



Evaluation of European Community Support to Private Sector Development in Third Countries

Final Report

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This report has been prepared by ADE
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The views expressed are those of the
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List of acronyms

| | |
|---------------|---|
| ACP | Africa, Caribbean, Pacific |
| ALA | Asia and Latin America |
| ASIA ITC | Asia Information Technology Communications programme |
| BDS | Business Development Services |
| CAP | Common Agricultural Policy |
| CARDS | Community Assistance for Reconstruction, Development and Stabilisation |
| CBIK | Centre for Business Information (Kenya) |
| CDE | Centre for the Development of Enterprise |
| CGAP | Consultative Group to Assist the Poor |
| CIS | Commonwealth of Independent States |
| CRIS | Common RELEX Information System |
| CSE | Country Strategy Evaluation |
| CSP | Country Strategy Paper |
| DAC | Development Assistance Committee (OECD) |
| EBAS | EU-ACP Business Assistance Scheme |
| EC | European Commission |
| ECIP | European Community Investment Partners Facility |
| EDF | European Development Fund |
| EDP | Export Development Programme (Zambia) |
| EFF | Export Financing Facility (Zambia) |
| EIB | European Investment Bank |
| EJADA | Euro-Jordanian Action for the Development of Enterprise (Jordan) |
| ETE | Euro-Tunisia Enterprise (Tunisia) |
| EU | European Union |
| Euro-TAP Viet | Technical Assistance Programme for Transition to Market Economy (Vietnam) |
| FCFA | Franc CFA |
| FDI | Foreign Direct Investment |
| FEMIP | Facilité Euro-Méditerranéenne d'Investissement et de Partenariat |
| GRATIS | Ghana Regional Appropriate Technology Industrial Service |
| HIPC | Highly Indebted Poor Country |
| HQ | Headquarters (of the European Commission) |

| | |
|---------|--|
| IFI | International Financial Institutions |
| IMF | International Monetary Fund |
| IMP | Industrial Modernisation Programme (Egypt and Tunisia) |
| IO | Intermediate Organisations |
| LA | Latin America |
| MEDA | Mediterranean |
| MSDP | Mining Sector Development Programme (Zambia) |
| MSME | Micro, Small and Medium Enterprise |
| NAFES | National Fund for Enterprise Support |
| NIP | National Indicative Programme |
| ODA | Overseas Development Assistance |
| OECD | Organisation for Economic Co-operation and Development |
| OSCE | Organisation for Security and Co-operation in Europe |
| PASP | Proyecto de Apoyo al Sector Privado |
| PSD | Private Sector Development |
| PSDP | Private Sector Development Programme (Egypt and Jordan) |
| RELEX | External Relations |
| SEDO | Small Enterprise Development Organisation (Egypt) |
| SFD | Social Fund for Development (Egypt) |
| SME | Small and Medium Enterprise |
| SMEDF | Small and Medium Enterprise Development Fund (Vietnam) |
| SPS | Sanitary and Phytosanitary |
| SUFFICE | Support for Feasible Financial Institutions and Capacity-building Efforts (Uganda) |
| TACIS | Technical Assistance to CIS countries |
| TDP | Trade Development Programme (Kenya) |
| UNIDO | United Nations Industrial Development Organisation |
| USAID | US Agency for International Development |
| UTICA | Union Tunisienne de l'Industrie du Commerce et de l'Artisanat |
| WB | World Bank |

Executive Summary

1. Objective, context and methodology

OBJECTIVE: This report presents the results of the evaluation of the European Community's support to private sector development (PSD) in third countries over the period 1994-2003. It aims to contribute to improving the coherence of the Commission's sectoral approach and also at enhancing coherence between PSD support objectives and the Commission's other policy objectives.

CONTEXT: Based on the wide consensus that private sector enterprises make an important contribution to economic growth and to helping fight poverty, international economic institutions have widely confirmed the importance of supporting private sector development.

Over time, and in particular during the last decade, the Commission has developed various co-operation instruments for the sector. Yet no global evaluation of Commission support to private sector development has been undertaken. This evaluation reflects the commitment of the Commission to reinforcing its support to the business sector of third countries.

METHODOLOGY: The evaluation was carried out in two separate phases. First, the Desk Phase involved an analysis of documents collected in Brussels, interviews with Commission officials and a questionnaire sent to a sample of 25 Delegations. Second, the Field and Synthesis Phase of the evaluation entailed testing the hypotheses proposed during the Desk Phase through five country studies. In addition, during that phase a survey was carried out to explore the views and understanding of Delegations on the PSD Thematic Network as well as to assess their needs in terms of support from HQ. The team integrated these new findings with those from the Desk Phase and analysed this information base to arrive at an overall assessment of EC support for private sector development in third countries.

2. Findings and Analysis

Four evaluation criteria and three horizontal themes were analysed: *Relevance* of the EC PSD strategy; its *effectiveness*; its *sustainability*; the *efficiency* of EC PSD intervention; the *coherence* between EC PSD strategy and other European policies; and the extent to which *donor coordination*, on the one hand, and *crosscutting issues*, on the other, have been taken into account.

RELEVANCE: The EC PSD strategy consists of five areas of intervention in support of private sector development. These areas cover what is considered to be a comprehensive strategy for support to PSD. However, the strategy does not sufficiently explain the way in which interventions in these areas can contribute to enhancing business sector competitiveness.¹ It is not sufficiently clear either on the mechanisms through which higher competitiveness can contribute to co-operation and development objectives. As a consequence, implementation of the strategy in the field is uneven: the basis for a decision to intervene in one area in one specific country is by no means always clear and, even more, the specific objectives of EC-supported PSD programmes at country level do not always correspond to the requirements of the strategy.

EFFECTIVENESS: Overall, the effectiveness of EC PSD interventions depends on a series of recurring factors which, however, were not systematically taken into consideration, thereby limiting the interventions' effectiveness: when selecting an area of intervention, the lack of detailed analysis often led to *ad hoc* area selection; during programme design there was often a misalignment between programme-specific objective and those laid down in the EC PSD strategy, a lack of correspondence between programme components and real obstacles to development, limited outreach to and non-strategic selection of beneficiaries, and a lack

¹ 'Business sector' is defined as including private and public owned enterprises operating under market conditions. The common expression 'Private Sector Development' covers in fact the development of the business sector.

of building on past experience. It was observed that during programme implementation not all planned activities were carried out. Finally, there is an inadequate monitoring and evaluation system, with indicators too often focused on outputs rather than impacts.

SUSTAINABILITY: The analysis of sustainability of PSD interventions takes into account the sustainability of the *benefits* produced by the project and, when appropriate, sustainability of the *activities* proposed. Despite the lack of information on sustainability, the following elements could be highlighted. First, an environment conducive to PSD is a basic condition for the sustainability of all PSD interventions. Second, sustainability seems more likely when PSD interventions are linked to institutional development or when they contribute to improving private sector practices or competences. Third, sustainability of interventions in the business environment, as well as of interventions providing direct support for companies, depends on government's ownership, particularly its capacity to own a process at the end of an intervention. Finally, interventions are less likely to be sustainable when they offer direct support to private sector operations without generating a substantial change in behaviour, practice or knowledge.

EFFICIENCY: As with other sectors of EC co-operation, two key factors inhibiting the efficiency of many EC programmes are the complexity of EC procedures and the delays incurred at different stages of the programme cycle. On the other hand deconcentration seems to have enhanced the efficiency of EC operations (quicker decision-making, better identification of needs and possible lower cost), but has also brought with it some concerns: (i) strategic aspects are not yet sufficiently taken into account because Delegation staff are overloaded with operational tasks or are not sufficiently prepared for these new responsibilities and (ii) sharing of experience may become even more difficult than in the past.

COHERENCE: With regards to coherence with other European policies and strategies, EC PSD policy documents do not analyse how other European policies or strategies can affect, positively or negatively, Community support to private sector development in third countries, the

objective of which is to enhance the business sector's competitiveness in local and international markets. Likewise, very few CSPs analyse the coherence of Community support with European policies, and PSD programme documents seldom if ever address the issue. Moreover, such aspects, although central to an appreciation of the programme's impact, are not covered by follow-up, monitoring or evaluation procedures and reporting. Neither is coherence with EC support to other sectors in third countries adequately ensured. Yet trade, regional integration and macroeconomic support are three increasingly important areas of co-operation for the EC, all of which have immediate implications for PSD.

DONOR COORDINATION: Donor coordination at central level is ensured by the Commission Services and shared *via* the Thematic PSD Network. At country level the effectiveness of coordination practices has recently improved although it is still quite varied. Sharing of information between donors and with the government has improved significantly but so far few joint activities or projects have been undertaken. Furthermore, the risk of overlap was found to be important, especially for meso- and micro-level interventions. It is in this type of intervention that effective coordination is sometimes hampered by national interests. In spite of this, donor coordination is possible in specific areas of intervention where conflicts of interest are less in evidence (e.g. legal and regulatory framework, institutional capacity and policy dialogue) as well as in those instances where the potential for coordination across areas of intervention is high, such as local economic development.

CROSSCUTTING ISSUES: Four crosscutting issues are analysed: gender; environment; social issues such as working conditions or child labour; and good governance. Although most country programming documents explicitly mention crosscutting issues, they do not give directions for systematic integration of these issues into the co-operation strategy and in particular into the PSD strategy. Further, they seldom provide monitoring indicators and baseline information. In addition, the evaluators did not find evidence of any systematic attempt at concretely integrating CCI into EC PSD interventions.

3. Conclusions

3.1 Overall assessment

Much progress can be noted through the period of evaluation on the understanding of the key role of the private sector on development. This evolution is reflected on different orientation documents and a milestone is the strategy proposed through the COM(2003)267. This strategy also reflects efforts made to provide Community PSD support in a comprehensive and coherent way to all third countries.

Whilst the strategy is comprehensive at covering most dimensions of PSD, one major weakness is the ambiguity on the message conveyed. For instance, it mentions that a particular attention should be given to macro-level interventions but it also leaves much room for micro-level programmes that can crowd-out private initiative or introduce market distortions. This ambiguity is reinforced by a second weakness; the fact that little orientation is given to prioritise among the areas of intervention proposed. Given the transversal dimension of the private sector, this means that the strategy is too open, scattering EC efforts among all sorts of programmes in different areas, with different focuses and with different degrees of success. A second consequence of these two limitations, a majority of the EC staff responsible for implementing Community support to PSD lacks the necessary strategic vision on how to support PSD, with direct consequences on the implementation: uneven implementation in the field and a limited contribution to the competitiveness of the private sector in beneficiary countries - even for more recent programmes.

3.2 Community PSD Strategy

In terms of progress achieved, there is first an **increased awareness of the importance of PSD for third countries** (CS-1), as the private sector is now accepted by the EC as a critical factor in poverty reduction. This awareness is reflected in the **drawing up of a single strategy for all third countries** (CS-2). Also reflecting the importance given to PSD support is the **creation of an informal Thematic Network** (CS-3) for PSD at HQ level, as well as **improved donor**

coordination (CS-4), in spite of the fact that the latter is particularly demanding in the area of PSD support.

Beyond this positive progress, certain challenges lie ahead. First, the **strategy still conveys an ambiguous message** (CS-5) on the way in which the State and the Community should support PSD, which has direct consequences for how the strategy can be disseminated, understood and used by the staff. In addition, **the strategy does not prioritise between the 5 different areas of intervention proposed** (CS-6) and no guidelines or criteria have been laid down to help staff select the right area for a given situation. As a consequence, in most cases staff decide on the basis of personal preferences, past programmes or beneficiaries' requests. Furthermore, **the EC PSD strategy has not been sufficiently disseminated** (CS-7) and thus appropriated by the staff, with the consequence that the strategy remains largely unknown to a majority of EC staff. The ambiguous message of the strategy and the subsequent difficulties of disseminating it among the staff resulted in a **lack of strategic vision among the staff** (CS-8), which leads to **uneven implementation of the strategy** (CS-9).

3.3 Implementation of PSD support

A) ACROSS AREA OF INTERVENTION

CI-1: When programming a country PSD strategy, **the absence of a methodical process for selecting an area of intervention limits the effectiveness of interventions.** For a given area of intervention, the degree of effectiveness in improving business sector competitiveness will vary depending on a number of factors, including the degree of priority attached to this area in that country, the comparative advantage of the EC in that area and the preconditions that need to be met before intervening. The EC does not systematically assess these factors, let alone take them into account when selecting its areas of intervention in a given country.

CI-2: PSD activities are not designed so as to **improve the competitiveness of the private sector in a sustainable manner.**

During programme design PSD activities do not sufficiently take into consideration certain factors that affect the extent to which EC programmes improve the competitiveness of the private sector in a significant and sustainable way. First, programme objectives are not systematically geared towards achieving the objectives stipulated in the EC PSD strategy. Second, key constraints bearing on success are not sufficiently addressed. Third, most meso- and micro-activities lack sufficient outreach and are not targeted on the most adequate beneficiaries. Finally, lessons from the past are inadequately taken into account.

CI-3: There is no systematic attempt to maximize complementarities between areas of intervention or to ensure coherence between PSD and other sectors or other EU policies.

First, complementarities between areas of intervention are seldom exploited. Second, coordination between PSD interventions and interventions in other sectors - including trade, regional integration and macroeconomic support - is limited. Third, while the risk of incoherence is even greater with respect to other EU policies, little is done to ensure that EU policies take into account development objectives as required by the Treaty.

B) BY AREA OF INTERVENTION

1) BUSINESS ENVIRONMENT: Many EC business environment programmes have been successful, in large part due to their high relevance (CI-4). However, while it is a key precondition for successful implementation of macro-level programmes, **strong political involvement of partner governments is not systematically ensured** (CI-5). That said, **some EC practices have positively influenced government involvement** (CI-6), for example through minimising delays, consulting all relevant stakeholders, entering into joint implementation with other donors and proposing reforms at provincial rather than central level when applicable. Furthermore, **support to intermediary organizations has been an effective way of influencing government policies** (CI-7).

2) FINANCIAL SECTOR: Most meso- and micro-level EC interventions in the financial sector were **unsuccessful at addressing the obstacles to access to finance** (CI-8). Similarly, programmes aimed at financing specific investment projects through direct capital contribution have usually been successful in delivering expected outputs but **unsuccessful with regards to the objectives of the EC PSD strategy** (CI-9). Finally, the PSD Guidelines are not sufficiently clear regarding **the role of the Commission in interventions in the financial sector** (CI-10).

3) BUSINESS DEVELOPMENT SERVICES: By focusing on direct delivery of BDS, **not all programmes aimed at reinforcing local BDS markets** (CI-11) and, as a result, these programmes did not succeed in meeting the criteria of outreach and sustainability. The misalignment of the objectives of EC programmes with those proposed by the Blue Book results partly from the fact that **the EC strategy is not totally aligned with the Blue Book BDS paradigm** (CI-12). Despite the positive evolution towards a greater focus on reinforcing local BDS markets, **EC programmes do not adequately address the failures of such markets** (CI-13) and in consequence have been unsuccessful in reinforcing local BDS markets. Two factors help explain the inadequacy of EC solutions to existing market failures: first, **the EC neither assesses market failures sufficiently nor devises adequate supply-side solutions** (CI-14). **Some BDS programmes have successfully achieved their specific objectives**, conditioned however on the problem of outreach (CI-15).

4) INVESTMENT AND INTER-BUSINESS CO-OPERATION PROMOTION: Partnership interventions have been **effective under regional and national programmes** (CI-16).

4. Recommendations

4.1 Community PSD strategy

First of all, it is important to **clarify the message** conveyed by the strategy on the role that the EC, as development agency, should play in terms of PSD. Further, it should be made clear **why and how the EC can and should support PSD with a view to contributing to wider development and co-operation objectives (RS-1)**.

In addition, the strategy should **prioritise the various areas of intervention (RS-2)**: priority should be given to interventions at macro-level, while interventions at micro-level should be treated only as complementary and implemented only when the business environment is considered adequate.

Third, there is a need to **increase ownership** of the strategy with a view **to reaching a unique and common Community vision on PSD support (RS-3)** through wide dissemination using all available channels. Fourth, when updating the COM(2003)267 and the Guidelines, their different functions should be kept in mind (RS-4): a communication should define theoretical aspects and give policy guidance; the Guidelines should be seen as operational support. Finally, PSD aid effectiveness can be increased through the **sharing of experience**, both between the different actors involved in EC PSD support and between third countries, by **building on the Thematic Network (RS-5)**.

4.2 Implementation of PSD support

A) ACROSS AREAS OF INTERVENTIONS

First, despite the fact that there is no one-size-fits all approach to PSD interventions, it is important to **adopt a methodical procedure for selecting areas of intervention in a given country (RI-1)**. This should at least include: a critical assessment of the priority areas of interventions; selecting an area in which the EC has a comparative advantage (interventions in the business environment should be encouraged but micro- and some meso- level interventions in the financial sector avoided); and an assessment of whether the pre-conditions for

intervening in a given area have been met. Second, design PSD programmes with a view to **improving business sector competitiveness in a sustainable manner (RI-2)**, which involves aligning programme objectives with those stipulated in the EC PSD strategy and addressing the key constraints bearing on success in the areas of intervention. Third, maximize **complementarities between areas of intervention, as well as coherence** between PSD interventions, interventions in other sectors, and other EU policies (RI-3).

B) BY AREA OF INTERVENTION

1) **BUSINESS ENVIRONMENT: Interventions aiming to improve the business environment should be encouraged, as long as there is sufficient government commitment (RI-4)**. This decision should involve an assessment of the level of government involvement and well as a maximization of involvement through several possible channels of action. Second, **encourage support to intermediary organizations as a way of influencing private sector policies (RI-5)**, by following a set of best practices.

2) **FINANCIAL SERVICES: Avoid meso- and micro-level interventions aimed at intervening in financial markets, unless in co-operation with other financial institutions (RI-6)**. In addition, PSD Guidelines should leave no ambiguity regarding **the role of the EC in financial market interventions (RI-7)**; clarifying the Guidelines on the role of the Commission, on the one side, and the EIB and the EBRD, on the other.

3) **BUSINESS DEVELOPMENT SERVICES: BDS programmes should aim at reinforcing local BDS markets and not at the direct delivery of services (RI-8)**. Moreover, those **programmes should address prevailing BDS market failures rather than advocate demand-led subsidies by default (RI-9)**. The latter requires an assessment of the local BDS market and of the exact reasons for market failures; use of supply-side measures whenever necessary; flexible programme design; an adequate balance between international and local consultants; and an avoidance of programmes with only limited potential impact on the economy.

1. Introduction

1.1 Mandate and purpose

The 2003 evaluation plan of the EuropeAid Co-operation Office provided for the Evaluation Unit to undertake an evaluation of European Community Support to Private Sector Development in third countries.

As stated in the Terms of Reference, the objective of the evaluation is to contribute to improving the coherence of the Commission's sectoral approach through an assessment of the Commission's co-operation activities in Private Sector Development (PSD) in the context of the objectives of the various national and regional co-operation and development programmes. It also addresses the need for enhanced coherence between the objectives of private sector development support and the Commission's other policy objectives.

1.2 Results and users

The main output of this study is an *ex post* evaluation of the Commission's strategy and actions in support of PSD over the period 1994-2003 through an assessment of the key issues reflected in the Evaluation Questions. The evaluation provides an assessment of the steps taken by the Commission to improve the relevance and coherence of programming, targeting and the instruments chosen.

The final report gives an overall judgement on fundamental aspects of the Commission's past performance and on the relevance of its proposed approach. The evaluation should serve policy-making, sectoral decision-making and project management purposes both for the Commission Services and for governmental and civil society partners.

1.3 Phases of the evaluation

The evaluation has been carried out under two contracts. Between October 2003 and June 2004, a **Desk Evaluation** of 'European Community Support to Private Sector Development in Third Countries' over the period 1994-2003 was carried out. This desk evaluation was based on an analysis of documents collected in Brussels and was complemented by interviews with Commission officials and a questionnaire sent to a sample of Delegations. The evaluation's Final Report (June 2004) included a set of Evaluation Questions (EQs), findings in relation to each of these EQ, a thorough analysis of the evidence and preliminary conclusions and recommendations.

