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*The opinions expressed in this document represent the authors' points of view
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List of Abbreviations

€m	Euro Millions
AA	Association Agreement
ACP	Africa Caribbean and Pacific
AfT	Aid for Trade
AIDCO	EuropeAid Cooperation Office
AIDS	Acquired Immunity Deficiency Syndrome
AIF	Asia Investment Facility
ALA	European Commission programme for financial aid and cooperation with Asia and Latin America
ASIA	European Union Development Cooperation Instrument for Asia
B2B	Business-to-business
BCEAO	Banque Centrale des États de l'Afrique de l'Ouest
BDS	Business development services
BIZCLIM	Private Sector Enabling Environment Facility (BizClim)
BRICs	Grouping acronym that refers to the countries of Brazil, Russia, India and China
BS	Budget Support
CARDS	Community Assistance for Reconstruction, Development and Stabilisation, European Commission assistance programme.
CCI	Cross-Cutting Issue
CDE	Centre for the Development of Enterprise
CEPS	The Centre for European Policy Studies
CFB	Corporate Finance Broker
CGAP	Consultative Group to Assist the Poor
CIF	Caribbean Investment Facility
COM	European Commission Communication
Commission	European Commission
CRIS	The Commission's Common Relex Information System
CSP	Country Strategy Paper
CSR	Corporate Social Responsibility
DAC	The Development Assistance Committee of the Organisation for Economic Co-operation and Development
DCED	Donor Committee on Enterprise Development
DCI	Development Cooperation Instrument
DEVCO	EuropeAid Development and Cooperation
DFI	Development Finance Instruments
DFID	UK Department for International Development
DG	Directorate-General

DRC	Democratic Republic of Congo
DS	Dissemination Seminar
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECOWAS	Economic Community of West African States
EDF	European Development Fund
EDFI	European Development Finance Institutions
EIB	European Investment Bank
EIB IF	European Investment Bank Investment Facility
ENP	European Neighbourhood Policy
ENPI	European Neighbourhood and Partnership Instrument
ENTR	European Commission DG Enterprise
EPA	Economic Partnership Agreement
EQ	Evaluation Question
ESI	Employment and social inclusion
EU	European Union
EUD	EU Delegation
FDI	Foreign Direct Investment
FEMIP	Facility for Euro-Mediterranean Investment and Partnership
FEMISE	Forum Euroméditerranéen des Instituts de Sciences Économiques
GBS	General Budget Support
HIV	Human immunodeficiency virus
HQ	Headquarter
HR	Human Resources
I	Indicator
IDB	Inter-American Development Bank
IF	Investment Facility
IFC	World Bank International Finance Corporation
IFCA	Investment Facility for Central Asia
IL	Intervention Logic
IMF	International Monetary Fund
IO	Intermediary Organisation
IPA	Investment Promotion Agencies
I&R	Institutional and Regulatory reform
JC	Judgement Criteria
LAIF	Latin America Investment Facility
MEDA	European Commission instrument of economic and financial cooperation under the Euro-Mediterranean partnership launched in 1996 (MEDA I) and amended in 2000 (MEDA II)
MIF	IDB Multilateral Investment Fund

MS	Member States
MSME	Micro, Small and Medium Enterprises
MTR	Mid-Term Review
NGO	Non-Governmental Organisation
NIF	Neighbourhood Investment Facility
NIP	National Indicative Programmes
ODA	Official Development Aid
ODI	Overseas Development Institute
OECD DAC	The Development Assistance Committee of the Organisation for Economic Co-operation and Development
OR	EIB Own Resources
PME	Petites et moyennes entreprises
PMI	Petites et moyennes Industries
PS	Private Sector
PSD	Private Sector Development
PSO	Private Sector Organisation
QSG	European Commission DEVCO Quality Support Group
RCF	Risk Capital Fund
RG	Reference Group
RIP	Regional Indicative Programmes
ROM	Results-Oriented Monitoring
RSP	Regional Strategy Paper
SADC	Southern African Development Community
SBS	Sector Budget Support
SME	Small and Medium Enterprises
TA	Technical Assistance
TACIS	European Commission programme for financial aid and cooperation in the partner states in Eastern Europe and Central Asia
TOR	Terms of Reference
TPSD	Trade and Private Sector Development
TRA	Trade-Related Assistance
TRADE	European Commission DG Trade
UN	United Nations
USAID	United States Agency for International Development
VA	Value added
WB	The World Bank
WTO	The World Trade Organisation

Executive Summary

Subject and objectives

This evaluation has been commissioned by the Evaluation Unit in the Directorate-General (DG) Development and Cooperation (DEVCO) on behalf of the European Commission (hereafter the Commission). It assesses **European Union's (EU) support to private sector development (PSD)**. It covers all support provided during the period 2004-2010 in all regions where Commission support was implemented, excluding OECD countries and regions and pre-accession countries, as well as any support provided by the Commission's humanitarian aid body, ECHO. It concerns a total of €2.4bn of funds directly contracted by the Commission over the period covered.

This evaluation aims at providing an **overall independent assessment** of the EU's past and current cooperation for PSD and at **identifying key lessons** with a view to improving its strategies and programmes. It covers the five OECD-DAC evaluation criteria, as well as EU value added and the "3Cs".¹

Methodology

The evaluation applied a rigorous methodology with a view to reaching useful conclusions and recommendations based on sound analysis.

It designed a **four-phase approach** consisting of structuring, desk, field and synthesis phases. The first phase was dedicated to providing the inventory and typology of the Commission's funding in the field of PSD, an overview of the context in which it took place, a description of the overall approach of the Commission with respect to PSD support, and the definition of a set of 10 Evaluation Questions to which the evaluation needed to provide an answer, on the basis of pre-defined judgment criteria and indicators. On this basis, data collection took place through both desk and field work. The evaluation was structured around ten country case studies: Algeria; Jamaica; Jordan; Kenya; Morocco; Nicaragua; South Africa; Ukraine; Vietnam; Zambia. Country visits were conducted for all of them, except Zambia. The evaluation used a **combination of tools and techniques for data collection** including the analysis of a large amount of documents, interviews with around 200 interlocutors including representatives from the Commission, peer institutions, civil society, national authorities, private enterprises and their representative bodies, and other stakeholders in the field. Other data was collected through a survey of a selection of EU Delegations (with 54 responses from 82 invitations); a systematic review of 40 country Strategy Papers (CSPs) and Regional Strategy Papers (RSPs); and a meta-analysis of 15 strategic evaluation reports. A full presentation of the evaluation methodology is provided in Annex 9 of this report.

¹ Herein the "3Cs" refer to coordination, complementarity and coherence, as per the evaluation Terms of Reference, p.15.

Conclusions

On overall strategy and implementation issues

Over the period 2004-2010, the EU provided substantial grant funding for PSD, spanning a wide range of activities. This made the EU an important player in PSD, both financially and in terms of scope covered, and made PSD an important area of its aid delivery, even if this was generally not recognised. The Commission contracted, on behalf of the EU, €2.4bn of direct support to PSD. This compared favourably with several other well-recognised PSD donors such as France (€1.3bn), Sweden (€0.9bn) or Denmark (€0.9bn), all of which are members of the Donor Committee on Enterprise Development. Moreover, whilst PSD was by no means the largest sector of EU support to third countries over the evaluation period, the EU's PSD contribution was nevertheless comparable to other well-established areas of EU support, such as education (€1.9bn of direct support from 2000-2007) or health (€4.1bn of direct support from 2002-2010).

The EU provided some types of value added associated with its role as a development partner in general, as well as demonstrating some potential areas of value added that were directly linked to its PSD support but which were not always realised in its interventions. The EU value added as a development partner was the financial weight of its contribution, its continued presence, the fact that it was perceived as less tied to specific economic or political interests, and the emphasis on poverty reduction when other actors adopted a perspective of economic cooperation. The PSD-specific areas of potential value added were its capacity to leverage grant resources for PSD through investment and blending facilities, its ability to link PSD with trade liberalisation matters; and the transfer of EU good practices and knowledge.

The EU positioned itself as a 'generalist' in terms of PSD support, capable of funding a nearly all-encompassing range of diverse activities, which enabled it to be responsive to country needs in a context of partnership building with beneficiary countries. There was some confusion and a lack of awareness among stakeholders within and outside the EU institutions on this positioning as a generalist. Three key documents lay out the EU's PSD approach: the Commission COM(2003) 267 and Guidelines issued in 2003 and thoroughly revised in 2010. These documents provide a broad list of eligible activities in order to respond to the diverse range of country needs. The EU has deliberately maintained a nearly "all-encompassing" portfolio of activities, without defining a specific niche or role in terms of PSD support on which the EU would have wished to focus. This has enabled it to respond to diverse country needs and align with partner government priorities across a range of areas, thereby increasing the EU's capacity to build partnerships. However, the generalist approach also had a negative impact on the clarity of the EU's role as a provider of PSD support among stakeholders, both within and outside the EU.

The EU has developed a set of instruments for its PSD support that allow it to address comprehensively the range of PSD needs in the different regions, in line with the above-mentioned generalist approach. There were however some weaknesses in terms of complementarities and synergies between different mechanisms. The EU aid architecture for PSD support combined bilateral aid, regional PSD programmes and regional investment facilities. This allowed the EU to ensure a

comprehensive geographic and thematic coverage and respond to a wide diversity of country needs. There was however little coordination between bilateral programmes and regional programmes and investment facilities and some confusion among stakeholders concerning the range of instruments available for PSD support.

The EU did not fully exploit its potential in terms of expertise and experience for PSD, which were not commensurate to the financial weight of the EU's PSD support. Although there have been some valuable developments in terms of DEVCO in-house expertise for PSD with the creation of a thematic unit, overall the EU did not fully utilise the knowledge-sharing potential that existed within the different EU Delegations and the different DGs involved in the construction and enlargement of the internal market. At country level, there was no real human resources policy aimed at employing appropriate PSD expertise. PSD training programmes – available since 2009 – were often not feasible for EU Delegation staff given the available time and resources, nor was there a capitalisation of knowledge among those Delegations active in PSD. The challenge in terms of expertise for the design and management of EU support to PSD remained important, especially in the light of the EU's choice to have a nearly all-encompassing approach to PSD support.

On country specific strategy issues

The EU support to PSD was – generally quite rightfully – more geared by overall country partnership considerations than by PSD-related technical matters. By its very nature, EU support to PSD always took place in a broader context of overall cooperation of the EU with a specific country/region. The evaluation confirms that the EU made sure that these wider considerations were at the heart of its support and even determined the nature of its PSD support, rather than having a purely technical approach. In the same vein, **the EU has generally aligned its support to the beneficiary countries' priorities but has also, on good grounds, reserved itself the right not to align when confronted by specific drawbacks to alignment,** e.g. when there was no real strategy to align to or when the EU could not agree with Government policy.

The EU's PSD support responded to needs but was generally not part of a strategy aimed at maximising EU impact through a clear prioritisation, a focus on value added, and on synergies with other actors and activities. Needs in the countries of intervention are generally very broad, making much of the support relevant in the sense that it addressed observable needs. However, the support did not always contribute to a strategy that identified clear priority needs and aimed at having an adequate sequencing to target them. Support was also rarely aimed at generating a specific EU VA, and when coordination activities took place they consisted mainly in the exchange of information but not in obtaining synergies so as to maximise impact. The evaluation furthermore found that, even if there is a broad consensus on the importance of PSD for job creation, **linkages between the EU support for PSD and employment generation remained very distant and that the EU did not really use its support for PSD as an opportunity to promote crosscutting issues and the Decent Work Agenda.**

On results

The EU devoted substantial efforts to the monitoring and evaluation of its support to PSD, but it remained difficult to obtain a clear and complete picture of the

results, notably because weaknesses in terms of monitoring and evaluation subsisted, for instance the lack of baseline data or clear definition of expected results. Nevertheless on the basis of the information collected, the evaluation finds that the EU achieved results at macro- and meso-levels (institutional and regulatory frameworks, access to finance, and some elements of support to enterprise competitiveness) rather than at the micro-level (support to microenterprises and non-financial support to SMEs). Similarly, the EU made valuable contributions to the development of the private sector, in middle income countries notably through policy dialogue, alignment and the clarity of the EU's role in PSD, focussed on integration into the world economy.

As suggested above, results were however uneven and suffered from a lack of initial diagnosis. The EU global approach of delivering aid for the private sector through the public sector entailed missed opportunities in selecting the best implementation partners. Its standard rules and procedures also lacked flexibility and agility to adjust to private sector actors and dynamics.

Recommendations

On the EU's overall role and approach to PSD

The EU should maintain and be explicit about its generalist approach of providing a wide range of different types of PSD support. Indeed, the EU is a key partner in the countries in which it intervenes. With a view to align with its partner countries' national strategies and be able to respond to its needs it is important that the EU maintains a broad range of eligible PSD activities. With a view to avoiding that stakeholders and EU staff have a blurred view on the EU's role with respect to PSD support; it is important that the EU clearly communicates this generalist and partnership approach.

In the same vein, the EU should continue ensuring that its PSD support is embedded in the wider, non-technical context of cooperation with a country, and continue to reserve itself the option of refraining from alignment or not to intervene when conditions are not met. This recommendation basically calls for the EU to maintain an approach of aligning but also of giving priority to the cooperation at large above a merely technical approach.

On the contribution to a maximised developmental impact

The EU should ensure that the conditions for maximising the impact of PSD support are fulfilled. Indeed, while adopting a generalist approach to PSD in general and while going beyond merely technical cooperation, the EU should make sure that when supporting PSD in a specific country, this support is provided with a view to contributing to a maximum impact in this respect. More specifically this entails:

- The provision of mechanisms to *ensure that technical analysis and consultations have been conducted* by the EU or its national or international partners prior to providing support for specific PSD interventions
- Making sure that *at country level*, support is *part of a strategic approach*, in the sense of being prioritized, targeted, and building on the EU value added and maximizes synergies with other actors

- Promoting and facilitating the *coordination between EU support mechanisms for PSD*
- Ensuring that the *expected results are well defined and targeted, baselines defined, and evaluations conducted*, including for cross-cutting issues and the Decent Work Agenda.

On expertise for implementation

When providing support to PSD, the EU should make sure that it uses as much as possible the expertise that is already available in-house, but also that it uses expertise available elsewhere. This is indeed essential, not only because the evaluation highlights a number of weaknesses in terms of expertise, but also because it is recommended that the EU maintains its generalist approach, which is challenging in terms of areas of expertise to be covered. More specifically, it is recommended in this respect that the EU:

- Provides mechanisms and tools to *ensure that existing knowledge on PSD support in EU Directorates-General and EU Delegations is shared*.
- *Devises and applies a specific human resources policy* to ensure that EU Delegations have sufficient staff with the required technical knowledge.
- *Builds on and uses the expertise of partners, including other donors and partner countries*, where they have a clear comparative advantage in terms of necessary technical skills.

The EU should also facilitate the collaboration with private sector organisations, and tailor support instruments to enhance their involvement as implementing partners. This would also entail simplifying rules and procedures for dealing with enterprises.

On support in middle income countries and transversal issues

Support to middle-income countries should be reviewed to adapt it to the specific challenges of these countries. The EU should consider developing specific guidance for its Delegations in these countries, with a view to better tackling the specific opportunities faced by the private sector, but also to remain focused on specific challenges, notably in terms of poverty reduction.

Employment impact should be considered through each stage of the project life-cycle. The EU should ensure that employment effects of PSD support and employment needs resulting from trade agreements and changes in the international environment are factored into project identification and design. Specifically, employment targets, where used, should be constructed with baselines and verifiable indicators to allow monitoring of evolutions over time.

Finally, improve communication on the EU's strategy with respect to PSD support. The EU should improve its communication on the role it wishes to play in terms of PSD support and on the instruments that are available in this respect. This communication should target EU representatives and wider stakeholders.

Résumé exécutif

Objet et objectifs

La présente évaluation a été commanditée par l'Unité Evaluation de la direction générale (DG) du développement et coopération (DEVCO) pour le compte de la Commission européenne (ci-après la Commission). Elle évalue **l'appui de l'Union Européenne (UE) au développement du secteur privé (DSP)**. Elle couvre l'ensemble de l'appui au DSP fourni au cours de la période 2004- 2010 dans toutes les régions où cet appui a été mis en œuvre, hormis les pays et régions de l'OCDE, les pays candidats à l'adhésion et l'appui fourni par l'office humanitaire de la Communauté européenne (ECHO). Elle porte sur un total de 2,4 milliards d'euros de fonds contractés directement par la Commission sur la période couverte.

Cette évaluation vise à fournir une **appréciation globale et indépendante** de la coopération passée et présente de l'UE en matière de DSP et à **identifier les leçons clés**, en vue d'améliorer ses stratégies et programmes. Elle couvre les cinq critères d'évaluation du CAD de l'OCDE, la valeur ajoutée de l'UE et les « 3C ». ²

Méthodologie

L'évaluation a appliqué une méthodologie rigoureuse en vue de fournir des conclusions et recommandations utiles basées sur une analyse solide.

