

Approach and Organisation of Sida Support to Private Sector Development

Emerging Market Economics
in co-operation with
ÅF – Swedish Management Group



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Preface

Contributing to creating conditions that increase the security, opportunities and capacity of the poor is crucial for sustainable poverty reduction and a challenge to development co-operation. In light of this challenge, and of market-oriented transition in the 'East' and as well as the 'South', support to private-sector development (PSD) has gained increased attention. Sida has provided PSD support for more than a decade, and is now in the process of developing its support. However, a comprehensive picture and evaluation of its current PSD support is lacking. Sida also lacks an overall policy and strategy for PSD support.

Against this background, and as a first step to facilitate the current process of developing Sida PSD support as well as policy and strategy formulation, Sida's Department for Evaluation and Internal Audit (UTV) commissioned the present evaluation. UTV is an independent department reporting directly to Sida's Board of Directors. The evaluation aims at providing an overall picture of total Sida PSD support and the way in which it has been approached and organised. It also aims at identifying strengths and weaknesses of this approach and organisation, as well as potentials, opportunities and measures for improvement.

Emerging Market Economics, London, was contracted in October, 2000 – with ÅF – Swedish Management Group, Stockholm, as sub-contractors – to conduct the evaluation with an independent team of evaluators. This team bears the full responsibility for the contents of the report. A reference group was formed by staff from several Sida departments during the planning of the evaluation. The team has worked in close co-operation with this group throughout the evaluation process. UTV has thus intended to ensure the relevance and usefulness of the evaluation as well as the genuine learning of Sida, in order to contribute to the fulfilment of Sida's objectives and the goals of Swedish development co-operation.

An interesting overall conclusion of the evaluation report is that Sida's approach to PSD support diverges from best practice in important respects. Existing knowledge suggests that PSD support should be integrated with other types of support, address clusters of factors and take linkages between them into account. By contrast, Sida's PSD support does not appear to be well integrated into country strategies and tends to address individual factors in isolation. By also not systematically sequencing measures or addressing macro issues before micro issues, and with a dominance of activities at the micro level, the development potential of Sida's PSD support is not fully utilised.

Stockholm, October 2001

Ann-Marie Fallenius

Director

Department for Evaluation and Internal Audit

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Evaluation Abstract

An evaluation was conducted of Sida's approach to, and organisation of private sector development (PSD) support. A three-stage process of investigation was used. The first stage was the development of a conceptual framework for private sector development, based on a review of academic literature and informed also by practical experience. The framework served as a benchmark against which Sida's support to PSD could be evaluated. The second was an empirical study, which involved the mapping of the magnitude and content of Sida's PSD support. A survey of heads of department and selected division heads, together with project officers, was carried out, to evaluate the approach to and organisation of PSD support within Sida. The conclusions of the Empirical Study, informed by the Conceptual Framework, were then used to evaluate the implications for Sida's provision of PSD support in the future.

The key findings and recommendations were that:

- A weak role is accorded to the private business sector and PSD support within Sida policy and strategy documents. Its role should be explicitly recognised.
- Country analysis and strategy documents should integrate PSD support into the overall programme of development assistance.
- Issues of the relationship between the factors that affect the private business sector need to be better understood.
- Inter-departmental co-operation on delivering PSD support is limited, and should be strengthened.

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List of Abbreviations

BDS	Business Development Services
CEE	Central and Eastern Europe
CF	Conceptual Framework
CIF	Cost Including Freight
DAC	Development Assistance Committee
DFID	Department for International Development
EU	European Union
FDI	Foreign Direct Investment
FSU	Former Soviet Union
GDI	Gross Domestic Investment
GDP	Gross Domestic Product
HR	Human Resource Department
IFI	International Finance Institution
ILO	International Labour Organisation
IUM	Embassy in Respective Country
IYB	Improve Your Business
LIC	Low Income Country
LLDC	Least Developed Country
LMIC	Lower Middle Income Country
MFI	Micro-Finance Institution
MSTQ	Measurement, Standards, Testing, Quality
NGO	Non-Governmental Organisation
NIC	Newly Industrialised Country
NIS	Newly Industrialised State
OECD	Organisation for Economic Cooperation and Development
PBS	Private Business Sector
PPP	Public Private Partnership
PSD	Private Sector Development
R&D	Research and Development
Sida	Swedish International Development Cooperation Agency
SME	Small and Medium-Sized Enterprise
SOE	State-Owned Enterprise
SYB	Start Your Own Business
TBT	Technical Barrier to Trade
TPO	Trade Promotion Organisation
TRIMS	Trade Related Investment Measures
TRIPS	Trade Related Intellectual Property System
UMIC	Upper Middle Income Country
UNCTAD	United Nations Conference for Trade and Development
WTO	World Trade Organisation

Executive Summary

This report aims to provide an assessment of the magnitude, content, approach and organisation of Sida support for private sector development (PSD). It aims to set out the implications of the assessment for Sida's future approach and organisation of PSD support. It comprises a Conceptual Framework that sets out best practice in providing PSD support, an Empirical Study that compares practice within Sida with best practice, and a section that assesses implications for Sida.

The Role & Importance of the Private Business Sector

- 1.1. Terms such as the private sector, private business sector (PBS), Private Sector Development (PSD) and PSD support have not been defined precisely in the past. We have used the term private business sector and followed the OECD in defining it as *a basic organising principle for economic activity where private ownership is an important factor, where markets and competition drive production and where private initiative and risk taking set activities in motion.* We have defined PSD as *the process by which the PBS moves along the path to becoming well-functioning* and PSD support as *interventions aimed at the development of factors crucial to the development of a well-functioning PBS.* The concepts underpinning the definitions of PSD and PSD support are that, as the PBS develops, it should move towards becoming well-functioning and that this process depends upon the presence of certain crucial factors.
- 1.2. A private business sector that is functioning well can serve as the engine of economic growth and deliver an economy that is efficient, competitive and responds to market trends. In addition, provided it is given appropriate signals, it can also contribute significantly to achieving Sida's goals of environmental and social sustainability, including gender equality. Moreover, it can serve as a vital contributor to Sida's over-arching goal of poverty reduction, indirectly by helping to accelerate economic growth, and directly by providing incomes, security, opportunity and capacity for the poor. Its impact on poverty through growth may be strengthened by establishing the conditions under which growth is broad-based and inclusive and hence pro-poor.

The Conditions for a Well-Functioning PBS

- 2.1. It is widely understood that an enabling environment is necessary for developing a well-functioning PBS. But few have attempted to define what constitutes an enabling environment and how it affects the performance of the PBS. Our analysis shows that a wide array of factors at the macro, meso and micro levels come together to form the enabling environment. In clusters, these factors form the crucial conditions that affect the speed at which the PBS becomes well functioning.
- 2.2. The crucial conditions for accelerating the development of a well-functioning PBS and the factors that combine to produce them are as follows:
 - the effective operation of *markets as the organising principle* of economic activity. This condition is required for the PBS to ensure that production, distribution and allocation of resources are in line with demand (economic efficiency). The degree to which this condition exists is determined by the primacy given to markets in economic policy, the ability of systems of governance to deliver conditions for secure and stable market exchange and ease of entry and exit for businesses and the extent to which government policies support the profit motive and the hard budget constraint;
 - the level of *incentive* provided to the PBS for growth, poverty reduction and environmental and social sustainability. If the level of incentive is inadequate or inappropriate, the result is likely to be slower growth of the PBS and hence the economy, or the failure of the PBS to grow sustainably. The level of incentive depends upon a combination of the level of opportunity and the trade-off between risk and reward, including transaction costs, in the economy. The factors that contribute to this are the degree of liberalisation of the economy, trade policy, stability of the economic environment, corporate and personal taxation, stability and transparency of systems of governance and the state of infrastructure;
 - *access, competence and capability* which covers the level of access that the various components of the PBS (regions, sectors, size of business) have to product and factor markets and their competence and capability in terms of delivering efficiency and competitiveness. The level of access is determined by the depth of markets, the coverage and cost of infrastructure and the social capital that businesses can use to mobilise resources and participate in markets. Competence and capability are affected by the level of competition in the economy and by access to know-how, business support services and training. Access, competence and capability affect the speed at which the PBS becomes efficient, flexible and competitive. Without these conditions in place, the PBS will take time to grow, thus limiting its impact on poverty.

- 2.3. The state has a major role to play in establishing the crucial conditions for developing a well-functioning PBS. It contributes to the effective functioning of markets, the level of opportunity, risk and reward in the economy, the level of access to markets and infrastructure and influences competence and capability. In effect, it sets the 'rules of the game' for the PBS.

Approach to and Organisation of PSD Support

- 3.1. To be effective, PSD support needs to be multi-sectoral and multi-disciplinary, integrated with other interventions. Interventions should address a cluster of inter-linked factors rather than factors on their own. Within a cluster, macro and meso factors should be addressed before micro factors.
- 3.2. The sequencing of interventions should prioritise the conditions that affect the organising principle and provide incentive to the PBS before engaging in PSD support to address access, competence and capability. A pragmatic approach that addresses country-specific conditions is, however, essential.
- 3.3. Country analysis should include analysis of the PBS, its performance and characteristics. PSD support interventions should be integrated with other development assistance, integrated into country strategies. The leadership role in the design of interventions should be local so that the extent of development of the PBS and the aspirations of the local people are taken into account.
- 3.4. Micro-level interventions should be designed in a way that ensures that markets are not distorted.

Overview of Sida's Existing Support

- 4.1. Using Sida's traditional classification of PSD support, the proportion of total Sida funds allocated to PSD support accounted for a mere 3% of total aid expenditure in 1999. Using the broader definition of PSD support developed above, total Sida support to PSD in the same year accounted for 34% of Sida's total aid expenditure. This is a significant proportion and shows the extent to which Sida's interventions have a potential bearing on PSD. Unfortunately, this potential impact is often not given prominence in defining the purpose of the intervention, and in a sizeable proportion of interventions, not used consciously to support PSD.
- 4.2. As far as departmental spend is concerned, the main cause for concern amongst the regional departments is RELA, which spends a very small proportion of its overall budget on PSD support and hence makes a low contribution to the total PSD support that Sida provides.

- 4.3. The main functional department providing PSD support is INEC. Of the sectoral departments, DESO, SAREC and NATUR each spends under 15% of their total departmental spend on PSD support. This is a cause for concern given the role that PSD support could play in fulfilling the mandates of these departments. For example, sound governance is a factor crucial to the development of a well-functioning PBS. DESO therefore has a major role to play in the provision of PSD support by Sida. Equally, SAREC could play an important part in helping to improve the quality of human resources and technology available to business. The greatest concern however must be over the low proportion of the department NATUR's budgeted expenditure that is allocated to PSD support. The numbers of rural poor, the importance of markets for agricultural development, the role the PBS plays in non-farm employment and rural development and sustainable resource use suggest that NATUR should be strongly involved in the provision of PSD support.
- 4.4. The geographical allocation of PSD support is broadly in line with Sida's pattern of aid expenditure, with Africa receiving just under half of total support. Support to LLDCs accounts for just under one third of PSD support interventions, a proportion that could be increased given the fact that the absence of a well-functioning PBS is a major factor in their slow growth and progress in poverty reduction.

Sida's Approach to PSD Support

- 5.1. The Swedish government's objectives for Sida support to PSD provide a weak recognition of its role in the overall development process. Although its recent Letters of Appropriation mention benefiting consumers, developing exports and the facilitation of the transition from central planning to a market economy as key objectives, they do not mention the vital role that PSD support could play in achieving Sida's aid goals. Gender equality and environmental sustainability are only mentioned in the context that they be promoted as part of PSD support, with no mention of the role that that PSD support could play in contributing to the goal of economic and social equality or in providing sustainable livelihoods for the poor, which would impact directly on poverty.
- 5.2. There is a general understanding within Sida of the terms PBS and PSD support that approximately accords with the definitions set out above. In general, there is an understanding that the PBS has a role to play in the achievement of Sida's aid goals of growth, social and economic equality and poverty reduction, but its contribution to other goals is less well-recognised. Further, based on the sample of documents analysed, the understanding of the role that the PBS can play in achieving Sida goals, is not reflected in most departmental strategies or in country analyses and strategies.

- 5.3. Moreover, the operationalisation of the understanding of the impact of the PBS on Sida goals at the level of project interventions is poor. For example, with respect to the goal of poverty reduction, analysis of the PLUS system showed that only 5% of projects were classified as having an (intended) impact on poverty. The question as to why this should be the case should be studied in greater detail. Three possible reasons can be suggested. The first is that there may still be an overall perception amongst Sida project officers, if not amongst senior staff, that poverty reduction is concerned only with actions that have a direct impact on the poor. The second could be that the relationship between growth and poverty reduction is not clearly understood within Sida as a whole. Third, and perhaps most importantly, Sida does not have a clearly elaborated policy in relation to the role that the PBS could play in poverty reduction.
- 5.4. Analysis of a sample of country analyses and strategies shows that considerable attention is paid to macroeconomic stability, but little to the state of development or needs of the PBS. This is surprising given the fact that although macro conditions affect more than just the PBS, a major aim of achieving macro stability is to provide a secure and stable environment for the PBS.
- 5.5. There is widespread agreement that certain conditions have to be in place to allow the development of a well-functioning PBS, and that the state has a role to play in the creation of these conditions. Heads of departments and divisions understand the role that they play in contributing to the conditions for a well-functioning PBS, but in practice, they do not take full account of the need to develop these conditions, nor the relationship between factors.
- 5.6. Analysis of a sample of interventions shows a surprisingly small amount of support in budgetary terms at the macro level to address markets as the organising principle or at the level of incentive, accounting for only 2% of budgeted expenditure. Even when looking at the number of contributions, the amount of support provided to ensure these crucial conditions are in place is surprisingly small at 16% of contributions. Given the fact that Sida operates in many countries where the enabling environment for PSD is weak, we would have expected to see more interventions at this level. The respective proportions of interventions at meso and micro level in terms of budgeted expenditure was roughly equal, with the majority of micro level interventions focused on human resource development. Less emphasis was accorded to market access, the removal of structural barriers, business development services etc.
- 5.7. Analysis of the sample of interventions shows an unwarranted predominance of interventions that address individual factors, with only seven interventions working at more than one level. This demonstrates that the understanding of how the factors that create the conditions for a well-functioning PBS are linked is not very well developed across Sida

departments. According to project officers, the need to sequence interventions so that the conditions are in place for the intervention to be effective is not always taken into account when designing projects. Most stated that it is difficult to apply this principle in practice.

- 5.8. With respect to the mechanisms used by Sida for delivering interventions in partner countries, evidence from project officers suggests that non-governmental channels are used infrequently, with most interventions being provided either directly or through government. Several Sida officers expressed concerns about using any channel other than government. This needs to be addressed, as non-governmental channels are almost always cost-effective in providing support to businesses at the micro level.
- 5.9. The principles of PSD support at the micro level – of not distorting the market, effective outreach, sustainability and the need to create a demonstration effect – are also not adhered to consistently, although there is some recognition of their importance.

Sida's Organisation of PSD Support

- 6.1. PSD support is undertaken primarily by INEC/Näring – a division of one of Sida's sectoral departments. There is no department or division that has responsibility for developing policy on how to approach PSD support and no unit with a holistic perspective on all the PSD support that Sida is undertaking.
- 6.2. Several Sida departments that are, or could potentially be, involved in PSD support questioned whether co-operation between them is sufficiently well developed. Many perceived an absence of close, more systematic co-operation as a deficiency. The result is that few projects are combined, or designed to be complimentary, with other projects within the same department/division or with other departments/divisions. In the limited instances in which there is project-based co-operation, such co-operation has proved problematic.
- 6.3. Access to PSD support skills within Sida is usually undertaken on an individual to individual basis. No problems are perceived in accessing PSD support skills, although it is interesting to note that some 'non-PSD support' departments and divisions do not perceive there to be a need to access PSD support skills.
- 6.4. There are no formalised or systematic mechanisms for codifying best practice in PSD. Anecdotal evidence suggests that knowledge of best practice within the organisation is not always exploited when planning new interventions. There is a general feeling that codifying best practice and sharing PSD expertise should be INEC/Näring's responsibility, and that the division therefore may need to increase its capacity in order to be able to fulfil that role.

- 6.5. With respect to individual projects, evidence from project officers suggests that lessons learned are documented in regular progress project reports, log-frame analysis and project evaluations. The main question is how this information is exploited when planning future activities. Some interviewees claim that it is the starting point for designing new interventions in the same field, whilst others indicated that existing documented lessons learned are not fully utilised.

Implications for Sida

- 7.1. The role ascribed to the PBS in Swedish government and Sida policy documents is limited. Sida needs to develop a policy document that sets out the role and importance of the PBS in the achievement of its goals. In the case of goals such as care for the environment and gender equality, there is a need for explicit recognition of the role that the PBS could play in their achievement. The Swedish Government's Letters of Appropriation need to be updated to take account fully of the role that the PBS can play in achieving the Swedish aid goals and the types of the PSD support that Sida could provide.
- 7.2. Country analyses need to identify the key constraints to the development of a well-functioning PBS and country strategies should integrate PSD support into the overall programme of development assistance. Local ownership of interventions should be institutionalised into the design process.
- 7.3. Departments such as DESO, SAREC, RELA and particularly NATUR, which currently spend a small proportion of their budgets on PSD support, need to re-examine their departmental strategy towards PSD support. They need to consider the role that PSD support could play in the achievement of their departmental mandates and the contribution they could make to the achievement of Sida goals through PSD support.
- 7.4. Though there is an understanding within Sida that there is need to develop conditions for the development of the PBS, there is no formal recognition of necessary and sufficient conditions. Issues of prioritising and sequencing interventions need to be understood better and operationalised. The proportion of integrated interventions that attempt to address more than one factor at a time is low, suggesting greater need to understand the linkages between factors. A strategy document prepared by INEC/Näring, which sets out how these issues need to be approached, perhaps accompanied by training, would be helpful in this regard.

- 7.5. The issue of how to develop PSD support policy needs further investigation. Sida may wish to follow the example of DFID and the World Bank in having two units involved in PSD support, the first to provide policy and advice for all PSD support and the second to implement specific PSD support interventions.
- 7.6. Currently, PSD expertise is often sourced outside Sida. INEC/Näring is not used frequently to advise on projects that may have a PSD support component. There is a need to change the way that projects are organised and managed to facilitate the development of multi-departmental interventions that would allow PSD support to be better integrated into development assistance generally.
- 7.7. Lesson learning needs to be improved. The organisation needs to investigate the best way to codify best practice and undertake regular lesson learning.

Introduction

Background and Key Issues

In recognition of the fact that Sida has been supporting private sector development (PSD) for a number of years, and that no evaluation of this support has been undertaken up to now, Sida's Department for Evaluation and Internal Audit (UTV) commissioned an evaluation of its entire PSD support. This evaluation, undertaken by EME and ÅF-SMG, aims to:

- Review and assess the content, magnitude, approach and organisation of current Sida support for PSD;
- Discuss the implications of the assessment for Sida policy, strategy, approach and organisation of future PSD support.

In spite of the recognition within Sida and the donor community generally that a well-functioning private sector is a *sine qua non* for economic growth and the reduction of poverty, Sida has no policy or clearly elaborated strategy for its PSD support. In this it is not alone. Many other donor agencies too have yet to elaborate clear policies and strategies, and indeed, academic literature is not able to provide a comprehensive conceptual framework for the conditions that make for a well-functioning private sector. This makes it difficult to evaluate the PSD support Sida has provided in the past and to recommend measures that would improve its effectiveness in future.

The responsibility for assisting the development of the private sectors of all its partner countries has been entrusted to a small division within one of Sida's departments. The funds earmarked for PSD support represent a small fraction of the organisation's annual aid expenditure. Further, the magnitude and content of Sida support for PSD has not been 'mapped' fully in the past. Whilst there is a category of expenditure that is termed PSD support, it is generally accepted that this category does not encompass all the activities that may be considered support for PSD.

Methodology

Given this background and the tasks specified in the terms of reference (TOR), we have undertaken a three-stage process of investigation:

- Development of a Conceptual Framework (CF): In the absence of a comprehensive policy or clear strategy within Sida, we have attempted to construct a framework, based on relevant literature and practical experience, to inform best practice in the field. The framework is intended to serve as

a benchmark against which Sida's approach to and organisation of PSD support can be evaluated;

- Empirical Study: using the concepts and definitions developed in the CF, we have attempted to map the magnitude and content of Sida's PSD support. In addition, we carried out a survey of heads of departments and selected division heads and a sample of project officers to evaluate approach and organisation of PSD support within Sida. The findings of this empirical research were contrasted with the Conceptual Framework to evaluate Sida's PSD support;
- Implications for Sida: The main conclusions of the Empirical Study, informed by the Conceptual Framework, were then used to discuss the implications for Sida's provision of PSD support in future.

In preparation for this Study, UTV carried out a review of relevant literature and wrote a paper "Evaluation of Sida Support to Private Sector Development: The Private Business Sector and Its Development: Definitions, Preconditions and Sida Support (Background Paper)"¹. That paper serves as the departure point for this document and contains a useful discussion of concepts and terms and their definition.

Organisation of the Report

Reflecting the methodology used, the report is organised in three parts: a Conceptual Framework, the Empirical Study and Implications for Sida. The main issues addressed in each chapter are as follows:

Part I: The Conceptual Framework

Chapter 1: The Role and Importance of Private Sector Development

The chapter focuses on the contribution that PSD can make to the achievement of Sida's goals, particularly the overarching goal of poverty reduction. It introduces the concept of a well-functioning private business sector (PBS) that contributes strongly to growth, poverty reduction and social objectives of environmental sustainability and gender equality, and it discusses the role of the state in bringing about such a private business sector.

Chapter 2: The Conditions for a Well-Functioning PBS

The chapter explores the crucial conditions that determine whether or not a PBS can become 'well functioning'. It discusses the necessary and sufficient conditions in developing country and transition economies and the relationships and inter-linkages between the factors that affect the development of the PBS, concluding with implications for the role of the state.

¹ Sida/UTV (2000)

Chapter 3: Approach to and Organisation of PSD Support

This chapter attempts to synthesise best practice in the approach to and organisation of PSD support. It addresses the issue of sequencing support so that the effectiveness of micro level interventions is enhanced by the presence of an enabling environment for PSD. It draws on the experience of organising development assistance generally to assess best practice in organising and delivering PSD support. It addresses the issues of how interventions can be designed to avoid distorting markets and maximise their developmental impact.

Part II: The Empirical Study

Chapter 4: Overview of Sida's Existing PSD Support

Describes the overall methodology used for conducting the Empirical Study, provides an estimate of the overall magnitude of Sida support, and describes the allocation of support according to region, type, country income level, and Sida department or division.

Chapter 5: Sida's Approach to PSD Support

Examines Sida's overall approach to PSD support and contrasts it with best practice as set out in Chapters 1–3. It assesses perceptions and attitudes towards the PBS and PSD support, and the role accorded to PSD support in the achievement of Sida's aid goals. It examines the understanding within Sida of the different factors that affect the development of a well-functioning PBS and the implications of this understanding for the planning of interventions. It assesses the extent to which Sida follows best practice in delivering PSD support interventions at the micro level.

Chapter 6: Sida's Organisation of PSD Support

This chapter explains how PSD support is organised within Sida. It first examines the location of PSD support within Sida's organisational structure, and the allocation of tasks between and within departments. It goes on to explore how co-operation on PSD support within Sida is managed, and what problems are faced in this type of co-operation. It explores how best practice and lesson learning are codified.

Chapter 7: Implications for Sida

This chapter examines the implications of the findings of the Conceptual Framework and Empirical Study for Sida's approach to and organisation of PSD support, and recommends measures that would improve the contribution of PSD support to the achievement of the Swedish aid goals.

Chapter 1

The Role and Importance of Private Sector Development

A private business sector that is functioning well can serve as the engine of economic growth and deliver an economy that is efficient, competitive and responds to market trends. In addition, provided it is given appropriate signals, it can also contribute significantly to achieving Sida's goals of environmental and social sustainability, including gender equality. Moreover, it can serve as a vital contributor to Sida's over-arching goal of poverty reduction, through growth, and directly by providing security, opportunity and capacity for the poor.

1.1 Introduction

The aim of this chapter is to examine the role and importance of private sector development in the achievement of Sida's goals. The chapter starts with a definition of the terms 'private business sector', 'private sector development', and 'support to private sector development'. These terms have not been precisely defined in the past and have come to mean a variety of things to different audiences. In addition, it elaborates criteria for what constitutes a well-functioning private business sector before focusing on the key issue of how PSD impacts the achievement of Sida goals.

The key questions that the chapter seeks to discuss are:

- What constitutes a well functioning private business sector?
- How can the private business sector contribute to poverty reduction?
- What role could PSD support play in the achievement of Sida's other aid goals?

This chapter thus serves to set the context in which Sida's support for PSD needs to be evaluated. It highlights what could be achieved through effective PSD support.

1.2 Definition of the Terms Used

1.2.1 The Private Sector and the Private Business Sector (PBS)

The term private sector usually relates to the ownership of assets and businesses by individuals and private companies. It stands in contrast to the public sector, where the ownership of assets and businesses is vested in the state. The business sector usually refers to that part of economic activity whereby agents combine resources for the production and distribution of goods and services for sale. The UTV Background Paper states that the relevant Swedish term is 'Näringsliv', defined as the *processes of production which generate goods and services for sale in a market*. The private business sector should thus literally refer to that part of the business sector that is privately owned.

In their usage, however, the terms private sector and private business sector are used interchangeably and there have been two new elements introduced into the definition of the private business sector:

1. In line with the Swedish word *Näringsliv*, the market or market mechanism has been suggested as being integral to the functioning of the PBS;
2. Some observers regard the PBS as the organising principle of economic activity.

For example, the OECD, in its Development Assistance Committee (DAC) paper on private sector development², defines the private sector as '*a basic organising principle for economic activity where private ownership is an important factor, where markets and competition drive production and where private initiative and risk taking set activities in motion.*' Here the term private sector encapsulates private ownership (but not exclusively), the role of the market in determining production and private initiative and risk as the initiators of economic activity.

We concur with this definition, the critical element of which is that the market, through prices, determines what is produced and how much – and that the market, not the state, allocates resources. This 'hidden hand' of the market in determining output and allocating resources, is made effective because businesses attempt to maximise profits in the production and distribution of goods and services and, in doing so, respond to price signals.

It follows from the above that the PBS should cover all sectors (including agriculture) and types and size of business. We consider that the definition should encompass informal economic activities. The informal sector, be it the part-time activities of households whose main activity is in agriculture, or the urban, self-employed hawkers and vendors and odd jobbers, is concerned always with trade and so involves markets.

Clearly, the term is not applicable to government as a sector of economic activity. State-owned businesses are not excluded, however, so long as the dom-

² OECD (1995), p. 4

inant form of ownership is private and the market mechanism is central to resource allocation and the co-ordination of economic activity. Thus state ownership should be limited and the state's involvement should not undermine the role of markets. Dominant state ownership could remove the profit motive and lead to administered rather than market-determined prices and thus the allocation of resources and co-ordination of activities may not be based on the market.

We would argue also that the term PBS should not encompass economic activity that is undertaken for subsistence purposes because, by definition, this is not concerned with markets. Nor should it cover the activities of not for profit non-governmental organisations (NGOs) as they too are not subject to the market mechanism.

1.2.2 Private Sector Development, PSD Support

The other terms frequently used in the literature are private sector development and PSD support. The terms are also used interchangeably but we have made a distinction between the two. Underlying our concept of private sector development is the view that the PBS may be more or less well functioning. As it develops, it should be able to function better and hence make a greater contribution to national development. The criteria that we would consider as being central to a definition of a well-functioning PBS are:

- *Contribution to wealth creation:* the PBS should act as the engine of growth in the economy and therefore be the major contributor to wealth creation;
- *Pro-poor growth:* the way that the PBS grows can be 'narrow' – limited to a few sectors and industries – or broad-based, with lead sectors pulling through other sectors of the economy. Broad-based growth is more likely to benefit the poor than narrow or enclave growth. Growth can be either inclusive – creating wealth for all sections of society – or exclusive – limiting wealth creation to a few sections of society (providers of capital, the middle class). The geographic dispersion of growth also impacts the extent to which growth is pro-poor. A well-functioning PBS should be broad-based, inclusive and disperse growth to all parts of the country, particularly poor parts, and hence ensure that growth is pro-poor;
- *Economic efficiency:* economic efficiency encompasses efficiency in production, so output is produced at least cost; efficiency in distribution, so that products are distributed in a way that no one can be made better off without making someone else worse off (also known as Pareto optimality) and allocative efficiency, whereby resources are optimally allocated to uses where they are most productive. A well-functioning PBS is efficient in all three aspects;
- *Flexibility and responsiveness to market signals:* the extent to which the PBS is able to provide goods and services to consumers in line with demand and price signals, is determined by the ability of entrepreneurs to recognise

and respond to market signals and flexibility within the firm and between firms in their ability to change products and hence resource use. A well-functioning PBS is both responsive and flexible;

- *Competition and competitiveness*: the intensity of competition at the national level should be sufficient to bring about an efficient and responsive PBS. The level of efficiency should be sufficient to allow potential comparative advantage to become the basis of international competitiveness, thus allowing the economy to benefit from international trade;
- *Environmental sustainability*: the extent to which it uses resources at sustainable levels and mitigates environmental impacts. Otherwise, its growth may not be sustainable in the long term;
- *Social sustainability*: the extent to which the PBS discriminates in terms of gender, race or social group. Social conflict could arrest growth;
- *Self-sustainability*: the PBS should be able to sustain growth and development by generating corporate and personal savings, mobilising savings for productive investment, increasing factor productivity and in this way, set up a self-sustaining cycle of wealth creation.

The above is, of course, an ideal. It is doubtful that any PBS, the world over, has all these attributes. We therefore define PSD as *the process by which the PBS moves along the path to becoming well functioning*. The key element of this definition is that it focuses attention on the performance and characteristics of the PBS. This allows, in turn, interventions to develop a well-functioning PBS to target factors that are crucial for it to become well functioning, taking account of the actual situation within a PBS. Thus local differences and stages of development can be reflected in PSD support. PSD is a dynamic concept, one that is neither finite nor mechanistic. The obvious point is that the developed countries continue to undertake PSD support even when their PBS has many of the characteristics that we describe as well functioning.

The term PSD support might therefore include all measures that help to move the PBS along the path of becoming well functioning. The problem with such a definition is that it may well be too wide as it could be argued that a very wide range of factors affect the PBS' path towards becoming well functioning. Including them all as PSD support may make the term diffuse and unspecific. For example, measures to improve literacy benefit the PBS because the workforce is likely to become more productive. However, primary education may be considered a fundamental right as part of social justice and would certainly not be intentioned solely by the needs of the PBS.

The definition we prefer is *interventions aimed at the development of factors crucial to the development of a well-functioning PBS*. The two critical elements in this definition are:

1. *Intent*. The measures must be aimed at impacting the PBS. If they do so inadvertently, then their main purpose is not the development of the PBS. In the example above, whilst primary education cannot be regarded as

PSD support, a literacy campaign in a specific industry or sector with the intention of making the workforce trainable and so more productive is PSD support;

2. *It must target factors crucial to the development of the PBS.* Emphasis must be placed on understanding what is crucial to the needs of the PBS in the local circumstances (characteristics of the PBS, stages of development). This is explicit recognition of the fact that what is crucial can change over time and across countries.

1.3 The Relevance of the PBS to Sida's Aid Goals

The Swedish parliament has laid down six main goals for Sida's development co-operation. These are to promote in the partner countries:

- Economic growth;
- Economic and social equality;
- Economic and political independence;
- Democratic development;
- Care for the environment;
- Equality between men and women.

Further, these six goals should 'interact with each other in order to achieve the *reduction of poverty* which is the overall goal of Swedish development co-operation'³.

In view of the specific circumstances of the formerly centrally-planned economies of Central and Eastern Europe, Sida's goals with respect to these countries show a slightly different emphasis. The goals are:

- To promote common security;
- To deepen the culture of democracy;
- To support socially sustainable economic transformation;
- To support environmentally sustainable development⁴.

The PBS has relevance for the achievement of all six of Sida's aid goals, as discussed below.

Economic Growth

A well-functioning PBS is the engine of growth. At its simplest, growth, in output terms, is a function of the stock of factors of production and their

³ Sida (1998a), pp. 9–10

⁴ *Ibid.*

productivity⁵. In the short term, the availability of labour is relatively fixed, so the main influence on the stock of factors of production is investment. Investment plays two roles, determining the stock of capital and influencing the productivity of both capital and labour through the technology available for production. The PBS plays the critical role in determining the level and productivity of investment. Through the financial system, it helps to mobilise savings for investment and makes the critical decisions on what the investment is used for and, within the firm, how it impacts the productivity of both labour and capital.

It has long been recognised that a critical factor in explaining the high rates of growth achieved by the South East Asian NICs compared with the poor performance of least developed countries (LLDCs), is the difference in the rates of investment in these groups of countries. In the former, the ratio of gross domestic investment (GDI) to GDP has been maintained at over 30% for much of the past two decades⁶. The commensurate figure for the LLDCs is 15–20%. In both sets of countries, public sector investment has represented a GDI/GDP ratio of 10%–15%. The difference in aggregate GDI/GDP ratios is due entirely to the levels of private sector investment. The LLDCs have not been able to develop a PBS that has the capability and/or incentive to sustain high rates of investment. Their productive capacity has failed to increase appreciably and this has resulted in slower growth.

Factor productivity is determined by the efficiency of firms and, hence, directly by the PBS. Increases in productivity result from the managerial and technical efficiency of production within businesses (technological efficiency). Where entrepreneurs, managers and the work force are inexperienced or poorly trained, there are constraints in the form of poor information and access to resources and technology, the PBS will be unable to sustain gains in productivity and economic growth will tend to be relatively slower.

In macro terms, productivity results also from the allocation of resources to productive uses (allocative efficiency). Shifting resources from uses where they have low productivity to sectors of higher productivity will automatically improve national productivity. The move within agriculture from low value to high value crops, and from low value processing to higher value added manufactures, are examples of this. In countries where productivity in agriculture is low, the shift of resources to industry and services can lead to higher productivity in aggregate. Such gains in productivity illustrate the importance of flexibility in a PBS. Countries where the PBS has flexibility in deploying resources are thus likely to enjoy higher rates of economic growth.

Growth of output is determined by the size of the market to which the PBS has access. In many developing countries, the size of the market is limited by the low purchasing power in the economy. For rapid growth, the PBS needs

⁵ Given constant returns to scale, Euler's theorem states that $Y = KF_K + LF_L$ where F_K and F_L are marginal productivity of labour (L) and capital (K) respectively.

⁶ World Development Indicators 2001 and various Country at a Glance reports of the World Bank.

access to international markets which are much larger and which, in the past, have been growing rapidly, faster than world output. Accessing these markets is contingent on developing international competitiveness. Thus a PBS that is able to access and compete in international markets is likely to grow faster and result in higher rates of economic growth than one that cannot.

Social and Economic Inequality

The role that the PBS plays in addressing economic and social equality is a subject of some debate⁷. What is important to note is that there has been significant variation in the degree to which economic growth results in economic inequality. Even in countries where at national level, income inequality has decreased, there may be groups or even whole sections of society that are made worse off⁸.

This variation has many causes, including the re-distributive policies of governments but also, importantly, the characteristics and performance of the PBS. The PBS is the major wealth-creating organ of the economy and the major provider of jobs and livelihoods. If the way that the PBS develops is broad based, inclusive and pro-poor, creating jobs and increasing remuneration of labour and creating wealth in regions and sectors in which the poor are concentrated, income inequality will not increase and may actually fall. If it develops in a narrow, exclusive way, in which only a few sections of society or sectors of the economy benefit, it will increase inequality.

The PBS also affects social equality, defined as access to income, infrastructure and social services on the part of various sections of society (women, ethnic groups etc). Clearly, if the PBS discriminates against particular sections of society, denying them access to productive resources and/or markets or rewarding their labour and entrepreneurship less favourably, it will exacerbate social inequality and vice versa. Though access to infrastructure and social services such as education, health, clean water and other social amenities is mainly determined by government policy, the PBS can also have an affect. The presence of a strong and flourishing private sector can make a vital contribution to the provision of social services, and vice versa.

⁷ For example, the traditional view is that the growth of the economy increases economic inequality and only when countries achieve middle and high-income levels per capita is inequality reduced (the Kuznets curve). Recent studies, however, suggest that the gini coefficient, the measure of income inequality, of South East Asian countries such as Malaysia and Thailand and in Latin America Brazil have actually improved with economic growth. Dollar, D. and Kraay, A. (2000) have tried to show a one to one relationship between average incomes and the incomes of the poor, but they admit that this says little about the numbers that are actually poor.

⁸ On the issue of aggregation, see Kanbur, R. (2000).

Economic and Political Independence

In the 1960s and 1970s, developing countries sought to chart independent economic courses based on their own capabilities and resources and so protected domestic industries and restricted foreign direct investment (FDI). Under today's conditions of globalisation, where most countries are either members, or in the process of joining, the WTO and international capital flows are far larger than aid⁹, economic independence for developing countries means something quite different. International trade and attracting international capital, FDI and portfolio flows are viewed as important contributors to growth and development. Independence relates mainly to issues of equality of access to world markets for trade and financial flows and the freedom or dependence they entail for the country to chart the course of economic management it considers appropriate.

International relations and political factors play an important role in determining access to international markets. But other things being equal, it is the PBS and policies towards the PBS that matter. The main determinant of the level of economic independence of a country today is the international competitiveness of its PBS, which determines the balance of payments, and the extent to which it has been able to create conditions to attract high rates of investment from abroad.

Political independence is a matter mainly of national security and freedom from the dominance of more powerful nations.

Democratic Development

The relationship between democracy and the PBS is complex. There is a general view that a pluralistic society and a flourishing PBS are mutually reinforcing. Key characteristics of pluralist democracies include a vibrant civil society, an independent judiciary, enforcement of the rule of law as well as the enforcement of property rights, referred to generally as 'good governance'. It is the case that a pluralistic private sector (that is, ownership shared by many people) is likely to give rise to a more pluralistic democracy. There is considerable evidence that the PBS is likely to develop faster under conditions of democracy and good governance, as presented in the next chapter.

Examples may, of course, be cited where the PBS has flourished in the absence of a pluralistic democracy (for example, Hong Kong, Chile under Pinochet and China today). Further, there are many examples of the PBS 'capturing' governments and making them follow protectionist or anti-competitive policies that are not in the interests of consumers or the wider society. The PBS is often responsible for breaking the rule of law and is party to graft.

What is important to note is that there is a relationship between the PBS and governance and that the nature of the PBS will have an impact on the develop-

⁹ See for example DFID (2000a), Chapter 4: 'Harnessing Private Finance'.

ment of pluralistic democracies. Interventions to develop the PBS need to take account of governance and to promote democracy, and the role of the PBS.

Care for the Environment

*Kenya. A wind mill
for pumping water
at Elangata Wuas.
Sean Sprague/
Phoenix.*



The manner in which the PBS conducts its business has a major impact on the environment. As business is the largest user of resources, it also has the greatest environmental impact. In the past, in almost all countries, the PBS has been the cause of environmental destruction through its emissions of 'greenhouse gases' such as carbon dioxide, its production of environmentally damaging substances such as ozone and the discharging of effluents, spills and waste.

On the other hand, if the PBS can be made to act in a responsible manner, it can help to

reduce the impact of economic activity on the environment and even help reverse the damage to the environment. With the greater awareness of the way economic activity affects the environment have come a range of policies, incentives and penalties, that have sought to minimise environmental damage by working through the PBS. A clean environment is a public good and these policies have tried to provide signals to their PBS that bring private interest closer to the public interest. These policies recognise that environmental protection cannot rely simply on legislation and its enforcement. It must motivate the PBS to protect the environment. With appropriate policies in place, the PBS could play a vital role in achieving the Sida goal of care for the environment.

Equality between Men and Women

In many countries, the PBS, influenced by social customs and even discriminatory legislation, may have a negative impact upon gender inequality. Inequality between the sexes in opportunities for employment and rewards to

entrepreneurship, remuneration, access to productive assets and in access to markets may exist within the PBS. On the other hand, as evidenced in Scandinavia, with the appropriate policies in place, the PBS can contribute to the process of gender equality by providing equal opportunities and remuneration and providing childcare facilities and flexible working hours.

In this regard, the PBS reflects social attitudes. Thus changing the gender impact of the PBS must include changing attitudes. The PBS may also need to be given more direct signals to address discrimination through effective legislation and regulation. In addition, it may call for affirmative actions within the PBS such as making loans more accessible to women entrepreneurs, taking account of the needs of women in designing vocational training, work spaces and employment conditions, monitoring discrimination in remuneration and in offering continuity of employment.

However, if appropriate policies are in place and the PBS provides equality of opportunity and remuneration for both sexes, it could do much to improve gender equality overall.

Goals for Central & Eastern Europe

In the various policy documents concerning Sida assistance to the CEE countries, the main role envisaged for the PBS in the achievement of Sida goals is to contribute to socially sustainable economic transformation. As noted earlier, the PBS has a role to play in achieving environmental sustainability and it impacts also on the achievement of the goal of democratic development, two other goals of assistance to the CEE countries.

In terms of the goal of socially sustainable economic transformation, the PBS has a vital role to play, deriving from two factors:

1. When transition commenced, it was inevitable that a significant proportion of the existing business sector, developed under central planning, would no longer prove viable under the market mechanism. The success of these countries in minimising the costs of transition in terms of output and employment (socially sustainable transformation) depends on the emergence of a new, privately owned business sector, through privatisation and more significantly, new start-ups, to replace the old business sector;
2. The rapid replacement of central planning by an effective market mechanism was essential for transition to be completed. The responsiveness of the PBS to adapt to the new rules of a market economy is a major determining factor in the rate of progress in achieving the transition from central planning to a market economy.

1.4 The PBS and Poverty Reduction

The reduction of poverty is Sida's overarching goal. This section explores the role that the PBS plays in poverty reduction through growth generally, by influencing the extent to which growth is pro-poor and then goes on to discuss the impact that the PBS has on security, capacity and opportunity. We highlight also the possible contribution PSD support could make in contributing to poverty reduction.

Contribution through Growth

There is now a huge body of evidence that shows that growth and poverty reduction are strongly correlated. The substantial reduction in the poverty head count achieved in East Asia during the 1980s was achieved at a time when GDP per capita was growing at a rate of 6% p.a. During the same period, in Africa, GDP per capita contracted and the poverty head count increased¹⁰. As Kanbur has noted recently, not even those opposed to growth-orientated policies and globalisation would argue that a fall in per capita incomes is better for the poor. As the engine of economic growth, a well-functioning PBS is thus a necessary condition for growth. This serves as the logic for PSD support for many international finance institutions (IFIs), including the Asian Development Bank¹¹, because the PBS is the engine for economic growth. But equally, despite the growth achieved in the past, the poverty head count has increased world wide and has done so even in countries where GDP per capita has been increasing rapidly and the proportion of the population living under the \$1 per day poverty line has fallen.

Growth: Necessary or Sufficient Condition for Poverty Reduction?

There is a debate within donor agencies and academics alike as to the extent to which growth is a sufficient condition for the reduction of poverty. The relevance of this debate for the role and importance of the PBS is that if growth is a sufficient condition, the role of the PBS in creating growth should be maximised. If it is not a sufficient condition, however, then PSD support needs to emphasise pro-poor growth. Those that consider growth to be both a necessary and a sufficient condition include Dollar and Kraay¹². They argue that the income of the poor rises one-for-one with overall growth – that is, there is a one-for-one relationship between average incomes and the incomes of the poorest quintile. This contrasts with Kuznet's view that the early stages of growth witness greater income inequality, as measured by the gini-coefficient¹³. *cont.*

¹⁰ Asian Development Bank (2000a)

¹¹ *Ibid.*

¹² Dollar, D. and Kraay, A. (2000a)

¹³ Kuznets, S. (1955)

Dollar and Kraay's results clearly need careful interpretation. They do not, in fact, suggest that the numbers of people suffering from poverty need necessarily fall as a result of growth. What they are measuring is the elasticity of incomes in the bottom quintile with respect to average incomes, not the elasticity of the poverty headcount with respect to average incomes. They admit that the latter varies tremendously across countries and 'depends, amongst other things, on the distribution of income.' What they are tacitly saying is that whilst the incomes may increase one-to-one with growth, the bottom quintile may remain, along with other quintiles, below the poverty line, depending on what their incomes were to begin with.

On balance, it is possible to state that growth is not a sufficient condition for poverty reduction, and that, at least in the short to medium term, interventions are required to ensure that growth is pro-poor. However, what the Dollar and Kraay argument does reveal is the fact that, provided there are no structural rigidities and markets are reasonably efficient, economic linkages do translate growth into increased incomes for the poor. And, over time, this must result in a reduction in poverty.

No doubt the PBS' role as the engine of growth is the major contribution it makes to poverty reduction but it is by no means the only contribution. Poverty is addressed through a combination of growth and the extent to which growth is pro-poor (benefits the poor). As noted earlier, the extent to which growth is pro-poor depends upon a combination of factors including whether it is broad-based or limited to enclaves, inclusive or exclusive and widely or narrowly spread.

The type of growth achieved, pro-poor or otherwise, depends on a combination of the characteristics of the PBS and the signals that government provides to the PBS. Clearly, if there are strong linkages between businesses across sectors, growth is more likely to be broad-based. And, if the type of investment found attractive by the PBS results in strong levels of job creation, then it is likely that growth will be inclusive rather than exclusive. Moreover, if the growth of the PBS is geographically spread, it is more likely that its growth will benefit all regions of the country, including those in which the poor are located.

It is clear therefore that whilst growth may not be a sufficient condition for poverty reduction in itself, a PBS that is contributing to strong broad-based, inclusive and geographically balanced growth will make a strong contribution to poverty reduction. The PBS can also have a direct bearing on the various aspects of poverty, in particular, the three factors identified by the Swedish Government¹⁴ as being the key aspects of poverty – security, capacity and opportunity.