The desk approach on its own had certain limitations: strategic and policy aspects could be well enough covered through documentation analysis and interviews in Brussels, but more specific aspects regarding implementation and impact of projects and programmes were

difficult to assess without field missions. For this reason, the Evaluation Unit requested ADE to complement the Desk Evaluation with a Field and Synthesis Phase.

The aim of the second phase was: to search for new information; verify working hypotheses; and to test, refine and possibly complement the preliminary analysis, findings, conclusions and recommendations arrived at during the Desk Evaluation by carrying out an analysis of PSD support in five countries (Jamaica, Mexico, Morocco, Vietnam and Zambia). Furthermore, given the key role that the PSD Thematic Network can play on EC support to PSD, it was agreed to carry out a survey focusing on the exchange of information and tools between Headquarters and Delegations. This Field and Synthesis Phase was carried out between October 2004 and July 2005.

1.4 Structure of Report

The report is organised as follows:

Section 2 presents the main findings on EU regional co-operation policy; the Commission's strategy for support to private sector development in third countries as well as the implementation of EC interventions in support of private sector development in the different co-operation programmes. This Section is complemented by Annexes 5 to 10 where the information collected during the different phases of the evaluation is presented. To help the reader, the substantial information base used for this evaluation is described and presented not in the main report but in the annexes.

Section 3 contains an analysis, based on the evidence presented in Section 2 and in Annexes 5 to 10, of the Commission's strategy and interventions in support of private sector development over the past decade, according to four evaluation criteria and three horizontal themes: relevance, effectiveness, sustainability, efficiency, coherence, coordination, and crosscutting issues such as gender, environment and good governance.

Section 4 presents the main conclusions and an overall assessment of past Community support to PSD based on the analysis section.

Section 5, finally, presents the main recommendations deriving from the conclusions.

The **annexes** are organized as follows:

Annex 1 presents the Terms of References for Phases I and II.

Annex 2 contains the bibliography used during the evaluation².

Annex 3 contains a list of people met during the evaluation.

Annex 4 covers the methodological aspects of the evaluation with a view to explaining the processes, methods and tools used to conduct the evaluation; it is both descriptive and normative, thus providing both an overview and an assessment of the methodological approach used in the evaluation.

Annex 5, as mentioned above, contains all the information collected during the different phases of the evaluation and which constitutes the basis of the analysis.

Annexes 6 to 10 present Country Notes with information specific to the country cases.

² The bibliography specific to country missions is included in each of the Country Notes (Annexes 6 to 10).

2. Findings

This section presents the main factual elements collected by the evaluation team through the analysis of documents, interviews in Brussels, the survey and five country missions. They are organised and presented as follows: first, a brief summary of the European Union's *co-operation policy* with third countries or regions³ which provides the objectives to which PSD support must contribute; second, the Commission's *strategy for supporting the development of the private sector in third countries* and how this strategy relates to the overall co-operation policy of the EU; third, information on the implementation of EC interventions in support of private sector development in the different co-operation programmes.

2.1 Brief summary of EU development and co-operation policy

The European Union maintains co-operation relations with different regions and countries around the world. This evaluation concentrates on co-operation with the developing countries, countries in transition or reconstruction, the so-called "emerging economies" and Mexico⁴. These countries have different levels of socio-economic development and play distinct geopolitical roles. Therefore, co-operation with each of them differs substantially, particularly in terms of the objectives of co-operation and the prioritisation of funds allocated. Co-operation with groups of countries is often framed under specific co-operation agreements with an internal European legal basis. The five co-operation programmes considered for this evaluation are: ACP, ALA, MEDA, TACIS and CARDS⁵.

ACP countries are the main beneficiaries of EU aid and the EU is also their largest investor. Moreover, the ACP group contains the largest proportion of the least developed countries in the world, most of which are very small economies with poor links to the world economy, and among the last to face the challenges of globalisation. The historical relations between the ACP countries and the EU, from the Yaoundé Conventions to the Cotonou Partnership Agreement, have evolved towards a clear link between development support and a policy framework favourable to trade and development. The focus is on removal of barriers to trade, regional co-operation and on enhancing all trade-related co-operation areas.

While EU relations with the ACPs have been established with *poverty reduction* as their main objective, regions that include countries on average more developed than the ACP countries tend to have relations with the EU directed towards a "partnership" in which mutual economic interest is an essential element of the relationship. The "partnership" approach has been developed in EU co-operation with the ALA and MED countries in particular.

³ The sub-section is largely drawn from "Clarifying the definitions of EC economic co-operation with third countries", EC-ADE, 2002.

⁴ This definition of "third countries" is based on the COM(2003)267 on PSD support.

⁵ For a more complete bibliography, see "Clarifying the definitions of EC economic co-operation with third countries", EC-ADE, 2002.

In **Asia and Latin America (ALA)**, partner countries often have a relatively highly developed society, many are middle income although some are very poor, and distances are huge both within the continents and in relation to the EU. Their economic and political situation, the relatively new mutual awareness approach between them and the EU, and the objective of increasing EU presence in “emerging” markets, drives *co-operation towards partnership* in which economic instruments play an important role.

Mediterranean (MED) countries have a long tradition of trade with all parts of the world and with the EU in particular, due to their long common border. However, political relations between the two regions have been troubled during the course of history. Mediterranean countries are in general low- or middle-income economies, while security issues are a priority for the EU in its relations with this region. Furthermore, institutional changes in the private and public sectors play an increasing role in the region, which is historically state-led. One of the main objectives of the co-operation is to *create a Euro-Mediterranean free trade area*.

Security is also one of the foremost concerns in co-operation with the **Commonwealth of Independent States (CIS)**. Nuclear activities in these territories are the most insecure in the world and compound widespread economic and physical insecurity in the region. Their recent status as independent states has necessitated a thorough process of transition from a planned to a market economy, with very high social costs. Therefore the key *institutional foundations of a market economy and democracy* have to be established. Furthermore, the trade interdependency between the Russian Federation and the EU is significant, and trade benefits will increase once the elements of a regulated market economy are in place.

In the **Balkans**, after an initial period of co-operation concentrated on post-war reconstruction, EU co-operation has developed a more strategic focus and currently aims at the *stabilisation and association process* in these countries in relation to the European Union. It covers *inter alia* the following: reconstruction; stabilisation of the region; return of refugees; support for democracy, the rule of law and human and minority rights; the development of a sustainable market-oriented economy; poverty reduction and gender equality; and interregional co-operation. EU co-operation is part of the Stability Pact agreed between major donor countries, regional and international organisations and international financing institutions. Because of its geographical proximity to, and consequent interest in, the reconstruction of the area, the EU's stake in the stabilisation and association process is very strong.

These regional differences are reflected in the objectives and implementation modalities of EU co-operation policy. Indeed, the EU Treaty and the Commission Communication (2000)212 on Development Policy state that Community development policy shall foster: (i) poverty reduction, (ii) integration into the world economy and (iii) sustainable development, while at the same time contributing to the development and consolidation of democracy and the rule of law, and respect for human rights and fundamental freedoms. In addition to these goals, external relations with non-OECD countries address the issues of security and stability and aim at enhancing the political, economic and cultural presence of the EU in these regions. These objectives are articulated and have different priorities for each of the co-operation programmes.

Poverty reduction is the main goal of the EC co-operation programme with the ACP countries. EU relations with the CIS and the Balkans are also concerned with poverty reduction and specifically address the adverse social consequences of transition. Similarly, co-operation with the poorest Asian and Latin American countries has as its main objective the reduction of poverty. The Euro-Mediterranean Partnership Agreement places among its long-term objectives the establishment of an area of prosperity through sustainable and balanced socio-economic development and poverty reduction.

Integration into the world economy is a EU objective that concerns all regions covered by its external relations policy. The ACP group faces a major challenge in this sense due to its marginal position in the world economy. Trade liberalisation is seen as an essential contribution to development and poverty reduction. In the Balkans, MED and ALA, regional co-operation is an objective as such, being at the same time a means to trade liberalisation and, therefore, integration of these countries into the world economy. As regards the CIS and the Balkans, as areas bordering the EU their integration into the EU co-operation area and the abolishment of trade barriers must precede association with the European Union.

Security and stability are seen as major elements in the building of democracy, establishment of the rule of law, and respect for human rights. These objectives are at the same time pre-conditions for all European co-operation interventions. Further, Building peace and ensuring physical security are the EU's prime concerns towards re-establishing stability in the Balkans in parallel with post-war reconstruction. Within this framework, improved living conditions for displaced persons and refugees after the years of conflict are among the goals of EU relations with these countries. Some ACP countries and parts of the CIS (Caucasus and Central Asia) and Mediterranean regions also attract EU support in these areas.

Enhancing the **EU's political, economic and cultural presence** in the region is the main feature of EU external policy in the ALA countries. The intermediate level of development of most these countries and their geographical distance from the EU steer co-operation into areas of mutual interest to both regions, from private investment to cultural awareness. Similar elements can be found in other territorial zones, for example the third pillar of the Euro-Med Partnership or cultural co-operation with the ACP countries.

2.2 The Commission's strategy for support to PSD

2.2.1 The international background to the evolution of the strategy

Until the mid-1980s the development paradigm was strongly influenced by the idea that international markets favoured industrialised countries. Accordingly, developing countries could only grow behind protective trade barriers that kept out exports from the industrialised world. Therefore autonomous or self-sufficient development was encouraged. Further, it was believed that free markets alone could not generate adequate growth and the necessary structural economic changes, and that governments had to have a major role in planning and promoting the economy, including public sector enterprises to undertake the investments that the market would not provide.

In the late 1980s, however, the failure of these policies and the success of mainly Asian export-oriented economies led to a serious questioning of protectionist approaches. The weaknesses of the macro-economic environment were identified as the main problem and IFIs and donors responded with structural adjustment programmes.

During the 1990s, other dimensions of national contexts, such as obstructive institutional settings, corruption, poor governance and unpredictable policy changes were also identified as major problems that needed addressing in the interests of promoting economic growth.

Community co-operation with **ACP** countries reflects this evolution. The overall co-operation objectives have been made clearer over time. Addressing poverty has become explicitly the overarching objective of European aid to developing countries. Enhancing the competitiveness of developing country enterprises on the global market has also been identified as a necessary condition for promoting growth and poverty reduction.

In other regions the situation was slightly different. In **Asia and Latin America**, the context was different and the relative weight of European aid was much more limited, preventing the EC from having the same influence on the institutional and economic framework. In these areas, the concept of "mutual interest between economic actors" was advanced and priority was given to the setting up of direct partnerships between institutions and companies from these regions and their European counterparts⁶. EC co-operation with countries eligible for assistance through the **TACIS and CARDS** programmes was almost non-existent until the early 1990s. The CARDS programme (Community Assistance for Reconstruction, Development and Stabilisation) was established after the conclusion of the OBNOVA and PHARE programmes.

Based on that background, the Commission approach to supporting PSD in ACP countries has been balanced, since the beginning of the period under review (1994), between three levels of intervention: "macro" (enhancing the macro-economic, institutional and regulatory framework to stimulate local and foreign investment), "meso"

⁶ COM(1995)495 on partnership with Latin America for the period 1996-2000 and, later on, COM(2001)469 on the strategic framework for enhanced partnership between Europe and Asia.

(supporting intermediary institutions such as the financial sector or representative organisations); and “micro” (direct financial and non-financial support to enterprises)⁷. This approach was clearly formulated in the 1998 Communication on private sector development in ACP countries⁸.

In May 1999 the Council extended to all developing countries the approach based on the 1998 Communication. More recently the European Commission has issued two important documents on private sector development: the COM(2003)267⁹ and the Guidelines on PSD support¹⁰. The main innovations of this strategy are: a **harmonised Community approach** and the proposal to focus on **five areas of intervention**. These documents present the official position of the Commission on PSD support.

2.2.2 Reconstructing the rationale of Community support for PSD

Often, complex policies and strategies are presented in policy documents without including an explicit logical framework. Yet to carry out an evaluation of such policies or strategies, the evaluator must identify and rank the objectives of the strategy. In this context, an intervention diagram is an effective tool for reconstructing and presenting the framework of objectives.

In the case of Community support to PSD, the strategy is presented in the COM(2003)267 and the Guidelines but no logical framework is provided. Therefore, one of the first tasks of the evaluation team was to infer the intervention logic of Community support to PSD and present it diagrammatically. The resultant diagram was used to identify and structure the data collection needs including the undertaking of interviews and, at the next stage, to identify the appropriate Evaluation Questions that would govern the overall analysis. A detailed explanation of how the intervention logic was reconstructed and of the main underlying assumptions is presented in Annex 4, Section 3. The following paragraphs present a brief summary.

... based on the most recent policy declarations

The COM(2003)267 and the Guidelines are fairly recent and therefore could not have guided the interventions under evaluation. But it still seemed relevant to use them as the basis on which to reconstruct the logic of the Commission’s interventions in the sector. Indeed the five areas of intervention proposed in the above-mentioned documents cover most past interventions (Annex 5, Sections 2 and 3), and despite of the lack of fairness of

⁷ See notably the Convention of Lome IV, art 111, Mauritius, November 1995; Le Livre Vert sur les relations entre l’Union Européenne et les pays ACP à l’aube du 21ème siècle, Brussels 1997, p 35-36; and the Convention of Cotonou, June 2000, art 21.

⁸ A European Community strategy for Private Sector Development in ACP countries, COM(1998)667 final - Communication from the Commission to the Council and the European Parliament. Hereafter referred to as COM(1998)667.

⁹ European Community Co-operation with Third Countries: The Commission’s approach to future support for the development of the Business sector, COM(2003)267 final - Communication from the Commission to the Council and the European Parliament. Hereafter referred to as COM(2003)267.

¹⁰ Guidelines for European Commission Support to Private Sector Development, version 1, 2003. Hereafter referred to as PSD Guidelines or simply Guidelines.

the basis for judgement in this limited sense, assessing the interventions against the most recent strategy improves the usefulness of the evaluation since it allows provision of recommendations more relevant to future decision-making.

... with one framework for all regions

It was also decided to attempt to reconstruct *one single* intervention logic to reflect EC support to PSD in all regions. Interventions in the five regions differ according to their specificities and to the different priorities of the EU policies in these regions, as presented in Section 2.1. However, since 1999 the EC has set out a single coherent framework within which support for the business sector is harmonised in all third countries, which justified launching this global sector evaluation instead of five regional ones.

... and different levels of objectives

The diagram in page 9 presents the links between:

- the five *overall objectives* of the European co-operation and development policy as stated in section 2.1;
- the *specific objective*¹¹ of the Commission's PSD strategy aimed at contributing to these overall objectives, namely **enhancing the competitiveness of the business sector¹² of third countries in local and international markets¹³**;
- the *expected results* needed to achieve this specific objective, which largely correspond to the five areas of intervention proposed by the COM(2003)267 and the Guidelines¹⁴; *and*
- the *activities* carried out to deliver these results.

As prioritisation of these objectives and the activities carried out to achieve them are not identical in all geographical regions, the general diagram was adjusted to reflect regional realities (see Annex 4, Section 3). Overall, given that the specific objective of the Community support to PSD is unique and is the same in all regions, it was concluded, at the structuring stage of the evaluation, that:

- it was possible to identify a common set of objectives against which the interventions can be evaluated, despite regional variations in terms of priorities; *and*
- it was possible to define the **scope** of what is understood by EC support to PSD as **all interventions aiming at enhancing the competitiveness of the business sector of third countries in local and international markets.**

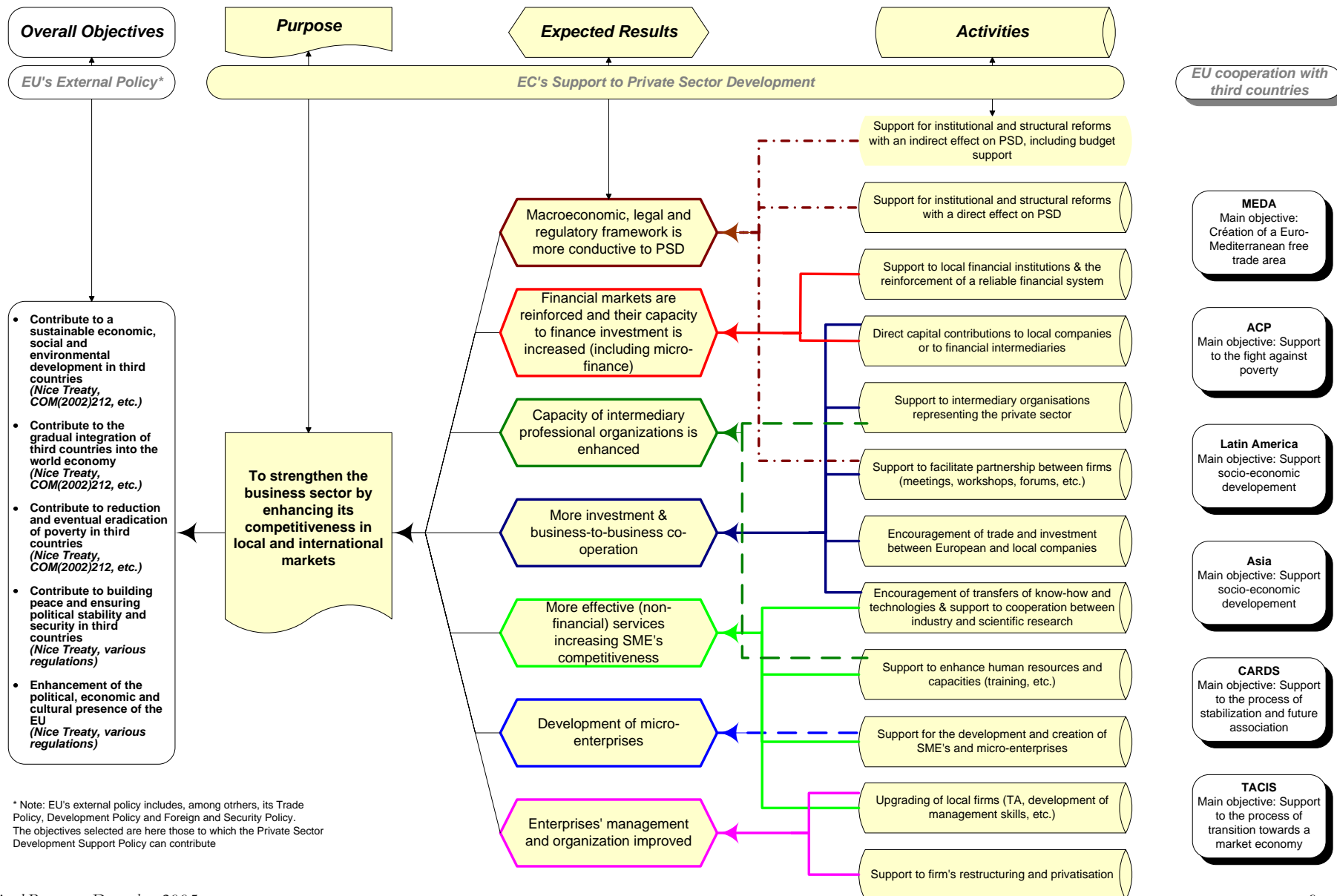
¹¹ The terms "specific objective" and "purpose" are used as synonyms in this report.

¹² 'Business sector' is defined as including private and public owned enterprises operating under market conditions. Agricultural production has been excluded from the analysis but not agricultural products processing. The common expression 'Private Sector Development' covers in fact the development of the business sector.

¹³ As substantiated in Annex 4, Section 3, overall and regional policy documents are at one in defining the aim of the Commission's support to PSD as enhancing the competitiveness of the business sector of third countries in local and international markets.

¹⁴ The expected results derived from the five areas of intervention have been complemented by two expected results derived from the analysis of the portfolio of EC interventions to support PSD.

Diagram 2.1 - Intervention Logic of Community Support to Private Sector Development



2.2.3 PSD Thematic Network

Elaboration of the two afore-mentioned key documents on EC PSD support was the responsibility of the **PSD Thematic Network**, an informal group formed by EC staff from EuropeAid, DG-Dev and RELEX. The network has functioned at HQ level as a platform for exchanging experience between officials with geographical or horizontal responsibilities in the sector. They also discussed their respective experiences and the outcomes of debates in international fora or with other donors. In addition to the elaboration of the COM(2003)267 and the Guidelines, the network has created a thematic intranet website available to staff in Brussels and the Delegations.

