initial expectations were over-optimistic.

The immediate objective of the B-t-B was the establishment of 50 long-term commercially viable partnerships between black-owned or controlled SA and DK businesses by the end of year 2001. In assessing the effectiveness of achieving this target, the evaluation found that success was highly unlikely and that the total number of commercially viable partnerships would be somewhere between 20-22 and 33-35 partnerships. Although the activities of the B-t-B had proved not to be sufficient to reach the intended outcome, the Coordination Unit had taken initiative to introduce new and relevant supporting activities to improve the viability and sustainability of the partnerships, including strategy workshops, cultural workshops, mentoring, and turn-around-management support.

With respect to the efficiency of the B-t-B, the assessment found that for some of the instruments of the programme, the money could have been spent more wisely if a different approach had been followed. One issue of concern was that some of the Danida supported partners’ visits had more the character of tourist visits than the intended purposes. Secondly, the preparatory phase was found highly cost-inefficient, since the prospective partners only had a very limited interest in the content and possible usefulness of preparatory studies. Thirdly, the loan guarantee scheme was found not to have functioned in accordance with its objective of ensuring appropriate and timely access to financing. Fourthly, the associated costs per job created were assessed to be very high when compared to average costs for jobs created in SA. Finally, although foreseen in the programme document, the B-t-B had had no impact on South African policy development in the private sector area.

Although the evaluation revealed a number of positive effects of the B-t-B it was also found that it was a high-cost programme, and that it had not managed to create institutional ownership on behalf of the South African counterpart. The B-t-B’s sustainability was, therefore, dependent on continued Danish funding. As for the sustainability of the partnerships supported, the evaluation found only a few indications that the partners would actually continue their cooperation beyond the period for which Danida support was provided. The evaluation assessed that the attainment of that objective was highly unlikely and that the total number of commercially viable partnerships would be somewhere between 20 and 35 partnerships.

**Contextual issues and analysis**

The B-t-B is clearly operating at the company level, and, in general, the target group was found to be appropriate, with the exception that Greenfield firms, in general, and entrepreneurs, in particular, should be excluded, since the B-t-B had exhibited very low effectiveness and efficiency when assisting new entrepreneurs. Likewise, the requirement of the black partner having to provide 50% of the share capital from the immediate formation of the partnership had proved to be too constraining. At the same time, it was highlighted that the B-t-B had, primarily, been of interest to small Danish companies with no prior international experience and it had, therefore, only been possible to mobilise a few of the many medium-sized Danish companies with prior international experience.

The evaluation recommended that the B-t-B continued to be handled by the Coordination Unit in the short-term, while better use was to be made of the services of SA SMME
advisory and training institutions, and that mentors were engaged to support, as well as to facilitate the internal partner relations. But it also recommended rethinking the administrative set-up of the B-t-B in order to strengthen the participation of the SA partner in the management of the B-t-B.

As for foreign partners, the B-t-B was only including Danish firms, but, as mentioned above, it was difficult to attract medium-sized Danish firms, and the objectives were therefore suggested changed to accommodate this shortcoming.

Experiences with transfer of technology and training in the B-t-B were mixed. Part of the reason was that not all Danish partners contributed the required technical skills, which in cases turned out to be insufficient or outdated. The intensity of the training programmes had, in certain instances, exceeded the absorption capacity of the partnerships, which could have benefited from an extended period of training. In some cases, the short/abridged period also impacted negatively on the short-term sustainability of the partnerships.

As for the overall development objectives, direct poverty reduction is not per se a concern in the B-t-B, but rather seen as a function of expected employment creation. Seen in that light, the B-t-B may be perceived as having only limited effects on poverty reduction. The B-t-B does not have any direct focus on gender, but the evaluation highlighted that a very large proportion of the people trained were previously disadvantaged individuals and a large part of these were women. Since the B-t-B includes grants supporting mitigation of negative environmental impact and occupational health and safety it is clear that it, to a large extent, is in harmony with the overall environmental concerns of Danish development assistance. Finally, the B-t-B may also be seen as having certain democratisation effects, in particular as a consequence of increased and improved economic participation of previously disadvantaged population groups.

Danida’s response
Danida generally agreed with the critical assessment of the B-t-B’s implementation and the recommendations of the evaluation, although it declined the evaluation’s suggestion of diluting the black ownership condition for qualifying companies. A recommended expansion of training in managerial and operational competences was also accepted, as was use of South African institutions in identification of new partners. A recommended start-up facility would also be considered for introduction. The inclusion of “green field” projects and the functioning of the loan facility were revised as recommended and the systems for monitoring improved by integrating the B-t-B into the PS Programme.

3.7 Business Sector Support Programme, Tanzania (1998-) BSSP

As part of a Danish concept shift in development policy, from provision of support to individual and specific projects, towards a stronger sector approach with potential for integrated synergy effects, the BSSP was formulated during a short period in 1996 -97, after a process of radical political system change in Tanzania. The BSSP supported eight different sub-programmes or components found to significantly limit the development process of the private/business sector in Tanzania at the time. Two earlier Danida supported projects, which were incomplete, were included in the BSSP: The commercial bank, CRDB and VETA, the national vocational training centres. Additionally continuation of a Danish – Tanzanian twinning arrangement for institutional strengthening of the Confederation of
Tanzanian Industries (CTI) was included in the BSSP. Six new programme components were formulated or selected for support; Wholesale Micro-Credit at CRDB, Venture capital financing via FEDHA, Establishment of a Commercial Court under the High Court, Revision of the Labour Laws, as well as institutional strengthening of the unit for Occupational Health and Safety (OHS) within the Ministry of Labour, Youth Development and Sports, MLYDS. To balance the support, a second twinning arrangement for institutional strengthening of the Trade Union Congress (TUCTA) was included.

Main objective and elements of the programme
The main objective of the BSSP was increased growth and sustainable employment through the promotion of private sector development. The BSSP focused on expansion of the private sector through direct investments, financial and technical support for the establishment of an enabling environment, being seen as mechanism for achieving many of the common development objectives in a sustainable manner. Specific objectives were:

- Increased match between the skills demanded by the private sector and the supply of trained personnel.
- Increased availability of financial services for small and medium customers through a viable institution.
- Increased availability of financial services for the smallest customers through the development of sustainable micro-finance.
- Expansion of small and medium enterprises through access to risk capital, as well as technology transfer.
- Enhanced economic policy dialogue and business services through capacity building of the CTI.
- Enhanced services for employees through capacity building of the trade union movement.

KEY PROGRAMME DATA

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<td>Total Danida investment:</td>
<td>DKK 150 million. II; Tanzania, Vietnam, Ghana 150 million each</td>
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<td>Number of projects/ activities financed:</td>
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<td>Level involved at:</td>
<td>Macro- and meso-levels.</td>
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<td>Implementation form:</td>
<td>Grant TA and funds to component holders.</td>
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<td>Beneficiaries:</td>
<td>Public and private institutions in partner countries</td>
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<tr>
<td>Geographical coverage:</td>
<td>I: Tanzania. II: Tanzania, Vietnam &amp; Ghana</td>
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Operational issues, major challenges
The limited level of formalising of the components with vaguely defined targets left room for flexibility. The negative effects of this approach, however, outweighed the benefits because it created confusion during the implementation phase and made self-assessment and evaluation difficult. Lack of anchoring of the BSSP with a relevant private sector/public body that could have taken real ownership of the interventions was an organisational weakness. The roles and functions of the technical assistance should have been...
more clearly defined at the time of recruitment, in order to avoid confusion and complications. This was of outmost importance in a business environment where cost issues and competitiveness are prime issues. Revision of the plans, roles and functions was not undertaken regularly, resulting in less than optimal effects. Revised need-assessments of sub-activities and updated specification of required outputs should have been made by the implementing institution in order to achieve better efficiency.

**The evaluation's assessments**

The evaluation found that the BSSP components had been selected among the highest priority areas, with focus on important bottlenecks for development of the private sector in Tanzania. At the time of the formulation of the BSSP, access to competitively priced financial services, instruments for commercial conflict resolution, labour market reforms, strengthening of analytical private sector institutions, as well as vocational competence building were, also in a longer term perspective, commonly agreed to be limiting elements for enhanced economic development.

The support provided was found relevant and effective in reducing some of the hurdles limiting sector development. The objectives and the activities of the components were generally found to be of high relevance for the Government of Tanzania and for the active development units within the private sector during an early period of radical system change. The resources allocated for the BSSP were found to be reasonably sufficient to achieve the at times vaguely formulated targets.