Elle a suivi une **approche en quatre phases**: la structuration, l'étude documentaire, la phase de terrain et la synthèse. La première phase a été dédiée à l'élaboration de l'inventaire et de la typologie des financements de la Commission en matière de DSP. Elle a également permis de fournir un aperçu du contexte, un descriptif de l'approche globale de la Commission pour l'appui au DSP et de définir un ensemble de 10 questions d'évaluation auxquelles l'évaluation devait apporter une réponse, en s'appuyant sur des critères de jugement et des indicateurs prédéfinis. Partant de là, la collecte des données a été effectuée au moyen des travaux documentaires et de terrain. L'évaluation s'est appuyée sur dix études de cas pays: Algérie, Jamaïque, Jordanie, Kenya, Maroc, Nicaragua, Afrique du Sud, Ukraine, Vietnam et Zambie. Des visites de terrain ont eu lieu dans ces différents pays, à l'exception de la Zambie. L'évaluation a fait appel à divers **outils et techniques pour la collecte de données**, notamment l'analyse d'un large éventail de documents, des entretiens avec environ 200 interlocuteurs dont des représentants de la Commission, d'institutions homologues, de la société civile, des autorités nationales, d'entreprises privées et de leurs organes représentatifs, ainsi qu'avec d'autres parties prenantes. D'autres données ont été recueillies grâce à un questionnaire adressé à une sélection de Délégations de l'UE (avec 54 réponses sur 82 invitations), une étude systématique de 40 Documents de Stratégie Pays (DSP) et de Stratégie Régionale (DSR) et une méta-analyse de 15 rapports d'évaluations stratégiques. L'annexe 9 de ce rapport propose une description complète de la méthodologie d'évaluation.

² Les « 3C » renvoient à la coordination, la complémentarité et la cohérence, conformément aux Termes de référence de l'évaluation, p.15.

Conclusions

Sur la stratégie générale et la mise en œuvre

Au cours de la période 2004-2010, **une part importante des financements de l'UE au DSP a été fournie sous formes de dons, couvrant un large éventail d'activités. Cela a positionné l'UE comme un acteur majeur du DSP en termes financiers et de diversité des activités couvertes et a fait du DSP un axe important de l'aide de l'UE, même si cela n'a généralement pas été reconnu.** La Commission a contracté, au nom de l'UE, 2,4 milliards d'euros d'aide directe au DSP. Ce montant était supérieur à celui d'autres bailleurs largement reconnus en matière d'aide au DSP comme la France (1,3 milliard d'euros), la Suède (0,9 milliard d'euros) ou le Danemark (0,9 milliard d'euros), tous membres du Comité des donateurs pour le développement de l'entreprise. En outre, même si le DSP n'était en aucun cas le principal secteur de l'aide de l'UE en faveur des pays tiers sur la période d'évaluation, la contribution au DSP de l'UE était comparable aux autres domaines bien établis de son aide, comme l'éducation (1,9 milliard d'euros d'aide directe entre 2000 et 2007) ou la santé (4,1 milliards d'euros d'aide directe entre 2002 et 2010).

La valeur ajoutée de l'UE a pris différentes formes, liées soit au rôle général de l'UE de partenaire au développement, soit directement à l'appui de l'UE au DSP, même s'il s'agissait alors davantage d'une valeur ajoutée potentielle, pas toujours réalisée dans ses interventions. La valeur ajoutée de l'UE en tant que partenaire au développement concernait le poids financier de sa contribution, sa présence dans la durée, le fait qu'elle était perçue comme moins liée à des intérêts économiques ou politiques spécifiques et l'accent mis sur la réduction de la pauvreté, alors que d'autres acteurs s'inscrivaient dans une logique de coopération économique. La valeur ajoutée potentielle spécifique au DSP concernait sa capacité à générer des effets de levier par ses dons en DSP à travers les facilités d'investissement et de « blending », sa capacité à relier le DSP aux questions de libéralisation du commerce et le transfert de bonnes pratiques et de connaissances générées au sein de l'UE.

L'UE s'est positionnée en « généraliste » de l'appui au DSP, capable de financer une gamme quasiment complète d'activités. Ceci lui a permis de répondre aux besoins dans un contexte de renforcement des partenariats avec les pays bénéficiaires. Ce positionnement de généraliste n'a pas toujours été bien compris par les parties prenantes au sein et en dehors des institutions de l'UE. Trois documents clés décrivent l'approche de l'UE en matière de DSP : la communication COM(2003) 267 de la Commission, les lignes directrices publiées en 2003 et leur révision approfondie en 2010. Ces documents fournissent une vaste liste d'activités possibles permettant de répondre à la diversité des besoins des pays. L'UE a délibérément maintenu ce portefeuille quasi exhaustif d'activités, sans définir de niche ou de rôle spécifique en matière d'appui au DSP sur lesquels elle aurait souhaité se concentrer. Cela lui a permis de répondre à des besoins divers des pays et de s'aligner sur les priorités des gouvernements partenaires dans des domaines multiples, renforçant ainsi sa capacité à construire des partenariats. Toutefois, l'approche généraliste a également eu un impact négatif sur la compréhension par les parties prenantes au sein et en dehors de l'UE du rôle de l'UE en tant que fournisseur d'aide au DSP.

L'UE a développé un ensemble d'instruments d'appui au DSP, lui permettant de faire face à la diversité des besoins en DSP dans les différentes régions, en ligne

avec l'approche généraliste susmentionnée. Des faiblesses ont cependant été observées en termes de complémentarités et synergies entre différents mécanismes. L'architecture de l'aide de l'UE pour l'appui au DSP a combiné de l'aide bilatérale, des programmes de DSP régionaux et des facilités d'investissement régionales. Cela a permis à l'UE d'assurer une vaste couverture géographique et thématique et de répondre à une large diversité de besoins. Il y a toutefois eu peu de coordination entre les programmes bilatéraux, les programmes régionaux et les facilités d'investissement. Les parties prenantes n'avaient par ailleurs pas toujours une vision claire de la gamme des instruments disponibles pour l'appui au DSP.

L'UE n'a pas pleinement exploité son potentiel en matière d'expertise et d'expérience pour le DSP, celles-ci n'étant par ailleurs pas proportionnelles au poids financier de l'appui de l'UE dans ce domaine. Il y a eu des évolutions notables au sein de DEVCO en termes de développement de l'expertise interne en DSP, en particulier avec la création d'une unité thématique. L'UE n'a toutefois pas utilisé au maximum le potentiel de partage de savoir présent dans les différentes Délégations de l'UE et au sein des différentes directions générales de la Commission impliquées dans la construction et l'élargissement du marché intérieur. Dans les pays, l'UE n'avait pas vraiment de politique des ressources humaines visant à recruter et utiliser des personnes ayant une expertise appropriée en DSP. De même, par manque de temps et de ressources, il était souvent difficile pour le personnel des Délégations de l'UE de participer à des formations en DSP, disponibles depuis 2009. Il n'y a pas non plus eu de capitalisation des connaissances parmi les Délégations actives dans le DSP. Le défi en termes d'expertise pour la conception et la gestion de l'appui de l'UE au DSP est resté considérable, particulièrement si on tient compte du choix de l'UE d'avoir une approche d'appui au DSP quasi-exhaustive.

Sur les questions de stratégie spécifiques aux pays

L'appui de l'UE au DSP a davantage été défini – en général à juste titre – par des considérations touchant au partenariat général avec les pays, plutôt que par des questions techniques liées au DSP. De par sa nature même, l'appui de l'UE au DSP se réalise toujours dans un contexte plus large de coopération globale de l'UE avec un pays ou une région spécifique. L'évaluation confirme que l'UE s'est assurée que ces considérations plus larges étaient au cœur de son aide et déterminaient la nature même de son appui au DSP, plutôt que d'avoir une approche uniquement technique. De même, **l'UE a en général aligné son appui sur les priorités des pays bénéficiaires. Elle s'est toutefois également réservée le droit, pour de bonnes raisons, de ne pas s'aligner lorsqu'un tel alignement pouvait poser problème,** par exemple lorsqu'il n'existait pas de réelle stratégie sur laquelle s'aligner ou lorsque l'UE ne pouvait accepter la politique du Gouvernement.

L'appui de l'UE au DSP a répondu aux besoins, mais n'a généralement pas été intégré dans une stratégie visant à maximiser l'impact de l'aide de l'UE via une priorisation claire et une approche centrée sur la valeur ajoutée et sur les synergies avec d'autres acteurs et activités. Les besoins dans les pays d'intervention sont généralement vastes, rendant pertinent une grande partie de l'appui, au sens où il répond à des besoins réels. L'appui ne s'est toutefois pas toujours inscrit dans une stratégie identifiant des besoins prioritaires clairs et visant à une aide séquencée de manière adéquate pour y répondre. Il visait rarement la création d'une valeur ajoutée spécifique de l'UE et

lorsque des activités de coordination ont été mises en place, elles consistaient principalement en un échange d'informations et ne visaient pas à générer des synergies en vue de maximiser l'impact. En outre, l'évaluation conclut que, même s'il existe un large consensus sur l'importance du DSP en matière de création d'emplois, **les liens entre l'appui de l'UE au DSP et la création d'emplois sont restés lointains. L'UE n'a par ailleurs pas réellement saisi l'opportunité de son aide au DSP pour promouvoir les thèmes transversaux et l'Agenda pour le travail décent.**

Sur les résultats

L'UE a fait des efforts importants en matière de suivi et d'évaluation de son appui au DSP, mais les faiblesses persistantes dans ce domaine (par exemple le manque de données de référence ou de définition claire des résultats attendus) **ont rendu difficile l'obtention d'une vision claire et complète des résultats.** Néanmoins, sur base des informations recueillies, l'évaluation conclut que l'UE a obtenu des résultats aux niveaux macro et méso (cadres institutionnels et réglementaires, accès aux financements et certains éléments d'appui à la compétitivité des entreprises) plutôt qu'au niveau micro (appui aux micro-entreprises et appui non-financier aux PME). De même, l'UE a contribué de façon notable au développement du secteur privé dans les pays à revenus intermédiaires. Ceci s'est fait grâce au dialogue de politique, à l'alignement et au rôle clair de l'UE en matière de DSP dans ces pays, centré sur l'intégration dans l'économie mondiale.

Tel que suggéré ci-dessus, les résultats étaient toutefois inégaux et souffraient d'un manque de diagnostic initial. L'approche globale de l'UE consistant à appuyer le secteur privé via le secteur public n'a pas permis de saisir les opportunités pour sélectionner les meilleurs partenaires pour la mise en œuvre. Ses règles et procédures standards manquaient de flexibilité pour s'ajuster aux acteurs et aux dynamiques du secteur privé.

Recommandations

Sur le rôle et l'approche globale de l'UE en matière de DSP

L'UE doit maintenir et être explicite sur son approche généraliste couvrant une large gamme d'appuis au DSP. Elle est en effet un partenaire clé dans les pays où elle intervient. Afin de s'aligner sur les stratégies nationales de ses pays partenaires et de répondre à leurs besoins, il est essentiel qu'elle puisse continuer à proposer une diversité d'activités éligibles au DSP. Pour éviter que les parties prenantes et le personnel de l'UE aient une vision peu claire du rôle de l'UE en matière d'aide au DSP, il est important que l'UE communique clairement sur cette approche de généraliste et de partenaire.

Dans la même optique, l'UE devrait continuer à s'assurer que son appui au DSP s'inscrive dans le contexte plus vaste, non technique, de coopération avec un pays et continuer à se réserver le choix de ne pas s'aligner ou de ne pas intervenir lorsque les conditions requises ne sont pas réunies. Cette préconisation appelle l'UE à maintenir une approche centrée sur l'alignement, mais aussi à donner priorité à la coopération de manière générale, au delà de la démarche purement technique.

Sur la contribution à un impact maximal en DSP

L'UE devrait s'assurer que les conditions pour maximiser l'impact de son appui au DSP soient remplies. Tout en adoptant une approche généraliste du DSP et en allant au-delà d'une coopération purement technique, l'UE devrait, lorsqu'elle fournit un appui au DSP dans un pays spécifique, faire en sorte que celui-ci vise à contribuer à un impact maximal en DSP. Plus particulièrement, cela signifie :

- Mettre en place des dispositifs pour *s'assurer que des analyses et consultations techniques aient été menées* par l'UE ou ses partenaires nationaux ou internationaux avant de fournir un appui à des interventions spécifiques de DSP.
- S'assurer, au niveau pays, que l'appui s'inscrive dans *une démarche stratégique*, au sens de priorisée, ciblée, s'appuyant sur la valeur ajoutée de l'UE et maximisant les synergies avec d'autres acteurs.
- Promouvoir et faciliter la *coordination entre les mécanismes d'appui de l'UE au DSP*.
- Faire en sorte que les *résultats attendus soient clairement définis et ciblés, les données de référence établies et les évaluations menées*, notamment en ce qui concerne les questions transversales et l'Agenda pour le travail décent.

Sur l'expertise en matière de mise en œuvre

Dans le cadre de l'appui au DSP, l'UE devrait, autant que possible, avoir recours à l'expertise déjà disponible « en interne », mais également à l'expertise disponible ailleurs. Cela est indispensable, non seulement parce que l'évaluation identifie des faiblesses en termes d'expertise, mais également parce qu'il est recommandé que l'UE maintienne son approche généraliste, ce qui constitue un défi en termes de variété de domaines et donc de types d'expertise à couvrir. Plus spécifiquement, il est recommandé que l'UE :

- Prévoit des dispositifs et des outils afin d'*assurer, dans les directions générales de la Commission et les Délégations de l'UE, le partage de savoir sur l'appui au DSP*.
- *Élabore et applique une politique spécifique en matière de ressources humaines*, pour que les Délégations disposent de suffisamment de personnel ayant les connaissances techniques requises.
- *S'inspire de et utilise l'expertise des partenaires, notamment des autres donateurs et pays partenaires*, lorsque ceux-ci ont un avantage clair en termes de compétences techniques.

L'UE devrait par ailleurs faciliter la collaboration avec des organisations du secteur privé et adapter les instruments d'appui afin de rendre possible leur participation en tant que partenaires de mise en œuvre. Cela impliquerait également de simplifier les règles et les procédures pour interagir avec les entreprises.

Sur l'appui aux pays à revenu intermédiaire et sur les problématiques transversales

L'appui aux pays à revenus intermédiaires devrait être revisité, afin de l'adapter aux défis propres à ses pays. L'UE devrait envisager d'élaborer des lignes directrices spécifiques pour ses Délégations dans ces pays, en vue d'exploiter davantage les

opportunités particulières rencontrées par le secteur privé, mais également de continuer à cibler les difficultés spécifiques, notamment en termes de réduction de la pauvreté.

L'impact en termes d'emploi devrait être pris en considération à chaque étape du cycle de vie du projet. L'UE devrait s'assurer que les effets de l'appui au DSP en termes d'emploi et de besoins en matière d'emploi résultant d'accords commerciaux et des changements du contexte international soient pris en considération dans l'identification et la conception des projets. En particulier, les valeurs cibles en matière d'emploi devraient être conçues à l'aide d'indicateurs vérifiables avec des valeurs de référence, afin de permettre un suivi des évolutions dans le long terme.

Enfin, il faut améliorer la communication au sujet de la stratégie de l'UE en matière d'appui au DSP. L'UE devrait améliorer sa communication sur le rôle qu'elle entend jouer en termes d'appui au DSP et sur les instruments disponibles pour cet appui. Cette communication devrait cibler les représentants de l'UE et les parties prenantes au sens large.

Resumen ejecutivo

Tema y objetivos

La presente evaluación ha sido encargada por la Unidad de Evaluación en el Directorado-General (DG) Desarrollo y Cooperación (DEVCO) en nombre de la Comisión Europea (a partir de aquí la Comisión). Realiza un análisis **del apoyo de la Unión Europea (UE) al desarrollo del sector privado (DSP)**. Abarca todo el apoyo ofrecido durante el período 2004-2010 en todas las regiones donde se suministró el apoyo de la Comisión, salvo los países de la OCDE y las regiones y los países en fase de preadhesión, así como cualquier apoyo ofrecido por la oficina de ayuda humanitaria de la comisión, ECHO. En total, hablamos de 2,4 mil millones de euros en fondos contraídos directamente por la Comisión a lo largo del período cubierto.

Esta evaluación pretende proporcionar una **valoración global independiente** de la cooperación pasada y actual de la UE para el DSP e **identificar lecciones claves** con vistas a mejorar sus estrategias y programas actuales y futuros. Cubre los cinco criterios de evaluación de la OCDE/CAD, así como el valor añadido de la UE y las "tres C".³

Metodología

Para la evaluación, se ha empleado una metodología rigurosa con vistas a alcanzar conclusiones y recomendaciones útiles basadas en un análisis exhaustivo.

Se ha diseñado un **enfoque de cuatro fases**: fase de estructuración, fase de documentación, fase de campo y fase de síntesis. La primera fase se dedicó a proporcionar el inventario y la tipología de los fondos de la Comisión en el ámbito del DSP, una vista general del contexto en que tuvo lugar, una descripción del enfoque general de la Comisión con respecto del apoyo al DSP, y la definición de una serie de 10 Preguntas de Evaluación a las que la evaluación debía responder sobre la base de unos criterios de juicio e indicadores preestablecidos. Sobre esta base, se realizó una recopilación de datos tanto mediante un trabajo de documentación como de campo. La evaluación se estructuró en torno a los estudios de casos concretos de diez países: Argelia, Jamaica, Jordania, Kenia, Marruecos, Nicaragua, Sudáfrica, Ucrania, Vietnam y Zambia. Se realizaron visitas a todos estos excepto a Zambia. Para la evaluación, se utilizó una **combinación de herramientas y técnicas de recopilación de datos** que incluían el análisis de una gran cantidad de documentos, así como entrevistas a alrededor de 200 interlocutores; entre ellos representantes de la Comisión, instituciones homólogas, la sociedad civil, autoridades nacionales, empresas privadas y sus órganos de representación, y otros actores en este ámbito. Otros datos se recopilaron a través de: una encuesta a una selección de Delegaciones de la UE (con 54 respuestas de 82 invitaciones), una revisión sistemática de 40 documentos estratégicos nacionales (DEN) y documentos estratégicos regionales (DER) y un metaanálisis de 15 informes de evaluación estratégicos. En el Anexo 9 del presente informe ofrecemos una descripción exhaustiva de la metodología de evaluación.