Following a recent reorganisation in EuropeAid (spring 2005), many members of the Thematic Network have been transferred to a new Unit, under the Operations Quality Support Directorate of EuropeAid, dealing exclusively with business, trade and regional integration. The new Unit will probably revise the organisation of the Network. However, prior to these changes the evaluation team carried out a **survey of EC Delegations** with the objective of, on the one hand, investigating the Delegations' knowledge and use of the PSD Thematic Network website and, on the other, assessing the Delegations' needs in terms of the exchange of thematic information tools, including the type of information needed and the most appropriate channels.

The survey showed that the Delegations' **knowledge and use** of the PSD network website is so far limited, 33% of respondents (out of 16) being aware of the website's existence and only 13% using it. Reasons given for the lack of knowledge included the fact that the website is relatively new, the lack of "proactive" promotion of the network and website, and the high turnover of staff at the Delegations coupled with the lack of information-sharing between the rotating staff. Reasons given for the limited use of the website include the belief that the information it contains is too limited for their needs and that a website is not a sufficiently pro-active channel for exchanging information or tools. Given that most respondents did not use the website, very few insights were generated into the type of information or tools used most frequently.

In terms of **needs assessment** several aspects were highlighted. Respondents contended that while the overall objectives of EC support to PSD (e.g. poverty reduction) may be known, there is a lack of guidance on the best methods of contributing to achievement of these objectives. Such guidance is particularly relevant for PSD interventions. Support for PSD as a development activity implies a significant change in perspective on the part of many stakeholders, as well as some Commission staff, on issues such as the role of the State in the economy and the acceptance that the private sector plays an important role in development. Moreover, PSD interventions are rendered complex by the fact that, first, they are transversal insofar as they may imply interventions both at government level and at firm level, and, second, that PSD is interdependent with interventions in other sectors (e.g. trade, infrastructure). Finally, intervention in this sector is fairly new. Consequently, the build-up of knowledge about successful PSD intervention is still at an early stage.

Further details on the possibilities for HQ support to Delegations at different stages of the programming cycle, as well as the best channels for providing such support as perceived by the Delegations, are presented in Annex 5, Section 7.

2.3 Implementation of Community strategy in support of PSD

2.3.1 Looking for an inventory of EC interventions

As mentioned in Section 2.2.2, to attain the objective of enhancing the competitiveness of the business sector of third countries in local and international markets, a number of interventions have been carried out. To draw up an inventory of such interventions, the evaluation team used the Common RELEX Information System (CRIS) to compile a *project list* and so provide an overview of PSD interventions undertaken by the Commission in third countries from 1994 to 2003. Since there is no specific sector code for PSD, the evaluation team selected those sectors or sub-sectors which were most likely to include PSD-related projects. The building of an inventory entailed three steps: data collection, data “clearing”, and completion of the project list after cross-checking it against the lists of interventions provided by several EuropeAid Units in charge of PSD support in the different regions. For TACIS and CARDS countries, almost no project information was found on the CRIS database. The details of this process and the limits of the inventory, as well as the actual list of projects, are presented in Annex 5, Section 2.

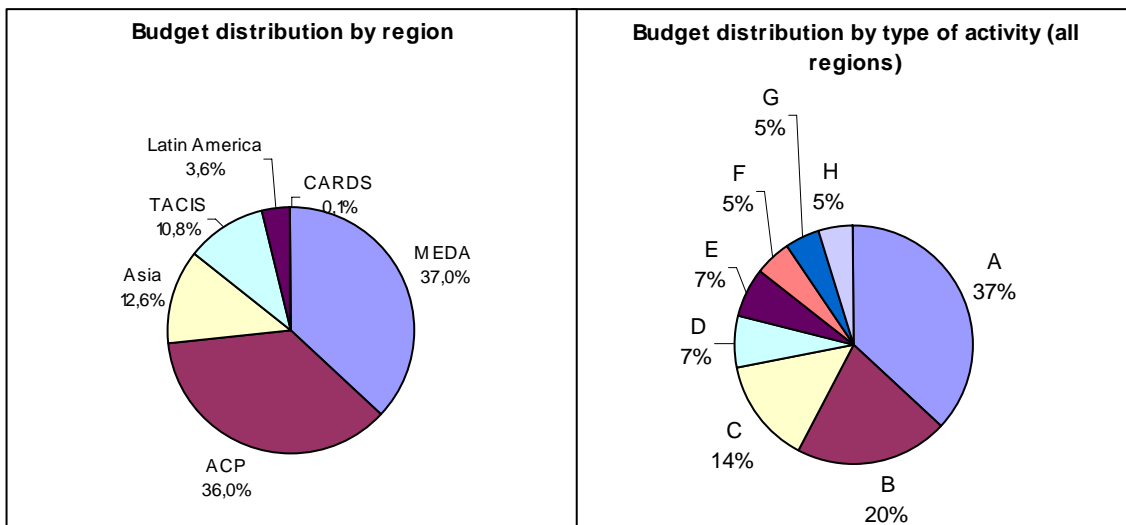
2.3.2 A descriptive analysis based on the inventory

According to the inventory, a total of €4,249.73 million was committed to support for PSD in third countries between 1994 and 2003. The evaluation team analysed the geographical and thematic distribution of this commitment. Details of distribution by region, type of activity, beneficiary country (or sub-region), financing source and date are presented in Annex 5, Section 3.

As shown in Graph 2-1, 37% of total commitments went to the Mediterranean region, the ACP region follows close behind with 36%, followed at some distance by Asia (12.6%), TACIS (11%) and Latin America (just under 4%). During the period of analysis, very few PSD interventions appear to have been implemented in the Balkans/CARDS region, according to the inventory.

An analysis of distribution by **type of activity** shows that 37% of interventions focused on *support for institutional and structural reforms with a direct or indirect effect on PSD* followed by 20.4% on *support for enhancing human resources and capacities*. *Support for the development and creation of SMEs and micro-enterprises* accounted for 14.3% of the total, followed by *encouragement of trade and investment between European and local companies* with 7.3% and *support for firms' restructuring and privatisation* with 6.5%. A minor but not negligible amount was allocated to other types of activities: *encouragement of transfers of know-how and technologies & support to co-operation between industry and scientific research* (5.2%), *support to local financial institutions & the reinforcement of a reliable financial system* (4.7%) and *upgrading local firms* (2%). *Support to facilitate partnership between firms* (meetings, workshops, fora, etc.) and *support to intermediary organisations representing the private sector* together represented 2.2%.

Graph 2.1 – EC PSD interventions per region and per type of activity (1994-2003)



Legend: A: Institutional & structural reforms; B: Human resources, C: Micro/SMEs, D: Trade/investment, E: Restructuring/ privatization, F: Know-how & technology, G: Finance/Banking, H: Others (upgrading local firms, partnership, intermediary organisations, direct capital).

2.3.3 A closer look at a sample of 31 interventions

The analysis of the inventory allowed only a first impression of the implementation of EC interventions in support of PSD. Therefore the evaluation team defined a **sample of PSD interventions** for detailed analysis. To elaborate such sample the decision was made to use an “administrative selection” process in collaboration with the Commission Services in charge of PSD interventions in the different geographical regions. The final sample was so defined as to guarantee a diversity of projects in terms of their geographical distribution and the area of intervention to which they belonged, and to ensure that some information was available in Brussels. The operation and limitations of this procedure are described in Annex 4, Section 2.2.5.

The **31 projects** selected are described in Annex 5, Section 4. They include **15 projects from ACP countries** (2 from Dominican Republic, 3 from Ghana, 3 from Kenya, 2 from Niger, 3 from Senegal, 1 from Uganda, and 1 from Zambia), **10 from MEDA countries** (6 from Egypt, 2 from Jordan and 2 from Tunisia), **4 from Asian countries** (all from Vietnam), and **2 regional projects** (Asia Invest and AL Invest).

For each of these projects the evaluation team analysed both country programming documentation¹⁵ (Country Strategy Papers, National Indicative Programmes, Delegation Annual Reports) and project documents (financing agreements, terms of reference, progress reports, monitoring and evaluation reports). A synthesis of the information collected on these projects and relevant to the analysis is provided in Annex 5, Section 5.

¹⁵ In the case of regional projects, only regional and project documents were analysed.

2.3.4 Five country cases confirmed the findings from the sample...

The information collected from the documentary analysis of 31 projects and programmes was cross-checked *via* country case studies. Countries for case studies were selected through discussions with the Reference Group. It was agreed that five countries would be visited from four co-operation programmes: two ACP countries (Zambia and Jamaica), one MEDA country (Morocco), one Asian country (Vietnam), and one Latin-American country (Mexico). It is worth noting that given the number of missions and the method of selection of the countries visited, the country missions were treated simply as individual case studies and not as a representative sample of EC support to PSD in third countries. The main objective was to cross-check the information collected during the desk study.

For each case study an analysis of the country in the context of private sector development was carried out. This included the general economic, political and social context; a description of the economy with special emphasis on the business environment; the government's policies and actions in support of PSD as well as Community and other donor support to the sector. Further, information for each Evaluation Question (except for EQs 1 and 2 which are only treated at the overall level) was collected and later organized in grids that allowed a horizontal analysis across all countries¹⁶. This information, as well as a fiche for each project analysed (37 projects across the 5 countries), is presented in individual Country Notes in Annexes 6-10. The information from the case studies confirmed the initial findings for those elements on which information had already been collected during the desk study. The case studies, however, also brought to light new data which could not be collected through document analysis, such as information on the efficiency of the interventions.

2.3.5 ...as also did the interviews at HQ and the survey of Delegations

To complement and cross-check the information collected, the evaluation team carried out interviews in Brussels with staff from the Commission or from other organisations such as the CDE or Pro Invest¹⁷. The team also designed and launched a survey targeted on Commission Delegations in third countries. The survey was conducted through a questionnaire containing one section for each Evaluation Question. In total, twenty-five Delegations were asked to respond to the survey, and sixteen responses were received. Once again, an administrative selection process was used in collaboration with the Evaluation Unit. The analytical results of the survey are presented in Annex 5, Section 6. Overall, the information collected through the sample reinforced the findings from other sources.

¹⁶ In fact, information was collected for the *indicators* that allowed to assess each *judgement criterion* that in turn allowed answering the *evaluation questions*. See Annex 4, Section 2.2.4 for a description of how the Evaluation Questions (EQs) were treated and Annex 4, Section 4 for the list of the EQs, judgement criteria, indicators and sources.

¹⁷ See Annex 3.

Box 2.1 - Presentation of a synthesis of the findings

A considerable body of information was collected during the course of this evaluation. To help the reader, this information base is presented in Annexes 5-10. **Annex 5** is structured as follows:

- Section 1 introduces the Annex and explains its contents.
- Section 2 presents an inventory of 453 EC-funded interventions in support of PSD and the methods used to construct this inventory.
- Section 3 presents a descriptive analysis of PSD interventions undertaken by the Commission across the various regions, based on the inventory of 453 interventions presented in Section 2. The analysis focuses on the distribution of planned interventions by beneficiary region, country, type of activity, source of financing and starting date.
- Section 4 presents the sample of 31 PSD projects analysed more in detail during the Desk Phase of the evaluation. Projects are classified by country and a brief description of each project is included. Information includes project name, budget, starting date, objectives (overall and specific) and, in most cases, a comment or some complementary information.
- Section 5 presents a synthesis of the information collected during the Desk Phase of the evaluation. It is organized according to the four evaluation criteria and three horizontal themes covered by the Evaluation Questions: relevance; effectiveness; sustainability; efficiency; coherence; coordination; and crosscutting issues such as gender, environment and good governance.
- Section 6 presents the results of the survey conducted by the evaluation team *via* a questionnaire sent to 25 Delegations. The aim of the survey was to complement and cross-check the information collected during the desk study on the design and implementation of the Commission's PSD policy.
- Section 7 contains the results of a complementary survey focused on the Delegations' knowledge of the PSD Thematic Network and the use they made of it.
- Section 8 presents a description of the PSD strategies of three major multilateral organizations: the World Bank, the Inter-American Development Bank and the Asian Development Bank.

Finally, **Annexes 6 to 10** contain the Country Notes for the five field missions undertaken in Zambia (February 2005), Jamaica (April 2005), Mexico (March 2005), Morocco (April 2005) and Vietnam (April 2005).

3. Analysis

This section presents the analysis of the information collected during the evaluation and presented in Section 2 and in Annex 5. The section is organized by evaluation criterion or horizontal theme: relevance, effectiveness, sustainability, efficiency, coherence, coordination and crosscutting issues. First, for each evaluation criterion or theme, the Evaluation Question(s) related to this criterion or theme is presented in a box along with a synthesis of the analysis. The full list of questions, including judgement criteria, indicators and comments is presented in Annex 4, Section 4. Second, the justification and meaning of the Question(s) in relation to the purpose of this evaluation is presented. Third, the analysis of the information, which in general follows the judgement criteria proposed for each evaluation question, is presented.

3.1 Relevance

EVALUATION QUESTIONS

- EQ1 THE EC PSD STRATEGY RELIES ON THE ASSUMPTION THAT A MORE COMPETITIVE BUSINESS SECTOR CONTRIBUTES TO THE GENERAL OBJECTIVES OF THE EC CO-OPERATION AND DEVELOPMENT POLICIES IN THE DIFFERENT REGIONS. WHICH ATTEMPTS HAVE BEEN MADE TO VERIFY THIS CAUSE-EFFECT RELATIONSHIP?
- EQ2 IS THE EC PSD STRATEGY WELL DESIGNED TO ENSURE THE ACHIEVEMENT OF THE OBJECTIVE OF ENHANCING THE COMPETITIVENESS OF THE BUSINESS SECTOR WITH A VIEW TO CONTRIBUTE TO OVERALL DEVELOPMENT AND CO-OPERATION OBJECTIVES?
- EQ3 DOES THE SELECTION OF THE AREAS OF INTERVENTION IN THE FIELD CORRESPOND TO THE EC PSD STRATEGY? DOES THIS SELECTION CORRESPOND TO CLEARLY IDENTIFIED PRIORITY NEEDS OF THE BENEFICIARY COUNTRY?

SYNTHESIS

The EC PSD strategy proposes five areas of intervention in support of private sector development. These areas cover what is considered to be a comprehensive strategy for supporting PSD. However, the strategy does not sufficiently explain the way in which interventions in these areas can contribute to enhancing business sector competitiveness. It is not sufficiently clear either on the mechanisms through which higher competitiveness can contribute to co-operation and development objectives. As a consequence, implementation of the strategy in the field is uneven: it is not clear why a decision is made to intervene in one area in one specific country; and furthermore the specific objectives of EC-supported PSD programmes at country level do not always correspond to the objectives of the strategy.

3.1.1 Justification

Assessing the relevance of the EC PSD strategy entails three aspects: first, an assessment of the relevance of the objective of the strategy against the overall objectives of the EC co-operation and development policies; second, an assessment of the general design of the strategy; and finally, an assessment of the relevance of the strategy against the specific needs of each country of intervention. Each of these three aspects has been reflected in one Evaluation Question.

3.1.2 Analysis

3.1.2.1 *Is enhancing business sector competitiveness a relevant objective?* (EQ 1)

Assessing the relevance of the EC PSD strategy entails in the first place an evaluation of the relevance of the specific objective (purpose) of the strategy against the issues addressed by the overall objectives of the EC's co-operation and development policies, on the assumption that those objectives reflect identified problems or needs of the EU or beneficiary countries. The objective of Community support to private sector development in third countries is to **enhance the competitiveness of the business sector** in these countries (cf. Annex 4, Section 3). In other words, Commission support to PSD will be relevant if the low competitiveness of the business sector in partner countries is indeed a major constraint preventing progress towards the achievement of EC co-operation and development policy objectives in these countries. As a direct assessment of such a politically fundamental statement is beyond the scope of this evaluation, the evaluation team has focused on examining whether the EC has correctly analysed this assumption. Two aspects were taken into consideration: (i) whether the strategy explicitly tests and justifies the proposition that a more competitive private sector will contribute to achieving co-operation and development objectives and (ii) whether this analysis and justification are convincing or are shared by the main donor institutions and Member States.

As presented in the final report of the Desk Phase¹⁸, links between the competitiveness of the business sector in partner countries and the overall objectives of the EC co-operation and development policies are listed in EC PSD policy documents¹⁹ and particularly in the Guidelines (for instance, see Section 2 of the Guidelines). These policy documents also make explicit reference to theoretical work done by other donor institutions, such as the World Bank, the Development Aid Committee of the OECD (DAC) or the United Nations (UN). These institutions share the view that PSD is a critical dimension of economic growth and hence of poverty reduction. Some of these organizations have developed their own strategies and approaches to PSD support, presenting their own institutional vision. However, **EC PSD policy documents do not provide a detailed analysis or description of how a more competitive business sector contributes to the different overall co-operation and development goals.** As a consequence, the

¹⁸ Cf. Section 4.2.1 of the Desk Phase of the Evaluation of EC Support to Private Sector Development in Third Countries, ADE (2004).

¹⁹ Through this report, EC PSD policy or strategy documents refer to the COM(2003)267 and the Guidelines.

conditions for ensuring that PSD interventions effectively contribute to overall co-operation and development objectives are not clearly stated. It is not clear to all staff why and how the EC should support the development of the private sector within the framework of the development and co-operation policies, which in turn produces a gap between the strategy and its implementation (cf. Section 3.2 on Effectiveness).

3.1.2.2 *Is the strategy proposed the best way to attain the objective of enhancing business sector competitiveness? (EQ 2)*

As the strategy is organized around five areas of intervention, the question covers whether these areas are indeed relevant to the specific objective of PSD support (i.e. to enhance the competitiveness of the business sector); whether conditions have been defined for each area; whether the defined areas are sufficiently comprehensive for tackling PSD support; and whether potential complementarities or priorities between areas have been identified.

a) **Is each area relevant?**

As stated in the COM(2003)267, the Commission's approach to supporting PSD comprises five areas of intervention²⁰. The relevance of each of these areas relies on the assumption that these areas address the main constraints hampering business sector competitiveness. One can find some analysis and justification of the relevance of each area of intervention in policy and orientation documents such as the COM(2003)267 and the Guidelines. However, **the analysis and justification - where they exist - are limited and often rely on implicit assumptions.** Yet research on how these areas of intervention can contribute to enhancing business sector competitiveness does exist²¹. A more detailed analysis would allow staff to better understand the mechanisms of PSD and contribute to building a common EC vision on support for private sector development.

b) **Were conditions defined for each area?**

Based on current research and on past experience of Community support in the sector, conditions could be identified for each area of intervention. Some of the conditions, which apply to more than one area of intervention, were identified through this evaluation and include the following:

- A *macroeconomic environment, legal and regulatory framework* conducive to business growth, or at least that does not deteriorate.

²⁰ Also called *fields of action* in the PSD Guidelines.

²¹ Several institutions carry out research on private sector development. For instance, the World Bank (cf. the programmes on "Doing Business - Removing Obstacles to Growth" and "Investment Climate"), the Committee of Donor Agencies for Small Enterprise Development (with working groups on Business Environment and Business Development Services, for example), the Consultative Group to Assist the Poor (CGAP) and many others.

- A *comprehensive diagnosis* of the main elements conditioning success in a given area of intervention²².
- A *pro-active beneficiary government* with the capability and willingness to collaborate and undertake reforms. This involves the capacity for speedy decision-making in pace with donors' approaches, continuing progress in the national policy agenda, and the ability to provide the necessary legislative and fiscal environment²³. In the area of business environment for instance, recurring examples of low government support include rejection by policymakers of relevant reforms proposed by the EU, or the non-acceptance and non-enforcement of legal & regulatory reforms proposed by legislative bodies.
- A *proper response to anticipated external events* which could put at risk the attainment of a desired result²⁴.
- A *flexible donor*, which is important in the context of PSD interventions for two reasons. First, given the dynamic character of PSD interventions, it is important for programmes to remain flexible so as to ensure they can adapt and thus remain relevant to changing market conditions and government PSD policies. This is particularly important for EC interventions that are characterized by frequent implementation delays²⁵. Second, understanding of PSD constraints (e.g. identifying market failures) often requires a trial-and-error exercise. The latter is facilitated when programmes are sufficiently flexible to allow programme managers to adjust their components²⁶. Such flexibility however relies on high-quality management to make sound decisions.