Impact on Security

Security addresses the ability to cope with unforeseen events such as sickness, accidents, natural disasters, violence, crime, political crises and unemploy-

¹⁴ Swedish Ministry of Foreign Affairs (1997)

ment¹⁵. Many of these forms of unforeseen events are natural, political or social in nature and are external to the PBS and the poor. Some, such as periodic recessions and financial crises, do involve the PBS and call for effective intervention, in the form of sound economic management and effective institutional frameworks to ensure that the risk of such events is mitigated and/or their duration and intensity minimised.

Whatever the source of periodic shocks, the PBS has a role to play in mitigating their effect. First and foremost, it can do so by providing adequate and secure incomes, allowing the poor to save and/or continue to earn despite the crisis. The spread of sources of income across types of activity (varieties of crops, non-farm employment, broad-based economy etc) will help to mitigate the risk of complete loss of income. Savings provide the means to mitigate the effect in the event of complete loss of income. Providing access to savings instruments such as savings and loans institutions and other forms of micro-finance, further mitigates the effect of periodic crisis. No doubt the PBS cannot assuage the personal or social loss caused by crisis, but it can do much to mitigate the economic consequences.

Impact on Capacity

The term capacity covers ability to earn income, own or have access to monetary (savings) and physical assets and access to skills, knowledge and health¹⁶. The PBS has a major role to play in determining the ability to earn incomes as a result of providing labour and the returns to assets such as education, skills and entrepreneurship. In turn, the incomes it provides have a major bearing, alongside the actions of the state, on access to assets such as health, education and skills.

In the past, governments have played the major role in determining access to education, skills and health. The PBS' contribution was limited to providing incomes using which households were able to increase expenditure on education and health. Increasingly, the PBS is becoming involved in the provision of education, training and health. It has proved to be more efficient in providing some of these services than the public sector and, in so doing, has contributed to improving access to these services.

Opportunities

This is the facet of poverty on which the PBS has the most direct bearing. A growing, broad based PBS, able to generate jobs and provide inclusive growth that is spread geographically will be able to substantially increase opportunity and vice versa. Specifically, opportunities for the poor are determined by their access to markets, labour markets for jobs for the employed and capital markets and markets for goods and services for the self-employed.

¹⁵ *Ibid.*, p. 11

¹⁶ *Ibid.*, p. 11

Improving the factors has a direct impact on poverty and such measures have proved effective in direct poverty reduction programmes¹⁷.

In many parts of the world, particularly LLDCs and low income countries, the failure of the formal sector to create sufficient jobs to absorb the growing work force and barriers to business formation have pushed people into the informal sector. In some countries, the informal sector now accounts for half the work force. It contains also the majority of the poor. In such countries, the livelihoods of the poor are determined by the level of development of the informal sector, its integration with the rest of the economy and access to markets. Thus, in countries with significant informal sectors, the characteristics and performance of this part of the PBS has a major bearing on opportunities for the poor.

1.5 Summary

Based on the discussion above, in line with the OECD, it is proposed to use the term private business sector to denote *'a basic organising principle for economic activity where private ownership is an important factor, where markets and competition drive production (and distribution) and where private initiative and risk taking set activities in motion.'* To be considered well-functioning, a PBS should be able to meet the economic criteria of generating growth, economic efficiency, competition and competitiveness, flexibility and responsiveness and follow a growth path that is environmentally and socially sustainable, including delivering pro-poor growth. PSD is defined as *the process by which the PBS moves along the path to becoming well functioning* and PSD support as *interventions aimed at developing factors crucial to the development of a well-functioning PBS.*

The PBS has a major role to play in the achievement of Sida goals such as growth, economic equality and economic independence and has the potential to make a significant contribution also to the goals of environmental sustainability and gender equality. For others, such as democracy, its role is symbiotic, contributing to and benefiting from their achievement. Most importantly, the PBS has a major role to play in the achievement of Sida's overarching goal of poverty reduction, indirectly through growth and directly by improving security, capacity and opportunity for the poor. To maximise its contribution to the achievement of these goals, the PBS needs to be provided with an appropriate framework that facilitates pro-poor growth and signals that encourage it to behave in an environmental and socially sustainable manner.

¹⁷ See for example, DFID (2000b).

Chapter 2

The Conditions for a Well-Functioning PBS

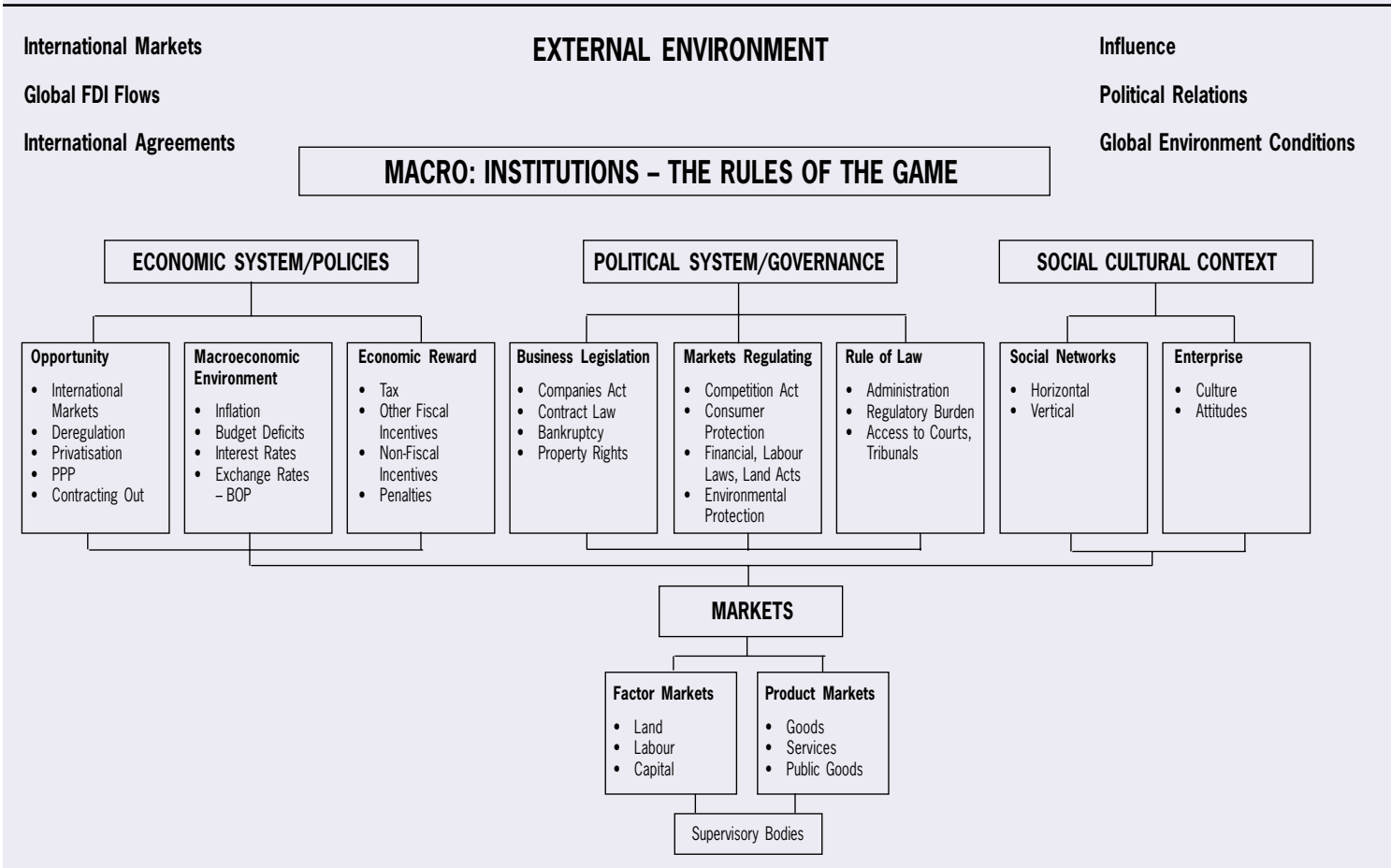
A wide array of factors at the macro, meso and micro levels affect the development of the PBS. In clusters, they form the conditions that affect the speed at which the PBS becomes well functioning. The crucial conditions for accelerating the development of a well-functioning PBS and the factors that combine to produce them are as follows: the effective operation of markets as the *organising principle* of economic activity, brought about by a combination of factors encompassing the economic system, governance and efficient markets; the level of *incentive* provided to the PBS for growth, poverty reduction and environmental and social sustainability formed by a combination of the economic environment and rewards, governance and infrastructure; *access, competence and capability* determined by access to product and factor markets, business support services, know-how, the level of competition and the quality of human resource. The first two conditions may be considered necessary for developing a well-functioning PBS, the third, with the other two, sufficient, as without it, it may still take a very long time for the PBS to become well functioning. The state has a major role to play in establishing the crucial conditions for developing a well-functioning PBS.

2.1 Introduction

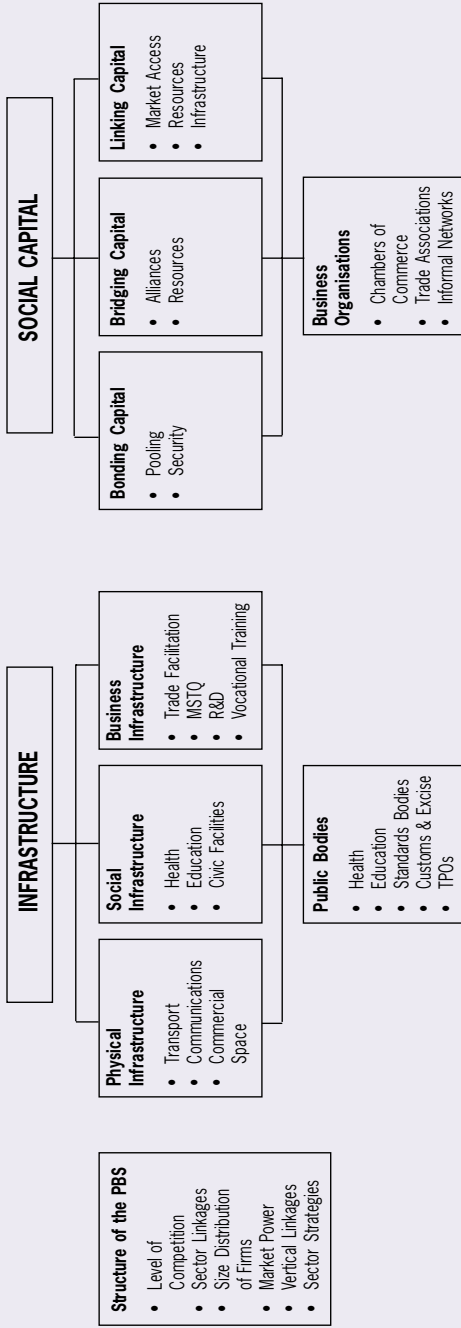
Having established the important role that PSD support can play in the achievement of Sida goals, and identified the need for an appropriate framework for it to do so, we now consider the conditions necessary for the PBS to progress towards becoming well functioning. The focus of this chapter is on identifying the crucial conditions for a well-functioning PBS and exploring the interlinkages and relationships of the factors that combine to create those conditions. The key questions to be addressed are:

- What are the conditions that affect the development of a well-functioning PBS?
- What linkages are there between the factors?
- What are the crucial conditions for a well-functioning PBS?
- Which factors combine to form these conditions?
- What are the implications for the role of the state and the PBS?

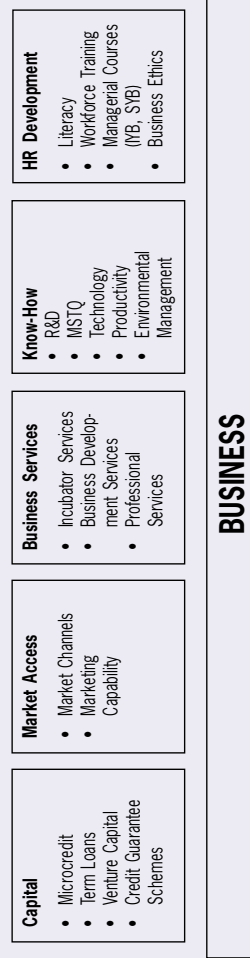
Figure 1: Map of Factors that Affect the Development of the PBS



MESO: TRANSACTIONS – ACCESS TO MARKETS



MICRO: ACTORS – COMPETENCE, CAPABILITY



2.2 Factors Affecting the Development of the PBS

The factors that affect the development of the PBS can be grouped at the three levels of economic activity: macro, meso and micro. Factors at the macro and meso level help to form the environment in which the PBS operates. Factors at the micro level impact firms directly. Inevitably, the choice of the level at which to place some of the factors is somewhat arbitrary and we are aware that other authors have allocated them differently. Figure 1 sets out these factors schematically.

2.2.1 Macro Factors – The Rules of the Game

Douglass North¹⁸ and other proponents of the new institutional economics have suggested that an understanding of the formal and informal institutions is essential to understanding economic behaviour and hence the factors that affect economic performance. According to North, institutions are ‘the humanly devised constraints that structure human interactions’, in other words, the rules of the game. They are formed out of both formal regulations (laws, regulations governing economic activity) as well as informal rules (customs, traditions, and codes of conduct). Based on Douglass North’s definition of institutions, we consider macro level factors as being the important ‘rules of the game’ that affect the development of the PBS. Of course, institutions exist also at meso and micro levels, but the basic ‘rules’ that govern the development of the PBS are set by the factors listed in Figure 1 at the macro level. The combination of the economic system (central planning, state-dominated or market oriented) and economic policies, political system and governance and the social and cultural context¹⁹, particularly attitudes towards entrepreneurship, help shape the formal and informal rules that influence the behaviour of the PBS. The way they influence the PBS is through markets, both factor and product. They determine market conditions and affect the signals that the PBS receives through prices.

The economic system and policies are reflected in the opportunities available to the PBS, the economic environment in which it operates and the economic rewards for entrepreneurship in the form of profit. The level of opportunity is determined by the extent to which the state intervenes in markets (de-regulation), encourages the PBS to own commercial businesses (privatisation) and contributes to the provision of public services (public/private partnerships) and the level of access to international markets (trade and capital market liberalisation)²⁰. Economic management determines the stability of key eco-

¹⁸ North, D.C. (1989)

¹⁹ The World Bank’s World Development Report 2000/1, contains a useful summary of the way governance and social factors affect development. Though not explicitly mentioned in that report, the way that these factors impact development is through their effect on the PBS.

²⁰ There is a wide range of literature documenting the benefits of de-regulation, privatisation, private/public partnerships and trade and capital market liberalisation. On the benefits of privatisation, see for instance Aharoni, Y. (1991).

conomic variables such as inflation, interest rates, foreign exchange rates and government borrowing (crowding out) that make up the economic environment under which businesses operate²¹. It influences the level of risk in doing business, the cost of capital and international competitiveness. And, the level of reward for entrepreneurship and behaving in a sustainable manner is determined by the tax regime, tariffs and the level of penalties and subsidies.

The political system and the system of governance practised in the country influences the type of laws and regulations that govern business activity (business legislation), the functioning of markets (market/competition laws) and access to the rule of law. These are the main elements of the regulatory environment in which businesses operate. In combination, these factors impact the level of risk and transaction costs and the efficiency of markets. Social and cultural factors determine the context in which businesses operate, notably the level of social cohesion and attitudes towards entrepreneurship. The greater the social cohesion, the more likely that the PBS will encompass entrepreneurs from all types of social groups and so produce pro-poor growth. The existence of an 'entrepreneurial culture' is increasingly cited as being an important factor in the development of a well-functioning PBS. Without a positive attitude towards the taking of risk and the search for profit, the fundamentals for a growing and competitive PBS would not exist. The question as to whether there is such a thing as an 'entrepreneurial way of life' and the effect that the behaviour of government institutions on it have been examined by Allen Gibb²². He identifies the characteristics of an entrepreneurial culture and argues that it can either be stifled or fostered by government institutions and the behaviour of organisations.

The three types of factor come together to form the rules, formal and informal, which govern economic behaviour and specifically, under which markets operate. Market outcomes, in turn, affect economic behaviour by providing price signals. The supervisory bodies established to organise and monitor the operation of markets form part of the system of governance and can also discharge an economic management function, central banks being an obvious example. This is why we have termed all the factors shown in Figure 1 at the macro level, including markets and their supervisory bodies, the rules of the game.

2.2.2 Meso Factors – Access to Markets

The actors that actually engage in exchange through markets are drawn from the micro level. But the level of access these actors have to markets, and hence their ability to participate in exchange, depends upon meso level structural factors, infrastructure, services and networks. The level of development of meso level factors determines the extent to which markets are complete and hence are able to facilitate exchange at the national level and so bring

²¹ The influence of these factors on the PBS is documented in, for instance, OECD (1995).

²² Gibb, A. (2000)

about the conditions of a competitive general equilibrium²³ that are essential for economic efficiency. They impact also the level of competition in the economy and this also affects the level of efficiency in the economy. Further, they determine the costs of and hence returns to exchange and so have an important bearing on who is able to participate in exchange and what returns are obtained by them. They are thus particularly important to ensuring pro-poor growth. This is illustrated by transport and communications infrastructure. Without adequate transport and communication services, markets cannot be linked nationally and so be complete, and it could be the case that regions of the country are disadvantaged by transport costs and so receive poor returns for the goods and services they provide.

An important meso level factor, often overlooked in the literature on private sector development, is the structure of the PBS itself. The level of inter-sectoral linkages in the economy impacts the extent to which growth is broad-based. The size distribution of firms, in terms of output and employment, determines the intensity of competition and hence the level of efficiency and growth of the PBS. It impacts also the extent to which growth is inclusive, benefiting a few or all sections of society. The structure of individual sectors in terms of business linkages and the size distribution of firms, has a similar effect, influencing their competitiveness, efficiency and hence growth²⁴.

Infrastructure relevant to the PBS is of three types: physical, social and business. Physical infrastructure includes transport, communications, the utilities and the availability of land and buildings. The main impact on the PBS of physical infrastructure is in the completeness of markets and transaction costs. The availability and cost of utilities, particularly water and electricity which are important inputs in the production of many goods, also affects the competitiveness of the PBS and hence its growth. Social infrastructure covers the provision of key social services such as health and education. Its main impact is on the quality of labour provided and hence its productivity and remuneration. Business support infrastructure covers the range of information and other services that businesses need to access markets, particularly international, with which businesses in developing countries are less familiar, know-how in the form of R&D, product development and quality assurance, support services that need to be shared between firms to be economic (such as measurement and testing) and vocational and management training that help improve the quality of the workforce. With globalisation, competition has become international and this has placed a greater premium on information, know-how and the ability to meet international standards. Business support infrastructure, often provided by the state, has thus become an important contributor to the competitiveness of a country's PBS internationally and hence its rate of growth.

²³ These are discussed further in Sections 2.3 and 2.4 below.

²⁴ Porter, M. E. (1985) discusses how these factors contribute to the competitiveness of industries.

Social capital, the measure of the intangible assets that are available to individuals as a result of their membership of social groups, provides access to product and factor markets for particular social groups and types of business, particularly SMEs. Thus membership of a group can allow individuals and their businesses to access support in lean times, as well as expertise, resources and inputs that they do not possess and markets that may be denied them by lack of information or other barriers. This is discussed further in section 2.6.2 below.

The meso factors of structure, infrastructure and social capital, thus serve as bridges between actors and markets, linking markets so that they are complete and helping them to function efficiently. This is why we have termed meso level factors as ‘access to markets’.

2.2.3 Micro Factors – Competence & Capability

Factors at the micro level are concerned mainly with competence and capability of the actors that make up the PBS, that is, individuals and businesses. These factors affect market outcomes, determining the capability to use factors of production efficiently and influencing the productivity and hence returns to factors of production. The competence and capability of firms determines the technological efficiency of individual firms and, through this, the incomes they are able to generate for their work force, investors and other providers of capital and/or land. They thus have a major influence on the growth of the sectors and regions in which they operate and the economy as a whole. They directly impact poverty through the creation of jobs and determining the incomes of entrepreneurs and employees.

A very wide range of factors determines the competence and capability of firms including the macro and meso level factors discussed above. The history of entrepreneurship in a country also has a major bearing as competence is partially learnt through experience. At the micro level, the level of the firm, the crucial factors that determine competence and capability, in that they affect its access to factors of production and the efficiency of their use (technological efficiency) and hence its market performance, are as follows:

- *Access to capital* – the terms and conditions on which capital is made available to firms, particularly the smaller enterprise, can serve as a barrier to business formation and expansion. The difficulties of accessing capital for informal, micro and small businesses are well-documented²⁵;
- *Marketing capability* – access to information and marketing skills can exercise a decisive influence on the ability of firms to seek out attractive and new markets;
- *Business services* – access to professional support services (accountants, lawyers, consultants) can have an important bearing on the rate of formation, survival and expansion of businesses;

²⁵ See for example Asian Development Bank (2000b).

- *Know-how* – access to know-how, not only of technology for production but also the methods of organising and managing the firm as a whole is, as noted earlier, becoming increasingly important to competitiveness;
- *Human resource development* – the human resource of a firm, including the competence of its management and the quality of corporate governance exercised by its board of directors, are an important source of competitiveness.

2.2.4 Linkages between Factors

All three sets of factors – macro, meso and micro – are linked through their influence on the operation of the market mechanism and, in turn, by its outcome. Macro factors set the rules of the game for markets and influence market conditions. Meso level factors determine who is able to participate in markets and on what terms, and influence market outcomes. And, micro level factors affect market outcomes directly. Market outcomes, in turn, determine economic performance and conditions that, together with the political system and social/cultural context, influence the development of factors at the meso level which then influence competence and capability at the micro level. And, of course, competence and capability at the micro level need to be taken into account by economic policies and the system of governance, and so on. Factors at the three levels are thus inter-linked and inter-dependent. As the market is the organising principle of activity for the PBS, the three sets of factors together have a decisive influence on the PBS through the market as well as in the direct ways described above for each set of factor.

The factors are inter-linked not only through the market but also because they are mutually dependent in their effect. This mutual dependence extends both horizontally, across factors at the same level and vertically, between factors at different levels, as discussed below.

Horizontal Linkages

At the macro level, the three types of factor, economic, political and social/cultural, are in practice, closely inter-linked. The political system influences the economic system, whilst the role played by the state in economic management is determined by political considerations. In turn, the economic system should be reflected in business legislation and market/competition law and hence affects the system of governance. If the primacy in organising economic activity is to be given to markets, then these laws and regulations must be framed to allow the market to function effectively. Commercial laws and the way they are administered as well as the level of opportunity provided by the economic system are, in practice, shaped by social and cultural attitudes towards entrepreneurship.

Their inter-linkages are most apparent in the functioning of factor and product markets. For factor and product markets to work efficiently, they need an insti-

tutional framework, monitored by supervisory bodies that can ensure predictable and secure exchange and prevent private profit from damaging public interest. The economic system, along with the governance factors of business legislation and market/competition laws, combine to form the rules under which these markets operate and the market supervisory bodies are charged with ensuring that the rules are obeyed. Economic behaviour in markets is influenced by all three sets of factors with economic policies, the system of governance and the social/cultural context combining to determine the level of and attitude towards risk. An important determinant of the influence these factors have on the PBS is therefore *internal consistency*: To be effective, all factors should be consistent, helping to reinforce the effect of the others.

Meso level factors are also inter-linked in their effect. For a business to access a particular market, the size distribution of the PBS should not be so concentrated as to make market power a barrier to entry, there should be adequate infrastructure of all three types and the business should have access to social capital to ensure that it has the resources and skills to compete in that market. The absence of any one of the above would make it difficult to access the market, even if the other two are in place. Perhaps the most relevant example of their inter-relationship is in ensuring broad-based and hence pro-poor growth. For a business in a particular sector and location to benefit strongly from national growth, its sector must have strong linkages with the rest of the economy, transport, communications and other physical infrastructure should not be a barrier to market access and the social group to which its owners belong should not be excluded from accessing resources or markets. There are also practical linkages between the three types of meso factor in that social groups often organise themselves to improve structure by supporting small businesses and to access infrastructure. The obvious examples are chambers of commerce and trade associations that are formed to improve business linkages and help lobby for the provision of physical and business support infrastructure for their members.

Factors at the micro level are also very closely inter-linked in that the effect of one is influenced also by the others. Hence, providing access to capital will not result in expansion unless the firm has the capability to market and is able to compete on the basis of its know-how and human resource. It is the case that the types of firm that have poor access to capital are also likely to suffer from poor technology and human resource as their investment in equipment, processes and people is likely to be constrained by lack of finance. And, similar statements of inter-dependence can be made with regard to each of the other micro factors.

Vertical Linkages

There are also obvious inter-relationships between factors at the three levels. The general relationship is that the macro factors affect meso factors and they, in turn, influence micro factors. But the relationship does not have to be sequential in terms of level: macro factors have direct bearing on micro fac-

tors. Nor is the inter-linkage necessarily top-down: micro and meso factors have an effect on macro factors.

By way of illustration, macroeconomic conditions have a direct bearing on the meso level. Economic policies on privatisation and private participation have a direct bearing on the markets for the provision of physical and social infrastructure and, in turn, impact the access to markets and human resource development at the micro level. The framing of company law and attitudes towards entrepreneurship impact the structure of the PBS and this, in turn, impacts access to markets at the micro level. Social groupings and their relationships determine the level of social capital and this impacts access to all forms of factor and product markets at the micro level. But the macro level also affects the micro level directly. For example, economic management and financial legislation affect the development of capital markets and this affects the availability of capital at the micro level. Labour legislation influences the mobility of labour and this affects the quality of human resource. The behaviour of businesses at the micro level is determined by business legislation.

The micro and meso levels also influence the macro level. Economic policies towards such issues as privatisation and public/private participation need to be framed in light of the competence and capability of businesses. Macroeconomic management needs to take account of the effect that the cost of capital has on the choice of technology and the competitiveness of the business sector. Meso level conditions such as the structure of the PBS may call for a review of business legislation with regard to regulations on business formation and bankruptcy and measures to improve the attitude towards entrepreneurship. Shortcomings in infrastructure provision may prompt reviews of policies on private/public participation, and so on.

Clusters of Inter-Linked Factors

What the discussion above on horizontal and vertical linkages leads to is that, whilst it is possible to trace the effects of individual factors on the development of the PBS, the strongest influence the factors have on the development of the PBS is in combination with each other, in clusters. The clusters may involve factors of more than one type, drawn from different levels of economic activity. The cluster reinforces horizontal and vertical linkages in affecting particular aspects of the PBS moving along the path to becoming well functioning. Examples of such clusters are:

- *Levels of entrepreneurship*: the rate of new entrants into the PBS is determined by a combination of macro and meso factors. To ensure a high rate of new business formation, at the macro level, the attitude towards entrepreneurship has to be positive and, in addition, companies acts and other regulations governing the establishment of new businesses should also not prove major obstacles. The rate of taxation should not be so high as to stifle the profit motive. At the meso level, the absence of dominant market power (size distribution of firms) and access to resources through social capital together facilitate a high rate of entry into the PBS;

- *Job creation:* The rate of job creation in an economy is dependent primarily on the rate of investment. That depends upon a) the availability of savings (domestic and foreign) which is determined by level of security and incentive to save, which is in turn determined by the level of stability of the economic environment and the regulatory framework for capital markets and b) the opportunities and returns to investment, which are influenced by economic policies with regard to opportunity and reward and the competence and capability of the workforce. For any given rate of investment, the level of jobs that would be created depends upon the relative cost and productivity of labour and capital. This is influenced strongly by macroeconomic policies with respect to interest rates, the level of labour mobility and flexibility in the use of labour provided by labour laws and by the competence and capability of the PBS in terms of the relative productivity of the two factors of production it is able to achieve;
- *Competitiveness:* Apart from the competence and capability of the PBS, the meso factor of the structure of the PBS determines the intensity of competition and hence influences the pressure experienced by businesses to increase efficiency. In addition, the stability of macroeconomic variables and transparent systems of governance help to avoid the rent seeking and short-termism that detract from competitiveness over the long-term.

In each cluster, factors are inter-dependent in that for individual factors to have a significant impact, other factors should be in place. For example, for a positive attitude towards entrepreneurship to result in high rates of business formation, entrepreneurship must not be stifled by unnecessarily demanding requirements for establishing new businesses or penal rates of taxation. It is also the case that for each aspect of the PBS' move towards becoming well functioning, one or more factor has primacy over others. Hence, in our example, a positive attitude towards entrepreneurship is a necessary condition for a high rate of business formation. Without such an attitude, neither liberalising company law nor reducing taxation are unlikely to result in high rates of business formation. Frequently, if the factors that make up the cluster are from more than one level, then the higher level is likely to have primacy. For instance, it is no point providing micro level support for SME development to improve the size distribution of firms if the regulatory burden on this type of business is so high as to serve as a major impediment to their growth. But there are examples when addressing factors at the lower level may make sense before factors at the higher level have been addressed fully. But, in general, the higher factors need to be addressed first as they influence the environment in which businesses operate and so help to facilitate effective interventions at a lower level. This subject is discussed further in Chapter 3 under Sequencing of Interventions (section 3.4).

2.3 Crucial Conditions for a Well-Functioning PBS

Whereas the types of cluster of factors described above have a strong bearing on particular aspects of the performance of the PBS, a sub-set of these clusters has a crucial bearing on the development of the PBS overall. The conditions that are crucial for the development of a well-functioning PBS are explored below.

In much of the literature on the development of the private business sector, there is a presumption that certain conditions, created by combinations of the above factors, are necessary or essential for the development of a well-functioning PBS. In the literature, the most frequently cited is a 'secure and stable' environment for business operations. Important factors in this regard include macroeconomic stability, good governance – including transparent administration, accessible legal systems and the enforcement of the rule of law – and efficient markets²⁶.

There is also much usage of the term *enabling environment* for the development of the private business sector with little consensus on the definition. At a minimum, the term covers establishing the secure and stable environment for business. Those inclined to a greater role for the public sector envisage also, within this term, government's role as *catalyst and enabler*, to assist with the development of the competence and capability of the PBS. Some literature refers to conditions such as a secure and stable or enabling environment also as preconditions. We prefer instead to think of these conditions in terms of being necessary and/or sufficient. The word 'precondition' implies that unless these factors are present, the PBS cannot move towards becoming well functioning. This concept has two flaws. Firstly, it can be contradicted by empirical evidence where in some cases, the PBS has moved significantly along the path towards becoming well functioning without some of these conditions in place. Secondly and perhaps most importantly, these conditions are not absolute in the sense that they can be treated as either being in place or not being in place. In practice, they are more or less helpful to the development of a well-functioning PBS, and can be improved upon.

We discuss below firstly which conditions may be regarded as necessary or sufficient for the development of a well-functioning PBS. We then go on to consider other conditions that have a crucial bearing on the development of the PBS and the factors that come together to form those conditions.

2.3.1 Necessary and Sufficient Conditions for a Well-Functioning PBS

In our view, there are three sets of conditions that together constitute necessary and sufficient conditions:

- *Enabling the organising principle to work.* This covers the effectiveness of the market mechanism, including the role given to markets in the economic

²⁶ See for instance OECD (1995).

system, the efficiency of markets, the profit motive, the hard budget constraint, flexibility and competition through low entry and exit barriers and security and transferability of ownership through rights over property;

- *Incentive.* This set of conditions covers availability of opportunities in international and domestic markets, the secure and stable environment for business to mitigate risk and reduce transaction costs, the strength of the profit motive through the rewards to investment and entrepreneurship, the level of development of factor and product markets and the signals given to the PBS to act in a socially and environmentally sustainable manner;
- *Access, capability and efficiency.* These conditions include ensuring that all parts of the PBS have access to markets, resources, information, social capital, infrastructure and other public and merit goods. That structural barriers to competition are removed, the capabilities of businesses developed so that competitive advantage emerges out of comparative advantage, they are able to use resources efficiently, increase productivity and to implement environmental and social sustainability measures. The result should be sustainable increases in technological efficiency.

Of these three sets of conditions, the first is fundamental to the development of a well-functioning PBS. Without an effectively-working market mechanism that serves as the organising principle for the economy, it is difficult to see how the PBS could become well functioning. In the absence of efficient and effective markets it is difficult to set prices right and, in turn, to ensure that what is produced and how much is in line with demand (production and distribution efficiency). Further, without efficient and effective markets, resource allocation may not follow demand (allocative efficiency). As noted in Chapter 1, the hidden hand of the market is fundamental to the working of the PBS and efficient and effective markets are critically important to its well-functioning. If there is any set of conditions that can be labelled a pre-condition for a well-functioning PBS, then it is the market working effectively to serve as the organising principle of economic activity.

The level of incentive in the economy measures the extent of opportunity and reward available to the PBS from economic activity. In particular, it measures the strength of the profit motive and the signals provided to it to act in the public interest. In turn, this determines whether there is sufficient incentive for the PBS to grow, the rate of growth of the PBS and whether growth can be sustained in economic, social and environmental terms. As sustained growth is essential to a well-functioning PBS, the level of incentive in the economy can thus be considered crucial to the development of a well-functioning PBS.

If markets function efficiently and effectively and there is sufficient incentive for the PBS to grow, in the long run, no doubt a well-functioning PBS should develop. But Keynes's satirical observation that in the long run we are all dead has particular poignancy in the developing countries and those in tran-

sition. The needs of the poor are pressing and the CEE countries need to recover quickly from the fall in incomes and attendant social deprivation. Both types of country need a growing PBS that is rapidly moving towards becoming well functioning to meet these imperatives.

In the short to medium term, these countries are particularly prone to growth that is not broad-based or pro-poor. If parts of the economy cannot access domestic and international markets, resources or information and there are structural barriers, growth may not be broad based. And, if parts of the PBS do not develop the required competence and capability to develop competitiveness, increase productivity and act in a socially and environmentally sustainable manner, there may be a considerable time lag in the development of a well-functioning PBS.

It is for these reasons that interventions at the meso and micro level are required to address the specific constraints on the development of the PBS in terms of access, competence and capability. It is this type of intervention that has traditionally been termed PSD support or enterprise development²⁷. Although Chapter 1 shows the need to widen the definition of PSD support, in our view, traditional PSD support has a valuable role to play in establishing a well-functioning PBS. Further, as set out in Chapter 1, PSD support has a role to play in all direct poverty reduction interventions. These interventions are aimed at access, competence and capability. In as much as reducing poverty is considered a key attribute of a well-functioning PBS, then interventions to reduce poverty must be considered part of the attempt to accelerate the development of a well-functioning PBS.

In our view, the first two sets of conditions, an effective organising principle and sufficient incentive, may be viewed as necessary conditions for the establishment of a well-functioning PBS. But the third set needs to be added to develop sufficient conditions for a well-functioning PBS. The first two conform to the minimalist definition of the term enabling environment. The third encompasses also the role of the state as catalyst and enabler.

2.4 Factors for the Organising Principle

For markets to work efficiently and effectively, as the organising principle requires, the conditions for a competitive general equilibrium need to be fulfilled. There must be perfect competition, complete markets, full information, consumers should seek to maximise utility and businesses profit and there should be no barriers to entry and exit. These conditions are possible in theory but can only be approximated in practice. In practice, the focus should be on ensuring:

- *Economic policies give prominence to the market.* Governments have to abide by market outcomes and focus on ensuring that they work efficiently and ef-

²⁷ DFID's PSD support department for example is called the Enterprise Development Group.

fectively. They must not try to replace the market with other economic systems such as central planning, or engage in interventions that distort markets²⁸. In addition, unless there are compelling reasons, all product and factor markets should be open to private participation. And prices should be determined on the basis of competitive exchange;

- *There are institutional frameworks for factor and product markets that provide stable and secure conditions for exchange that prevent narrow self interest from damaging the public interest.* It is recognised that there need to be rules in all factor markets that prevent them from being manipulated and providers of the factors of production protected from exploitation or fraudulent behaviour. Hence effective protection against abuse of monopoly and restrictive trade practices is essential. But the way that these rules are framed must not distort markets or stifle enterprise. Thus, whilst an appropriate institutional framework for labour markets needs at least to ensure that core labour standards are enforced, it must not limit labour mobility or the effect will be unemployment and hardship for labour, not the secure employment in well-paid jobs that the laws were intended to achieve. Product markets must also have rules that protect the consumer without stifling enterprise or distorting markets;
- *There is sufficient competition in all markets* to prevent rent-seeking behaviour and to enable competitiveness to be increased through the forces of competition;
- *The profit motive is not undermined.* The predatory actions of the state such as nationalisation of privately owned businesses and/or the imposition of such high levels of taxation that there is virtually no incentive left for legitimate business, must be avoided. Rights over property and the enforcement of contract should not become so difficult that the value of ownership is eroded, assets cannot be transferred easily to other uses and/or transactions become so risky as to prevent economic activity;
- *There is a hard budget constraint* to ensure that subsidies do not distort prices and allow resources to be tied into unproductive uses. Financial support to businesses by the state, directly or through the financial system, serves either to distort prices or continue to tie resources to unproductive uses, undermining economic efficiency;

²⁸ In the 1950s, Arrow (1951) and Debreu (1959) formalised two fundamental theorems of welfare economics. The first theorem says that under certain conditions, every competitive equilibrium is Pareto-efficient – that is, in an economy that reaches a competitive equilibrium, no one can be made better off without making someone else worse off. The second theorem says that under certain conditions every Pareto-efficient allocation of resources can be obtained through a decentralised market mechanism. These theorems imply that under the conditions assumed by Arrow and Debreu, no government or central planner, however well intentioned, can improve on the results obtained by the free market system. The best that planners might achieve is to do as well as competitive firms attempting to maximise their own profits, but they would never do better.

- *There is relative ease of entry* into the PBS so that there is sufficient competition to make markets efficient and flexibility to respond to changes in demand;
- *There are relatively easy routes to exit business activity* in response to poor profits so that resources are shifted from low value to higher value uses and not bound into unproductive uses (allocative efficiency). Procedures and laws for business dissolution and bankruptcy need to protect creditors but should not represent huge obstacles for entrepreneurs to exit the PBS.

Many factors contribute to making markets matter as the organising principle of economic activity. However, the important factors that interact to create this crucial condition are discussed below.

Economic policy with regard to the primacy of markets, the role of the state and the openness of the economy, together ensure that market signals are not distorted and that resource allocation is determined by the market. And, as discussed earlier, economic policy is given substance not only through economic management, but also in the business legislation enacted by government. The factors under *business legislation* and *markets and competition* influence the institutional framework under which markets operate and determine the extent to which private ownership of property and the drive for profit can be protected by the rule of law. This is fundamental to the organising principle.

In turn, business legislation and the specific acts of parliament that provide institutional frameworks for markets and competition are necessary to have secure and predictable rules of exchange. Companies acts and bankruptcy laws determine exit and entry barriers. Of course, for markets to be efficient there must be sufficient competition and hence the level of development of factor and product markets and the effectiveness of supervisory bodies are also essential for the organising principle. The development of efficient factor and product markets is influenced, most directly, by financial, social and business legislation that provide the institutional frameworks under which they operate.

2.5 Factors for Incentive

The above factors should allow a competitive equilibrium to be reached and establish the fundamental conditions for the PBS to move towards becoming well functioning. However, they may not, in themselves, provide the incentive that is required for the PBS to grow rapidly and sustainably. To sustain growth, there must be opportunity and reward for entrepreneurship and for acting in a socially and environmentally sustainable manner. We have termed the combination of opportunity and reward ‘Incentive’. The extent of opportunity is determined, principally, by economic policies towards de-regulation and private sector participation and international market access. Reward is determined mainly by a combination of risk, cost and quality of inputs, transaction costs, the level of taxation and systems of penalties and subsidies to provide signals to the PBS to act in an environmentally and socially sustainable manner. The signals given to the PBS to act in a socially and envi-

ronmentally sustainable manner derive from a combination of regulation and support given for compliance at the enterprise level.

The degree of incentive provided to the PBS by the economy is affected by a wide range of factors. The crucial factors are as follows:

Economic Factors

- *De-regulation and policies towards private participation impact opportunity.* The extent to which the production of goods and services are open to the PBS demonstrates government's attitude towards the PBS and the opportunities available to it. In most sectors, there should be little concern in opening up to private participation and much to be gained from it in terms of technological efficiency. Privatisation and private participation can play an important role in stimulating investment and increasing efficiency and contribute to PSD through providing opportunity. Where conditions of natural monopoly apply, the production of public or merit goods that would otherwise be under-supplied or other forms of market failure persuade the public sector to supply goods or services, it can attempt to do so in partnership with the PBS and/or operate hard budget constraints to ensure that it is not excluded.
- *International market access and trade policy determine opportunity in international product and capital markets.* The extent to which government has succeeded in securing market access for the country's goods and services to international markets, through participation in multilateral, plurilateral, regional and bilateral negotiations, and enacted policies that remove the bias against exporting, will determine the extent to which the PBS identifies opportunities from international trade. As noted in Chapter 1, access to international markets is important for sustaining rapid growth. Whilst the methodology used by Dollar & Kraay²⁹ to claim that globalisation is good for the poor and that globalisers have achieved superior growth has been shown by Rodrik³⁰ to have been flawed, the potential benefits from better international access and lower import tariffs in terms of providing opportunities to increased output are clear. Similarly establishing an appropriate environment to attract foreign capital facilitates access to international know-how, markets and capital.
- *Sound macroeconomic management serves to reduce risk and increase the supply of savings and investment to the PBS.* The stability of key economic indicators such as inflation, the money supply and interest rates, exchange rates and the balance of payments (BOP), government spending and the public sector borrowing are important because, in the absence of such stability, businesses are exposed to greater risk and may resort to short-termism and rent-seeking behaviour. The public-sector borrowing requirement determines the extent to which the public sector competes with the PBS for capital and affects the cost of capital.

²⁹ Dollar, D. and Kraay, A. (2000a)

³⁰ Rodrik A. (2000)

- *Fiscal policies affect the level of reward for the PBS and corporate taxation has a strong and direct bearing on the profit motive.* Generally, the level of direct taxation reduces and subsidies increase the reward to the PBS. High rates of corporate taxation can undermine the profit motive.

Governance³¹

- *It is increasingly accepted that there is a close relationship between the existence of good governance and the growth and development of a vibrant PBS.* The recent literature on growth contains important findings on the role played by governance³² in influencing growth, the functioning of markets and development outcomes. The study shows the relationship between governance indicators, brought together in the six clusters shown below and three development outcomes – per capita incomes, infant mortality and adult literacy.

Aspect of governance	Cluster of governance indicators	What the cluster means
1. The process by which governments are selected, monitored and replaced	<ul style="list-style-type: none"> • Voice and accountability • Political instability and violence 	<ul style="list-style-type: none"> • Extent to which citizens are able to participate in selection of governments • Perceptions of the likelihood that governments in power will be destabilised or overthrown by unconstitutional or violent means
2. Capacity of government to effectively formulate and implement sound policies	<ul style="list-style-type: none"> • Government effectiveness • Regulatory Burden 	<ul style="list-style-type: none"> • Perceptions of quality of public service provision, quality of bureaucracy etc. • Measures of incidence of market-unfriendly policies e.g. price controls, inadequate bank supervision
3. Respect of citizens and the state for institutions	<ul style="list-style-type: none"> • Rule of Law • Graft 	<ul style="list-style-type: none"> • Extent to which agents have confidence in, and abide by the rules of society • Perceptions of corruption

Source: Kaufman, D. et al. (1999)

³¹ Kaufman, D. et al. (1999) define governance as 'the traditions by which authority in a country is recognised. This includes (1) the process by which governments are selected, (2) the capacity of the government to effectively formulate and implement sound policies, and (3) the respect of citizens and the state for the institutions that govern economic and social interactions among them.'

³² *Ibid.*

The correlation with per capita incomes comes about because good governance is concerned with the predictability of rules and policies, including those that are set up to govern private sector activity. That is, the consistency with which rules are applied is just as important as their content. The absence of good governance increases unpredictability and therefore risks that, in turn results in rent-seeking behaviour on the part of businesses in order to compensate for that risk. The rules themselves help to determine transaction costs.

*Calcutta, India.
High Court.
Jean-Léo Dugast/
Phoenix.*



- *Social laws and regulations on the environment, gender and racial equality have a major bearing on the ‘incentive’ provided to the PBS to develop sustainably.* These laws and regulations need not just serve as prohibitions but could provide reward for acting in a responsible manner through subsidies, tax incentives and advisory services, and hence serve to make common cause between private and public interests.

Markets

- *The depth of factor and product markets affects the reward available for entrepreneurship through the cost and quality of inputs.* Whilst the efficient operation of markets is fundamental to the organising principle, the depth of factor markets, in terms of ability to mobilise resources, levels of competition between buyers and between suppliers and the quality of what is traded, affects the reward to the PBS through competitiveness.

Infrastructure

- *Infrastructure affects opportunity through forming complete markets.* Transport and increasingly communications play a vital role in linking up geographically discrete markets and this provides increased opportunity for the PBS to

supply new markets, domestic and international. The elasticity of international trade with respect to transport cost, for example, suggests that a halving of transport costs would result in five-fold increase in trade.

*Kampala, Uganda.
Satellite for
telecommunication.
Trygve Bolstad/
Phoenix.*



- *Infrastructure determines the cost and quality of vital inputs and influences transaction costs, thus impacting the level of reward.* The costs of transport, power, water and other utilities is determined strongly by the markets for infrastructure and transaction costs are strongly influenced by the state of physical infrastructure. Social infrastructure affects the quality (education) and productivity of labour (health).

In addition, a combination of all these policies helps to determine the extent to which growth is pro-poor. Thus, as discussed earlier, physical and business infrastructure determines the incentive available to the PBS to increase or decrease economic activity in regions of a country, while social and business infrastructure affects the capacity of the poor to benefit from growth by increasing access to education, skills and health care.