The BSSP was weakened by lack of specific targets and performance indicators, but the general opinion, both among implementers, relevant government officials and sector representatives, was that the BSSP had been successful and made significant impacts in areas critical for economic and social development of the private and business sector. Generally, the expected component results had been successfully achieved as far as the objectives were defined or assumed. With an expected continued growth, impacts would most likely also continue to materialise as far as job creation and income generation was concerned, resulting in increased revenues and multiplier effects.

Late start-up of some components and some implementation delays to some extent hampered the effectiveness of achieving the programme objectives, but the general overall impression is that the results were better than average for Danida supported BSSP and found satisfactory. Slow approval of necessary changes in the components caused some implementation delays. Vaguely defined objectives and outputs led, in some cases, to over-optimistic ambitions that became unrealistic.

External factors outside of the control of the implementers were found to be the main reasons for less than optimal efficiency during execution of the activities, but in an overall perspective, the results were, at times, found to be highly cost effective and, in general, satisfactory. More timely recruitment of TA personnel by Danida was one area where efficiency could potentially be improved, besides more clear definitions of roles and responsibilities. The external supply of services for all the components were, in principle, tied to Danish suppliers and institutions. In some cases, this caused significant costs compared to equivalent locally provided competitive services.

For the majority of the components, it was found highly probable that services would continue to improve and be provided on a sustainable basis, even after the BSSP ended.

In the conflict between crosscutting donor objectives and commercial viability of the
second-floor micro-credit component, viability and long-term sustainability was lost due to donor pressure.

**Contextual issues and analysis**
According to the DAC-based segmentation presented in Table 2.1 (Page 22), the BSSP components intervened at the macro- and meso- levels of private sector development: At macro level, firstly, the establishment of a commercial court for more effective conflict resolution and as a modern model for other legal entities. Secondly, the revision of the labour law, developed in a tripartite forum under the coordination of the MLYDS. The remaining components are at the meso level, and primarily within the areas of support to financing institutions, capacity building and training.

The criteria for and content of the selections is, generally, assessed to be highly appropriate for improving the bottlenecks prevailing at the time of programme formulation. The content and transfers of technology, competence and investments are generally found to be optimal within the assigned resources. The MLYDS was the weakest implementing agency and its weakness limited the achievements of the component. Being the Ministry assigned to handle labour legislation, its capacity has been strengthened as a result of implementing the component. TUCTA was also, and remains to be, a weak institution with deficiencies limiting the achievements of the component implementation and it remains questionable as a component holder, in as far as the impacts on changes in the labour markets relations appear limited. The initial justification for its participation was to counter-balance the support to CTI, but the actual impacts of the intervention are limited.

Lack of clear descriptions of objectives and targets, as well as indicators and systems to collect and verify performance data, were general weaknesses of the BSSP. Pro-poor targeted indicators that attempt to measure the impact on direct or indirect poverty reduction would also have improved the BSSP. Resentment to change from traditional bureaucratic practices, and development of free-rider attitudes and donor dependence, were accommodated, since the targets were to loose.

Measuring the achievements in poverty reduction, being the overriding objective of Denmark’s development policy, is found to be an insurmountable problem with respect to both assessing the rationale for selecting particular components and assessing their impact on poverty reduction. Within the area of democratisation, good governance and human rights, incorrupt and effective services, modernised legislation and targeting the poorer segments of the population with more equal opportunities and access to credit, strengthens the basis for democratic participation. Micro-credit and vocational training put particular emphasis on gender related issues. The BSSP design had limited focus on external environment and working environment, but did include support to the launching of the Occupational Safety and Health Agency (OSHA) as an executive agency within the Ministry of Labour.

**Danida’s response**
The evaluation recommended continuation of the programme with more pro-poor targets and with inclusion of indicators to measure impacts and effects on poverty reduction. A number of indicators were identified and Danida accepted inclusion of these in the second phase. The recommended regular adjustment of roles and functions as a part of the regular monitoring of progress was also accepted. The recommended increased anchoring of the programme implementation and sharing of good practices were given priority, by Danida in the continued programme, with a coordination mechanisms established to ensure increased local ownership.
4. Analysis and Synthesis

This chapter has five parts. Firstly, it critically reviews the approaches used by the evaluations summarized in Chapter 3, particularly in relation to relevance and impact issues. Secondly, it seeks to build on this review, and on the discussion in Chapter 2, to indicate a PSD-specific set of relevance and impact criteria reflecting the current development context and international debate. Thirdly, it seeks to examine the relevance and impact of the overall portfolio of Danish PSD interventions in the light of these revised criteria, on the basis of the following questions:

- what levels of recipient country economies (micro, meso, macro) do instruments in the portfolio aim at?
- how are this (these) levels aimed at, in terms of the type of instrument chosen (e.g., direct or indirect support to Danish and/or recipient country firms, etc)?
- how are Denmark’s selected instruments used practically, in terms of the choices made within them? This refers to choices concerning the content of the transfers undertaken (e.g., hardware vs. TA); to which kind of local intermediary (if any) is used for making the transfers; and to the precise group of beneficiaries who receive the transfers.

Next, the chapter turns to another group of inter-related questions. These arise from the changing international development context on the one hand, and the changing Danish domestic context on the other. They concern the internal and external synergies of the Danish portfolio, the portfolio’s overall level of tying, and its relevance for the Danish business community. Finally, the chapter examines how, until now, Danida has responded to the findings and recommendations of the evaluations described in Chapter 3.

4.1 The application of Danida’s evaluation criteria

As noted earlier, since 1999 DAC members have mostly used a common set of criteria for evaluating development assistance interventions, regardless of sector. These are relevance to development and recipient country objectives; positive and negative (and intended as well as unintended) impacts; the extent to which the explicit objectives of the interventions are realized (effectiveness); the efficiency of implementation, in terms of time and cost; and the sustainability of interventions after the assistance is terminated. Danida evaluations have also been expected to use these criteria.

DAC began promoting methodologies designed to increase aid effectiveness from the early 1990s. Amongst other things, these involved a shift from projects to programmes, and framing the latter’s design in terms of clear statements about objectives, risks and assumptions. These statements were to be directly related to lists of planned inputs, activities, and intended outputs, while it was recommended that verifiable indicators for anticipated outcomes be provided, and that baseline data be collected to allow verification of expected impacts. Precise specification of outputs and identification of appropriate output indicators is more difficult for some types of development assistance than others, and it may be that it is particularly difficult for PSD interventions. In any event, in the case of the Danish instruments examined here, description of precise objectives and targets has been generally vague or lacking. This meant that it has been difficult for evaluations of these instruments to employ certain standard evaluation criteria, particularly impact, effectiveness and efficiency, to the programmes that they examined. For the
evaluations in question, the consequences are that, even after 1999 when standard evaluation criteria were adopted, critical discussion in evaluations tended to concentrate on issues of relevance, particularly relevance to overall Danish development objectives.

Relevance
Table 4.1 lists the frequency of specific interpretations of this criterion in the evaluations considered (greater detail is presented in Annex VI).

Table 4.1 Interpretations of ‘relevance’ criterion found in the seven Danish evaluations

<table>
<thead>
<tr>
<th>Interpretation of relevance</th>
<th>Frequency (max. = 7)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relevance to economic growth and social development/poverty reduction, of which:</td>
<td></td>
</tr>
<tr>
<td>– poverty relevance interpreted mainly in terms of geographical distribution of programme activities</td>
<td>7</td>
</tr>
<tr>
<td>Relevance to stakeholders, of which:</td>
<td></td>
</tr>
<tr>
<td>– recipient country beneficiary satisfaction/dissatisfaction</td>
<td>7</td>
</tr>
<tr>
<td>– ‘additionality’ in relation to the Danish resource base</td>
<td>5</td>
</tr>
<tr>
<td>– balance between relevance to recipient country and to Danish stakeholders</td>
<td>2</td>
</tr>
<tr>
<td>Relevance to given technical yardstick (immediate objective)</td>
<td>6</td>
</tr>
<tr>
<td>Relevance to specific recipient country objectives/strategies</td>
<td>3</td>
</tr>
<tr>
<td>Relevance to specific recipient country conditions (post-apartheid, ‘transition economy’)</td>
<td>2</td>
</tr>
<tr>
<td>Relevance to current PSD yardstick (development objective)</td>
<td>2</td>
</tr>
<tr>
<td>Relevance to overall development assistance paradigm (programme vs. project)</td>
<td>1</td>
</tr>
</tbody>
</table>

Earlier evaluations define relevance largely in terms of implications for economic growth in general (and more internationally-equal economic growth in particular), recipient country beneficiary satisfaction, and conformity to what in Chapter 2 was called technical relevance. ‘Technical relevance’ is used here to refer to how donor practice reflects existing knowledge of the technical field concerned in regard to achieving one or more specific immediate objectives of a programme (i.e., does the intervention incorporate current technical know-how). Examples of technical relevance criteria include conformity with state-of-the-art technology transfer methodologies, or trade facilitation methodologies, or infrastructure project implementation methodologies. This type of relevance criterion may be contrasted with that of broader developmental relevance, or relevance to private sector development.