Yet, from the analysis of the COM(2003)267 and the Guidelines, it is not clear whether conditions are defined for each area of intervention. **Some conditions are mentioned but not in a systematic way.** Neither is it indicated how to proceed if the conditions are not met in a given country: for example whether one should intervene in this area rather than that, whether one should work with the partner country to make progress towards meeting the necessary conditions, or indeed whether one should support PSD at all?

Some of these conditions are mentioned in Country Strategy Papers (often under general "assumptions and risks") and sometimes are repeated in programming documents. But they are usually formulated in a too general manner. In Vietnam for instance, while good governance issues and best administrative practices are mentioned as key features, there is

²² In Vietnam for example, it was noted that a reinforcement of financial markets involves the supply of a credit-line but also the provision of appropriate training to lenders, the removal of major legal obstacles faced by borrowers (e.g. access to land) and lenders (e.g. punishment following the approval of bad debt), and the capacity of borrowers to provide adequate financial information to lenders. In Morocco, reaching expected results in the provision of non-financial services was conditioned on the firms' ability to access finance in order to implement the investments recommended.

²³ In Morocco, delays in the decision-making between the EC and the government created difficulties in implementing some interventions.

²⁴ In Morocco, for example, it is not clear whether the end of the integration process as defined by the Agreement on Textiles and Clothing (ATC) has been sufficiently taken into account.

²⁵ In Zambia for example, the time-lag between the implementation of an intervention targeting a specific industry was too long: at the time of implementation, the targeted industry had lost the "promising potential" identified during the identification phase of the intervention a few years earlier.

²⁶ In Zambia, the PSDP programme was sufficiently flexible to allow the programme manager to adjust the components of the programme in response to a new understanding of the prevailing market failure.

no reference to the specific institutional bottlenecks constraining the development of the private sector. Even in cases when conditions are mentioned in strategy or programming documents, the latter rarely elaborate on how the strategy should be adapted if the identified constraints and risks are not borne out. Further, some of the above-mentioned conditions are not mentioned at all in strategy or programming documentation, often because they have not been properly anticipated (e.g. the link between financial and non-financial services in Morocco).

c) Is the set of areas of intervention proposed comprehensive?

An important issue is whether the five areas of intervention are comprehensive enough to attain the specific objective of PSD support, namely enhancing the competitiveness of the business sector in local and international markets. Compared with other donors' strategies and with what is done in the field by the EC and by other donors, it is possible to say that **the five areas of intervention cover a comprehensive strategy for support to PSD.**

There are, however, a few other areas that are not explicitly covered by the strategy. This is, for instance, the case with 'vocational training' which is an important ingredient of the PSD strategy in Morocco and it is also present in Vietnam²⁷. The Guidelines do include vocational training in the list of activities that could be included under Private Sector Development (page 11) and also as one of the activities carried out in MEDA countries (page 16); but they do not refer again to this activity when developing the different areas of intervention. Despite the positive experience in Morocco, the limited evidence on vocational training does not permit the evaluators to assess the relevance of this area of intervention.

Another area not covered by the strategy is that of 'privatisation and restructuring of enterprises'. Yet in some countries (for example, in the ACP, CARDS and TACIS regions) programmes of this type have been undertaken²⁸. The COM(2003)267 mentions this type of programmes, at the macro- or institutional level (page 6) and to a lesser extent in the area of investment and business-to-business co-operation promotion activities. The strategy does not question the importance of privatisation and restructuring programmes - particularly if undertaken in conjunction with broader economic reforms - for increasing competition and correcting relative prices and therefore for achieving more efficient allocation of resources and higher productivity. However, it also proposes "that the issue of privatisation and State Owned Enterprises should be addressed in a separate Communication" (page 13)²⁹.

²⁷ See Evaluation Question 3 and in particular Judgement Criteria 3.A.1 in both Country Notes.

²⁸ Note that the Intervention Logic proposed by the evaluation team as reflecting the EC PSD strategy (Annex 4, Section 3) includes activities dealing with privatisation and firm restructuring because this Intervention Logic is based both on policy documents *and* the observation of activities carried out in the field.

²⁹ The Reform of State-Owned Enterprises in Developing Countries with focus on Public Utilities: The Need to Assess all the Options, COM(2003)326 final - Communication from the Commission to the Council and the European Parliament.

The last point is directly related to the **problem of the definition of private sector development as a “sector” of co-operation**. During the desk study, an operational definition of private sector development was proposed³⁰ as including *all interventions aiming at enhancing the competitiveness of the business sector in third countries*. This definition, however, does not solve the problem of the links between private sector development support and support in other “sectors” such as trade, institutional capacity building or even more “classical” sectors such as transport, energy or education. Furthermore, private sector development does not always appear explicitly as a “sector” of intervention: it is not among the six priority sectors of intervention in CSP guidelines – although it is included in the sector of trade and economic development – and there is no specific DAC code for it. This implies a certain “inconspicuousness” of PSD. It also implies that it is extremely difficult to identify EC PSD interventions. In fact, the Commission Services do not have a clear and common vision on the EC portfolio of PSD interventions³¹.

d) Were complementarities or priorities defined among these areas?

Finally, there is the issue of the relation between the different areas of intervention. Are some areas complementary? Is this complementarity being exploited in the best possible way? Should successful intervention in one area be considered as a pre-condition for intervention in another area? In general, these issues are not treated in policy orientation papers such as the COM(2003)267 and Guidelines. These documents treat each area in an independent way; they propose a menu of areas from which Delegations can choose. One notable exception is the area of macro- or institutional support. The COM(2003)267 indicates (page 4) that it was “clearly mentioned in the Council’s Resolution of May 1999³² that it is the level on which the Commission should concentrate its activities (“More efforts must be undertaken for the analysis of the general policy and the institutional and regulatory framework in which the Private sector is active”). The Guidelines mention:

“In the case of sectoral policies, a stable macroeconomic framework and a favourable institutional environment are essential prerequisites for achieving tangible and lasting development results. This is even more true for the private sector. The constraints on private enterprise in the developing countries are primarily connected with the role of the public sector. All studies and analyses point to the macroeconomic situation and the institutional and legal framework as major hindrances to national and foreign investment.” (page 22)

However, these orientations are not reflected in the design and implementation of country PSD strategies. In the field, in none of the countries analysed was successful intervention in one area considered a pre-condition for intervention in another area. Some country or project documents mention certain conditions necessary for private sector development (such as the importance of economic infrastructure and human resources for “all forms of

³⁰ Cf. Section 3.3.2 of the Desk Phase of the Evaluation of EC Support to Private Sector Development in Third Countries, ADE (2004).

³¹ Annex 5, Section 2 presents an inventory of EC PSD interventions and details the sources and procedures used in compilation of the inventory, and its limitations.

³² European Council (May 1999), Resolution on EC strategy for the development of the private sector in developing countries.

private sector development” as mentioned in Zambia’s CSP 2001-2007), but they do not explicitly state that prioritisation in these areas is necessary or desirable.

On the other hand, it is observed that some complementarities are exploited in an implicit way, as they exist but they are not presented as an objective within the framework of a comprehensive country PSD strategy. This typically happens between meso- and micro-level interventions, where business associations play an important role in the provision of non-financial services, support for micro-enterprises, or development of vocational training. On the contrary, interventions providing financial and non-financial services have less often been linked and this has been cited as a problem, for example in Morocco.

3.1.2.3 *Are country PSD strategies relevant? (EQ 3)*

Two criteria were used to assess whether a country PSD strategy is relevant. First, whether the areas of intervention chosen to support PSD in that country correspond to the areas proposed in the EC PSD strategy and, second, whether the chosen areas of interventions correspond to clearly identified priority needs of the country in terms of PSD.

a) **Do country PSD strategies correspond to EC PSD strategy?**

When evaluating the correspondence between the selected areas of intervention in a given country and those proposed in the EC PSD strategy, it was kept in mind that the EC PSD strategy was elaborated after the programming of many of the interventions covered in this evaluation. In spite of the latter, evidence from country missions suggest that the **areas of intervention implemented largely correspond to the areas proposed in the EC PSD strategy**. Yet, some evidence suggests that this correspondence is only partial.

First, in some countries, there are PSD interventions in areas not covered by the EC PSD strategy. In Morocco, for example, and to a lesser extent in Vietnam, some EC interventions focused on vocational training, an area that was not explicitly referred to in the COM(2003)267 (see Section 3.1.2.2.c above).

More important, even when the chosen areas of intervention in the field correspond to those proposed by the EC PSD strategy, **it was observed that the specific objectives of the interventions did not always correspond to the expected results of the EC PSD strategy**. This was frequently observed in the areas of financial and non-financial services. In these areas of intervention, EC programmes have focused on the direct provision of such services rather than on reinforcing local markets, as proposed by the EC PSD strategy³³.

In those cases where the areas of intervention chosen in the field do not fully correspond to those proposed in the EC PSD strategy, the question is whether the country PSD strategies should converge with the EC PSD strategy or rather whether the EC PSD strategy should reconsider its scope. While the coverage of this evaluation does not permit a thorough analysis of this question, some of the Evaluation Questions below provide

³³ Cf. Country Notes (Annexes 6 to 10) Evaluation Question 4 – Effectiveness of financial and non-financial services.

insights. An important consideration is the extent to which a chosen area of intervention that falls outside the EC PSD strategy corresponds to the needs of the country. The relevance of chosen areas of interventions to country priority needs and policies is addressed next.

b) **Country PSD strategy correspond to identified needs of the country**

Generally speaking, the **selected areas of interventions in the five countries analysed correspond to clearly identified needs of the countries** and are in line with national policies in terms of PSD. However, evidence suggests that the selected areas may not always correspond to the *priority* needs of the country in terms of PSD. The evaluation teams could not, in most cases, identify why a particular area of interventions had been chosen from the set of relevant areas of intervention in a certain country. For instance, in no case did the evaluation team find evidence of a detailed analysis of the different constraints faced by the private sector or of the reasons to intervene, for example, at micro level rather than at the macro- or institutional level³⁴. This raises questions as to whether the programmes implemented are the best way in which Community support to PSD can achieve its objectives, given its leverage position.

It may be justified for a donor agency to intervene in a certain area, even if the latter does not correspond to a priority need, when the main priority needs are already being tackled by other donors or when the donor decides to focus on an area in which it has comparative advantage (for example, Zambia under the 9th EDF). But even under those circumstances, this type of choice must be explicitly expressed and backed by a thorough analysis of the key priority needs of a country in terms of PSD.

Finally, it is worth noting that certain countries have not, at least not until recently, developed a national PSD strategy with corresponding policies, which makes it difficult to determine to what extent EC interventions correspond to national policies in terms of PSD. The evaluation team found that to be the case in Zambia (under the 8th EDF) and in Morocco. In Zambia, the response strategy proposed by the EC is one of encouraging the government to elaborate and own such policies.

³⁴ See also Section 3.2.2.1.

3.2 Effectiveness

EVALUATION QUESTIONS

- 4.1 TO WHAT EXTENT DID EC INTERVENTIONS MAKE THE INSTITUTIONAL, MACRO-ECONOMIC AND LEGAL AND REGULATORY FRAMEWORK MORE CONDUCIVE TO PSD?
- 4.2 TO WHAT EXTENT DID EC INTERVENTIONS REINFORCE FINANCIAL MARKETS?
- 4.3 TO WHAT EXTENT DID EC INTERVENTIONS HELP INTERMEDIATE ORGANIZATIONS TO INCREASE THEIR CAPACITY TO CONDUCT POLICY DIALOGUE AND TO IMPROVE THE SERVICES PROVIDED TO AND USED BY ITS MEMBERS?
- 4.4 TO WHAT EXTENT DID EC INTERVENTIONS INCREASE TRADE, INVESTMENT AND BUSINESS-TO-BUSINESS CO-OPERATION?
- 4.5 TO WHAT EXTENT DID EC INTERVENTIONS REINFORCE MARKETS FOR BUSINESS DEVELOPMENT SERVICES?
- 4.6 TO WHAT EXTENT DID EC INTERVENTIONS HELP DEVELOP MICRO-ENTERPRISES?

SYNTHESIS

Overall, the effectiveness of EC PSD interventions depends on a series of recurring factors which were not systematically taken into consideration and therefore limited the interventions' effectiveness: when selecting an area of intervention, the lack of detailed analysis often led to *ad hoc* area selection; during programme design, there was often a misalignment between programme-specific objectives and those proposed by the EC strategy, a lack of correspondence between programme components and actual obstacles, limited outreach to and non-strategic selection of beneficiaries, and a lack of building on past experience. During programme implementation not all planned activities were carried out. Finally, there is an inadequate monitoring and evaluation system, with indicators too often focused on outputs rather than impacts.

3.2.1 Justification

According to the Glossary of Key Terms in Evaluation and Result Based Management³⁵, the term effectiveness refers to “the extent to which the development intervention’s objectives were achieved or are expected to be achieved”. The same source notes that the term is “also used as an aggregate measure of (or judgment about) the merit or worth of an activity, i.e. the extent to which an intervention has attained, or is expected to attain, its major relevant objectives efficiently in a sustainable fashion and with a positive institutional development impact.”

³⁵ OECD (2002), Glossary of Key terms in Evaluation and Result Based Management.

In the frame of a global sectoral evaluation, it is relevant to analyze *the effectiveness of the strategy* rather than the effectiveness of (a series of) individual interventions. In order to analyze the effectiveness of the strategy, the evaluation team analyzed a sample of interventions representing the different types of interventions. Through six different sub-questions, the analysis focused on whether the programme's objectives were being achieved, on factors making for or hindering success, and on the solutions chosen - when appropriated - and their contribution to the overall EC strategy in support of private sector development in a given country. Finally, the team looked for common factors across the different types of PSD interventions and across countries. Indeed, while some aspects of the analysis vary according to the area of intervention, the evidence suggests that overall the effectiveness of EC PSD interventions depends on a series of recurring factors.

3.2.2 Analysis

3.2.2.1 Selecting an area of intervention

Taking all areas of intervention together, what appears as most striking is that **no detailed analysis is carried out by the Commission Services before selecting an area of intervention**. The EC PSD strategy proposes five areas of intervention and in each country the focus is on one or several of these areas³⁶. However, in the cases analysed, the selection of the areas of intervention remained *ad hoc*. In many cases, the decisions were taken because the choice seemed "evident" or was an extension of past Community support. There seems to be an underestimation of the importance of a sound diagnostic before deciding where and how to intervene to support PSD. For instance, the risk of inducing market distortions remains largely disregarded.

When selecting an area of intervention, it is important to consider the comparative advantage of the Commission. Generally speaking, the Commission has a stronger **comparative advantage** in interventions at macro and institutional level. Reasons include first that the EC has a long experience of reinforcement of the institutional and regulatory environment within existing and prospective Member States (e.g. PHARE programme) as well as in third countries; second, that the relatively large size of EC interventions compared to other donors gives the EC greater leverage to intervene at the macro and institutional levels. In contrast, the EC may have a lower comparative advantage, for instance, in micro- and some meso-level interventions in the financial sector, compared to other institutions like the European Investment Bank. This has been already pointed out by the CGAP Peer Review of 2003 on microfinance operations³⁷.

³⁶ Cf. Evaluation Question 3 and in particular Judgement Criteria 3.A.1 in Country Notes (Annexes 6 to 10).

³⁷ CGAP (2003), Peer Review on the European Commission operations on Microfinance (Letter to Management – Executive Summary - Edited version).

3.2.2.2 Programme design

a) Identification

One key element of the analysis of the effectiveness of the EC PSD strategy was whether the programmes implemented in the field corresponded to the strategy as stated in the COM(2003)267 and Guidelines. As presented in Section 3.1.2.3.a, it was found that for most of the interventions dealing with financial and non-financial services and, to some extent, for interventions targeting intermediary organizations, **the specific objective of the programme did not correspond to the EC strategy**. In the case of micro- and meso-level interventions in the areas of financial and non-financial services, EC programmes often focused on the *direct provision of services* with a view to obtaining an immediate impact, rather than addressing the constraints that preclude correct functioning of the market. In the case of interventions targeting intermediary organizations, programmes mostly used them as operators for the provision of services; while this helped enhance their institutional capacity this was in most cases a secondary objective with a transitory impact.

This lack of correspondence between programme objectives and the expected results stipulated in the EC PSD strategy can be explained by several factors:

- Many of the programmes covered in this evaluation were designed before the EC PSD strategy was published. Yet many of the concepts embedded in the strategy, and particular those relating to business development services, had already been on the table for several years³⁸.
- The orientations of the EC PSD strategy appear not to have been sufficiently disseminated to Delegations³⁹.

A second element in identification is whether the planned activities of a programme correspond to the known obstacles to development in an area of intervention. For example, lack of access to finance can be attributed to a number of obstacles, including inappropriate credit dossiers on the part of borrowers, insufficient capacity to assess risk on the part of lenders, and government regulations that discourage lending. Many EC programmes were found ineffective at identifying the constraints hampering success⁴⁰. The **lack of correspondence between programme components and actual obstacles to development in an area** is mainly explained by the **lack of a comprehensive analysis** of the constraints hampering success in an area of intervention.

³⁸ For instance, the COM(1998)667 “A European Community strategy for private sector development in ACP countries”; the “Resolution on EC strategy for the development of the private sector in developing countries” of the European Council (May 1999); and the debate and conclusions on Business Development Services held in the frame of the Committee of Donor Agencies for Small Enterprise Development.

³⁹ Cf. the survey carried out on the knowledge and use of the tools proposed by the Thematic Network (Annex 5, Section 7).

⁴⁰ In Morocco for example, the PAIGAM program aimed at facilitating access to finance through the setting up of a guarantee scheme but the program was ineffective at rising lending to SMEs. One explanation is that the cause for the lack of access to finance is not a problem of guarantee but rather the inadequate training on the part of lenders to assess the risk of lending to SMEs.

b) Outreach

In spite of the orientations provided by the COM(2003)267 and the Guidelines, and of the discussions leading to the elaboration of the Blue Book on BDS⁴¹, many meso- and micro-level **programmes continue to have a too limited outreach**. Indeed, it was acknowledged in the past that traditional approaches where donors directly provide services to private firms, besides introducing perverse effects and market distortions, were limited by the small proportion of beneficiaries that the programme could reach as the number of beneficiaries is directly dependent of the size of the programme. This is still the case for nearly all PSD programmes at meso- and micro-level. The Blue Book mentions that the weaknesses of this type of programmes have often “been masked in industrialised countries by the much greater level of funding available”. *Mutatis mutandis*, the same applies to large programmes such as those in some MEDA countries.

A different aspect of outreach is the **selection of the beneficiaries** of the programme. Some programmes target a wide range of beneficiaries in different economic sub-sectors while others focus on fewer beneficiaries or sub-sectors in view of their multiplier effect in the economy. This second option was less often observed despite its higher expected impact.

c) Building on experience

Another key factor of effectiveness is the extent to which lessons from the past have been taken into account. Lessons from past experience are important in PSD for at least two reasons. First, Private Sector Development is a relatively new area of development, which implies that learning-by-doing is part and parcel of the knowledge building process. Second, despite the country-specific economic and political characteristics, many countries face similar PSD constraints, which often demand similar solutions.

It has been observed that **there is no mechanism allowing the Commission Services to learn and transmit the lessons from past experience**. This has been observed at all levels: HQ, regions and even country (ETV-I and ETV-II in Vietnam, or EDP I and EDP II in Zambia). Basically, the system relies on the personal experience of officials and project managers and on institutional memory, which is weakened by the high rotation rate of staff and the deconcentration process.