³ En el presente documento, las "tres C" hacen referencia a coordinación, complementariedad y coherencia, de acuerdo con los Términos de Referencia de la evaluación, p.15.

Conclusiones

Sobre cuestiones generales de estrategia y aplicación

A lo largo del período 2004-2010, la UE financió un número considerable de subvenciones para el DSP en un amplio abanico de actividades. Este convirtió a la UE en un importante actor en el DSP en términos financieros y temáticos; y puso el DSP en un importante ámbito de sus ayudas, si bien que a nivel general no era un hecho reconocido. La Comisión contrajo en nombre de la UE 2,4 mil millones de euros en subvenciones directas al DSP, una cantidad muy favorable comparado con otros bien reconocidos donantes al DSP, como Francia (1,3 mil millones de euros), Suecia (0,9 mil millones de euros) o Dinamarca (0,9 mil millones de euros), todos estos miembros del Comité de Donantes para el Desarrollo Empresarial. Además, si bien el DSP no fue en absoluto el mayor sector de apoyo de la UE a terceros países a lo largo del período de evaluación, su contribución al DSP sí fue comparable a otros ámbitos de apoyo bien establecidos, como la educación (1,9 mil millones de euros de ayuda directa entre 2000 y 2007) o la salud (4,1 mil millones de euros de ayuda directa entre 2002 y 2010).

La UE ofreció diferentes tipos de valor añadido vinculados a su papel de socio de desarrollo en general y mostró algunos ámbitos potenciales de valor añadido vinculados directamente a su apoyo al DSP pero no siempre aplicado a sus intervenciones. El valor añadido de la UE como socio de desarrollo fue el peso financiero de su contribución, su presencia continua, el hecho de que se percibiera como menos sujeta a intereses económicos o políticos específicos, y el énfasis en la reducción de la pobreza, mientras que otros actores adoptaron una perspectiva de cooperación económica. El valor añadido potencial en ámbitos específicos del DSP fue su capacidad de ofrecer recursos en forma de subvenciones para el DSP a través de facilidades de inversión y *blending* (combinación de subvenciones y préstamos), su capacidad de vincular el DSP con cuestiones de liberalización comercial y la transferencia de buenas prácticas y conocimientos de la UE.

La UE se posicionó como "generalista" en materia de apoyo al DSP, capaz de financiar casi todo tipo de actividades, lo que le permitió ser receptiva a las necesidades de cada país en un contexto de creación de asociaciones con los países beneficiarios. Los actores, tanto de las instituciones de la UE como del exterior, se encontraban algo confundidos y desconocían esta postura generalista. El enfoque del DSP de la UE se encuentra establecido en tres documentos claves: la COM(2003) 267 de la Comisión, la Directiva publicada en 2003 y su revisión de 2010. Estos documentos ofrecen una amplia lista de actividades elegibles con vistas a responder al diverso abanico de necesidades nacionales. La UE ha mantenido conscientemente esta casi "exhaustiva" cartera de actividades sin definir un ámbito o papel específico en términos de apoyo al DSP sobre el que hubiera deseado centrarse. Este hecho le ha permitido responder a diversas necesidades nacionales y adaptarse a las prioridades de los gobiernos socios en diferentes ámbitos, incrementando así la capacidad de la UE de establecer asociaciones. Sin embargo, el enfoque generalista también tuvo un impacto negativo en la claridad del papel de la UE como proveedor de apoyo al DSP entre los actores, tanto de la UE como del exterior.

La UE ha desarrollado una serie de instrumentos para su apoyo al DSP que le permiten abordar de forma exhaustiva las diversas necesidades del DSP en las diferentes regiones, en línea con el enfoque generalista arriba mencionado. No obstante, los diferentes mecanismos mostraban varios puntos débiles en materia de complementariedad y sinergia. La estructura de ayuda de la UE para el apoyo al DSP combinaba la ayuda bilateral con programas de DSP regionales e facilidades de inversión regionales. Ello permitió que la UE pudiera garantizar una amplia cobertura geográfica y temática y responder a una gran diversidad de necesidades nacionales. No obstante, la coordinación entre los programas bilaterales, los programas regionales y las facilidades de inversión fue escasa, y los actores se mostraron algo confundidos sobre los instrumentos disponibles para el apoyo al DSP.

La UE no explotó por completo su potencial en materia de conocimientos especializados y experiencia sobre el DSP, que no eran proporcionales al peso financiero de su apoyo al DSP. A pesar de que con la creación de una unidad temática en DEVCO la UE realizó varios progresos interesantes en materia de conocimientos especializados internos en torno al DSP, en general, no usó al máximo el potencial de intercambio de conocimientos existente en las diferentes Delegaciones de la UE y las diferentes Direcciones Generales de la Comisión Europea implicadas en la construcción y ampliación del mercado interno. A nivel nacional, no existía una verdadera política de recursos humanos orientada al uso de los conocimientos especializados apropiados sobre el DSP, y los programas de formación sobre el DSP – disponibles desde 2009 – no solían ser viables para el personal de las Delegaciones de la UE, dada la escasez de tiempo y recursos disponibles, ni existía una verdadera capitalización de conocimientos entre las Delegaciones activas en el ámbito del DSP. El reto en términos de conocimientos especializados para el diseño y la gestión del apoyo de la UE al DSP seguía siendo importante, especialmente teniendo en cuenta la elección de la UE de adoptar un enfoque "exhaustivo" del apoyo al DSP.

Sobre cuestiones de estrategia específicas de los países

El apoyo de la UE al DSP estuvo más dirigido – en general con razón – por consideraciones relativas a la colaboración general con los países que por cuestiones técnicas en materia de DSP. Por su naturaleza, el apoyo de la UE al DSP siempre tuvo lugar en un contexto más amplio de cooperación general de la UE con un país o una región específico/a. La evaluación confirma que la UE se aseguró de que estas consideraciones más amplias se encontraran en el centro de su apoyo e incluso determinarían la naturaleza de su apoyo al DSP, en lugar de tener un enfoque puramente técnico. Del mismo modo, la UE generalmente adaptaba su apoyo a las prioridades de los países beneficiarios, pero también se reservaba el derecho, bien fundado, de no hacerlo en caso de inconveniente, por ejemplo, en caso de que no existiera una estrategia real a la que adaptar su apoyo o si la UE no estaba de acuerdo con la política del Gobierno.

El apoyo de la UE al DSP respondía a las necesidades pero generalmente no formaba parte de una estrategia orientada a maximizar el impacto de la UE a través de una priorización, de una focalización en su valor añadido o de sinergias con otros actores y actividades. Las necesidades en los países de intervención suelen ser muy amplias, por lo que el apoyo era relevante en el sentido de que respondía a necesidades observables. Sin embargo, no siempre contribuía a una estrategia que identificase necesidades prioritarias claras ni siempre pretendía tener un orden adecuado para abordarlas. Por otro lado, el apoyo raramente estaba orientado a generar un valor añadido de la UE específico, y cuando se realizaban actividades de coordinación, consistían principalmente en el intercambio de información, pero no en crear sinergias para maximizar el impacto. Asimismo, la evaluación concluyó que, incluso habiendo un amplio consenso sobre la importancia del DSP para la creación de empleo, **los vínculos entre el apoyo de la UE al DSP y la generación de empleo seguían muy distantes** y que la UE no utilizaba realmente su apoyo al DSP como una oportunidad para fomentar cuestiones transversales y promocionar la Agenda por un Trabajo Decente.

Sobre los resultados

La UE consagró esfuerzos significativos a la supervisión y evaluación de su apoyo al DSP, pero seguía siendo difícil hacerse una idea clara e íntegra de los resultados, especialmente porque subsistían ciertos puntos débiles en materia de supervisión y evaluación, por ejemplo la falta de datos de base o una definición clara de los resultados esperados. No obstante, sobre la base de la información recopilada, la evaluación concluye que la UE había logrado resultados a nivel macro y meso (marcos institucionales y regulatorios, acceso a financiación y algunos elementos de apoyo a la competitividad empresarial) más que a nivel micro (apoyo a microempresas y apoyo no financiero a las PYMES). Del mismo modo, la UE había realizado contribuciones útiles al desarrollo del sector privado en países de ingresos medios, especialmente a través del diálogo de políticas, un sólido ajuste y la claridad del papel de la UE en el DSP, centrado en la integración a la economía mundial.

Sin embargo, como indicamos arriba, los resultados eran desiguales y **no contaban con un diagnóstico inicial**. El enfoque global de la UE sobre el suministro de ayuda al sector privado a través del sector público conllevó pérdidas de oportunidades de seleccionar los mejores organismos de ejecución. Sus normas y procedimientos estándar también carecían de flexibilidad y agilidad para ajustarse a los actores y las dinámicas del sector privado.

Recomendaciones

Sobre el papel y el enfoque general de la UE respecto del DSP

La UE debería mantenerse y ser explícita en su enfoque generalista de proporcionar una amplia gama de tipos de apoyo al DSP. De hecho, la UE es un socio clave en los países en los que interviene. Con vistas a adaptarse a las estrategias nacionales de sus países socios y ser capaz de responder a sus necesidades, es importante que la UE mantenga un amplio abanico de actividades de DSP elegibles. Con vistas a evitar que los actores y el personal de la UE tengan una idea confusa del papel de la UE con respecto del apoyo al DSP, es importante que la UE comunique claramente este enfoque generalista y de asociación.

Del mismo modo, la UE debería seguir garantizando que su apoyo al DSP se integre en un contexto amplio y no técnico de cooperación con un país, y seguir reservándose la opción de rechazar su alineamiento o no intervenir cuando no se den las condiciones propicias. Esta recomendación sugiere básicamente que la UE mantenga un enfoque de alineamiento pero que también dé prioridad a la cooperación muy por encima de a un enfoque simplemente técnico.

Sobre la contribución a un impacto de desarrollo maximizado

La UE debería garantizar que se cumplan las condiciones para maximizar el impacto del apoyo al DSP. De hecho, además de adoptar un enfoque generalista en torno al DSP en general y de ir más allá de una cooperación meramente técnica, la UE debería garantizar que al ofrecer apoyo al DSP en un país específico, este apoyo se proporcione con vistas a contribuir a un máximo impacto. Ello implica más específicamente:

- Proporcionar mecanismos para *garantizar que la UE o sus socios nacionales o internacionales hayan llevado a cabo un análisis técnico y las consultas necesarias* antes de proporcionar apoyo a intervenciones de DSP específicas.
- Asegurarse de que *a nivel nacional*, el apoyo forma *parte de un enfoque estratégico*, es decir, que sea prioritario, esté bien orientado, esté basado en el valor añadido de la UE y maximice las sinergias con otros actores.
- Promover y facilitar la *coordinación entre los mecanismos de apoyo al DSP de la UE*.
- Garantizar que los *resultados esperados están bien definidos y perseguidos, se han establecido líneas de base, y se han llevado a cabo evaluaciones*, también para cuestiones transversales y la Agenda por un Trabajo Decente.

Sobre conocimientos especializados de aplicación

Cuando proporcione apoyo al DSP, la UE debería asegurarse de que emplea en la mayor medida posible los conocimientos especializados disponibles internamente, pero también cualesquier conocimientos especializados externos posibles. De hecho, es fundamental, no sólo porque la evaluación destaca varios puntos débiles en materia de conocimientos especializados, sino también porque se recomienda que la UE mantenga su enfoque generalista, exigente en términos de ámbitos de especialización a cubrir. Más específicamente a este respecto, se recomienda que la UE:

- Proporcione mecanismos y herramientas para **garantizar el intercambio de los conocimientos existentes sobre el apoyo al DSP en las Direcciones Generales de la Comisión Europea y las Delegaciones de la UE.**
- **Conciba y aplique una política de recursos humanos específica** para garantizar que las Delegaciones tienen suficiente personal con los conocimientos técnicos requeridos.
- **Se base y utilice los conocimientos especializados de los socios, incluidos otros donantes y países socios,** en ámbitos en los que tengan una ventaja comparativa clara en términos de capacidades técnicas necesarias.

Asimismo, la UE debería facilitar la colaboración con organizaciones del sector privado y adaptar instrumentos de apoyo para aumentar la implicación del sector privado como organismos de ejecución. Ello también implicaría simplificar las normas y los procedimientos de trato con las empresas.

Sobre el apoyo en los países de ingresos medios y cuestiones transversales

El apoyo a los países de ingresos medios debería ser objeto de una revisión con vistas a adaptarlo a los retos específicos a estos países. La UE debería considerar el desarrollo de unas directrices específicas para sus Delegaciones en estos países con vistas a aprovechar mejor las oportunidades específicas que tiene el sector privado, pero también para seguir centrada en retos específicos, especialmente en materia de reducción de la pobreza.

El impacto del empleo debería considerarse en todos los estadios del ciclo de vida del proyecto. La UE debería garantizar que los efectos del apoyo al DSP en el empleo y las necesidades de empleo que deriven de los acuerdos comerciales y los cambios en el entorno internacional, se incluyan en el establecimiento y el diseño del proyecto. Específicamente, los valores meta relacionados con el empleo, en su caso, deberían estar constituidos a partir de puntos de referencia e indicadores verificables para permitir una supervisión de las evoluciones del empleo a lo largo del tiempo.

Por último, mejorar la comunicación sobre la estrategia de la UE con respecto del apoyo al DSP. La UE debería mejorar su comunicación sobre el papel que desea desempeñar en materia de apoyo al DSP y sobre los instrumentos disponibles a tal fin. Esta comunicación debería centrarse en los representantes de la UE y otros actores en general.

1. Introduction

This document is the *Final Report* of the Evaluation by the European Commission (hereafter referred to as “the Commission”) of the European Union’s support to Private Sector Development (PSD) in Third Countries.⁴

This Evaluation was commissioned by the Evaluation Unit for European Commission Directorate General Development and Cooperation (hereafter referred to as the Evaluation Unit).

1.1 Overall objectives, mandate and scope

The **subject** of this evaluation is the **European Union’s (EU) support to private sector development (PSD)**. The EU’s PSD policies and approaches are laid down in the Commission’s Communication COM (2003) 267⁵ and in subsequent documents relating to private sector and business sector development such as the *Guidelines for Commission Support to Private Sector Development* (February 2003, revised 2005), the *Guidelines for Commission support to microfinance* (2008) and the *Trade and Private Sector Policy and Development Support programmes financed by EU external assistance – Tools and Methods Series – Reference Document No. 10* (November 2010), designed as tools for staff responsible for preparing and implementing PSD projects and programmes.

It should be noted that despite the interrelation of trade-related assistance and private sector support, trade issues have not been covered in the present evaluation. A separate evaluation on trade-related assistance is being conducted⁶.

The **two main objectives** of this evaluation were:

- to provide the relevant external co-operation Services of the Commission and the wider public with an overall independent assessment of the Commission’s past and current support to private sector development in third countries; *and*
- to identify key lessons with the aim of improving the current and future strategies and programmes of the Commission.

The **geographical scope** for this evaluation covered all third countries in which EU cooperation is implemented, with the exception of pre-accession countries, over the period 2004-2010.

In terms of **temporal scope** the evaluation covered the period 2004-2010.

⁴ The evaluation scope includes European Union support provided via the geographical and thematic instruments listed under section 1.1. below (namely, the EDF, the ENPI, the DCI, MEDA I and II, TACIS, ALA). The evaluation does not cover EU Member State bilateral assistance.

⁵ Communication from the Commission to the Council and the European Parliament. European Community Cooperation with Third Countries: *The Commission’s approach to future support for the development of the Business sector.* (19.5.2003), 2003.

⁶ This evaluation will also benefit from cross-fertilisation with the following ongoing evaluations: the “*Evaluation of the Centre for the Development of Enterprise*”, the “*Evaluation of the EU-ACP Microfinance Programme*”, and the “*Evaluation of Commission Trade-Related Assistance*” as well as the previous evaluation of the European Community’s support to private sector development in third countries over the period 1994-2003, which was published in December 2005, http://ec.europa.eu/europeaid/how/evaluation/evaluation_reports/reports/2005/951656_vol1_en.pdf.