The factors listed above serve to form the 'secure and stable conditions' referred to in PSD literature. They also go to the heart of the strength of the profit motive by focusing on opportunity, risk, transaction costs and the cost and quality of inputs. The factors are inter-linked. Policies towards de-regulation and private participation, increasingly, have an important bearing on the development of infrastructure as private participation is playing a growing role in the provision of physical infrastructure. Fiscal policy has a major bearing on the provision of social infrastructure. Macro stability affects also factor markets, particularly that for capital. Enforcement of the rule of law through sound governance is the basis of all exchange and the transaction and administration costs imposed by the system of governance impact all

markets. The level and form of incentive in the economy can thus have a substantial impact on the establishment of a well-functioning PBS.

2.6 Factors for Access, Competence and Capability

The combination of an effective organising principle and incentive for the PBS should be able, in the long run, to ensure an efficient, flexible and growing PBS. But the speed with which this occurs depends upon the access of the PBS to markets and the competence and capability of businesses. We discuss the factors that are crucial for access to markets, the development of competence and capability, and that assist and influence the extent to which growth is pro-poor below.

The main factors involved in access, competence and capability are structure of the PBS, physical and business support infrastructure, social capital, and all five micro factors shown in Figure 1. The factors at the meso level create the conditions for addressing factors at the micro level. For example, business support infrastructure affects also the access of businesses to professional services, technology and human resource. Social capital may be involved in providing business support services, human resource development and access to technology, particularly through business organisations such as chambers of commerce.

2.6.1 Access to Markets and Resources

A basic condition of welfare economics is that markets are complete – that is, a market exists for all types of products and services. In most developed countries and in countries in transition, markets are not complete. The PBS faces constraints in reaching domestic and international markets. Information on markets may be poor and parts of the country may lack infrastructure to access the domestic markets. Frequently, SMEs may find themselves shut out from the distribution system. Access to international markets may be hampered by poor trade infrastructure and facilitation services (customs documentation, valuation etc) or there may be insufficient information available. Equally, markets for factors of production may be insufficiently developed to provide access to the small and informal businesses on which the poor depend. Small and informal businesses may also not be able to access the limited or underdeveloped supply of key inputs such as the utilities and other physical infrastructure, skilled labour and access to knowledge³³.

Market access is affected by a combination of the structure of the PBS serving to facilitate or hinder access to markets and resources, physical infrastructure providing the means of exchange, business infrastructure providing information and services and social capital also providing information and services but also trading relationships, through social networks.

³³ See Venables A. and Limao N. (2001).

2.6.2 Social Capital

One of the ways in which the barriers faced by poor people to their participation in economic activity can be overcome is through what has been described in the literature as 'social capital'. The concept of social capital has been defined narrowly to be the 'social skills of individuals – one's propensity for co-operative behaviour, conflict resolution, tolerance and the like'³⁴. However, a broader definition has been suggested by Massey and Espinoza³⁵, which includes associations in which relationships among members may be hierarchical. A macro view of social capital has also been suggested, which focuses on the social and political environment that shapes social structures and enables norms to develop³⁶. We prefer to define social capital as '*the intangible assets available to individuals as a result of their membership of groups*'. The World Bank's recent development report distinguishes between three different types of social capital, all deriving from the concept of membership of groups:

- *Bonding social capital*: this is taken to mean the existence of strong horizontal ties between family members, neighbours, close friends and business associates – all of similar ethnic, regional, social or demographic characteristics. They are particularly important for pooling resources and providing security.
- *Bridging social capital*: this refers to the weaker horizontal ties that connect individuals from different groups, through work, business, geographical proximity and so on. They are useful in accessing information and resources not available from within.
- *Linking social capital*: this implies vertical ties between groups with differing levels of resources or influence within the political process. These are highly significant in providing access to markets and resources that are not available to the individual.

All forms of social capital are important for development outcomes. For example, an analysis conducted by the World Bank of poor villages in rural North India showed that an important role is played by social groups in protecting the basic needs of the poor and mediating against risk. Studies of agricultural traders in Madagascar have shown also that social relationships are more important to traders than inputs. Other now famous examples of how bonding social capital can help lift people out of poverty are the Grameen Bank in Bangladesh, which relies on groups of poor women to implement programmes, and Myrada, an Indian NGO that delivers micro-finance services, acting as a medium-term intermediary between poor people and commercial banks³⁷.

³⁴ Glaeser, Laibson and Sacerdote (2000)

³⁵ Massey, D. and Espinoza, K. (1997)

³⁶ Fukuyama, F. (1993)

³⁷ Fernandes, A. (1994)

2.6.3 Competence and Capability

Competence and capability to supply consumer needs efficiently and compete in international markets develops through competitive pressure. The critical factor in this regard is the structure of the PBS: the more fragmented supply is and the higher the number of firms competing in each market, the greater the competitive pressure is likely to be exerted and hence, the higher the level of competence and capability of the PBS. The extent to which the structure of the PBS facilitates competitive pressure is strongly enforced by the proportion of output and employment that is contributed by SMEs. The growth of SMEs and small businesses helps to increase competitive pressure on large, established businesses and hence to accelerate the growth of competence and capability. SMEs can contribute responsiveness to the PBS. They often compete against their larger rivals by developing new products and addressing niche markets. In addition, they help promote flexibility by the development of vertical linkages. The absence of vertical linkages undermines flexibility and so competitiveness. The large, vertically integrated enterprises established under central planning are prime examples of the consequences of failing to develop vertical linkages. In attempting to perform all the stages in the production process in-house, they lack specialisation and flexibility: the competitiveness of the whole enterprise is often determined by its weakest link.

But competence and capability are functions also of know-how. The level of know-how is by no means fixed at any given point in time. FDI flows to developing countries serve not just the purpose of increasing investment. FDI can help accelerate the build up of competitive pressure, transfer technology and serve to demonstrate how products, productivity and work practices can be improved, thus adding substantially to know-how. As noted earlier, business support infrastructure is increasingly important in influencing the development of the competence and capability of the PBS, essentially through the provision of know-how. Areas such as systems of measurement, standards, testing and quality (MSTQ), research and development (R&D) and technology transfer programmes are forms of public goods in that they confer benefits that cannot be captured by the market. With globalisation, their importance is coming to the fore. Increasingly, goods cannot be exported unless they meet product and quality standards. This is not a barrier for the developed countries that have well-established MSTQ systems but it is to the developing countries.

The quality and productivity of the labour force influences the growth and development of competence and capability within the PBS. This is determined by the meso level factors of social infrastructure and vocational training as well as the development and use of human resource within the firm. The quality of the supply side of the market for labour depends critically on the level of human development indicators of that society – in particular, its health and education indicators. An illiterate workforce will not be as productive as a literate work force because it is very difficult to train the former. Equally, health indicators are critical to a well-functioning PBS, as absentee-

ism reduces productivity. Vocational training is an area that is well known for its beneficial impact on the PBS. Not only does it increase the skill base available to domestic businesses; it also impacts favourably on attracting FDI. But, in the end, the crucial determinant of the productivity of labour is how it is trained and used within the firm.

*Tanzania.
University of
Dar es Salaam.
Students in
the library.
Heldur Netocny/
Phoenix.*



Human resource development also impacts the growth of the PBS and indeed, competence and capability in another crucial manner: Micro enterprises are the main entry point for businesses in developing and developed countries. However, the high rates of failure of new businesses in developing countries point to the lack of skills in establishing and managing businesses. Rates of business failure are highest in countries that have little history of developing small businesses. In these circumstances, new entrepreneurs cannot learn from copying others or turn to established entrepreneurs for advice and guidance. The ability of entrepreneurs to access training opportunities for establishing and running businesses thus determines the extent to which these constraints can be overcome.

2.6.4 Pro-Poor Growth

Whilst some of the factors necessary for pro-poor growth can be addressed through *Incentive*, there are others that need to address factors at the meso and micro levels. We have noted already the impact that access to markets and resources has on the poor. The development of regions in which they live and the businesses on which they depend is influenced heavily by meso level factors of physical, social and business support infrastructure. But there are also other factors that influence the extent to which growth is pro-poor, namely,

the structure of the PBS and the competence and capability of businesses upon which the poor depend. An absence of horizontal linkages prevents lead (largest and/or fastest growing) sectors from having a pull-through effect on sectors. The result is that growth fails to become broad based. The crucial factor is the structure of the PBS and specifically, the extent of sector linkages. These are not fixed as they result from purchasing patterns and the competitiveness of the sectors concerned.

The degree of competition in markets, resulting from the structure of the PBS, has an important bearing on the depth of markets and plays an important role also in determining the degree to which markets serve the needs of the poor. Most product markets start by serving the needs of the affluent (the top end of the demand curve) and only when mature serve the needs of the lower parts of the demand curve which include usually the poor, and the businesses on which they depend. In the developing countries, markets are often at early stages of development. It should be noted that the costs of poorly-developed, though perfectly efficient, markets that are unable to meet the needs of the poor can be high in social terms. It is increasingly recognised that the poor often pay the highest prices for credit and goods and services because the market has not developed sufficiently to meet their needs. Access to finance and other resources is often worst for small and informal businesses on which the poor depend. The lack of development of capital markets, alongside the inability of the poor to meet collateral requirements, makes access to capital frequently the major constraint to business expansion and job creation in developing countries. Access to land plays an important role in determining the output and efficiency of the agricultural sector and levels of poverty. In many developing countries, land ownership is concentrated in the hands of the few.

The structure of the PBS affects poverty in another important way. It is often argued that the extent to which the development of the PBS is labour-intensive depends to a great extent on the size distribution of firms in an economy. Small firms employ a large share of the labour force in developing countries, and it is argued that their greater labour intensity makes them ideal for creating jobs to address poverty. This argument is criticised by Hallberg, who argues that in fact, enterprise scale is an unreliable guide to labour intensity, and that many small firms are in fact more capital intensive than larger firms are in the same industry³⁸. Hallberg also argues that although SMEs are important for employment growth, that is, job creation, they may offer less job security than large firms because of the high rates of destruction amongst this size of firms.

However, the fact remains that the vast number of new jobs created are in SMEs, be it in the developed³⁹ or developing countries, as Hallberg's analysis reveals. Further, if the high rate of job destruction, particularly the high rate of failure for new businesses⁴⁰, can be reduced, then SMEs are likely to pro-

³⁸ Hallberg, K. (no date), p. 4

³⁹ Studies in the US and EU have estimated that over 70% of new jobs are created in SMEs.

⁴⁰ Estimated at just over 65% in the UK and 80% for some African countries.

vide the bulk of additional jobs in an economy. Hallberg also notes evidence to suggest that job destruction during recessions is lower amongst small businesses, perhaps because of greater wage flexibility. Moreover, the logic of supporting businesses that are unable to support expenditures required to increase growth and efficiency on their own is also far more compelling than that of supporting large businesses. This is the reason why, traditionally, PSD support has focused on SMEs.

Finally, factors aimed at developing competence and capability form the basis of the PSD support component of programmes to address poverty directly. The provision of vocational training, access to finance and business support services and assistance to SMEs and the informal sector are common components of the PSD support component of poverty reduction programmes.

2.7 The Role of the State

The above discussion has shown that establishing the crucial conditions for the development of a well-functioning PBS requires considerable involvement on the part of the state. It is the state that determines economic policies and governance and helps to set the institutional framework for product and factor markets that are the crucial factors for the organising principle. It is responsible principally for the level of incentive to the PBS by setting policies that affect opportunity and reward and induce the PBS to act in an environmentally and socially sustainable manner. It is its policies that have a fundamental impact on the provision of infrastructure. And, at the meso and micro levels, it is its programmes to develop business infrastructure, address problems of market and resource access, strengthen social capital and support businesses in developing competence and capability and achieving pro-poor growth that have the crucial impact on the rate at which the PBS becomes well-functioning.

This is not to suggest that the state is the prime mover in PSD. The main actor is the PBS itself and in particular, its level of entrepreneurship and ability to take risks in search of profit. The role of the state is to set the institutional framework for the PBS, the rules of the game, and to ensure that it receives the appropriate incentive to become well functioning. It may also serve as catalyst and enabler by intervening to improve access, competence and capability. This role of the state focuses attention on two types of failure that may undermine the development of a well-functioning PBS – government and market failure:

- *Government failure.* Governments are charged with the function of developing sound economic policies, management of the economy to achieve macro stability, sound governance, core public services, social safety nets and to ensure that there is economic efficiency. When government fails to provide these services or causes destabilisation of the economy or distortion of markets, it is known as government failure;

- *Market failure.* For a number of reasons, markets may not function effectively. Public and merit goods may be under-supplied, externalities may lead to damage to the environment and a less than optimum supply of goods and services, market power may distort prices and supply as a result of natural monopolies and/or unfair competition, there may be failures of information and moral hazard and markets may be incomplete. The costs of establishing and enforcing agreements may be so high as to increase risks to the point at which markets do not exist⁴¹.

Government failure, particularly its failure to set sound economic policies and to manage the economy would serve to undermine the market as the organising principle and also to reduce the level of incentive. Government interference in markets often occurs for the best of motives. In the centrally-planned economies and developing countries that followed a socialist pattern of development, governments adopted the view that prices resulting from the market may not have been economically or socially desirable. They thus interfered with prices. Whatever the motive, the fact is that governments must address government failure. Equally, when market failure occurs, it is the state's role to address and, if appropriate, correct it. We show in the following chapter, however, that state intervention to correct market failure has to be scrutinised closely and only undertaken when a cost-effective solution is possible.

What the above argues for is the active participation of the state in PSD through influencing the institutional framework, not by manipulating or distorting markets as occurred in the past, but by working through the market mechanism. We are thus not proposing the type of withdrawal of the state in favour of the private sector advocated by the so-called 'Washington Consensus' that represented a tacit agreement between the countries of Latin America and the IFIs to follow a programme of macroeconomic stabilisation, liberalisation and privatisation.

After the East Asian and Russian crises, the limitations of the Washington Consensus have become apparent. Stiglitz⁴² and others have shown its limitation through reference to the experience of the East Asian economies, in which the state played an active role intervening through sector strategies, the transference of technology, mild restraints on financial markets and, most importantly, influencing market outcomes through interventions to improve education and health and living standards generally. Rodrik⁴³ and others pointed out the dangers of excessive liberalisation for the developing countries in the form of potential financial instability. Stiglitz points also to the fact that the Washington Consensus ignored the theoretical and practical evidence of market failure.

⁴¹ DFID (2000c)

⁴² Stiglitz, J. (1998)

⁴³ Rodrik, D. (1998), pp. 55–65

2.8 Conclusions

This chapter has attempted to draw a map of factors that contribute to the development of a well-functioning PBS. In addition, the set of factors set out in Figure 1 are inter-related in that they combine to achieve the sets of conditions. The horizontal groupings of the factors reinforce each other. Usually, macro factors create the conditions for meso factors and meso for micro. But macro factors can directly influence micro factors. These factors influence the development of the PBS most strongly in linked clusters of horizontal and vertical factors.

It has shown that clusters of factors that constitute an effective organising principle based on efficient markets and a sufficient level of incentive in the economy for the sustainable growth of the PBS are necessary conditions for the development of a well-functioning PBS. In addition, access, competence and capability are required to achieve sufficient conditions. It is also clear from our discussion that factors – principally macro and meso – combine to create necessary conditions.

There are strong linkages between these factors. To make the market work as the effective organising principle requires a combination of economic policies, governance factors and efficient markets. If any of these factors is absent, then the organising principle will be undermined. For there to be sufficient incentive for the sustainable development of the PBS, there should be sound economic management, policies towards reward, governance, well-developed (deep) markets and adequate physical infrastructure. Once again, it is the combination of these factors that helps reduce risk, lower transaction costs and reward entrepreneurship and sustainable behaviour. Moreover, there are considerable overlaps between the factors responsible for the two necessary conditions.

Factors that are important for access, competence and capability are drawn mainly from the meso and micro levels. However, it should be noted that for these factors to be effective, the necessary conditions must be in place. It is unlikely that developing competence amongst SMEs would be possible if there are regulatory obstacles to their growth. Thus, all three sets of necessary and sufficient conditions must be examined for their effect on the PBS. The factors form an interlinked network of influences on the PBS and they should be treated holistically.

The state has a major role to play in creating the crucial conditions for a well-functioning PBS. The role, however, focuses on establishing an institutional framework for the PBS, not direct intervention in market outcomes. The main driver of the process of PSD is the PBS itself. In the next chapter, we discuss the approach to providing PSD support and the organisation of PSD support.

Chapter 3

Approach to and Organisation of PSD Support

To be effective, PSD support is likely to be multi-sectoral and multi-disciplinary, integrated with other interventions. Interventions should address a cluster of inter-linked factors rather than factors on their own. Within a cluster, macro and meso factors should be addressed before micro factors. The sequencing of interventions should prioritise the conditions that affect the organising principle and provide incentive to the PBS before engaging in PSD support to address access, competence and capability. A pragmatic approach that addresses country-specific conditions is essential however. Country analysis should include analysis of the PBS, its performance and characteristics. PSD support interventions should be integrated with other development assistance and into country strategies. The leadership role in the design of interventions should be local so that the extent of development of the PBS and the aspirations of the local people are taken into account. Micro-level interventions should be designed in a way that ensures that markets are not distorted.

3.1 Introduction

This chapter sets out best practice in the approach to, and organisation of PSD support. It discusses firstly how to approach the creation of the crucial conditions for the development of a well-functioning PBS. The appropriate prioritisation and sequencing of interventions is discussed next, based on the analysis in Chapter 2 of the inter-relationships that exist between factors. We then analyse the implications of lessons learnt on how aid can be provided effectively on the design of PSD support and discuss the content of interventions that address the necessary and sufficient conditions for developing a well-functioning PBS. We have not attempted to cover each factor and type of PSD support. Instead, we have focused on types of intervention that are important for developing a well-functioning PBS in the developing countries and in addressing Sida goals. For interventions at the micro level, we show how certain principles of intervention can be applied in order to help prevent market distortion and to ensure sustainability.

The key questions addressed in this chapter are:

- What are the implications of the findings on crucial conditions for the development of a well-functioning PBS for the approach to PSD support?

- What considerations need to inform the prioritisation and sequencing of PSD support?
- What lessons learnt in the provision of aid generally apply also to the provision of PSD support?
- What are the important issues that need to be addressed by the content and organisation of PSD support aimed at developing the necessary and sufficient conditions for developing a well-functioning PBS?
- How can PSD support at the level of the firm be provided without distorting markets?

3.2 The Approach to PSD Support

Chapter 2 sets out the factors that affect the development of the PBS, focusing in on the crucial factors for the development of a well-functioning PBS. That discussion has implications on how PSD support should be approached. The important implications in terms of scope, co-ordination and integration of interventions is discussed in this section whilst subsequent sections discuss priorities, sequencing and delivery mechanisms.

The notable feature of Figure 1 and the discussion of crucial factors for the development of the PBS is simply the range of factors covered. As against the view that PSD support is assistance aimed at the level of the firm⁴⁴, the discussion in Chapter 2 would suggest that PSD support should encompass also a wide range of interventions aimed at economic management, governance, infrastructure and assistance to social groups. These factors are as important to the development of a well-functioning PBS as assistance aimed at developing the competence and capability of firms. There is also a range of interventions that may have as their objective other goals such as health, education, social equality (including gender) and the environment that nevertheless impact the conditions for the development of the PBS and to the achievement of which the PBS could contribute.

Thus PSD support programmes need to be wide-ranging in their content. Moreover, their content is likely to be multi-sectoral and most probably, multi-disciplinary. To be effective, PSD support has to be co-ordinated with other development programmes in areas that affect and are affected by the PBS. PSD support represents a powerful pillar of development intervention, as discussed in Chapter 1, but it is a pillar that is most effective when undertaken in co-ordination with the other development programmes. This is a topic we return to in Section 3.6 below under Lessons from Development Assistance.

Another important finding of Chapter 2 is that factors that affect the development of the PBS are inter-linked and work most effectively in clusters: the necessary and sufficient conditions for the development of a well-functioning PBS

⁴⁴ This is the traditional view of PSD support within Sida, as discussed in Chapter 4 below.

represent clusters of factors that have a particularly strong impact on the PBS. The obvious implication of this for the provision of PSD support is that support should usually attempt to impact more than one factor, usually the whole set of inter-linked factors that affect the PBS or at least those within the cluster that are a constraint to the development of the PBS. Addressing individual factors is unlikely to prove as effective, as noted in Section 2.2.4 above.

3.3 Determining Priority Interventions for PSD Support

Clearly, the development of the conditions necessary for the development of a well-functioning PBS – the factors required for the organising principle to work effectively and provide incentive for the PBS – should be given priority in providing PSD support. These conditions must be in place for the development of a well-functioning PBS and come close to constituting pre-conditions. When they are in place, interventions can then target factors that contribute to the development of access, competence and capability.

The above provides a reasonable overall guideline for prioritising PSD support. Putting these guidelines into practice, however, requires an understanding of the way that these crucial factors have developed and impact the PBS and the performance and characteristics of the particular PBS in question. As stated in Chapter 1, the status of factors that are crucial to the development of these conditions vary between countries and over time. Much depends upon the importance that governments have given to the development of the PBS and how well they have understood the factors that impact the development of the PBS⁴⁵. The level of development of the country is not always an accurate guide to how well-developed these factors are, given the different political and economic histories of countries.

Further, the PBS does not respond mechanistically to changes in these factors. Much depends upon the way changes in factors are perceived. For example, in a country where regulations on business formation have been onerous, the move to a system of company registration that imposes some, but not many regulatory obstacles may be regarded as hugely encouraging of entrepreneurial activity. In a country where the regulatory regime imposes many, but not onerous, obstacles, a move to the same regime may be viewed as only mildly facilitating and the resulting behaviour is likely to vary accordingly. The PBS comprises actors, the perceptions and behaviour of which are determined largely by historical precedent and experience. And historical precedent and experience varies from country to country.

The other important determinant of the effect that these factors have on the PBS is the actual performance (i.e. the extent to which the PBS is well func-

⁴⁵ A recent survey of businesses in Thailand and Vietnam showed that though there are greater restrictions on the private sector in Vietnam, businesses regarded government as being more supportive to businesses than firms in Thailand. (DFID, 2001)

tioning) of the PBS and its characteristics. Take for example two countries in which the PBS is experiencing low rates of job creation. In the first, levels of investment are high but the rate of job creation low. In the other, the rates of investment and job creation are both low. In the former, the important factor may be a combination of relative costs of labour and capital and/or labour mobility whilst in the latter, the important factor may be the perceived risk or low returns to investment. In both, it is factors that contribute to incentive that are important but the important factor varies.

Thus determining priorities for interventions must take account of local conditions, the status of factors, the way they are perceived by the PBS and the performance and particular characteristics of the PBS. The aim should be to focus quickly on factors that represent binding constraints and important strengths for the development of the PBS. Identifying such interventions requires a detailed assessment of the performance and characteristics of the PBS, through detailed studies of the PBS. The only problem with such an approach is that it is expensive, and to keep the assessments up-to-date is resource-intensive. To inform interventions in countries that have not been studied in depth and to provide a framework for in-depth studies when they are carried out, Annex 1: Diagnostics for PSD Support provides a checklist for carrying out rapid diagnostics.

The important principle underlying this approach is to identify deviations from what would be the expected path towards a well-functioning PBS. This focuses attention on both trends and comparisons with countries at similar levels of economic development⁴⁶. The greater the deviation, the more likely that the underlying factor causing it represents a binding constraint or source of strength. The implication of this for prioritising interventions is that what matters is the intensity with which factors crucial to the development of a well-functioning PBS are causing the PBS to deviate from its desired path. The discussion in Chapter 2 of factors affecting the organising principle, level of incentive and access, capability and efficiency serves as a guide in identifying such factors.

3.4 Sequencing of Interventions

It makes sense to address conditions that affect the organising principle and provide incentive to the PBS before engaging in PSD support to address access, competence and capability. Addressing the latter when markets are not functioning efficiently, resource allocation is not based on the market and/or there is insufficient incentive for the PBS to move rapidly towards becoming well-functioning may make the interventions to address access, competence and capability ineffective.

⁴⁶ To a certain extent, account should also be taken of differences in the structure of the economy. Clearly, an enclave economy will have a different growth path than one that was always broadly based. The diagnostic checklist in Annex 1 includes structure of the private sector as a diagnostic indicator and suggest that, in its analysis, due account be taken of the structure of the economy.

However, an approach that would preclude PSD support at the micro level until all the conditions for the market to be an effective organising principle and provide incentive for the PBS are addressed would equally be unproductive. As noted in Chapter 2, the factors are not absolute in that they could be shown to be present or not. They are relative – that is, they are more or less in place to facilitate the PBS’ path towards becoming well functioning. The pragmatic approach would be to set in motion actions that would address factors that contribute to the organising principle and incentive, whilst at the same time providing specific assistance to address factors of access, competence and capability, particularly if they impact poverty or are causing the PBS to deviate from the path towards becoming well-functioning. This is likely to involve addressing a cluster of related factors, often at all three levels of intervention, macro, meso and micro. For example, a low rate of business formation may be the result of inappropriate regulation of business formation, lack of infrastructure, poor access to critical factors of production and lack of knowledge on how to start businesses.

Another pragmatic consideration is the willingness and receptivity of partner country governments. Factors that affect the organising principle and incentive often involve changes in policy that may, in turn, require changes in the regulatory framework, including legislation. They are thus major decisions that may require consensus building through dialogue before they can be implemented. Where there are doubts over the commitment of partner country governments, it is important to allow time for such dialogue prior to undertaking interventions. In the interim, it may be sensible to undertake other interventions that may be of lower priority but which could help to persuade the government of the benefits of improving the conditions for PSD. Even where governments have not fully embraced policy change to address the organising principle or incentive, they may well be willing to implement changes to particular factors that contribute towards making up these conditions, and these should be given priority. For example, countries have been willing to change entry and exit barriers, even though they have not fully embraced the market as the organising principle of economic activity⁴⁷.

Within a cluster of critically important factors, it also makes sense to address macro and meso factors before tackling micro level interventions. As noted in Chapter 2, they are likely to have primacy over micro factors. But it is not necessary to wait till macro and meso factors have been successfully addressed before commencing interventions at the micro level. In general, addressing factors at the macro and meso level takes time. For instance, reducing inflation and introducing new primary legislation tend to take several years. Provided the intensity with which the macro factor affects the PBS is not so severe as to make progress at the micro level impossible, interventions at the micro level can be undertaken whilst the macro and/or meso intervention is ongoing. But because macro and meso level interventions do take time and have an enabling

⁴⁷ Countries such as the Ukraine and Belarus are prime examples. See DFID (2000d).

impact on micro interventions, it does make sense to start with them in many instances. What is important is that PSD support should not attempt to provide support at the micro level when macro and meso conditions are so unfavourable as to represent a major barrier to the development of a well-functioning PBS. Such support is likely to prove ineffective.

Further, as noted earlier, isolated programmes of intervention are more likely to prove ineffective, particularly given the conditions prevailing in developing countries where constraints to the development of the PBS are likely to be caused by a number of factors in combination. Thus it is important to develop a plan of sequenced interventions which will result in addressing all the factors in a cluster over a specified period. The plan should give priority to addressing factors that contribute to the necessary conditions for developing a well-functioning PBS, taking on board pragmatic considerations of time scales and the receptivity of partner governments.

3.5 Delivery Mechanisms

Providing effective PSD support requires the involvement of the state, the private business sector and civil society. We discuss below the role of each and donors in providing PSD support and delivering interventions.

The State

As noted in Chapter 2, the role of the state is to ensure that the crucial conditions for a well-functioning PBS are in place.

It is clear that factors such as economic policy, system of governance that contribute to making the organising principle effective and providing incentive must be addressed by the state. All the interventions aimed at opportunity, the economic environment, economic rewards, governance and even the social factors at the macro level such as social networks and attitudes, need to be delivered through public sector organisations. The supervision and development of markets, and the delivery of physical, social and business infrastructure also involves public bodies.

The problems of working through government bodies are considerable, including poorly motivated and remunerated staff, lack of operational resources and poor commitment to goals. These problems can be overcome or at least circumvented through project design that ensures local ownership and commitment and that can isolate the problems of the organisation from the project.

Civil Society & the Private Sector

However, the state is not an effective channel for interventions aimed at improving social capital, and for providing assistance at the level of the firm to address access, competence and capability. The state may in these areas play an enabling role by providing funds and mandating public bodies to adopt a

helpful stance, but almost always it is likely to be more cost effective and distort the market less by using the PBS and/or NGOs (civil society) to deliver this type of assistance⁴⁸.

Civil society, in the form of voluntary organisations and social groups, is an important mechanism to provide services in support of access, competence and capability. It is the channel through which social capital is usually harnessed for PSD support. Strengthening the capability of social groups and NGOs thus increases social capital of their members or groups that they support. They also represent a potentially highly efficient way of providing PSD support. They are able to access large groups of entrepreneurs/firms and have low overheads.

In developed countries, the PBS is the provider of information and services to the majority of large and medium sized enterprises. Small and micro enterprises also use private sector services, but sparingly, as they may not be able to afford to pay for all that they need. In the developing countries, the poor level of capability of the PBS is a major contributor to the need for PSD support. Businesses rarely purchase all that they need, irrespective of their size. Delivering PSD support through the private sector has the merit of building a market in the long term for the provision of information and services to businesses both by creating demand and building local supply capacity.

Donors

As set out in ‘The Rights of the Poor’⁴⁹, the role of donors must be to build capacity locally. Thus stand-alone interventions that use unsustainable delivery mechanisms must be avoided where possible. In the field of PSD support, there are numerous examples of donors establishing new organisations that are neither rooted in the PBS or in civil society for different types of intervention. These are usually unsustainable.

The fact that addressing failures of the PBS requires addressing a cluster of factors makes it important to co-ordinate with other donors in planning and designing interventions. Addressing all the factors, even the critical ones only, may be beyond the resources and/or specialist skills of a single donor. But working in concert, donors can hope to add to the sum of individual projects.

⁴⁸ DFID (1998b) draws together the results of five recent evaluation studies of DFID assistance to the microenterprise and small enterprise development sector. The evaluation concludes that NGOs are effective delivery agents, although they need help with monitoring systems. It also concludes that private sector organisations are equally valuable partners in enterprise development support.

⁴⁹ Swedish Ministry of Foreign Affairs (1997)

3.6 Lessons from Development Assistance

There is considerable dispute over the extent to which aid has been effective⁵⁰ and this has prompted research and debate on the role of aid and how it can be made effective. Much of the debate has focused on issues that are of primary concern for PSD support, such as the respective roles of the state and market. Joseph Stiglitz first opened this debate in 1998, by proposing a new development paradigm for development. His starting point is that development is about transforming society as a whole, and not just limited to economic development⁵¹. He argues that, in many ways, the end goals of development such as the reduction of poverty as well as empowerment of the poor result from an interaction of economic and social development.

Stiglitz's contribution covers also the way development is planned and implemented. He believes that deterministic economic models should be replaced by 'Development Strategies'. These Development Strategies, instead of representing the detailed programming models or development plans of old, should be thought of as a vision for the transformation of society. They should set out what the society should look like in ten or twenty years time. The functions of the development strategy would be to:

- *Set priorities.* All societies are resource-constrained, and therefore there is a need to prioritise and sequence development;
- *Co-ordinate.* A holistic transformation of society requires the co-ordination of a number of different inputs and, to move society along the path of development, it is important to ensure that all the requirements for the next stage of development are in place – institutions, human capital, infrastructure etc;
- *Build consensus.* The imposition of change from outside, which was attempted in the past, cannot work. Local ownership and participation in the development process is essential and the strategies help to build the consensus required.

In line with the need to set priorities, there is a need to establish loci of development. One of these is an efficient and growing PBS, but equally the public sector must be able to fulfil its tasks. The way that development assistance is provided should be changed in two ways:

- Country assistance strategies should address the issue of a partnership within the country, between the public and private sectors and civil society;
- It should be developed through partnership between the country and IFIs and donor partners. The country strategy should ideally be developed locally and have local ownership and commitment. The IFIs and donors can then form partnerships with the country, through their country strategies, in its implementation.

⁵⁰ See for example Hansen, H. and Tarp, F. (2000).

⁵¹ Stiglitz, J. (1998)

The implications of the above are that as far as possible:

1. PSD support and the establishment of a well-functioning PBS must be integrated with other development interventions aimed at the transformation of society as a whole. PSD support must be built into the country strategy;
2. The leadership role in the design of interventions should be played by the partner government, with donors and IFIs influencing its content and assisting with its implementation. There must be strong donor co-ordination to avoid overlaps and gaps;
3. PSD support must be designed in the local context, taking account of the state of development of the PBS and the aspirations of local people;
4. There should be a ‘development strategy’ for PSD support that sets out a vision, ensures that the resources are in place and that there is consensus between the public and private sectors.

3.7 The Content and Organisation of PSD Support Interventions

The previous section outlined the overall approach to providing PSD support. The following sections outline best practice in the content, design, and organisation of interventions that are addressed at the three sets of conditions for a well-functioning PBS.

3.7.1 Interventions to Support the Organising Principle

The important components for establishing this set of conditions are economic policies, ensuring efficient markets by addressing market failure, reducing entry and exit barriers and ensuring the hard budget constraint. Of these, we discuss economic policies, including the hard budget constraint, and market failure in this section. Entry and exit barriers are addressed as part of the body of business legislation under *Incentive* below.

Economic Policies

PSD support to amend policies often takes the form of an ongoing dialogue on economic development between IFIs and donor agencies and governments of partner countries. The dialogue between governments of partner countries and IFIs and donor agencies on PSD support should stress the importance of allowing a competitive equilibrium to be reached through the market serving as the organising principle. The dialogue should help to draw attention to areas of policy that need to be reformed and suggest approaches that are likely to succeed. The needs of the PBS, in terms of economic policy, have to come to the fore in the dialogue and, if possible, suggestions made on possible PSD support programmes which the IFI or donor may support.

Reducing the role of the state in economic activity, liberalisation and de-regulation of markets and opening up the economy to international trade and imposing a hard budget constraint should form the main topics under this heading. The dialogue may be supported by technical assistance. For instance, to develop a sequence of measures to open up the economy to international trade, to de-regulate markets in ways that protect the poor and to impose hard budget constraints that are likely to be effective without causing disruption to the services provided.

Market Failure

Chapter 2 outlined that market failure⁵² occurs for many reasons, and that there is therefore a need for government intervention to address market failure. However, the nature of government involvement to correct for market failure merits careful consideration. If there is a strong case for government intervention to correct for market failure, the costs and benefits of government involvement must be assessed and a judgement be made that the benefits are likely to outweigh the costs. Addressing market failure may result in administrative costs and these may cause a re-consideration of costs and benefits⁵³. It cannot be assumed that government bureaucrats will succeed where markets fail. In fact, neo-classical economics would argue that the best they can do is to equal the market in terms of economic efficiency. Government interventions, often poorly designed and implemented, may create more problems than they solve. Market failures are necessary but not sufficient conditions for justifying government intervention in the production of goods and services. The most common market failures and typical government responses to them are:

Table B: Checklist of Types of Market Failure and Examples of Public Interventions

Rationale	Examples of Intervention
Natural monopolies	Franchise bidding, regulation, provision
Externalities	Taxes and subsidies, regulation, provision
Public goods	
Exclusion difficult	Provision
Exclusion undesirable	Subsidies, provision
Information failures	Regulation, taxes and subsidies, provision
Incomplete markets	Provision, taxes and subsidies, regulation
Equity objective	Subsidies, provision
Redistribution	Provision, subsidies
Merit goods	Regulation, provision

⁵² Stiglitz, J. (1989)

⁵³ Coase, R. H. (1937), Williamson, Oliver E. (1979)

Even in the absence of market failures, there might be a case for government intervention on grounds of poverty reduction and merit goods. However, a case for government intervention must first identify the particular market failure that prevents the PBS from producing the socially optimal quantity of the good or service. Second, it must select the intervention that will most improve welfare, and third, it must show that society will be better off as a result of government involvement; that is, it must assess the costs and benefits of government involvement and show that the benefits will outweigh the costs.

3.7.2 Interventions to Support Incentive

This section outlines the principle components necessary to ensure that there is sufficient opportunity and reward for entrepreneurship focusing on opportunity, taxation and governance, including business legislation and the institutional frameworks for markets.

Opportunity

Chapter 2 discussed the role of the state in opening up as much of the production of goods and services as possible to the PBS. In addition to the liberalisation of international trade and ensuring access to international markets through multilateral and regional trade agreements, the key areas of intervention are privatisation and public-private partnerships (opening up the production of goods and services to the PBS and minimising crowding out) and the provision of physical and social infrastructure.

Despite two decades of privatisation, PSD support in the form of assistance to privatising SOEs remains valid today. And the scope of the PBS is being extended through the privatisation of utilities and public-private partnerships (PPPs).

Privatisation

Over the last two decades, a body of experience has been developed that provides some critical lessons for future interventions. These include:

- Ownership transfer should be seen as a means, not an end. The focus should be on using the privatisation process to put in place the key factors for future gains in x-efficiency, not simply to transfer ownership.
- The transfer of large, public monopolies into large, private oligopolies serves only to substitute one form of market failure for another. Privatisation offers opportunities in developing industrial structures that are competitive⁵⁴.
- Although maximising value from the sale of businesses is essential to safeguard governments' fiduciary responsibilities, the long-term gains of efficient industrial structures and efficient markets far outweigh the benefits of sales value.

⁵⁴ Sheshinski, E. and Lopez-Calva, L. (2000)

IFIs and other donors can help to make privatisation the basis for the future competitiveness of industries and assist in the privatisation of utilities. They can help in the establishment of processes and procedures for privatisation.

Privatisation of the Utilities

The advantages of privatisation of utilities include gains in x-efficiency, access to capital and reduced crowding out of the PBS by the public sector. On the other hand, the potential pitfalls to avoid are possible abuses of monopoly power when companies continue to hold dominant positions, as well as the potential loss of developmental objectives achieved through the increased supply of these goods.

Experience has shown that the issues posed by the difficulties of privatising utilities can be solved through ensuring two critical conditions:

- As far as possible, industry structures should be developed that allow the forces of competition to engender efficiency and mitigate the abuse of monopoly power. This is obviously a challenge with respect to the utilities, but it can be done.
- Regulatory frameworks should be developed that encourage competition, reward efficiency and guard against the abuse of dominant market power and that can influence the achievement of wider developmental objectives.

Clearly this is an area where technical expertise based on experience is at a premium, and the private provision of such expertise is expensive. This is an area in which donor experience is increasingly used.

Public-Private Partnerships

Public-private partnerships are different to privatisation. Critically, in PPP arrangements the public sector continues to play a role in the provision of the service or supply of the goods alongside the PBS. The public sector normally retains overall responsibility for the provision of the service or good. PPPs cover a continuum of options for involving the PBS, ranging from simple supply and service contracts to concession-type arrangements where the PBS takes over operational responsibility and at least part of the commercial risk of service provision.

What is common about these types of partnership is that the public sector remains either as a buyer, or as a buyer and supplier in the market alongside the sector. This creates a huge problem with regard to risk and reward ratios, level playing fields between the two sectors and the discharge of public sector obligations. Public-private partnerships hold tremendous advantages. However, there is no easy fix. Key issues to be addressed are:

- Get the regulatory framework right. It has to be able to provide a good risk to reward ratio and meet the concerns of the public sector.
- Provide technical expertise in such a way that addresses the concerns of the public sector as well as leaving in place attractive risk-reward ratios for the PBS.

- Win the confidence of the public sector. Governments are not as committed to partnerships as donor agencies such as the World Bank.

International Trade

As discussed in Chapters 1 and 2, whilst trade liberalisation may not be a panacea for growth, it is a necessary condition for developing an efficient, competitive PBS. Further, provided supply side constraints can be addressed, it is the case that growing world markets can serve as the source of demand required to accelerate the growth of the PBS and the economy. With the majority of countries now members of the WTO and others, such as the countries of the FSU and China, waiting to join, tariffs are likely to be reduced sharply over the next decade. This will still leave important issues with regard to agricultural subsidies, TBTs, TRIPS and a range of new issues such as labour and environmental standards, the satisfactory resolution of which will have a major impact on the developing countries.

Key issues for donor intervention are:

- Provide assistance in servicing WTO and other negotiations through training and briefing;
- Assistance with WTO compliance in areas such as intellectual property, technical barriers and anti-dumping;
- Help to identify and reduce supply-side constraints experienced by developing countries in developing a momentum of export-led growth;

*Estland. The
Harbour of
Tallinn. Heldur
Netocny/Phoenix.*



- Work with governments to de-regulate critically important sectors, e.g. food and agricultural crops. If liberalisation can be accomplished successfully, the potential benefits in terms of a higher proportion of the CIF price being passed back to the farmer are immensely important for exports, the PBS and poverty reduction;
- Address trade facilitation, including export promotion;
- Improve trade infrastructure.

Economic Environment

As discussed in Chapter 2, the state also has a major role to play in minimising economic risk to businesses through establishing stable macroeconomic conditions. Support to partner countries in this field can be either in the form of general aid, with dialogue to help undertake policy reform or technical assistance tailored to help improve policies. Despite the long years of experience that most developing countries have in achieving macro stability, they continue to need technical assistance in this field. For the transition economies, and the countries of the FSU and the Balkans in particular, the achievement of macro stability remains an item on the transition agenda. The critical items on the agenda of both developing and transition economies are:

- Assistance in controlling the money supply and interest rates in ways that do not destabilise investment and the financial sector;
- Reform of the revenue side of public finances to widen the tax base, replace the diminishing yield from taxes on external trade caused by liberalisation, improving tax administration and bringing corporate and income taxes rates to levels that are conducive to a well functioning PBS without excessive reliance on regressive (anti poor) indirect taxes;
- Improving the budgeting system to link expenditure with the achievement of development targets, focusing expenditure on priority sectors, reducing the proportion of expenditure on fixed costs (though not in all countries) and ensuring accountability;
- How to move to free convertibility from current restrictions without causing financial instability.

Economic Reward

As outlined in Chapter 2, the level and form of taxation, penalties and subsidies on businesses plays a crucial role in motivating their behaviour. Whilst setting rates of taxation that are so high as to serve as a disincentive to investment and profits is to be deplored, the opposite practice of granting huge tax exemptions is equally unproductive. Incentives have not proved decisive in attracting investment and yet have undermined the tax base of countries. These issues are illustrated by the way governments seek to attract FDI. The

evidence⁵⁵ suggests that incentives are not a significant determinant of FDI flows and their use can become self-defeating as they force competing countries also to increase their incentives. Thus any advantage gained tends to be short lived. Rather, the main determinant of FDI is the fit between the investor's strategic rationale and the characteristics of the host country. Thus, export-oriented investors look for market access to regional and international markets, the productivity of the labour force and cost of operations. Investors aiming to serve the domestic market are motivated by the size and growth of the market and the possibility of establishing a strong market position. Both type of investor look also at political and sovereign risk, the macroeconomic climate and the regulatory burden. Lack of streamlined approval processes will deter investors, in short, the investment climate.

FDI is not, usually, a lead economic indicator. It tends to flow to countries where domestic investment is strong, though privatisation of attractive businesses can start the process of attracting FDI before domestic investment is strong. This points to the need to create conditions favourable for the growth of the PBS in order to attract FDI. Instead of focusing on tax incentives, interventions in this field should take account also of other factors that have proved to have a significant bearing on the investment decision, namely:

- Effective promotion can be a source of comparative advantage in attracting FDI. Experience shows that FDI promotion agencies, apart from undertaking generic destination promotion activities to improve information on investment conditions and opportunities, should be able to proactively target investors, prepare investment packages that meet their investment criteria and, for joint ventures and strategic alliances, offer a match-making service on a demand-led basis;
- Streamlining the development approval process without jeopardising the physical planning system can help to reduce risk and uncertainty reduce the time taken to implement new ventures;
- Addressing the binding constraints to investment. In each country, a systematic analysis is required of the major, or binding, constraint on investment. These are wide ranging, including difficulties in obtaining land, poor physical infrastructure, regulatory burdens, inaccessible financial institutions and so on. It is important to identify and address the critical constraints;
- For countries that are members of the WTO, the principle of national treatment must apply alongside other provisions of the agreement on TRIMS. A level playing field needs to be created for domestic and foreign investors. Developing countries have resisted embracing TRIMS, on the basis of the fear that compliance will result in the establishment of enclave industries. Donors can help, for example, by demonstrating that improving business linkages is a far more effective way of developing ancillary industries than regulations on local content.

⁵⁵ UNCTAD (1998), p. 102

Infrastructure

The role played by physical infrastructure in the development of the PBS was discussed in Chapter 2 and ways of improving its provision through private participation are discussed above.

The provision of social infrastructure such as health and basic education itself should not be considered PSD support, as the motive is wider concerns over human development and social equality. However, these are markets in which the PBS can participate as supplier and the trend is to increased involvement. The issues for the involvement of the PBS in the provision of education and health care are similar to those for PPP. The PBS has to operate in a well-regulated market along side the public sector. Risk to reward ratios must be attractive but the PBS must also fulfil its obligations to the public sector and to the consumer.

An important additional issue in the provision of social services arises out of the free-rider problem or cherry picking. The issue can be addressed through effective regulation. The regulatory framework can ensure that the PBS meets specified public service obligations.