A key player for a system correctly exploiting lessons from the past is the **PSD Thematic Network**. The network has functioned at HQ level as a platform for exchanging experience between officials with geographical or horizontal responsibilities in the sector. They also discussed experiences and debates from international fora or other donors. Some of their main outputs include the drafting of the COM(2003)267 and the Guidelines, as well as the creation of a thematic intranet website. However, **the network has not yet been able to pass this knowledge on to Delegations**. According to the survey carried out by the evaluation team (cf. Annex 5, Section 7), few Delegations knew of the thematic network (33%) and even fewer use the website and other tools made available by the network (13%).

⁴¹ Committee of Donor Agencies for Small Enterprise Development (2001), Business development services for small enterprises: Guiding principles for donor intervention, Washington.

3.2.2.3 Programme implementation

a) Carrying out activities

Another identified factor affecting the effectiveness of PSD programmes is the extent to which all planned activities have been carried out in practice. In several cases, evaluators found that **certain type of activities within a programme ended up not being implemented**. This was mainly the case with micro- and meso-level programmes in the financial sector aimed at improving access to finance⁴². In such cases, the activities not carried out aimed to address supply-side constraints or the regulatory aspects of the market. It was the case with the Credit Scheme in Jamaica where implementation focused solely on the delivery of a credit line while technical assistance to the government to improve regulations affecting lending to MSME was not implemented. It was also the case with SMEDF-I in Vietnam, where training of participating banks to improve their lending-to-SME capabilities was planned but not implemented. In both cases, the programmes ended by just providing a credit line whereas they were initially designed to tackle, in a more comprehensive way, SMEs' limited access to credit.

b) External conditions for success

A further obstacle to the success of PSD interventions is the **policy environment**. For instance, the Evaluation of EC Country Strategy for the Dominican Republic found that "Interventions like (...) PASP placed little emphasis on improving the policy environment... This probably contributed to the limited impact and sustainability of these interventions" (page 38). Similarly, in Egypt, "In spite of 3 years of reform, the PS and exports are not responding as expected. The key factors identified to contributing to the lack of response are mainly bureaucratic trade and investment regulations and a slow pace of structural reform programme" (NIP 1996-98, page 2). Yet, few interventions are focused on the macro and institutional level even when, as mentioned in Section 3.1.2.2, the COM(2003)267 and Guidelines state that this is precisely the level at which the Commission should concentrate its activities.

3.2.2.4 Programme monitoring and evaluation

Finally, an adequate monitoring system is required to measure impacts and also to give a chance to initiate improvements where programme objectives are not being met. It has been observed that, very often, programme documents include neither baseline information nor explicit targets or objectively verifiable indicators. Furthermore, even where indicators do exist, they were often not monitored in practice. In some cases, the absence of indicators is explained by the "demand-driven" nature of the programme. In such cases, the programme is said to have reached its objective once the funds have been disbursed. This gives no indication on the outcomes and impacts of the programme and reflects an approach where disbursement of public aid is no longer a means but an end in itself. There is a pressure to disburse as fast as possible, possibly to compensate for delays

⁴² Cf. Evaluation Question 4 in Country Notes (Annexes 6 to 10).

incurred during the initial phases of the programme. In other cases follow-up and monitoring is limited to outputs but not to outcomes.

The dearth of indicators is to some extent compensated for by the external monitoring system known as “Results-Oriented Monitoring” (ROM). The ROM contains two separate sections on “effectiveness” and “actual impact”, thereby providing programme managers and headquarters with some assessment and advice on the impacts of the programmes. Nevertheless, ROM reports have their own limitations: the quality of their assessments relies on the programme indicators themselves (in the absence of good outcome and impact indicators, ROM staff must often devise their own indicators within a limited time) as well as on the monitoring staff’s understanding of the PSD strategy so as to ensure that the programme is monitored vis-à-vis the objectives of the strategy. Moreover, they do not cover every PSD programmes.

It thus appears that “results-based management” is a concept that has not yet been integrated in the field. According to this paradigm, different types of indicators are required to assess progress towards results, in particular output, outcome and impact indicators⁴³. Table 3.1 shows the main difference between implementation monitoring and outcome monitoring.

Table 3.1 - Key Features of Implementation vs. Outcome Monitoring

| Elements of Implementation Monitoring <i>(traditionally used for projects)</i> | Elements of Outcome Monitoring <i>(used for a range of interventions and strategies)</i> |
|---|---|
| <ul style="list-style-type: none"> ▪ Description of the problem or situation before the intervention; ▪ Benchmarks for activities and immediate outputs; ▪ Data collection on inputs, activities and immediate outputs; ▪ Systematic reporting on provision of inputs, etc.; ▪ Directly linked to a discrete intervention (or series of interventions); ▪ Designed to provide information on administrative, implementation and management issues as opposed to broader development effectiveness issues. | <ul style="list-style-type: none"> ▪ Baseline data to describe the problem or situation before the intervention; ▪ Indicators for outcomes; ▪ Data collection on outputs and how/whether they contribute towards achievement of outcomes; ▪ More focus on perceptions of change among stakeholders and more focus on “soft” assistance; ▪ Systematic reporting with more qualitative and quantitative information on the progress of outcomes; ▪ Done in conjunction with strategic partners; ▪ Captures information on success or failure of UNDP partnership strategy in achieving desired outcomes. |

Source: Handbook on Monitoring and Evaluating for Results, UNDP Evaluation Office, New York, 2002.

⁴³ Output indicators assess progress against specific operational activities; Outcome indicators assess progress against specified outcomes; Impact indicators provide a broad picture of whether the development changes are actually occurring, i.e. they measure the general objectives in terms of private sector competitiveness.

With regard to indicators specific to PSD programmes, a number of institutions and donor committees have put together implementation and outcome indicators. A number of these can be found in Annex 5, Section 9. By way of illustration, Table 3.2 presents implementation and outcome indicators for the PSD programmes in Business Environment.

Table 3.2 – Implementation and Outcome Indicators for PSD interventions aimed at improving the business environment

| Focus of donor intervention | Donor-support reform instruments | Indicators of change outcome | Indicators of possible impact |
|--|---|--|---|
| Private sector development strategy | TA for reviewing and drafting strategies | New or revised private sector development strategies prepared and adopted by government | Increased investment in private sector |
| Business regulations | Regulatory impact assessment | Improved understanding among policy-makers and regulators of the impact of regulations on business behaviour | More efforts are taken to reduce the undesired impact of regulations on small enterprises Less regulatory bias against small enterprises |
| Improving the representation and advocacy of small enterprises | Supporting the development of business representative organizations | Increase in the number of small enterprises participating in chambers of commerce and other forms of business organization | Improved representation of small enterprises in chambers of commerce and other forms of business organization. Improved benefits for small enterprises to join chambers of commerce and other forms of business organization |

3.2.2.5 *The case of horizontal programmes*

The decision to prioritise “horizontal” or “all-country” programmes over national or regional programmes was taken in the late 1980s for ACP countries. It was based on the identification of weaknesses in national or regional programmes which included the lack of a coherent approach among the different countries supported, lack of coordination, the difficulty of mainstreaming PSD in other sectors of support as well as delays in design and implementation.

A number of advantages were associated with horizontal programmes and they are still relevant. In practice, however, the approach has been only partially applied or successful and in many cases they have replicated the same weaknesses as national or regional programmes. The following paragraphs review some of these potential advantages and the evidence found in relation to them.

- *Provision of an overall, coherent and integrated approach at all three levels:*
A coherent approach was achieved within horizontal programmes as support across countries was harmonized. However, such an objective was more difficult to attain between the different horizontal programmes as no coordination mechanism was planned for those programmes. The same applies to coherence with national or regional strategies. Horizontal programmes have run parallel to national and regional programmes, coordination with the Delegations being almost inexistent. In many cases the Delegations were badly informed of the functioning of the horizontal programmes. National and regional programming is in most cases made without consideration of horizontal programmes. As a consequence, there are national programmes with the same type of activities as horizontal programmes. Worse still, there have been cases of competition between national and horizontal programmes as a result of differences between the cost sharing schemes.
- *Greater ease of coordination and coherence:*
As already mentioned above, there are no mechanisms for ensuring coordination with other EC PSD programmes, with EC support to other sectors or with other donors involved in PSD. As a consequence, horizontal programmes have been as unsuccessful as national and regional programmes in mainstreaming PSD in other sectors of support. Consideration was given to having focal points in some Delegations, for example staff members dedicated full-time to ensuring coherence and coordination between all PSD interventions. To the team's knowledge, such posts were never created. The official in charge of PSD at Delegations is often responsible for other sectors also and is in charge only of national programmes.
- *Increased overall impacts:*
While horizontal programmes have yet to be evaluated, so far there is evidence that meso- and micro-level horizontal programmes have been successful at carrying out their activities but little is known about the impact they have had. Overall, follow-up after service delivery has been very limited, jeopardising attempts to measure impact. It is certainly difficult to carry out such follow-up given the nature of the sector. Further, the attribution problem is even greater than in other sectors.
- *Horizontal programmes were meant to cover the essence of PSD support in one country:*
This has not been the case. As mentioned above, Delegations continue to design and implement many PSD programmes and are subject to the demands of the partner government or the private sector. In fact, the Delegation continues to be the main channel through which Community support to PSD is provided in a given country.
- *Speed of implementation:*
Among the reasons for deciding to prioritise horizontal programmes was the need to overcome design and implementation delays associated with traditional programmes. The need for swift implementation is particularly important in PSD support. This is possibly the only aspect in which horizontal programmes are superior to national and regional programmes. While horizontal programmes usually entail a large and complex architecture, in the few cases analysed (EBAS, AL-Invest, Asia-Invest), once the programme was in place, it was implemented without much delay.

In conclusion, the horizontal programme approach is still appealing but seems not to be working as expected, probably because the Delegations are still the main channel for providing EC support and because there is no formal mechanism for co-ordinating support provided *via* horizontal programmes and support provided *via* national or regional programmes. Yet the advantages of sharing experience between different countries and of thereby accumulating sectoral knowledge should not be underestimated.

3.3 Sustainability

EVALUATION QUESTION

EQ 5 TO WHAT EXTENT ARE THE EFFECTS (EXPECTED RESULTS) OF THE INTERVENTIONS LIKELY TO CONTINUE AFTER THE END OF EC SUPPORT?

SYNTHESIS

The assessment of sustainability of PSD interventions takes into account both the sustainability of the benefits produced by the project and, when appropriate, sustainability of the activities proposed. Despite the lack of information on sustainability, the following elements could be highlighted. First, an environment conducive to PSD is a basic condition for the sustainability of all PSD interventions. Second, sustainability seems more likely when PSD interventions reach institutions or when the interventions contribute to improving private sector practices or competences. Third, sustainability of interventions in the business environment and for providing direct support for companies depend on the government's involvement and commitment and particularly on its capacity and will to encourage a process of change once EC-funding is over. Finally, interventions are less likely to be sustainable when they offer direct support to private sector operation without generating a substantial change in behaviour, practice or knowledge.

3.3.1 Justification

Sustainability generally denotes whether the *benefits* produced by the project at purpose level are likely to continue after external funding ends and whether the project's long-term impact on the wider development process can be sustained⁴⁴. Sustainability, therefore, does not necessarily imply that the *activities* carried out, and even more the *institutional set up* of the project, should be sustainable. In some cases, however, it is desirable that the activities implemented through the project should be replicated by some other institution, even after the project has ended. This is particularly the case with PSD projects that aim to improve access to finance or that aim to develop a market for business development services. The present overall assessment of sustainability of PSD interventions takes into account both aspects: sustainability of the *benefits* produced by the project and, when appropriate, sustainability of the *activities* proposed.

⁴⁴ Evaluation Guidelines, page 14.

3.3.2 Analysis

Overall, it is difficult to assess the *sustainability of the benefits* of EC PSD interventions from the information available. Little information is available in relation to the indicators proposed by the evaluation team either during the desk study or during the country missions⁴⁵. A few elements can nonetheless be highlighted:

First, **an environment conducive to private sector development** is a basic condition for the sustainability of any type of PSD intervention, although in few cases is this explicitly stated. For instance, the Dominican Republic CSE stated: “Interventions like (...) PASP placed little emphasis on improving the policy environment... This probably contributed to the limited impact and sustainability of these interventions.”

Second, **sustainability seems more likely when PSD interventions positively affect institutions**. This is the case with projects aimed at enriching and improving the private sector’s surrounding environment such as institutional support, capacity building and so forth, particularly when ownership is ensured, design is clear and appropriated, and beneficiaries are well defined. Projects aimed at harmonising practices or standards fit particularly well with this description (e.g. the Centre for Business Information (CBIK) under TDP in Kenya or establishment of the standards and metrology institution under EJADA). Other interventions providing institutional support also ensure sustainable benefits when these basic conditions are met.

Some **interventions contributing to improving private sector practices or competences** also meet these conditions and are likely to produce sustainable benefits as the competences, when relevant to the beneficiaries, are an *acquis*. Although there is little information on the long-term effects of the projects, there are signs that beneficiaries indeed consider these projects highly useful. For instance, an ex-post evaluation found that the CBIK in Kenya was, a few years after the end of the project, well appropriated by the beneficiaries and was largely used and viewed by the operators as a most valuable tool. In Vietnam, on the other hand, the EBIC had “reached” some 6,000 interlocutors in some form or other (mainly workshops and seminars, enquiries and press reports) and its disappearance as a ‘one stop shop’ for information on the Single Market and on doing business with Europe appeared to be a general source of regret among the interlocutors, whether public or private sector representatives.

Third, the sustainability of interventions depends on the **government’s involvement and commitment** and particularly on its capacity and will to encourage a process of change once EC-funding is over. This has already discussed above in the case of PSD interventions which benefit institutions, where government ownership is often key. The importance of government involvement was also noted in interventions providing direct support for companies, such as business-to-business co-operation. In Zambia for example, the sustainability of business-to-business activities after the end of EC interventions was said to depend strongly on dedicated support from the Government as it is a key player in dissemination of information to prospective investors about Zambia.

⁴⁵ Cf. Section 3.2.2.5 above.

Finally, interventions are less likely to be sustainable when they offer **direct support to private sector operations without generating a substantial change in behaviour, practices or knowledge**. For example, in Jamaica's Credit Scheme, the activities envisaged for strengthening the regulatory environment were not implemented. In Vietnam, while participating banks confirmed that the supply of credit-line gave a boost to their SME lending operations, it seems that overall the growth of lending to SMEs has been modest. In Vietnam also, the expected sustainability of the SMEDF relied on changing the behaviour of local financial institutions through training and hands-on operation. However, training was very limited and, in spite of high rates of reimbursement and effective loan operations, local operators were not interested in taking over the programme. One explanation for this is the *negative real interest rates* at which the programme worked.

Indeed, financial and business development services have often been provided with subsidies in spite of the strategy proposed by the Commission as early as 1998: “[*The Community will*] only support activity that is sustainable in the medium-long term, without recourse to subsidy. Private enterprises should sooner or later be expected to bear the full cost of the credit or other services that it uses” (COM(1998)667, page 16). In many cases, sustainability was to be ensured through the transfer of the programme to local private operators but, most often, private operators were not interested in taking over the programme (e.g. SMEDF in Vietnam and EFP in Zambia). Jamaica's Credit Scheme is, to a certain extent, a counter-example: after the support from the EC ended, the government of Jamaica decided to continue with the programme. This was possible because the credit line was funded through a soft loan. The new programme is managed by local authorities (currently at the Ministry of Industry and Tourism) and continues on the same basis as in the past. Interestingly, the Delegation in Jamaica was not aware that this new programme existed.

The survey carried out by the evaluation team (Annex 5, Section 6) further shows that few provisions exist for ensuring that business development services provided with Community support will continue to be provided after completion of the project or programme. Among the six Delegations that answered the question (out of 12 that answered the section on BDS), three indicated that provision for sustainability (such as the transfer to a private organization, strengthening of specific institutions or financial support to the government) is made. The other three admit that nothing or very few has been planned to ensure continuation of service provision.

In summary, the provision of services at low cost (SMEDF in Vietnam, PASP in the Dominican Republic, EDP in Zambia and many others) has induced high demand for the services funded and therefore high disbursement rates but, at the same time, has weakened overall sustainability. Further, the weak sustainability of these projects is not unconnected with their weak design or with the differences with the PSD strategy as prescribed by Headquarters and mentioned in Section 3.1.2.3a.

3.4 Efficiency

EVALUATION QUESTION

EQ 6 TO WHAT EXTENT HAVE THE ORGANISATIONAL SET-UP OR MANAGEMENT SYSTEMS AND PROCESSES CONTRIBUTED TO OR HINDERED THE EFFICIENCY OF THE EC INTERVENTIONS TO SUPPORT PRIVATE SECTOR DEVELOPMENT?

SYNTHESIS

On the one hand, it was found that two key factors inhibit the efficiency of many EC programmes: the complexity of EC procedures and the delays incurred at different stages of the programme cycle. On the other, most sources agree that deconcentration has enhanced the efficiency of EC operations (quicker decision-making, better identification of needs and possible lower cost) even though it has also generated some concern (strategic aspects not yet sufficiently taken into account because Delegation staff are overloaded with operational tasks or because it is not sufficiently prepared for these new responsibilities; and sharing of experience may become even more difficult than in the past.)

3.4.1 Justification

Efficiency addresses the main features of programme implementation and evolution and assesses how far these features, notably resources and procedures, contributed to or hindered the achievement of the expected results at minimum cost. Four aspects were analysed in relation to the efficiency of EC interventions: (i) the deconcentration process and the support given by HQ; (ii) the preference given in some regions to all-country programmes; (iii) the preference given in some regions to promoting local expertise instead of using international support; and (iv) other organisational set-up or management systems and processes. Only the first and second aspects provided relevant information on the issue of efficiency. This information is analysed in the following paragraphs. Information collected on the other two aspects has been incorporated in the analysis of effectiveness.

3.4.2 Analysis

3.4.2.1 Deconcentration process

According to several sources, it is still too early to assess the impact of the deconcentration process on the efficiency of EC interventions. But overall, they agreed that the **deconcentration has contributed to the efficiency of EC interventions:**

- It has generally accelerated operational decision-making at programming and implementation level (including call for tenders, contracts and payments). In Jamaica for example, the deconcentration process has allowed for quicker decision-making, closer contact with beneficiaries and better knowledge of the local situation.

- It has generally led to better identification of needs, as experienced for instance by Morocco and Jamaica.
- In terms of cost, little tangible indication is available, but some interviews suggest that implementation costs have possibly decreased owing to the improved quality of project management resulting from deconcentration.

On the other hand, the deconcentration process has also brought some major concerns:

- The heavier workload transferred to Delegations, not always with adequate additional resources (trained staff, etc) has often implied a strong focus on the operational aspects at the expense of strategic considerations. This will for instance be an issue in Morocco during the next programming period.
- Lesson learning and sharing of experience between different countries or regions has been limited in the past and deconcentration, along with the high of rotation of personnel and the lack of support from Headquarters at strategic level, may actually worsen the situation.

3.4.2.2 *Organisational set-up and management system*

In terms of the impact of the organisational set-up and management system on efficiency, the evaluation teams found that two key factors inhibit the efficiency of many EC programmes: **the complexity of EC procedures** and **the delays incurred at different stages of the programme cycle** (Tunisia, Kenya, Zambia, Mexico, Dominican Republic). These two factors are not independent: the complexity of procedures accounts for part of the delays. Procedures are slow and heavy to the point that several sources declared their strong preference for working with other donor agencies. In a few cases delays were outside the EC's control but in many other cases delays were internal to the design or implementation of the programme. These include, for example:

- Slow pace of discussions with the partner government on intervention modalities (Tunisia, Egypt, Morocco, Mexico).
- Lack of precision of TOR and financing agreement which delays implementation (Vietnam).
- Lack of anticipation of certain juridical, financial or procedural difficulties (Morocco and Mexico).

Other factors that negatively affected efficiency were:

- Difficulties in setting up the PMU, managerial practices of the steering committees (Vietnam, Mexico, Zambia, Morocco).
- Delays in the adoption of sectoral strategies in several areas including PSD (Ghana, Zambia, Jamaica).
- Capacity problems at the Delegation or in the NAO's office (Ghana).
- High management costs related to delays, changes of team and excessive formalism.
- Procedures within some of the programmes considered too slow and heavy by the private sector.
- Insufficient information on what the programme can offer and to whom (Zambia, Mexico).