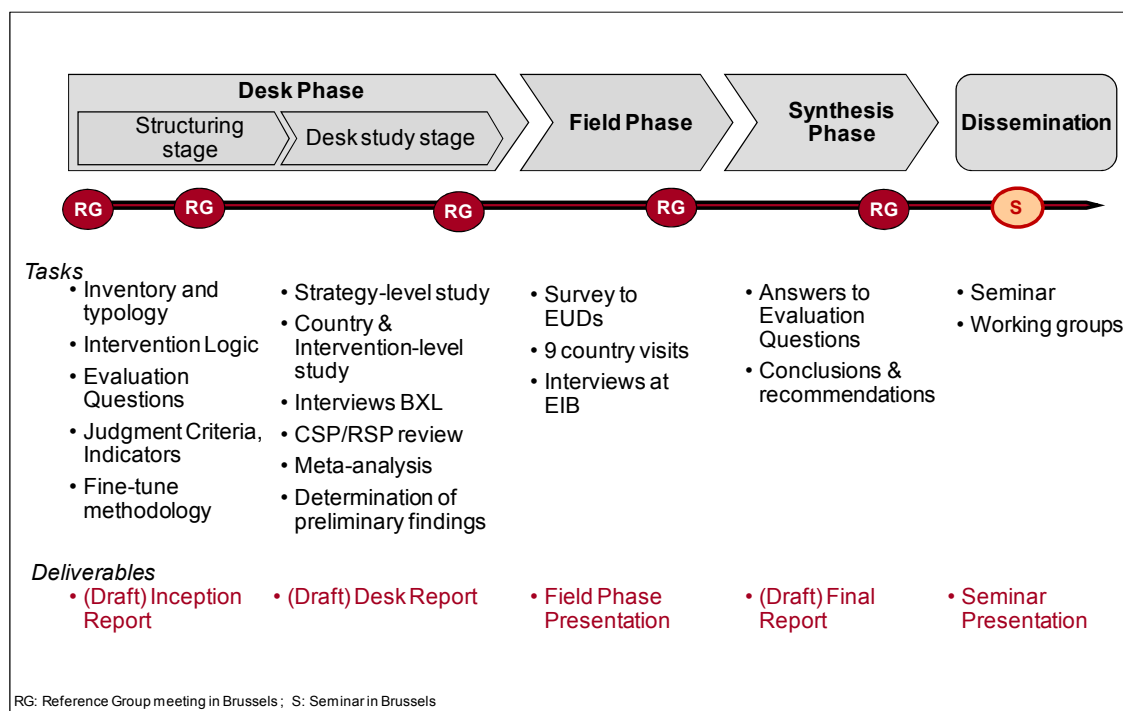
The **funds** covered in this evaluation included those from (i) geographical instruments and programmes, i.e. the European Development Fund (EDF), the European Neighbourhood and Partnership Instrument (ENPI)⁷, the Development Cooperation Instrument (DCI)⁸, MEDA I and II (prior to 2007), TACIS (prior to 2007), ALA (prior to 2007); and (ii) thematic programmes under the DCI and other relevant thematic budget lines or instruments, as identified in the inventory. The Commission's budget support (GBS and SBS) programmes from 2004 to 2010 with references to PSD have also been included.

1.2 Key stages of the evaluation

The overall evaluation was structured in four main **phases** as summarised in the figure below.

The figure presents the **activities** undertaken in the different phases; the Reference Group (RG) **meetings** and the dissemination seminar (DS) held; and the various **deliverables** (draft and final versions) produced at the different stages. Each phase started on approval of the deliverable of the previous phase.

Figure 1.1 – Evaluation process



⁷ And the previous geographical cooperation programmes for the Mediterranean region (MEDA) and Eastern Europe and Central Asia (TACIS) which ended in 2007 and were replaced by the ENPI.

⁸ Which since 1 January 2007 replaces a wide range of geographic and thematic instruments and covers three components: 1) Geographic programmes, 2) Thematic programmes in the following fields: Investing in people; Environment and sustainable management of natural resources including energy; Non-state actors and local authorities in development; Food security; migration and asylum; 3) Programme of accompanying measures for the 18 ACP Sugar Protocol countries, in order to help them adjust following the reform of the EU sugar regime.

1.3 Structure of the Final Report

This final report is structured as follows:

- **Chapter 1: Introduction:** a brief overview of the evaluation objectives, mandate, scope and stages.
- **Chapter 2: Background and context of the evaluation:** presenting the preliminary work conducted within the framework of the evaluation which sets out the context of the EU's support to private sector development.
- **Chapter 3: Summary Answers to the Evaluation Questions:** this chapter presents, for each of the 10 Evaluation Questions, summary boxes synthesising the evaluation team's answer. The full answers, including findings at the level of judgement criteria and indicators, are presented in the Appendix to this report.⁹
- **Chapter 4: Conclusions** of the evaluation; *and*
- **Chapter 5: Recommendations** of the evaluation.

In addition, the report also includes:

- An **Appendix:** a detailed presentation of the **full answers to the evaluation questions**, including the answer summary boxes presented in Chapter 3 as well as the detailed findings supporting each answer.
- **Annexes 1-10** in separate volumes, including:
 - Annex 1: Terms of Reference
 - Annex 2: Inventory
 - Annex 3: Intervention Fiches and data collection grids
 - Annex 4: Data collection grid for Meta-analysis of evaluations
 - Annex 5: Results of CSP-RSP review
 - Annex 6: Results of EU Delegation Survey
 - Annex 7: Compilation of field mission debriefings
 - Annex 8: List of persons met
 - Annex 9: Methodology
 - Annex 10: Bibliography.

⁹ Full details of the evaluation methodology are presented in Annex 9.

2. Background and context of the evaluation

2.1 Defining private sector development

Private sector development (PSD) encompasses a multitude of activities and crosses over a broad range of economic sectors. Indeed, as noted by the World Bank in its PSD strategy (2002), the private sector is as much a means to an end as it is a sector in and of itself.¹⁰

Consequently it is extremely hard to pinpoint a single theoretical definition of PSD. Instead, the **Guidelines for European Commission support to PSD (2003) present an operational definition by listing the key elements found in private sector support project and programmes, each of which are included within the scope of this evaluation.** These elements include: support for MSMEs; support for private sector representative organisations; fostering partnerships and knowledge/technology transfer between enterprises to improve enterprise competitiveness; improvement of labour skills; increasing investment flows; supporting institutional and regulatory reform and legal/tax frameworks, to enhance the business environment; support for access to finance for enterprises and the fostering of a reliable banking system; aid for restructuring and privatisation of firms.¹¹

2.2 The EU policy context

The consensus on the importance of private sector development in development programming is reflected in the key texts and recommendations from international conferences in the field of private sector development that were published over the decade prior to the evaluation period, e.g.:

- The DAC guidelines on the role of development cooperation in private sector development (1995);
- 'Private Sector Development Strategy – Directions for the World Bank Group', World Bank (2002);
- The UN Conference on Development Finance (Monterrey, 2002);
- The UN Conference on Sustainable Development (Johannesburg, 2002).

In line with the recommendations therein, the Commission published in 2003 a defining document for its approach to PSD over the evaluation period, namely, the communication to the Council and the European Parliament COM (2003) 267 "European Community Co-operation with Third Countries: The Commission's approach to future support for the development of the Business sector", hereinafter COM (2003) 267. This document identified five key areas of Commission intervention:

¹⁰ World Bank, *Private Sector Development Strategy – Directions for the World Bank Group*, 2002, p.4.

¹¹ European Commission, *Guidelines for European Commission Support to Private Sector Development* 2003, p.11.

- (i) Support to governments to improve the necessary regulatory framework, and institution building related to PSD;
- (ii) Investment and inter-enterprise co-operation promotion activities;
- (iii) Facilitation of investment financing and access to financial markets, in general;
- (iv) Support for small and medium-sized enterprises (SMEs) in the form of non-financial services;
- (v) Support for micro-enterprises.

In addition to Commission COM(2003) 267, three further documents acted as tools for Commission staff implementing PSD projects and programmes over the evaluation period, including:

- The Guidelines for European Commission Support to Private Sector Development (2003), hereinafter, the Guidelines (2003);
- The Guidelines for Commission support to microfinance (2008);
- Reference Document No. 10: Trade and Private Sector Policy and Development (2010).¹²

2.3 Evolution of EU Budget Lines

Finally, it should be noted that **the budget lines available for EU support to PSD in third countries changed significantly over the evaluation period 2004-2010.**

2004 – December 2006:

- MEDA II: covering the southern Mediterranean countries;
- TACIS: covering the Commonwealth of Independent States of Eastern Europe and Central Asia
- ALA: covering Asia and Latin America;
- EDF 9¹³: covering African, Caribbean and Pacific countries.¹⁴

January 2007 – December 2010:

- EDF 10: covering African, Caribbean and Pacific countries;

¹² The Trade and Private Sector Policy and Development Reference Document replaced the PSD Guidelines (2003) as well as the Commission Guidelines on Trade Related Assistance (2003). This document was published in November 2010 and is not therefore considered as a guiding document for Commission activity during the evaluation period. Nevertheless, the process of revising the PSD Guidelines (2003) and the subsequent drafting of the 2010 document (which took place over 2009/2010) are worth bearing in mind regarding the context of EU support during the 2004-2010 period.

¹³ The EDF 9/10 has been included under this heading despite the fact that it is not a Commission Budget Line, on the basis that Commission interventions in ACP are funded by the EDF.

¹⁴ In addition, during this period the countries of the Western Balkans were eligible for support from the CARDS instrument. However, since this region falls under the mandate of DG ENLARG, it is outside the geographical scope of this evaluation.

- ENPI (European Neighbourhood Policy Instrument): covering some former MEDA II and TACIS eligible countries;
- DCI (the Development Cooperation Instrument): covering Latin America, Asia and Central Asia, the Gulf Region and South Africa.

For the purposes of this evaluation, programming under each of the four budget lines listed above, plus EDF 9/10, has been included within the inventory scope. In addition, remaining disbursements from MEDA I, which were made during the evaluation period, have also been included in the inventory.

2.4 Overview of EU PSD interventions over 2004-2010

The evaluation inception phase included the elaboration of an inventory of interventions in support to private sector development (PSD)¹⁵ in all third countries except for pre-accession ones over the period 2004-2010. The dataset, drawn from a CRIS extraction dated June 2011, lists the Commission's financial contributions to PSD both from the General Commission Budget and from the European Development Fund (EDF).

This section presents a brief overview of the inventory, including the breakdown of contributions by theme and geographical distribution. The full inventory is presented in detail in Annex 2.

The inventory is made up of two components:

- **direct support to PSD**, through individual interventions, centralised and intra-ACP operations¹⁶ and Sector Budget Support, *and*
- **indirect support to PSD**, through General Budget Supports with references to PSD in their indicators for the release of variable tranches.

¹⁵ Excluding interventions aimed at supporting trade mainly or exclusively.

¹⁶ Centralised and intra-ACP operations include the following: the Private Sector Enabling Environment Facility (BizClim), FEMISE research network, the Asia- Europe Business Forum (AEBF), the Centre for the Development of Enterprise (CDE), PROINVEST, the EU/ACP Microfinance Programme, and Commission investment facilities: the facility for Euro-Mediterranean Investment and Partnership (FEMIP), the Neighbourhood Investment Facility (NIF), and the Latin American Investment Facility (LAIF). It should be noted that the EIB-managed Investment facility for ACP countries (ACP EIB IF) has not been included in the inventory as, it has been considered as out of scope by the ToRs of the present evaluation. Whilst it is funded by the EDF, funds have been directly transferred from EU member states and not channelled through the Commission. Over the period 2003-2009, €3.5bn were contracted through the ACP EIB IF under the EDF (source: ADE (for the European Commission), *Mid-term Evaluation of the Investment Facility and EIB own resources operations in ACP countries and the OCTs*, September 2010, p.3). Its complementarity with the Commission's support to PSD is analysed in the evaluation.

The global overview of both direct and indirect support is presented in the figure below:

Figure 2.1 – Global overview of Commission financial contribution to PSD

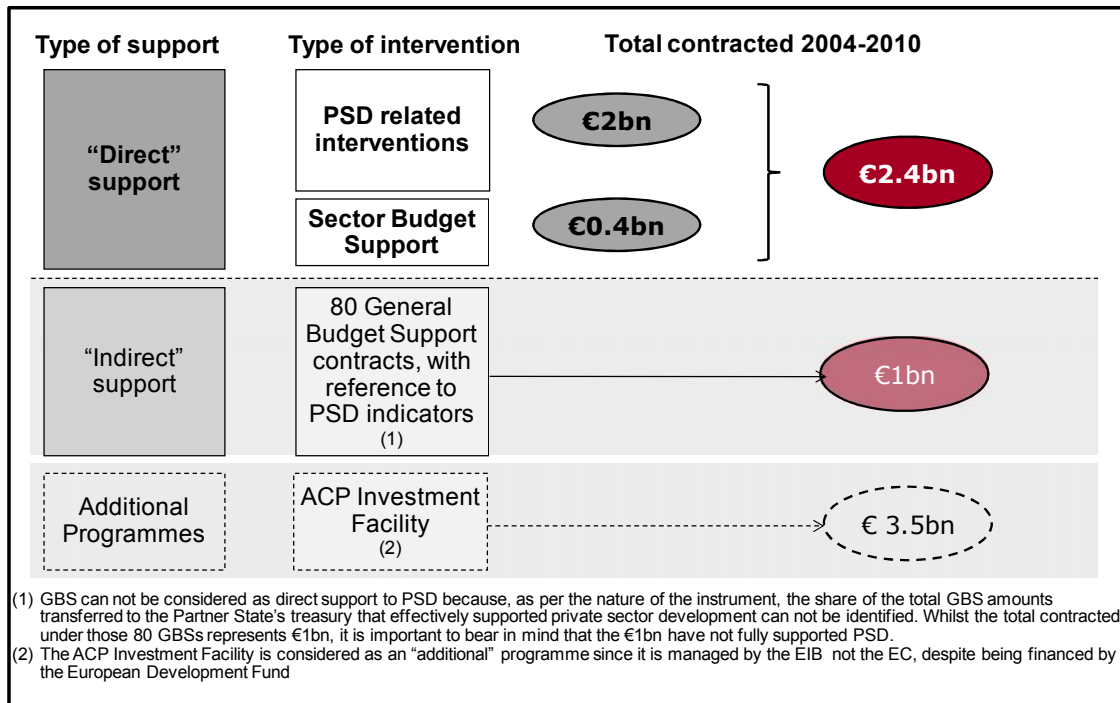


Figure 2.1. shows that between 2004 and 2010:

- **direct support to PSD totalled €2.4bn**, of which €2bn contracted under direct interventions and €0.4bn contracted under Sector Budget Support. Within this total figure, €327m worth of interventions had a strong PSD component as well as a Trade component. As these trade-related interventions also had a strong PSD component, they have been included in the PSD inventory; *and*
- **€1bn was contracted under General Budget Supports with references to PSD in their indicators for the release of variable tranches.** This support has been considered as *indirect* by the evaluation team because as per the nature of the instrument, the share of the total GBS amounts transferred to the Partner State's treasury that effectively supported private sector development cannot be identified. It is therefore **important to bear in mind that the €1bn has only indirectly and partly supported PSD;** *and*
- **€3.5bn has been contracted via the ACP Investment Facility.** Whilst the Facility is funded from the EDF, it is managed by the EIB not the Commission. It is therefore not part of the scope of this evaluation, and has not been included in the inventory of activities. Nevertheless, given that the Facility is geared towards fostering private sector investment in ACP countries, it is worth noting the contribution made by the Commission during the evaluation period.

The thematic distribution of the Commission's *direct* support to PSD is represented in the figure below.

Figure 2.2 – Distribution by area of intervention of total Commission *direct* support to PSD

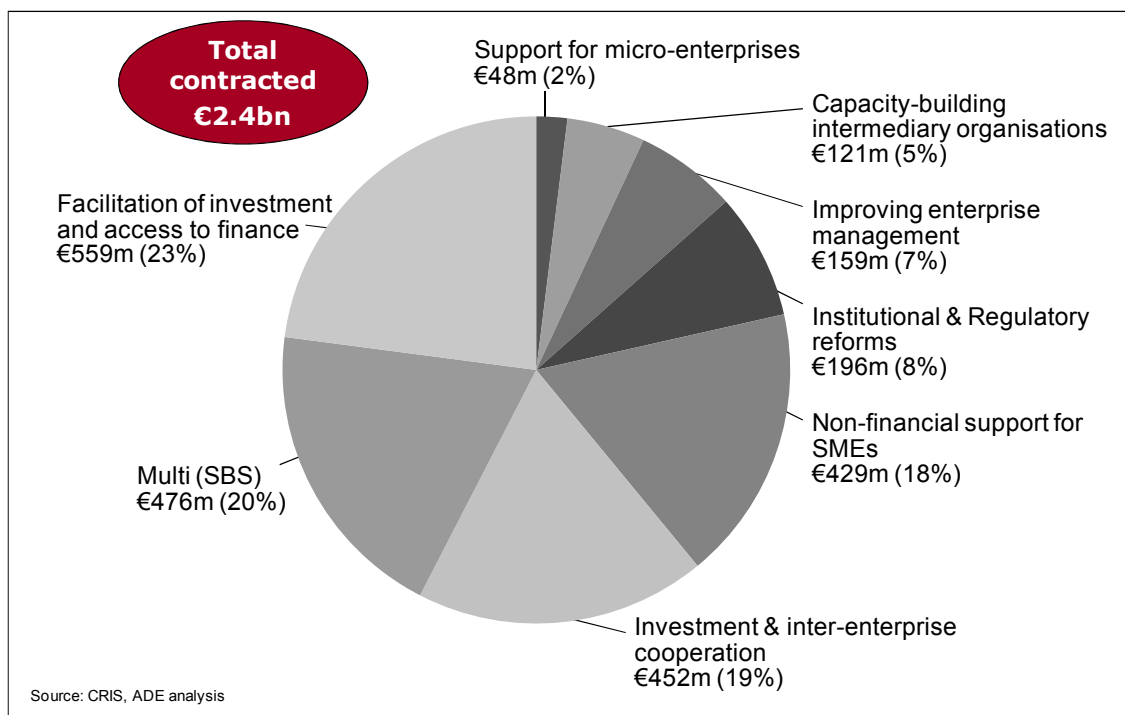
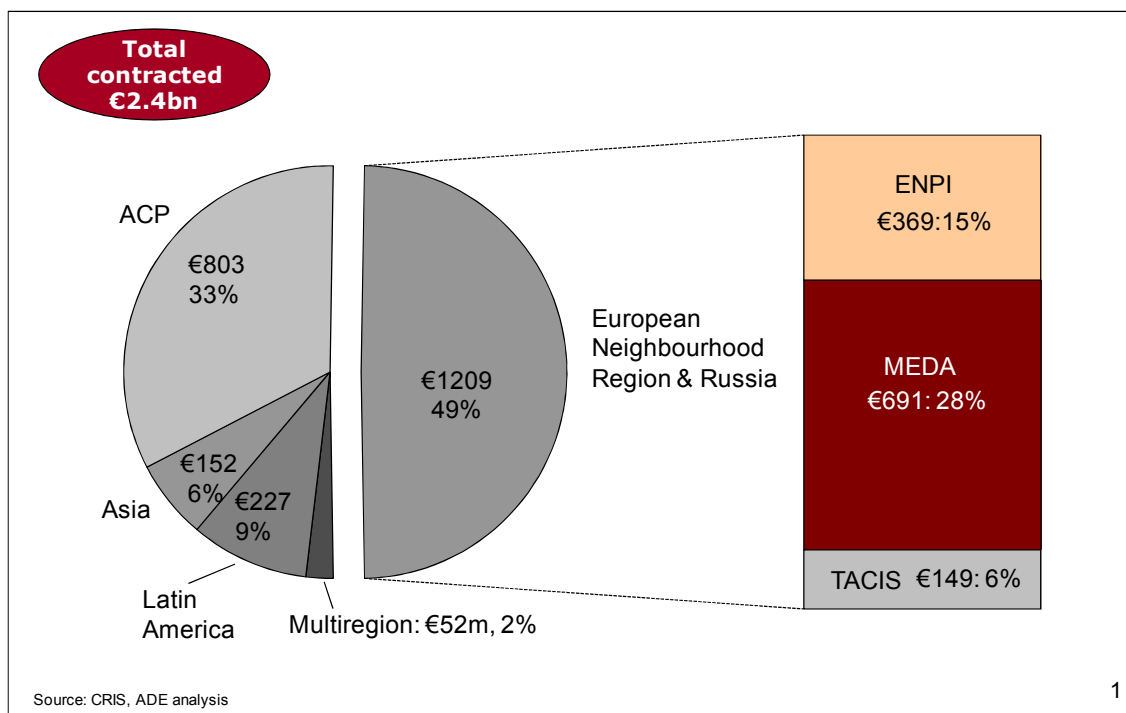