Considering technical relevance is extremely important, and in some cases (e.g. DFI strategy) this will overlap with considering relevance to PSD. But technical relevance criteria will normally take a programme’s chosen level of intervention as a parameter that is given, and bear more on the nature of the specific target groups such instruments are directed toward (e.g., established vs. greenfield South African businesses), or on the precise content of transfers within them (e.g., hardware vs. capacity building in infrastructure projects, or technologies that are fully developed vs. those that are, in the words of the KfU evaluation, ‘open for dynamic assimilation’). These are important questions, and will be returned to later. However, it is more in relation to criteria of PSD relevance that principle-based choices are made both about level(s) of intervention and type(s) of instrument.
Impact
Almost all the evaluations note that measurement of the impact of the Danish interventions has been difficult because programme documentation has lacked reference to likely outcomes and to risks that might point in the direction of less likely ones. Possibly, as noted above, there may be inherent difficulties in specifying objectives of a PSD type in highly precise ways, in any event. All the evaluations, nonetheless, go on to seek to describe impact. The manner in which they do mirrors the emphasis found in regard to relevance.

As the Table 4.2 shows, evaluations to date have tended to focus more heavily on impacts as regards direct beneficiaries, than on broader economic and social impacts. In some cases, arguments could have been drawn on to justify this focus, although these are rarely, if ever, referred to. Hence, the impact measures applied often have an arbitrary appearance. Secondly, it is useful to note that the evaluations have reported their conclusions overwhelmingly in a qualitative rather than a quantitative way. This is true even for cases where programme objectives have been specified somewhat more precisely, and where evaluators have made efforts to collect data quantitatively. In particular, most of the statements made concerning the broad economic and social (particularly the poverty-reducing) relevance of the instruments concerned have been based on qualitative information, mostly concerning only small groups of more or less direct beneficiaries.

Table 4.2 Impact measures found in the seven Danish evaluations

<table>
<thead>
<tr>
<th>Impact measure</th>
<th>Frequency (max. = 7)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment effects, of which:</td>
<td></td>
</tr>
<tr>
<td>- reported quantitatively</td>
<td>5</td>
</tr>
<tr>
<td>- reported net for target enterprises</td>
<td>2</td>
</tr>
<tr>
<td>- calculated in relation to sectoral/national impact</td>
<td>1</td>
</tr>
<tr>
<td>Socio-political effects, of which</td>
<td>5</td>
</tr>
<tr>
<td>- reported quantitatively</td>
<td>0</td>
</tr>
<tr>
<td>- calculated in relation to national impact</td>
<td>0</td>
</tr>
<tr>
<td>Environmental effects, of which</td>
<td>5</td>
</tr>
<tr>
<td>- reported quantitatively</td>
<td>0</td>
</tr>
<tr>
<td>- measured beyond recipient enterprise</td>
<td>0</td>
</tr>
<tr>
<td>Micro-economic effects</td>
<td>4</td>
</tr>
<tr>
<td>Meso-economic effects</td>
<td>4</td>
</tr>
<tr>
<td>Macro-economic effects</td>
<td>2</td>
</tr>
<tr>
<td>Awareness of instrument amongst broad target group in recipient country</td>
<td>3</td>
</tr>
</tbody>
</table>

4.2 Towards new relevance and impact criteria

In Chapter 2 it was argued that, in the light of the current international understanding of PSD’s purpose, relevance in relation to PSD ‘can be defined as encompassing promotion of pro-poor growth; building a more “enabling” business environment and strengthening the capacity of the private sector itself to fulfil specific economic, poverty-reducing, socio-economic and environmental objectives’. This definition is rather diffuse since, for exam-
ple, a wide variety of non-PSD interventions may also promote pro-poor growth. Relevant PSD programmes, or rather relevant overall portfolios of PSD programmes, are perhaps better defined as the ones that combine interventions aimed at recipient country business environment with ones aimed at developing recipient country private sector capacities, while incorporating direct links to poverty reduction. Direct links to poverty reduction may be a feature of either business environment interventions or private sector capacity ones, or of ones combining both. An example of the first would be supporting the extension of market institutions (for example financial market institutions) to un-serviced groups or localities. An example of the second would be focusing private sector capacity building on groups of enterprises in highly labour-intensive branches, or on SMEs, or on the development of large firm-SME linkages. An example of an intervention combining both would be support to specific enterprises to provide market services that would enable large numbers of poor people to access higher rewards for their activities.

While the relevance of a given portfolio is increased where the instruments within it also reflect state-of-the-art technical yardsticks, what seems much less pertinent to assessing the relevance of a donors’ PSD profile is the subjective impressions of stakeholders, referred to prominently in a number of the evaluations reviewed. On the other hand, these do have pertinence for considering the effectiveness and especially the sustainability of particular interventions. The extent to which stakeholders ‘buy into’ a specific instrument or group of instruments should increase its ownership by stakeholders, and therefore the prospects for the continuation of activities promoted by the instrument after support has been withdrawn.

Questions of impact also need to receive the closest possible attention in determining which precise combination of interventions is likely to succeed best in fulfilling the goal of strengthening both the business environment and private sector capacity in pro-poor ways. A useful principle in this respect would be to select interventions that maximise outreach and spillover in the recipient country. Outreach refers to the size of population covered by an intervention, while spillover refers to positive effects of interventions other than on direct beneficiaries. For example, supporting the development of a business services sub-sector or improvements in infrastructure are likely to have high spillover potentials, since they are very likely to reduce transaction costs for enterprises in all branches of an economy. Mostly, however, the evaluations examined discuss spillover effects only of the introduction of new management styles and production technologies. Without excluding the possibility that these may indeed have spillover effects, it is worth noting that these are more difficult to measure than those of the type of changes just described, and that they are likely to be more localised.

A second useful principle in relation to impact is that of restricting potentially distorting interventions to cases of rectifying market failure. Many classic private sector development interventions, such as providing subsidies for plant, for technology acquisition or for training directly benefiting individual companies, are in principle distorting, since they enable beneficiary companies to sell their products or services at prices lower than would otherwise have been the case. In most cases, the magnitude of overall market distortion that this results in is not very significant (and this has been a standard defence by advocates of such interventions). Even so, there are clear relevance and impact arguments for prioritising the allocation of subsidies of this kind to cases where an enterprise or group of enterprises is planning to supply a product or service – or to develop an infrastructure – whose supply is absent or difficult to gain access to, at least for targeted (e.g., poorer) segments of the population.
Very probably, the implications for a given donor’s overall PSD portfolio of consistently adopting these impact criteria would be to push the portfolio more in the direction of business environment support, and less in that of support to the micro-level – at least in its traditional form. Where executed effectively, the latter is also relevant to the development of recipient country private sector capacities and is likely to also have broad meso-level impact and – possibly – some macro-economic effects. But if development impact alone is considered, support to the business environment, in forms such as strengthening recipient country regulatory effectiveness or trade facilitation institutions, or institutionally strengthening the markets supplying financial and other business services, will tend to have broader outreach and more spillover, and embody less risk of distorting markets.

4.3 Reassessing the overall profile of Danish PSD interventions

The level of recipient country economy aimed at by the Danida PSD portfolio is described in Table 4.3, using the classification of levels now conventional in PSD discussions.

Historically, Danish support has been concentrated at the micro-level, although this is changing. Two (DIPO, KfU) of the five programmes, whose primary focus was the micro-level have been phased-out or cut back, while a majority of recent funding has been directed to successors to, or extensions to new countries of, the BSSP – which is aimed exclusively at the meso- and macro-level. It is useful to repeat that the level of resources committed to programmes working at the meso- and macro-levels has become steadily greater over time, in relation to that committed to programmes whose main focus is the micro-level.