Finally, factors that have contributed to efficient implementation of programmes are:

- A good management unit (PSDP in Zambia, TDP in Jamaica, EME in Morocco).
- The involvement of local consultants or the private sector in the management of programmes, as in Morocco and Zambia.

3.5 Coherence

EVALUATION QUESTION

EQ 7 TO WHAT EXTENT DOES THE EC PSD STRATEGY AND ITS IMPLEMENTATION TAKE INTO ACCOUNT OTHER EC STRATEGIES AND POLICIES?

SYNTHESIS

EC PSD policy documents do not analyse how European policies or strategies can affect, positively or negatively, Community support to private sector development in third countries, the objective of which is to enhance the competitiveness of the business sector in national and international markets. Likewise, very few CSP analyse the coherence of Community support with European policies and PSD programme documents seldom if ever address the issue. Moreover, such aspects, although central to the appreciation of the programme's impact, are not covered by follow-up, monitoring or evaluation procedures and reporting.

Coherence with regards to EC support provided to third countries in other sectors is also not well ensured. Yet, trade, regional integration and macroeconomic support are three areas of co-operation that are becoming increasingly important for the EC and have immediate implications for PSD.

3.5.1 Justification

The degree in which the PSD strategy and its implementation takes into account other EC strategies, policies or interventions is important for enhancing aid effectiveness as well as for avoiding a contradictory approach and consequent waste of public resources. Coherence is analysed at two levels: first in relation to other European policies and strategies and second in relation to the support provided by the EC to other sectors in the same country (trade, transport, institutional support, etc).

3.5.2 Analysis

3.5.2.1 *With regards to other European policies or strategies*

EC PSD policy documents do not tackle the issue of the coherence of Community support to PSD with other European policies or strategies. There is no analysis of how European policies could affect, positively or negatively, Community support to private sector development in third countries. Yet the objective of enhancing competitiveness of the business sector of third countries in national and international markets can be affected,

for instance, by EU trade policy, SPS measures, the Common Agricultural Policy, and so on.

Indeed, the survey (Annex 5, Section 6) shows that, out of the 12 Delegations that answered on the section on coherence, 40% found that PSD interventions are affected by other European projects, programmes or policies and 27% stated that complaints have been expressed by the beneficiaries, the Government or the operators of PSD programmes concerning EU policies, regulations or programmes. The difficulties reported concerned:

- The Common Agricultural Policy.
- The regulation on Official Feed and Food Controls (COM(2003)52).
- European trade restrictions on some processed agro-based products.
- The too numerous programmes at “all-ACP”, regional and national levels.

This absence of analysis is also reflected in country programming documents. Very few CSPs analyse the coherence of Community support with European policies or strategies. In most cases they mention one European policy or other but generally fail to indicate how coherence will be ensured. The only exception is Mexico, where the CSP raises quite frankly a number of issues representing a risk to coherence and mentions in particular the CAP and SPS controls, both seen by Mexican counterparts as protectionist policies preventing the access of Mexican products to the EU market.

Similarly, PSD programme identification documents seldom if ever address the issue of coherence with other European programmes or policies. Moreover, such aspects, although central to appreciation of project impact, are not covered by follow-up, monitoring or evaluation procedures and reporting.

Coherence with trade policy is nevertheless implicitly recognised and in part addressed by some Community PSD programmes. The trend has indeed been to increase the number and importance of trade-related components in EC PSD programmes and in particular those tackling market access issues. For instance, EBIC in Vietnam is meant to train local operators on how to deal with EU standards so as to develop their export capacity on EU markets. Equally, ETE and to a larger extent the successor IMP in Tunisia include Metrology, Standards, Testing and Quality components so as to comply with EU regulations and obtain accreditation. In Jordan, EJADA provides advice to SMEs about products that are under no or high quotas and that could easily enter the EU market. In Mexico the focus of the two PSD programmes is access to the European market as well. From this point of view, trade related assistance programmes aimed at increasing the capacity to access European markets are an important and necessary complement to most PSD interventions. Yet efforts should still be made. In Morocco, for example, it is not clear whether the end of the integration process as defined by the Agreement on Textiles and Clothing (ATC) has been taken sufficiently into account.

3.5.2.2 With regards to EC support to other sectors

Coherence with regard to Community support to sectors other than PSD is also not well addressed. In several cases, the CSP stresses the complementarity between support to PSD

and support to other sectors - mainly regional integration, trade or transport. However, in all cases this is just descriptive and is not reflected in programme design. An example is Zambia with transport (a major constraint to PSD), regional integration and macroeconomic support. In fact, **trade, regional integration and macroeconomic support** are three sectors that are becoming increasingly important for the EC and that **have immediate implications for PSD**. However in most cases, there is no analysis of the links and the possible ways of exploiting the complementarity of support in those different sectors.

Box 3.1 - PSD and Trade

Most PSD programmes incorporate the objective of increasing the private sector's competitiveness to expand the countries' or regions' export capacity, thereby contributing to export-led growth. Full delivery of such programmes therefore implies that new or upgraded export capacities should not be constrained by trade policy provisions limiting market access. From this point of view, coherence is a real issue as market access is today mainly restricted by the implementation of technical barriers to trade or rules of origin, which become more and more complicated and drastic. In some cases, this has even led preferences granted by the EU to partner countries to become almost meaningless. See for instance, the assessment by Brenton and Manchin (2000) on the extent to which preferences granted by the EU remain barely exploited by the beneficiary countries owing to the restrictiveness and complexity of the regime governing the associated rules of origin⁴⁶.

From available sources, it is nevertheless difficult to assess the extent to which the existence of such trade policy provisions materially affects Community's PSD interventions. Project identification seldom if ever addresses the issue of coherence with other European programmes or policies. Moreover such aspects, although central to appreciation of the project's delivery, are not covered by follow-up, monitoring evaluation procedures and reporting.

⁴⁶ Brenton P. and M. Manchin (2002), "Making EU Trade Agreements Work: The Role of Rules of Origin", CEPS Working Document N° 183. According to their findings, only one third of EU imports from developing countries which were eligible for preferences actually entered the EU market with reduced duties.

3.6 Coordination

EVALUATION QUESTION

EQ 8 TO WHAT EXTENT IS THERE DONOR COORDINATION BOTH AT CENTRAL AND AT COUNTRY LEVEL?

SYNTHESIS

Donor coordination at central level is ensured by the Commission Services and shared through the Thematic PSD Network. At country level, the effectiveness of coordination practices has improved recently although it is still quite varied. Sharing of information between donors and with the government has improved significantly but few joint activities or projects are still in evidence. Furthermore, the risk of overlap was found to be important, especially for meso- and micro-level interventions. It is in this type of interventions where effective coordination is sometimes hampered by national interests. In spite of this, donor coordination is possible in specific areas of intervention where conflicts of interest are less in evidence (e.g. legal and regulatory framework, institutional capacity and policy dialogue) as well as in areas in which the potential for coordination across areas of intervention is high, such as local economic development.

3.6.1 Justification

Donor coordination is important in all sectors of co-operation and even more so in PSD. Interventions at macro- and institutional level are particularly sensitive to contradictory approaches between donors: un-coordinated approaches may undermine policy dialogue and jeopardize the effectiveness of the intervention. At meso- and micro-levels, lack of coordination may induce overlaps, even subsidising the same firms or organisations twice. Overall, coordination among donors is critical to a comprehensive approach to private sector development in dialogue with the partner government and for avoiding waste of public monies.

This question analyses whether the Commission Services participate in multi-donor coordination processes at central and country levels - particularly with Member States - and with what results. The aim was to understand whether there are established coordination procedures between donors, whether there are cases of explicit co-operation or whether there have been cases of “competition” between donors (for instance, focusing on the same successful sectors or enterprises or protecting the interests of their “own” national enterprises at the expenses of the overall effectiveness of the PSD policy, etc).

3.6.2 Analysis

At central level, the Commission Services participate in international fora such as the OECD-DAC, the Committee of Donor Agency for Small Enterprise Development (SEDONORS) or the Consultative Group to Assist the Poor (CGAP). Other Commission Services at HQ also participate in discussions through different channels but the main

channel is the PSD Thematic Network, where different Services meet to discuss PSD-related issues. However, the extent to which the outcomes of these discussions are disseminated to Delegations is rather limited. Yet it is in the field that coordination potentially bears most fruit.

At country level, multi-donor coordination on PSD was found to be quite varied. Marked differences exist with respect to the existence and degree of donor coordination and the extent of local government involvement. Coordination has mostly been implemented through the creation of consultative or working groups (Egypt, Ghana, Jordan, Morocco and Vietnam). The survey (Annex 5, Section 6) refers rather to overall coordination in the sector but results are not clear-cut: 57% of the 14 Delegations that answered this section indicate that there is a multi-donor coordination group on private sector development. Sometimes coordination is organised only for some aspects of a project, on a case-by-case basis rather than being systematically structured in an institutional framework (EJADA programme in Jordan). In other cases, coordination also takes the form of ad-hoc multi-donor review of the programme (SFD programme in Egypt).

Box 3.2 - Potential for coordination in PSD

The effectiveness of coordination practices has recently improved. In the past donors did not pursue complementarity analysis and policy coordination. Coordination activities were often limited to consultation and information and seldom took the form of a policy dialogue leading to common decisions. In practice, each donor developed its own PSD activities and implemented its own PSD support structure, causing “institutional proliferation” rather than “institutional coordination”. This situation made the PSD environment even more complex and led to programme overlaps and inefficient use of resources. The EC and other donors now give more importance to the coordination function. The case of Senegal is an interesting illustration; attempts are being made to improve the situation under the new country strategy to promote better coordination so as to improve the impact of the interventions and the efficiency of the PSD strategy in the country.

Some insights from the country mission in Vietnam may further explain why donor coordination is particularly challenging in the PSD sector while suggesting that higher levels of coordination are nevertheless possible. Reasons for lack of effective coordination include the fact that coordination is sometimes hampered by national interests which are likely to exist in PSD-related issues (e.g. donor visibility or business-to-business co-operation between local and national companies).

In spite of this, there is room for improvement through a thorough analysis of specific areas of coordination where conflicts of interest are less present. During the country mission, the team identified higher potential for coordination in specific areas of intervention (legal and regulatory framework, institutional capacity and policy dialogue) as well as in particular areas where the potential for coordination is high, including local economic development. Coordination is however more challenging in some areas of intervention and particularly at micro-level, for example in business-to-business co-operation or BDS services.

The role played by the **Commission** in the coordination process is variable. In some cases, the EC takes the initiative and the lead (Dominican Republic, Uganda, Jordan, Egypt, Vietnam and Mexico), either because the government does not assume this task or because the EC constitutes a reference point for other donor programmes. In other cases the EC is less pro-active, its coordination activities being limited to dissemination of information and mutual awareness of one another's activities in the sector (Tunisia, Zambia). In such cases other donors may take the lead. Field missions also suggest a varying degree of involvement of the partner **government** in coordinating donor activities in PSD. In Morocco, for example, coordination is ensured by the donors themselves. In contrast, coordination in Vietnam is managed indirectly by the Agency of Small and Medium Enterprise Development (ASMED). In Zambia and Jamaica both coordination between donors, and between the donor group and the government, are practised.

In most cases co-operation between donors is absent from PSD project practice. There is little evidence of **distribution of tasks, joint activities or joint projects**. Few projects are actually multi-donor; it seems that each donor has its own portfolio of projects to finance and manage. In Zambia, only three PSD-related programmes (out of a sample of some 23) have been identified as being jointly funded by more than one donor agency. None was funded by the EC. A counter-example is the Poverty Reduction Support Credit in Vietnam set up by the World Bank and in which the EC participates. Moreover, the degree of success of the few multi-donor projects varies from one country to another. For instance, the GRATIS project in Ghana and the SFD programme in Egypt were globally successful, whereas the micro-finance programme in Uganda preceding the SUFFICE project (the Micro-Projects Programme) is considered a failure.

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

3.7 Crosscutting issues

EVALUATION QUESTION

EQ 9 TO WHAT EXTENT HAVE EC PSD INTERVENTIONS SHOWED CONCERN FOR CROSSCUTTING ISSUES SUCH AS PROMOTING WOMEN-LED ENTERPRISES, ENSURING ACCEPTABLE WORKING CONDITIONS NOTABLY FOR WOMEN, PROTECTING THE ENVIRONMENT AND PROMOTING BETTER GOVERNANCE PRACTICES?

SYNTHESIS

Although most country programming documents explicitly mention cross-cutting issues, they do not give directions for systematic integration of these issues into the co-operation strategy, in particular the PSD strategy. The evaluators did not encounter any systematic attempt at concretely integrating CCIs into EC PSD interventions. Mention of gender and environment issues was found in some programme documents but there was no mention of the manner in which these crosscutting issues should be treated, and furthermore they seldom provided monitoring indicators and baseline information. As for labour conditions and good governance, they are hardly ever mentioned and no example of monitoring indicators was found among the programmes analysed, except for one case of good governance.

3.7.1 Justification

Cross-cutting issues are identified by the EC as policy priorities that should be mainstreamed into all EC interventions. In such a broad evaluation, assessing the effectiveness of the interventions in terms of progress along these lines would be difficult. However pinpointing local concerns or, in some cases, evidence of negative impact should be possible. Four cross-cutting issues are analysed *via* this evaluation question: gender; environment; social issues such as working conditions or child labour; and good governance.

3.7.2 Analysis

The field mission confirmed the analysis carried out during the desk phase of the evaluation. In summary, although most country programming documents (e.g. NIPs or CSPs for Tunisia, Jordan, Egypt, Vietnam, Ghana, Morocco, Mexico and Jamaica) explicitly mention cross-cutting issues, they give no directions for systematic integration of these issues into the co-operation strategy or, in particular, into the PSD strategy. The evaluators did not find any evidence of systematic attempts to integrate CCI firmly into EC PSD interventions.

PSD programme documents make little reference to crosscutting issues and, even when they do, few indicators are defined. When mentioned, they refer to gender, environment and in one case to good governance. No mention of working conditions was found. There

is little evidence to conclude that, even when mentioned, crosscutting issues have actually been taken into account in the implementation of the programme.

3.7.2.1 Gender

In some cases, country programming documents make reference to the necessity to target the needs of women, to enhance their role in economic life and to give them the possibility of benefiting from appropriate social support. They advocate female entrepreneurship but do not indicate how this might take effect or what kind of actions should be planned. Strategy documents remain thus thin on the manner in which this crosscutting issue should be treated, noting only that actions can be developed when appropriate and on an *ad hoc* basis.

Reference to the issue of female entrepreneurship in PSD projects is rare. In some cases, project documents recognise that an important proportion of small and micro-enterprise entrepreneurs are women but, notwithstanding this fact, women are not a specific target of the projects (e.g. Dominican Republic). While concern for gender equality is mentioned in some project financing agreements, which state that the project management will evaluate the gender impact of the project and integrate gender aspects into the different components, the documents usually provide no gender indicators. In Mexico, there was an attempt to integrate environmental and gender issues into the strategy but there is no sign that this rules is effectively applied so far. In Zambia, MSDP's documents do mention

Box 3.3 - A case of good practice

As far as ensuring the participation of women into a SME project, the Egyptian Social Development Fund (SFD) with its large Small Enterprise Development Organization (SEDO, €86 million) component is a positive example. SFD focuses on combating poverty and as such was involved in the design of a poverty map that offers a support mechanism to identify and target low-income groups, a number of indicators and various programmes of assistance and services aimed at low-income groups, in particular female-headed households. SFD has adopted a policy that emphasises women's role in the small enterprise sector. Its gender strategy to implement this policy has three main components:

- Developing women's skills and capabilities;
- Feminising the culture of entrepreneurship;
- Establishing a businesswomen network.

A Women and Development Unit was created in 1998, later changing its name to Gender Unit. The SEDO Work Plan 2003 indicates that equal opportunities will be given to women to attend training aimed at strengthening skills and capabilities to establish successful enterprises. Gender-disaggregated statistics are used by SEDO, distinguishing between men and women among the borrowers, and showing that in 1999 the percentage of SEDO loan activities to women was as high as 32.3% although no affirmative action had been taken in favour of women. With this in view, it is only regrettable that the evaluation of SEDO Non-Financial Services undertaken in 2003 did not carry out any gender analysis.

gender as an issue to be integrated into the programme and indicate that it will be closely monitored throughout the project but the logical framework provides no indicators for monitoring gender issues (although it does contain monitoring indicators for good governance). Again in Zambia, one component of the EDF aims at promoting the employment of young women but no monitoring indicators were provided for in the logical framework. In Egypt, the financing agreement of the PSDP provided for a number of activities to promote the participation of women including encouragement of Business Associations to target women's needs within their sector. However the project's final evaluation report does not mention that any action was taken in that direction. In the absence of indicators and when nothing is known about the way in which the gender issue has been addressed by the project from its start, the evaluation reports analysed do not address the issue.

3.7.2.2 Environment

Recent Country Strategies usually make reference to this crosscutting issue and in some countries environment has become one of the country priorities (e.g. Dominican Republic). In some cases, an Environment Impact Assessment would be undertaken for large projects (Jordan). But as for the gender issue, CSPs remain short on the manner in which the environment question should be treated, noting that actions related to these issues can be developed when appropriate and on an *ad hoc* basis.

At project document level, some financing agreements or TORs suggest that the project will actively support activities aimed at solving environmental problems (Egypt, SFD and SEDO), or that they will not support SMEs that act negatively on the environment or do not respect national environmental standards (Jordan). One programme envisaged using an environmental impact assessment as the basis for selection criteria; however, during implementation the issue received little attention (Jamaica's TDP). Some have an "opportunistic" perspective on the environmental issue, recognising its importance as a commercial asset to the tourist industry or recognising the adoption of environmental standards as a condition for better access to the EU market. Others combine the purpose of increased competitiveness of the industry with the principle of sustainable environmental management (e.g. woodworking sector development programme in Ghana).

Box 3.4 - A case of good practice

A specific and positive case is that of Ghana's woodworking programme. Its overall objective is the growth of the country's export revenue through support of non-traditional exports in the woodworking sector, while at the same time ensuring the compatibility of these developments with the principles of sustainable forest management. More and more companies are realising the need to conserve the tropical forests and avoid wasteful depletion of this resource. Companies have been advised on forestry certification and certification programmes have been developed. The target is that, by 2004, 250,000 ha will be certified as "sustainably managed" by the Forest Stewardship Council, through a higher share of lesser-used species in wood processing.

The means proposed for reaching entrepreneurs in this regard are incorporation of environmental issues into training programmes (Jamaica, Jordan and Ghana) and political dialogue (Dominican Republic). Unfortunately, project evaluation reports usually omit the subject.

The environment is only starting to be taken into account by PSD programmes in more concrete ways. For instance, actions are being implemented to raise the awareness of private sector actors of their potential contribution to more sustainable management of resources. But follow-up of the activities implemented and results achieved is yet very limited.

3.7.2.3 Social issues

As far as working conditions, child labour and other social issues are concerned, it appears that these issues were not taken into account in PSD programmes. In only one case (Tunisia) were security standards to be observed by enterprises raised as an issue in the identification and formulation report on an industrial modernisation programme.

3.7.2.4 Good governance

No specific reference to this fourth crosscutting issue could be found in the documents consulted, with the exception of Zambia's MSDP where indicators for good governance were found. Some recent country programming documents are starting to mention the principle of good governance as part of the overall EC co-operation strategy with the country (e.g. Ghana, Senegal, Vietnam and Jamaica) but no specific link to the private sector is made in spite of the fact that good governance is an integral part of a country's institutional and regulatory framework. Yet a conducive institutional and regulatory framework is considered a precondition for PSD and is also the first area of intervention proposed by the PSD Guidelines and the COM(2003)267. The fact that good governance is not yet taken into account in countries where the Commission funds interventions in support of PSD suggests insufficient awareness of the importance of the institutional and regulatory aspects of PSD.