Figure 2.2. shows that just under 80% (€1.92bn) of the contracted total direct support for PSD was focused on the four largest intervention areas: *facilitation of investment and access to finance* (comprising almost one quarter of total direct support) ; *SBS contracts* ; *investment & inter-enterprise cooperation* ; and *non-financial support for SMEs*. The remaining 20% (€524bn) was divided among the remaining four intervention areas.

The total amount paid was €1.9bn, yielding a 79% disbursement rate. It should however be noted that the inventory of PSD intervention includes ongoing projects and programmes, making a disbursement rate of 100% impossible.

The geographical distribution¹⁷ of total EU support to PSD between 2004 and 2010 is presented in the figure below:

Figure 2.3 – Geographical distribution of total *direct* EU support to PSD (contracted, in €m) between 2004-2010



The figure shows that:

- **half of the Commission’s support to PSD worldwide was contracted in the zone “European Neighbourhood and Russia”,** of which 28% (€691m) via MEDA, 15% (€369m) via ENPI and 6% (€149m) via TACIS;
- The **ACP** region received **a third** of total Commission support to PSD (€803m).
- **Latin America** accounted for 9% of the total support, (€227m); *and*
- €152m were contracted in **Asia**, representing 6% of total Commission support to PSD worldwide; *and*
- The “**Multi-region**” zone (i.e. interventions which neither benefited a single country or single region, including interventions classified as “all countries” in CRIS) represented 2% of total contracted support worldwide (€52m).

¹⁷ Based on the encoding in CRIS, the Commission database.

3. Summary answers to the evaluation questions

This chapter presents the Evaluation Questions and their summary answers:

- Section 3.1. presents the Evaluation Questions (EQs). Each EQ includes a set of Judgement Criteria and their respective indicators. The Judgement Criteria and Indicators are presented in full detail in Annex 3. The link between the EQs and the Commission's intervention logic, as well as the EQ coverage of the evaluation criteria are outlined in Annex 9.
- Section 3.2. presents the summary answers to the EQs. Each answer includes a statement of the EQ, the rationale behind it and a summary box outlining the answer to the question. The findings and analysis at the level of Judgement Criteria, as well as the facts on which these are based, are provided in the Appendix to this report.

3.1 The Evaluation Questions

The full set of EQs aims at addressing the key issues with respect to the Commission's support to PSD and its implementation and results. Table 3.1 overleaf lists the set of questions, which are further detailed hereafter.

Table 3 1 - Overview of the Evaluation Questions

EQ 1	Evolution of Commission policies & programming	To what extent did the Commission's PSD strategy and programming take into account the recommendations of the 2005 evaluation and the evolution of the overall private sector environment?
EQ 2	Strategic approach	To what extent was EU support to PSD in partner countries part of a strategic approach geared to the overall objectives of EU External Policy, while aligning with the priorities of the country/region and maximizing its VA, including in terms of synergies with other actors and other types of EU support?
EQ 3	Instruments & modalities	To what extent did the set of Commission mechanisms and aid modalities for supporting PSD strategies and the associated activities of partner countries and regions result in the provision of timely responses, at a reasonable cost, to the challenges faced by the private sector in third countries, while fostering synergies between one other and with comparable mechanisms offered by other actors?
EQ 4	Institutional & regulatory framework	To what extent did the Commission contribute to make the institutional and regulatory framework more conducive to PSD?
EQ 5	Access to finance	To what extent did the Commission contribute to improving access to finance by enterprises?
EQ 6	Fostering enterprises competitiveness	To what extent did the Commission contribute to a better ability of enterprises, in particular SMEs, to compete and to access technology and new markets?
EQ 7	Investment promotion	To what extent did EU support contribute to increased cross-border investment in partner countries' private sectors?
EQ 8	Employment	To what extent has the EU PSD support contributed to facilitate the generation of employment?
EQ 9	Commission added-value	What was the Commission's added-value when providing support to PSD in third countries?
EQ 10	Means provided	To what extent were the Commission's organisational set-up and management practices fit to a successful implementation of its PSD support?

The proposed set of Evaluation Questions allows to cover the main dimensions of the Commission's intended strategy in terms of supporting PSD in third countries, and the different evaluation criteria defined by the evaluation terms of reference, while making sure that the evaluation has a clear focus, through a precise and well defined questioning. Annex 9 shows the linkages between the EQs and the evaluation criteria tackled by this evaluation.

3.2 Answers to the Evaluation Questions

EQ 1 on Evolution of Commission policies and programming

To what extent did the Commission's PSD strategy and programming take into account the recommendations of the 2005 evaluation and the evolution of the overall private sector environment?

The 2005 Evaluation of the EU's support to PSD made a number of recommendations based on the conclusions of the report. This question aims at verifying the extent to which those recommendations that the Commission endorsed were taken into account, a specific requirement of the TOR. More broadly it also aims at examining the extent to which the Commission's strategy and programming for PSD support have evolved in the light of key trends in the PSD environment, such as the financial crisis, changing market access regimes such as the AAs/EPAs, and the increased weight of the BRICS economies¹⁸.

EQ 1 on Evolution of Commission policies and programming

Initiatives were taken to take into account the recommendations of the 2005 evaluation but not entirely through a systematic and structured approach. Recommendations have been taken into account with varying degrees of depth. The Commission devoted attention to the national private sector environment, but much less to international developments.

The Commission used the 2005 PSD Evaluation as one of the sources in the process leading to the revision of its PSD Guidelines in 2010. But apart from the use of a *'fiche contradictoire'* to follow up the recommendations of evaluations and some other individual initiatives, there was no specific and systematic approach to integrating and following up the recommendations of the evaluation that had been endorsed by the Commission. Commission representatives in charge of PSD were generally aware of the existence of the evaluation, but less acquainted with its content.

The recommendations of the 2005 evaluation have been taken into account with varying degrees of depth. Some were explicitly taken into account through the 2010 Guidelines. Examples of recommendations that were rather well implemented include those relating to the need to clarify the message conveyed by the strategy and, to a lesser extent, to prioritise the various areas of intervention. On the other hand the recommendation to strive for a unique and common vision on PSD support has not really given rise to improvement, and the results in terms of sharing of experience appear to be rather poor.

In terms of awareness of the evolution of the private sector environment, it appears that at Headquarters level the available literature on aid for PSD was used, but there has been no systematic or structured reflection to ensure that changes in the private sector environment such as the emergence of the BRICS were taken into account. Consideration of the evolving international context and the new role of PSD in EU development policy was however taken into account in the European Commission's policy documentation published shortly after the evaluation period, notably, the *"Agenda for Change"* (2011). At country level the Commission took into account the specific characteristics of the private sector environment at national level, but little reference was made to developments on the international scene.

¹⁸ Association Agreements (AAs); Economic Partnership Agreements (EPAs); Brazil, Russia, India, China and South Africa (BRICS).

EQ 2 On Strategy

To what extent was EU support to PSD in partner countries part of a strategic approach geared to the overall objectives of EU External Policy, while aligning with the priorities of the country/region and maximizing its VA, including in terms of synergies with other actors and other types of EU support?

This question aims at verifying the extent to which the EU support to PSD was part of a clear strategy. This encompasses several elements: first, the question aims at checking to what extent the Commission's PSD activities aimed at contributing to the overall objectives of the EU External Policy: it also verifies whether the support was, in the spirit of the Paris and Accra Declarations, aligned with the priorities of the country or region in which it was provided. Having a clear strategy is also a matter of ensuring that the effects of the contribution are maximised, notably by focussing on VA¹⁹ and synergies with the activities of other actors and by ensuring prioritisation of interventions. Finally, having a strategic approach involved coverage of the appropriate cross-cutting issues.

EQ 2 on Strategy

The Commission's PSD activities were geared to the overall objectives of EU external policy and were generally aligned with national priorities; they were not, however, part of a strategic approach in terms of maximising its VA and synergies with support provided by other actors and in terms of a genuine hierarchy of priorities.

The Commission's activities were geared to the EU external policy objectives, with a specific emphasis on 'integration into the world economy' and 'sustainable social and economic development'. Poverty reduction was targeted more in the ACP regions and less in other regions, and only in a few exceptional cases was PSD linked to the promotion of Peace and Security. Although in middle-income countries support was generally focused on the first two objectives mentioned, in some of them poverty reduction was also targeted. However there was rarely a clear articulation to show how Commission PSD support was intended to contribute to pro-poor sustainable growth.

The Commission has issued different policies and guidelines to ensure that its PSD support was part of a broader strategic approach. This includes guidance on needs assessment and design, on the importance of embedding the support in wider country strategies, and on alignment. However less is said on how to prioritise PSD support, both in the sense of linking it to other types of support in a specific country or region, and in terms of how to prioritise the different types of PSD support provided.

In line with its policies and guidance, the Commission endeavoured generally to align its cooperation with the priorities of beneficiary countries. In a limited number of cases it did not align itself or did so only partially. Indeed in some cases the Commission provided

¹⁹ In comparison with EQ 9, the issue in EQ 2 is rather one of verifying whether the Commission, when designing its strategy, made efforts to maximise its VA, whereas EQ 9 aims at understanding, *ex post*, the kind of VA the Commission offered when providing support to PSD.

support to PSD although the country did not prioritise PSD in this respect. Centralised operations were also not always aligned with country priorities. In some cases the Commission decided against alignment because there was a lack of common vision with the Government on the approach to be followed.

Generally the Commission's potential value added for intervening in PSD was not what drove its support, nor was the design really geared to possible synergies with other actors. In a number of cases this was not a Commission responsibility as some donors were strongly tied to national priorities. As for cooperation with the EIB, there were some examples of good coordination and synergies, but they were rather the exception than the rule.

The Commission's PSD strategies fitted into its wider country or regional strategies and priorities. Synergies with Commission activities for other sectors in the same country remained limited. There were some good examples of synergies with the Commission Trade Related Assistance, notably in MEDA countries, but there were also examples where synergies remained weak even with this type of support. Within this context, even if there were examples where the Commission deployed specific approaches to prioritising its PSD support, these were rather the exception and support had a tendency to be scattered.

Finally, cross-cutting issues were generally at best included as a formality. Gender equality and environment benefitted from most attention, but there was rarely a specific PSD approach in this respect. Although in some countries combating HIV/AIDS received specific consideration this was rather the exception and the issue was mainly mentioned by EUD survey respondents as having less importance with respect to PSD. The Commission committed itself to contribute to the Decent Work Agenda, but actual contributions were limited. Commission representatives explained that issues related to employment conditions fell under the unit addressing employment rather than the one addressing PSD.

EQ 3 on Support Mechanisms and Modalities

To what extent did the set of Commission mechanisms and aid modalities for supporting PSD strategies and the associated activities of partner countries and regions result in the provision of timely responses, at a reasonable cost, to the challenges faced by the private sector in third countries, while fostering synergies between one other and with comparable mechanisms offered by other actors?

The purpose of this question is to examine (i) whether the Commission had at its disposal a set of mechanisms and aid modalities that allowed it to support third countries in tackling PSD challenges, and (ii) whether it did so while ensuring effective and streamlined use of resources. The question hence reviews the Commission's architecture of aid for delivering EU support for PSD. The question addresses efficiency but also encompasses aspects of relevance, effectiveness, coordination and complementarity, but only insofar as the set of respective mechanisms and modalities is concerned.

EQ 3 on Support mechanisms and Modalities

The EU provided a wide array of mechanisms for financing the development of the private sector in third countries. It is now equipped to address quite comprehensively the range of PSD needs in the different regions. However, the Commission's approach, aid modalities, rules and procedures often lacked the necessary flexibility for adjusting to private sector actors and dynamics. This affected the results and efficiency of its aid.

The EU had a wide array of mechanisms at its disposal for financing the development of the private sector in the different regions, including bilateral support, regional and centralised programmes and, to a limited extent, regional blending facilities. It is now equipped to address quite comprehensively the range of PSD needs in the different regions.

Nevertheless, the multiplicity of mechanisms and the lack of clarity on the overall architecture confused many stakeholders. Moreover, there is little evidence of a structured EU approach to exploiting the potential and complementarities of the set of support mechanisms and aid modalities at country level in support of the private sector. The support mechanisms (bilateral cooperation, regional programmes or institutions, blending mechanisms, etc.) typically had their own logic and way of operating, with little internal coordination.

Quality of implementation varied significantly according to the mechanism. The findings also suggest that the Commission's global approach based on delivering aid to the private sector *via* the public sector proved not to be the most effective or efficient in many cases. It entailed missed opportunities for selecting the best implementing partners. Additionally, the Commission's standard rules and procedures lacked the necessary flexibility for adjusting to private sector actors and dynamics, and in several instances were counter-productive.

EQ 4 on the institutional and regulatory framework

To what extent did the Commission contribute to make the institutional and regulatory (I&R) framework more conducive to PSD?

*This question primarily concerns effectiveness and impact of activity cluster 1 of the Intervention Logic (Commission activities in the area of policy dialogue at macro-economic level). It concerns the first of the five areas of intervention of EU support as outlined in the 2003 Communication and guidelines (administrative and macroeconomic reforms). It aims at examining the extent to which the EU has been able to contribute to better-functioning institutions and a regulatory framework conducive to PSD. This focus on the enabling environment is of paramount importance for the development of the private sector. It addresses the responsibility of the state in enhancing the growth and competitiveness of enterprises. The question primarily concerns the **effectiveness and impact of activity cluster 1 of the Intervention Logic (Commission activities in the area of policy dialogue at macro-economic level)**, but also relevance and sustainability issues as it aims at verifying whether the results obtained are likely to last in the long run.*

EQ 4 on the institutional and regulatory framework

Support to institutional and regulatory (I&R) reforms is a key macro-level intervention in EU PSD support. Clear efforts were made to identify the main I&R obstacles facing enterprises in third countries and to target EU support on them, though difficulties were encountered in the policy dialogue with competent authorities. Where initiated, the complexity and length of supported I&R reforms seem to have been rather systematically underestimated, with potential negative impacts on their sustainability. The final beneficiaries encountered during the evaluation were not always enthusiastic about these reforms.

Support for I&R reforms in such a way as to facilitate an improved business environment is a key macro-level intervention in EU PSD support. Clear efforts were made to identify the main I&R obstacles facing enterprises in third countries and to target EU support on them. This identification exercise is rarely supported by documented evidence such as studies or diagnostic tools and relies mainly on informal and pragmatic approaches. The findings gathered for this evaluation clearly indicate that the private sector was generally not thoroughly consulted when I&R reforms conducive to PSD were prepared and undertaken, with only limited characterization of the types of private business (or their intermediaries) identified as targets. A large body of evidence shows that an important and recurrent objective of I&R reforms was facilitation of international trade.

Despite genuine and repeated efforts on the part of EUDs and other donors, there is only limited evidence in this evaluation of fruitful policy dialogue on the I&R reforms, difficulties being reported by donors regarding the appropriate attitude to be adopted in difficult circumstances such as when alignment becomes a problem due to lack of commitment or capacity in the country.