Table 4.3 Operational level of intervention of the Danish PSD portfolio

<table>
<thead>
<tr>
<th>Programme</th>
<th>Year of introduction</th>
<th>Macro</th>
<th>Meso</th>
<th>Micro</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFU</td>
<td>1967</td>
<td></td>
<td>XX</td>
<td></td>
</tr>
<tr>
<td>DIPO</td>
<td>1977</td>
<td></td>
<td>XX</td>
<td></td>
</tr>
<tr>
<td>KfU</td>
<td>1991</td>
<td></td>
<td>XX</td>
<td></td>
</tr>
<tr>
<td>MCP</td>
<td>1993</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>PS</td>
<td>1993</td>
<td></td>
<td>X*</td>
<td>XX</td>
</tr>
<tr>
<td>B-t-B</td>
<td>1995</td>
<td></td>
<td>X</td>
<td>XX</td>
</tr>
<tr>
<td>BSSP/BSPS</td>
<td>1998</td>
<td>XX</td>
<td>X</td>
<td></td>
</tr>
</tbody>
</table>

Key: XX = primary focus; X = secondary focus; * meso-level support projects, such as business association development, have been transferred from PS to BSSP/BSPS programmes whenever these have been initiated in a PS country.

NB. The MCP has been classified as having a secondary rather than primary focus in recipient countries, since its main purpose is to assist Danish companies to export technologies or construction services. These exports generally strengthen the macro level in recipient countries.

While Danida still argues strongly for the relevance of micro-level interventions, both in development terms and in terms of their usefulness in drawing the Danish business community into development assistance, it is now acknowledged that working through intermediary institutions to provide services – i.e., non micro-level intervention – is the
‘most effective way of using development funds since (its) potential is highest’ (Danida 2001, 53-54). This is reflected in a gradual broadening over time of the range of instruments used by programmes. The type of instrument employed in each programme is described in Table 4.4.

Table 4.4 Classification of Danish PSD instruments by type

<table>
<thead>
<tr>
<th>Programme and year of introduction</th>
<th>Direct Support to Danish Firms</th>
<th>Indirect Support to Danish Firms (Information Subsidy)</th>
<th>Direct Support to B-t-B Partnerships</th>
<th>Indirect Support to Recipient Country Firm</th>
<th>Institutional Support to Recipient Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFU (1967)</td>
<td>X</td>
<td></td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DIPO (1977)</td>
<td></td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>KfU (1991)</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MCP (1993)</td>
<td></td>
<td>X**</td>
<td>X</td>
<td>X***</td>
<td></td>
</tr>
<tr>
<td>PS (1993)</td>
<td>X X</td>
<td></td>
<td></td>
<td>X****</td>
<td></td>
</tr>
<tr>
<td>B-t-B (1995)</td>
<td>X X</td>
<td></td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>BSSP/BSPS (1998)</td>
<td></td>
<td></td>
<td></td>
<td>X X</td>
<td></td>
</tr>
</tbody>
</table>

* Export subsidy partially untied since 2002; ** not mandatory; *** see note on PS Programme to Table 4.3

Corresponding to the initial bias toward micro-level interventions was one toward instruments taking the form of subsidy schemes for Danish enterprises, either exclusively or as intermediaries for establishing business-to-business partnerships with enterprises in recipient countries. From 1993, instruments of this kind also contained provision for institutional support to recipient countries, for example in the form of TA to local business associations via Danish ones, however. The latest generation of programmes (BSSP/BSPS) has no Danish subsidy dimension.

The shift towards instruments having no Danish subsidy dimension does not reflect an acknowledgement of the criticisms found of subsidies in the economic literature, namely that they embody risks of market distortion and moral hazard.\(^\text{10}\) Correspondingly, there are no plans to restrict the use of such schemes. On the other hand, Danida now does explicitly acknowledge the relevance and impact-related arguments for adopting other types of instruments, aimed at other (institutional) beneficiaries. The content of transfers to recipient countries made through the programmes is summarized in Table 4.5.

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10. ‘Moral hazard’ concerns the risk that firms in receipt of a subsidy will lack the incentive to operate as efficiently as they would have done in the absence of such a subsidy.
4. Analysis and Synthesis

Table 4.5 Classification of Danish PSD instruments by main type of transfer to developing country

<table>
<thead>
<tr>
<th>Programme and year of introduction</th>
<th>Capital</th>
<th>Technology and/or construction services</th>
<th>Capacity building</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFU (1967)</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>DIPO* (1977)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>KfU (1991)</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>MCP (1993)</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>PS (1993)</td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>B-t-B (1995)</td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>BSSP/BSPS (1998)</td>
<td></td>
<td>X</td>
<td></td>
</tr>
</tbody>
</table>

* No transfers as such were carried out under the DIPO instrument

In the case of a number of programmes, several types of transfer to recipient countries have been undertaken. Correspondingly, it has not always been easy to identify the main type of transfer made. In general though, it appears that a change of emphasis has occurred over time from a predominance of capital transfers, through hardware ones, to ones involving TA for capacity building. This transition can be noted not only for the portfolio as a whole, but also internally within certain programmes. For example, within the MCP it has become broadly recognised (not least by participating Danish companies) that capacity building transfers increase the effectiveness of hardware transfers. At the same time, it is important to note that the evaluations cast doubt on the effectiveness of the hardware and capacity building transfer mechanisms used in the case of some programmes, or projects within them. KfU’s technology transfers had problems of appropriateness, while the capacity building (skills/training) transfers under the PS and B-t-B were often too specific or at a too demanding level in relation to recipients’ absorptive capacities. In part, this was a product of prioritising the use of Danish firms as intermediaries.

Four of the seven programmes (IFU, DIPO, KfU and PS) made no use of local intermediaries, even though, in some cases, there were possible recipient country counterparts, such as industrial development commissions or export promotion offices. While use of intermediaries has been built into the design of later programmes, evaluations have been critical of some aspects of their selection and use. The B-t-B programme was anchored in a small SME promotion unit within the South African Ministry of Trade & Industry, which became marginal soon after the programme’s inception as a result of a South African government decision to mainstream SME development across all public business support institutions. Secondly, the BSSP I evaluation stated that, while there was no obvious single counterpart that Danida could have chosen for the programme, the absence of such a counterpart diminished its overall local ownership.

The different methods of beneficiary selection used in relation to different donors’ PSD programmes has not been used to generate an overall classification of Danish programmes, as in some cases the evaluations do not explicitly describe programmes’ selec-

11. The most recent version of the B-t-B programme also works partly through another intermediary, a venture capital fund.
tion procedures. Despite the lack of explicit discussion of this topic in most Danish evaluations, some general observations are possible in relation to this issue.

Firstly, it would appear that for programmes involving Danish private sector beneficiaries, conformity with project technical criteria and with DAC development assistance reporting requirements are the only forms of active screening, which potential beneficiaries are subject to. Furthermore, assistance is sometimes provided by programme consultants for meeting technical requirements. Selection criteria referring to firm-level business objectives that have been under discussion for some time in the development finance community (and applied by some DFIs), such as catalytic effect (whether commitments to new investments are made by the beneficiary at the time that they receive assistance) and additionality (whether the beneficiary states that assistance is a prerequisite for them to undertake the project) do not appear to be applied, nor systematically checked for on a post-hoc basis. However, Danida has expressed confidence that, if applied, such checks would demonstrate clear catalytic effects in many cases.

Since 2001-02, the MCP has used a form of development-related relevance screening, where conformity with one or more ‘development objectives’ qualifies a project for acceptance. According to the assessment by the National Audit (2003, pp. 8-9) of the PS and B-t-B programmes, this same screening mechanism has recently been adopted also by these programmes. Some of the development objectives involved are defined loosely, and it seems unlikely that this screening mechanism has resulted in the rejection of proposed projects. IFU, MCP and DIPO all screen projects for development relevance somewhat more toughly, but only on the basis of short negative lists of sectors and products (e.g., arms, spirits) for which assistance is ruled out. Only in the case of the B-t-B programme has a more exacting form of positive development relevance screening (black [co-] ownership) been applied. In general, non-technical screening appears to play a very minor role, possibly reflecting an assumption that more active beneficiary selection would undermine programmes’ ‘demand driven-ness’ (from the Danish side).

To sum up, the Danish PSD portfolio has been evolving gradually from an overwhelmingly micro-level to a significantly more meso-and macro-level focus. Corresponding movements have occurred from:

- exclusive use of instruments taking the form of subsidies to Danish companies toward ones from which Danish companies can benefit only indirectly
- transfers involving capital and hardware only to ones mainly involving capacity-building
- transfers that generally by-pass local intermediaries to ones directed entirely at them.