Governance

As discussed in Chapter 2, the aspect of governance that can be considered to be a crucial condition for the development of the PBS is the regulatory framework, which consists of the body of civil law (commercial, market/competition) and the legal and administrative systems that give effect to that body of law. We include in this body of law also social legislation such as labour law and health and safety and environmental legislation. The kinds of interventions appropriate for strengthening the regulatory environment in developing and transition countries clearly depends upon the circumstances of the country concerned. The areas in which donors could intervene are:

- *Help to fill the gaps in important laws and regulations.* Technical assistance can be provided to prepare appropriate laws and regulations and improve the quality of legal drafting;
- *Increase access to legal information* through the support of legal advice centres and business organisations which offer commercial advice to people who otherwise would not be able to afford such advice, thus enabling consumer power, which is essential for a well-functioning market economy. Encourage the practice of official recording, so that market agents are informed of new legislation that directly affects them;
- *Try to deregulate where possible.* There is a wealth of experience being developed in de-regulation in the developed and developing countries. The challenge is not to abandon regulation altogether. Instead, it is to find regulatory approaches in each country that match both its needs and its capabilities. These include the type of transparent regulation systems described above, market-based instruments, self-regulatory mechanisms and methods of harnessing the power of public opinion;

- *Streamline the requirements of company registration, incorporation, establishment and operation.* Assistance can also be given to support Registrars of Company offices, which aside from registering companies undertake work on the standards for disclosure issues such as memoranda and articles of association etc;
- *Promote industry standards* in the area of health and safety at work, terms and conditions of employment, and trade union membership;
- *Help governments to improve their interface with businesses.* This may include designing projects that promote transparency within public institutions and encourage the participation of civil society in the process, and strengthening mechanisms for reviewing and improving government interaction with businesses;
- *Strengthen the part of the judicial system that covers commercial activities.* Institutional mechanisms for implementing laws and rules need to be strengthened, and made more efficient and responsive. Greater use of tribunals can prove more cost effective than court based systems;
- *Strengthen regulatory bodies:* The ongoing task of ensuring that markets function efficiently is left to government agencies. Support to these agencies is becoming a priority for developing countries and the transition economies.

3.7.3 Interventions to Support Access, Competence and Capability

The Principles of Intervention

In ‘The Rights of the Poor’, the Swedish Ministry of Foreign Affairs⁵⁶ observed that whereas development assistance often produced high rates of return in its own right, its major weakness was the failure to affect social and economic outcomes as a whole. This applies equally to PSD support where it can be shown that credit lines and BDS support have produced high rates of economic return as well as impacted favourably on social conditions by generating jobs and addressing poverty. Nevertheless, it is often observed that the overall effect of such interventions on the PBS is not major.

There are two reasons why this shortcoming has often been observed with regard to PSD support:

1. A failure to pay attention to the incentive available and macro and meso factors that influence the PBS prior to addressing access, competence and capability has meant that the PBS in general has not benefited from such assistance.
2. Inadequate attention has been given to the demonstration effect of PSD support, particularly at the micro level. It is highly unlikely that any form of intervention at the micro level, no matter how great the resources expended upon it, would result in a major impact on the PBS by itself. It is the demonstration effect of micro interventions that causes them to generate significant impact upon the PBS.

⁵⁶ Swedish Ministry of Foreign Affairs (1997)

Certain key principles should be applied in the design of PSD support interventions aimed at access, competence and capability:

- *Non-distortion of the market.* Interventions that provide a competitive advantage to individual businesses or that allow the agencies that are providing the assistance to compete unfairly against other providers on an on-going basis result in distorted markets.
- *'Demonstration effect'.* Where possible, interventions should show how they are likely to impact the PBS as a whole.
- *Sustainability.* The goal of sustainability should be built into the design of all interventions.
- *Outreach.* To maximise cost effectiveness, interventions should be designed so that significant numbers of each type of business are eligible.
- *Avoidance of bureaucratisation.* Assistance should avoid making the agencies that provide assistance bureaucratic and so conflict with entrepreneurial culture⁵⁷.

Where PSD support is used as a component of other interventions, for example, as part of poverty reduction programmes, the above principles should be adhered to where possible. However, the application of the checklist of these principles need not be as rigorous. The validity of those interventions derives from their objective of poverty reduction, not from their overall impact on the PBS. The following sections outline best practice in the approach to interventions that seek to address the efficiency and capability of businesses.

Structure of the PBS

As discussed in Chapter 2, the structure of the PBS has an important role to play in its access to markets and competitiveness and growth. We discuss below the way that interventions can help to improve the structure of the PBS through addressing structural barriers, sector strategies, assisting the size distribution of the PBS, particularly support to informal businesses. We focus on interventions that are likely to be pro-poor.

Structural Barriers

Structural barriers can be addressed through a combination of regulation, incentive and practical support. Concentration, leading to excessive market power, for example, calls for close supervision by agencies established to prevent the abuse of monopoly and restrictive trade practices. They should ensure that there are effective channels for reporting abuses and efficient ways of obtaining redress. Where appropriate, they may order disposals to reduce dominant market power. If it can be shown that concentration is not due to market forces, measures can be taken to promote competition. Attracting FDI and promoting SMEs are the obvious recourse.

⁵⁷ Gibb, A. (1996)

Horizontal and vertical linkages can be addressed by cluster development programmes. Bringing together SMEs and large businesses through cluster development programmes has a mixed track record. The choice of sectors and the areas targeted for co-operation are very important. Where possible, the aim should be to strengthen natural clusters rather than to create new clusters. When seeking to create horizontal linkages, it is important to examine carefully the areas in which co-operation is proposed. For example, sharing benefits of knowledge and experience stands a better chance of success than anything that involves sharing commercial benefits.

Another means of improving the structure of the PBS is through sector strategies, which can be used to help develop both lead and lagging sectors. We provide below the example of the agricultural sector, as this sector has importance not only for the functioning of the PBS but also for poverty.

Sector Strategies (Agriculture)

In the past, much external and government assistance in agriculture was focused on addressing production constraints at the farm level and on the transfer of technology to improve output. The emphasis on dramatic technological modernisation of agriculture has such a poor track record that many observers have wondered why it was not abandoned earlier⁵⁸. The new approach is in line with the new development paradigm, which emphasises a holistic approach and also recognises that the starting point for analysis should be the market rather than the farm. It recognises the need to analyse the markets that operate at every part of the supply chain – from the consumer back to the farm – and to develop strategies that attempt to maximise consumer satisfaction and farm incomes⁵⁹.

- *Liberalisation of Markets*

Where governments have made significant progress in liberalising both output and input markets, the shares of farmers' receipts from cash crops have increased substantially. In the case of Uganda, farmers' share of export receipts increased three-fold from 20% in 1987 to 65% by 1996⁶⁰. The defining intervention was the liberalisation of coffee marketing, as up to 80% of the population depends on coffee. At the farm level, the producer incentives arising from real price increases, timely payments in cash and greater availability of inputs from the PBS has resulted in significant production increases and development of surpluses for agro-processing and export markets.

Critically, interventions in agricultural output markets in numerous developing countries are prompted by the lack of a competitive and capable PBS. It is the absence of competition that allows merchants to exploit farmers. The appropriate response to such situations is not to replace

⁵⁸ Richards, P. (1985)

⁵⁹ Bardhan, P. (1989a)

⁶⁰ FAO (1998)

market failure with government failure but to stimulate the development of competence and capability in the PBS by providing better infrastructure and access to credit.

- *Land*

As noted in Chapter 2, the existence of an efficient market for land is critical to the efficiency of the agriculture sector. In developing and transition

*Kenya. Kikuyo
woman farmer.
Sean Sprague/
Phoenix.*



countries, one of the major constraints to the development of efficient agriculture is the absence of efficient markets for land. This is caused by the absence of clear rights to land ownership as well as poor registration systems. It is essential that governments ensure that a market develops for land so that the efficient may acquire it. Providing clear titles and efficient registration will also enable land to be used as collateral to raise credit for agriculture.

- *Credit*

Most developing countries exhibit a lack of financial depth⁶¹, a consequence of low mobilisation of savings. Whilst micro and small enterprises suffer from a reluctance of banks to lend to supposedly higher risk, higher transaction cost clients, farmers are even worse off as the perception of risk is greater. Furthermore, as land tends to be the required form

⁶¹ Financial depth is the ability of the financial system to mobilise finance, as measured by the proportion of GDP represented by commercial bank loans and/or the proportion represented by stock market capitalisation. It may also be useful to use the term 'financial breadth', measured by the numbers of savers and investors in an economy.

of collateral, lack of clear ownership rights to land in rural areas acts as a further constraint to accessing credit. In the past, governments have attempted to rectify this form of market failure through providing their own credit lines that are administered by banks. However, this approach leads to moral hazard and has not proved successful.

The last decade has witnessed the emergence of two new approaches to rural credit. The first is the form of ‘self-help’ credit exemplified by the famous Grameen Bank group-lending system in Bangladesh that uses peer pressure as collateral and is more appropriate for small loans. The second approach, which has been developed to address the needs of farmers seeking larger, longer-term loans, has been to increase the sophistication of the procedures of the formal banking system in a manner that resolves the problems of risk and high transaction costs. This is elaborated in the sub-section *Access to Capital* below.

- *Technology*

The key to unlocking the potential of agricultural productivity of developing countries is not to impose *our* technology on *their* society, but rather to understand and facilitate local innovation and development of farming systems. As many experts now confirm⁶², indigenous knowledge is not static but constantly evolving. Therefore, the role of intervention is to facilitate innovation, through spreading best practice and enabling measures that include access to know-how and credit.

Addressing the Size Distribution of Firms

Different sizes of enterprises experience different constraints to survival and growth. Although there is no single acknowledged definition of firm size, typically, definitions are based on turnover, capital employed and employment. The definitions used in the EU, the USA and developed countries are clearly not appropriate for developing countries due to the huge differences in capital intensity. An alternative categorisation that has been adapted from DFID’s Economic Development Group is provided below along with the typical characteristics of the different size of enterprise and the main constraints to their survival and growth:

⁶² Niemeijer, D. (1996)

Table C: Defining Private Enterprise by Firm Size

		No. Employees	Funding Needs \$	Description
INFORMAL SECTOR	Informal and Survival/ Household Enterprises	<5	10–100	These businesses are not registered. Typically includes part-time income generating activities carried out by family members. Such enterprises contribute less than 50% of income to the household, alongside subsistence agriculture, part-time formal employment or remittances. Also included in this category are businesses that are full-time and can be quite substantial, employing up to five people. A critical issue to be addressed is low incomes, especially for part-time workers. Lack of access to credit is a common constraint to growth. FORMAL
SECTOR Micro-	Enterprises <5	100–1,000	They have become	registered, licensed businesses that conform to most legal requirements. The main issue is the rate of survival of newly-formed businesses. Typically self-employed or family enterprises in trading, small-scale services or production. This category includes lifestyle businesses in which the entrepreneur is not concerned with business expansion. Such enterprises are the main source of income for the owner and frequently the owner's family. Their main constraints are access to credit, lack of technical skills, lack of business skills and security of tenure and typify businesses that are created from a position of limited choice of low-cost entry points for self-employment. Small Enterprises
	6–10 1,000–	25,000 Small	businesses that have	survived the high failure rates experienced by micro-enterprises and are in the process of expanding. Although their constraints to growth are similar to micro-enterprises, they are distinct in that those running such businesses generally have a real desire to 'grow' the business, therefore cannot be described as 'lifestyle' businesses. The 'Missing Middle' 11–50
	25,000– 250,000For-	mal sector businesses with potential	for growth where the	constraints are shortage of business skills, access to financial resources, lack of knowledge of how to develop domestic and external markets, a lack of suitable premises and inadequate physical infrastructure. Medium Enterprises
	51–100	>250,000 Generally well-	established	formal sector businesses with good marketing networks locally. They tend to have scale disadvantages in competing in international markets, and experience difficulties in developing exports. Large Enterprises
	>100 >250,000	Well-	established	formal sector businesses. These may have developed from state ownership and/or protection and therefore may leave much to be desired in terms of productivity and quality. Consideration of enterprise size is central to

the design of effective PSD support strategies. In fact, much of what has traditionally been called PSD support is aimed at the development of micro enterprises and SMEs. Interventions in this area are justified by the fact that these businesses cannot help themselves and the benefits they bring to the PBS in terms of economic efficiency and job creation. Specific forms of intervention in support of these businesses are discussed below.

- *Informal Enterprises*

Informal enterprises are those enterprises that are neither registered un-

Russia: Street vending in the village Avranko. Helder Netocny/Phoenix.



der company law, nor for tax purposes. They often do not have a licence to carry out the activities in which they are engaged. The informal sector includes large numbers of ‘survival enterprises’. This refers to part-time, income-generating activities carried out by family members, often by female entrepreneurs, that act to supplement income earned from other members of the family in agricultural activities or wage employment. However, they can also be progressive enterprises that are seeking to expand and develop into more sizeable businesses. The contribution that informal sector enterprises make to GDP is very small. However, the sector is hugely important as:

- It accounts for a major proportion of employment in most countries;
- It contains a high proportion of the poor;
- Informal sector activity in rural areas also helps to stem rural-urban migration and absorbs the social pressures generated by such migration;
- It serves as a seedbed for entrepreneurial development and is usually

highly dynamic, characterised by high rates of entry and exit.

The goal of poverty reduction means that this part of the enterprise sector is critically important. The main areas to address are:

- Government attitudes: there is a need for strategies that ensure that at a minimum, informal sector enterprises escape harassment and are not persecuted either by authorities or the wider society.
- Regulatory burden: deregulate where appropriate. Encourage business to move into the mainstream by designing de-regulation so that administrative burdens are not prohibitive due to the transaction costs of undertaking them, thereby removing the disincentive to grow.
- Access to credit: cost-effective and sustainable financial assistance can be provided through NGOs and informal networks.
- Access to markets: this can be facilitated by providing venues for informal entrepreneurs to sell their goods and services to better-off consumers in attractive locations.
- Access to inputs: wholesalers and cash and carry outlets can be incentivised to supply goods.
- Weak skills: basic training can be provided to encourage the diversification of informal sector activities. This helps to prevent overcrowding.

- *Micro-Enterprises*

As is the case with informal enterprises, a key problem is how to design cost-effective financial and technical assistance programmes that reach huge numbers of enterprises. The way that this can be achieved is through NGOs and informal and formal social networks. However, in order to meet the regulatory requirements of the formal sector, the level of skill of the provider of the support services has to be higher than for informal enterprises. Key issues for project design are:

- How to minimise barriers to entry;
- How to reduce failure rates for new businesses without subsidy;
- How to separate 'lifestyle' from 'growth' businesses;
- How to train large numbers of entrepreneurs in business skills – for example, in book-keeping, sales, rudimentary marketing techniques through the use of training tools such as the ILO's Start Your Own Business and Improve Your Business packages;
- Ways to make costly support infrastructure such as incubation facilities cost effective.

- *Small Enterprises*

Key issues to address are:

- Ways to improve access to finance without subsidy and moral hazard;
- Strengthening management skills and organisation structures without

- stifling enterprise;
- Promoting business linkages and improving market access without distorting markets;
- How to establish partnerships between the public and private sectors.
- *Small and Medium Sized Enterprises*
Key issues to address are:
 - Promoting horizontal clusters – and thereby integrate flexibility and efficiency into production processes; where possible, strengthen natural clusters;
 - Horizontal clusters – tend to be made up of SMEs co-operating together to address problems of economic scale. When creating clusters, examine carefully the basis upon which co-operation takes place. For example, sharing knowledge and experience is more likely to succeed than attempting to share commercial benefits.

Mobilising Social Capital

The major issues with regard to assisting informal organisations is how to ensure that assistance does not divert them from their prime focus, make them dependent on the assistance and result in them becoming bureaucracies that hinder rather than promote entrepreneurship.

Chapter 2 discussed the important role of social capital in helping to pool resources (bonding capital), providing access to inputs and complementary skills (bridging capital) and to resources and markets (linking capital). The business organisations, be they informal networks or formally-constituted chambers of commerce and trade associations, are the vehicles for mobilising such social capital.

In recognition of the importance of these organisations, donors are increasingly using them to provide information and services to members. They often provide more effective outreach as well as cost-effective delivery of PSD support than government agencies. Results have been mixed and have highlighted the importance of the following issues in the case of formal organisations:

- The constitution and management structures of formal organisations need to be democratic and participatory. There is a tendency of formal organisations to be dominated by interest groups or to be associated with particular individuals in the organisation.
- To ensure that they meet the needs of their members, the proportion of funds raised through user charges as against member fees should be increasing.
- Training, technical and financial assistance in developing member servic-

es should not be used to distort the market for the provision of services by the PBS.

- Networking and sharing information and expertise with other national and international organisations should be an explicit condition of assistance. There is a tendency amongst some organisations to regard knowledge as proprietary and they are unwilling to share it. This prevents the benefits of assistance from reaching a wider audience and the formation of knowledge networks from which all can benefit.

Access to Capital

Despite the development of a body of knowledge and experience of best practice in micro-finance, the sustainable provision of finance to small businesses remains a matter of concern. There is much that small business loan schemes can learn from micro finance and vice versa, particularly in the use of intermediaries. The use of credit lines that provide subsidised credit that are on-lent through banks that are not exposed to risk, which results in moral hazard and does little to improve the ability of the banks to lend to SMEs on a sustainable basis remains prevalent. Key lessons learnt from best practice in micro-finance that can be applied to small businesses are:

- Subsidised credit undermines development.
- Poor people can pay interest rates high enough to cover transaction costs and the consequences of the imperfect information that characterises markets in which lenders operate.
- The goal of sustainability (cost recovery and eventually profit) is the key not only to institutional permanence in lending, but also to making the lending institution more focused and efficient.
- Because loan sizes to poor people are small, micro finance institutions (MFIs) must achieve sufficient scale if they are to become sustainable.
- Measurable enterprise growth, as well as impacting poverty, cannot be demonstrated easily or accurately; outreach and repayment rates can be proxies for impact⁶³.

Not mentioned above but recognised by many practitioners as vital is the use of peer pressure as collateral. It is also recognised that in the long term, MFIs will have to adopt more sophisticated loan appraisal and accounting methods, and will need to borrow from the wholesale market rather than use donor or government funds.

Access to Markets

⁶³ Ledgerwood, J. (1999)

In surveys carried out to assess constraints to the growth of businesses, after access to finance, access to markets is often cited as the major constraint to expansion. For the informal sector and small businesses, the key concern is venues for selling and access to market channels. For medium-sized businesses the main constraints are, in the domestic market, access to market channels, and lack of information and high costs of access to international markets⁶⁴. The main issues that arise with respect to the creation of venues for informal and small businesses to market their produce are:

- Balancing attractive sites and spaces with affordable rentals;
- Dealing with arrears and late payers;
- Balancing demand and supply so that some markets are not overcrowded whilst others remain under-used;
- The roles of the public and private sectors to ensure appropriate risk to reward and the achievement of economic and social goals;
- Financial sustainability so that there are sufficient resources to continue to build markets in line with demand.

The importance of market channels has been highlighted, amongst others, by Michael Porter in his analysis of value chains⁶⁵. The two problems that frequently occur in developing countries are:

- Excessive fragmentation which results in many intermediaries between the supplier and user. This situation can be addressed by governments providing better information and infrastructure and by encouraging the development of the wholesale and retail sectors.
- Excessive concentration and monopsony power. This can be dealt with through careful monitoring by the competition authorities and, if regulations are inappropriate, de-regulation. Provision of information on end users, consumer needs and suppliers can also help to reduce monopsony power, as can publishing trade directories, trade fairs and other shop windows.

With regard to SMEs seeking access to export markets, there is scope for intervention in:

- Providing access to the internet and other forms of virtual markets (for business to business commerce);
- Export promotion to improve knowledge of, and access to distant markets. This is mainly achieved through trade promotion organisations (TPOs). The services should include enabling services for individual businesses on a cost recovery/partial cost-sharing basis, such as market research, market entry strategies, customer development services etc.

Business Development Services

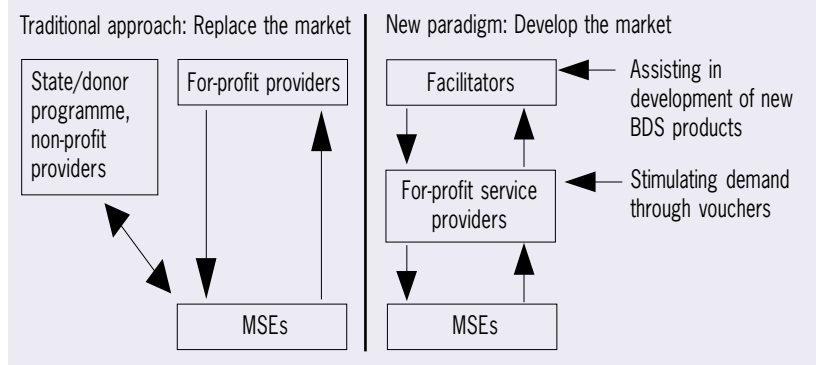
⁶⁴ See for example ITC (2000)

⁶⁵ Porter, M. E. (1985)

Prompted by concerns over their effect on the market for these services, interventions to provide business development services (BDS) have witnessed a paradigm shift in recent years away from direct provision of services towards intervening in a manner that seeks to correct for market failures and develops markets for BDS at the same time. The idea is to build both the demand on the part of small enterprises and the supply of services oriented towards their needs, as well as information and delivery mechanisms to make BDS markets function effectively. This is illustrated in Figure 2 below.

Figure 2: The Paradigm Shift in Business Development Services⁶⁶

The traditional way to approach these problems was for the state/donor to



establish advice centres that provided the advice free. This undermined private sector supply of these services, thus perpetuating market failure. Lack of access to professional services and lack of experienced entrepreneurs from which businesses could seek advice have resulted in high rates of business failure amongst new businesses in developing countries.

Governments have now therefore started to replace business advice centres with ‘first-stop shops’, which provide access to a mentor who provides counselling on the need for BDS and helps the business locate the private service provider. Instead of providing the advice, these first-stop shops provide incentives to try BDS services such as vouchers or matching grants. The expectation is that sufficient capacity will be developed during the lifetime of the project, leaving a commercially-sustainable consulting sector in place at project exit.

On the supply side, PSD support interventions increasingly aim to develop the capacity of existing, indigenous service providers, which tend to be characterised in developing countries by uneven availability, uneven and inadequate quality, lack of speciality services and customer orientation.

⁶⁶ Reproduced from Levitsky, J. (2000a) p. 36.

The Committee of Donor Agencies for Small Enterprise Development notes that the key issues to consider when designing interventions are:

- Enterprise needs, awareness of services, and willingness to pay for services;
- Informal and indigenous sources of supply;
- Services bundled with other goods and services or delivered as part of business-to-business relationships;
- The potential crowding out (displacement) effect of direct or subsidised provision of services by donors and governments, and
- The evolution of BDS markets over time⁶⁷.

Know-How

In response to globalisation, this is an area where donor intervention is growing. The two key areas to address are the quality of business support infrastructure and the access (in terms of affordability) of small businesses to services. Based on experience in the UK and a limited number of developing countries that have reformed their business infrastructure, basic principles for good practice appear to be:

- The provision of these services should be undertaken by agencies that are separate from the mainstream civil service, either autonomous agencies of government or not-for-profit organisations. This should facilitate the agencies acting in a non-bureaucratic manner.
- Their main users and stakeholders should be represented on their boards to ensure that they are market-orientated. This is how they are organised in most European countries.
- The agencies should ideally be funded from a combination of public funds and user charges. The proportion of public to private finance will need to be set based on local conditions, but the PBS's contribution should be significant.
- Public funds should be earmarked to cover specific projects and activities that may be considered pre-competitive or of a public service nature with government covering the share of the overhead relating to these activities.
- The funding of the agencies should be against annual rolling-forward business plans that set targets for outreach and other physical performance measures that allow effective monitoring of impact and hence value for money.

In addition, the UK and other governments have initiated matching grant schemes to overcome problems of access for small businesses. These schemes result in cost sharing between government and businesses, thus avoiding moral hazard and dependency.

⁶⁷ World Bank (2000)

Human Resource Development

Improving human resource requires both effective vocational training and programmes at the level of the enterprise. The organisation of vocational training should follow the principles outlined above for all business support infrastructure. Project interventions at the level of the firm give rise to many of the issues noted earlier for providing business services. They need to focus on enhancing the supply of trainers by training trainers and should avoid distorting the market and creating dependency. Managers of interventions should not be government agencies and the schemes should have a finite life.

*Bukoba, Tanzania.
Woman Welder.
Anita Andersson/
Phoenix.*



The differences are that in principle, funding of commercially relevant training should be on a tripartite basis between employer, employee and government. Setting levels of contributions is an important issue that needs to be addressed on a case by case basis. Linked to this issue is the arrangement for bonding the employee to the employer to allow employers to recoup their contribution. Again this can be determined only on the basis of specific local conditions.

3.8 Conclusions

The approach to providing PSD support needs to take account of the wide range of factors that affect the PBS. PSD support is likely to be wide-ranging, multi-sectoral and multi-disciplinary. There is a need to co-ordinate assistance with interventions whose primary purpose may not be PSD, as they affect and are affected by the PBS. In fact, the appropriate way to provide PSD support is to treat it as a pillar of development assistance, alongside other pillars of economic and social transformation. It should, therefore, form

an integral part of country strategies. Support should usually aim to address clusters of factors. The necessary conditions for the development of a well-functioning PBS should be given priority over interventions aimed at access, competence and capability. Within a cluster of factors, macro and meso factors should be addressed before attempting micro factors.

These guidelines should be operationalised by studying the performance and characteristics of the PBS. Priorities should be set with regard to local conditions and with reference to local aspirations. Local people should take the lead in determining priorities. There is a set of principles that need to be followed in providing PSD support at the level of the firm to avoid distorting markets. Interventions should use the market mechanism, be sustainable, have effective outreach, provide a demonstration effect and avoid bureaucracy.

Chapter 4

Overview of Sida's Existing PSD Support

Using Sida's traditional classification of PSD support, the proportion of total Sida funds allocated to PSD support accounted for a mere 3% of total aid expenditure in 1999. Using the broader definition of PSD support developed above, total Sida support to PSD in the same year accounted for 34% of Sida's total aid expenditure. This is a significant proportion and shows the extent to which Sida's interventions have a potential bearing on PSD. Unfortunately, this potential impact is often not given prominence in defining the purpose of the intervention, and in a sizeable proportion of interventions, not used consciously to support PSD. Analysis of the type of PSD support Sida provides suggests that the range of interventions is relatively narrow, focused mainly on interventions at the micro level aimed at improving competence and capability of firms and helping them access international markets and technology. Interventions to improve the effectiveness of markets and the overall incentive to the PBS receive comparatively little attention. The geographical allocation of PSD support is broadly in line with Sida's pattern of aid expenditure, with Africa receiving just under half of total support. Support to Least Developed Countries accounts for just under one third of PSD support interventions, a proportion that could be increased given the fact that the absence of a well-functioning PBS is a major factor in their slow growth and progress in poverty reduction. The main functional department providing PSD support is INEC. Others, particularly NATUR, spend a small fraction of their budgets on PSD support. This is a cause for concern in the light of the role that PSD support could play in the fulfilment of the mandates of these departments.

4.1 Introduction

As outlined in the introduction of this report, the purpose of the empirical component of this study is to review Sida's approach to, and organisation of PSD support, and specifically to compare this with best practice in PSD support as set out in Chapters 2–3. This part of the report presents our findings on the PSD support provided by Sida. In this chapter, we describe the overall methodology used for conducting the Empirical Study, provide our estimate of the overall magnitude of Sida support, and describe the allocation of support according to region, type, country income level, and Sida department or division. In Chapters 5 and 6 we examine Sida's intent and practice in terms

of its overall approach to PSD support and the way the provision of PSD support is organised.

It should be borne in mind when comparing Sida's practice against the Conceptual Framework that because some of the definitions and terminology elaborated in the preceding chapters are new, they would not be in common usage either within Sida or other aid agencies. Thus what is important in understanding Sida's approach to PSD support is the conceptual underpinnings of that support, not the actual terminology used.

4.2 Methodology

The starting point of the Empirical Study was the estimation of the magnitude and allocation of Sida's PSD support. This was achieved principally by use of the PLUS system, Sida's management information system for all aid projects. The PLUS system represents the most authoritative source of information on budgeted support expenditure.

To understand Sida's approach and organisation of PSD support, we carried out the following:

- Reviewed Sida's policy documents and strategy documents prepared by individual departments;
- Examined key documents of a sample of projects;
- Interviewed heads or senior personnel of all the departments concerned with the provision of aid, and selected heads of division and key individuals concerned with PSD support;
- Interviewed a sample of project officers responsible for PSD support projects.

The period chosen for study was all projects that were on going in 1999, as this provides a more accurate picture than projects that were started in 1999.

An initial interrogation of the PLUS system revealed that the Sida classification of PSD support includes mainly support provided by N aring, a division of the sector department INEC. It covers projects addressing support to industry, trade and the financial sector, frequently at micro level, aimed at the competence of firms. The support provided by other departments that may have a strong bearing on factors crucial for the development of a well-functioning PBS is largely excluded from this classification.

To correct for this, the PLUS system was re-examined to arrive at a total population of PSD interventions based on the wider definition of PSD support. The starting point for using the wider classification set out in Chapter 1 was to include all projects included in the PLUS system that may have an effect on factors crucial for the development of the PBS. As the PLUS system is not sufficiently detailed to understand intent or content of projects, we then examined the project documents of a sample of 79 projects to exclude those

that were not in fact PSD support. We examined project documents to understand better the approach and organisation of PSD support.

Finally, to provide a more nuanced picture of attitudes and perceptions within Sida towards the PBS and PSD support, semi-structured interviews were conducted with key individuals, heads of department and division and project officers. A total of 13 key individuals and heads of department and 15 project officers were interviewed. Interviews with the former two groups aimed at exploring conceptual issues of approach and organisation, whilst those with project officers focused more on issues of actual practice in the approach to and organisation of individual PSD support interventions.

The shortcomings found in the current Sida classification of PSD support need to be addressed in the immediate future. The organisation needs to track the magnitude and allocation of PSD support it actually provides, which will require amending its classification system to record all PSD support. Annex B provides further explanation of the methodology used for conducting the Empirical Study.

4.3 The Overall Map of PSD Support

The first step towards developing a comprehensive picture of Sida support to PSD is to estimate its overall magnitude, both in terms of overall budgeted amounts and contributions and then, where possible, to describe how the support is allocated according to type, region and income level and by department/division. This section compares the total volume of PSD support according to Sida's classification against Sida's total budget and interventions for 1999⁶⁸. It indicates the range of interventions that are included within this narrow definition of PSD support. It then compares the total magnitude of PSD support-Sida Classification with the magnitude of PSD support based on definition reached in the Conceptual Framework, and indicates the range of interventions covered by this broader definition of PSD support.

4.3.1 The Magnitude of PSD Support – CF Classification

Table 1 below shows the proportion of total Sida support accounted for by PSD support using the Sida classification.

⁶⁸ The objective of this evaluation is to understand Sida's *current* approach. Choosing ongoing interventions in 1999 provides a more accurate picture of this than choosing projects that were merely started in 1999, as this would have meant that some major long-term programmes would have been missed out.

Table 1: Total PSD Support – Sida Classification – 1999 (Budgeted Amounts and Contributions)

Category	Budgeted Amount	Percent	Contributions	Percent
Sida's classification of PSD support	211,299,193	3%	504	7%
Sida Total	6,468,008,549	100%	7,001	100%

Source: Sida Annual Report 1999, Consultants' estimates. See Annex C table 1, Annex D table 1, after adjustments

The table shows that Sida's support to PSD using Sida's classification represents only 3% of its total budgeted support, and 7% of the total number of contributions in 1999. Given the limitations of the Sida classification, it is probably unsafe to draw firm conclusions from these figures on the priority attached to PSD support. But certainly, they reflect the allocation of resources to one division of sectoral department and the limited importance attached by Sida to the types of support that NÄring currently provides.

4.3.2 Breakdown of PSD Support – Sida Classification

Table 2 below provides a breakdown of PSD support by sector and type. The table shows that the vast majority of PSD interventions (93%) as classified by Sida are within 'trade and industry and the financial sector'. A small proportion is accounted for by the categories 'Public Administration', 'Infrastructure and Urban Development' and 'Natural Resources'.

Table 2: PSD Support – Sida Classification – by Sector, 1999

Sector (PLUS system)	Contributions	Budget
Trade and industry and the financial sector	92,8%	93,2%
Public administration	2,2%	3,5%
Infrastructure and urban development	2%	1,4%
Natural resources	1,2%	0,6%
Other	1,3%	1,2%
Pollution, other environmental protection	0,5%	0,1%
Total	100,0%	100,0%

Source: Consultants' estimates. See Annex D Table 2

This appears at first sight to be a very narrow range of interventions, suggesting that what Sida considers being PSD support is much more limited than the definition that we would propose. It is worth noting that having such a narrow classification would reinforce the perception within Sida that what PSD support consists of is measures to support commercial and industrial businesses and financial sector institutions such as banks. Such a perception may detract from the importance attached to PSD support as it fails to bring out the role the PBS plays in achieving Sida's goals.

Looking at Table 3, however, it is apparent that the types of intervention included within the category ‘trade and industry and the financial sector’ are broader than merely assistance to firms or banks. The table shows that the category actually covers a range of potential interventions, including development of the ‘institutional framework’, which covers legislation, accreditation, standardisation, certification, patents and trade marks – ‘commerce’, which covers trade and export development – ‘reforms’ – covering SOE reform and ‘privatisations’. Table 3 shows that in fact, interventions that Sida classifies as PSD support do have an impact on the conditions for the development of the PBS, and that there is an understanding of the vital role played by the financial sector and its development in PSD support. But a large proportion of the budget (28%) is in fact interventions aimed at competence and capability. The category ‘competence development’ includes the ILO’s SYB and IYB programmes, and ‘company twinning’ covers projects that link Swedish companies with those in partner companies to provide those companies with access to Swedish technology and international markets.

Table 3: PSD Support – Sida Classification – Sub-Sectors within ‘Trade and Industry and the Financial Sector’, 1999

Contribution	Sector Code	Trade and industry and the financial sector	Budget
13%	3100	Institutional framework	15%
5%	3101	Commerce	7%
3%	3102	Reforms	5%
9%	3103	Competence development	28%
38%	3104	Company twinning	11%
15%	3109	Other trade and industry	15%
4%	3110	Stocks and share market	2%
6%	3112	Contracted saving	3%
6%	3113	Risk capital funds	9%
1%	3114	Micro-finance	0%
0%	3115	Private banks	0%
0%	3116	Regional development banks	0%
0%	3117	Public banks	0%
2%	3119	General within finance	4%
100%			100%

Source: Consultants' estimates. See Annex D Table 2

This pattern of PSD support, focusing mainly on competence and capability, but also aspects of the enabling environment, is typical of what activities other aid agencies have undertaken in support of PSD.

4.3.3 The Magnitude of PSD Support – CF Definition

The definition of PSD support proposed in the CF is ‘*interventions aimed at the development of factors crucial to the development of a well-functioning PBS*’. It is clear from the above that Sida’s classification of PSD support is narrower, excluding the activities of many of its departments that impact factors crucial for the development of a well-functioning PBS. Hence it can be argued that the actual picture of Sida’s support to PSD is wider than that suggested by its classification system.

Tables 4 and 5 below show that using the broad definition of PSD support, it accounted for 34% of the total budgeted expenditure for aid and 27% of Sida’s contributions in 1999. This is a significant proportion and shows the extent to which Sida’s resource deployment has the potential to impact PSD. However, the fact that the organisation fails to recognise this expenditure as PSD support and the fact that many project documents do not make explicit reference to PSD impact, shows that the organisation may not consciously utilise this potential impact as part of its PSD support or give it the prominence in project design that it merits.

Table 4: PSD Support, Sida Classification, vs. PSD Support, CF Definition, Budgeted Amounts, 1999

Category	Budgeted Amount	%
PSD support (Sida’s classification)	211299193	3%
PSD support (CF definition)	2170587435	34%
Sida Total	6468008549	100%

Source: Sida Annual Report 1999, Consultants’ estimates. See Annex C table 1, Annex D table 1

Table 5: PSD Support, Sida Classification, vs. PSD Support, CF Definition, Contributions, 1999

Category	No. of Contributions	%
PSD support (Sida’s classification)	504	7%
PSD support (CF definition)	1911	27%
Sida Total	7001	100%

Source: Sida Annual Report 1999, Consultants’ estimates. See Annex C Table 1, Annex D Table 1, after adjustments

4.3.4 Breakdown of PSD Support – CF Definition by Sector and Type

Table 6 below compares Sida’s support to PSD using the Sida classification with our wider definition of PSD support, broken down by sector:

Table 6: PSD Support, Sida Classification, vs. PSD Support, CF Definition, PLUS Classification Sectors, 1999

Sida's classification		SECTOR	CF Classification	
Contributions	Budget		Contributions	Budget
92,8%	93,2%	Trade and industry and the financial sector	36,6%	16,1%
2,2%	3,5%	Public Administration	15,3%	15,6%
2%	1,4%	Infrastructure and urban development	26%	42,4%
1,2%	0,6%	Natural resources	11,9%	17,5%
		Human rights and/or gender equality	4,4%	1,7%
		Education	1,2%	1,9%
		The legal system	0,7%	1,3%
		Democracy	0,2%	0,2%
		Health care	1,4%	1,7%
1,3%	1,2%	Other		
0,5%	0,1%	Pollution, other environmental protection	2,9%	1,4%
100%	100%		100%	100%

Source: Consultants' estimates. See Annex C Table 2, Annex D Table 2

The table shows that using the broader definition of PSD support, Sida supports a wide range of interventions. The largest share of the overall budget for PSD Support using the broader definition is accounted for by infrastructure and urban development (42%)⁶⁹ whilst trade and industry and the financial sector accounts for 16%. Other sectors, which contain a significant proportion of PSD support using the definition developed in the CF, are natural resources (17%)⁷⁰ and public administration (15.6%)⁷¹. Given that meso level interventions in support of infrastructure are expensive, it is to be expected that they account for the greatest proportion of budgeted support. In recognition of the importance of improving the effectiveness of the market as the organising principle and incentive, public administration receives a significant proportion of the budget, almost equal to direct support to enterprises to improve access, competence and capabilities.

Budgeted expenditure is roughly equal between trade and industry and the financial sector and natural resources. The expenditure on natural resources includes substantial sums on resource management and conservation. The actual amount spent on agriculture and rural development is quite low. This is surprising given the numbers of rural poor and the importance of markets to agriculture, and non-farm employment to rural development, as discussed in Chapter 3. We discuss this below in examining PSD support by department.

⁶⁹ Infrastructure and Urban Development primarily covers construction of transport infrastructure, transport policy and administration, regulation etc.

⁷⁰ Natural Resources covers integrated natural resource management, rural development, sustainable land use, forestry, agriculture and animal husbandry.

⁷¹ Public Administration covers central government administration, social services and labour markets.

4.4 Regional Distribution of PSD Support

4.4.1 Regional Distribution of PSD Support – Sida Classification

The map of PSD support in 1999 (both Sida Classification *and* CF Definition) per region and type of economy is presented in Figure 3. Using the Sida classification, Africa accounts for just under half of total PSD support in terms of both individual contributions and budgeted expenditure (46% and 49% of total PSD support respectively). Latin America and Asia receive roughly equal levels of support, Latin America receiving 22% of budgeted expenditure and 14% of contributions, and Asia with 14% of budgeted expenditure and 15% of contributions during 1999. This allocation of PSD support is broadly in line with Sida's pattern of total aid allocation.

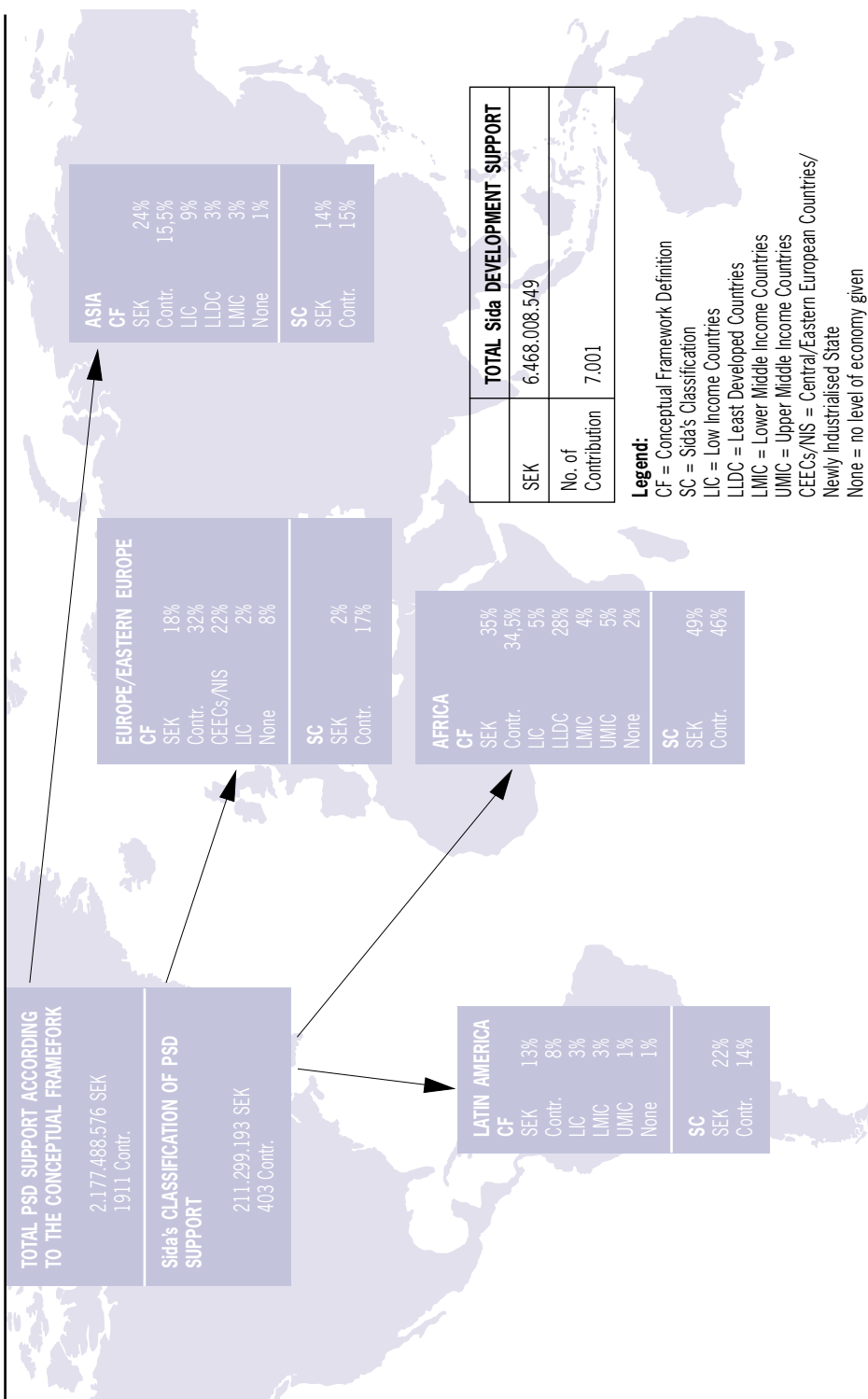
It appears that only 2% of the budgeted expenditure is allocated to Eastern Europe, which is surprisingly low. The explanation of this is that projects run by Sida-Öst are not classified as 'PSD projects', except for money that is earmarked for interventions that explicitly have the main objective of private sector support. Therefore, interventions are seldom classified as specific 'PSD projects'.

4.4.2 Regional Distribution of PSD Support – CF Definition

Figure 3 also shows that the picture of the regional distribution of PSD support differs if the definition of PSD support developed in the CF is used. Whilst Africa is still the largest beneficiary, it accounts for only 34.5% of contributions and 35% of the budgeted expenditure for PSD support in 1999.

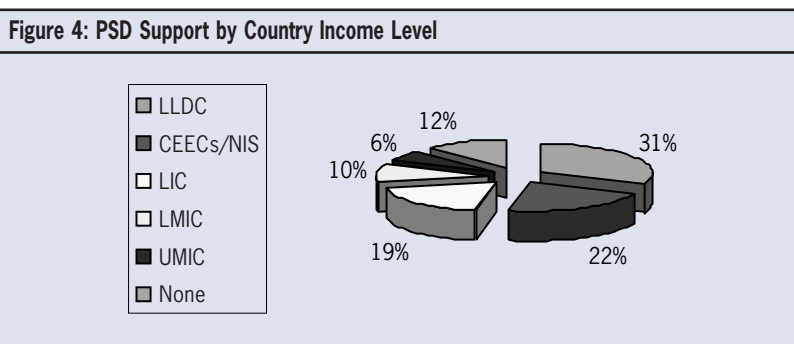
Asia receives the second largest share in terms of budgeted expenditure, accounting for 24% of support. Eastern Europe receives 18% of PSD support. Latin America receives only 13% of budgeted expenditure. Clearly, Asia and Eastern Europe receive a significantly higher proportion of PSD support using the broader definition, whereas Latin America receives less. This is a reflection of both the types of interventions to which the regional departments give priority, and the extent to which they include PSD in the objectives of their interventions. Hence, it appears that the regional departments responsible for Asia (ASIEN) and Eastern Europe (Sida-Öst) have given priority to interventions that not only impact access, competence and capability of the industrial and commercial businesses but also to factors that impact effectiveness of markets and the level of incentive provided to the PBS. Further, they have tended to ensure that interventions that may not impact the PBS directly, but nevertheless affect factors crucial for the development of a well-functioning PBS, state PSD as an explicit objective. The regional department for Latin America (RELA) appears not to have done this. We discuss this further in section 4.6.

Figure 3: PSD Support by Region and Country Income Level, Budgeted Amounts (SEK), No. of Contributions and Relative Percentages



4.5 Distribution of PSD Support by Country Income Level

Looking at Support to PSD-CF Definition, in view of Sida's overarching goal of poverty reduction, it would be expected that the lion's share of support should go to Least Developed Countries⁷². Figure 4 below shows a breakdown of PSD Support-PSD Classification by country level of income:



Source: Consultants' estimates.