4. Conclusions

This section presents the main conclusions derived from the analysis undertaken. First, it provides an overall assessment of EC support to private sector development. Second, it presents the main conclusions at the level of the overall EC PSD strategy. Finally, it presents conclusions regarding the implementation of the strategy. The latter are divided into conclusions applying to all areas of intervention and conclusions applying only to specific areas of intervention.

4.1 Overall assessment

With hindsight, we know that **past donor interventions in support of PSD were not successful at increasing the competitiveness of beneficiary countries**. In brief, many programmes were in fact helping governments to crowd out private initiatives, had limited impact (particularly in the case of micro-level programmes) and were designed within the framework of a single-project-approach which led to tackling of small portions of the problem at a time. This was the case with EC interventions as well as with most other donors' interventions.

Benefiting from assessments made at regional or programme level and from international discussions such as those carried out in the DAC and SEDONORS, the EC adjusted its strategy and proposed in 2003 a single framework for the support of PSD in third countries. This strategy reflects a **positive and significant effort to adjust EC support to PSD to a better understanding of the functioning of the economy and of the role of the public sector**. It also reflects efforts to provide European PSD support in a comprehensive and coherent way to all third countries. It should be noted that the publication of the strategy in 2003 is a milestone on a dynamic process started several years earlier. Prior documents containing some of the elements of the new strategy are the COM(1998)667, covering ACP countries, and the Council Resolution of 1999, which made this COM extensive to all developing countries.

The formalisation of a single strategy covering basically all forms of PSD support and for all co-operation programmes is therefore an important step forward. Yet, the evaluators should point a serious weakness: **the strategy is ambiguous in the message it conveys**. On the one hand, it reflects the evolution of the respective roles of the State and the private sector in the economy. For instance, there is recognition that the private sector plays a key role in the process of development and that the State should focus on regulatory aspects (setting the rules of the game and ensuring they are respected). To be coherent, the objective should thus focus on improving the environment in which firms operate (from national laws and regulations to the functioning of financial and BDS markets). Yet the strategy also leaves room for programmes focused on the provision of services.

This ambiguity is reflected in **the implementation of the strategy**. Most EC PSD programmes, particularly at meso- and micro-levels, are focused on provision of services, directly or through intermediate organisations: provision of a credit line, provision of BDS, organisation of business trips, and so on. These services are always provided at subsidised rates and in the great majority of cases do not tackle the *causes* of the malfunctioning of the market. In other words, the programme *substitutes the private sector* instead of trying to reinforce the market. In that sense it is possible to say that **there is a gap between the strategy proposed by HQ and its implementation in the field**.

Yes, past assessments have shown that even in cases where such programmes are successful at achieving their specific results (providing subsidised services to a given number of firms), their contribution to the objective of increasing the competitiveness of the private sector is marginal. As shown by the research carried out in the frame of the SEDONORS, in the best cases these programmes create *islands of excellence* without a sustainable impact in terms of development of the private sector. In most cases they introduce market distortions, unfair competition, can even be subject to corruption and are in most cases difficult to manage.

This ambiguity in the message of the strategy is reinforced by the fact that **the strategy envisages five areas of intervention but gives no guidance on the prioritisation among these areas**. This lack of guidance possibly reflects a lack of research or the absence of a policy decision on how Community support can best be used to help increase the competitiveness of third countries. This means that the strategy is too broad, with the result that Commission assistance is diffused across many types of programme in different areas, with differing foci and differing degrees of success. In consequence, a majority of Commission staff responsible for implementing support to PSD lack the necessary strategic vision on how to support PSD, the result being uneven implementation in the field and only limited contribution to the competitiveness of the private sector in beneficiary countries, this being true even of more recent programmes.

4.2 Conclusions on the Community's PSD strategy

4.2.1 Progress accomplished

CS-1 *Increased awareness of the importance of PSD for third countries*

The private sector is now accepted by the EC as a critical factor for poverty reduction

Since the mid-1980s, the role of the private sector as an essential component of the development process has become largely accepted. Most third country governments and donor agencies have declared their commitment to encourage the development of a healthy and dynamic business sector and the redefinition of the role of the State. This is for example reflected in the Cotonou Agreement (Article 21). The recent creation of the "Business, Trade and Regional Integration Unit" in EuropeAid is a further opportunity for the Commission to increase the effectiveness of its aid in this area. (Cf. Section 2.2.1)

CS-2 *Elaboration of a single strategy for all third countries*

... which is reflected by the elaboration of a recent EC PSD strategy, ...

During the period under evaluation, the formulation of the European Commission's strategy for support of private sector development in third countries has been unified between the different regions and presented as a comprehensive approach addressing problems at different levels, and it reflects, at least partially, the most recent debates on the sector. PSD support has a single purpose in all regions, supported by a broad range of activities, which can vary from region to region. The strategy includes interventions at macro-, meso- and micro-levels in five areas of intervention. (Cf. Section 2.2.2)

CS-3 *Creation of an informal Thematic Network*

... by a lively thematic network functioning at HQ level ...

Reflecting the importance given to PSD support, a thematic network was created at HQ level. It functioned as a platform for exchanging experience between officials with geographical or horizontal responsibilities in the sector. Some of their main outputs include the drafting of the COM(2003)267 and the Guidelines, as well as the creation of a thematic intranet website. This network has worked informally and many of its members have recently been transferred to the new "Business, Trade and Regional Integration Unit" in the Direction "Operation Quality Support" in EuropeAid, showing increased awareness of the need for integrating different aspects of economic co-operation. (Cf. Section 3.2.2.3)

CS-4 *Improved donor coordination*

... and by improved donor coordination practices.

In spite of the fact that donor coordination is especially challenging in the area of PSD support, coordination practices have recently improved. Donors, including the EC, have realised that they were encouraging proliferation of parallel structures making the business environment even more complex and leading to programme overlaps and inefficient use of resources. The recent trend in favour of interventions at macro- and institutional levels is likely to enhance donor coordination further. (Cf. Section 3.6.2)

4.2.2 Challenges ahead

CS-5 *The EC PSD strategy conveys an ambiguous message*

The EC PSD strategy is ambiguous on the way the state and the Community should support private sector development

The strategy reflects, up to a certain point, the recent evolution in relation to the respective roles of the State and the private sector in the economy. For instance, there is recognition that the State should focus on regulatory aspects rather than on the production of goods and services. Yet, the strategy also leaves room for programmes focused on the provision of services to firms without tackling the main *causes* of the malfunctioning of those markets, and thus substituting the private sector (Cf. Section 3.1.2.2). This lack of clarity has direct consequences for the way in which the strategy can be disseminated, understood and used by staff, as shown below.

CS-6 *The strategy does not prioritise among different areas of intervention*

The EC PSD strategy does not set priorities among the five different areas of intervention

The strategy includes interventions at macro-, meso- and micro-levels in five different areas of intervention. Yet there is no prioritisation between these areas of intervention and no guidelines or criteria have been laid down to help staff select the right area for a given situation. As a consequence, in most cases staff decide on the basis of personal preferences, past programmes or beneficiaries' requests. Thus concentration on different areas of intervention will not reflect a Community approach. Moreover, the lack of prioritisation will disperse EC efforts between programmes in different areas, with differing foci and degrees of success.

CS-7 *The EC PSD strategy has not been sufficiently disseminated*

The PSD strategy has not been sufficiently appropriated by the staff

The lack of clarity in the message conveyed by the strategy makes it difficult to disseminate to staff. It remains largely unknown to a majority of the EC staff in charge of implementing it. This situation arises despite efforts made by HQ, for instance through the creation of a dedicated intranet website. The evidence shows that the thematic website remains underutilised despite the fact that there remains a demand for support from HQ (*Cf. Section 3.2.2.3 and Annex 5, Section 7*).

CS-8 *Lack of strategic vision of the staff*

The staff has different perceptions of what PSD support is ...

The ambiguous message of the strategy and the consequent difficulty of disseminating it among staff has led to a situation in which EC staff have *different perceptions* of what private sector development is, why it is important for development and *why and how the Community should intervene in this area*. The contribution of PSD to co-operation and development objectives and the specific objective of the strategy are unclear to many staff in spite of official declarations and documents. Further, in some Delegations there is a sense of a lack of the necessary expertise to design a country PSD strategy and to engage on policy dialogue with the different stakeholders. Staff in the field are bound to rely on personal experience or to follow, uncritically, the requests of the beneficiary country. As a consequence, EC PSD interventions largely amount to the sum of individual interventions reflecting the personal views of staff members or external experts. (*Cf. Section 3.1.2*)

CS-9 *Uneven implementation of the strategy*

... which leads to an uneven implementation of the strategy

This lack of strategic vision, coupled in some cases with a lack of technical expertise, has negatively affected the design of country PSD strategies, their implementation and their impact. For instance, in several cases the focus has been the direct provision of services without due consideration for the limited coverage of the programme or its longer term effects. The risk of inducing market distortions remains largely disregarded. (*Cf. Section 3.1.2*)

4.3 Conclusions at implementation level

4.3.1 Across areas of intervention

CI-1 When programming a country PSD strategy, the absence of a methodical process for selecting an area of intervention limits the effectiveness of the interventions⁴⁷

In a given country, the areas of intervention selected by the EC generally correspond to one of the several constraints faced by the private sector in the beneficiary country. Moreover, the areas of interventions selected at country level usually correspond to the areas designated by the EC PSD strategy. But for a given area of intervention, the degree of effectiveness in improving business sector competitiveness will depend on a number of factors, including (i) whether the selected area addresses a *priority* constraint in that country, (ii) whether the selected area addresses a constraint in which the EC has comparative advantage⁴⁸, and (iii) whether the pre-conditions for intervention in a given area have been met.

The EC does not systematically assess these factors, let alone take them into account when selecting its areas of intervention in a given country. Instead, the choice of area is frequently based on a demand-driven approach with insufficient critical analysis of the pre-conditions or EC comparative advantages and with insufficient consideration of interventions in PSD by other donors. As a consequence, the areas of intervention selected by the EC in a given country are not always those that ensure the most effective results for achieving the purpose.

CI-2 PSD activities are not designed so as to improve the competitiveness of the private sector in a sustainable manner⁴⁹

EC PSD programmes frequently attain their specific programme objectives. However, the extent to which these programmes improve the competitiveness of the private sector in a significant and sustainable way depends on a number of factors. The evaluators concluded that PSD activities do not sufficiently take these factors into consideration:

i) Programme objectives are not systematically geared towards achieving the objectives stipulated in the EC PSD strategy

The evaluation confirmed that the objectives stipulated in the EC PSD strategy are relevant to improving business sector competitiveness. But they are usually not attained, let alone in a sustainable manner, when the specific objectives of PSD programmes are not aligned with them. In the area of financial and non-financial services for example, activities

⁴⁷ Based on Sections 3.1.2.1, 3.1.2.2., 3.1.2.3, 3.2.2.1.

⁴⁸ As discussed in the conclusions per area of intervention below, evidence from the evaluation suggests that the EC has a comparative advantage in improving the business environment and a competitive disadvantage in reinforcing financial markets. Regarding other areas of intervention, success varies on a case-by-case basis rather than on the EC's comparative advantages.

⁴⁹ Based on Sections 3.1.1.2, 3.1.2.3; 3.1.2.1, 3.2.2.3, 3.2.2.5.

usually focus on the direct provision of services rather than on reinforcing the structure and functioning of the local market. With respect to intermediary organizations, these are usually used for the provision of services without direct focus on enhancing their institutional capacity.

ii) Key constraints conditioning success are not sufficiently addressed

Given the transversal character of PSD, an area of intervention may suffer from a number of constraints, which often must be addressed jointly in order to reach the expected results of the EC PSD strategy. Reinforcing financial markets for example may necessitate intervention at macro-level (regulations uncondusive to lending operations), meso-level (insufficient credit and risk assessment capacity on the part of lenders) and micro-level (lack of proper financial reporting on the part of borrowers). Similarly, reinforcing the local BDS market requires an approach that addresses both demand- and supply-side issues.

The evaluators conclude that the EC does not systematically ensure that key constraints within an area of intervention are being addressed, in at least two ways:

- First, not all constraints are being taken into account when designing a programme, either within the programme itself (by making sure that the programme targets all key constraints, which requires devoting sufficient financial resources to the programme), in coordination with other donors, or in consecutive programmes (e.g. Vietnam's SMEDF I and SMEDF II). Instead, and largely as a result of an insufficient diagnosis of the main elements conditioning success in a given area, the EC often focuses on responding to just one or a few of the constraints within an area of intervention. This implies that while specific project objectives may be met, these will be insufficient to ensure that the expected results will be attained, as key obstacles conditioning success remain in the way.
- Second, during programme implementation not all planned components of an activity are carried out. This has been observed particularly in interventions in the financial sector. Given the importance of tackling all relevant PSD constraints within an area of intervention, failure to implement key planned components is usually an obstacle to successful attainment of a planned result.

iii) Most meso- and micro-activities lack sufficient outreach and are not targeted on the most adequate beneficiaries.

The achievement of expected results largely depends on the impact of an intervention in generating significant changes in the economy, and the latter is partly determined by the outreach of the programme as well as by the strategic selection of end-beneficiaries. The evaluators first conclude that the outreach of EC interventions at meso- and micro-levels is often too limited to ensure a significant impact of the activity on the economy. Lack of outreach usually results from insufficient financial resources, either from the EC itself (by ensuring that sufficient funds are allocated to the activity) or from other donors (through implementation of joint activities). In addition, EC activities are not targeted on the most appropriate beneficiaries: programmes frequently target a wide range of beneficiaries in different industries instead of focusing on a specific industry or on key players within an industry, with higher potential for spill-over in the economy. It must be borne in mind that

the debate on selective interventions, including “picking industry winners”, remains unsettled in the academic literature, as discussed in the World Development Report 2005.⁵⁰

iv) Lessons from past activities are not systematically integrated

The evaluators conclude that as an institution the EC fails to capitalise on its global experience in PSD in two ways. First, the monitoring of activities is weak (both on the quality of target indicators and on the monitoring of the indicators themselves), which limits the scope for lesson learning. Second, there exists no viable mechanism for sharing knowledge among staff involved in PSD activities. PSD Guidelines are a good basis but are too general to capture insights by type of activity and cannot be updated regularly enough to capture recent developments in the various fields. Consequently, sharing of best practice and avoidance of repeating undesirable practices occurs only on an *ad hoc* basis.

CI-3 There is no systematic attempt either to maximize complementarities between areas of intervention or to ensure coherence between PSD and other sectors or other EU policies⁵¹

The fact that private sector development is inherently related to the economic, social and political development of a beneficiary country highlights the importance of exploiting potential complementarities between areas of interventions and maximizing coherence between PSD and other sectors of intervention as well as other EU policies.

- First, complementarities between areas of intervention are seldom exploited. For instance, interventions at the meso- and micro-levels seldom complement interventions at macro-level to improve, for instance, the regulatory framework of those markets.
- Second, coordination between PSD interventions and interventions in other sectors - including trade, regional integration and macroeconomic support - is limited. As a consequence there is a risk of incoherence in Community support.
- Third, the risk of incoherence is even greater with respect to other EU policies. Little is done to ensure that EU policies take into account development objectives as requested by the Treaty. While PSD documents sometimes highlight complementarities and coherence issues, the evaluators conclude that, isolated cases apart, there is no systematic effort to maximize potential complementarities and coherence, thereby limiting the relevance and effectiveness of these interventions.

⁵⁰ The World Bank (2005), World Development Report, Oxford University Press, page 13.

⁵¹ Based on Sections 3.1.2.2, 3.5.2.1, 3.5.2.2.

4.3.2 By area of intervention

4.3.2.1 Business environment

CI-4 Many EC business environment programmes have been successful, in large part due to their high relevance

Many EC PSD interventions at macro-level have been successful in improving the business environment of partner countries. This is largely the result of the relevance of such programmes, in two respects. First, the business environment is a relevant area in most countries evaluated, as all have sufficient room for improving the stability of the macroeconomic environment as well as the predictability and enforceability of their legal and regulatory framework. Second, in terms of programme design most EC programmes usually tackled priority constraints of the partner countries. This reflects the expertise, and thus comparative advantage of the EC in improving the business environment, particularly regarding institutional, legal and administrative reform⁵².

CI-5 Yet strong political involvement, a pre-condition for successful implementation of business environment programmes, is not systematically taken into account

A key pre-condition for successful implementation of EC programmes is the involvement of the partner government in support for PSD but also its support for EC intervention. The necessity of government involvement arises from the fact that it is the public sector stakeholders such as policymakers or legislators that are responsible for ensuring the implementation of most business environment programmes⁵³. When intervening in the business environment, EC programmes do not systematically ensure that there is sufficient government involvement. Moreover, lessons from past experience in a country are not sufficiently integrated in the design of new programmes aimed at improving the business environment⁵⁴.

CI-6 Other practices have influenced government involvement

While the level of government involvement is to a large extent outside the control of the EC, several elements were found to have an impact on it. This include minimizing delays to ensure that reforms are in line with the government's own policy agenda⁵⁵, consultation with relevant stakeholders so as to understand local concerns and rally support⁵⁶, joint implementation with other donors so as to increase the weight of proposals,⁵⁷ and

⁵² Cf. Desk Phase of the Evaluation of European Community Support to Private Sector Development in Third Countries, page 41.

⁵³ Cf. 3.1.2.2.

⁵⁴ Cf. 3.2.2.3.

⁵⁵ Cf. Annex 6, EQ 4.1, page 17.

⁵⁶ Cf. Annex 5, Section 5.3.1.

⁵⁷ *Ibid.*

proposing of reforms at provincial government level which is characterized by a more flexible structure which facilitates consensus between the relevant public bodies⁵⁸.

CI-7 Support to intermediary organizations has been an effective way of influencing government policies

Support to intermediary organizations (IOs) as an indirect way of influencing policies is encouraged in the EC PSD Strategy, as their capacity to carry out a policy dialogue with the government is considered key to defining policy priorities and building private sector confidence in government action. The evaluation confirms that, when focused on that aspect, EC interventions have been successful at improving the representative function of the IOs and at increasing their recognition vis-à-vis the government. Success factors include: targeting private IOs which have independence from the government and are thus better trusted by companies, focusing on building the human capacity of these IOs and ensuring that they can generate self-sustaining services to ensure their financial viability. Yet, too few interventions of such a type have been implemented so far.

4.3.2.2 Financial sector

CI-8 Except for interventions at macro-level, most EC interventions aimed at reinforcing financial markets were unsuccessful at addressing the obstacles responsible for a lack of access to finance

At the programme design stage, the components of EC programmes rarely addressed the right set of obstacles faced by the financial sector in a given country.⁵⁹ The lack of correspondence between programme components and the real obstacles faced in the financial sector is mainly explained by the inadequate EC assessment of the key constraints faced by the financial sector⁶⁰. While some EC programmes were successful in covering the key constraints of the financial sector (in particular macro-level interventions such as legal and regulatory reform), evaluators conclude that other donors with more experience in the financial sector (e.g. EIB or Japan's JAICA), were consistently better at targeting the key obstacles and offered more appropriate solutions to reinforcing the financial sector.

At the implementation stage, planned meso-level components aimed at reform (e.g. training), which were necessary to reinforce the financial sector, were rarely implemented. In practice, EC programmes mainly focused on the provision of credit lines. The most common reasons for the inability to put planned reform components into practice include the running out of financial resources, disbursement problems or weak management. That said, the fact that it was the reform components that were systematically dropped raises additional doubts about the capacity of the EC to implement reform-oriented components in the financial sector.

⁵⁸ Cf. Annex 7, EQ 4.1.3, page 20.

⁵⁹ Cf. 3.2.2.3.

⁶⁰ *Ibid.*

CI-9 Programmes aimed at financing specific investment projects through direct capital contribution have usually been successful in delivering expected outputs but unsuccessful with respect of the objectives of the EC PSD strategy

Many programmes have had an insufficient outreach to or do not target on appropriated beneficiaries, thus begging the question as to whether aid resources might have been better spent elsewhere⁶¹. In addition, and most importantly, many programmes failed to ensure high reimbursement rates, which imply two negative consequences of the EC PSD strategy. First, because of the high default rate, many who did borrow will find it more difficult to borrow in the future, because of their poor credit histories. Second, low reimbursement rates raise questions of sustainability of the fund for future lending. The experience of low reimbursement rates should not come as a surprise when considering that the EC is not adequately equipped to ensure a system of high reimbursement compared with donors, such as the EIB, which are more experienced in that area.