Finally, although this trend has been much weaker, frameworks for development relevance-related screening have emerged. At the same time as moving in these directions, Danida has retained a core of the older generation of instruments in broadly unchanged forms. These instruments remain directed firmly to the micro-level and continue to take the form of transfers to Danish enterprises. Notwithstanding this, the trends described here clearly reflect the direction of the international discussion and efforts to strengthen them should continue.
4.4 Danish synergies and relevance

Synergy
Synergies between the Danish PSD portfolio and those of other donors have increased in recent years, in line with the movement toward meso- and macro-level support. In particular, the so far unevaluated second generation of BSSP/BSPS programmes embodies several examples of donor coordination and of basket funding. There seems to be less room for inter-donor synergies when programmes are directed at the micro-level, at least when this is linked to instruments requiring donor country private partners. Unsurprisingly therefore, the only synergies evident in relation to these types of intervention have been between Danish instruments themselves, particularly between individual IFU projects, and projects in the PS Programme and B-t-B programme portfolios in the same recipient countries.

At the same time, a common observation in the evaluations, and amongst Danish stakeholders, is that internal synergies between the different Danish PSD instruments, as well as between these instruments and Danish SPS, could have been much greater. Amongst the reasons for this may be that certain programmes, notably IFU and MCP, have project decision-making bodies that Danida does not directly control – in IFU’s case by an administration also responsible for supporting Danish FDI in non-developing countries. Secondly, while the proliferation of micro-level instruments has been beneficial in extending opportunities for involvement in Danish development cooperation to ever-broader segments of the Danish business community, each programme seems to interact mainly with its own dedicated corporate constituency, ranging from large Danish companies served by IFU, to medium-large ones served by the PS Programme in countries like Egypt and Vietnam, to Danish SMEs served by B-t-B and, to some extent, the PS Programme in least developed countries. Thirdly, the tendering methods used for Danish sector programmes have not favoured crossovers with, for example, PS projects in the same countries.

Tying
Parallel to the other trends described in this chapter, the design and implementation of Danish PSD programmes has moved gradually in the direction of untying aid. Supply of goods and services to the new generation of BSPS programmes is subject to tendering from all European Union (EU) countries, while an untied window was opened in the MCP in 2002 for public contracts in Danida partner countries and in South Africa. The evaluations point out that this is against a background where a number of countries have terminated their MC programmes completely, where Danish MC-notifications to DAC are increasing, and where Denmark has become the second leading MC ‘notifier’ per capita globally. On the other hand, Danida counter-argues that much of the untying undertaken by other DAC countries is only decorative in character. Furthermore, it argues that the de facto tying of the remainder of its PSD assistance has had wider socio-political benefits, in the sense that it maintains the commitment of the Danish business

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12. There are good arguments for the management of such instruments to incorporate forms of expertise not normally found in development assistance organisations, and for their decision-making mechanism to be distinct from that of the central aid administration. However, the advantage of such an administrative arrangement fades if it leads to a perception that these types of activities have nothing or little to do with development assistance.

13. The IFU evaluation points out likewise that, along with Cofides (Spain) and Simest (Italy), IFU is one of only three nationally tied DFIs.
community to development assistance, in a context where this may have been diminished by a combination of aid fatigue and the untying of other sector programmes.

These are legitimate concerns. At the same time, however, insofar as they are handled by retention of tying, this is at a price. Untying’s main benefit is more competitive procurement of goods and services and thereby greater efficiency. If a decision not to follow this route is taken, then efforts to assure against inefficiency and ineffectiveness need to be strengthened elsewhere in programme management.

Relevance to the Danish business community

‘Relevance to the Danish business community’ is implicitly, and occasionally explicitly, stated by Danida as a key criterion for evaluating Danish PSD interventions other than BSSP/BSPS. Indeed, in relation to these interventions, this type of relevance appears to rank almost as important as private sector development effects in recipient countries. As just noted, in the context of the untying of Danida sector programmes in relation to EU member countries, PSD interventions now carry the main burden of retaining Danish business community support for development assistance generally.

Discussions with stakeholders indicated that, contrary to the impression given in the 2003 DAC peer review of Danish aid, the instruments in question are indeed regarded as highly relevant by the leading Danish business associations. This is not to say that their relevance is appreciated by all member firms in these associations, or that the business associations themselves do not believe that they cannot be improved. At the same time, the associations indicate that BSSP/BSPS-type programmes also generate benefits for their members.

As regards member firms and PS-type programmes, despite stakeholders’ characterisation of the instruments as ‘demand-driven’, most such programmes have been far from overwhelmed by requests for participation. Conversely, the continuous development of new programmes mainly reflects ongoing efforts from Danida’s side to stimulate new demand. Active effort is still being given to developing new instruments.

According to Danish business associations, there are two main reasons why demand for participation in PS-type programmes is not as high as it might be. The first is that the geographical focus of some of the instruments no longer corresponds to the emerging markets that Danish companies consider most interesting. The second is that most Danish firms, who are interested in establishing themselves in emerging markets, now feel able to do so without public economic support. The Danish business community is more mature and international than it was in 1993, and more suitable private instruments for financing internationalisation have become available. At the same time, the process of accessing such private instruments is often considered less time consuming and intrusive than going through public authorities. Where larger Danish firms use public instruments today, this is mostly to provide a visible sign of political backing from the Danish government (should the need arise) rather than for economic reasons. This in turn contributes to what seems to be the low degree of additionality associated with use of Danida’s instruments.¹⁴

Danish business associations have several ideas for improving the relevance of Danida’s PSD programmes to their own constituencies. The main ones all concern the PS pro-

¹⁴. Half of all IFU-supported investments in Asia would have occurred anyway, two-thirds of those in Latin America would have done so, and so would three quarters of those by larger companies in Africa.
gramme, and involve extending it to certain emerging markets of increasing commercial interest (e.g., PR China, Malaysia, Thailand, India); opening the programme for participation by Danish consultancy and trading companies (in both cases while retaining the requirement for local partnerships); and redefining the programme’s rules to enable grants for Danish companies to open 100% owned subsidiaries. A further idea presented concerns aiming the programme at clusters of Danish sub-contractors, around a Danish lead firm. While certain of these ideas would be interesting for Danida to consider further, others seem to imply an undesirable dilution of the PS Programme’s partner country PSD focus, as well as increasing risks of market distortion and moral hazard.

Danish stakeholders also confirmed their support for BSSP/BSPS-type programmes. The direct Danish benefits of such programmes were confined to business organisations themselves, and took the form of promoting their international consulting capacity. However, at least for larger Danish firms, these programmes also had the indirect benefit of providing easier access to recipient country lead firms, and to recipient country governments, through national apex organisations.

**4.5 Danida’s responses to the evaluations**

The evaluations varied both in their interpretations of Danida’s evaluation criteria, and in the rigorousness with which they applied them. On the other hand, a surprising degree of consistency is evident in their conclusions. The KfU, DIPO, PS Programme and IFU evaluations all questioned the relevance of the programmes’ principal focuses on Danish enterprises and/or on the micro-level of recipient country economies. At the same time, almost all the evaluations have been critical of the vagueness of programme objectives and implementation guidelines, as well as of the absence of systematic monitoring of outcomes – particularly, but not only, development outcomes. Only one evaluation – of the BSSP – can be characterized as highly positive; it is no accident that this concerned the only programme aimed exclusively at recipient country macro- and meso-economic levels.

Danida’s general response to these evaluations has been complex. Firstly, a large majority of the operational recommendations made in the evaluations have been accepted, while recommendations implying major changes in policy direction have been generally rejected – especially where these have been perceived as weakening the so-called ‘demand-driven’ nature of the portfolio. Thirdly, despite this, Danida has also engaged in a relatively far-reaching underlying adjustment of the portfolio to meet perceived changes in the policy environment. While rejecting criticism of the PS Programme for being exclusively focused on the micro-level, and of the MCP for often failing to integrate development concerns in planning and monitoring, Danida has slowly but surely given greater priority to macro- and meso-level instruments and to institutionalising systematic planning and monitoring mechanisms in relation to them. This type of response is not unusual in a development assistance context, resembling, for example, how the World Bank handled criticism of structural adjustment during the first half of the 1990s. An abrupt abandonment of interventions of the PS Programme type in favour of BSSP/BSPS-type ones alone might have won plaudits in the development policy research community, but it would also have sent confusing signals to the main stakeholders, including the Danish resource base. PSD is an area of development assistance with sensitive stakeholders, whose general disposition to overseas aid is perceived, in some quarters, to be less than sympathetic. This does not mean that it should not be subject to critical review in
the same way that other areas of development assistance are, but it does mean that such reviews need to take their point of departure in the overall composition of PSD portfolios and not in their individual programme components alone. However, at the same time, where these programme components have serious problems, these must also be addressed.
5. Lessons Learned

The task of meta-evaluations is in large part to reflect on the underlying issues concerning a given set of development issues, rather than to make detailed operational recommendations. Hence this report concludes by seeking to sum-up general policy and design lessons learned, rather than generating a concrete set of proposals.