LLDCs (Least Developed Countries) account for 31% of PSD contributions, more than any other type of country. Figure 3 shows that the majority of this support goes to Africa, which contains the greatest number of Least Developed Countries. This is in line with Sida's over-arching goal of reducing poverty. The next highest category of recipient is the CEEC (Central and Eastern Europe) countries, followed by LICs (Low Income Countries), LMICs (Lower Middle Income Countries) and UMICs (Upper Middle Income Countries). Thus priorities for PSD support are inversely correlated with income, with the poorest receiving the greatest support. The exception is the CEEC countries. This is a reflection of the important role of PSD in the economic transition that these countries are undertaking.

⁷² It was not possible to obtain information on the distribution of PSD Support-Sida Classification by country level of income.

4.6 Distribution of PSD Support by Department and Division

An assessment of the relative magnitudes of PSD support provided by departments is presented in Table 7. The figures are based on the CF definition of PSD support.

Department	Budget for PSD Support	% total Sida budget for PSD support	Proportion of total departmental budget
AFRA+IUM	526,533,777	24	31
ASIEN+IUM	275,977,330	13	39
DESO	95,122,316	4	10
INEC	687,854,353	32	58
RELA	71,388,575	3	9
NATUR	50,750,040	2	11
SAREC	61,269,648	3	9
Sida-Öst	401,891,396	19	40
TOTAL	2,170,787,435	100	34

The main departments concerned with providing PSD support in its broader sense are INEC (32%), AFRA (24%), Sida-Öst (19%) and ASIEN (13%). The proportionate contribution of other departments that are responsible for aid delivery is in single digits. These findings are reinforced by examining the proportion of its total budgeted expenditure that each department allocates to PSD support. Against a Sida average of 34% of total budgeted expenditure, INEC (58%), Sida-Öst (40%) and ASIEN (39%) spend a higher proportion of their departmental budgets on PSD support and AFRA just below this (31%). All the other departments spend a much lower proportion (9–11%) of their departmental budgeted expenditure on PSD.

The pattern of expenditure in 1999 may not reflect current awareness or priorities. Nevertheless, the proportion of a department's overall budgeted expenditure allocated is an indicator of the priority the department attaches to PSD support. Of the regional departments, the main cause for concern is RELA. The department spends a very small proportion of its overall budget on PSD support and hence makes a very low contribution to the total PSD support that Sida provides. As a result, its region, Latin America, receives a comparatively low proportion of the PSD support Sida provides and the majority of what it does receive is provided by other departments.

The priority a regional department gives to PSD support reflects not only the importance it places upon that type of support, but also on the comparative advantage that the department perceives Sida to have in providing aid to the countries in that region. So, even if the department considered PSD support to be important for countries within the region, it may leave the provision of such support to other aid agencies that it regards as better placed to provide such support. This is often the case in providing support for changes in economic policy and governance where the smaller aid agencies may consider the large structural assistance providers such as the World Bank to be better placed. Nevertheless, the proportion of RELA's budget devoted to PSD support is so low in comparison with other departments that it warrants an explanation.

Our discussions with senior personnel from that department reveal that there is a strong awareness of the importance of PSD support to achieving Sida goals. Moreover, there is currently a sound knowledge base of the types of support that lead to the PBS becoming well functioning. However, those discussions revealed also that the department has not had this awareness in the past. There is a need for RELA to translate its new awareness into project interventions in the future.

Of the sector departments, three have a very low proportion of PSD support in their budgeted expenditure: DESO (13%), SAREC (9%) and NATUR (2%). DESO covers the crucial areas of governance and the development of social support infrastructure. As revealed in the following chapter, its strategy documents do not show a strong recognition of the importance of PSD support to the fulfilment of its mandates. However, some divisions within the department (Hälso) are changing in this regard. Surprisingly SAREC, one of the main beneficiaries of whose activities is the PBS, also reveals a similar lack of appreciation of the links of its activities with PSD.

But perhaps the greatest concern must be over the low proportion of NATUR's budgeted expenditure allocated to PSD support. In light of the growing recognition of the role that markets play in agriculture and rural development, the importance of agriculture to private sector development and the need to involve the PBS in the conservation of natural resources, such a small allocation of resources is unexpected and hard to justify. With the poor concentrated in rural areas, the failure to give importance to PSD support has adverse consequences, not only for PSD, but also directly on poverty.

The explanation lies once again in the lack of importance given to PSD support in the past. According to the new head of the department, his department was, in the past, concerned mainly with technical issues of food security and resource management. Instead of emphasising the role of markets and the PBS in providing inputs and demand for output, the department focused on public sector provision of inputs and developing non-profit making organisations (co-operatives) for marketing outputs. This is now changing, with much greater emphasis being placed on markets and the role of the PBS.

The department is increasingly collaborating with INEC on interventions in the field of micro-finance. Nevertheless, the proportion of the department's expenditure on PSD support in the future bears monitoring.

4.7 Conclusions

This chapter set out to provide an overview of Sida's support to PSD, including an estimate of its magnitude, and its allocation according to region, type, country income level, and Sida department or division. In terms of its magnitude, using Sida's traditional classification of PSD support, the proportion of total Sida funds allocated to PSD support accounted for a mere 3% of total aid expenditure in 1999. Using the broader definition of PSD support developed in the Conceptual Framework, total Sida support to PSD in the same year amounted to 34% of Sida's total aid expenditure. This is a significant proportion and shows the extent to which Sida's resource deployment has the potential to impact PSD. However, the fact that the organisation fails to recognise this expenditure as PSD support and the fact that many project documents do not make explicit reference to PSD impact, shows that the organisation may not consciously utilise this potential impact as part of its PSD support or give it the prominence in project design that it merits.

Even using the broader definition of PSD support, the range of interventions covered is relatively narrow, focused mainly on interventions at the micro level aimed at improving competence and capability of firms and helping them access international markets and technology. Interventions to improve the effectiveness of markets and the overall incentive to the PBS receive comparatively little attention.

The geographical allocation of PSD support is broadly in line with Sida's pattern of aid expenditure, with Africa receiving just under half of total support. Support to Least Developed Countries accounts for just under one third of PSD support interventions, a proportion that could be increased given the fact that the absence of a well-functioning PBS is a major factor in their slow growth and progress in poverty reduction.

The main functional department providing PSD support is INEC. Others, particularly NATUR, spend a small fraction of their budgets on PSD support. This is a cause for concern in the light of the role that PSD support could play in the fulfilment of the mandates of these departments.

Chapter 5

Sida's Approach to PSD Support

There is a general understanding within Sida of the PBS and PSD support that approximately accords with the definition set out in Chapter 1. Heads of department and project officers demonstrated a sound understanding of the potential role that the PBS could play in achieving Sida's aid goals, although this understanding is not reflected in most departmental strategies or in country analyses and strategies. There is widespread agreement that certain conditions have to be in place to allow the development of a functioning PBS, and that the state has a role to play in the creation of these conditions. Heads of department and division understand the role that they could play in contributing to the conditions for a well-functioning PBS, but in practice, they do not take full account of the need to develop these conditions, nor the relationship between factors. Analysis of a sample of interventions shows an unwarranted predominance of interventions that address individual factors. There is an awareness of the need to sequence PSD interventions in a way that takes into account the linkages between factors that affect the development of the PBS, but this tends not to happen in a systematic way. The principles of PSD support at the micro level are also not adhered to consistently, although there is some recognition of their importance.

5.1 Introduction

In this chapter we examine Sida's overall approach to PSD support and contrast it with best practice as set out in Chapters 1–3. We assess perceptions and attitudes towards the PBS and PSD support, and the role accorded to PSD support in the achievement of Sida's aid goals. We examine the understanding within Sida of the different factors that affect the development of a well-functioning PBS and the implications of this understanding for the planning of interventions. We also assess the extent to which Sida follows best practice in delivering PSD interventions at the micro level. The key questions that we seek to answer are:

- Is there an understanding within Sida of the importance of the PBS to the achievement of Sida aid goals?
- Is this reflected in practice?

- How is PSD support planned and organised? Does it take account of the characteristics, performance and constraints faced by the PBS in that country?
- What level of understanding is there within Sida of the conditions that affect the development of the PBS?
- What is the role accorded to the state in PSD support?
- Does the sequencing and timing of Sida's interventions reflect an awareness of the linkages between factors that affect the development of the PBS?
- Does Sida demonstrate best practice in adhering to the key principles of PSD support at the micro level?

5.2 The Role and Importance of the PBS and PSD Support

In this section we examine the role and importance that is accorded to PSD support within Sida, as evidenced by the policies set by the government for Swedish aid co-operation. We also examine Sida's own internal policy documents for PSD support and support to other sectors, including health, education, agriculture, democracy and research. Our findings are substantiated further through interviews with heads of department and project officers within Sida. First, we examine prevailing perceptions within Sida concerning the definition of a PBS, and what constitutes a well-functioning PBS.

5.2.1 Definition of the PBS and PSD Support

Sida does not have its own definition of the PBS, although as noted in the UTV Background Paper, as a member of DAC it has indirectly acceded to the OECD definition. To gain an understanding of the prevailing perceptions and attitudes with regard to the scope of the PBS and to identify the dominant ones, interviews were conducted with heads of department and project officers.

Selected heads of department and project officers interviewed agreed generally with the definition of the PBS presented in Chapter 1. Most project officers, however, considered that the definitions were extremely academic and therefore not of great relevance to their work. In the overwhelming majority of cases, it was agreed that farmers and informal entrepreneurs should be considered to be part of the PBS, with the proviso that they should only be included if their activities resulted in the creation of value added⁷³. One in-

⁷³ The additional comment made was that the term private *business* sector may be off-putting to some individuals within Sida. This is also in keeping with the comments by two interviewees, who considered that their views are not in keeping with the general view of the PBS within Sida, which is that it comprises formal, 'bankable' enterprises. This view was not prevalent in most of the interviews conducted as part of this study.

interviewee thought that poor farmers should *not* be included because ‘they require a different kind of support – i.e. more direct support’, whereas interventions aimed at PBS should focus on the enabling environment. The same person also made the comment that the definition of the PBS presented in Chapter 1 is too all encompassing. With regard to the understanding of what constitutes “a well-functioning PBS”, many project officers were not able to agree with the non-economic aspects.

Project officers were also asked to define what they understood to be PSD Support. The typical responses provided tended to include the creation of legal frameworks, de-regulation, work on anti-corruption (Sida-Öst), and competence development. Interestingly, two respondents also included support to education as being part of private sector development support, despite the fact that the PLUS system shows that neither of these departments are involved in PSD support. (NATUR and Sida-Öst)

It is evident from the above that there is a general understanding, at least amongst heads of department, of the conceptual underpinning for what is included under the term PBS, the activities it covers, and what constitutes a well-functioning PBS. There is also an understanding amongst officers that PSD support is broader than the narrower range of interventions that is suggested by Sida’s classification system. There is a need, however, to arrive at less academic working definition of these terms.

5.2.2 Government Objectives for PSD Support

The Swedish Government’s instructions to Sida for International Development Co-operation are set out in annual ‘Letters of Appropriation for International Development Co-operation’. The Letter of Appropriation for International Development Co-operation for 1996 states that its objectives with respect to private sector development are:

Swedish Government Objectives for PSD Support

‘to contribute to the creation of favourable conditions for private sector development in the co-operation countries. In this respect, gender equality, far-seeing economising with natural resources and with the environment should be promoted. The activity should also henceforth be divided into three branches: competence development, business development and capital support. The target group shall be SMEs as well as supportive institutions. The level of subvention should be as small as possible. Even for this type of foreign aid, a reasonable level of co-ordination with other forms of foreign aid and steering should be analysed throughout the budget year⁷⁴.

The themes of creating favourable conditions and sustainable development are continued in subsequent policy documents: for example, the government budget bills for 1999 and 2000 and appropriation warrants for Sida state the purpose of PSD support to be *to strengthen the pre-conditions for a competitive private*

⁷⁴ Swedish Government (1995)

*business sector*⁷⁵. The budget documentation for Sida's 2000 budget states the purpose to be *contributing towards a viable private business sector that by using sustainable methods of production will provide a good supply of goods and services within the countries and for export*⁷⁶. The 1999 and 2000 Letters of Appropriation also add the objective of consolidating the capacity of partner countries 'for an active participation' in world trade⁷⁷

The Letter of Appropriation for 1997 introduces the concept of alliances between Swedish companies and companies in the partner countries benefiting their PBS⁷⁸. The goals for countries in Central and Eastern Europe state that 'consideration shall be taken for the possibilities to encourage Swedish companies to make direct investments in Central and Eastern Europe'⁷⁹. Meanwhile, in the countries of Central and Eastern Europe, Sida's support for PSD is linked strongly with the goal of *supporting socially sustainable economic transition*. The objective for Sida-Öst is to facilitate 'the transition to a market economy that is socially sustainable'⁸⁰. Emphasis is placed on social safety nets to protect the vulnerable.

The important conclusions that can be drawn from this brief review of Sida's purpose of providing PSD support and policies towards the form of support are:

- Sida has several objectives for providing PSD support. They include benefiting consumers by enabling the PBS to supply goods and services efficiently, to develop exports so that the country can participate actively in world trade and to contribute to economic growth, which is considered a necessary but not sufficient condition for achieving the overarching goal of poverty reduction. PSD support is considered important in the transition from central planning to a market economy and in developing an efficiently operating market economy. However, PSD support is not, at least in the documents, considered vitally important for achieving Sida's goals and it is not therefore accorded a major role in the provision of development assistance.
- Though gender equality and environmental sustainability are mentioned, it is in the context that they be promoted as part of PSD support. There is no mention of PSD support contributing to the goal of economic and social equality nor the role PSD support could play in providing sustainable livelihoods for the poor which would impact directly on poverty.
- In line with the views of organisations such as the OECD and the World Bank, the Swedish Government expects PSD support to focus on creating favourable conditions or pre-conditions for establishing a viable and com-

⁷⁵ Swedish Government (1998a-b, 1999a-b)

⁷⁶ Sida (1999g) p. 28, italics added

⁷⁷ Swedish Government (1998a-b) and Swedish Government (1999a-b)

⁷⁸ Swedish Government (1996) p. 9

⁷⁹ *Ibid.* p. 33

⁸⁰ Swedish Government (1996)

petitive PBS. However, how this can be achieved is not clarified and the specific interventions mentioned are actually aimed at the micro level of support to businesses, what may be termed ‘traditional PSD support’. Direct intervention should be limited and restricted to three types – to build competence, develop businesses and provide capital support. The target for intervention is clearly defined as SMEs and support institutions.

The above represents a rather weak recognition of the role played by the PBS in the overall development process, in contrast to that accorded amongst others, by the OECD, which describes its importance as follows:

‘Private sector development promotes efficient economic growth and development and is a source of wealth, dynamism, competitiveness and knowledge. Beyond its economic merits, however, lie compelling social and political attributes that enhance the contribution private sector development can make more generally to sustainable development, the overriding goal of all development assistance efforts⁸¹.

Given the fact that the Letters of Appropriation constitute a set of instructions for what is classified as PSD support by Sida and for the allocation of resources to the various types of PSD support, there is a clear need to re-visit these instructions to ensure that they reflect current best practice in PSD support.

5.2.3 The PBS and Sida’s Aid Goals

In order to assess perceptions regarding the contribution that the PBS could make to the achievement of Sida’s aid goals, heads of department and project officers were asked rank the relationship between the PBS and each aid goal according to its importance. As Table 8 below shows, all interviewees agreed that the PBS can influence all of Sida’s aid goals, although to varying degrees:

Sida Goal	Very Important	Some importance	Little importance
Economic growth	18	0	0
Economic/social equality	14	4	0
Economic/political independence	11	2	1
Democratic development	7	11	0
Environment	9	9	1
Equality between men and women	6	11	1
Poverty reduction	14	3	0

⁸¹ OECD (1995), p. 4

It is apparent from the table that there is an understanding within Sida – both at the level of heads of department and amongst project officers – that the PBS can and does impact upon its all of its aid goals, including most importantly, poverty.

The PBS and Poverty Reduction

With regard to the over-arching goal of poverty reduction, the table shows that most heads of department consider that the PBS has a major role to play. A total of 11 of the total 14 interviewees considered it very important, whilst 3 considered it to be of some importance. All interviewees considered that the contribution that the PBS could make to poverty reduction should be a matter of common sense, given the link between growth and poverty reduction.

However, whilst these interviews showed that there is a clear an understanding of the relationship between the PBS and poverty reduction, it is apparent that this conceptual link is not always drawn when individual interventions are designed. Evidence that this is the case is provided by Table 9 below, which shows how all Sida interventions for 1999 as well as all PSD support interventions (using Sida’s classification and our broader definition) have been codified in the PLUS system according to their impact on poverty:

Impact on Poverty	Total Sida 1999 (%)	PSD Support (CF definition %)	PSD Support (Sida Classification %)
A - Direct Effect	6%	5%	3%
B - Poorer Groups Included	18%	14%	11%
C - Indirect Effect (through policies & institutions)	33%	21%	31%
D - Indirect Effect (support at national level)	17%	20%	41%
E - No effect on poverty alleviation	22%	38%	14%
Blank	4%	2%	0%
TOTAL	100%	100%	100%

Source: Sida Annual Report 1999 p 10, Annex C Table 8, Annex D Table 8

The table shows that using our broader definition of PSD support, only 5% of projects were classified by project officers as having an (intended) effect on poverty whilst nearly 40% of interventions were considered to have no relation to poverty reduction. This is clearly an issue for Sida as a whole, not just for PSD support, as only 6% of all Sida’s interventions in 1999 were considered to have a direct impact on poverty. Some project officers interviewed also noted that although poverty reduction is Sida’s over-arching goal and therefore should be important, it has only some or little importance with relation to a given project.

Despite the wide understanding of the relationship between the PBS, growth and poverty, therefore, the operationalisation of this recognition appears not to have been achieved. The question as to why this should be the case should be studied in greater detail. At this stage, three possible reasons can be suggested. The first is that there may still be an overall perception amongst Sida project officers, if not amongst senior staff, that poverty reduction is concerned only with actions that have a direct impact on the poor. The second could be that the relationship between growth and poverty reduction is not clearly understood within Sida as a whole. For example, when discussing the relationship between growth and poverty reduction, a recent study by Lindahl and Karlström found that in expressing the view that ‘growth is necessary but not sufficient’, stress was placed on the ‘not sufficient’ aspect⁸².

Perhaps most importantly, as stated by heads of department and other senior figures, Sida does not have a clearly elaborated policy in relation to the role that the PBS could play in poverty reduction. Sida’s Poverty Programme⁸³ clearly acknowledges the important role that growth plays in the reduction of poverty. The document notes also the importance of policies and institutions to stimulate growth and create sources of livelihoods and job opportunities. In the section dealing with the role of INEC, it notes that the provision of infrastructure is important for poverty reduction. The section on trade and industry stresses the importance of sound policies and ‘*viable institutions and rules and regulations which promote legality, openness and efficiency*’ if support for business and enterprise development are to contribute to reducing poverty.

There is therefore an implicit understanding of the role of the PBS in reducing poverty and an appreciation that the PBS is most effectively developed under sound rules of the game. But explicitly, having said that growth is necessary for reducing poverty, the document does not say that a well-functioning PBS is essential for growth, let alone that it helps to establish the conditions in which growth is accompanied by poverty reduction.

The fact that the way PSD support impacts growth and poverty reduction is not clearly elaborated in policy documents means that this relationship may not necessarily be apparent to project officers, and would contribute to the above-noted lack of awareness of the indirect impact that PSD interventions can have on poverty reduction. For example, a project that is supporting a business support organisation whose members include small and informal sector businesses will impact poverty through job creation, income and so on. Such linkages are not articulated in practice in Sida documents. In fact, as Chapters 1 and 2 noted, a range of PSD interventions exist that could be used to address the objective of poverty reduction directly. Such interventions often form part of other, broader interventions, such as regional development programmes. However, the numbers of such interventions undertaken by Sida appears to be low, despite the prominence given to poverty by Sida.

⁸² Lindahl, C. and Karlström, B. (2000)

⁸³ Sida (1996b)

The PBS and Sida's Other Aid Goals

With regard to the relationship between the PBS and the goal of growth, as shown in Table 8, all heads of department and project officers interviewed agreed that a well-functioning PBS is very important for economic growth. The concept that the PBS is the driver of growth was not perceived to be controversial, nor was the idea that the key prerequisite for growth is the existence of a flexible and efficient PBS. There is also a wide recognition of the role of the PBS in achieving the goal of social equality. However, the recognition accorded to its importance with regard to the goals of democratic development, the environment and equality between men and women, was not as great. The fact that the impact of the PBS on the goal of care for the environment is not recognised is surprising considering the fact that the manner in which the PBS conducts its business has a major impact upon the environment. Again, one reason why this is not clearly understood could be the fact that it has not been articulated in Sida's policy documents. For example, although Sida's policy on sustainable development⁸⁴, addresses the need to integrate environmental issues in all aspects of Sida's work, it also surprisingly does not address the issues of mitigating the environmental impact of the PBS or how to provide incentive, carrot and stick, for the major cause of environmental degradation. The same could be true for the goal of equality between men and women, as Sida's policy on gender⁸⁵ also makes little mention of how the PBS impacts economic inequality between men and women and ways that PSD support could help redress it.

The fact that heads of department were less sure about the impact of a well-functioning PBS on democratic development is less surprising, considering that the body of literature on the subject does not provide conclusive evidence of a simple causal relationship between the existence of democracy and well-functioning PBS.

The picture that emerges from looking at the extent to which account is taken of the impact of PSD interventions on the achievement of Sida's aid goals in designing interventions is not encouraging. The vast majority of project officers concerned stated that there are no clear linkages. Neither the goals of economic and political independence, equality between men and women nor that of 'care for the environment' were considered to be of much relevance.

From this analysis of policy documents and interviews with heads of department and project officers, it can be concluded that:

- Sida does not have clear policies with respect to the role of the PBS in the achievement of its aid goals.
- There is an understanding that the PBS does have a role to play in the achievement of Sida's aid goals, of growth, social and economic equality and poverty reduction, but its contribution to other goals is less well rec-

⁸⁴ Sida (1996c)

⁸⁵ Sida (1997c)

ognised. The operationalisation of the understanding of the impact of the PBS on Sida goals at the level of project interventions is poor.

5.2.4 The Role of the PBS in Sida Strategies

Looking at departmental policies and strategies, even INEC/Närings does not claim a major role for PSD support in the achievement of Sida's goals. Its policy document merely states that support to private sector development 'may be considered one of the necessary factors to reduce poverty'. INEC/Närings's policy and strategy towards PSD is contained in a modest document⁸⁶ in terms of its claims for the role of the PBS and the strategies to be used to achieve its objectives. It states the role of PSD as being 'one of the necessary factors to reduce poverty'. It states the objective of PSD support to be two-fold:

1. To create conducive conditions for sustainable companies and production methods to provide a satisfactory supply of goods and services;
2. Facilitating the internationalisation of private sector companies.

The strategy for PSD support is to focus on the following:

- Institutional framework – which covers legislation, infrastructure, supply of capital, public administration and organisations supporting industry and commerce;
- Trade related co-operation- exporting, promoting business contacts, import guarantees, co-operation with international organisations;
- Restructuring of state-owned enterprises – incorporation, privatisation, changes to ownership structure;
- Training for business people – management, quality assurance and export know-how.

The role claimed for PSD support, its objectives and the strategy for its development can be considered minimal in comparison with that set out in Chapter 1. The crucial role of the PBS in addressing Sida goals is not stated, nor are the objectives of PSD support in terms of establishing a well-functioning PBS that can contribute to the goals. The strategy for PSD support does not address the market as the organising principle, establishing incentive for the growth of a well-functioning PBS and the way that access, competence and capability can be used to deliver pro-poor growth. There is also no mention of the role of PSD support in the strategies for the development of other sectors.

Of course, Närings's strategy and the allocation of its resources derive from the Letter of Appropriation. In light of the extent to which thinking towards PSD has evolved in recent years, both the Letters of Appropriation and Närings's own policies and strategies should be re-visited. It is evident that

⁸⁶ Swedish Support to Private Sector Development, INEC, Private Sector Development Division.

moves are already afoot within NÄring to distance itself from activities, such as company twinning, which do not contribute to the creation of conditions for the development of the PBS.

Review of the strategies of all the other sectors covered by INEC such as infrastructure and the financial sector show a thorough understanding of the role of markets and the PBS. They recognise the importance of competition in bringing about gains in efficiency and provide frameworks in which markets can function effectively. For instance, the policy for Financial Sector Development states that financial sector development is related most clearly to 'the promotion of economic growth but may also contribute to meeting other goals'⁸⁷. The focus of assistance should be on the legal and regulatory framework, financial markets, financial institutions, and the prevention of crises in the financial sector as well as the provision of capital resources. The link between financial sector development and poverty reduction is not made. However, the policy for trade, environment and development draws a clear link between support to trade and the goal of environment. The intended objectives of trade policy include 'integrating the developing nations into the world economy and to promote sustainable development'⁸⁸.

A review of Sida's sector strategies outside INEC showed that, with the exception of the health sector, there is little mention of the PBS. The education and energy sector documents do not consider the participation of the PBS, competition and the development of markets as important to the development of these sectors. The agriculture sector document notes the need for an enabling environment, stable economic conditions and the role of markets and considers the provision of capital to be important. But there is little mention of the role of the PBS in providing markets for inputs and outputs and of enterprise on the part of farmers to respond to markets. The type of integrated, market led approach suggested in the CF is not reflected in the document.

The above review of documents further substantiates the analysis of departmental spend on PSD support presented in Chapter 4; PSD support is generally not used within the sectors democracy, health care, education, human rights, gender equality, education or environment in any significant way. It is therefore apparent that despite the fact staff are aware of the potential role that the PBS could play in the achievement of its aid goals, this has not been addressed in sector strategies of departments other than INEC.

One possible reason for this could be the time lag factor. That is, whilst the interventions analysed were on going in 1999, interviews were conducted nearly two years later, in 2001. In fact, many interviewees commented that there has been a change in thinking over recent years with regard to the role of PSD support in their departmental strategies, and indicated that they would like to work more closely with INEC NÄring in this regard. This

⁸⁷ Sida (1997h)

⁸⁸ Sida (1998b)

change in thinking may therefore simply not yet have had time to be reflected in projects. The second possible reason is that the understanding of these issues is simply not sufficient within Sida.

However a more compelling reason than the above could be an institutional one. Whilst other major donors, including DFID and the World Bank Group, have recognised the important role for policy by creating separate a policy department for private sector development, this has not yet happened within Sida⁸⁹. There is no policy department for PSD support within Sida; indeed the department responsible for developing all of Sida's policies has recently been moved to one of the regional departments. This will be explored in more detail in Chapter 6. The important implication of this is that Sida's practice in PSD support does not represent the thinking of its own staff, except in the case of INEC.

5.2.5 The Role of the PBS in Country Analyses

According to 'Sida at Work', the country analysis is 'the most important instrument' used in the production of the country strategy. It states that the analysis should include descriptions of the political situation, poverty (an analysis of social and economic divisions and of issues relating to the distribution of income etc, for example regional differences, ethnical and social and cultural conditions), economic development (analysis of the macro-economy, structural adjustment, environmental economic issues relating to development, the micro economy and aid dependence); democracy and human rights, gender equality, and environmental and sustainable development. No mention is made of the PBS and the need to analyse its performance and the constraints to its development.

A review of a sample of country analyses and strategies shows that considerable attention is paid to macroeconomic stability but little to the state of development or needs of the PBS. This is surprising, as although macro conditions affect more than just the PBS, a major aim of achieving macro stability is to provide a secure and stable environment for the PBS. Hence the INEC Working Group and the Policy & Legal Issues Department's recommendation that analysis of the PBS form a stream of analysis in country analyses.

Analysis of a sample of country strategy documents substantiated the findings of the INEC Working Group that there is little discussion of the links between growth, distribution and poverty reduction in these documents. Descriptions are usually not provided in strategy documents of how PSD interventions could be used as a tool in the achievement of Sida's aid goals, including the goal of poverty reduction. We noted also the lack of integration of PSD support with other areas of Sida support such as public administration, health, de-

⁸⁹ For example, DFID's new Private Sector Policy Department, and separation of policy for private sector development from enterprise support, the World Bank Group, with the Bank's PSD department addressing policy and the IFC's department, enterprise support.

mocracy, education and agriculture. Discussions of both results and objectives with respect to health and education sectors do not mention normally the role the PBS could play in the development of these sectors.

Furthermore, none of the documents examined discussed the performance or constraints to the development of the PBS and hence the contribution that it is making to Sida goals.

With respect to PSD interventions discussed in the country strategies, the South Africa Country Strategy for 1999–2001 describes the need to ‘increase the presence of Swedish SMEs in South Africa’, and to stimulate ‘the growth of a self-sustaining economic co-operation between interested parties in Sweden and South Africa’. The document describes the types of support that have been given in South Africa up till now, which have been focused on developing the competence of, and providing credit to micro and small enterprises. Similarly, the Country Strategies for Lithuania and Poland also mention support to ‘the private sector’. But none undertake an analysis of the PBS nor set out how PSD support could form a pillar of Sida assistance and contribute to its aid goals.

The description of objectives with regard to agriculture also reflects a somewhat traditional approach. For example, the Zambia Country Strategy for 1999–2001 describes the purpose of assistance to date as being ‘to assure food security, preserve natural resources by the use of sustainable agricultural methods and create the conditions for economic and social development in rural areas’. Projects include research on an improved maize seed to improve yields, and a soil management project, although an additional objective for the future is to provide assistance to small farmers to show them ‘how markets work’, as and to develop programmes designed to promote such markets.

5.2.6 Use of Diagnostics

In order to understand the extent to which Sida staff are aware of the central importance of analysing the performance of the PBS in the preparation of country analyses, heads of department were asked whether the starting point of analysis should be the entrepreneur itself, or the macroeconomic environment. Most responded that the starting point could, or should be the individual entrepreneur. However, several interviewees said that both should be analysed simultaneously. Most interviewees had no clear knowledge of whether or not the situation of the individual entrepreneur is highlighted by Sida in its dialogue with its partners, or in discussion with other donors.

Heads of department were asked about the extent to which a systematic diagnosis of the performance, characteristics, strengths and weaknesses of the PBS is undertaken when undertaking country analysis to prepare country plans and strategies. Most replied that a systematic diagnosis of the PBS is not generally undertaken, but that the process is starting. The examples of Uganda, Tanzania and Bangladesh were cited, where a systematic analysis of the PBS had been undertaken at the time of preparation of the country analysis.

Other comments were:

- The Bangladesh and Uganda strategies failed to build on the PBS analyses undertaken;
- No prior analysis undertaken of micro finance projects – they just tend to ‘pop up’;
- The extent to which the results of a country strategy are integrated into the county analysis depends very much on the personnel involved in the embassies.

As is the case with country analyses, generally heads of department and project officers considered that the link between the analysis and the strategy is very weak, and the importance accorded to PSD support depends upon the expertise and attitude of the personnel involved at the embassy. Project officers interviewed stated that most projects have clear linkages to country analysis and country strategies, when these are available. However, they also commented that country analyses and strategies are not based on a systematic analysis of the PBS. These findings are in keeping with the results of the review of country analysis and country strategy documents.

The question as to why the strong awareness of the important role that the PBS could play in the achievement of Sida’s aid goals is not yet translated into practice requires a more in-depth study to be fully answered. However, if policies, strategies and country analyses do not represent current thinking within Sida on the role of the PBS, it is not surprising that this thinking is not operationalised.

5.3 The Conditions for the Development of the PBS

Chapter 2 of this report outlined the factors that contribute to the development of a well-functioning PBS. This section explores prevailing perceptions within Sida in this regard. Of course as mentioned above, it could not be expected that Sida staff would use the exact same terminology as the Conceptual Framework, as this cannot be found anywhere in the literature on PSD support. What we were looking for was an understanding among Sida staff of the need to make markets work more efficiently, that the state plays an important role in providing opportunity and incentive to the PBS, and that there is also a need to intervene at the micro level to help improve the access of businesses to markets, to credit, know-how, and to develop their human resources and competence generally.

5.3.1 Understanding of the Conditions for a Well-Functioning PBS

As stated earlier, the Swedish Government Letters of Appropriation to Sida refer to the need to *strengthen the preconditions* for the development of the PBS. INEC/Näring also mentions *conducive conditions* in its own policy document. This shows that there is an understanding of the existence of conducive con-

ditions for the development of a well-functioning PBS. Heads of department interviewed were also comfortable with the idea of the enabling environment and demonstrated a good understanding of the different factors that together constitute an enabling environment, including the rule of law, the regulatory framework, the existence of good physical and business infrastructure, as well as macroeconomic stability and well-functioning markets. Some commented that direct interventions aimed at developing the competence and capabilities of the PBS were not as important as those that relate to the creation of the enabling environment. Project officers also demonstrated a good understanding of the concept of the enabling environment. What does not exist is a fully elaborated framework for understanding the three sets of necessary and sufficient conditions for the development of the PBS, and that these conditions are integral to the concept of the enabling environment.

Heads of 'non-PSD' departments and project officers also clearly understood the impact of their work in establishing the conditions for a well-functioning PBS, although most heads also stated that whilst they acknowledge this impact, their primary focus is on the improvement of their own sectors, for example health, education, public administration, human rights as ends in themselves. And some saw little relevance of their work to the PBS. SAREC, for example, stated that there is no link between their support to R&D in partner countries with the development of the PBS, as they perceive their niche or 'comparative advantage' to be support to 'pure' research, in comparison with most other donors who concentrate on support to 'applied research'. This does beg the question of why this type of research is supported, as its link to Sida's development objectives must be weak.

Interviews with project officers also indicated that even if there is an implicit understanding that the PBS can be impacted by interventions in 'non-PSD' departments, this is not necessarily taken into account when designing interventions. Around half of the project officers interviewed said that when designing interventions they considered the impact that they would have on the creation of conducive conditions for the PBS, whilst just under half of the project officers interviewed stated that they were not sure whether this happened or not.

There is therefore a broad agreement amongst the functional departments and divisions outside INEC/Närings that the support they provide does play a role in developing the conditions for a well-functioning PBS, but that this is not taken into consideration in the planning of interventions. Again, there may be several reasons why this is not the case, including a lack of understanding of the way in which the project affects factors critical for the development of the PBS.

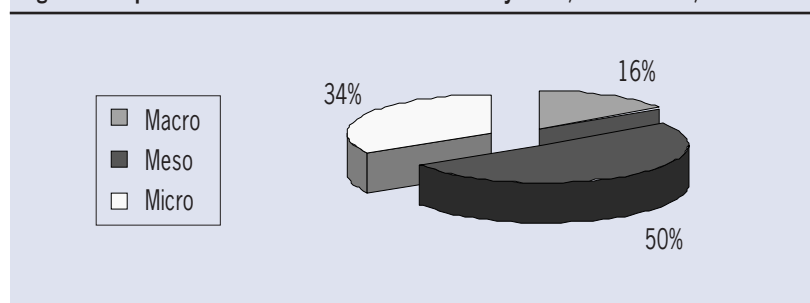
5.3.2 Levels and Types of Intervention

Project documents of the sample of 79 PSD support interventions taken from the overall population of PSD interventions were analysed to assess the extent to which PSD interventions reflect an understanding of the three dif-

ferent sets of conditions that affect the development of the PBS. Rather than attempting to assess PSD interventions against the Conceptual Framework, projects were simply mapped according to the three levels at which the factors that contribute to creating the conditions operate: macro, meso and micro. This is firstly because as mentioned earlier, the terminology used by Sida to describe PSD support differs from that presented in the Conceptual Framework, and secondly because the review of project documents revealed that most interventions are very specific, and typically address only one level at a time.

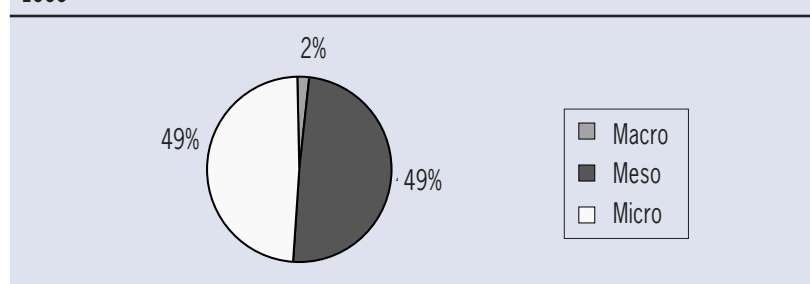
Figures 5 and 6 below provide a breakdown of PSD support in terms of numbers of interventions and budgeted amount, according to levels of intervention:

Figure 5: Map of PSD Interventions - CF Definition - by Level, Interventions, 1999



Source: Consultants' estimates

Figure 6: Map of PSD Interventions - CF Definition - by Level, Budgeted Expenditure, 1999



Source: Consultants' estimates

The above figures show that in terms of budgetary terms, support at the macro level is surprisingly small, accounting for only 2% of budgeted expenditure. Of course, macro level interventions, which would typically take the form of policy advice and dialogue with governments, are not costly. However, even when looking at the overall number of contributions, the amount of support provided is also surprisingly small at 16% of contributions. Given the fact that Sida operates in many countries where governance is poor, there

ity persist, we would have expected to see more interventions at this level.

The types of interventions at the macro level were:

- Policies for private participation;
- Governance;
- Macroeconomic stability and governance;
- Social laws and regulations;
- Markets (market regulation and the functioning of factor markets).

Looking at interventions at the meso level, the proportion of budgeted expenditure was 49%. This is also low given that this level includes the building of physical infrastructure such as roads, air and sea ports and so on, which are very costly. Looking at the number of interventions, the majority was for physical infrastructure, with business support infrastructure accounting for far less. This may well be because the state of physical infrastructure in Sida partner countries is so poor. However, in the context of globalisation, and the fact that competitiveness is becoming ever more knowledge-based, greater emphasis should now be placed on improving the business support infrastructure in developing countries to enable domestic industries to compete internationally.

Approximately half of the total support provided in terms of budgeted expenditure was at the micro level. The types of intervention were:

- Human resource development;
- Capital (venture capital);
- Capital (other than VC);
- Market Access;
- Structure of the PBS;
- Technology.

The vast majority of interventions were in the area of human resource development, with less emphasis accorded to market access, the removal of structural barriers, business development services etc. As macro and meso factors may come close to being preconditions for such interventions, the proportion of expenditure and interventions at this level is high.

5.3.3 Existence of Multi-Level Interventions

Further analysis of the sample of 79 projects provided an indication of the extent to which there is an understanding of the existence of the three sets of conditions for a well-functioning PBS and, the need to address clusters of factors specifically. Only seven interventions worked at more than one level.

Both heads of department and project officers were asked about the extent to which the linkages between the factors that impact the development of the PBS is taken into account when designing interventions. In general, interviewees appeared to believe that an examination of the linkages is important, but that translating this into practice is a much harder matter. Specific responses from heads of department were as follows:

- It depends on who is working at the embassy. If the advisor to the ambassador is 'open' to PSD support, there is no problem. Otherwise very little account is taken. Tanzania is an example of a country where the linkages have been taken into account. This is a model that could be copied elsewhere;
- It is easy to say that we should take the linkages into account, but in practice it is very difficult;
- We are beginning to think about these issues but we are in the early stages.

This is an area that needs immediate attention. It is highly unlikely that interventions aimed at individual factors would prove effective.

5.3.4 Sequencing of Interventions

Interviewees from departments that are directly involved in PSD support⁹⁰ were asked whether account is taken of the linkages between the factors that affect the development of the PBS in the sequencing of interventions. Most interviewees from within INEC considered that at least a rudimentary attempt is made to sequence interventions appropriately, and that more thought than in the past is now being given to such issues.

According to the project officers the need to sequence interventions so that the conditions are in place for the intervention to be effective is not always taken into account when designing projects. Most stated that it is difficult to apply this principle in practice.

It is clear from the above that the understanding of how the factors that create the conditions for a well-functioning PBS are linked is not very well-developed across Sida departments. This would explain why most interventions are aimed at addressing only one factor. The more enlightened staff within Sida is aware of this, and knows that it should be changed, but this has not yet happened across the board.

5.4 Delivery Mechanisms

As stated earlier, the state is the appropriate channel to use for interventions aimed at strengthening the conditions for the organising principle and incentive. For interventions that seek to address the access, competence and capability of the PBS, however, the PBS and NGOs are the appropriate channels.

⁹⁰ INEC and AFRA

With respect to the actual mechanisms used by Sida for delivering interventions in partner countries, the PLUS system is not helpful. It notes the organisation Sida contracts to provide the assistance, not the delivery mechanisms. Evidence from project officers suggests that non-governmental channels are used infrequently. Most interventions were provided either directly or through government. It is most interesting to note that several Sida officers expressed concerns about using any channel other than government. Clearly, something needs to be done to clarify the role of government and non-governmental organisations in delivering PSD support within Sida. It is important to address concerns over accountability and how they can be met when working with NGOs.

5.5 The Principles of PSD Support at the Micro Level

Chapter 3 described how a set of key principles should be used in the design of interventions at the micro level. The key principles to be used are that interventions should not distort markets – therefore they should not seek to create competitive advantage for individual firms or delivery agencies – that they should try where possible to create a demonstration effect for the rest of the economy, that they should build in sustainability and that they should be cost-effective.

5.5.1 Results of Interviews

Both heads of department and project officers were asked about the extent to which the principles of PSD support at the micro level are integrated into the planning of interventions. The results are presented in the table below:

PSD Support Principles	Yes	No	Sometimes
1. Working through the market	9	3	2
2. Sustainability	11	1	1
3. Effective outreach	7	1	4
4. Demonstration effect	4	1	8

This shows that more attention is paid to the first two principles than those of outreach and demonstration effect. Project officers cited sustainability as being the most important principle in the design of interventions, and working through the market to be almost as important. The need to contribute to pro-poor growth and was also considered to be important. The demonstration effect was taken into account only sometimes and most interviewees.

There are examples of Sida's assistance that do not follow these principles. For example, as shown in Chapter 4, many of Sida's micro level interventions

are found within the sub-category ‘company twinning’. This follows from the Government Letters of Appropriation, but these types of intervention do not have a demonstration effect and may result in market distortions. The targets of these interventions are individual companies. Although the aims of these types of interventions are in keeping with the appropriate focus for PSD interventions in that they seek to improve market access for firms in developing and transitional economies, they neither create a demonstration effect on the rest of the economy, nor do they satisfy the principle of outreach.

5.6 Conclusions

On the basis of interviews and discussions conducted with key individuals, heads of department and division and project officers, it is clear that Sida staff have a good understanding of the role and importance of the PBS and that Sida’s approach to PSD support has taken on board many of the concepts presented in the Conceptual Framework. Staff generally understand the role that the PBS can play in the achievement of Sida’s aid goals, and can identify the crucial factors for the development of the PBS. They view PSD support as including a broader range of PSD interventions than currently classified as PSD support by Sida. Their definitions of the PBS and of PSD support are also broadly in line with those presented in Chapter 1.

The understanding within Sida of how the factors that affect the development of the PBS relate to each other, and in particular the way in which they form the necessary and sufficient conditions for a well-functioning PBS is less well developed. The linkages between these factors, and the way in which these linkages have implications for the sequencing of interventions, have only recently become the subject of serious discussion within Sida.

Sida staff has a good understanding of how PSD support should be provided, and most importantly that it should flow from the results of country analyses and strategies. There is a partial understanding of the principles of PSD support at the micro level.

However, the analysis of projects undertaken shows that the understanding exhibited is not reflected in practice. Actual quantifiable evidence from the departments that provide PSD support in Chapter 4, along with our discussions with key individuals, suggests that PSD support continues to be approached and organised in a way that does not demonstrate an understanding of the conditions that affect the development of the PBS. Interventions do not follow on from a systematic analysis of the needs of the PBS in country strategies, and tend to address only single factors. Linkages between factors, and the sequencing of interventions are not given much attention. The proportion of expenditure on direct PSD support to address the competence and capabilities of businesses also appears inordinately high given the types of countries where Sida works.

There are a number of reasons that may contribute to this lack of consistency between awareness and attitudes and Sida's practice. First, policy documents do not give adequate importance to the PBS, and suggest that PSD support be focused on the competence and capabilities of businesses. Secondly, with the exception of INEC and one or two other divisions, the strategy documents of the sectoral divisions tend not to ascribe sufficient importance to the PBS and fail to note the role that PSD support could play in the fulfilment of departmental mandates. Even INEC/Näring's own document describes a limited role for the PBS. Thirdly, the awareness is relatively new and will take time to be translated into practice.

There is therefore a need to update documents so that they provide a better reflection of the awareness that does exist within Sida. It would be especially useful to have a policy document that addresses the role and importance of the PBS in the achievement of goals as well as a strategy document for PSD support that not only takes on board the activities of the department, but also the contribution that other departments could make through their own activities.

Chapter 6

Sida's Organisation of PSD Support

PSD support is undertaken primarily by INEC/Näring, a division of one of Sida's sectoral departments. There is no department or division that has responsibility for developing policy on how to approach PSD support and no unit with a holistic perspective on all the PSD support that Sida is undertaking. There are limited mechanisms for co-operation between departments, and in the few instances in which there is project-based co-operation, such co-operation has proved problematic. Access to PSD support skills within Sida is usually undertaken on an individual to individual basis. No problems are perceived in accessing PSD support skills, although it is interesting to note that some 'non-PSD' departments and divisions do not perceive there to be a need to access PSD skills. There are no formalised and systematic mechanisms for codifying best practice and lesson learning. Anecdotal evidence suggests that lessons learned are not always exploited when planning new interventions.

6.1 Introduction

This chapter explains how PSD support is organised within Sida. It first examines the location of PSD support within Sida's organisational structure, and the allocation of tasks between and within departments. It goes on to explore how co-operation on PSD support within Sida is managed, and what problems are faced in this type of co-operation. It explores how best practice and lesson learning are codified.

The key questions to be addressed in this chapter are:

- Where is the PSD support function located within Sida?
- Where within the organisation, if at all, is there an overview of and a holistic perspective on Sida's PSD support?
- Is there a separation of the policy and implementation functions?
- What formal and informal mechanisms for co-operation exist between departments?
- What mechanisms are used to access PSD support skills, and what are the constraints?
- How is lesson learning and best practice codified?