There is evidence to suggest that institutional and regulatory reforms, where reported, have generally been viewed as encouraging; but the observed degree of advancement of

regulatory reforms was very varied. Particular challenges were encountered in the transition process from EU support for reform schemes to third country management, and the EU strategy documentation provided little guidance on this aspect. Another reported difficulty was the necessary but difficult to ensure coherence between the pace of reforms in the regulatory sphere on one hand and the institutional structure on the other. Additionally, the complexity and length of the supported I&R reforms seem to have been rather consistently underestimated, with potential negative impacts on the sustainability of the reforms initiated.

Partly due to an absence of well-established monitoring and evaluation of the impacts, there is little available evidence of the impact of I&R reforms on the functioning and growth of third country enterprises. Despite positive views expressed by officials and public authorities on the effects of I&R reforms in terms of business facilitation, final beneficiaries were often less enthusiastic as the reforms have adverse effects to their view or else were perceived as insufficient in relation to the targeted objectives or needs.

EQ 5 on Access to Finance

To what extent did the Commission contribute to improving access to finance by enterprises?

Access to finance is one of the key conditions for the growth of enterprises at all levels (incl. individual entrepreneurs). MSMEs often face more pronounced constraints. Access to finance encompasses two main dimensions: 1) the enterprises' capacity to obtain funding by banking and non-banking financial institutions; 2) the ability of such institutions to raise the funds necessary to fulfil their role as providers of finance. In this regard loan funding comes mainly from credit institutions and equity funding from investment sources (local and foreign venture capital funds and FDI).

The purpose of this question is to examine to what extent and with what results the Commission has contributed to improving access to finance, by gearing its support to the afore-mentioned dimensions.

EQ 5 on Access to Finance

The EU has provided significant support to financial access promotion, with particular focus on macro- and meso-levels. The relevance of some activities was questioned, however, and the final impact on individual enterprise's access to finance was mixed. Support channelled through EU blending mechanisms and investment facilities nevertheless showed particularly promising results.

Access to finance was recognised as a key constraint for the private sector in beneficiary countries, in particular for SMEs and financial access promotion represented the second highest share of direct EU support to private sector development over the evaluation period, even though the EU is not seen as one of the major actors in this field.

In line with the recommendation of the 2005 Evaluation of European Community Support to Private Sector Development in Third Countries, the Commission's activities were primarily at the macro-level, with limited direct provision of credit lines at micro-level and meso-level support prioritising cooperation with financial intermediaries.

However, in some specific cases, Commission activities were not based on strong diagnostic approaches, and there is some evidence to suggest that the relevance of these particular activities suffered as a result. The impact of Commission activities was mixed: some activities at macro-level, including institutional and regulatory reform, showed positive impact, but others less so; at meso-level, significant capacity building support was given to financial intermediaries; but little evidence was found of improved access to finance by SMEs. Finally, more positive results were seen resulting from the activities of EU investment facilities.

EQ 6 on fostering enterprise competitiveness

To what extent did the Commission contribute to a better ability of enterprises, in particular SMEs, to compete and to access technology and new markets?

Section 2 of COM(2003) 267 on "Investment and inter-enterprise co-operation activities" covers both non-investment and investment support. The present EQ 6 addresses non-investment support, while EQ 7 addresses investment support; they have been separated for evaluation purposes, which also corresponds to the division of Commission activities in practice, according to our understanding. The non-investment type of support covered in the present question includes a diverse range of activities, including: supporting business development services (BDS) through intermediate private sector and business associations, supporting cluster development and industrial upgrading, as well as conducting value chain analyses and support to chambers of commerce and industry, all with a view to fostering the competitiveness of enterprises. Competitiveness can indeed be substantially increased through these activities via upgrading management support, R&D, access to technology and overcoming obstacles to penetrating new markets.

EQ 6 on fostering enterprise competitiveness

The Commission has provided a substantial share of its support to upgrading the competitiveness of enterprises. The majority of this support, however, has been focused at the meso-level, with a preference for implementation via public sector organisations rather than private sector ones. This, combined with the limited use of market surveys during project design, has created difficulties in terms of beneficiary selection and final impact at the enterprise-level.

Support to foster enterprise competitiveness constituted the largest area of Commission direct support to PSD over the evaluation period. This contribution was made across a wide range of countries and regions, and included a diverse range of intervention types. The majority of support was focused at the meso-level, and as per the PSD Guidelines, with a view to building capacity within intermediary structures.

Commission PSD Guidelines specifically mandated the conduct of market surveys and identification studies prior to implementation, but evidence suggests that this was not translated at the project/intervention level. The absence of a systematic approach to market analysis during the design phase led to weaknesses in terms of beneficiary selection and difficulties in targeting country/region specific needs.

In contrast to other donors, the Commission appeared to prioritise implementation via government bodies and ministries rather than private sector business development organisations. The rationale provided by EUDs for selecting public sector partners often focused on procedural constraints stopping them from working with the private sector rather than positive assessments of the delivery capacity of public sector organisations. Indeed, stakeholders noted a range of problems with this approach, including the capacity, competence and commitment of government ministries to deal with competitiveness upgrading.

The impact on final beneficiary access to new markets and technologies was not

systematically monitored by Commission Delegations. Evidence suggests that channelling support through government departments and intermediary organisations increased the results in terms of institutional capacity building without necessarily encouraging the sustainable trickle-down effect to enterprises. Opportunities have been missed in terms of long term institutional building of private sector business service organisations that would support SMEs on a more sustainable basis. Moreover, it must be noted that the end impact on enterprise competitiveness is heavily determined by the enabling environment, e.g., transport infrastructure, electricity costs, regulations. Nevertheless, examples of successful competitiveness upgrading were seen in some countries, where success factors included non-financial support (e.g., knowledge transfer) and the provision of direct grants for enterprises where feasible.

EQ 7 on investment promotion

To what extent did EU support contribute to increased cross-border investment in partner countries' private sectors?

Section 2 of COM(2003) 267 on "Investment and inter-enterprise co-operation activities" covers both non-investment and investment support. While EQ 6 addresses non-investment support, this EQ 7 addresses investment support. Indeed, investment flows need to accompany the upgrading of enterprise competitiveness. It is clear that EQs 6 and 7 are interrelated to the extent that foreign direct investment (FDI) can be a vehicle for skills transfers, market access, and other reinforcement of enterprises. A link to EQ 5 - access to finance - is equally clear that access to investment is a sub-component of access to finance. This question focuses on Commission activities such as support to the development of investment-related intermediary organisations for investment promotion, regional sector investment promotion meetings, or business-to-business investment cooperation meetings.

However, this question does not address investment-friendly improvements in the institutional and regulatory framework, which are covered under EQ 4.

EQ 7 on Investment Promotion

The Commission has conducted investment promotion activities in a large number of countries. But the use of needs analysis, follow-up monitoring and targeting of final impacts has been problematic. Whilst many activities reported successful completion of outputs, the final results stemming from these activities are less clear and in many cases not monitored by EUDs, in particular regarding SMEs and the capacity building of investment-related intermediary organisations.

Investment promotion activities have been conducted in roughly half of the countries where the EU provided direct PSD support. Needs analyses, however, were not mandated by Commission strategy documentation, and were subsequently conducted only on an *ad hoc* basis.

Whilst the outputs of the Commission's investment promotion activities were generally reported as positive by stakeholders, the final results stemming from these activities were less clear. Observed results were particularly weak with regard to meso-level interventions and the targeting of SMEs with tailor-made investment-related services. Monitoring of the results of investment promotion activities was conducted by EUDs in some cases, but targeting was rather weak – though with some justification – with respect to the impact of Commission activities on FDI flows.

EQ 8 on Employment

To what extent has the EU PSD support contributed to facilitating the generation of employment?

The EU is concerned with the employment results of PSD in at least two ways. First, the enterprise sector is a source of employment and thus income (which may also influence global EU objectives such as economic and social development in third countries). Secondly, labour standards and social responsibility at enterprise level should accompany PSD initiatives (to help attain those same global EU objectives). However increased employment is not an objective as such for most private sector actors. In addition, while there is a general consensus that PSD generates employment, PSD can also lead to job losses: enterprise streamlining and liberalisation can negatively impact on job creation. Therefore the question remains as to the extent to which the EU has assessed the employment consequences of its PSD interventions.

The transfer from the informal sector to the formal sector is also a factor in lessening the marginalisation of those who cannot access employment (along with other factors such as fiscal considerations).

EQ 8 on Employment– Answer Summary Box

While PSD is often cited as one of the major means of generating employment, in most cases employment was only one among other intended objectives of the EU's PSD assistance. In addition the EU has not specifically assessed the effects of its PSD assistance on employment generation or on labour standards. As formalisation of the private sector was not an important area of the EU's PSD programming and projects, the impact on employment is difficult to assess.

In most cases the EU's support for PSD has not systematically aimed at having an effect on employment. Although the EU's overall strategic framework has increasingly recognized the importance of the private sector as a means of generating employment, this concern has not trickled down to country and intervention levels. Rather the EU has isolated its attention to employment from its PSD assistance and has addressed it under education, vocational or social assistance in an effort to improve labour force employability.

At strategy level, employment and job creation have been mentioned but have not been central. In CSPs/NIPs and RSPs/RIPs it was found that employment concerns were not systematically mainstreamed in the private sector support provided. In some countries employment was considered in relation to education, vocational curricula and training and to the private sector's needs in terms of a skilled labour force.

At the level of the interventions, the importance and level of priority given to employment generation, or to its quality, within PSD support has varied. Wherever beneficiaries place employment generation high in their national strategies, the EU's PSD assistance takes employment strongly into account. It was also found in several cases that while employment generation has been incorporated into country strategies or programming, this has been lost sight of in the interventions. In most cases employment standards (labour standards, CSR, wages) have not been or were not sufficiently considered or mainstreamed in PSD assistance. (JC 8.1).

For assistance which did aim to have an effect on employment, employment was not systematically monitored or was only weakly. Reasons identified for the shortcomings in the monitoring of employment effects are that M&E has tended to focus on the assessment of interventions' *short-term* effects, whereas employment is considered as a *long-term* effect of PSD support. As a result, contribution analysis is hard to verify, with the consequence that most assessments of direct and indirect job creation have been estimates. The reliability of employment statistics was also raised as an issue. (JC 8.2).

Formalisation of the private sector (PS) was not an important area of the EU's PSD programming and projects in third countries over the period 2004-2010, despite the highlighting of its importance at strategy level. While the informal economy was generally overlooked, it was not completely ignored but was generally considered in *ad hoc* ways, rather than being rooted in a strategic approach. Finally, even in cases where formalisation was supported, the impact on employment is difficult to assess. Evidence shows however that formalisation needs to be addressed in tandem with capacity-building at company level and with adaptation of the regulatory framework (I&R), in order to prevent adverse effects. (JC 8.3, JC 8.5).

EQ 9 on Commission Value Added

What was the Commission's added-value when providing support to PSD in third countries?

This question aims at understanding what extra benefit the Commission generated when providing support for PSD. Its focus is three-fold: first, to understand better the specific role the Commission has played as a public agent, notably in terms of providing value-added that could not (or not as efficiently and effectively) be generated by the private sector alone; second, to examine what extra benefit the Commission brought as a provider of grants, as compared to other financing modalities or in terms of facilitating combinations; and finally, to identify specific types of value added brought by the Commission, as compared to other actors providing support to PSD, in particular the EU MS but also other bilateral or multilateral donors. Such value added might relate for instance to critical mass, specific technical expertise, but also to the capacity to conduct policy dialogue and so forth.

EQ 9 on Commission Value Added

Different types of Commission Value Added (VA) have been observed, some of which relating directly to its PSD support.

Commission documents provide little information on the importance of avoiding support that could also be provided by the beneficiaries, the first and basic level of value added (VA). Specifically, the Commission rarely applied systematic and structured practices to obviate the need for such substitution, but this does not imply that in practice it provided it.

A key value added provided by the Commission was that its grant money could be blended with loans. By so doing the Commission leveraged investment provided by international institutions and allowed certain constraints to PSD to be addressed, notably by contributing to mitigation of the risks taken by financial institutions. However, while grant money in risk mitigation schemes has high potential, in a few instances guarantee schemes were directly supported by the Commission, but with little or no effect due to poor design, itself generally a result of weak diagnosis.

In comparison with other donors, and notably the EU MS, different types of value added by the Commission's support were observed. They related to its financial weight, its trade mandate, its capacity to transfer EU good practices, its capacity to use a variety of support mechanisms and modalities, its continued presence and focus on poverty reduction, and the fact that it was perceived as less tied to specific economic or political interests. It cannot however be stated that any of these factors really stood out. Furthermore survey results indicate that Commission representatives did not have a clear and shared conception of what the Commission's value added was or should have been with respect to PSD support, or at any rate that they saw this as very dependent on the specific context. They did however consider that some types of VA were not fully realised, notably with respect to political leverage and the capacity to coordinate EU players and build synergies with other institutions.

EQ 10 on Means provided

To what extent were the Commission's organisational set-up and management practices fit to a successful implementation of its PSD support?

This question aims at understanding whether the Commission had at its disposal the appropriate means to provide PSD support. The "means" here can be grouped into two categories and do not include the funding vehicles tackled under EQ 3. First, there are issues relating to the organisational set-up. Indeed, the question aims at verifying whether the devolution to Delegations of the programming of PSD actions contributed to enhancing PSD support, but also the extent to which the different roles of DGs in charge of PSD-related support (e.g. DG Trade, DG Devco, DG EcFin or DG Enterprise) impact on the implementation of PSD support in third countries. Second, there are the management practices which encompass HR policies, guidance for implementation and use of tools, monitoring and evaluation of the results of interventions, and practices in respect of exchange of information and capitalisation on best practice in PSD.

EQ 10 on Means provided– Answer Summary Box

The Commission's means, in terms of PSD expertise at HQ and EUD level, of capitalisation mechanisms and knowledge management as well as tools and guidance to design, manage and follow-up its PSD assistance in third countries over 2004-2010 had a number of shortcomings, which impacted the implementation of the EU's PSD support.

Devolution has led to an improvement in the EU's PSD assistance - a number of benefits stemming from devolution have been identified (improved responsiveness and flexibility), however a number of shortcomings were also identified (e.g. lack of information and/or linkages with bilateral assistance, lengthy consultation/decision-taking process between HQ and EUDs).

Whilst the European Commission held substantial in-house expertise on PSD (mostly within DGs with an internal mandate), the split from DGs with an external mandate and shortcomings, or lack of, institutionalized coordination mechanisms, and communication channels between both, were not conducive to capitalisation on this intra-EU expertise for the development and implementation of the EU's external assistance in support of PSD.

Overall in-house thematic expertise was weak over the period 2004-2010, with a notable improvement with the arrival of thematic experts in 2006-2007. PSD training *per se* was developed formally from 2009 only. In-house capacity-building within DGs with an external mandate and EUDs was limited by the externalization of a number of technical tasks to short-term consultants, but also by the general 5-years rotation system and the important turnover in certain EUDs and also at HQ to a certain level.

The Commission progressively developed tools and guidance to facilitate the design and implementation of its PSD support. However evidence shows that whilst they were generally appreciated, their use was not systematic and some stakeholders challenged their usability.

The Commission almost systematically envisaged M&E of its PSD assistance but in most cases did not conduct it thoroughly. M&E was limited by a number of factors (e.g. cases of weak indicators or lack of baseline data and clearly-defined expected result, incomplete M&E, insufficient HR availability to follow M&E, reliance on M&E by implementing partners).

Capitalization activities, at HQ and EUD levels, were limited. Reasons are linked to shortcomings in the Commission's external services organizational model, its HR policy, and its M&E, as identified under the previous JCs. A number of initiatives were taken over the evaluation period to improve the Commission's capacity and the knowledge base in the field of PSD. Whilst they were appreciated, they were generally considered as insufficient.

4. Conclusions

This chapter presents the Conclusions emerging from the evaluation findings and analysis (summarised above in Chapter 3 “Summary Answers to the Evaluation Questions” and presented in full in the Appendix to this main report). They are structured in three clusters so as to facilitate an overall synthesis (see figure below), as follows:

- on overall strategy and implementation issues ;
- on country specific strategy issues;
- on results.

Each Conclusion further refers where relevant to the Evaluation Questions and other sources on which it is based.

The Conclusions are preceded by a section which aims at summarising in one page the assessment arising from the evaluation

Figure 4 1 – Conclusions

<i>On overall strategy and implementation issues</i>	C 1: On the EU weight with respect to PSD
	C 2: On the EU Value-Added
	C 3: On general strategic foundations for PSD support
	C 4: On the architecture of aid
	C 5: On the use of existing expertise
<i>On country specific strategy issues</i>	C 6: On strategic priorities at country level
	C 7: On alignment
	C 8: On maximisation of impact
	C 9: On employment generation
	C 10: On cross-cutting issues and the Decent Work Agenda
<i>On results</i>	C 11: On results by type of support
	C 12: On Monitoring and Evaluation
	C 13: On support in middle-income Countries
	C 14: On lack of initial diagnosis
	C 15: On the overall EC approach, rules and procedures

4.1 Overall assessment

Over the 2004-2010 period, the EU developed a wide set of support mechanisms for intervening in PSD, allocated substantial amounts of funding to the sector, and provided aid across a wide range of PSD-related matters, and in numerous countries with which it cooperated.