The instruments established by Danida for PSD operate in a dynamic setting both in Denmark, as well as in the recipient countries. Each instrument was designed in accordance with assumptions prevailing at the time of its design. With changes in economic and policy environments, a need arises for adaptation of activities and for re-focussing on new goals. The needs of the resource base in Denmark have also changed over time, and different constituencies within the resource base have different and evolving expectations vis-à-vis PSD instruments. In Denmark, the changing context has been reflected in the pragmatic development of new instruments, assumed to better suit the new demands and conditions. Meanwhile, earlier instruments have generally continued, albeit in some cases with less funding.

Danida has in many respects advanced ahead of other donors in this sector, and in line with developments in current international thinking. In recent years, this has entailed more interventions targeted on the macro- and meso-level, as well as ones taking the form of indirect rather than direct assistance. The change in PSD approach parallels the change in development policy generally, where programme support has replaced project support. Initially, the inspiration for these changes arose directly from experiences gathered in the course of sector policy support in the partner countries concerned, while the more recent generation of instruments also reflects current theories. This is exemplified in the innovative and ambitious TRDA components of the second generation of BSPSs. At the same time, a strong emphasis on the micro-level has been retained, linked to participation in development assistance by different groups of Danish enterprises.

The generally pragmatic logic followed by Danida in building up its portfolio of PSD interventions has led to a collection of instruments which, while spanning the full range of relevant contributions, have not been consciously designed to complement each other. In a number of cases, clearly defined objectives, targets and indicators were not specified at the design stage, and remain unspecified even today. In the case of micro-instruments, this concerns not only poverty reduction but also business development targets and indicators. This has entailed that the evaluations undertaken of some of these programmes have had to invent such objectives, targets and indicators for them. In most, but not all, cases this was done in ways roughly reflecting ‘state-of-the-art’ thinking on PSD. When set in the context of insistence on a highly restrictive interpretation of commercial confidentiality, resulting evaluations have thus sometimes appeared subjective and qualitative.

One lesson learned is that there is a need to establish clear and unambiguous objectives and a few, simple and operationisable targets and indicators each instrument. These should be provided in the design stage, but where this has not occurred, they should be supplied retrospectively. This will help to establish how the portfolio might be rationalised and developed further, as well as how individual instruments can be improved on the basis of building on successful experiences and avoiding repeating unsuccessful
ones. The targets and indicators concerned should, wherever possible, be quantitative, without being highly technical. To overcome problems of confidentiality in the case of micro-level instruments, public reporting of business performance indicators could be confined to aggregate figures for groups of enterprises. Examples of useful micro- and meso-level indicators being used by other donors include changes in turnover; value added (sales minus cost of raw materials); and market development changes (e.g., number of market participants, number of types of goods or services available, costs of goods or services, proportion of specific target groups served, etc.).

5.1 Relevance

A relevant overall portfolio of PSD programmes is one that combines interventions aimed at recipient country business environments with ones aimed at developing recipient country private sector capacities, while incorporating a direct link to poverty reduction. With respect to development effects, interventions at meso- and macro-levels have a higher probability of relevance than micro-level ones, although micro-level instruments may also have direct and indirect development outcomes when well designed. A lesson learned is that interventions aimed at all levels should be targeted more on local market deficiencies identified by an assessment of the actual conditions. In relation to this consideration, it is clear that the overall development relevance of the Danish portfolio has increased over time.

Micro-level instruments involving direct financing of individual enterprises alone are likely to generate significant economic and social development impacts in recipient countries only if they are carefully targeted. The relevance of direct micro-level development could be improved with more use of local intermediaries, with a clearer focus on support for market development, and with more careful monitoring of the impacts of partnership arrangements, including in terms of their externalities for market development. Danida’s decentralisation could be used to strengthen the focus on local institutions, as well as better identify the local market failures that could be targeted for intervention, utilising the Danish resource base. There is no case for a closure of Denmark’s micro-level instruments.

Danida’s current micro-level instruments are considered relevant by the Danish resource base, but perhaps not as relevant today as when they were initiated. Macro- and meso-level interventions may also be indirectly relevant for the Danish resource base via, for example, their improvement of the local business environment, but their direct relevance for this resource base tends to be restricted. Possibly, it could be increased if Danish companies from sectors that until now have been relatively under-represented in partnership programmes (e.g., financial services companies) were targeted for attention.

5.2 Impact

Selecting interventions that maximise outreach and spillover in the recipient country is likely to best fulfil the goals of strengthening both the business environment and private sector capacity in pro-poor ways. A lesson learned is that where the interventions are targeted at locally identified bottlenecks in the recipient country, the development impact has been greatest. This reinforces the argument for a focus on identifying market failures and selecting instruments according to their likely development outcomes, taking into
account the scales of resources available and the markets they are targeted at. More generally, it is important to recognise the relevance and impact-related arguments for adopting those types of instruments that are aimed at institutional beneficiaries.

In addition, it is clear that unless transfer of competence is incorporated in transfers of capital and technology, the impact of these types of transfers will tend to be restricted. Danida’s acknowledgement of this lesson is already implicit in the change of emphasis that has occurred over time, from a predominance of capital transfers, through hardware ones, to ones involving TA for capacity building. This transition can be noted not only for the portfolio as a whole, but also internally within programmes.

An understanding of impacts would be greatly improved if objectives, targets and indicators were stated for each instrument already in the design phase. Drawing more on the international policy discussion would improve clarity concerning ranges of possible objectives and likely preconditions for meeting them. The instruments should, at the same time, be dynamic in design – allowing incorporation of adjustments in response to the changing operational conditions.

5.3 Effectiveness

Proper measurement of effectiveness entails complementing clear objectives with simple benchmarks of success. Benchmarks are largely absent in Danida’s micro-level instruments and need to be established via pooling knowledge with other donors who employ similar instruments (a process described by DAC as largely absent in the field of PSD) and/or via detailed knowledge of partner country business environments, including micro-level business performance norms.

While it is generally acknowledged that a greater focus on macro- and meso levels will enhance the aid effectiveness, effectiveness benchmarks for macro- and meso-level targeted instruments are also only weakly developed and applied at present, not only by Danida, but also by donors generally. This is an area to which greater attention needs to be devoted. A lesson learned is that evaluation of the effectiveness of particularly the micro-level instruments has been found difficult and sometimes short of optimal quality, due to a lack of clear programme targets.

5.4 Efficiency

Danida has begun to consider efficiency issues in relation to choice of instruments, but could probably, with benefit, go further in the direction of indirect interventions. The latter are likely to have high levels of efficiency because of broader outreach. A movement in this direction needs not necessarily compromise the involvement of the Danish resource base. Indeed, as in the case of an increased focus on the meso- and the macro-levels it could be seen as an opportunity for increasing the involvement of sectors (e.g., financial services) that are currently under-represented in involvement in the active resource base. A second means by which efficiency issues could be given greater weight, is by giving greater prominence to the promotion of catalytic effects, in instruments’ objectives, design, as well as monitoring. Efficiency could, further, be increased by continuing the process of untying or making stronger efforts to increase competition in programme implementation by other means. A lesson learned from the evaluations is that
assessing the efficiency of the instruments is impossible, when targets are weak or not at all specified.

Efficiency would also clearly be enhanced by greater synergies. There are, presently, only few synergies between the instruments, partly because these are often targeted at different categories of enterprise. Synergies are perhaps easier to achieve between Danish and other donors’ programmes, where these are targeted on similar groups of enterprises or institutions, and between Danish PSD and sector programmes. There is evidence that increasing attention has been given by Danida to seeking greater synergies by the latter route, but there is also a case for looking more closely at the possibilities of greater donor coordination.

At present, assessment of the cost-efficiency of instruments with the participation of the Danish resource base appears to play a minor role, possibly as a result of an assumption that more active attention could undermine programmes’ ‘demand driven-ness’ (from the Danish side). However, analysis of which instruments yield best value for money could be used to establish instrument selection criteria and, hence, improvement of the efficiencies of the interventions without necessarily leading to reduced participation in the overall portfolio.