6.2 The Location of PSD Support within Sida's Organisational Structure

As the examination of PSD support by department showed, it is clear that the overwhelming majority of PSD support is undertaken by INEC, ASIEN, AFRA and Sida-Öst. On the basis of interviews with heads of department and project officers, however, the general perception within Sida is that PSD support is something that only INEC/Näring does, as well as INEC/Finans to a certain extent. There are differences of opinion as to whether there is a clear and logical division of responsibilities between departments for PSD support and indeed, whether such a division is desirable. The comments from heads of department were:

- There is no clear division of labour in Sida itself, or within INEC;
- There is a clear division of labour and INEC/Näring is the centre of excellence;
- There should be no clear division of responsibilities. PSD support should not be separated from interventions in health, education, trade etc.

The comment that INEC/Näring is a 'centre of excellence' for PSD support was made by INEC itself, whereas interviewees from outside INEC/Näring were of the opinion that the division focuses more on implementation rather than advice to other departments and divisions, although it does provide advice on an informal basis.

In light of the findings of Chapters 2–3, it is clear that all departments and indeed divisions should have some responsibility for PSD support, even if it is no more than to use the skills of the PBS. In addition, there must be a centre of expertise on PSD support.

On the other hand, most interviewees from outside INEC recognised that INEC/Finans acts more in an advisory capacity than INEC/Näring. This may in part be due to the fact that INEC/Finans houses a micro-finance advisor, who provides advice on the implementation of best practice to other departments and divisions, including to INEC/Näring and NATUR.

As Chapter 1 set out, PSD support is, or could be used in the achievement of all of Sida's aid goals. This raises the question of whether there exists a holistic perspective on Sida PSD support within the organisation, and if so, which department or division has it.

As to the question of whether there exists within Sida an overall perspective on PSD interventions across Sida, it can be argued that although INEC/Näring's role as 'the PSD division' is widely recognised, because it is primarily a functional department, it does not itself have an overall perspective on PSD support interventions across Sida as a whole. It was pointed out that the potential problems that this could lead to include lack of co-ordination and conflicting approaches to undertaking the same type of support. The sugges-

tion was also made that the establishment of a 'PSD support unit' could improve the quality and impact of interventions.

Other aid agencies have also faced the problems of how to institutionalise PSD support into all departments, develop a centre of excellence and have a unit that promotes a consistent approach to PSD support and has a holistic perspective on all PSD support interventions. DFID, for example, has recently decided recently to create two units charged with PSD support:

- A policy unit that develops the approach to providing PSD support, focusing particularly on interventions aimed at the organising principle and incentive. This maintains the holistic perspective. The unit is called the Private Sector Policy Department (PSPD) in DFID;
- An enterprise development unit called the Enterprise Development Group that focuses on access, competence and capability.

6.3 Co-operation Mechanisms between Departments and Divisions

Heads of department and project officers were interviewed concerning the extent of formal and informal co-operation that exists between different departments and divisions. The types of co-operation that exist can broadly be broken down into:

- a) formal co-operation in the preparation of country analyses and country strategies;
- b) formal co-operation on the implementation of PSD interventions. co-operation on PSD interventions may either be organised on the basis of multi-disciplinary teams or as discrete projects within separate departments or divisions;
- c) informal sharing of views and opinions, networks and working groups.

The general view expressed was that this kind of co-operation is 'a good thing'. However, the general perception also was that although attempts have been made to co-operate on projects in the past, these have not met with great success. It appears that responsibility and accountability for management is more often kept within a single department, and other departments play an advisory role. There are a few recent examples of formalised multi-departmental efforts, such as region-wide programmes in Lake Victoria and Nyassaland in Mozambique, however, as these are new projects the interviewees concerned commented that it is too early to evaluate the results of these programmes. INEC also co-operates to a limited extent with NATUR, mainly in the area of farming and forestry.

Several Sida departments and divisions that are, or that could potentially, be involved in PSD support have questioned whether co-operation between them is

sufficiently well developed. Many have perceived an absence of closer more systematic co-operation as a deficiency. For example, one comment made by Infra was that one of the drawbacks of Sida's organisation is that there are so few 'cross border' (i.e. cross-departmental) interventions. Other specific comments with regard to the obstacles to co-operation were as follows:

- The organisational structure of Sida does not facilitate co-operation between departments, because the structures are non-supportive. We need to network more, and to work in a more 'cross-cutting' way.
- We need to de-departmentalise Sida. Having separate functional departments tends to compartmentalise issues.
- One problem is that different departments have different work cultures. This same problem holds with regard to co-operation with embassies.
- People may not know each other very well, which creates its own constraints. Accountability is a problem. Even though the project team may theoretically be working towards the same goal, sometimes there is competition as well as differences in opinion concerning the priorities of the project.
- Time is a constraint. People are too locked within their own structures, and don't have the time to share information with others. It is difficult to release people from their ordinary work for cross-divisional/departmental projects.

Other reasons given for the limited co-operation between departments were lack of supporting structures, staff turnover, and lack of engagement, diverging priorities and focus.

The result of these constraints are that few projects therefore are combined, or designed to be complimentary with other projects within the same department/division or with other department/divisions. In general there seems to be very limited co-operation between sectoral departments. The co-operation on project implementation that does take place is mainly between sectoral departments and regional departments or embassies.

As far as informal sharing of ideas is concerned, many people interviewed said that informal co-operation in the form of idea sharing and networking does exist. However, time was cited by many to be the major constraint in increasing networking.

The general opinion seems to be that greater inter-departmental co-operation is necessary, and this accords with the need for PSD support to be multi-sectoral and multi-disciplinary. The above points to the need for changes in the organisational structure, reporting lines and accountability systems within Sida before such co-operation is possible. This is an issue that needs greater investigation.

6.4 Accessing PSD Support Skills

Departments that wish to access PSD skills say that they can do so easily. In the majority of cases, expertise in PSD support is sourced externally to Sida – for example, from academics, consultants, the UN. In the cases when the expertise is sourced internally, it is not formalised, but on an informal, person-to-person basis.

Many interviewees asked whether they found it easy or difficult to access PSD support skills stated that they did not see that there was a reason for them to have to access it in the first place. Some did say however that INEC/Näring is sometimes invited to meetings in an advisory capacity. The comment was also made that no division is really equipped to act as an advisor. It is more a question of there being certain individuals within Sida that are called upon. Another comment was that it is also to do with attitudes – that is, there is an inclination for people to ‘do their own thing’ because if other people get involved it will complicate matters.

As mentioned above, INEC/Näring is generally not seen to be a centre of policy advice. Interviewees were asked what could be done to improve access to PSD support skills. The responses to this question were:

- There is no need for improvement, since we already have our own informal access.
- INEC/Näring should be lifted up to the policy level, either by having a PSD adviser within the Policy Division, in the same way as happens for Gender and Poverty.
- Create an internal “PSD Policy Help-Desk” within the division, as has been done for environment in NATUR. However, some people questioned INEC/Näring’s capacity to take on that role.
- INEC/Näring should provide courses, for instance as part of the introduction package to Sida.
- PSD project groups should be created to cross-divisional borders.

Many people expressed the need for a PSD policy to be developed. However, a few interviewees were sceptical, fearing that this will create the need for ‘yet another’ screen to projects alongside gender, environment, poverty reduction etc.

6.5 Codification of Best Practice and Lesson-Learning

As PSD support could be used by a number of country and functional department/divisions, the question was asked as to how lesson learning and best practice are codified within Sida.

The general comment made was that there is no formalised or systematic mechanism for codifying best practice in PSD. There is a general feeling that this should be INEC/Närings' responsibility, but that 'they seem to be too busy with their own projects', and therefore may need to increase their capacity in order to be able to fulfil that role. One suggestion made was that creating a PSD help desk or having a PSD adviser within the policy department could facilitate dissemination of best practice. However the comment was also made that in the absence of valid PSD policy and strategy papers it was hard to know what best practice is.

There are however individuals within Sida who play important advisory roles with regard to PSD support, who participate in working groups and lectures to keep abreast of current best practice and provide advice to various Sida departments. There is also a micro-finance adviser, who provides advice on best practice to all departments wishing to use micro-finance as a tool in their interventions.

Since 1997, initiatives have also been taken by INEC to perform a role of gathering and disseminating experiences and lessons learned within Sida, for example:

- *INEC Academy* aims through a series of seminars to spread knowledge on current issues that are felt to be strategic for INEC's activities. INEC Academy is primarily aimed at INEC staff, but participants from other departments are invited to participate. Several INEC Academy seminars are organised every month, with presentations from external and internal PSD practitioners and academics.
- *The Sida Network for Reforming Infrastructure and Public Enterprise (RIPE)* is a network for Reforming Infrastructure and Public Enterprises initiated by INEC. RIPE's role is to collate and disseminate knowledge and experience in areas of relevance to the reform of public enterprise in partner countries. A working group with members from INEC and some representatives of other departments constitutes the nucleus of the RIPE network. With the aid of information material, training activities, seminars, counselling and other activities, RIPE aims at improving skills and promoting the sharing of experiences within and between Sida and the Swedish resource base. RIPE is expected to develop contacts and networks within as well as outside Sida, and to include persons, companies and institutions in Sweden's partner countries. RIPE communicate through a periodic newsletter as well as through Sida's Internet site.
- As mentioned above, the micro-finance adviser based with INEC/Finans seeks to disseminate best practice through workshops, training sessions and active involvement in projects, getting people involved in discussions around concrete situations.

In general there is a feeling that information and experience sharing within Sida could be improved. There is a discussion on utilising Sida's Intranet in a more aggressive way to disseminate best practice.

With respect to individual projects, project officers interviewed stated that lessons learned are documented in regular progress project reports, log-frame analysis and project evaluations. The main question is how this information is exploited when planning future activities. Some interviewees claim that it is the starting point for designing new interventions in the same field, especially if the desk officer feels that he/she does not manage the technical aspects, which is often the case for the department for contract-financed projects, where the technical fields diverge the most. Others have the impression that existing documented lessons learned are not fully utilised, and that ‘some people mainly do what they have always done’.

As revealed by the example of INEC’s Academy and RIPE, there is a need to codify best practice and learn lessons in the field of PSD. How this is done, whether by NÄring or a policy department for PSD, will require further investigation.

6.6 Conclusions

PSD support is undertaken primarily by INEC/NÄring. Sida has not separated the policy function for PSD support from the implementation function. There are mechanisms for co-operation between department, but in general project-based co-operation has proved problematic. Access to PSD support within Sida is usually undertaken on an individual to individual basis. No problems are perceived in accessing PSD support skills, although it is interesting to note that some ‘non-PSD’ departments and divisions do not perceive there to be a need to access PSD skills. There are certain mechanisms for codifying best practice and lesson learning, but anecdotal evidence suggests that lessons learned are not always exploited when planning new interventions.

Sida needs to review the place of PSD support in its organisational structure and the issue of separating policy from implementation. It needs to investigate how to institutionalise PSD in the work of all departments and to improve inter-departmental co-operation.

Chapter 7

Implications for Sida

The role ascribed to the PBS in Swedish government and Sida policy documents is limited. Sida needs to develop a policy document that sets out the role and importance of the PBS in the achievement of its goals. In the case of goals such as care for the environment and gender equality, there is a need for explicit recognition of the role that the PBS could play in their achievement. Country analyses need to identify the key constraints to the development of a well-functioning PBS and country strategies integrate PSD support into the overall programme of development assistance. Local ownership of interventions should be institutionalised into the design process. Though there is an understanding within Sida that there is need to develop conditions for the development of the PBS, there is no formal recognition of necessary and sufficient conditions. Issues of prioritising and sequencing interventions need to be understood and operationalised. The proportion of integrated interventions that attempt to address more than one factor at a time is low, suggesting a greater need to understand the linkages between factors. Currently, PSD expertise is often sourced outside Sida. Näring is not used frequently to advise on projects that may have a PSD component. The issue of how to develop PSD policy needs further investigation. There is a need to change the way that projects are organised and managed to facilitate the development of multi-departmental interventions that would allow PSD support to be integrated into development assistance generally. Lesson learning needs to be improved.

7.1 Introduction

The Empirical Study focused on comparing intent and practice within Sida with the conceptual understanding and guidance on best practice on approach and organisation provided by the Conceptual Framework. This chapter focuses on assessing the implications of that comparison for Sida. It can thus be considered to provide conclusions and recommendations.

The key questions that the chapter seeks to discuss are:

- What measures can be taken to improve the awareness within Sida of the important role that the PBS can play in the achievement of its goals? How can PSD support be better integrated into the policies and strategies followed by Sida's departments and divisions?
- How can PSD support form an integrated part of the assistance that Sida provides to its partner countries?

- How can the understanding of the concepts underpinning PSD support be operationalised within Sida?
- What, if any, organisational changes could help to improve the use of PSD skills by other departments and help to integrate PSD support into the work of other departments and divisions?
- How can lesson learning be improved?

7.2 Awareness of Role and Importance

At present, as discussed in Chapter 4, at the level of published policy, there is limited recognition of the important role that the PBS could play in the achievement of Sida goals. Heads of division and project officers have a far greater appreciation of its role. Further, although there are references in various Letters of Appropriation and other policy documents to the objectives of PSD support, there is no policy document that sets out, comprehensively, the Swedish government or Sida's views on the role and importance of the PBS and PSD support in achieving its goals. There is an obvious issue with regard to whether such a policy document is necessary as part of the process of institutionalising an understanding of the impact of the PBS on Sida goals and the role that PSD support could play in their achievement. This issue was addressed in the Empirical Study through interviews with heads of divisions and project officers. The results were not clear-cut, with some considering it useful and others not giving it much priority.

We, however, believe that the document may prove very useful, as its preparation would allow a debate to occur within Sida on the importance of the PBS and the role it could play in the achievement of Sida goals. Having been debated, the policy document would stand as a guideline for Sida, its divisions and staff. If such a policy document provided an endorsement of the importance of the PBS for Sida goals, similar to that contained in the policy documents produced by the OECD, it may help to overcome what many interviewees reported as negative attitudes and perceptions that still persist within Sida with regard to the PBS.

The document could address the issue also of how far interventions in support of the organisation's goals would, in future, take account of the role that the PBS can play in their achievement. For example, it may address the extent to which interventions in support of care of the environment and gender equality would, in future, attempt to use incentives to motivate the PBS to mitigate environmental impact and not discriminate on the basis of gender. The objective would be, in this way, to guide subsequent revisions of policy documents covering these goals so that they include the role of the PBS. In turn, the strategies of Sida departments that do not address the way that their activities contribute to a well-functioning PBS would, in recognition of the importance of the PBS, need to address also the impact of their interventions on the PBS. This would do much to address the weak recognition of the role

that the PBS plays in achieving Sida goals and help to institutionalise the role of the PBS in Sida interventions.

To allow assessments to be made of the way that Sida's intended importance given to PSD support is being actualised, it is important also to change the way that interventions are classified as PSD support. Changes must be made to the PLUS system so that interventions with a PSD content can be identified across all departments.

In summary, our recommendations are:

- The important role played by PSD support in achieving Sida's goals should be recognised in published documents:
 - The Swedish Government's Letters of Appropriation need revisiting to ensure that they reflect current best practice in PSD support;
 - A Sida policy for PSD support should be developed, which would act as a guideline on the role and importance of the PBS and of PSD support in achieving its goals;
 - In the case of policy documents for goals such as care for the environment and gender, there is a need for explicit recognition of the role that the PBS could play in their achievement.
- The need to operationalise the evidently strong awareness of the important role played by the PBS and PSD support in the achievement of Sida's aid goals should be addressed:
 - A more in-depth study is required to investigate why this is not yet the case;
 - The awareness exhibited by senior personnel at RELA and particularly NATUR of the importance of PSD should be translated into project interventions. Other departments such as DESO and SAREC that also spend a comparatively low proportion of their budgets on PSD support should be encouraged to re-examine the role that PSD support could play in their contribution to the achievement of Swedish aid goals and their departments objectives;
- The shortcomings found in the current Sida classification of PSD support need to be addressed in the immediate future. The organisation needs to track the magnitude and allocation of PSD support it actually provides, which will require amending its classification system to record all PSD support.

7.3 Integration with Sida Development Assistance

The country analysis is the main instrument in preparing development assistance strategies for partner countries. At present, country analysis takes due account of the economic performance and economic conditions, the state of governance and social conditions. As noted in the ES, however, the perform-

ance and characteristics of the PBS are not analysed systematically. Moreover, PSD support is not integrated explicitly into country strategies.

Given the importance of the PBS to the achievement of Sida goals, it would appear highly desirable to institutionalise the analysis of the performance and characteristics of the PBS in the country analysis process and to report on its findings. Analysis of the PBS could form a strand of the country analysis in the same way as economic performance and conditions, governance and social conditions do at present. The country strategies should also integrate PSD support into the overall development strategy, taking account of the priorities of the partner country and local beneficiaries.

Our recommendations therefore are:

- Analysis of the performance and characteristics of the PBS should be institutionalised in the country analysis process;
- PSD support should be integrated into the overall development strategy of partner countries;
- Local ownership of interventions should be institutionalised into the design process.

7.4 Operationalising Concepts and Approaches

The Empirical Study showed that whilst there was an understanding of the main concepts of conditions required to develop a well-functioning PBS, at least within heads of divisions, currently, resources were channelled mainly towards access, competence and capability with the emphasis on the development of physical infrastructure and capability within the PBS. The development of a systematic approach in the form of diagnostics that lead to priorities and sequencing follows from an appreciation that the necessary conditions should be in place before attempting other interventions was only now beginning to be addressed. Project officers were not familiar with all the principles that should be followed in providing PSD support at the micro level.

In part, the process of institutionalising the concepts and approaches that would help Sida follow best practice in this field, should start with the proposed policy document on the role and importance of the PBS and PSD support. That document could spell out the conceptual underpinnings of Sida's approach to PSD support, focusing on necessary and sufficient conditions for the development of a well-functioning PBS. It could elaborate on the guidance provided in the Letters of Appropriation on the priorities for providing PSD support and the principles that should be followed in its organisation and delivery.

But there are also two other documents required to operationalise these concepts. Firstly, as noted in the Empirical Study, NÄring currently lacks a full-fledged policy and strategy document. If developed, such a document could elaborate concepts and approaches in far greater detail than a Sida level pol-

icy document. Further, it could address the methodologies for designing PSD support programmes, sequencing and design principles. In addition, as other departments are involved also in the provision of PSD support, including also Swedish Embassies, there appears to be sound case for developing a guide to the provision of PSD support as DFID and others have attempted. The guide could focus on concepts, methodology, design processes and principles and serve as a field guide for practitioners. The guide could also serve as a training manual that could be used to train all of Sida staff that are likely to be involved in interventions using PSD support.

Our recommendations are:

- To bring Sida's approach to PSD support more into line with current best practice:
 - Sida should re-examine the amount of support it provides at the macro level;
 - For interventions at the meso level, greater emphasis should be paid by Sida to improving the business support infrastructure in developing countries to enable domestic industries to compete internationally;
 - At the micro level, more emphasis should be placed on market access, the removal of structural barriers, business development services etc;
 - Interventions should aim at clusters of factors that affect the development of the PBS. It is highly unlikely that interventions aimed at individual factors would prove effective;
 - Issues of prioritising and sequencing interventions need to be understood better and operationalised;
 - Action is required to clarify the role of government and non-governmental organisations in delivering PSD support within Sida.
- In order to operationalise concepts and approaches:
 - There is a need to arrive at a less academic, working definition of the terms and concepts developed in the CF, including the definition of the PBS and what constitutes a well-functioning PBS;
 - NÄring should develop its own a comprehensive policy and strategy document for PSD support;
 - NÄring could develop a guide for the provision of PSD support, which could serve also as a training manual for staff.

7.5 Organisational Issues

The fact that the PBS impacts so many of Sida's goals, especially the overarching goal of poverty, the wide range of factors that affect the PBS and the variety of interventions that comprise PSD support pose organisational is-

sues for planning and delivering assistance in this field. These issues can be grouped into three types:

- The role of the PSD support function: contributing PSD support skills;
- The place of the PSD support function in Sida's organisational structure;
- Managing PSD support interventions.

7.5.1 The Role of the PSD Support Function: Contributing PSD Support Skills

If the development of the PBS is to become a major strand of Sida interventions in support of its goals, then PSD expertise should inform and influence programme design and implementation. The Empirical Study found that, at present, INEC/Näring was not perceived by other divisions (outside INEC) to serve such an advisory function.

Of course, departments may make more or less use of the PSD support function. It is likely that the regional departments ASIEN, AFRA, RELA and Sida-Öst have regular need of PSD expertise whilst the sector departments may use it periodically. In turn, to deliver the integrated assistance required to address clusters of factors, the PSD support function may need to call on the support of other sector departments in fulfilment of its own programmes and projects. Thus it may call on DESO for help with changing the regulatory framework and the implementation of civil law and SEKA in turning social capital into BDS and other support for businesses. It may wish to influence policies on gender and the environment, strategies for involving the private business sector in the delivery of health, education and physical infrastructure and the development of markets for capital, labour and land as well as agricultural products and natural resources. It may also harness SAREC's skills and programmes in improving the quality of human resources and technology available to businesses.

In view of the above, and the Empirical Study's finding that such networking hardly ever occurred except on an informal basis, there is a need to examine the roles and responsibilities set for each department, starting with Näring. Näring's role as a centre of excellence and source of advice on all matters pertaining to the PBS and PSD support should be explicitly recognised in the organisation's operational documents and it be mandated to advise other departments. In turn, the other departments should be required to consult Näring on all matters pertaining to the PBS and PSD support. Their expertise in relevant areas of PSD support should also be recognised in organisational documents.

Our recommendations are as follows:

- There is a need to review the roles and responsibilities of each department for delivering PSD support, starting with Näring;

- Näring's role as a centre of excellence and source of advice on all matters pertaining to the PBS and PSD support should be explicitly recognised in its operational documents;
- Other departments should be required to consult Näring on all matters pertaining to the PBS and PSD support;
- All departments and divisions should have some responsibility for PSD support;
- The expertise of other departments and divisions in relevant areas of PSD support should be recognised in organisational documents;
- It is necessary to investigate how to institutionalise PSD support into the work of all departments and to improve inter-departmental co-ordination.

7.5.2 The Place of PSD Support in Sida's Organisational Structure

The discussion above of the role of the PSD support function shows that PSD expertise needs to be available to the policy making function and all regional and sector departments. As some departments are likely to use skills only periodically, it may not be warranted to have in-house PSD expertise in all departments. It may be sensible to have in-house skills only in departments that use PSD expertise regularly, whilst allowing others to draw on such expertise from Näring.

This raises the issue of where in the organisational structure the body with specialist PSD expertise should be located and therefore the status afforded one or more unit. At present, the body with specialist PSD expertise is Näring, a division within INEC, and it covers both policy and implementation. Other aid agencies such as DFID and the World Bank have separated their policy and implementation/enterprise development functions. The presence of a policy department gives their PSD function greater status in the organisational structure and affords it a higher profile in influencing policy and strategy.

This is an issue that carries major implications for Sida and has to be addressed in the wider context of the organisation. Further, when that decision has been taken, it will also be important to decide where in the organisational structure both (or one) units are located.

Our recommendation therefore is:

- Sida needs to review the place of PSD support in its organisational structure, and the issue of separating policy from implementation.

7.5.3 Managing PSD Interventions

Chapter 3 sets out the case for organising PSD support in clusters to address the linkages across crucial factors that affect the establishment of a well-functioning PBS and sets out the way that PSD support should be integrated into

wider development assistance. The Empirical Study shows that mobilising cross-departmental teams is rare in Sida and has challenges to overcome. This raises the issue of the way that PSD support interventions, particularly those of a multi-disciplinary nature, should be managed within Sida.

At present, there appear to be few examples of such multi-sectoral interventions with a track record to learn lessons. Lake Victoria and Mozambique are both too new to evaluate. However, there is a general recognition within Sida that multi-departmental co-operation on projects is the way forward and must be facilitated. We can add that for PSD support, such co-operation is essential. Other agencies have found ways to ensure that multi-disciplinary teams are mobilised and work effectively together, though not without having to overcome resistance. This is a matter that Sida also needs to address effectively and rapidly.

Our recommendations are:

- There is a need to change the way that projects are managed to facilitate the development of multi-departmental interventions that would allow PSD support to be better integrated into development assistance generally;
- To facilitate greater inter-departmental co-ordination it may be necessary to make changes in Sida's organisational structure, reporting lines and accountability systems. This requires further investigation.

7.5.4 Lesson Learning

As PSD support may well involve several departments engaging in similar types of project interventions – providing credit, establishing frameworks for the PBS to participate in the delivery of physical and social infrastructure are illustrative examples – there is a need for sharing experience and lesson learning. There appears to be a need to follow INEC's approach in establishing RIPE, to have a network also for the sharing of information, experience and lessons from PSD interventions.

Our recommendations are:

- Lesson learning needs to be improved. The organisation needs to investigate the best way to codify best practice and lesson learning;
- Sida might consider establishing a network similar to RIPE for the sharing of information, experience and lessons from PSD interventions.

Annex A

Diagnostic Checklist for PBS Performance

1. Rate of new business formation;
2. Failure rates of new businesses;
3. Spread of activity by sector;
4. Contribution to output and employment by size of business;
5. Concentration of ownership and output in major economic sectors and degree to which there are vertical and horizontal clusters;
6. Unemployment rate, rate of growth of employment and output (by size of business and sector);
7. International comparison against countries at similar levels of development of the degree of labour intensity;
8. Labour, capital and total factor productivity;
9. International competitiveness arrived at by benchmarking against international rivals, productivity, cost of unit output, quality, market positioning and realised unit value of exports;
10. Access to, cost of and flexibility in the supply of the factors of production;
11. Degree of competition in the supply of goods and services (from local and foreign sources) and evidence of rent seeking and short-termism as measured by profit margins and types of investment undertaken;
12. Typical transaction costs in domestic and international trade;
13. Knowledge of and access to domestic and international markets and current account balance;
14. Levels of consumer surplus and degree to which demand from the poor is met by examining the markets for basic necessities and consumer goods;
15. Participation by the private sector in the supply of physical and social infrastructure;
16. Provision of and terms on which businesses can access business support infrastructure;

17. Extent to which businesses have access to social capital and behaviour towards them;
18. Performance in meeting social objectives in terms of gender, protection of workers and consumers and environmental impact;
19. The impact of macro conditions on the behaviour and cost of businesses and markets and the impact of fiscal and other policies on the incentive for investment and profits;
20. The effect of the regulatory framework in terms of regulatory burden, creating level playing fields and preventing market failure and enforcing contracts and rights over property as measured by attitude surveys of businesses towards bureaucracy and terms on which trade is conducted.

Annex B

Methodology Used for the Empirical Study

1 Aims of the Empirical Study

The starting point when designing the empirical study has been the Terms of Reference (ToR) for the assignment, which was:

“To review of the current Sida PSD support, its approach and organisation, in terms of:

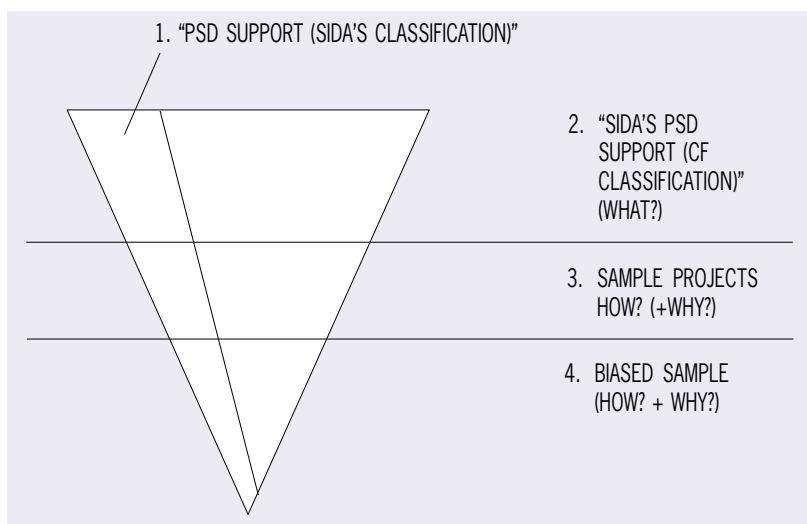
- description of the magnitude and contents of the total support
- description of the way that it has been approached and organised, and
- assessment of this approach and organisation”

Furthermore, the ToR prescribe that the total magnitude of Sida PSD support and the patterns that it displays shall be described so that a clear and well-structured picture emerges, and that the total magnitude of Sida PSD support shall be estimated, according to the definition brought forward in the conceptual framework

2 Components of the Empirical Study

Through an analysis of four different components we have mapped different aspects of Sida’s Approach to and Organisation of support to Private Sector Development:

1. Analysis of the characteristics of PSD support according to Sida’s classification, by analysing the data in the PLUS system.
2. Analysis of Sida’s PSD support according to the definition established by the Conceptual Framework of this report.
3. Deeper analysis of a manageable sample of Sida’s PSD support (CF definition) by analysing the key documents of 79 sample projects.
4. Analysis of the delivery methods through a biased sample of the projects. This will be done through in-depth interviews with programme managers of 12 selected projects.



In addition, for a broader and deeper understanding about attitudes and perceptions of Sida's Approach to and Organisation of support to Private Sector Development, in-depth interviews were conducted with the Heads of ALL 12 Departments, plus 3 other identified key persons.

3 Methodology for the Empirical Study

The Nine Consecutive Steps of the Empirical Study

1. Review of Attitudes and Perceptions
2. Defining PSD support (Sida's classification)
3. Mapping the PSD support according to Sida's classification
4. Defining Sida's PSD support according to the CF definition
5. Mapping the PSD support according to the CF definition
6. Defining the Sample of Projects
7. Mapping the sample projects
8. Defining the biased sample
9. Interviews with Desk Officers for Biased sample projects

3.1 Review of Attitudes and Perceptions

To understand Sida's approach to providing PSD support we have carried out the following:

1. Conducted a round of preliminary interviews with heads of department to understand their awareness of the role of the PBS and PSD support and the main issues they perceived should be addressed within Sida for PSD support to be effective.

2. Analysed Sida's policy documents with regard to the achievement of its goals with particular attention to the role envisaged for the PBS. Analysing these documents provides useful insights on the importance given to the PBS and the role envisaged for PSD support.
3. Reviewed strategy documents for the key sectors to which Sida provides assistance (health, education, agriculture, etc.) to examine the way they highlight the importance of the PBS to the development of the sector and integrate PSD support into sector strategies.
4. Examined a sample of country analyses, country strategies and country plans to evaluate the way an understanding of the PBS informs the development of assistance to partner countries and the way that PSD support is used to achieve development goals.
5. Interviewed twelve department heads to assess their understanding, attitudes and perceptions of PSD support.
6. The list of policy, sector strategy, country analyses and sector strategy documents analysed is presented in Annex G. The interview programme took the form of two hour, face-to-face meetings using a semi-structured questionnaire which we had previously shared with the heads of department.

3.2 Defining PSD Support According to Sida's Classification

As Sida does not itself have its own formal definition of what is meant by PSD support, in order to arrive at an understanding of what Sida considers to be PSD support by it was necessary to examine Sida's classification system. Within the PLUS system, there are four codes used to describe PSD support. Two of the codes concern company twinning projects with companies in Eastern Europe. One code is approximately translated as 'private sector development', which primarily describes projects within the general code '*trade and industry and the financial sector*' and '*financial sector*', although it also includes some projects classified as '*public administration*'. The point of departure was all projects that were on-going in 1999.¹

3.3 Mapping the PSD Support According to Sida's Classification

To provide a picture of the PSD support (Sida's classification) that Sida undertook in 1999 we analysed the population of projects. Due to the large number of projects it was only possible to analyse the data that is available in the PLUS system. The lists of data compiled from the PSD support according to Sida's classification include:

¹ The reason for choosing projects that were *ongoing* in 1999 was that the objective of this evaluation is to understand Sida's approach at this time, and that ongoing interventions in 1999 provide a more accurate picture of this than projects that were merely started in 1999. Some major long-term programmes would have been missed out. Due to this change, the number of projects included in the population more than doubled over what it would have been had we chosen only projects that were started in 1999

1. No. of Contributions and Budgeted amount per Department/Division
2. No. of Contributions and Budgeted amount per Sector
3. No. of Contributions per Sector and Department/Division
4. No. of Components by Type of Assistance per Department/Division
5. No. of Components by Target Area per Department/Division
6. No. of Contributions and Budgeted amount per Continent and Region
7. No. of Components by DAC Classification Codes per Department/Division
8. No. of Components by Poverty Alleviation per Dep./Div. as in Sida Annual Report
9. No. of Components by Channel of Implementing Organisation per Dep./Div

3.4 Defining Sida's PSD Support According to the CF Definition

Having analysed what is included in the above PSD support according to Sida's Classification, we can draw the conclusion that the definition is very narrow. It merely includes direct intervention in support of businesses, and does not have much to do with creating the conditions for PSD, discussed in the Conceptual Framework.

Having established a broader definition in the CF (Chapter 1) we went beyond the traditional Sida classification of PSD, to create a new population of Sida interventions, following the same definition used in the CF, and analysed it the same way we analysed the PSD support according to Sida's Classification.

The introductory interviews with all Sida Heads of Departments/Divisions and lecture of Sida documents confirmed that the commonly accepted definition of PSD at Sida has been narrowed down to the work conducted by INEC NÄring. The Conceptual framework has introduced the need to widen this fairly narrow definition as far as possible, and include sectors that may directly or indirectly lead to the development of the PBS, or use the PBS as a vehicle in order to achieve other goals.

In view of the definitions (further described in chapter 1 of the Conceptual Framework) we created a new population, including every sector of the PLUS system that could potentially be considered as PSD support, or include PSD support. The PLUS system does not have any category of intervention that corresponds to this new definition of PSD. Whilst it is clear that interventions by particular departments such as INEC NÄring are obviously forms of PSD support, given the wide-ranging nature of PSD support it is difficult to exclude *prima facie*, projects undertaken by other divisions and departments of Sida. As a result, our approach has been to focus on the sectors targeted

for intervention and to exclude those sectors and activities that are obviously not PSD support. This has resulted in the inclusion for the mapping exercise of projects targeting the sectors displayed in the list in the appendix below.

Initially it was proposed that projects that started during 1999 would be included in Sida's PSD support according to the CF definition. This was later reconsidered with the reference group and Sida UTV, and changed to projects that were on-going during 1999. The reason for this change was that it was feared that some of the major programmes would be missed out if only projects started in 1999 were included. An example given was the Improve Your Business Projects run by INEC. Due to this change the number of projects to include in the Sida's PSD support according to the CF definition was more than doubled.

It was decided that projects from the following departments of Sida would be included in the first screening: INEC with the following divisions IKTS/KTS, Infra, Finans, Näring and Urban. The department AFRA, RELA, ASIEN, Sida-Öst, NATUR and DESO. The department SEKA and Sida's support to Trust Funds were not included in the survey as it was found that the projects they fund are not designed by Sida and do not fully reflect Sida's priorities.

A first analysis of projects in the PLUS system was made according to the defined sectors and the guidelines for classification of the projects within the sectors. The following sorting was made:

- a. Interventions that were studies and evaluations of projects were sorted out since the focus of the empirical study is to study the interventions that were directed to PSD.
- b. The projects were grouped according to each department/division that were decided to be included in the survey.
- c. Guidelines were provided per sector on how classify projects as "in" or "out". In unclear cases the abstracts included in the PLUS system were consulted for guidance.

The above exercise resulted in a list of 1905 Contributions, representing a budgeted amount of 2.170.587.435 SEK for 1999. In order to gain a deeper understanding of this population "PSD support as defined by the Conceptual Framework", in particular of its validity we needed to analyse it further, through gathering, reading and analysing of key documents of a sample of 100 projects. The three key documents consulted were Assessment memorandum, Decisions basis and LFA Matrix. The analysis of the sample brought us to the conclusion that around 15% of the 78 analysed projects could in fact not be considered "PSD support as defined by the Conceptual Framework". This scanning gives us an idea of the validity of the population of the 1905 Contributions, and our best estimate is that only 85% of those fall under the definition "PSD support as defined by the Conceptual Framework".

3.5 Mapping of Sida's PSD Support According to CF Definition

To provide a picture of the total support that Sida undertook in 1999 that have a more or less direct bearing on PSD, we analysed the population of PSD support (CF classification), according to the same parameters used in mapping PSD support (Sida's classification). We then made comparative analyses between PSD support (Sida's Classification) and PSD support (CF classification), as well as with Sida's total support.

3.6 Defining the Sample of Projects

The Map of the Sida's PSD support according to the CF definition, using the Sida PLUS system gives us quite an amount of valuable information to draw general conclusions from. But the PLUS system is primarily used a book-keeping tool at Sida, and does not provide exhaustive management information for the purpose of the study. To go beyond the data available in the PLUS system we analysed project documents of a portion of the in Sida's PSD support according to the CF definition, which is selected through random sampling. This analysis enables us to look at issues like Sida's Approach and Organisation, and to determine on what level in society Sida has focused its interventions (macro, meso or micro levels).

A realistic target size of the project sample was 100 projects, considering the time required identifying, collect, read and analyse the project documents. The sample was selected on a random basis by the computer, to avoid any biased selection by project officers, heads of departments or the consultants. The sample cannot be considered to be statistically representative, but it enables us to draw a number of conclusions. In addition to the further analysis on types of interventions, geographical regions, departments/divisions, and budgeted amounts the random sample analysis provided us with a deeper understanding of Sida's PSD support according to the CF definition. Reading the key documents enabled us not only to analyse the projects more deeply, but also to identify which projects cannot be considered as PSD-projects, and in particular, provided us with an indication of any weaknesses there may have been in the delimitation of the Sida's PSD support according to the CF definition.

Departments that were showed to have fewer components and smaller budgets in the first mapping of the Total PSD population were considered as peripheral in the study and left out. The random selection was based on examining 100 projects from the eight departments that represented 90% of the budgeted amounts of the total PSD population

The list of sample projects is attached in Annex E.

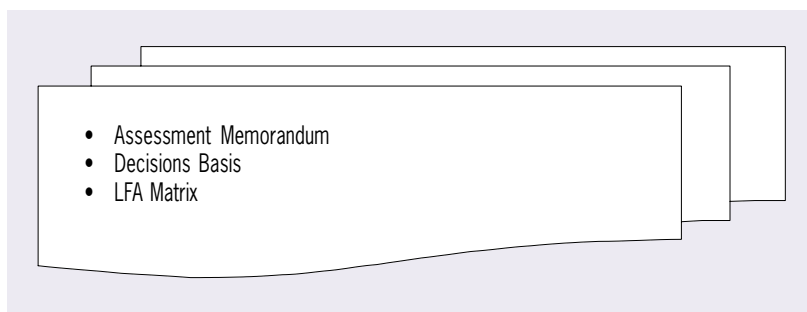
3.7 Mapping the Sample Projects

- Classification Categories

The Objectives and Expected Results of the projects in the sample will be classified in the categories displayed in the matrix presented in the Conceptual Framework Chapter 2.

- Collection of Data and Mapping

The three key documents selected to serve as a base for the mapping exercise, subject to availability are:



The collection of these key documents proved to be a cumbersome process, mainly due to the fact that in many cases, it was not clear whether the documents were available at Sida Stockholm or at the Embassies. Some documents had to be mailed from Vietnam, or even fetched by the consultants in Tanzania. In addition in some cases, the LFA matrix was not available, at Sida Öst because LFA is not commonly used for project documents, at other departments when the projects were old.

In cases where the randomly selected contributions were very small component or a contribution of a major program or extensions of ongoing projects, the original project was sought.

To limit biased interpretations one person conducted the mapping of all projects.

Firstly, keywords from the project documents, for example:

- department/division
- first proposed level of intervention from PLUS
- form of objective (capacity building, management, know-how)
- form of support (technical, financial)
- recipient sector (transport, industry, agriculture, human capital)
- beneficiary (state, private)

Secondly, the background paper and assessment memorandum was read thoroughly to find factors to stabilise or discard the first step of the mapping session.

3.8 Defining the Biased Sample

For deeper analysis of the selected delivery methods and of the considerations and analysis preceding the project design, we realised that we needed to go even further than project documentation. To find answers for these types of questions we needed to conduct interviews with project officers at Sida. Since the number of projects in the sample above is still too large for a even more intensive survey, we needed to do another sample. The decision was made to narrow down to interview 12 project officers.

The following criteria was generally used for selecting the biased sample

- the level of intervention
- the sector
- the PSD support (Sida's Classification)
- the number of Contributions at each department/division
- the budget amount

3.9 Interviews with Desk Officers for A Sample of Projects

As described above 12 projects were selected from the random sample, from each level (macro-meso-micro). The reasoning behind this was to follow the selected population, that is "projects" from a less to a more thorough analysis, the further we go, the more we will know about the sample, but the sample also helped us to draw conclusions on the Sida's PSD support according to the CF definition. Issues like origin of project idea, methods to include beneficiaries in design of project etc can only be covered through interviews, since the documents studies prior to that do not provide that information.

In all cases, the officer responsible for the projects selected in the sample was interviewed, although one interview had to be conducted through telephone.

The interviews followed a semi-structured questionnaire, which was forwarded to the respective interviewees prior to the interviews, enabling them to be prepared for the interview session and utilise the time more effectively. The content of the questionnaire was based on conclusions made so far and inspired by reference documents recommended by Sida and available elsewhere.

The first part of the questionnaire focuses on the approach for the selected project. Aspects like what priorities were made prior to the project design, how goals were set, whether issues like pro-poor growth or state market issues have been considered, what analysis preceded the project design, what policy

considerations influenced the project design, e.g. the action programs, the country analyses and country strategies will be covered.

The second part deals with questions regarding the prevailing perceptions, approaches and attitude towards PSD as well as the internal organisation and relations of Sida's support to PSD.

In addition, in order for the consultants to gain a better understanding evaluate the validity and limitations of the Data provided by the PLUS system, a *third part* was added to the questionnaire, covering questions on the usage of the PLUS system.

Ten of the 13 interviewed project officers use the PLUS system for Book-Keeping, eight of them use it for Financial Planning, but none of them can say that they use it for technical planning and analysis. They find it difficult to use and often have difficulties in knowing which classification code to use when recording in the system. In many cases they just guess or use the vague classifications, such as "other" or "no implication".

Although they recognise the need for a system for financial monitoring, many project officers announce the need for a system facilitating technical monitoring and evaluation, with a closer link to Sida's activities, which could be used in evaluations on the technical level and lesson learning.

This finding naturally throws a shadow on the analysis made on the data retrieved from the PLUS system, although we are fully aware that there is currently no other source of data at Sida for analysing such a large population as the one covered in this study.

Some Commonly Used Definitions

1. **Programme** is a comprehensive, long-term support with an explicit strategy and goal defined in its entirety. A Programme often includes a number of specific Projects.
2. A **Project** has a clearly defined goal and does not necessarily have to be part of a Programme. A Project can consist of several Contributions, which all lead to the Project objective.
3. **Contribution** is the financial assistance that Sida gives to a Project. Sida's Contribution can finance a project in total, or parts of a Project. A Contribution can consist of several Components.
4. **Components** are smaller entities than contributions and used for easier follow up of a Contribution in various directions (sectors, types of assistance, etc).
5. **Interventions** is a word commonly used by Sida officers, which does not have a specific definition at Sida, but could mean any of the above. It has been used in this report for actions financed by Sida, when it is not clear whether it is a programme, project, contribution or component.