These efforts led to a number of successes, for instance in terms of EU contributions to institutional and regulatory reforms. The EU's support for PSD was furthermore considered particularly relevant and successful in a number of middle-income countries. It also possessed specific types of potential, though not fully realised, value-added, notably through (i) its ability to provide grant resources for blending mechanisms, (ii) providing PSD support in the context of trade negotiations based on its EU mandate for trade matters, and (iii) its ability to transfer EU know-how and innovative practices.

Results remained uneven, however, and the evaluation identifies several factors that have played a role in this respect. First, there was often a lack of a strategic approach. There were few strong initial needs diagnoses, an essential tool for adequately gearing support. EU support was also not always embedded in strategies geared to the maximisation of the impact of PSD support through appropriate prioritisation and sequencing, building on the value added of the EU and other contributors aiming at maximising synergies with support provided through different EU mechanisms or other actors. The EU overall delivery model of supporting the private sector through the public sector was also not conducive to optimal delivery of its aid. A number of opportunities were furthermore missed, notably in terms of ensuring that the PSD expertise existing in different EU internal market DGs was made available for PSD support in third countries, or in terms of capitalising on the knowledge acquired by EU Delegations in this field. Finally, despite the financial weight and the breadth of its support, the EU was not recognised as a major contributor to PSD.

Since 2004 the EU has thus made useful contributions to the development of the private sector in third countries, but weaknesses remained in terms of results obtained. These can to a large extent be explained by difficulties in terms of management for results and a lack of strategic approach at country level. That said, the EU continues to have a great potential for PSD support that was not fully activated over the period covered, but should give clear leads for the future.

4.2 On overall strategy and implementation issues

Conclusion 1: On the EU weight with respect to PSD

The EU provided substantial grant funding for PSD through a heterogeneous package of activities, which made the EU an important player in PSD financially and in terms of scope covered and PSD an important area of its aid delivery, even if it was generally not recognised as such.

Based on Inventory

As shown in the inventory of this study (see annex 2), the EU contracted a substantial amount of grant funding for PSD over the period 2004-2010. The total amount of direct support to PSD contracted by the EU over this time was €2.4bn. In volume terms, this compares favourably with several other well-recognised PSD donors such as France (€1.3bn), Sweden (€0.9bn) or Denmark (€0.9bn), all of which are members of the Donor Committee on Enterprise Development.²⁰ Moreover, whilst PSD is by no means the largest sector of EU support to third countries over the evaluation period, its PSD contribution is nevertheless comparable to other well-established areas of EU support, such as education (€1.9bn of direct support from 2000-2007²¹) or health (€4.1bn of direct support from 2002-2010²²).

This funding was used to contribute to a wide range of PSD activities, spanning all eligible activities described in the Commission's Communication and Guidelines. Moreover, country visits have shown that often, when the EU was supporting PSD in a country, it was – compared to other donors – an important player in terms of share of grant funding provided. PSD was mentioned as a focal sector in 58% of the CSPs/RSPs reviewed.

Hence, over the period covered the Commission has been an important contributor of grant funding for PSD in developing countries and the sector has been important in terms of financial weight among all the sectors in which the Commission intervened.

These elements were however not generally recognised. Indeed, country visits showed that the EU was rarely considered by stakeholders as a key player with respect to PSD. Even within the Commission, representatives interviewed did not seem to consider that PSD was one of the EU's key sectors of activity. It may be the case that this is due to the perception of the EU as a 'generalist player' rather than a provider of specialised support.

²⁰ These figures are drawn from data extracted from the OECD DAC Creditor Reporting System on 2 October 2012. They provide a "ball park" illustration rather than a precise comparison to the €2.4bn contribution of EU support. Two elements suggest the need for caution in this regard. Firstly, the OECD figures include certain types of aid, namely General Budget Support and debt relief, which the evaluation excludes. Secondly, the evaluation inception phase conducted a lengthy cross-checking procedure between OECD data and the CRIS database of EU activities, which led to substantial revisions to the inventory of PSD activities. No comparable procedure could be generated for the other donors listed above.

²¹ Particip for EC, *Evaluation of the European Commission's support to Education sector in partner countries*, 2010

²² Particip for EC, *Thematic evaluation of the European Commission support to the health sector*, 2012

Conclusion 2: On the EU Value-Added

The EU provided different types of VA associated with its role as a development partner in general and demonstrated some potential areas of VA that were directly linked to its PSD support but not widely spread throughout its interventions.

Based on EQ9

Those areas that did emerge as consistently providing added value broadly fell into two categories:

- Added-value that the Commission provided as a development partner in general, rather than specifically regarding its PSD support;
- PSD-specific added-value that the Commission could potentially develop, but which is not yet fully realised in its PSD support.

Under the first category, the Commission demonstrated three types of added-value, namely: its financial weight, its continued presence, and the fact that it was perceived as less tied to specific economic or political interest than was sometimes the case for other donors. Its financial weight and continued presence in partner countries allowed the Commission to take part in long-term Sector Budget Support operations with specific targets relating to private sector development. Meanwhile, the EU's perceived neutrality with regards to specific economic or political interests had a particular added value in emerging middle income countries, where often the Member States switched away from development cooperation towards trade-focused partnerships with specific economic interests attached.

Under the second category, the EU demonstrated three types of PSD-specific added-value, which were observed in some cases but not necessarily widely spread:

- First, the Commission and the European Development Fund was an important provider of grant money that facilitated the establishment of several large investment facilities over the evaluation period.²³ Most facilities included support to PSD as an objective through support to SMEs and financial intermediaries, thereby widening the range of financial services offered to the private sector by the EU institutions. However, the realisation of this potential added-value was limited by the relatively small share of funding for PSD from the investment facilities.²⁴
- Second, the Commission's trade mandate and its knowledge of compliance with EU market requirements was also underlined as a potential added value of its enterprise competitiveness activities, notably but not exclusively in MEDA countries. In other cases, however, the potential added-value of the EU's trade mandate was not fully utilised, e.g. where trade cooperation units within EUDs were not more closely involved in the needs analyses of PSD activities, which could have helped to highlight

²³ E.g., the ACP IF, FEMIP Support Fund, NIF, LAIF, AIF, CIF, IFP.

²⁴ A combined 8% of the ITF/NIF/LAIF/IFCA facilities were for instance for support to PSD, according to a 2011 Commission working document.

the needs stemming from ongoing trade agreements with the EU and other organisations.

- Third, there were examples where the Commission provided VA through its capacity to transfer EU good practices and innovative approaches with a view to providing a demonstration effect.²⁵

Finally, it is interesting to note that perceptions of the EU's added value in private sector development varied significantly between stakeholders, which reflects in part the 'generalist' role of the EU in this area, as described in Conclusion 3 below.

Conclusion 3: On general strategic foundations for PSD support

The EU positioned itself as a 'generalist' in terms of PSD support, capable of funding a nearly all-encompassing range of diverse activities, which enabled it to be responsive to country needs in a context of partnership building with beneficiary countries. However, stakeholders within and outside the EU institutions had no clear view on this positioning as a generalist.

Based on Context and Intervention logic, EQ1, EQ2, Conclusion 8

The EU PSD approach over the period covered was outlined in three key documents: the Commission COM(2003) 267 (European Cooperation with Third Countries: the Commission's approach to future support for the development of the Business sector); the Guidelines (2003) for Commission Support to Private Sector Development (2003); and the revised guidelines issued in November 2010 (Trade and Private Sector Policy and Development. Support programmes financed by EU external assistance).

Over the period considered the Commission opted for a broad strategy, allowing for the funding of PSD activities at different levels (macro, meso, and, to a lesser extent micro). This was a deliberate choice. As an example, in response to the 2005 Evaluation, which called for a stronger prioritisation between different areas of intervention, the Commission explicitly answered that it wished to maintain a full range of 'instruments' to answer to different situations. This was also reiterated by Commission staff during the current evaluation exercise.

The current evaluation concludes that the EU has indeed maintained a heterogeneous portfolio of activities in PSD (see Conclusion 1 above), enabling it to respond to diverse country needs and align with partner government priorities across a wide range of areas. This point can rightly be viewed as a strength of EU support, notably in the context of the Commission's partnership approach.

²⁵ The capacity of the EU to transfer EU practices is of course dependent upon the relationship between the EU and the country/region in question. Nevertheless, the evaluation found good examples of such transfer in a range of different countries, including some outside of Europe's neighbourhood region, e.g., Vietnam and South Africa.

However, stakeholders both within and outside the EU did not have a clear understanding of the role the EU wished to play as a provider of PSD support. As far as Commission representatives were concerned, the EUD survey showed that although 60% of respondents stated that the role the Commission wanted to play in PSD support was clear, 40% still stated explicitly that it was not. This uncertainty was magnified among non-EU stakeholders interviewed in the field, many of whom either did not know that the Commission was active in PSD or commented that the Commission's activities were difficult to pin down.

Conclusion 4: On the architecture of aid

With the creation of a series of blending and investment facilities and some regional operations, the EU is now equipped to address quite comprehensively the range of PSD needs in the different regions, in line with the generalist approach outlined in the EU's PSD strategy documentation. There was however very little active coordination of EU support mechanisms and an absence of clear communication regarding the EU's overall support architecture created some stakeholder confusion.

Based on EQ 3

In addition to its bilateral aid with partner countries and existing regional PSD programmes, the EU created a series of regional blending facilities²⁶ (although notably none that cover South Africa) as well as some new PSD regional programmes²⁷. The EU is now equipped to address quite comprehensively the range of PSD needs in the different regions.

The breadth and range of instruments at the EU's disposal is indeed coherent with the heterogeneity of the EU's PSD strategy which, as outlined in Conclusion 3 above, seeks to respond to diversity of country needs across all levels of intervention (macro, meso and micro) and thematic areas.

There is however very little evidence of active coordination, at global or country level, between EU support mechanisms for PSD. Most support mechanisms had their own logic and mode of operation, with little internal coordination. The portfolio of PSD support in a country often stemmed from a juxtaposition of activities rather than from a structured PSD strategy with logical sequencing and distribution. The absence of clear communication on the overall EU architecture for support to PSD also confused many stakeholders, including Commission staff. Awareness of role of blending mechanisms in supporting PSD, for example, was notably low amongst EUD staff.²⁸

²⁶ E.g. the Neighbourhood Investment Facility (NIF), the Latin America Investment Facility (LAIF), the Investment Facility for Central Asia (IFCA), the Asia Investment Facility (AIF), the Caribbean Investment Facility (CIF), the Investment Facility for the Pacific (IFP), etc.

²⁷ E.g. ProInvest (ACP), BizClim (ACP), the EU/ACP Microfinance Programme, the ANIMA network for Mediterranean countries and subsequent 'Invest in Med' programme.

²⁸ The evaluation's EUD survey revealed low levels of awareness of the role and added value of blending for PSD among EUD staff. See Answer to EQ9, JC9.2 on this point.

Conclusion 5: On the use of existing expertise

The EU did not fully exploit its potential in terms of expertise and experience for PSD, which as a consequence were not commensurate with the financial weight of the EU's PSD support

Based on EQ 10

At Headquarters level, in-house thematic expertise on PSD within AIDCO was weak over the period 2004-2010. There was however a notable improvement with the arrival of thematic experts in 2006-2007 and the creation, in 2005, of the Unit Private Sector Development, Trade, Regional Integration, which in 2012 had around 12 staff members. Nevertheless, capacity within the PSD, Trade and Regional Integration Unit remains limited given the unit's wide mandate, which includes both quality support and policy advice across its three thematic areas.

The Commission has PSD expertise in other DGs such as DG Trade, DG Enterprise, DG Regio, DG MARKT, and DG ECFIN. But the evaluation shows that this in-house expertise was not made available to be systematically and thoroughly fed into the design, development and implementation of the Commission's external assistance in support to PSD managed by AIDCO and EUDs, despite the existence of some coordination mechanisms. An in-house PSD knowledge depository, capitalising on experience, appeared to be lacking.

At country level there were also a number of weaknesses in terms of use and development of expertise:

- In many cases, the need for flexibility among EUD operational units meant that project officers were often hired on the basis of their general management capacity rather than specific PSD expertise.
- Training on PSD was available but it appears that staff often did not have the resources to attend these training events.
- There were no real capitalisation exercises between different EUDs to share experience and good practice in PSD support, despite the fact that EUDs have provided PSD support for many years, which must have led to an accumulation of useful knowledge.

4.3 On country specific strategy issues

Conclusion 6: On strategic priorities at country level

The EU support to PSD was – generally quite rightly – more geared by overall country-specific considerations than by PSD-related technical matters

Based on EQ 1, EQ 2

By definition EU support to PSD always takes place in a broader context of overall cooperation of the EU with a specific country or region. Accordingly the Commission did

not design this support as if this broader context did not exist, that is with a purely 'technocratic' approach, but rather ensured that these wider considerations were at the heart of its support and even determined the manner in which it supported PSD.

Indeed, as discussed under EQ 1, the strategic choices made by the Commission in terms of PSD support were influenced by different kinds of context, such as the Association Agreements in the MEDA countries, the "level of development" and specific history of the country and the need to address a specifically challenging political context. In some of these contexts such as the Association Agreements, overall "political" considerations coincided largely with technical considerations, but in other countries (for instance where cooperation with national authorities was difficult), a merely technical approach would have been inappropriate.

It is important to highlight this element, which aptly demonstrates that the Commission, when providing support, is doing so in a broader, complex and sensitive framework.

Conclusion 7: On alignment

The EU has generally aligned its support with the beneficiary countries' priorities but has also, on good grounds, reserved for itself the right not to so align when confronted with specific drawbacks to alignment

Based on EQ2

In line with the Paris and Accra Declarations, the EU generally aligned its support with the priorities of the beneficiary countries. When designing its support its priority was to ensure, in closed collaboration with the national authorities, that this support was complementary and in synergy with the national strategies. This was also one of the objectives pursued when using General and Sector Budget Support.

In some cases there were flaws in terms of such alignment, but these appear to be exceptions. In other cases the EU did not align because there was no real Government strategy to align with. The evaluation also provides indications that alignment posed problems for centralised regional operations. In some cases, where centralised and regional operations intervened in countries where the Commission's own programming did not prioritise PSD (e.g., in the CSP), the operations lacked coherence with other operations managed by EUDs. But in other cases, centralised and regional operations intervened in countries without clear evidence that PSD was a country priority for the partner government at all, thus posing a genuine question about alignment rather than coherence.

There are also examples where mere alignment posed problems and where the Commission accordingly decided not to align or only to align to a certain extent. This occurred in countries where the Commission could not agree with the Governments' specific PSD policy or with government policies in general.

Finally, the evaluation also found that in a minority of cases, alignment was invoked to justify a lack of prioritization, the purpose being instead to tap into Government strategies,

assuming that these were well-prioritized (see C3). Such cases, which were in the minority, reflect a conflation of alignment to country priorities with alignment to government strategies.

Conclusion 8: On maximisation of impact

The EU's PSD support in the different countries responded to needs but was generally not part of a strategy aiming at maximising the EU's impact through clear prioritisation, a focus on value added, and on synergies with other actors and activities

Based on EQ2

The needs of the private sector in the countries in which the EU intervened are by definition very broad. In response (as noted in Conclusions 6 and 7) the EU's support to PSD was quite rightly geared towards tackling the full diversity of PSD needs as identified by partner country governments. As a result, whilst the EU's support was indeed relevant to partner country needs, some trade-offs were observed, including a limited focus on EU value-added or synergies with other actors and activities.

The evaluation found that the EU's PSD support generally responded to needs but that the Commission did not deploy a strategy to ensure that it maximised its potential contribution. Mainly four elements led to this conclusion:

- First, in most countries examined, the EU did show (across the CSPs, NIPs and intervention fiche) that each intervention addressed a particular need or set of needs. There was, however, limited consideration given at any stage (CSP-NIP-intervention fiche) of the potential interactions or linkages between interventions in a specific country, or the appropriate sequencing of interventions in order to ensure that the EU's broader development goals were served. The result was a somewhat scattered array of PSD interventions, each of which contributed to particular needs, but many of which missed out on potential synergies or inter-linkages with other EU activities. It must be noted however that a clearer thread was found in countries benefitting from an Association Agreement, where the objective was clearly making gradual market liberalisation a success through upgrading enterprise competitiveness and making improvements in the related enabling environment.
- Second, in general and despite notable exceptions, the evaluation found that the EU support was not geared by what it considered to be its potential VA for intervening in PSD. References to EU value-added in project fiche were minimal,²⁹ and field interviews confirmed the view that the primary logic during intervention design had been one of alignment with country needs rather than maximisation of any particular EU added-value.
- Third, at individual project level, coordination with other donors took place, but it was at best an exchange of information and did not aim at maximising complementarity and synergies. This did not vary with the level of intervention (macro, meso or micro)

²⁹ See, for example, the 27 case study interventions summarised in Annex 3.

or with the intervention area (access to finance, institutional and regulatory frameworks, etc.) This was also the case when it came to collaboration with the EIB.

- Also the evaluation found that the EU did not generate synergies or mutual strengthening between its PSD support and other types of support, whether this concerned centralised and intra-ACP operations, trade-related assistance, or mainstreaming of PSD in other EU interventions.

Conclusion 9: On employment generation

Although there is a broad consensus on the importance of PSD for job creation, linkages between the EU support for PSD and objectives in terms of employment generation remained very distant.

Based on EQ8

There is a broad consensus on the importance of the private sector and hence PSD in generating employment, even if it is also clear that through the streamlining of enterprises PSD can lead to job losses in the shorter run. This consensus was also (increasingly) shared in EU strategy documents and guidelines. Accordingly one could expect on the one hand that job creation would be a central objective of all support to PSD, and on the other hand that, conversely, when employment generation is considered the main need, one would immediately revert to PSD as a means to this end.