5.5 Sustainability

It is a lesson learned that assumption of ownership, involvement of local actors and building of institutions in recipient countries on the basis of the transfer of regulatory, facilitation and intermediation competences is a necessary condition for the non-financial aspects of sustainability. However, at least for financial sustainability, this is not sufficient. Interventions aimed at setting up or restructuring firms and institutions have to ensure that their costs can be covered. In the case of business institutions, financial sustainability implies capacity for self-financing. This has implications for the range of competences that need to be transferred, and for how such transfers are themselves financed. Subsidies may only be justified temporarily, on grounds of very high positive spill over effects such as the supply of products or services that are absent or difficult to gain access to, at least for targeted (e.g., poorer) segments of the population.

The issue of institutional sustainability has been explicitly addressed in the new generation of programmes targeted at the macro- and meso-levels, at least in the form of a focus on transfer of institution-building competences. It is, however, not clear whether the issue of financial sustainability has been given the same degree of attention.

In respect of Danish micro-level interventions, hard data on sustainability has been reported only very recently as in the form of enterprise survival rates in the PS programme. It is, in this case, not clear whether attempts have been made to also identify what factors have been associated with sustainability and lack of sustainability. If they are not being undertaken already, such efforts would certainly be useful.
META-EVALUATION OF THE DANISH PRIVATE SECTOR AND BUSINESS SECTOR DEVELOPMENT INTERVENTIONS.

1. Background

Over the recent decades, and particularly during the last, the focus of official development assistance has shifted towards including a more direct involvement of the private sector as an engine for economic growth in developing countries. The Government of Denmark and Danida have also followed this change of focus, manifested in the establishment of programmes or instruments for promoting increased local economic activities. In 1967, the Government established IFU, The Industrialization Fund for Developing Countries. The Danish Import Promotion Office, DIPO, a centre for promotion of import to Denmark from developing countries was initiated in 1977. In 1991, the Centre for Transfer of Appropriate Technology, KfU, was established. The Private Sector Development Programme, PS, was established in 1993 on a pilot basis in Ghana, India and Zimbabwe, the same year as the Mixed Credit Programme, MCP, was initiated. A Business-to-Business programme for South Africa, B-t-B, was established in 1994. The Business Sector Support Programme in Tanzania, BSSP, was established in 1998. In addition, Danida is also supporting private sector development (PSD) through its support to various sector programmes (SPS), as well as through smaller programmes directed towards private sector development, but implemented through other institutions or NGO’s, initiated and financed during the same period.

After some time of operation, all of the above mentioned programmes or instruments have now been evaluated to assess achievements relative to planned goals, as well as their performance seen in the perspective of the overall objective of contributing to economic and social development.

This Meta-Evaluation will be conducted by aggregating the findings of the earlier evaluations and presenting a platform for better understanding the multifaceted interventions, as well as to assess the instruments in a contemporary context. The Meta-evaluation will present an overview of the specific instruments, as well as an extraction of lessons learned, with a view of establishing a basis for assessment of existing and new instruments within the sector.

2. Objectives

By increasing economic activities and creating employment, the programmes for private sector (PS) and business sector development (BS) share the general overall objective for Danish development assistance: to reduce poverty. The Evaluation has four main objectives:
Present Overview
• To present an overview of the different Danish supported instruments for private sector and business development established over time.

Summarise Earlier Assessments
• To summarise the assessments made in the previous evaluations of these instruments against the five evaluation criteria.
• To assess the appropriateness and usefulness of how earlier evaluations applied each of Danida’s five evaluation criteria in their assessment of these instruments.

Assessment in current context
• To assess the relevance of the different instruments in relation to the current development context, including the contemporary international policy environment and policy research on PS/BS development.

Draw Lessons
• To draw lessons for the elaboration of more precise guidelines for the design and implementation of these instruments as well as lessons for selection of specific future business and private sector development instruments.
• To draw lessons learned for future assessments of instruments.

3. Scope of Work

The Evaluation shall provide an overview of the various Danish supported programmes and instruments for private and business sector development, which have been established over time. The Evaluation shall, in particular, assess evaluations of the following instruments: IFU, DIPO, KfU, MCP, PS, B-t-B and BSSP. Summaries of the assessments of the various instruments provided in previous evaluations shall be presented against the five evaluation criteria (Ref. Evaluation Guidelines, Chapter 4), but also elaborate these in relation to the PS/BS development context and to discuss other evaluation criteria relevant for the assessment of private sector development and the Evaluation may look into other Danida supported private and business sector activities.

The Evaluation shall present the current context and trends for private sector and business development, as understood by leading international and national development organisations and in the international PS/BS policy debate. The Evaluation shall conclude on the performance of the various instruments in their contemporary context, as well as present suggestions on guidelines for selecting, designing, implementing and assessing current and future instruments.

4. Issues

The Evaluation shall be carried out in accordance with Danida’s Evaluation Guidelines and the tasks shall comprise, but not be limited to, the following:

• An assessment of the understanding of business and private sector development prevailing at the time of initiation of each of the instruments, as well as how changes in the perception of PS and BS development have influenced the operation of the instruments;
• An assessment of the instruments’ performance in relation to the overall development and poverty-reduction objectives of Danish international development assistance;

• An assessment of which level (country, state, branch, firm) each instrument is involved at, the appropriateness of the criteria for and content of the selections made of and within these levels;

• An assessment of the nature and appropriateness of the transfers such as technology, investments and competence entailed by each instrument;

• An assessment of the tying to the Danish private sector of each instrument and changes over time;

• An assessment of the nature and appropriateness of the choice of intermediary used to implement the instrument;

• An assessment of the follow-up made by Danida on the various evaluations;

• An assessment of the relevance of each of the instruments within the current development context, internationally and in the partner countries concerned;

• An assessment of the existing and possible future synergies between the various Danish supported PS and BS development instruments and between these as a whole and those of other donors;

• A presentation of lessons learned from the evaluations – seen in the current development context – that can guide the selection, design and implementation of business and private sector development instruments in the future;

• An assessment of the evaluation methods applied.

5. Methodology

The Meta-Evaluation shall be based on a desk-study of the existing evaluation documents, including follow-up documentation. In order to make the resumes of the instruments’ operations and results, the Evaluation team shall, in cooperation with the Team Leaders of the specific evaluations, where possible, develop a short description, as well as a brief summary of the evaluation of the different instruments.

The Evaluation shall collect related, contemporary material from other major actors in the field in order to assess the different programmes in a wider context. This assessment shall be based on, but not be limited to, the five evaluation criteria.
6. **Composition of the Evaluation Team**

The team shall be composed as follows:

- Team leader.
- Specialists with experience from conduction of PS and BS development evaluations and contemporary sector development.

7. **Timing and reporting**

The Evaluation Team shall produce a report presenting the preliminary findings in the form of a Draft Final Report, not later than 30th April 2004, and a Final Report not later than three weeks after receiving the comments to the draft report.

8. **Documents provided**

The following Danida reports and publications provide background information:

- Evaluation; IFU. (2003/?)
- Evaluation; Danish Import Promotion Office. (2000/1)
- Evaluation; Danish Centre for Technology Transfer, KfU. (1996/9)
- Evaluation; Mixed Credit Programme. (2002/4)
- Evaluation; Private Sector Development Programme. (2001/1)
- Evaluation; Business-to-Business Programme Denmark – South Africa. (2000/8)
- Evaluation; Business Sector Support Programme Tanzania. (2002/6)
- The Follow-up Memorandums.
- Relevant Danida Policy Papers.

**Evaluation Department, 22 December 2003.**
Annex II  Evaluation Team and Work Plan

Evaluation Team

Åsbjørn Skaaland  Team Leader
Peter Gibbon  Team Member
Jens Erik Torp  Team Member
Birgit Degnbol  Team Member
Stein Hansen  Q.A.