(Source: Sida Statistical Department)

Appendix to Annex B

CRITERIA FOR SELECTING SECTORS, INTERVENTIONS			
All Sector Codes			
IN	Sector		Criteria for Inclusion
	Human rights and democratic governance		
	Sector code	Title	
	10	Human Rights and/or gender equality	
X	1000	Political and civil human rights	Economic rights are about the rules of the game (exercise of property rights, rights of assoc. etc,
	1001	Economic, social and cultural human rights	
	1099	General within human rights	
	11	The legal system	
X	1100	The legal system, public sector	Governance, applying the rule of law
X	1101	Legal issues and civil society	Governance, applying the rule of law
	12	Democracy	
	1200	Democracy, public sector	Interventions may have motive of improving the 'voice' of the PBS
X	1201	Civil society	
	1202	Election support	
	1203	Media support	
	1299	General within democracy	
	13	Public administration	
	131	Central government administration	
X	1310	Central government administration	
X	1311	Social services and administration	
X	1312	Labour markets	
	132	Financial administration	
X	1320	Financial administration	Macro stability, taxation – rules of the game
X	1321	Auditing and monitoring	as above
X	1322	Central bank	Governance
X	1323	Financial infrastructure	
X	1324	Gvt financial inspection	
	133	Local administration	
	1330	Local government administration	(excluded because concerned with functioning and processes of administration
	1331	Municipal administration	as above
	134	Environment administration	
X	1340	Environment administration	Environment directly affects the PBS and v. versa

All Sector Codes			
IN	Sector		Criteria for Inclusion
	Human rights and democratic governance		
	Sector code	Title	
	139	Other within gvt and public administration	
	1399	Other administrations and services	
	140	Promotion of peace and conflict mangement	
	1400	Promotion of peace	
	1401	Mine clearance	
	199	Other within Human rights and democratic governance	
	1999	Other within Human rights and democratic governance	
	Social sectors		
	20	Education	See note 1.
	200	Primary education	
	2000	Curriculum development	
	2001	Teaching materials and equipment	
X	2002	Building and maintenance	May offer oportunites to PBS
	2003	Teacher education	
	2004	Special education	
X	2009	General within primary school education	May include projects aimed at involving PBS in supply
	201	Secondary education	
	2010	Curriculum development	
X	2011	Teaching materials and equipment	May offer oportunities to PBS
X	2012	Building and maintenance	May offer oportunities to PBS
	2013	Teacher education	
	2014	Special education	
	2019	General within secondary school education	
	202	Higher education	See note 2.
X	2020	Curriculum development	Efficient functioning of labour market
X	2021	Teaching materials and equipment	May include projects aimed at involving PBS in supply
X	2022	Building and maintenance	May include projects aimed at involving PBS in supply
	2023	Teacher education	
	2024	Special education	
	2029	General within higher education	
	203	Vocational training	Efficient functioning of market for labour
X	2030	Curriculum development	Efficient functioning of market for labour
X	2031	Teaching materials and equipment	Efficient functioning of market for labour
X	2032	Building and maintenance	May include projects aimed at involving PBS in supply

All Sector Codes			
IN	Sector		Criteria for Inclusion
	Social Sectors		
	Sector code	Title	
X	2033	Teacher education	Efficient functioning of market for labour
X	2034	Special education	Efficient functioning of market for labour
X	2039	General within vocational education	May be to do with labour market, or policies to involve PBS in supply
	209	Other within education	
	2095	Adult education	Much of this is not aimed at the labour market.
	2099	General within education	
	21	Health care	See note 3
	210	Health care systems	
X	2100	Development of health care systems	May include policy interventions with regard to PBS participation.
	2101	General sector support within health	
	211	Health services	
	2110	Child health care	
	2111	Reproductive health and rights (RHR)	
	2112	Sexual health and rights (SHR) including HIV/AIDS	
	2113	Disease control	
	2114	Rehabilitation of disabled people	
X	2115	Medical drugs	May include projects aimed at involving PBS in supply
	2116	Infrastructure, equipment and material	
	2117	Competence development of personnel	
	2118	Psychiatry	
	212	Public health	
	2120	Nutrition	
	2121	Substance abuse issues	
	2122	Environmental health	
	2123	Information systems	
	2129	General within public health	
	219	Other within health care	
	2199	Other within health care	
	29	Other social sectors	See note 4
	291	Basic provisions	
	2910	Basic provisions	
	2911	Foodstuffs	
	292	Culture	
	2920	Cultural heritage	
	2921	Cross cultural	
	2922	Arts	
	2923	Theatre	

All Sector Codes		
IN	Sector	Criteria for Inclusion
	Social Sectors	
	Sector code Title	
	2924 Literature	
	2925 Training within culture	
	2926 Film	
	293 Anti-narcotics measures	
	2930 Anti-narcotics	
	294 Population issues	
	2940 Population census	
	2941 Demography	
	2942 Migrations	
	2949 General population issues	
	299 Other within social sectors	
	2999 Other within social sectors	
	Infrastructure, trade and industry and urban development	Most of these projects would target the PBS as user. They may affect the market for physical infrastructure and its supply by the PBS
	30 Infrastructure and urban development	
	300 Transport	
X	3000 Transport adm	May include projects aimed at increasing role of PBS in supply
X	3001 Railways	Market for public services, increasing role of PBS in supply
X	3002 Road, streets and bridges	Market for public services, increasing role of PBS in supply
	3003 Environment and security	
X	3004 Public transport	Market for public services, increasing role of PBS in supply
X	3005 Road transport, logistics	Market for road transport, increasing role of PBS in supply
X	3006 Aviation	Availability of air transport
X	3007 Harbours and marine transports	May include projects aimed at increasing role of PBS in supply
X	3009 General within transport	May include projects aimed at increasing role of PBS in supply
	301 Tele, post and IT communications	
X	3010 Communications adm	May include projects aimed at increasing role of PBS in supply
X	3011 Telecommunications	Markets for telecommunications
X	3012 Postal services	May include projects aimed at increasing role of PBS in supply
X	3013 IT	
X	3019 General within tele, post and IT communications	May include projects aimed at increasing role of PBS in supply

All Sector Codes			
IN	Sector		Criteria for Inclusion
	Infrastructure, trade and industry and urban development		
	Sector code		Title
X	302	Energy	See note 5.
	3020	Energy adm	
	3021	Nuclear power	
	3022	Hydro-electric power	
	3023	Other renewable energy sources	
	3024	Other energy	
X	3025	Energy efficiency	Market for public services
X	3026	Local electricity distribution	Market for public services, increasing role of PBS in supply
X	3029	General within energy	May involve PBS in supply
X	303	Water supply and sanitation	As per energy. But some aimed at human development needs re: small scale water supply.
X	3031	Small scale water supply	May involve PBS in supply (small scale contractors)
X	3032	Water piping systems	Market for public services, may involve PBS in supply
	3033	Dry sanitation systems	
X	3034	Waste water removal	Market for public services; may involve PBS in supply
X	3035	Surface water	This affects business areas and roads
X	3039	General within water supply and sanitation	May involve PBS in supply
	304	Housing and construction	
X	3040	Housing adm	May involve PBS in supply
X	3041	Financing of housing	Affects market for capital
	3042	Housing	
	3043	Other housing	
	3044	Construction	
	3049	General within housing and construction	
	305	Urban development	This category usually to do with town planning, urban development for HD needs. But can affect availability or sites for PBS and involvement of PBS.
X	3050	Adm	
X	3051	Integrated contributions	
	3059	Other urban dev	This is a catch-all.
	31	Trade and industry and the financial sector	All of the interventions in this category are encompassed by narrow definition of PSD
	310	Trade and industry	
X	3100	Institutional framework	
X	3101	Commerce	
X	3102	Reforms	

All Sector Codes				
IN	Sector		Criteria for Inclusion	
	Infrastructure, trade and industry and urban development			
	Sector code		Title	
X	3103	Competence development	Contracted savings may have PSD implications	
X	3104	Company twinning		
X	3109	Other trade and ind		
	311	Financial sector		
X	3110	Stocks and share market		
X	3111	Contracted saving		
X	3112	Risk capital funds		
X	3113	Micro-finance		
X	3114	Private banks		
X	3115	Regiona dev banks		
X	3116	Insurance activities		
	3117	Public banks		
	3119	General within finance		
	399	Other within infrastructure, trade and ind and urban dev		
	3999	Other within infrastructure, trade and ind and urban dev		
	Natural resources			This is an important sector in which the PBS is a major player affecting the agriculture, forestry and fisheries sector (similar to industry)
	40	Natural resources		Affects cropping patterns and surplus
	400	Land		
X	4000	Agriculture and animal husbandry		
X	4001	Forestry		
X	4002	Sustainable land use and soil conservation		
X	4003	Integrated natural resource management and rural dev		
	401	Water		
X	4010	Water resource management		
	4011	Protection of water sources		
X	4012	Aquatic production		
X	4013	Marine env, coastal dev, fisheries and other marine production		
	409	Other within natural resources		
	4090	Env and sustainable utilisation of nat resources		
	4099	General within nat res management	Excluded because the objective appears to be developing competence generally	

All Sector Codes		
IN	Sector	Criteria for Inclusion
	Natural Resources	
	Sector code	Title
	41	Pollution, other environmental protection
X	4100	Waste management
X	4101	Chemical issues
X	4102	Industrial environmnet
X	4103	Air quality
	4104	Protection of ozone layer
	499	Other within natural resources
	4999	Other within natural resources
	Other	
	90	Information
	9000	Information
	91	Research
	9100	Social sciences
X	9101	Natural sciences and technology
	92	Other
	9200	Coordination of humanitarian contributions
	9201	Untied budget support
	9202	General within the env
	9203	Recruitment training
	9299	Other within other
	98	Distribution among several sectors
	9888	DISTR

Note:

1. In general, primary education would be motivated by concerns over social equality and would not have a crucial impact on the PBS in the immediate (10 years) future.
2. Higher education is more likely to be influenced by the needs of the PBS and its output has a direct bearing on the availability of management skills
3. Health care interventions are likely to be motivated by human development needs and social equality. They are not likely to have a direct bearing on the supply and/or productivity of labour.
4. These are interventions aimed at social sector generally. They are unlikely to be motivated by PBS development more to do with safety and/or environmental concerns than the market for energy.

Annex C

Tables on PSD Support – CF Definition

Table C 1 No. of Contributions and Budgeted Amount per Department/Division

No. of Contributions	Contributions (%)	DEPARTMENT/DIVISION	Budget per Dept/Division	Budget (%)
336	17,6%	AFRA	526533777	24,3%
109	5,7%	ASIA	275977330	12,7%
		DESO		
10	0,5%	DESA	19794052	0,9%
5	0,3%	HÄLSO	4546344	0,2%
9	0,5%	UND	70581920	3,3%
66	3,5%	RELA	71388575	3,3%
39	2,0%	NATUR	50750040	2,3%
16	0,8%	SAREC	61269648	2,8%
		INEC		
430	22,6%	NÄRING	178303015	8,2%
30	1,6%	INFRA	119096894	5,5%
82	4,3%	FINANS	87566270	4,0%
248	13,0%	IKTS	210271564	9,7%
36	1,9%	URBAN	92616610	4,3%
489	25,7%	ÖST	401891396	18,5%
1905	100%		2170587435	100%

No. of Contributions	Contributions (%)	DEPARTMENT/DIVISION	Budget per Dept/Division	Budget (%)
336	17,6%	AFRA	526533777	24,3%
109	5,7%	ASIA	275977330	12,7%
24	1,3%	DESO	94922316	4,4%
66	3,5%	RELA	71388575	3,3%
39	2,0%	NATUR	50750040	2,3%
16	0,8%	SAREC	61269648	2,8%
826	43,4%	INEC	687854353	31,7%
489	25,7%	ÖST	401891396	18,5%
1905	100%		2170587435	100%

Table C2 No. of Contributions and Budgeted Amount per Sector

No. of Contributions	Contributions (%)	Total	Total (%)	Sector	Budget per sector	Budget (%)	Total	Total (%)
85	4,4%	85	4,4%	10 Human rights and/or gender equality 1001 Ec., soc. and cultural human rights	36852473	1,73%	36852473	1,73%
11	0,6%			11 The legal system 1100 The legal system, public sector		28164232	1,32%	
3	0,2%			1101 Legal issues and civil society	0			
4	0,2%	14	0,7%	12 Democracy 1201 Civil society	4922048	0,23%	28164232	1,32%
		4	0,2%				4922048	0,23%
3	0,2%			13 Public administration 1310 Central government administration	17037470	0,80%		
0	0,0%			1311 Social services and administration	0	0,00%		
57	3,0%			1312 Labour markets	46772499	2,19%		
106	5,5%			1320 Financial administration	102992031	4,82%		
2	0,1%			1321 Auditing and monitoring	189972	0,01%		
3	0,2%			1322 Central bank	990000	0,05%		
4	0,2%			1323 Financial infrastructure	3643451	0,17%		
4	0,2%			1324 Governmental financial inspection	6122000	0,29%		
114	5,9%	293	15,3%	1340 Environment administration	155593343	7,29%	333340766	15,61%
0	0,0%			20 Education 2002 Building and maintenance	0	0,00%		
6	0,3%			2009 General within primary school ed	29611122	1,39%		
0	0,0%			2011 Teaching materials and equipment	0	0,00%		
0	0,0%			2012 Building and maintenance	0	0,00%		
0	0,0%			2020 Curriculum development	0	0,00%		

Table C2 cont. No. of Contributions and Budgeted Amount per Sector

No. of Contributions	Contributions (%)	Total	Total (%)	Sector	Budget per sector	Budget (%)	Total	Total (%)
0	0,0%			2021 Teaching materials and equipment	0	0,00%		
0	0,0%			2022 Building and maintenance	0	0,00%		
2	0,1%			2030 Curriculum development	1680000	0,08%		
0	0,0%			2031 Teaching materials and equipment	0	0,00%		
1	0,1%			2032 Building and maintenance	5223064	0,24%		
1	0,1%			2033 Teacher education	0	0,00%		
0	0,0%			2034 Special education	0	0,00%		
13	0,7%	23	1,2%	2039 General within vocational education	4865806	0,23%	41379992	1,94%
24	1,3%			21 Health care	34487900	1,62%		
2	0,1%			2100 Development of health care systems	2000000	0,09%		
		26	1,4%	2115 Medical drugs			36487900	1,71%
0	0,0%			30 Infrastructure and urban development	0	0,00%		
8	0,4%			3000 Transport administration	7974854	0,37%		
60	3,1%			3001 Railways	282227720	13,22%		
4	0,2%			3002 Roads, streets and bridges	313808	0,01%		
2	0,1%			3004 Public transport	847724	0,04%		
9	0,5%			3005 Road transport, logistics	2869224	0,13%		
3	0,2%			3006 Aviation	2770960	0,13%		
34	1,8%			3007 Harbours and marine transports	26879078	1,26%		
3	0,2%			3009 General within transport	0	0,00%		
42	2,2%			3010 Communications adm	72765742	3,41%		
8	0,4%			3011 Telecommunications	4026236	0,19%		
6	0,3%			3012 Postal services	34681648	1,62%		
12	0,6%			3013 IT	2345000	0,11%		
11	0,6%			3019 General within tele, post and IT com	15076496	0,71%		
				3020 Energy adm				

Table C2 cont. No. of Contributions and Budgeted Amount per Sector

No. of Contributions	Contributions (%)	Total	Total (%)	Sector	Budget per sector	Budget (%)	Total	Total (%)
7	0,4%			3025 Energy efficiency	17185361	0,80%		
13	0,7%			3026 Local electricity distribution	39407679	1,85%		
130	6,8%			3029 General within energy	145755944	6,83%		
3	0,2%			3031 Small scale water supply	10523428	0,49%		
4	0,2%			3032 Small piping systems	7458600	0,35%		
53	2,8%			3034 Waste water removal	148471112	6,95%		
0	0,0%			3035 Surface water	0	0,00%		
37	1,9%			3039 General within water supply and san	23285926	1,09%		
3	0,2%			3040 Housing adm	52000	0,00%		
4	0,2%			3041 Financing of housing	1537988	0,07%		
18	0,9%			3050 Adm	13820129	0,65%		
16	0,8%	490	25,5%	3051 Integrated contributions	46020603	2,16%	906297260	42,44%
				31 Trade and industry and the financial sector				
87	4,5%			3100 Institutional framework	46917456	2,20%		
31	1,6%			3101 Commerce	17753800	0,83%		
20	1,0%			3102 Reforms	13300886	0,62%		
72	3,8%			3103 Competence development	88922489	4,16%		
292	15,2%			3104 Company twinning	26222738	1,23%		
97	5,1%			3109 Other trade and industry	52312432	2,45%		
11	0,6%			3110 Stocks and share market	2504095	0,12%		
22	1,1%			3112 Contracted saving	22339645	1,05%		
31	1,6%			3113 Risk capita funds	30106760	1,41%		
3	0,2%			3114 Micro-finance	85411	0,00%		
1	0,1%			3115 Private banks	332488	0,02%		
5	0,3%			3116 Regional development banks	1733927	0,08%		
2	0,1%			3117 Public banks	8028850	0,38%		
28	1,5%	702	36,6%	3119 General within finance	33503891	1,57%	344064868	16,11%

Table C2 cont. No. of Contributions and Budgeted Amount per Sector

No. of Contributions	Contributions (%)	Total	Total (%)	Sector	Budget per sector	Budget (%)	Total	Total (%)	
64	3,3%			40 Natural resources 4000 Agriculture and animal husbandry 4001 Forestry 4002 Sustainable land use and soil 4003 Integrated natural resources 4010 Water resource mgm 4012 Aquatic production 4013 Marine env. Coastal dev. Fisheries	75160878	3,52%			
63	3,3%		59831735		2,80%				
2	0,1%		0		0,00%				
45	2,3%		195047501		9,13%				
44	2,3%		36785287		1,72%				
0	0,0%		0		0,00%				
10	0,5%	228	11,9%		7011279	0,33%	373836680	17,51%	
19	1,0%				41 Pollution, other environmental protection 4100 Waste management 4101 Chemical issues 4102 Industrial environment 4103 Air quality	12957887	0,61%		
1	0,1%		13572			0,00%			
29	1,5%		14394998			0,67%			
6	0,3%		2663799	0,12%					
		55	2,9%					30030256	1,41%
0	0,0%			91 Research 9101 Natural sciences and technology	0	0,00%			
0	0,0%		0		0,00%				
1920	100,0%	1920	100,0%		2135376475	100,00%	2135376475	100,00%	

Table C3 No. of Contributions per Sector and Department/Division

SECTOR	DEPARTMENT/DIVISION														TOT	%
	AFRA	ASIA	DESA	FINANS	HÄLSO	IKTS	INFRA	NATUR	NÄRING	RELA	SAREC	UND	URBAN	ÖST		
1001	46	10	2	0	1	6	1	1	15			1	3		85	4%
TOT	46	10	2	0	1	6	1	1	15	0	0	1	3		85	
1100	16	1	1	0	1	1			11				23		53	3%
1101	1	1	1												3	
TOT	17	2	2	0	1	1	0	0	11	0	0	0	23		56	
1201	4														4	0%
TOT	4	0	0	0	0	0	0	0	0	0	0	0	0		4	
1310	2	1													3	
1312	4	2	1			4							46		57	
1320	59	7	6	2		1			1		1		29		106	
1321	1	1													2	
1322	2			1											3	
1323				4											4	
1324				3									1		4	
1340	12	4		2		21	6		1		1		57		104	
TOT	80	15	7	12	0	26	6	6	2	0	2	0	133		283	15%
2001	1														1	
2003	1														1	
2009	1										5				6	
2030	1												1		2	
2032											1				1	

Table C3 cont. No. of Contributions per Sector and Department/Division

SECTOR	DEPARTMENT/DIVISION													TOT	%		
	AFRA	ASIA	DESA	FINANS	HÄLSO	IKTS	INFRA	NATUR	NÄRING	RELA	SAREC	UND	URBAN			ÖST	
2033	1															1	
2039	8	2				1						2				13	
TOT	13	2	0	0	0	1	0	0	0	0	0	8	0	1	25	1%	
2100	7	14			2	1									24		
2115					2										2		
TOT	7	14	0	0	4	1	0	0	0	0	0	0	0	0	26	1%	
3001	1					4									8		
3002	19	17		5		8	6		1					3	60		
3004	1			1		2								4	4		
3005	1	1												2	2		
3006						4								5	9		
3007						1	1							1	3		
3009	3	5				11	1		2				1	11	34		
3010	3													3	3		
3011	17		1320	2		15	4			1				3	42		
3012						2					5			6	8		
3013	1													6	6		
3019	8	1				3								12	12		
3020	1					4	5							10	10		
3025		1				1								5	7		
3026		10		1										2	13		
3029	19	11		10		22	10			6				51	129		
3031	2						1							3	3		
3032		1		2					1				1	5	5		
3034		1		3		7						4		34	49		
3039	2	1		2		2	10		1					18	36		
3040						1						1	1	1	3		

Table C3 cont. No. of Contributions per Sector and Department/Division

SECTOR	DEPARTMENT/DIVISION													TOT	%	
	AFRA	ASIA	DESA	FINANS	HÄLSO	IKTS	INFRA	NATUR	NÄRING	RELA	SAREC	UND	URBAN			ÖST
3041	3			1											4	
3050	5				1								10	2	18	
3051	1								2				13		16	
TOT	87	49	0	27	0	88	27	11	2	5	12	0	30	146	484	25%
3100	7	2				13		50	5					10	87	
3101	5					3		20						3	31	
3102	3	1					1	11						4	20	
3103	5	1				19		33						14	72	
3104	1					1		228						62	292	
3109	15	2				5		58	2					15	97	
3110												10		10	10	
3112								6						3	22	
3113	2	1						14	4					2	31	
3114															3	
3115						1									1	
3116						1									1	
3117															2	
3119	4	1		4		8		2	1					2	28	
TOT	42	8	0	38	0	51	1	0	422	12	0	0	0	123	697	36%
4000	20	2				9		7	5	2				19	64	
4001	12	7				8		3	1	11	2			19	63	
4002	2							4							6	
4003	24	10						2	4					2	42	
4010	5	5				13		6	2			5		8	44	
4013	6					2			2					2	10	
TOT	69	24	0	0	0	32	0	16	7	22	4	0	5	50	229	12%

Table C3 cont. No. of Contributions per Sector and Department/Division

SECTOR	DEPARTMENT/DIVISION														TOT	%
	AFRA	ASIA	DESA	FINANS	HÄLSO	IKTS	INFRA	NATUR	NÄRING	RELA	SAREC	UND	URBAN	ÖST		
4100		1		2		11					1		1	3	19	
4101	1														1	
4102		1		2		19								3	25	
4103		1				2		5		1				1	10	
TOT	2	2	0	4	0	32	0	5	0	1	1	0	1	7	55	3%
SUM TOT	367	126	11	81	5	238	28	39	431	68	17	10	37	486	1944	100%

Table C4 cont. No. of Components for Type of Assistance per Department/Division

TYPE OF ASSISTANCE	Code	DEPARTMENT/DIVISION											TOTAL					
		Afra	Asien	Desa	Finans	Hälsö	Ikts	Infra	Natur	Näring	Rela	Sarec		Und	Urban	Öst		
Credits cont.																		
Concessionary loans	44	1			17				71								20	109
Write-off loans	45							144									42	186
Funds	46							2										2
Micro-credits	47		1					3		1								5
TOTAL		1	1	0	54	0	0	1	0	220	1	0	0	0	0	0	63	341
Warranties																		
Warranty for import	50							33										33
Loans warranty to financial companies	51							1										1
Other warranties	54	1				2	2	1									9	15
TOTAL		1	0	0	0	2	2	0	35	0	0	0	0	0	0	0	9	49
Humanitarian assistance																		
Emergency assistance	71									1							2	3
Reconstruction	72						14			5						2	2	23
Reconstructions	77	2																2
Other	78	8																8
TOTAL		10	0	0	0	0	14	0	0	6	0	0	0	0	2	4	4	36
Research																		
Bilateral research	80	4		2			3			2			15					26
International research Programmes	81												1					1
Regional research programmes	82	2						1					3					6
Sida's Research Council	83	3	1		1		1	1										1
Other within research	84	9	1	2	1	0	4	2	0	2	19	0	0	0	0	0	0	40
TOTAL		9	1	2	1	0	4	2	0	2	19	0	0	0	0	0	0	40

Table C4 cont. No. of Components for Type of Assistance per Department/Division

TYPE OF ASSISTANCE	Code	DEPARTMENT/DIVISION											TOTAL					
		Afra	Asien	Desa	Finans	Hälsö	Ikts	Infra	Natur	Näring	Rela	Sarec		Und	Urban	Öst		
Contributions to NGOs																		
Block grants to Swedish NGOs	90	6	1						1									8
Project or programme support to Swedish NGOs	91	30	3	1	1	1				4							1	41
Project or programme support to foreign NGOs	92	38								1							3	42
TOTAL		74	4	1	1	1	0	0	1	5	0	0	0	0	4		91	
SUM TOTAL		901	234	18	93	6	257	55	47	124	20	18	43	563		2901		

Table C5 No. of Components of Target Area per Department/Division																
Target areas	Code	DEPARTMENT/DIVISION												TOTAL		
		Afra	Asien	Desa	Finans	Hälsö	Ikts	Infra	Natur	Näring	Rela	Sarec	Und		Urban	Öst
Rural development	1	223	56		12	2	1	9	21	19	32				30	405
Urban development	2	96	19		18		22		2	16	6		43	147	369	
Other area	9	583	159	18	63	4	230	46	24	488	86	20	18	386	2125	
SUM TOTAL		902	234	18	93	6	253	55	47	523	124	20	18	43	563	2899

Table C6 No. of Contributions and Budgeted Amount per Continent and Region

No. of Contributions	Contributions (%)	Total	Total (%)	ContRegNameEng	Budget per geographical region	Budget (%)	Total (%)	Total
27	1,4%			Africa	30919656	1,4%		
38	2,0%			Central Africa	24273874	1,1%		
261	13,7%			Eastern Africa	340002125	15,6%		
24	1,3%			Northern Africa	12097689	0,6%		
12	0,6%			South of Sahara	22267490	1,0%		
271	14,2%			Southern Africa	292251995	13,4%		
27	1,4%			Western Africa	43995821	2,0%		
		660	34,5%	AFRICA			765808650	35,2%
10	0,5%			Asia	120000	0,0%		
5	0,3%			Central Asia	10611600	0,5%		
17	0,9%			Far East Asia	27058895	1,2%		
82	4,3%			South Asia	104729847	4,8%		
137	7,2%			Southeast Asia	278196946	12,8%		
46	2,4%			Middle East	106507614	4,9%		
		297	15,5%	ASIA			527224902	24,2%
82	4,3%			Central America	216817389	10,0%		
8	0,4%			Latin America	15093851	0,7%		
60	3,1%			South America	51928516	2,4%		
11	0,6%			The Caribbean	2531329	0,1%		
		161	8,4%	AMERICA			286371085	13,2%
53	2,8%			Other countries	34754261	1,6%		
43	2,3%			Western Balkan	4808064	2,2%		
518	27,1%			Prioritized countries	318891261	14,6%		
		614	32,1%	EUROPE/EASTERN EUROPE			401733586	18,4%
179	9,4%				196350353	9,0%		
		179	9,4%	GLOBAL			196350353	9,0%
1911	100,0%	1911	100,0%		2177488576	100,0%	2177488576	100,0%

Table C7 No. of Components for Dac Classification Codes per Department/Division		DEPARTMENT/DIVISION													TOTAL	
DAC class code 1999	Code	Afra	Asien	Desa	Finans	Hälso	Ikts	Infra	Natur	Näring	Rela	Sarec	Und	Urban	Öst	TOTAL
Least Developed Countries	LLDC	650	63	2	22		7	21	11	116		6	14	2		914
Low Income Countries	LIC	97	155		31		18	17	7	87	62	5		4	33	516
Lower Middle Income Countries	LMIC	65	5		22	2	87	7	6	36	57		2	12	13	314
Upper Middle Income Countries	UMIC	80		9	1		1			79		4		11		185
Central and Eastern European Countries	CEECs/ NIS						9			107					510	626
Global/Region (Africa, Asia, LatinAmerica, Kaukasus)		12	11	7	17	4	135	10	23	98	5	5	2	14	7	350
TOTAL		904	234	18	93	6	257	55	47	523	124	20	18	43	563	2905

Table C8 No. of Components for Poverty Alleviation per Department/Division

Poverty alleviation	Code	DEPARTMENT/DIVISION													TOTAL	%	
		Afra	Asien	Desa	Finans	Hälsa	Ikts	Infra	Natur	Näring	Rela	Sarec	Und	Urban			Öst
Direct effect	A	60	29		13	2			7	9	33			1	2	156	5%
Poorer groups are incl	B	225	55	2	14		4	7	20	53	3	1	10	9	3	406	14%
Indirect effect (through policies and institutions)	C	203	65	12	36	3	27	6	12	119	52	18	6	33	9	601	21%
Indirect affect (support at national level)	D	163	52		29		47	42	4	215	17		2		9	580	20%
No affect on poverty alleviation	E	222	32	4	1	1	177		2	127	19	1			531	1117	38%
Blank		31	3					2	2					9	45		2%
TOTAL		904	236	18	93	6	255	55	47	523	124	20	18	43	563	2905	100%

Table C9 No. of Components for Channel of Implementing Organisation per Department/Division															
Implementing channel	Code	DEPARTMENT/DIVISION													
		Afra	Asien	Desa	Finans	Hälsa	Ikts	Infra	Natur	Näring	Rela	Sarec	Und	Urban	Öst
Multilateral organisations															
UN	10	18	8	2	1	2	1	8	10	7	10	2	3	3	75
WB and IMF	11	5	5	2	2	3	2	1	2	2	1	2	1	5	26
Regional development banks	12				2										2
Other multilateral organisations	13	6	1	1	1	2	5	2	2	5	2	1	1	18	
TOTAL		29	14	2	4	2	3	11	12	14	12	1	5	4	121
Swedish organisations															
Public administrations, organisations	20	99	18	1	1	29	3	1	13	26	1	4	4	125	321
Government enterprises	21	21	3	18	28				10					24	83
Municipalities and county councils	22								3			3	3	7	13
State universities and schools	23	24	1	1	25	6	4	1	4	1	6	1	1	26	95
Non governmental organisations	24	5	4	2	3	3	3	2	2	4				13	36
Private companies	25	178	103	4	31	151	37	7	327	5	4	19	19	285	1151
Interest and member organisations	26				5				23					19	47
Private universities and schools	27	1			1				2					6	10
Private individuals	28	24	2	1	1	2	2	2	2	2	2	1	1	6	38
TOTAL		331	131	4	54	1	242	43	16	384	38	7	4	28	1794
Partner country organisations															
Public administrations, organisations	30	256	33	4	7	1	1	12	29	1	8	4	4	355	
Government enterprises	31	17	2					10	1	3	3	3	3	36	

Table C9 cont. No. of Components for Channel of Implementing Organisation per Department/Division

Implementing channel	Code	DEPARTMENT/DIVISION										TOTAL							
		Afra	Asien	Desa	Finans	Hälso	Ikts	Infra	Natur	Näring	Rela		Sarec	Und	Urban	Öst			
Partner country organis.																			
Municipalities and county councils	32	6	2																10
State universities and schools	33	12	3	2			1												25
Non governmental organisations	34	89	18				4	9											126
Private companies	35	46			3		1	10											67
Interest and member organisations	36	5	3		1			11											22
Private universities and schools	37	2		1															3
Private individuals	38	2						1											8
TOTAL		435	61	7	11	0	0	0	1	6	55	46	7	8	7	8	8	8	652
Organisations from other countries																			
Public administrations, organisations	40	3								2	1								8
Government enterprises	41	2																	2
State universities and schools	43	7	2						1										11
Non governmental organisations	44	11	10	3			1	1		5	6								45
Private companies	45	49	11	2	19	2	2	10		4	53	4	1						185
Interest and member organisations	46	1		45	2						3	1							8
Private universities and schools	47	1									1								3
Private individuals	48	3	2		2							15							22
TOTAL		77	25	5	24	3	12	0	11	64	25	3	1	3	31	3	31	3	284

Table C9 cont. No. of Components for Channel of Implementing Organisation per Department/Division

Implementing channel	Code	DEPARTMENT/DIVISION												TOTAL				
		Afra	Asien	Desa	Finans	Hälsö	Ikts	Infra	Natur	Näring	Rela	Sarec	Und		Urban	Öst		
International organisations																		
Non Governmental Organisations	54	4	3		0	0	0	0	2	6	3	2	1	5				26
TOTAL		4	3	0	0	0	0	2	2	6	3	2	1	5				26
SUM TOTAL		876	234	18	93	6	257	55	47	523	124	20	18	43	563			2877

Annex D

Tables on PSD Support – Sida Classification

No. of Contributions	Contributions (%)	DEPARTMENT/ DIVISION	Budget per Dept/Div	Budget (%)
54	13%	FINANS	32728217	15%
1	0%	IKTS	839037	0%
7	2%	IUM	2742517	1%
2	0%	INEC HEAD	97230	0%
320	80%	NÄRING	174892192	83%
18	4%	ÖST	0	0%
402	100%		211299193	100%

Table D2 No. of Contributions and Budgeted Amount per Sector				
No. of Contributions	Contributions (%)	Sector	Budget per sector	Budget (%)
0	0%	10 Human rights and/or gender equality 1001 Ec., soc. and cultural human rights		0%
0	0%	11 The legal system 1100 The legal system, public sector 1101 Legal issues and civil society		0%
0	0%	12 Democracy 1201 Civil society		0%
2 1 4 1 1 9	2,2%	13 Public administration 1310 Central government administration 1311 Social services and administration 1312 Labour markets 1320 Financial administration 1321 Auditing and monitoring 1322 Central bank 1323 Financial infrastructure 1324 Governmental financial inspection 1331 Municipal administration	460450 990000 3643451 122000 2234519	3,5%
0	0%	20 Education 2002 Building and maintenance 2009 General within primary school ed 2011 Teaching materials and equipment 2012 Building and maintenance 2020 Curriculum development 2021 Teaching materials and equipment 2022 Building and maintenance 2030 Curriculum development 2031 Teaching materials and equipment 2032 Building and maintenance 2033 Teacher education 2034 Special education 2039 General within vocational education		0%
0	0%	21 Health care 2100 Development of health care systems 2115 Medical drugs		0%
		30 Infrastructure and urban development 3000 Transport administration 3001 Railways		

Table D2 cont. No. of Contributions and Budgeted Amount per Sector

No. of Contributions	Contributions (%)	Sector	Budget per sector	Budget (%)
1		3002 Roads, streets and bridges	167200	
2		3003	411114	
		3004 Public transport		
		3005 Road transport, logistics		
		3006 Aviation		
		3007 Harbours and marine transports		
2		3009 General within transport	2000000	
		3010 Communications adm		
		3011 Telecommunications		
		3012 Postal services		
		3013 IT		
		3019 General within tele, post and IT com		
		3020 Energy adm		
		3025 Energy efficiency		
		3026 Local electricity distribution		
1		3029 General within energy	345000	
		3031 Small scale water supply		
		3032 Small piping systems		
		3034 Waste water removal		
		3035 Surface water		
1		3039 General within water supply and san	100000	
		3040 Housing adm		
1		3041 Financing of housing	0	
		3050 Adm		
		3051 Integrated contributions		
8	2,0%		3023314	1,4%
		31 Trade and industry and the financial sector		
48		3100 Institutional framework	29034797	
17		3101 Commerce	13325149	
11		3102 Reforms	10503466	
33		3103 Competence development	55733210	
143		3104 Company twinning	22635998	
55		3109 Other trade and industry	29788671	
14		3110 Stocks and share market	4334808	
21		3112 Contracted saving	6548113	
21		3113 Risk capital funds	17423526	
3		3114 Micro-finance	85411	
		3115 Private banks		
		3116 Regional development banks		
		3117 Public banks		
8		3119 General within finance	7506963	
374	92,8%		196920112	93,2%
		40 Natural resources		
		4000 Agriculture and animal husbandry		
1		4001 Forestry	225000	

Table D2 cont. No. of Contributions and Budgeted Amount per Sector				
No. of Contributions	Contributions (%)	Sector	Budget per sector	Budget (%)
1		4001 Forestry	225000	
4		4002 Sustainable land use and soil	1045000	
		4003 Integrated natural resources		
		4010 Water resource mgm		
		4012 Aquatic production		
		4013 Marine env. Coastal dev. Fisheries		
5	1,2%		1270000	0,6%
		41 Pollution, other environmental protection		
		4100 Waste management		
2		4101 Chemical issues	306635	
		4102 Industrial environment		
		4103 Air quality		
2	0,5%		306635	0,1%
		91 Research		
		9101 Natural sciences and technology		
0	0,0%		0	0%
		92 Other		
5		9299 Other within other	2305996	
5	1,2%		2305996	1,1%
403	100%		211276477	100%

Table D3 No. of Contributions per Sector and Department/Division

DEPARTMENT/DIVISION								
SECTOR	Finans	lkts	Inec head	IUM	Näring	Öst	TOTAL	%
1320	2						2	
1322	1						1	
1323	4						4	
1324	1						1	
1331					1		1	
TOT	8	0	0	0	1	0	9	2%
3002	1						1	
3003					2		2	
3009					2		2	
3029	1						1	
3039	1						1	
3041	1						1	
TOT	4	0	0	0	4	0	8	2%
3100				1	47		48	
3101					18		18	
3102					11		11	
3103				1	33		34	
3104					126	17	143	
3109		1	1		53		55	
3110	13						13	
3112	15				6		21	
3113	5			2	14		21	
3114	3						3	
3119	4			1	2	1	8	
TOT	40	1	1	5	310	18	375	93%
4001					1		1	
4102					4		4	
4103					1		1	
9299	2		1		2		5	
TOT	2	0	1	0	8	0	11	3%
TOTAL	54	1	2	5	323	18	403	100

Table D4 No. of Components for Type of Assistance per Department/Division								
Type of Assistance	Code	DEPARTMENT/DIVISION						TOTAL
		Finans	Ikts	IUM	Inec Head	Näring	Öst	
Project support								
Project support	00	28	1	4	2	161		196
Institutional development	01	6		2		48		56
Investment	02							0
Information	03							0
Strategies, studies	04	1			3	38		42
Evaluation, audits	05	3				6		9
Administration	06							0
TOTAL		38	1	6	5	253	0	303
Sector programme support								
Sector programme support	10	1						1
TOTAL		1	0	0	0	0	0	1
Technical cooperation								
Technical cooperation	20					4		4
Contract technical cooperation	21					1		1
TOTAL		0	0	0	0	5	0	5
International courses								
International courses	30	1						1
TOTAL		1	0	0	0	0	0	1
Credits								
Loans at market terms, tied	40							0
Concessional lending	42	1						1
Fund for lending	43							0
Concessionary loans	44	18		1		65	18	102
Write-off loans	45					48		48
Funds	46					2		2
Micro.credits	47					3		3
TOTAL		19	0	1	0	118	18	156
Warranties								
Warranty for import	50					33		33
Loans warranty to financial companies	51					1		1
Other warranties	54					1		1
TOTAL		0	0	0	0	35	0	35
Humanitarian assistance								
Emergency assistance	71							0
Reconstructioun	72							0
Reconstructions	77							0
Other	78							0
TOTAL		0	0	0	0	0	0	0

Table D4 cont. No. of Components for Type of Assistance per Department/Division								
Type of Assistance	Code	DEPARTMENT/DIVISION						TOTAL
		Finans	Ikts	IUM	Inec Head	Näring	Öst	
Research								
Bilateral research	80							0
International research Programmes	81							0
Regional research programmes	82							0
Sida's Research Council	83	1						1
Other within research	84							0
TOTAL		1	0	0	0	0	0	1
Contributions to NGOs								
Block grants to Swedish NGOs	90					1		1
Project or programme support to Swedish NGOs	91	1						1
Project r programme support to foreign NGOs	92							0
TOTAL		1	0	0	0	1	0	2
SUM TOTAL		61	1	7	5	412	18	504

Table D5 No. of Components of Target Area per Department/Division									
Target areas	Code	DEPARTMENT/DIVISION						TOTAL	%
Area		Finans	Ikts	IUM	Inec Head	Näring	Öst		
Rural development	1			1		18		19	4%
Urban development	2	2	1			16		19	4%
Other area	9	59		6	5	378	18	466	92%
TOTAL		61	1	7	5	412	18	504	100%

Table D6 No. of Components of Target Area per Department/Division					
No. of Contributions	Contributions (%)	ContRegNameEng		Budget per geographical region	Budget (%)
185	46%	AFRICA		101528386	49%
61	15%	ASIA		29602235	14%
54	14%	AMERICA		46000026	22%
67	17%	EUROPE/EASTERN EUROPE		4857395	2%
32	8%	GLOBAL		24372571	12%
399	100%			206360613	100%

Table D8 No. of Components for Poverty Alleviation per Department/Division										
Poverty alleviation	Code	DEPARTMENT/DIVISION								
How much emphasis put on		Finans	Ikts	IUM	Inec Head	Näring	Öst	TOTAL	%	
Direct effect	A	6		1		10		17	3%	
Poorer groups are incl	B	5				52		57	11%	
Indirect effect (through policies and institutions)	C	34	1	4	4	111		154	31%	
Indirect affect (support at national level)	D	14		1	1	190		206	41%	
No affect on poverty alleviation	E	2		1		49	18	70	14%	
Blank								0	0%	
TOTAL		61	1	7	5	412	18	504	100%	

Table D9 No. of Components for Channel of Implementing Organisation per Department/Division

Implementing channel	Code	DEPARTMENT/DIVISION						TOTAL
		Finans	Ikts	IUM	Inec Head	Näring	Öst	
Multilateral organisations								
UN	10	1			1	7		9
WB and IMF	11	2				2		4
Regional development banks	12							0
Other multilateral organisations	13					5		5
TOTAL		3	0	0	1	14	0	18
Swedish organisations								
Public administrations, organisations	20				4	12		16
Government enterprises	21	22				12	1	35
Municipalities and county councils	22					4		4
State universities and schools	23	1				4		5
Non governmental organisations	24	2				2		4
Private companies	25	9		1		224	17	251
Interest and member organisations	26					21		21
Private universities and schools	27					2		2
Private individuals	28	1						1
TOTAL		35	0	1	4	281	18	339
Partner country organisations								
Public administrations, organisations	30	6		2		11		19
Government enterprises	31					9		
Municipalities and county councils	32					1		1
State universities and schools	33					1		1
Non governmental organisations	34					9		9
Private companies	35	3		2		9		14
Interest and member organisations	36	1		1		10		12
Private universities and schools	37							0
Private individuals	38					1		1
TOTAL		10	0	5	0	51	0	66
Organisations from other countries								
Public administrations, organisations	40					1		1
Government enterprises	41							0
State universities and schools	43		1					1
Non governmental organisations	44					6		6
Private companies	45	9		1		50		60
Interest and member organisations	46	1				3		4
Private universities and schools	47	1				1		2
Private individuals	48	2				1		3
TOTAL		13	1	1	0	62	0	77
International organisations								
Non Governmental Organisations	54					4		4
TOTAL		0	0	0	0	4	0	4
SUM TOTAL		61	1	7	5	412	18	504

Annex E

List of Sample Projects

Selected Contribution	Listed as	Wedge	AGRID	AGRTITLE	AGRAMOUNT	AGRSTART	AGREND
Afra							
1	2:1		26050160	MERP Malanje	70000000	199707	200012
2	9:1		27640061	Telecommunications Restru	33969132	199307	200112
3	13:1		27640042	Civil Service Reform	101500000	199704	200101
4	1:2		26050021	Cefopescas	97000000	199407	200004
5	3:2	*	A7199583	TZA MIC Trade Policy	2000000	199911	200205
6	4:2		27640042	Civil Service Reform	101500000	199704	200101
Asia							
1	3:1		A4310016	Orissa forestry project	13500000	199712	200012
2	9:1		A4600015	VSHC-2 Health Sector supp	90000000	199910	200206
3	10:1		27800072	Energy Programme, EVN	259000000	199407	200212
4	E			CARERE		199706	
Finans							
1	1:1		A7102019	Upgrading banksupervision	8000000	199909	200010
2	2:1		21113003	Public Transport System	28093678	199704	200112
3	3:1		A7100753	Roadinvestm. RESP loan II	35000000	199807	200104
4	4:1		A7100937	Rural electrif. SHEP	27000000	199811	200104
5	5:1	*	21060031	Capital Markets Dev proj	2876479	199501	199901
6	6:1		A7100675	Namibian Stock Exchange	5300000	199904	200912
7	8:1	*	A7100073	INVESTMENT CAPITAL FUND	8000000	199710	200012
8	9:1	*	21061012	Takura Ventures Capital	2600000	199612	199912
9	10:1	*	21061102	CA-INVESTMENT FUND-CAIF	15950000	199602	200412
10	11:1	*	A7102015	Mikrofinans i konfliktomr	220000	199908	199909

Selected Contribution	Listed as	Wedge	AGRID	AGRTITLE	AGRAMOUNT	AGRSTART	AGREND
Finans cont.							
11	12:1		A7100582	CHN Haikou Solid Waste	16000000	199905	200105
12	3:2		21113007	Telecommunication, Galle	7333000	199706	200006
13	4:2		A7150002	Addendum P-Mutare credit	4000000	199910	200005
IKTS							
1	2:1		A7100608	TUN;Reform of railways	2430600	199903	200103
2	10:1		A7100293	MNG. prestudy bank course	250000	199808	199903
3	11:1		A7100849	LBN Env.plan preparation	6084000	199803	200012
4	12:1		A7100954	SYR Water Management	305000	199906	200003
5	1:2		A7100550	27/99/H Environment	2090000	199905	200003
6	2:2		A7100383	9/01/98/H	1969000	199802	199910
7	3:2		A7100321	9/17/99/V	1785000	199901	199908
8	4:2		A7100298	NPL. Study 4 hydropower	1850000	199808	199911
9	7:2		A7100135	JOR Maintenance system	1824000	199501	200004
10	8:2		A7100558	546/99/V Industry	595000	199902	200001
11	10:2		21035040	SEN;Environment analysis	2396690	199605	200007
12	E1		A7100575	Small and Medium Enterprise Management Development	1488000	199911	200003
13	E3		71006065	Improving production in Botswana manufacturing industry	595000	199902	
14	E4		A7100522	International board and directors seminar	1900000	199908	
Infra							
1	2:1		26820011	Rehab.rural infrastruktur	20000000	199607	
2	3:1		26180024	Personell and Consultancy	85200000	199407	
3	4.1		A7100315	Start IT - support by KKS	600000	199807	
4	5:1		A7100302	Inst.utv.Zam - Zesco, ERB	16000000	199809	

Selected Contribution	Listed as	Wedge	AGRID	AGRTITLE	AGRAMOUNT	AGRSTART	AGREND
Infra cont.							
5	6:1		A7100503	Energy and Women,	6500000	199810	
6	7:1		A7100344	ENERGIA network and RET	4500000	199901	
7	12:1		27860035	Support to the PC-fund	46350000	199407	
8	13:1		A7100017	ILO	2151812	199507	
Näring							
1	1:1	*	A7100066	NAM Quality Infrastructur	4950000	199712	200105
2	2:1	*	21040017	MOZ CTA Confederation	3310000	199903	200306
3	3:1	*	21041012	TCCIA	16360000	199509	200106
4	4:1	*	A7100327	South African Export Week	365000	199811	200006
5	5:1	*	A7100478	Textilica - Implementatio	9140000	199808	199912
6	6:1		A7100407	BOL - Private Sector Coop	15000000	199806	200105
7	7:1	*	A7100762	Exte Fabriks AB	330000	199903	200009
8	9:1	*	A7100734	PCCIA CHAMBER DEVELOPMENT	9500000	199908	200212
9	10:1	*	21040038	Zambia Railways Ltd	25650000	199709	200106
10	11:1		21040014	FUNDEI	30735000	199311	201212
11	12:1	*	21030058	AMSCO MTF	14043813	199306	199912
12	13:1	*	21041555	VNM IND ENVIR HCMC/UNIDO	2200000	199705	199912
13	E	*	71004942	SIYB, SME development	13700000	199807	
Urban							
1			A7100834	Gaza Internat. Airport	8000000	199810	200006
2			A7100749	Water & Sewage Study BAN	150000	199903	199907
3			A7100244	Jabalia Stormwater	5200000	199801	199906
7			27600305	Urban Kimberly	60000000	199707	200112
9			A7100448	Local Dev Honduras	67000000	199807	199908
10			A7171999	GUATEMALA LOCAL DEVELOP	50000000	199906	200112
11			A7102025	Choluteca Water Mitch	348000	199910	199912
12			A7100870	Hebron Women Cntrs., UNDP	4000000	199804	199910
Öst							
1	4:1		A7600066	Development of EENA	947600	199710	199912
2	5:1		A7600784	POL Instit Dev Prog IGWP	3000000	199905	200011

Selected Contribution	Listed as	Wedge	AGRID	AGRTITLE	AGRAMOUNT	AGRSTART	AGREND
Öst cont.							
3	6:1		A7600926	energy aenviron educentr	1436000	199908	200202
4	7:1		A7600005	Kaunas Environment Proj	27500000	199510	200112
5	9:1		A7600813	LEN Taxseminars	715000	199904	200007
6	10:1		A7600785	RUS RQA 3	5132000	199905	200112
7	1:2		A7600211	Labour Market Measures	2425000	199804	200102
8	2:2		46144229	POL Energy Conserv Hosp	2515000	199506	199907
9	4:2		A7600513	Vattenresurs projektbered	313000	199809	200007
10	5:2		A7600258	Model employm office	2393288	199711	200008
11	6:2		A7600739	Law on Local Finances	128000	199903	200002
12	8:2		A7600017	New Managers For Russia	9760000	199712	200005
13	10:2	*	A7690441	Wood products, doors	500000	199508	200101

Annex F.a

Questionnaire for Heads of Department

A. Introduction

These interviews are being conducted as part of the study commissioned by UTV to conduct an evaluation of Sida's approach to, and organisation of private sector development, which is being undertaken by Emerging Market Economics Ltd. of the UK and the Swedish consulting company AF-SMG.