CI-10 PSD Guidelines are not sufficiently clear regarding the role of the EC in financial sector interventions

PSD Guidelines state that, on the one hand, investment financing instruments must be implemented either by the EIB or by the EBRD. On the other hand the Guidelines also stipulate that it is the Commission's role to "define the instruments, drawing up overall implementation procedures and ensuring consistency with development co-operation policy and overall monitoring of the instruments"⁶². When compared to the first statement, this instruction is ambiguous in that it leaves room for questioning the exact distribution of activities between the EC and other partner institutions. In addition, in the light of the above conclusions, the evaluators doubt whether the Commission is up to the tasks described in the second statement.

4.1.2.3 Business development services

CI-11 Not all programmes aimed at reinforcing the local BDS market

The specific objectives of a significant number of EC programmes are not in line with those proposed by the Blue Book, to which the EC subscribes. The latter stipulates that outreach and sustainability can only be achieved through facilitation of a sustained increase in the demand and supply of services, and not through direct provision and subsidies at the level of BDS transactions. In contrast, the specific objectives of many EC programmes aimed only at the latter. Some EC programmes were successful in that they improved the competitiveness of the targeted businesses, but unsurprisingly, no such programme succeeded in meeting the principle of outreach and sustainability. While such misalignment can be partly explained by the fact that many BDS programmes were designed prior to the publication of the Blue Book in 2001 and its adoption by the EC, some EC programmes designed after this date continue to aim at the direct delivery of BDS.

⁶¹ Cf. Annex 6, EQ 4.1, page 18.

⁶² PSD Guidelines, page 57.

CI-12 The EC strategy is not aligned with the Blue Book BDS paradigm

The misalignment in objectives between EC programmes and those proposed by the Blue Book results partly from the fact that the PSD Guidelines themselves do not completely correspond to the Blue Book's BDS paradigm. While the EC PSD Guidelines highlights the importance of reinforcing the local BDS market, it still tolerates the direct delivery of services: "individual support projects for BDS can always be implemented in cases where it has proved impossible to set up a global programme"⁶³.

CI-13 EC programme do not adequately address the failures of the BDS market

Despite the positive evolution towards a greater focus on reinforcing local BDS markets, the chosen activities of EC BDS programmes do not always address the BDS constraints experienced in a country. Depending of the stage of market development, market failures may result from lack of BDS demand or of BDS supply, information failure or low quality standards. Moreover, different market failures require different solutions. Presented in the order of the market development stages described above, they include respectively: sensitisation of a client to the benefits of BDS through the use of business associations, facilitation of BDS events and local tendering procedures, bridging the information gap through the use of subsidies, and technical assistance to improve quality of services supplied. In the case of EC programmes, subsidies remain the favourite mechanism, without apparent justification, which helps explain why many programmes are unsuccessful in reinforcing the local BDS market.

CI-14 The EC neither assesses market failures sufficiently, nor devises adequate supply-side solutions

Two reasons help explain the inadequacy of EC solutions to existing market failures. First, there is insufficient assessment and thus understanding of the local BDS market and its failures, both of which are required procedures laid down in the Blue Book and EC PSD Guidelines. As the Blue Book mentions, market assessment aids understanding of the reasons behind the lack of demand for or supply of services, and the extent of market distortions, as well as helping to identify local mechanisms for service delivery and payments. Second, EC programmes have been weaker in devising supply-side solutions to respond to supply-side market failures, implying that demand-side solutions, especially subsidies, were often chosen by default. In one glaring example, the failure to enhance the specialized skills of BDS providers led management to revert back to demand-side solutions without attempting to resolve the situation.

CI-15 Some BDS programmes have successfully achieved their specific objectives, conditioned however on the problem of outreach

Programmes such as Zambia's PSDP or Morocco's EME have experienced some success in reaching their specific objectives. In addition to having objectives specifically aimed at reinforcing BDS markets, and thus in line with the Blue Book, key success factors include

⁶³ Ibid, page 74.

in-deep analysis of the failures of local BDS markets and thus the ability to devise adequate solutions to overcome them. In the cases mentioned, this implies that the programmes simultaneously covered demand and supply-side problems. Additional factors explaining the success of these programmes include the flexibility of the programmes to respond rapidly to a changing assessment of market failures, and also the joint work between local and international consultants which created significant learning benefits for the local BDS market. Even so, the small scale of some of these programmes and their subsequent limited impact on the economy raises the question of whether the return on investment was adequate.

4.3.2.4 *Investment and inter-business co-operation promotion*

CI-16 Partnership interventions have been effective under regional and national programmes

Most EC interventions in the form of partnership have been carried out in the framework of regional programmes such as Asia-Invest, AL-Invest, and Pro-Invest. In most cases, these programmes have been effective in organizing partnership activities but less often in following-up the agreements reached as a result of a partnership activity. Despite the limited information on the results of national programmes, it can be stated that many have successfully resulted in concrete transactions. Key success factors included the effectiveness of local offices, the quality of the events organized and the appropriate targeting of the companies invited.

5. Recommendations

This section presents recommendations at two levels. First, it presents recommendations regarding the strategy, based on Section 4.2 above. This first set of recommendations reflects the main conclusion of this evaluation, namely that the EC PSD strategy is not sufficiently clear in the message it conveys, which has direct effects on the design and implementation of country PSD strategies and thus on the effectiveness of the support provided. Second, detailed recommendations regarding the implementation of EC support to PSD are presented, based on Section 4.1 above. They reflect the conclusions reached regarding past and current implementation of PSD programmes in different areas of intervention.

5.1 Recommendations on the Community's PSD strategy

RS-1 Clarify the message conveyed by the strategy⁶⁴

As mentioned above, the main weakness of the EC PSD strategy is that it is not sufficiently clear **on the role that the EC, as development agency, should play in terms of private sector development.** This lack of clarity is probably explained by historical reasons: first, the paradigm of the role of the State in the economy has changed in recent decades and, second, the EC has traditionally been more involved in social sectors. Yet, this lack of clarity has direct effects on the effectiveness of aid and therefore should be avoided. An update of the COM(2003)267 and the Guidelines to provide greater clarity on why and, particularly, how the EC can and should support private sector development with a view to contributing to wider development and co-operation objectives, would greatly improve the effectiveness of EC PSD support. The updated documents should include a clear and sufficiently detailed explanation on the links between private sector development, economic growth, development objectives and, most of all, poverty reduction.

RS-2 Prioritise the various areas of intervention⁶⁵

The strategy is comprehensive in that it covers much of what is considered to be the elements affecting private sector development. However, for this very reason it is too open and leads to a dispersion of effort. The EC should identify the areas in which Community support can better contribute to the development of the private sector. The elements to consider, as in other sectors, are: the size of Community support, its potential to influence government decisions which smaller donors lack, and its organisational structure and experience.

⁶⁴ Cf. Section 4.1.2.2 – CI-10, Section 4.1.2.3 – CI-12, Section 4.2.2 – CS-1, CS-2, CS-5, CS-9.

⁶⁵ Cf. Section 4.1.1 – CI-1, Section 4.2.2 – CS-6, CS-9.

The evaluation has shown that the EC has a higher comparative advantage in macro- and institutional interventions and a lower one in interventions in financial markets. Interventions at macro-level fit particularly well with the experience of the Community and, more important, are interventions that have a large multiplier effect. The overall impact of the interventions at the macro- and institutional levels are probably higher than in any other area of intervention. Moreover, the EC can claim the political and moral authority to discuss policy matters with partner countries. Therefore, priority should be given to interventions at macro-level. Interventions at micro-level (for instance, to enhance firms' access to BDS) should be understood only as complementary and only when the business environment is considered adequate. More important, these interventions should aim at reinforcing the local markets and not at providing the service. As explained above, in many cases these interventions introduce market distortions, unfair competition, can be subject to corruption and are difficult to manage. Finally, low priority should be given to intervention in financial markets.

By the same token, the strategy should provide guidance on what kind of support to provide in different cases. A typical case is government commitment and there the question is whether it is worth supporting PSD in a country where the government is not sufficiently committed to PSD. In many cases, a decision has been taken to ignore this fact and opt for interventions targeting directly private companies. A different option, in line with a sectoral approach as proposed by the EC, is to engage in a policy dialogue with the government while at the same time supporting intermediate organisations in their capacity to represent the interests of the private sector.

RS-3 Increase ownership with a view to reaching a unique and common Community vision on PSD support⁶⁶

Because the strategy is not clear enough and because it has been insufficiently disseminated, there is no single vision of Community support to private sector development. Yet, without a common EC vision, staff will not be able to apply a strategy. **A uniform and coherent understanding of EC PSD support is needed to make Community support to PSD more than the sum of individual interventions reflecting the personal views of the staff or external experts.**

Further, the *process* of creating this common understanding is vital to enhancing ownership. It should include the participation of all staff involved in PSD at HQ and in Delegations. This certainly does not imply incorporating different views. On the contrary, as mentioned in RS-1, the message should be clear, coherent and unambiguous; trying to incorporate many different views will blur the picture. In addition, as the Commission currently relies on contractual personnel to manage and sometimes design programmes, they should also participate in the process as they play an important part in the implementation of the strategy in the field.

⁶⁶ Cf. Section 4.2.2 – CS-8, CS-9.

The updated strategy should be disseminated widely by using all available channels: training, re-vamped website, newsletters, etc. Training could be provided to disseminate it further. Mixing staff from different countries and if possible from different regions can only enhance the exchange of information and the creation of a network. The dissemination and training can be ensured by the network as proposed in RS-5

RS-4 When updating the COM(2003)267 and the Guidelines keep in mind their different functions⁶⁷

While a Communication should define theoretical aspects and give policy orientation, the Guidelines should be seen as operational support. The Guidelines should provide detailed but well structured and unambiguous orientation for implementation, including examples of different types of intervention. Both documents should be coherent and cross-referenced. For instance, using different terminology for the same concept – as is the case now – should be avoided.

- Both documents should emphasize the importance of carrying out a detailed analysis of the situation before deciding how and where to intervene. Further, the Guidelines should provide assessment tools. It should be noted that many different diagnosis tools for private sector development are currently available; the Commission does not need to develop new ones but needs to decide which ones to use.
- Although it is not PSD-specific, both documents should also insist on the importance of monitoring and evaluation. It should be clearly explained why Results-Oriented Monitoring is important and what it implies when monitoring is limited to outputs. Examples of good and bad practice from PSD programmes should be provided. The particular difficulties inherent in tracking the effects of PSD programmes should be discussed while insisting that it should nevertheless be done as, if it is not done, a serious accountability problem arises.
- Needless to say, the form should also be taken into account, particularly in the case of the Guidelines: an attractive and user-friendly document has more chance of being used by the staff. To this end, inspiration can be sought from Guidelines produced by the Commission for other sectors of co-operation.

RS-5 Build on the Thematic Network⁶⁸

As mentioned throughout the report, aid effectiveness in the sector can be increased through sharing of experience acquired by the different actors of EC PSD support and from all third countries; through harmonisation of the approaches of the different geographical regions – which to a large measure has already been achieved; and through better coordination between horizontal, national and regional programmes. This increased exchange of information can be achieved through the systematic use of a thematic network.

⁶⁷ Cf. Section 4.1.1 – CI-1, CI-2, Section 4.2.2 – CS-2, CS-5, CS-8.

⁶⁸ Cf. Section 4.1.1 – CI-2, Section 4.2.2 – CS-3, CS-7, CS-8.

The Thematic Network already exists and, although informally set up, has been very active in Brussels. A next step should be to promote it actively in the Delegations. There is a strong demand from the Delegations, particularly in the context of deconcentration, to receive technical support from HQ. The Network should also have support from stable external expertise in Brussels and from correspondents in the field who will work hand in hand with Delegation staff. Such specialised networking will allow a combination of the advantages of the horizontal programmes with those of national programmes: the correspondents in the field provide a strong link to the specific realities of each country and an opportunity to share this country-specific information. The network in Brussels allows capitalising and building of knowledge at central level (for instance through specific studies) as well as centralising and disseminating experiences from different countries. Ideally, the network should integrate support to trade and regional integration and be closely coordinated with macroeconomic support.

5.2 Recommendations at implementation level

5.2.1 Across areas of intervention

RI-1 Adopt a methodical procedure for selecting areas of intervention in a country

Despite the fact that there exists no one-size-fits-all approach to interventions in PSD, the following steps should be systematically adopted when selecting the area or areas of intervention in a partner country:

- Step 1* Critically assess the priority areas of intervention so as to avoid a purely demand-driven approach vis-à-vis the partner country. Such assessment should be performed on the basis of internal resources (including EC PSD staff, identification missions, and EC PSD experience in other countries via the PSD network) and complemented by other donors' analyses.
- Step 2* Select an area of intervention in which the EC has a comparative advantage. For example, intervention in the business environment should be encouraged while intervention in financial markets should be avoided. If the priority areas of a country are those in which the EC has no visible comparative advantage, two options are available. First, the EC can still intervene in the priority area but in coordination with more experienced donors. Alternatively, the EC can focus on non-priority areas of intervention that are nevertheless relevant and in which the EC has more experience, as long as the countries' priority areas are already being tackled by other donors.
- Step 3* Assess whether the pre-conditions for intervening in a given area are met. For instance when deciding to improve the business environment of a partner country, sufficient government commitment is a critical pre-condition. Evidence from past experience (both the EC's and other donors') in that country provides a good basis for making such an assessment.

RI-2 Design PSD programmes with a view to improving business sector competitiveness in a sustainable manner

Align programme objectives with those stipulated in the EC PSD strategy

Particularly in the areas of financial and non-financial services, the specific objectives of the programme should be to reinforce the structures and functioning of the local market. In contrast, programmes aimed at direct delivery of services should be avoided, in view of their limited outreach and effectiveness.

Address the key constraints conditioning success in the areas of intervention

Step 1 Critically assess the key constraints in an area of intervention and include such assessments in programming documents. For instance in the area of BDS, programming documents should elaborate on the stage of BDS market development and where market failures have occurred. In the provision of financial services EC programmes must have a clear position on whether the lack of access to finance is caused by laws that discourage lending to enterprises, by untrained lenders, by insufficient financial resources or by inadequate financial reporting by borrowers.

Step 2 Ensure that all key constraints are addressed during the intervention, either by the EC itself or in coordination with other donors. If the EC is intervening on its own, then it must ensure that sufficient resources are allocated for the programme. Given budget constraints, the latter may require concentrating resources in fewer areas of intervention in a given programming cycle. Alternatively, the EC could explore the possibilities for joint implementation with other donors so as to ensure the comprehensiveness of the programmes. In any event, programmes that tackle only a fraction of the constraints should be avoided.

Step 3 Integrate lessons from the past. First, promote knowledge-building through reinforcing the internal monitoring system. Second, use the PSD network to exchange information on best and worst practices.

RI-3 Maximize complementarities between areas of intervention, as well as coherence between PSD interventions, interventions in other sectors and other EU policies

Coherence between PSD and other sectors of intervention

PSD programmes could be accommodated into regional integration programmes, for instance by designing BDS components aimed at taking advantage of the opportunities offered by regional market integration as well as countering the detrimental effects of such integration. Such coherence should be similarly sought with respect to other sectors such as trade and macroeconomic support.

Coherence between PSD and other EU policies

First, pro-active dialogue should be promoted with EC staff responsible for non-PSD policies (e.g. by inviting them to join the PSD network) to ensure that the latter take into account the impact of their policies on third countries' private sectors. In addition, EC

PSD programmes should be accommodated by other EU policies: BDS activities for example should be designed with a view to increasing market access in European markets (e.g. trade regulations).

5.2.2 By area of intervention

5.2.2.1 Business environment

RI-4 Intervention in the business environment should be encouraged, as long as there is sufficient government commitment

Step 1 Based on past EC and non-EC experience in the country, assess the level of government commitment to implementing EC reforms.

Step 2 Maximize government commitment by:

- ensuring that reforms are in line with the government's own policy agenda; this can be facilitated by designing business environment programmes sufficiently flexibly so that in the event of implementation delays, programme components can be adjusted to fit with the government's evolving policy agenda;
- consulting with relevant stakeholders and ensuring that their views are integrated during the design of the programme;
- exploring coordination with other donors in the form of budget support or joint programmes so as to increase the weight of the proposed reform;
- proposing reforms at provincial level, mainly where the political structure at central level appears too rigid.

When government commitment is judged to be insufficient, two lines of action should be considered. First, EC intervention at meso- and micro-levels can be undertaken, but only with a view to demonstrating to government of the benefits of the private sector. Under those circumstances, meso- and micro-interventions should occur within a limited period of time. Second, EU interventions should entail constructive dialogue with government authorities with a view to changing the latter's position on the private sector, either directly or indirectly through business intermediary organizations.

RI-5 Encourage support to intermediary organizations as a way of influencing private sector policies

The following best-practices must be kept in mind:

- Target IOs with sufficient independence from the government so as to earn the trust and participation of companies.
- Focus on building up the human capacity of these IOs to ensure sustainability.
- Ensure that the targeted IOs can generate self-sustaining services and thus financial viability once the programme is complete.

5.2.2.2 *Financial services:*

- RI-6 Avoid meso- and micro-level interventions aimed at intervening in financial markets, unless in co-operation with other financial institutions

With regards to micro-level interventions, the EC should avoid programmes aimed just at the provision of credit lines. In addition, if the EC decides to intervene in reinforcing the financial markets, it should outsource all the technical aspects of the programme, including constraints identification, design of solutions and the drawing up of implementation procedures. These roles should be assumed by the EIB or EBRD (as stipulated by the PSD Guidelines). This recommendation also applies to meso-level interventions,⁶⁹ for which the EC has not proved to be successful when intervening on its own. However this recommendation does not apply to macro-level interventions such as reforms of laws and regulations aimed at improving development of the financial sector, in which the EC should continue intervening as appropriate.

- RI-7 PSD Guidelines should leave no ambiguity regarding the role of the EC in financial sector interventions

The PSD Guidelines should reconcile their instruction that “investment financing instruments must be implemented either by the EIB or by the EBRD” with the stipulation that it is the Commission’s role to “define the instruments, drawing up overall implementation procedures and ensuring consistency with development co-operation policy and overall monitoring of the instruments”. The evaluators recommend reformulation of the PSD Guidelines on the basis of the preceding conclusion, which state that the role of the EC in the technical aspects of financial sector intervention should be minimized. This minimised role in the financial sector only applies to micro- and meso-level interventions, and not to interventions at macro-level.

5.2.2.3 *Business development services*

- RI-8 BDS programmes and the EC PSD Strategy should aim only at reinforcing local BDS markets, not at the direct delivery of services

To align the EC PSD strategy with the Guidelines proposed by the Blue Book, the PSD Guidelines should discourage interventions aimed at the direct delivery of services by removing statements such as “individual support projects for BDS can always be implemented”. Instead, it should only encourage programmes aimed at reinforcing the local BDS market. In the same spirit, the objectives of BDS programmes should also be geared to reinforcing the local BDS market.

⁶⁹ Examples of meso components include the provision of training to lenders to assess risk and/or to introduce new ways of accepting collaterals or setting up institutions aimed at improving the capacity of borrowers to provide adequate financial information to lenders.

RI-9 BDS programmes should address prevailing BDS market failures rather than advocate demand-led subsidies by default

- Step 1* During the identification phase, critically assess the local BDS market and the precise nature of market failures. In so doing, past EC and non-EC experience in BDS intervention should be taken into account.
- Step 2* During programme design, supply-side measures should be used when necessary. To compensate for the limited EC expertise in supply-side solutions, programme designers should make use of all available EC expertise in other countries through exchanges of knowledge via the PSD network, as well as being informed by other donors' supply-side measures.
- Step 3* Programmes should be designed flexibly, in case programme managers discover new market failures and need to adjust their approaches.
- Step 4* Find a right balance between international and local consultants, so as to balance the benefits of learning versus those of sustainability.
- Step 5* In terms of scale of the programme, those that will have only limited impact on the economy should be avoided.