Work plan

Preparation
• Prepare Basic Documentation (Evaluation reports)
• Distribute work and agree on detailed work-plan
• LoC consensus

Work Phase One (12/1 – 6/2 2004)
• Reporting templates agreed.
• Read all evaluations.
• Prepare assigned component summaries, (Ch 3.x)
• Start development of theoretical parts, (Ch 2 & 4)

First Workshop (9 – 11/2 2004)
• Discuss draft component summaries
• Discuss Ch 2, 3 and 4 content
• Brainstorm Ch 5
• Interviews

Work Phase Two (12/2 – 19/3 2004)
• Finalise component summaries
• Work on assigned elements of theoretical part
• Prepare draft Synthesis and Analysis
• Prepare draft Lessons Learned

Second Workshop (23 – 26/3 2004)
• Revise draft document
• Critically analyse Context, Summaries, Synthesis and Lessons
• Final interviews

Work Phase Three (29/3 – 30/4 2004)
• Edit, QA and finalise report
• Distribute draft for comments

• Prepare final report
## Annex III List of Persons Met

### Danish Ministry of Foreign Affairs

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Department</th>
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<tbody>
<tr>
<td>Peder Lysholt Hansen</td>
<td>Bilateral Head</td>
<td></td>
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<tr>
<td>Ib Pedersen</td>
<td>Head</td>
<td>Policy Department</td>
</tr>
<tr>
<td>Finn Jønck</td>
<td>Head</td>
<td>Business Department</td>
</tr>
<tr>
<td>Henrik Wind-Hansen</td>
<td>Head of Secretariat</td>
<td>Private Sector Development Programme (PSDP)</td>
</tr>
<tr>
<td>Hans Henrik Madsen</td>
<td>Technical Adviser</td>
<td>Technical Advisory Services</td>
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</tbody>
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### Danish Business Associations

<table>
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<tr>
<th>Name</th>
<th>Title</th>
<th>Organisation</th>
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<tbody>
<tr>
<td>Jørgen K Hansen</td>
<td>Director</td>
<td>International Department, The Confederation of Danish Industries (DI)</td>
</tr>
<tr>
<td>Hans Peter Slente</td>
<td>Director</td>
<td>International Trade and Market Policy, (DI)</td>
</tr>
<tr>
<td>Jens Kvarning</td>
<td>Head of Section</td>
<td>Development Cooperation Section, The Danish Federation of Small and Medium Sized Enterprises</td>
</tr>
</tbody>
</table>
Annex IV List of References


OECD-DAC (1994) DAC Orientation for Development Cooperation in Support of Private Sector Development. DCD/DAC (93) 32/REV 2

OECD-DAC (2001) DAC Recommendations on Untying Official Development Assistance to the Least Developed Countries.


Sida (2003c) Policy Guidelines for Sida’s Support to Private Sector Development, at www.sida.se

## Annex V  PSD Relevance Indicators

### Pro-poor Economic Growth

- GNI p.c.
- % of the population classified as poor
- Proportion of population with secure livelihoods
- Income/asset levels of specific target groups

### Making the Business Environment more 'enabling'

#### MACRO-LEVEL

**Measures of macro-economic stability:**
- Inflation rate
- Exchange rate management
- Budget deficit/GDP
- B.O.P. position

**Measures of infrastructure coverage:** (e.g.)
- Km. paved roads
- Geographical coverage of telecommunications network
- Coverage of electricity generating system

**Measures of human capital development:** (e.g.)
- Literacy level
- Proportion of age group completing given stage of education

**Measures of regulatory effectiveness:**
- Ease of entry/exit
- Access to effective legal remedies
- Transparent taxation system based on uniformly applied rules
- Recognition of national-level interest group organisations

**Measures of trade facilitation:**
- Import & Export barriers
- Customs procedure (formal and informal)

#### MESO-LEVEL

**Measures of financial market efficiency:**
- No. of financial services provided
- No. of financial service providers’ interest rate spread
- No. of enterprises using different financial instruments
- No. of multiple instrument users
- No. of enterprises owned by specific target groups using different financial instruments
- Overall loan volume/financial sector assets

**Measures of business and producer service market efficiency:**
- No. of business/producer services available
- No. of business/producer service providers
- Costs of services
- No. of enterprises acquiring a specific type of service (upstream/downstream linkages)
- No. of multiple service purchasers
- No. of enterprises owned by specific target groups using different services

### Strengthening the Capacity of the Private Sector

#### Micro-Economic

- Value-added
- Capacity-utilisation
- Rate of return (may be measured differently according to type of enterprise)
- Quality of product/service, management process and delivery
- Survival after withdrawal of support
- Follow-on investments
- Export levels
- Inter-firm linkages

#### Macro-economic,
Poverty reduction dimensions/
Socio-Political and Environmental capacities

- Employment levels
- Net forex impact
- Direct and indirect tax generation effects (According to national priorities, focus may be on specific sector(s) or region(s))
- SME start-up and survival rates
- Large firm-SME linkages and resource flows
- SME ‘graduation’ rates (all further specifiable in relation to specific target groups)
- Extension of employer and/or employee organisations
- % organic output/sales/agro-exports
- Rate of adoption of cleaner technologies
- More efficient use of specific resources

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Annex VI Relevance and impact criteria used in evaluations

Relevance criteria used in evaluations

IFU
- Economic growth and social development needs of partner countries;
- Relevance to poverty reduction (geographical and sectoral distribution of investments);
- Relevance to current thematic paradigm (in this case, DFI strategy);
- Relevance to ostensible stakeholders (additionality).

DIPO
- Relevance to poverty reduction (geographical distribution of service provided);
- Correspondence to current thematic paradigm (in this case trade facilitation);
- Relevance as perceived by ostensible stakeholders.

KfU
- Needs of developing countries/firms vs. those of Danish resource base;
- Correspondence to overall development assistance paradigms (project vs. programme);
- Correspondence to current thematic paradigm (in this case technology transfer – need for in situ and partner-specific adaptation, rather than designed in Denmark);
- Relevance as perceived by ostensible stakeholders.

MCP
- Economic growth and social development needs of partner countries;
- Relevance to poverty reduction (geographical and sectoral distribution of projects supported);
- Correspondence to current thematic paradigm (in this case infrastructure project quality – effective knowledge/capacity transfers a precondition of successful technological ones);
- Relevance to partner country priorities (origins of projects – mentioned but not considered in depth);
- Relevance as perceived by ostensible stakeholders (additionality).

PS
- Economic growth and social development needs of partner countries;
- Correspondence to current thematic paradigm (in this case PSD – priority of enabling environment focus and need for country-specificity);
- Relevance to ostensible stakeholders.

BtB
- Relevance to current thematic paradigm (in this case success factors for JVs/partnerships – focus on established well-functioning partners rather than the business population in general);
- Relevance to South Africa’s status as a post-apartheid economy (in terms of strategies for black empowerment – via management capacity building rather than ownership);
- Relevance as perceived by ostensible stakeholders (recipient country firms and balance between recipient and Danish country firms).

BSSP
- Relevance to overall conditions for developing country BS/PSD;
- Relevance to poverty reduction (found not to have been operationalised);
- Relevance to Tanzania’s status as a transition economy;
- Relevance to partner country national objectives/policies;
- Relevance to ostensible stakeholders.
Annex VI Relevance and Impact Criteria Used in Evaluations

Impact criteria used in evaluations

IFU
- Economic. But employment information not available. No information on net forex performance change;
- Social;
- Political;
- Environmental;
- Institutional;
- Technological effects...on local companies, and for DK market access;
- NB no project tracking after support ended;
- Notes problems of distinguishing IFU from non-IFU impacts.

DIPO
- Awareness amongst stakeholders in delivering and recipient countries mentioned several times.

KfU
- No. of outreach/counselling activities (not impact);
- Stakeholder awareness;
- Tech transfer impact too early to evaluate.

MCP
- ‘Almost all projects have had a positive impact’ in terms of employment generated and broadening of access to services. Or ‘in general the projects have general developmental impacts on society’;
- Measured only qualitatively (see PS).

PS
- Employment generated by assisted enterprises;
- Net forex generation;
- Spillover effects of projects;
- All measured only qualitatively (high, medium, low). No clear indication how these categories operationalised or if operationalised consistently across countries;
- No tracking of enterprise survival rates.

BtB
- Employment. Measured quantitatively in terms of net jobs created (48). This compared with original projections and employment trends in SA economy;
- Empowerment/Business Earnings. Said to be positive in case of empowerment, low in case of earnings (criteria not described, but enterprises described in three categories of financial viability);
- Training. Impact highly variable, depending on character of recipient enterprise;
- Intercultural understanding;
- SA SMME policy (via institutionalisation of programme achievements). Negligible.

BSSP
- Discussed separately for each component: but only three had indicators prior to evaluation;
- Increased market competition and better financial service provision (CRDB) (not quantified);
- Poverty alleviation (CRDB micro-finance) – but found impossible to measure;
- Business start-ups and employment. FEDHA Venture Capital Fund (6 businesses and 652 gross jobs);
- Improved business climate (Labour laws, Commercial Court – in the latter case measured in terms of cases processed/resolved and time taken to handle);
- CTI – membership levels, no. of advocacy interventions;
- TUC (T) – development of a comprehensive training programme!!! (i.e. activity rather than output);
- No impact measure devised – VETA.
Meta-Evaluation

Private and Business Sector Development Interventions

Danish Impact Promotion Office

Business in Business Programme

Private Sector Development Programme

Mixed Credit Programme

Business Sector Support Programme

The Industrialization Fund for Developing Countries

2003/3

2003/9

2004/1

2003/8

2003/5

2004/3