The purpose of this questionnaire is to obtain the views of heads of department within Sida about what its approach is to PSD support, and how PSD support is organised within Sida. We would like to build upon the understanding we gained during the first round of interviews with heads of department that took place in October 2000.

B. Policies

1. How would you describe/define the following:

a. *Private Business Sector (does it include agriculture, informal sector activities?)*

b. *Private Sector Development*

c. *A well-functioning Private Business Sector*

d. *Private Sector Development Support.*

2. These are the definitions that we are using for this study:

a. *The Private Business Sector (PBS):* as defined by OECD – is 'an organising principle for economic activity where private ownership is an important factor, where markets and competition drive production and where private initiative and risk taking set activities in motion'.

b. A well-functioning PBS: acts as the engine of growth in the economy, is internationally competitive, responds to market trends, provides employment opportunities for the population and uses resources in a sustainable manner.

c. Private Sector Development (PSD): The process by which the PBS becomes well-functioning.

d. PSD Support: Interventions aimed at the development of factors crucial to the establishment of a well-functioning PBS that impact the institutional framework (rules of the game), the functioning of markets and the competence and capability of its constituent businesses and organisations.

Comments:

3. Do you think that Sida has a clearly elaborated policy covering:

a. the role and importance of the PBS in achieving Sida goals

Yes: 0 *No:* 11 *Not sure:* 3

b. the role of PSD support to ensure there is a well functioning PBS that contributes to the achievement of Sida goals;

Yes: 1 *No:* 10 *Not sure:* 3

c. how PSD support should be integrated into the process of providing development assistance);

Yes: 1 *No:* 10 *Not sure:* 3

d. the boundaries of PSD support i.e. the types of support that it will/will not provide;

Yes: 1 *No:* 10 *Not sure:* 3

e. the principles to be adhered to in designing PSD support interventions (i.e. not distorting markets, effective outreach, ensuring accountability without imposing unnecessary bureaucracy)

Yes: 1 *No:* 11 *Not sure:* 3

4. Is the policy contained in a single policy document?

Yes: 0 *No:* 8 *Not sure:* 3

If yes, go to 6. If no, go to 5.

5. Would it be helpful to have these policies in a single reference document?

Yes: 10 *No:* 2

6. How important is the PBS in contributing to the overall development process?

Very: 10 *Some importance:* 2 *Little importance:* 0

7. Which of Sida's goals do you think a well-functioning PBS is important for (tick appropriate)

a. Economic Growth

Very important: 10 *some importance:* 0 *little importance:* 0

b. Economic and social equality

Very important: 9 *some importance:* 3 *little importance:* 0

c. Economic and political independence

Very important: 9 *some importance:* 2 *little importance:* 1

d. Democratic development

Very important: 7 *some importance:* 7 *little importance:* 0

e. Care for the environment

Very important: 8 *some importance:* 6 *little importance:* 1

f. Equality between men and women

Very important: 7 *some importance:* 6 *little importance:* 0

g. Poverty reduction

Very important: 10 *some importance:* 3 *little importance:* 0

10. What factors or pre-conditions do you consider to be crucial for the development of a well-functioning PBS? (role of state?)

11. Which of the following factors or pre-conditions do you consider to be crucial for the development of a well-functioning PBS? (tick appropriate)

a. Efficient markets and resources allocated by the market mechanism

b. The existence of opportunities and incentives to participate in the process of wealth creation

c. governments establish clear rules of the game (good governance)

- d. predictability of macroeconomic conditions
 - e. that markets are well regulated
 - f. there is adequate and efficient provision of physical (eg transport infrastructure, utilities) and social infrastructure (e.g. health and education facilities)
 - g. there is adequate and efficient provision of business support infrastructure (e.g. voc training, trade facilitation)
 - h. that social networks and business support organisations provide access to social capital (ie. to resources and influence)
 - i. that interventions directed at businesses promote pro-poor market outcomes
 - j. that individual businesses have access to markets, finance, technology, HR development etc. to enable them to grow
 - k. Other (please specify)
-

12. Does your department participate in the preparation of country analyses?

Yes: 14 No: 0

If yes, go to 13. If no, go to 14.

13. Please describe the nature of the participation

14. To your knowledge, in carrying out country analysis to prepare country plans and strategies, is a systematic diagnostic carried out of the performance, characteristics and strengths and weaknesses of the PBS;

Yes: 1 No: 3 Sometimes: 7 Don't know: 1

15. Should the starting point for preparation of country analyses be the economy as a whole (eg macroeconomic conditions) or the individual enterprise?

- a. economy as a whole (macroeconomy)
- b. individual enterprise

16. To your knowledge, does Sida highlight the situation of the individual entrepreneur in

- a. Its dialogue with the partner to the development cooperation
- b. Its discussions and cooperation activities with other donors?

17. To your knowledge, do country strategies address the central role that PSD support could play in achieving Sida's objectives for providing development assistance?

Yes: 2 *No:* 6 *Sometimes:* 2 *Don't know:* 3

18. Do you think that there are inter linkages between crucial factors affecting the PBS i.e. the importance of laws on company formation, property rights and bankruptcy laws for financial markets, of labour laws for labour markets etc.?

Yes: 11 *No:* 0 *Don't know:* 1

20. In designing interventions that have a bearing on the development of the PBS, is account taken of these linkages?

Yes: 4 *No:* 0 *Sometimes:* 7

21. Is account taken of the need to sequence interventions so that the conditions are in place for the intervention to be effective?

Yes: 3 *No:* 4 *Sometimes:* 4

22. In planning interventions that have a bearing on the development of the PBS, is account taken of the following principles:

- a. to work through markets and not to distort them.

Yes: 7 *No:* 2 *Sometimes:* 1

- b. sustainability

Yes: 3 *No:* 4 *Sometimes:* 4

- c. effective outreach

Yes: 3 *No:* 4 *Sometimes:* 4

- d. Demonstration effect on other businesses.

Yes: 3 *No:* 1 *Sometimes:* 7

C. Organisation

23. From where do you access skills in designing PSD support interventions (tick appropriate)?

- 4 within the department
- 4 näring
- 4 external experts
- 0 other (please specify)
- 2 None of the above

24. Do you co-operate with any other departments in delivering PSD support?

Yes: 5 *No:* 4

If yes, go to 27. If no:

26. Why not?

27. How easy or difficult is this cooperation?

28. Is there a formal mechanism for co-operation to take place between:

a. regional and functional departments.

Yes: 8 *No:* 0

If yes, describe

b. between functional departments.

Yes: 3 *No:* 5

If yes, describe

c. regional or functional departments and embassies

Yes: 6 *No:* 0

If yes, describe

29. How often are PSD programmes multi-departmental?

Often: 1 Sometimes: 9 Never: 2

If answer is 'often' or 'sometimes', go to 22. If 'never', go to 25.

30. Are they organised as discrete projects or do you use multi-departmental teams to manage them? (tick appropriate)

4 Several discrete projects

6 One project, multi-departmental team

31. How is responsibility and accountability for management shared out? or is it kept in a single department ?

32. How easy/difficult is the process of organising multi-disciplinary teams?

Easy: 0 Difficult: 7

33. How would you describe the division of labour/responsibilities for PSD support within Sida

34. How easy or difficult do you think that it is for other departments to access PSD support skills?

35. What can be done to improve access to PSD support skills?.

36. As PSD support could be used by a number of country and functional departments, how are lesson learning and best practice codified?

Annex F.b

Questionnaire for Project Officers

Background

1. Have you been involved with this project since it's conception/design?

Yes: 5 *No:* 7 *Explain if needed:*

2. If no, what background were you provided when taking it over?

Personal Briefing: 4 *Reading documents:* 6 *other (please explain):* 2

3. What is your role in the project?

Main resp: 10 *Shared second resp:* 2 *Technical:* 5

Administrative/financial: 5 *Other:* 2

4. Would you consider this project as representative of your "portfolio" of projects

Yes: 10 *No:* 4 *Explain:*

5. Would you consider this project as representative of your department/divisions "portfolio" of projects

Yes: 5 *No:* 6 *Explain:*

6. Would you consider this project as a PSD-project?

Yes: 7 *No:* 4 *Explain:*

9. Would you consider as PSD-project given the new, broad definition?

Yes: 8 *No:* 4

10. Is there a PSD component in the project?

Yes: 12 *No:* 0

11. See a PSD potential in the project?

Yes: 10 *No:* 0

12. Do you use the Private Sector in recipient country as a vehicle in achieving the project objectives

Yes: 7 *No:* 1 *If no, could you?*

Explain:

13. On what level does the project work:

Macro: 3 *Meso:* 10 *Micro:* 6 *More than one level:* 4

14. Where would you place it in "matrix" (compare with 2nd mapping)

Same: 12 *Other comments:* 4

15. Is project combined or complimentary with other Sida projects within your department/division

Yes: 4 *No:* 8 *Explain:*

16. Is project combined or complimentary with other projects that lie under other Sida department/divisions?

Yes: 5 *No:* 6 *Explain:*

17. Who are the stakeholders in this project?

Macro: 7 *Meso:* 7 *Micro:* 5

Precise:

18. Which stakeholders were involved in the design of project t?

Macro: 6 *Meso:* 4 *Micro:* 2

Explain:

19. Was there a favourable environment for implementation of project?

Yes: 2 No: 5 Not sure: 1

20. If not, was the recipient country/organisation requested to improve the conditions prior to project approval?

Yes: 3 No: 2 Not sure: 3 Comments:

21. Does the project improve the corporate governance of the recipient institution?

Yes: 10 No: 0 Not sure: 0 Comments:

23. Is the project geared towards complementing the role of governments in the markets, e.g. building human capital, transferring technology and assuming/reducing risks for market operators?

Yes: 10 No: 1 Not sure: 0 Comments:

24. Is there scope for local or foreign private sector involvement in the management of the sector of the project?

Yes: 10 No: 1 Not sure: 0 Comments:

25. If yes, is the government ready to devolve its responsibilities?

Yes: 5 No: 4 Not sure: 2 Comments:

26. If yes, do local private firms have adequate financial and/or technical skills for a transfer of these responsibilities?

Yes: 4 No: 3 Not sure: 2 Comments:

27. Has the scope of SME's been identified in the preparation, implementation and follow-up of the main activities and their related activities?

Yes: 6 No: 3 Not sure: 1 Comments:

28. Do you think that there are inter linkages between crucial factors affecting the PBS i.e. the importance of laws on company formation, property rights and bankruptcy laws for financial markets, of labour laws for labour markets etc.?

Yes: 9 No: 1 Not sure: 0 Comments:

29. In designing the project, was account taken of these linkages?

Yes: 4 No: 5 Not sure: 1 Comments:

30. Is account taken of the need to sequence interventions so that the conditions are in place for the intervention to be effective?

Yes: 5 No: 4 Not sure: 1 Comments:

31. Has the nature of the project changed over time?

Yes: 8 No: 1 If yes, how?

32. Have there been any difficulties in project achieving the objectives of the project?

Yes: 9 No: 1

33. Are lessons learned documented in a systematic manner?

Yes: 8 No: 1

34. Which of Sida's goals does the project aim at achieving (documents/reality?)

a. Economic Growth

Very important: 8 Of some importance: 3 Of little importance: 1

b. Economic and social equality

Very important: 4 Of some importance: 5 Of little importance: 2

c. Economic and political independence

Very important: 2 Of some importance: 3 Of little importance: 5

d. Democratic development

Very important: 3 Of some importance: 4 Of little importance: 3

e. Care for the environment

Very important: 3 Of some importance: 6 Of little importance: 2

f. Equality between men and women

Very important: 1 Of some importance: 6 Of little importance: 4

g. Poverty reduction

Very important: 8 Of some importance: 2 Of little importance: 1

35. Does the project have a clear linkage to country analysis?

Yes: 8 *No:* 2

36. Does the project have a clear linkage to country strategy?

Yes: 9 *No:* 2

37. In the design of this project, were following issues considered:

a. to work through markets and not to distort them.

Yes: 6 *No:* 2 *Not sure:* 4 *Comments:*

b. sustainability

Yes: 11 *No:* 1 *Not sure:* 0 *Comments:*

c. effective outreach

Yes: 6 *No:* 0 *Not sure:* 2 *Comments:*

d. demonstration effect on other businesses.

Yes: 8 *No:* 0 *Not sure:* 2 *Comments:*

e. pro-poor growth

Yes: 8 *No:* 1 *Not sure:* 1 *Comments:*

38. Do you think that Sida has a clearly elaborated policy covering:

a. the role and importance of the PBS in achieving Sida goals

Yes: 4 *No:* 2 *Not sure:* 6 *Comments:*

b. how PSD support should be integrated into the process of providing development assistance;

Yes: 3 *No:* 3 *Not sure:* 7 *Comments:*

c. the boundaries of PSD support i.e. the types of support that it will/will not provide;

Yes: 3 *No:* 5 *Not sure:* 3 *Comments:*

39. Would it be helpful to have these policies in a single reference document?

Yes: 7 *No:* 0 *Not sure:* 4 *Comments:*

40. How important is the work of your department/division in contributing to creating the conditions for a well-functioning PBS?

Very important: 9 *Of some importance:* 4 *Of little importance:* 1

41. To your knowledge, in carrying out country analysis to prepare country plans and strategies, is a systematic diagnostic carried out of the performance, characteristics and strengths and weaknesses of the PBS?

Yes: 3 *No:* 3 *Not sure:* 4 *Comments:*

42. To your knowledge, do country strategies address the central role that PSD support would play in achieving Sida's objectives for providing development assistance?

Yes: 3 *No:* 2 *Not sure:* 4 *Comments:*

43. In programming interventions, does your department/division consider the impact that they might have in establishing preconditions/crucial factors for a well-functioning PBS?

Yes: 5 *No:* 1 *Not sure:* 1 *Comments:*

44. Were any other Sida department/divisions involved in the preparation of the project?

No: 3 *Yes regional/embassy:* 7 *Yes, technical dept.:* 1 *Comments:*

45. Are any other Sida department/divisions involved in the execution/monitoring of the project?

No: 2 *Yes regional/embassy:* 6 *Yes, technical dept.:* 1 *Comments:*

46. Is collaboration with other department/divisions easy?

Yes: 6 *No:* 2

49. Do you have access to PSD skills from other department/divisions, if so is it formal/informal?

No: 2 *Yes, informal:* 9 *Yes formal (explain):* 2

50. Is it easy for you to access PSD support skills?

Yes: 5 *No:* 1 *Not sure:* 0 *Comments:*

51. If yes, where do you go?

Individuals: 7 *Inec Näring:* 4 *Inec Finans:* 5 *Consultants:* 6 *Other:* 2

MIS

53. What do you use the PLUS-system for?

Book-keeping: 10 *Financial planning:* 8 *Technical planning and analyses:* 0
Other, explain: 0

54. Do you find the PLUS system a useful tool in your work as Project Officer?

Yes: 5 *No:* 5

55. Do you use other systems for project management, (MS-project etc) in parallel?

Yes: 3 *No:* 4

56. Is it easy to know which classification codes to use when recording in the PLUS-system?

Yes: 4 *No:* 7

Annex G

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Annex H

List of Interviewees

Heads of Department/Division

Name	Department
1. Jan Olsson	ASIEN/Policy
2. Nils Olof Malmer	INEC/Näring
3. Jan Grafström	INEC/Finans
4. Lars Ekengren	AFRA
5. Astrid Dufborg	INEC
6. Peeter Horm	Sida-Öst
7. Bengt Johansson	NATUR
8. Lars Liljeson	INEC/Infra
9. Camilla Bengtsson	INEC/Finans
10. Göran Edehorn	INEC/Näring
11. Sofia Ericsson	INEC/KTS
12. Kenth Wickmann	DESO/Und
13. Pelle Persson	INEC/Urban
14. Anna-Carin Kandimaa	DESO/Hälso
15. Jan Engström	INEC/Finans

Project Officers

Name	Department
1. Bengt Johansson	NATUR
2. Ulrika Hessling-Sjöström	INEC/Finans
3. Leif Holmgren	INEC/Infra
4. Hans Lundquist	Sida-Öst
5. Anne-Charlotte Malm	INEC/Infra
6. Kristina Salomonsson	Sida-Öst

7.	Ulf Ekdahl	PEO/IK
8.	Lars Krantz	NATUR
9.	Per Fröberg	INEC/Urban
10.	Ewa Nunes Sörenson	DESO/Hälso
11.	Bo Dan Bergman	INEC/Näring
12.	Agneta Danielsson	INEC/Näring
13.	Göran Edehorn	INEC/Näring

Annex I

Terms of Reference

Sida/UTV
June the 15th, 2000
Gun Eriksson Skoog

Evaluation of Sida Support to Private-Sector Development:

Terms of Reference for a Review of the Support and an Assessment of its Approach and Organisation

1 Background

As part of the Swedish international development co-operation, Sida supports private-sector development (PSD) since more than a decade.¹ This support has gained increased attention after the launching of structural-adjustment programmes in many partner countries in the 1980s, particularly during the 1990s, when institutional reform gained momentum. In spite of this fact, and while a number of individual projects have been evaluated, no evaluation of the entire Sida support to PSD has yet been made. Hence, a comprehensive picture of the achievements and problems associated with this support is lacking. This circumstance imposes constraints on several Sida departments and departmental divisions, which at the turn of the new millennium are in the process of developing and revising their PSD support.

1.1 The Context: A Comprehensive Evaluation Effort

Against this background, the Department for Evaluation and Internal Audit (UTV) at Sida initiated a process of evaluation of the entire Sida PSD support in late 1999. A background material was prepared and initial discussions were held with staff at the departments concerned.² Three evaluation studies are planned. The first study, to which the present terms of reference (ToR) apply, takes an overall perspective, by surveying the PSD support and how it has been approached and organised by Sida. The second study takes a deeper

¹ Prior to the formation of the new organisation Sida in 1995, the task was shared by the old SIDA and several other organisations, such as Bits and Swedecorp.

² See UTV (2000), henceforth referred to as the UTV background paper (Enclosure 1).

look into the implementation and results of the support, by studying its application within agriculture. A third evaluation study focuses on the contribution of the PSD support of the Department for Central and Eastern Europe to the process of transition to market economy.

Before proceeding further into – and in order to better understand – these ToR (as well as their concepts and approach), we suggest that the reader first reads the attached UTV background paper, upon which the ToR are based.

The purpose of Sida support to PSD is to contribute to the development of a well-functioning private business sector (PBS).³ As discussed in the UTV background paper, this purpose largely corresponds to that of contributing to the development of a market economy, which is the purpose of part of the Sida support to PSD in the post-socialist transition economies in Eastern Europe. Sometimes the purpose is formulated in terms of ‘strengthening the preconditions for’ the PBS and, correspondingly, ‘facilitating’ the transition process. Support to a well-functioning PBS, in turn, is to contribute to the overall goal of Swedish international development co-operation, poverty reduction, as well as to the other aid goals.⁴

The *purpose of the entire evaluation* of Sida support to PSD is to 1) examine the contribution of the support to (strengthen the preconditions for) the development of a well-functioning PBS and 2) draw lessons from this exercise. The primary function of the evaluation effort is to contribute to learning within Sida, in order to facilitate the current process of developing the PSD support. This implies that the evaluation is to be conducted in close co-operation with the operative departments of Sida. Hence Sida staff is one of the major target groups of the evaluation.

1.2 The Problem: Reasons for the Present Evaluation Study

Apart from the general reasons for evaluating Sida PSD support, there are specific reasons for conducting the present study. The UTV background paper and initial discussions with Sida staff serve as a point of departure, by identifying actual and potential problems that motivate this particular inquiry.

A major problem is the fact that Sida lacks an overall policy and strategy for its PSD support, which renders both evaluation and development of the support difficult. It implies, for instance, that clear and uniform definitions of central concepts are missing or difficult to detect. Formulations of the purpose of the total PSD support vary, and it is not obvious how Sida intends to contribute to this purpose, or how PSD support is meant to contribute to the

³ Note that we use the terms PBS and PSD in a broad sense, as defined in the UTV background paper. Further note that the purpose of PSD support as presented here is a summary description of various formulations of the purpose.

⁴ The relationships between the different purposes of and goals associated with Sida PSD support are illustrated in a model of the hierarchical goal structure in the figure appended to these ToR, where the six aid goals, other than the overall one, and the four goals specifically applying to Sida activities in the ‘East’ are also listed.

Swedish aid goals. These shortcomings, in turn, make it difficult to obtain an overall picture of the Sida PSD support, including its magnitude, focus, approach and location within the Sida organisation.

The absence of an overall policy and strategy also raises questions as to what the actual Sida approach to and organisation of the PSD support is, and about its character, e.g. in terms of coherence and consistency. Similar questions are provoked by the fact that Sida is a rather new organisation. While pooled under one roof, the present Sida PSD support combines the previous work of several different organisations with separate traditions, incorporating rather diverse activities, staff, ideas, approaches, methods and cultures. The lack of an overall policy and strategy makes it difficult to assess if the actual Sida approach to and organisation of the PSD support has been conducive for contribution to its purpose. Limited knowledge about the strengths and weaknesses of the current approach and organisation imposes constraints on identification of potentials, opportunities and measures for improvement of the support. The UTV background paper suggests that the current Sida approach to and organisation of its PSD support may not be as contextual, integrated and co-ordinated as desired.

2 Purpose

Against this background, and in order to facilitate the current process of developing the Sida PSD support and the formulation of policy and strategy for the support, the *purpose of the present evaluation study* is to

- I provide an overall picture of the total Sida support to PSD and of the way in which it has been approached and organised, and to
- II identify strengths and weaknesses of this approach and organisation, as well as potentials, opportunities and measures for improvement.

3 Tasks and Methods

In order to achieve the two-fold purpose, the following *major tasks* are to be performed:

- A Review of the current Sida PSD support, its approach and organisation, in terms of
 - i) description of the magnitude and contents of the total support,
 - ii) description of the way that it has been approached and organised, and
 - iii) assessment of this approach and organisation.
- B Discussion of the implications of the assessment for a Sida approach and organisation of PSD support, and suggestion of inputs into Sida policy and strategy for such support.

In performing these tasks, the following *overall method* is to be employed. To enable the review of PSD support, its approach and organisation, a conceptual framework shall first be established. We must know which phenomena we are studying and what to assess them against. Central concepts shall be defined and a framework for analysis – based on the existing knowledge about the preconditions for a well-functioning PBS, its development and the process of contributing to this – shall be established. Thereafter, the Sida PSD support and its approach and organisation shall be described and the latter assessed in relation to this framework. Once this task has been performed, the second task shall be performed on the basis of the findings. The details of the assignment are elaborated below.

4 Scope and Delimitations

The present study reviews the entire Sida support to PSD, broadly defined, and not only the activities of certain units. This implies, for instance, that some of the activities of most Sida departments will be considered. Exactly what activities that will be included and thus what parts of the organisation that will be affected is yet to be finally determined by the study itself. It is clear, however, that support to trade integration, financial-sector development and agriculture, as well as parts of the support to the judicial system, public administration, physical and social infrastructure, shall have to be considered in one way or another. The study does not assess the result of PSD support, but focuses on the way in which this support has been approached and organised within Sida.

5 Review of the Support

When performing this task, the evaluation study shall take the UTV background paper, including its broad and contextual perspective, as a point of departure.

5.1 Conceptual Framework

A preliminary attempt at formulating a conceptual framework is made in the UTV background paper, but a more thorough and elaborated effort is required. Parts of the background paper can be relied upon after critical scrutiny, whereas other parts require further analysis. Still others have to be added. The following elements shall be included, while the major effort shall be devoted to Points 3c and 5:

- 1 Trace (and scrutinise the UTV interpretation) of the purpose of Sida support to PSD in central policy, regulatory and other relevant government and Sida documents. Similarly examine any definitions used by Sida (or to which Sida prescribes) of the PBS and a well-functioning one, and choose a working definition for the study.

- 2 Discuss briefly the role of a PBS for achievement of the Swedish aid goals,⁵ and more thoroughly, its relationship with poverty reduction. Use an operational concept of poverty, implying the lack of security, ability and opportunities, as adopted e.g. by the Swedish Government and the World Bank.⁶ Discuss any implications for the working definition of a well-functioning PBS mentioned under Point 1 above and, if necessary, modify it accordingly.
- 3 Provide, on the basis of existing knowledge, a broad overview of the preconditions for a well-functioning PBS (consistent with poverty reduction) and its development. The focus shall be on what constitutes an enabling environment, what are the relationships between its elements and what characterises them. This task involves identification of *a)* crucial preconditions for a well-functioning PBS (briefly discussed in the UTV background paper), *b)* central factors of various kinds (institutional, organisational, resources, values etc.), at various societal levels (macro, meso and micro) and different actors (e.g. public and private) that may create these preconditions (partly depicted by Figure 1 in the background paper), and *c)* the relationships and interactions between the preconditions, factors, levels and actors (largely missing in the UTV background paper). In particular, causal complexity, the role of institutions (rules),⁷ the role of the state and its linkages and interdependencies with the PBS shall be highlighted. Throughout, the relevance for developing and transition economies and their characteristics, such as large informal and small-scale peasant agricultural sectors, shall be maintained.
- 4 Discuss the implications for the definition and delimitation of PSD and PSD support, and suggest working definitions (and scrutinise those of UTV) accordingly. Briefly account for difficulties associated with these definitions and their delimitations.
- 5 Analyse and discuss the consequences of the preconditions for a well-functioning PBS and the relationships between its elements for the process of ‘getting there’ – hence for how to support PSD, e.g. in terms of the choice, combination, sequencing and speed of support measures.

⁵ One source, which may serve as a point of departure, is the Inec (1996) survey of its own support to PSD, including one of its background studies, Rylander and Schmidt (1996). See also Lindahl and Karlström (2000). This task includes taking the four goals that apply to part of the activities of the Department for Central and Eastern Europe into consideration.

⁶ See, for example, the Ministry of Foreign Affairs (1997), p. 11, and the World Bank (2000). The latter may also prove to be an important source of information. Other potential sources of information are Sen (1999) and donor PSD strategy and policy documents, for instance Commission of the European Communities (1999), OECD (1995), World Bank (1998a) and (1998b).

⁷ Note that throughout these ToR, as well as the UTV background paper, institutions refer to formal and informal *behavioural rules for social interaction* at various levels (e.g. international, national, regional, local and organisational) and of various kinds (e.g. political, economic and cultural). Institutions do *not* refer to organisations, the different kinds of which include public and private, formal and informal ones.

Once concepts have been defined and the preconditions for a well-functioning PBS and their implications for aid have been identified, the Sida PSD support and its approach and organisation can be accounted for and the latter be assessed in relation to this framework. The review shall focus on PSD support in the new Sida, established 1995. However, the history of the support – including the economic, political, institutional and organisational context from which it sprung – forms the background against which the current situation must be understood. Thus this context must be *briefly* accounted for and analytically taken into consideration.

5.2 Overview of the Existing PSD Support

The total magnitude of Sida PSD support and the patterns that it displays shall be described so that a clear and well-structured picture emerges.

- 6 Estimate the total magnitude of Sida PSD support according to the working definition discussed under Point 4 above, in terms of *a*) the budgeted allocation (amount) and *b*) the number of interventions.
- 7 Describe and map in a structured manner how the amounts of support and/or number of interventions (depending on data availability) are allocated among the following categories: *a*) Sida partner countries: *i*) individual as well as grouped according to *ii*) level of income and *iii*) geographical location (Africa, Latin America etc.). *b*) Sida organisational structure, i.e. departments and departmental divisions. Any functional or organisational links between similar elements of support and between units handling similar support shall be portrayed.⁸ *c*) Categories determined by the preconditions for a well-functioning PBS discussed under Point 3b above, including factors and actors of various kinds and at various levels.⁹ *d*) By each Sida department and division: allocation of amounts and/or number of interventions according to *i*) Sida partner countries, as described under Point a above, and *ii*) categories determined by the preconditions discussed under Point c. While the findings of Points a-b may be illustrated by ‘maps’ resembling Figures 1 and 2 in the UTV background paper, those of Point d may be better represented by matrices.

These tasks involve comprehensive collection and analysis of data. However, in the classification and mapping of PSD support, revealing relative magnitudes, proportions and patterns is more important than obtaining precision in the details. It may suffice to provide ‘maps’ of the current situation, as revealed by quantitative data from a recent year (1998 or 1999), while identification of any change over time can rely on qualitative data.

⁸ Cf. Figure 2 in the UTV background paper.

⁹ Cf. Figure 1 in the UTV background paper.

5.3 The Sida Approach to and Organisation of PSD Support

Since Sida lacks an overall policy and strategy, its actual approach to and organisation of the support is implicit and has to be traced. The approach ought to be reflected in other documents, the patterns of the support, prevailing perceptions and attitudes within Sida, as well as in actually adopted work practices. A single approach is unlikely to exist, just as intentions, reflected in formal documents, may differ from the actual practice, as reflected informally in interpretations of documents, views and values of Sida staff.

Approach

- 8 Examine how Sida *intends* to contribute to the purpose of its PSD support in the absence of an overall policy and strategy, as reflected in documents, e.g. policies and strategies of individual *elements* of the support.¹⁰
- 9 Examine how Sida *actually goes about* in implicitly applying a strategy, by tracing priorities or any other basis on which strategic choices are made, as reflected for instance in the patterns displayed by the actual PSD support.
- 10 Examine the integration, coherence and consistency (or the lack thereof) of different elements of the total PSD support. How are they linked and adapted to one another?
- 11 Examine how PSD support and its elements are integrated into a selection of country (or regional, to the extent that they exist) analyses, strategies and plans.¹¹
- 12 Examine, within the relevant Sida departments and divisions, prevailing perceptions and/or attitudes – and identify the dominant ones – of/to *a*) the PBS, *b*) its role for development in general and for contribution to the aid goals in particular (especially poverty reduction), *c*) the preconditions for a well-functioning PBS and its development, and *d*) the role of PSD support in this process and its relationship with other Sida support. Identify any patterns of discrepancy in these views and values.

Organisation

- 13 Examine how issues of overview of PSD support, co-ordination of its elements, co-operation between departments and departmental divisions, including division of labour and responsibility, are handled. Identify constraints as well as opportunities. Identify any overlapping functions and activities, synergy effects, co-ordination advantages, exchange of experiences or the lack thereof, and any formal and informal mechanisms enabling or preventing these phenomena.

¹⁰ Such as the policies for trade development (Sida, 1999) and financial sector development (Inec, 1997).

¹¹ Lindahl and Karlström (2000) may provide certain background information. See also Management Perspectives International (1999).

6 Implications for Policy and Strategy Formulation

The study shall discuss the implications of the findings for an approach and organisation of PSD support that creates favourable preconditions for contribution to the Swedish aid goals, in particular poverty reduction. It shall identify potentials, opportunities and measures for improvement within the current Sida approach and organisation, and make recommendations about inputs into Sida policy and strategy for PSD support.

The recommendations shall be based upon and clearly linked to the analysis and the conclusions of the study. In draft form, they will be subject to discussion and scrutiny by staff both at the UTV and at the other Sida departments and departmental divisions concerned. In their final form, the recommendations will be subject to so-called management response, including a plan for implementation of at least some of them within the Sida organisation. For these reasons, it is important that the recommendations are specific, concrete and addressed to Sida and other decision-makers at the appropriate levels.

7 Data Collection Methods

The overview of preconditions for a well-functioning PBS based on existing knowledge requires a survey of the relevant literature, which shall include a selection of *a)* theoretical and empirical academic literature,¹² and *b)* documented practical donor experience as reflected in donor-produced knowledge, e.g. evaluations and studies as well as PSD policies and strategies.¹³ Establishment of the conceptual framework further requires the study of relevant government and Sida regulatory documents and some of the recent literature on poverty reduction.¹⁴

The review of Sida PSD support and its approach and organisation shall rely on Sida statistics, documentation and interviews and/or a survey. Relevant documentation includes, for example, strategy and policy documents of individual elements of PSD support, Sida action programmes, country (and regional) analyses, strategies and plans as well as semi-annual reports. A certain amount of documents related to individual projects may also have to be studied, as well as statistical data extracted from Sida's computerised budgeting and reporting system Plus. The mapping and classification exercise shall rely

¹² Relevant academic literature may include, for instance, the new institutional economics (various strands), ordo-liberalism (as represented e.g. by Walter Eucken and Victor J. Vanberg) and the literature on 'market-augmenting government' (discussed at an IRIS-sponsored conference organised with USAID in March, 1999), the role of the state versus the market, the micro-foundations for growth, an enabling environment and PSD (see e.g. the World Bank research page), market-oriented transition, the evolution of the business sector (evolutionary economics), rural-urban linkages (see e.g. Johansson and Ronnäs, 1995, and Ramamurthy and Ronnäs, 1995) and on the informal sector.

¹³ Some donor documents that may prove useful are Commission of the European Communities (1999), OECD (1995), World Bank (1998a) and (1998b). See also SAF (1998).

¹⁴ Cf. footnote 6 above

on data that are only partly, and possibly to a limited extent, compiled in the desired form. Here there is scope for alternative methods, including an analysis of the entire PSD support or some sub-set of it, for instance a random or stratified sample. Structured interviews, or possibly a survey, may prove useful for establishing prevailing perceptions of and attitudes to the support studied.

8 Team Composition and Competence

The assignment implies the study of complex relationships and requires the adoption of a broad and contextual, probably an institutional, approach. It is composed of two parts of rather diverse character, one involving the establishment of a conceptual framework, and another part involving an empirical study of operations of Sida. These two parts require partly different types of competence, which must be combined in a workable manner. The two parts must also be closely integrated into a coherent and consistent whole, which imposes demands on team co-ordination, a systematic approach and analytical skills. The first part requires that the consultant already is well oriented in some of the major strands of the relevant literature.

The team conducting the study should consist of at least two members, but considering the comprehensive task and the limited time perspective, a larger team may do a better job. It may consider linking external experts to it, in order to obtain the relevant set of skills. The team shall possess advanced knowledge of and experience in a suitable combination of preferably all, but at least most, of the following academic and practical areas:

- Economics and/or business administration: the study of PBS and PSD, economic development, market-oriented transition, institutional analysis, organisation
- Developing and transition countries, preferably in the field of PBS and PSD
- International development co-operation, preferably Swedish and the Sida organisation
- Relevant methods and techniques for the empirical parts of the study: the estimation and mapping of support, and the study of attitudes and perceptions

The team shall possess excellent knowledge of the English language, and at least one team member must be fully able to read Swedish. It may want to include an assistant for some elements, for instance data collection, of the assignment.

9 Co-operation, Reporting and Time Schedule

UTV is keen to have a close working relationship with the team, where parts of the assignment that need to be further elaborated and difficulties that

emerge in the process etc. can be solved in a climate of open discussion and co-operation. We believe that this method will benefit both parties as well as the end result. The consultant shall keep UTV informed about the progress of the work, and well in advance notify UTV about any problems that may jeopardise the fulfilment of the assignment. The responsibility for and task of identifying and collecting relevant information, including Sida documents, rests primarily with the consultant, who cannot rely on support from the UTV in this regard.

UTV reserves the right to discuss and approve of the following documents, before the consultant enters further into the assignment: *a)* a paper specifying the approach and method and including *i)* a draft presentation of the conceptual framework, prior to its practical application, and *ii)* a presentation of the design of the empirical study, and *b)* a draft report. The various intermediate reports may be subjected to scrutiny by external experts. Successful fulfilment of the assignment may provide opportunities for the consultant to engage in follow-up activities, e.g. in terms of lectures and seminars, to be covered by a separate agreement and budget.

Since the study is partly to serve as an input into ongoing efforts to develop the current PSD support within Sida, staff at the departments and departmental divisions concerned will be involved during the process. A reference group has been formed, and its members will be given the opportunity to comment the various intermediate reports. It is important that the team is willing to co-operate with this group, by keeping them informed and taking their points of view under consideration.

The study is envisaged to require an estimated 25–30 man weeks, of which between 6–9 weeks may be devoted to the conceptual framework. Its tentative time schedule is as follows:

June	2000:	Tender invitation
August	2000:	Tender submission
September	2000:	Contract consultant
October/November	2000:	Submission of approach and method paper
February	2001:	Submission of draft report
April	2001:	Submission of final report

At the signing of the contract, delivery date for the approach and method paper shall be agreed upon by the consultant and UTV. A draft report should be submitted before the end of February, 2001, and a final report before the end of April, 2001. The report and its appendices shall be written in English, in a professional but educational and non-technical style. All technicalities and details shall be deferred to appendices. The report should comprise some 50–70 pages, excluding appendices. Format and outline shall be agreed between the consultant and UTV. Within three weeks after receiving Sida's comments on the draft reports, final versions of the reports shall be submitted to UTV. All reports shall be provided in three copies each and on diskette

and/or electronic file. Subject to decision by UTV, the final report will be published in the Sida Evaluation series and distributed. The reports shall be written in Word 6.0 for Windows (or a compatible format), and presented in a way that enables publication without further editing. The assignment includes the production of a summary according to *Sida Evaluations Newsletter – Guidelines for Evaluation Managers and Consultants* (Enclosure 2) and the completion of *Sida Evaluations Data Work Sheet* (Enclosure 3). The summary and the sheet shall be submitted together with the final report. The approach and method paper and the draft report shall be presented at a seminar arranged by Sida, as part of the assignment.

10 Specification of Qualifications

10.1 Compulsory Qualifications

The following qualifications *shall* be met by the tenderer.

Quality in Performance of the Assignment

- The tenderer shall account for his/her *understanding of the assignment* in his/her own words.
- The tenderer shall clearly and concretely specify and motivate the *approach and methods* to be applied in performing the assignment, including those employed in the various tasks of the assignment. This involves, for example, listing the various strands of relevant literature to be surveyed. Specify what parts of the design of the empirical study that require further information, e.g. about data availability, before they can be elaborated.
- The tenderer shall *comment on the ToR*, and may comment on the UTV background paper as well as suggest alternative solutions to part of the tasks of the assignment.
- The tenderer shall provide a detailed *time and work plan* for fulfilment the assignment, including *a)* a manning schedule that specifies the tasks performed by and the time allocated to each of the team members, and *b)* estimates of the time required for the different tasks of the assignment. Account for how the team plans to organise the work to be carried out at the Sida headquarters in Stockholm and the amount of time the team wants to allocate to it.
- The tenderer shall account for how the team wants to *organise the co-operation* with both UTV and the reference group.

Staff Resources for Performance of the Services

- The tenderer shall possess *documented knowledge, relevant professional background and experience* of similar assignments in a suitable combination with-

in the requested areas of expertise, in addition to the analytical, linguistic and other skills mentioned in Section 8. The tenderer shall further specify the qualifications of each member of the team and attach their individual *Curricula Vitae* (including name, address, education, professional experience, experience of work abroad and in developing and/or transition countries), and may state reference persons with telephone numbers and e-mail addresses.

Timing

- The tenderer shall clearly state *when the team will be able to perform* the assignment and its various tasks.

Price and Other Commercial Conditions

- The tenderer shall present a budget, which differentiates between and proposes ceilings for *fees and reimbursable costs*, specified for the different elements of the assignment and for the different staff categories. *Total estimated costs/price* shall be stated. All fees shall be stated hourly. All costs shall be stated in SEK, exclusive of Swedish VAT, but including all other taxes and levies. Individuals, however, shall state their fee exclusive of Swedish social security charges.

10.2 Preferred Qualifications

The following qualifications *should* be met by the tenderer:

- The tenderer should be ready to *commence* the assignment in October 2000.
- The tenderer should be able to *start collecting data* at Sida in Stockholm soon after the signing of the contract.
- The tenderer should state and specify any minor *reservations* against the draft contract and Sida's standard conditions and propose alternative wordings, which may not imply significant changes, as well as complete the articles left open in the draft contract.

Literature

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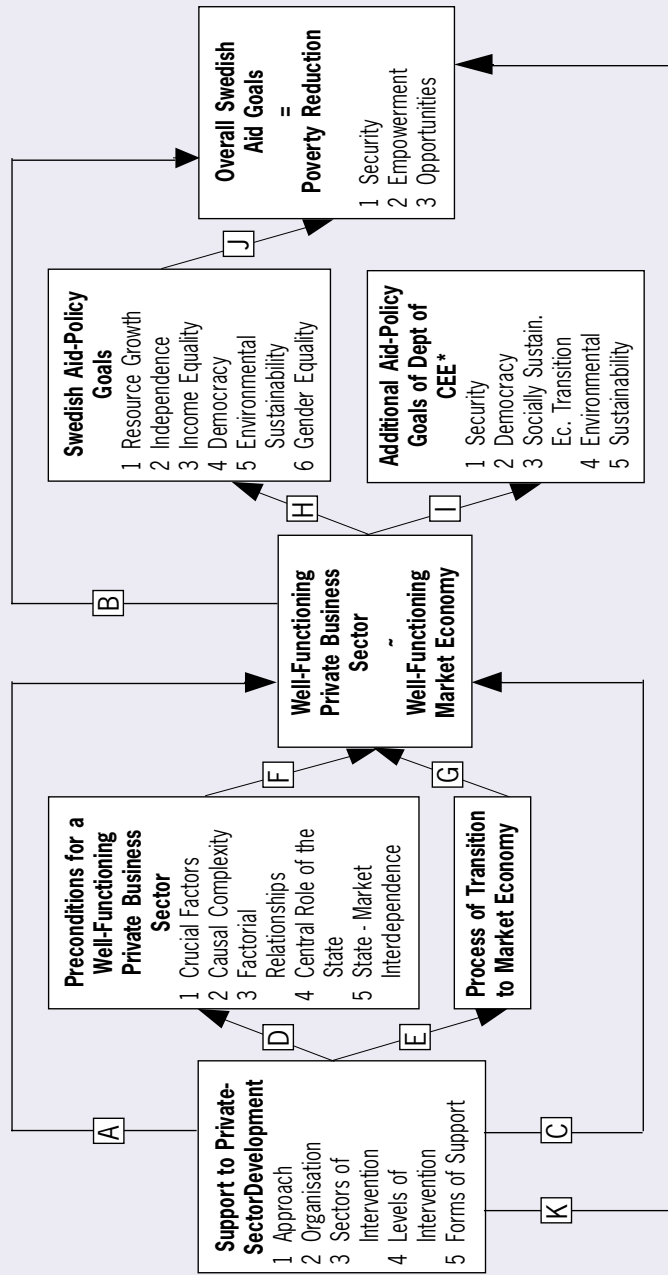
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Enclosures:

- 1 UTV Background Paper, including three (3) figures and one (1) appendix
- 2 Guidelines for Sida Evaluation Newsletter
- 3 Sida Evaluations Data Work Sheet
- 4 Sida at Work/Så arbetar Sida
- 5 Sida Looks Forward/Sida vid sida

Figure: A Model of the Hierarchical Goal Structure of Sida Support to Private-Sector Development



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Approach and Organisation of Sida Support to Private Sector Development

What is private-sector development (PSD) and PSD support? Why does Sida support PSD and what does it aim at? What is a well-functioning private business sector (PBS), and which are the crucial conditions for its development? How can PSD best be supported? How may PSD support contribute to the goals of Swedish development co-operation? What is Sida's PSD support? Does the approach and organisation of Sida's PSD support accord with what it takes to develop a well-functioning PBS? If not – how can it be improved? These are some of the questions discussed in this evaluation of the approach to and organisation of Sida's support to PSD.

The evaluation surveys existing knowledge about the crucial conditions for a well-functioning PBS. It offers a benchmark against which Sida's support can be described and its approach and organisation assessed, as well as useful tools for the support. A picture of the magnitude and contents of Sida PSD support is painted, and its approach and organisation is accounted for and evaluated. Finally, the implications for the future development of Sida PSD support are discussed.

The evaluation was commissioned by Sida's Department for Evaluation and Internal Audit, which is an independent department reporting directly to Sida's Board of Directors. It was carried out by Emerging Market Economics, London, in co-operation with ÅF – Swedish Management Group, Stockholm.



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