The evaluation found that over the period considered this was not really the case. On the contrary, the EU had a tendency to treat employment in isolation from its PSD assistance. This was most apparent at EUD level, where employment creation activities were often dealt with by social affairs units whilst PSD was the remit of economic development units, with little interaction seen on a project-by-project level.

Indeed, even if job creation was often one of the objectives of the EU's PSD support, over the period considered it was generally not the objective to which the support intended to contribute ultimately. The effects of PSD support on employment generation were also rarely really monitored.

Conversely the evaluation found that, where the main objective was employment, this was rarely aimed at through PSD support (although there were cases), but rather through education and support for the needs of skilled labour forces.

Conclusion 10: On cross-cutting issues and the Decent Work Agenda

Overall the EU has not used its support for PSD as an opportunity to promote crosscutting issues and the Decent Work Agenda

Based on EQ2

Several crosscutting issues (CCIs) are prima facie relevant when it comes to supporting PSD, e.g., gender, governance and the environment. The evaluation shows however that, despite some exceptions, only limited attention was devoted to crosscutting issues. Even when they were included, it was at best as a formality, without targeted objectives and without verifying *ex post* which results were obtained. The issues most tackled were gender, governance, and environment. These were also those that EUD survey respondents considered most important in relation to PSD. Human rights, democracy, children's rights, indigenous people's rights, and combating HIV/AIDS were less tackled and were also less mentioned by EUD respondents as critical issues to be included when supporting PSD, even if there were strong examples of some of these CCI (notably HIV/AIDS).

The EU has committed itself to contributing to the Decent Work Agenda and to improvements in core labour standards and rights at work, as stated in several of its official documents, including a specific published Communication (COM(2006)). These general commitments have however not yet been translated into increased attention to the Decent Work Agenda on the ground, as attested by the limited reference made to it in CSP/RSPs, survey results (35% of EUD survey respondents consider it is as not as important or of marginal importance), interviews conducted at Commission Headquarters and during country visits, and other evaluations.

4.4 On results**Conclusion 11: On results by type of support**

The EU achieved results at macro- and meso-level rather than at the micro-level, notwithstanding the difficulty of obtaining clear information on results at each level, as outlined in Conclusion 12.

Based on EQ 4, 5, 6, 7

Analysis of results-oriented-monitoring (ROM) reports for more than 100 PSD interventions contracted over the evaluation period shows that, whilst the majority of these interventions scored reasonably well regarding effectiveness,³⁰ some differences were visible between effectiveness scores by intervention type. The highest scoring thematic areas were those with greater focus at the macro- and meso-levels, namely access to finance, upgrading enterprise competitiveness (excluding support to MSMEs), and I&R frameworks. In contrast, support to microenterprises and non-financial support to SMEs scored consistently lower than other types of support – including enterprise competitiveness activities not directed at the MSME sector.

³⁰ 65% of the ROM reports reviewed scored their respective interventions at 3 points out of a possible 4 for effectiveness, which corresponds to a judgement of « good » performance.

Field findings also support the conclusion that macro- and meso-level interventions were particularly strong.³¹ Regarding I&R reforms, the Commission made efforts to identify the main obstacles and to target support on them. A recurrent objective in this respect was the facilitation of international trade. Whilst the facilitation of international trade is *prima facie* outside the scope of this evaluation, many areas of the EU's PSD support aimed at the enhancement of productive capacities for effective participation to international trade. In this regard, the evaluation provides evidence that I&R reforms have generally been viewed as encouraging, even if the degree of advancement of regulatory reforms observed varied. The sustainability was also challenged by the complexity and duration of support for I&R reforms.

Support to foster enterprise competitiveness, which constituted the largest area of Commission direct support over the evaluation period also focused mainly at meso-level with a view to building capacity within intermediary structures. Evidence suggests that channelling support through government departments and intermediary organisations increased the results in terms of institutional capacity-building, without however obtaining the expected trickle-down effect to enterprises. But it was also observed that the end impact on enterprises was heavily dependent on the enabling environment, e.g., the transport infrastructure, electricity costs, regulatory environment etc.

In terms of access to finance, the second largest area of Commission direct support over the evaluation period, the most successful EU activities were primarily at macro-level, including institutional and regulatory reform. These showed results, which was less the case at meso-level where capacity-building support was given to financial intermediaries; but little evidence was found of improved access to finance by SMEs³².

Finally, in terms of investment promotion, whereas the activities were generally reported as positive by stakeholders, the final results stemming from these activities were less clear and were not really monitored. Observed results were weak regarding the targeting of SMEs with tailor-made investment-related services.

³¹ This conclusion provides a synthetic overview of results presented in this conclusion. Further breakdown of results per intervention area are provided in the Appendix, under the Answer to EQs 4-7.

³² The evaluation reviewed final reports and project evaluations for access to finance operations in the 9 countries visited during the field phase, as detailed in the Intervention Fiche in Annex 3. The combined desk study and field interviews provided limited evidence of increased access to finance by SMEs from the meso-level access to finance interventions.

Conclusion 12: On Monitoring and Evaluation

The EU carried out a wide range of monitoring and evaluation activities, including project-specific monitoring and evaluation, country-level and thematic evaluations. Nevertheless, it remained difficult to obtain a clear and complete picture of the observed results, notably because of weaknesses in terms of monitoring and evaluation.

Based on EQ 4, 5, 6, 7, 10

At different levels the EU makes provision to ensure its support to PSD is monitored and evaluated. This is indeed provided for in its Communications, in the Guidelines (with a clear improvement from 2003 to 2010), but also in project documentation.

Accordingly evaluation and monitoring have been carried out at different levels. As an example, there are several transversal evaluations of centralised and intra-ACP operations (like Bizclim, the CDE, the Microfinance programme, etc.). Issues related to PSD are also tackled in country-level evaluations, and evaluations of individual programmes and projects are also available.

The EU also monitored its support through “results-oriented monitoring” (ROM), covering 108 PSD interventions operational over the evaluation period. Whilst ROM missions may provide useful feedback to managers on a project-by-project basis, they did not provide the evaluation with much useful information regarding the success or failure of PSD interventions as a whole. Qualitative analysis of comments by ROM evaluators provided no discernible trends regarding success factors for effectiveness of PSD interventions. Moreover, quantitative analysis of ROM scores by intervention type and geographical region revealed that no significant trends exist between ROM scores on these bases. Indeed, the average score awarded by ROM missions for the effectiveness of a PSD intervention was 2.7 out of a possible 4 points with a low standard deviation (0.6) from this mean; suggesting that the majority of interventions scored well but not remarkably so.

Several further elements suggest that the monitoring and evaluation procedures in place failed to provide a clear view of the results obtained by PSD interventions:

- Evaluation and ROM missions were confronted with problems of lack of baseline data, but also lack of clear definition of the expected results;
- Often ROM reports and evaluation reports provided information on outputs (e.g. the number of investment promotion events held or the number of participants attending), but much less at results level (e.g. the impact of investment promotion activities on investment partnerships over time); this may be due to the lack of quality of the evaluation or to the fact that assessing results was hardly feasible, but also because, as mentioned above, the expected results were not always specified;
- There was also a lack over time of evaluation and monitoring aimed at identifying the longer-term effects of the support provided.

As a consequence, and as noted in the evaluation, it was difficult to obtain an overall picture of results and even more of impact levels for the different dimensions of PSD support. This concerned for instance the impact of I&R reforms on the functioning and growth of third country enterprises, their access to new markets and technologies, but also the final results of investment promotion activities, for instance in terms of FDI.

Conclusion 13: On support in middle-income Countries

The EU has made valuable contributions to the development of the private sector, especially in imminent, recent, and established middle-income countries.³³

Based on EQ2, 4

The contribution made by the EU to the development of the private sector showed particular strengths in middle-income countries as compared to low income countries, across a range of different criteria. Notable strengths were observed regarding policy dialogue, alignment and the clarity of the EU's role in PSD. However, middle-income countries also posed particular challenges for the EU's coordination with other donors, as a result of the shift in perspective created when bilateral donors moved away from development cooperation and towards trade relations.

Policy dialogue in particular was often viewed as more effective in middle-income countries than low-income countries. This had a positive impact on the results achieved as regards reform of institutional and regulatory frameworks, with notable results achieved in, for example, Morocco (where both Budget Support and project-based twinning activities supported the creation of the new Competition Council and the drafting of new competition regulations among other things).

More generally, alignment and, concomitantly, partner country commitment to PSD reform, were both viewed as higher in middle-income countries than low-income ones. Notably, a significant number of middle-income countries receiving PSD support were in the process of negotiating and implementing trade or association agreements with the EU over the evaluation period. In countries where this was the case the PSD support was often viewed as being well aligned with the government's priorities; and stakeholder views of the partner government's commitment to PSD reform was often higher than in other countries.

Furthermore the EU's role in developing the private sector was generally regarded as clearer in middle-income countries than low-income countries, often with a clearer focus on integration into the world economy than on poverty reduction. In South Africa, on the other hand, the Commission tailored its approach to a middle-income country with low ODA-dependence and a well-defined growth agenda focused on alleviating the effects of a

³³ Conclusion 13 focuses on a set of strengths and obstacles to PSD support that were seen across several middle-income countries. However, this is not to suggest that the EU's support to other countries was not also highly valued. Rather, it is a reflection of a specific set of commonalities present in these countries, as opposed to the diverse conditions witnessed in poorer countries.

“dual economy”. The Commission’s approach tapped into these Government strategies and aimed at developing innovative approaches with a demonstration effect, rather than aiming for a comprehensive strategy.

However, it should also be noted that middle-income countries posed particular problems regarding the EU’s coordination with other bilateral donors. In particular, in new and emerging middle-income countries, the ability of the EU to coordinate with other donors on private sector development was hampered by the shifting perspectives of bilateral donors away from development cooperation towards trade relations.

Conclusion 14: On lack of initial diagnosis

A lack of strong initial diagnosis affected repeatedly the relevance of interventions, and subsequently results

Based on EQ 2, 3, 4, 5, 6, 7

A recurrent weakness that hampered results was the lack of strong preparatory analysis, including in consultation with the private sector. This concerned different dimensions of the PSD support:

- With respect to I&R reforms the evaluation notes that the complexity and length of the supported reforms seems to have been rather systematically underestimated, with potential negative impacts on the sustainability of the reforms initiated. This can be linked to the finding that although efforts were made to identify the main I&R obstacles, these exercises relied mainly on informal and pragmatic approaches, and not on documented evidence such as studies or diagnostic tools.
- As for support to access to finance, the evaluation finds that in some specific cases EU activities were not based on strong diagnostic approaches and that, as a result, the relevance of these activities suffered.
- As regards support for fostering enterprise competitiveness, the PSD Guidelines specifically mandated the conduct of market surveys and identification studies prior to implementation, but evidence suggests that this was not translated to project or intervention levels. It also suggests that the absence of a systematic approach to market analysis during the design phase led to weaknesses in terms of beneficiary selection and difficulties in targeting country- or region-specific needs.

Conclusion 15: On the overall EC approach, rules and procedures

The EU global approach to delivering aid for the private sector through the public sector entailed missed opportunities for selecting the best implementing partners. Its standard rules and procedures also lacked flexibility and rapid response capability in adjusting to private sector actors and dynamic.

Based on EQ 3

The Commission's global approach focusing on delivering aid through Governments or public institutions entailed missed opportunities for selecting the most adequate partners for supporting development of the private sector. Providing support through governments or public institutions proved relevant for promoting institutional and regulatory reforms, but much less so for other areas of support for the private sector, in particular where the public sector lacked capacity. It was also less relevant in countries where many stakeholders were not convinced of the benefits of developing the private sector, and where a successful pilot project was hence important.

Moreover, the Commission's standard rules and procedures have become increasingly strict since the 2003 Financial Regulation, which came into force during a period of increased scrutiny on the Commission's use of EU funding. The tender procedures outlined in the Commission's PRAG (and subsequent revisions in the instruction notes) did allow for contracting of private sector organisations, but nevertheless the procedures were perceived as ill-suited to smaller private sector organisations rather than large companies bidding on infrastructure projects. Stakeholders argued that the tendering procedures lacked flexibility and a rapid response capability for adjusting to local market realities, notably for SMEs. Procedural and administrative constraints were often considered exceedingly onerous by enterprises, and hence had counter-productive effects.

5. Recommendations

This chapter presents the Recommendations emerging from this evaluation. They aim at providing policy-makers and managers with advice based on the Conclusions from the evaluation (*presented in Chapter 4*).

The recommendations are structured in four clusters so as to facilitate an overall synthesis (see figure below), as follows:

- on the EU's overall role in terms of PSD support;
- on the contribution to a maximised development impact;
- on expertise for implementation;
- on support in middle income countries and on transversal issues.

Each Recommendation further refers where relevant to the Evaluation Questions and other sources on which it is based.

Figure 5.1 - Recommendations

On the EU's overall role in terms of PSD support	R 1: Continue to be a provider of a wide range of different types of PSD support
	R 2: Continue to embed support in the wider context of cooperation and reserve the option not to intervene or align
On the contribution to a maximised developmental impact	R 3: Make sure that conditions for maximising the impact of PSD support are fulfilled
	R 3.1: Provide mechanisms to ensure that technical analysis and consultations have been conducted prior to providing support for specific PSD interventions
	R 3.2: Ensure support is prioritised, targeted, built on the EU's VA, and maximises synergies with other actors
	R 3.3: Promote & facilitate coordination between EU support mechanisms for PSD
On expertise for implementation	R 3.4: Ensure that the expected results are well defined & targeted, baselines defined, & evaluations conducted, including for cross-cutting issues & the Decent Work Agenda
	R 4: Build on existing knowledge and expertise
	R 4.1: Provide mechanisms and tools to ensure that existing knowledge of PSD support in EU DGs and in EUDs is shared and made available
	R 4.2: Devise and apply a specific HR policy to ensure that EUDs have sufficient staff with the required technical knowledge
	R 4.3: Build on the expertise of partners where they have a comparative advantage
On support in middle income countries and on transversal issues	R 5: Facilitate collaboration with private sector organisations
	R 6: Review support in middle-income countries to enhance differentiation & adapt to the challenge of different income levels
	R 7: Ensure employment impact is considered through each stage of the project life-cycle
	R 8: Improve communication on the EU's strategy with respect to PSD support

This set of recommendations aims at providing, on the basis of the conclusions of the evaluation, a comprehensive and coherent view on strategic leads for the Commission's

future support to PSD, together with more operational conditions and suggestions for implementing them successfully.

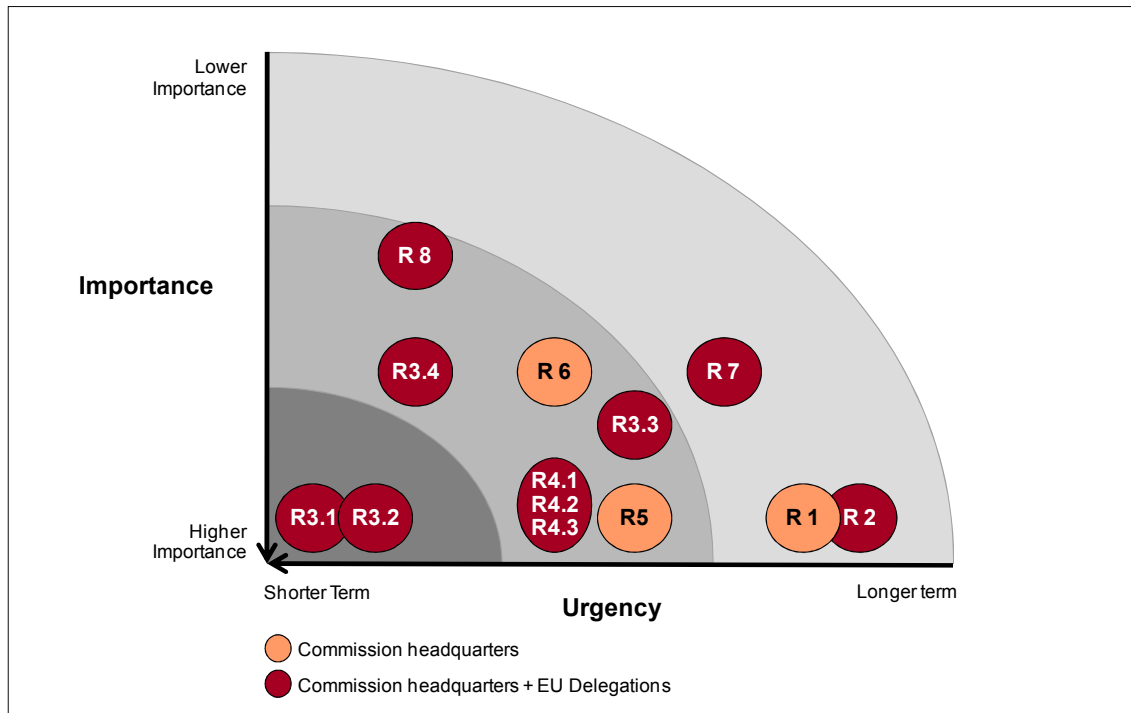
The core recommendations are that the EU should continue to be a provider of a wide range of different types of PSD support (R1), embedding it in the wider context of cooperation with partner countries (R2). This entails particular challenges and opportunities, which in turn give rise to other recommendations:

- First, adopting a 'generalist' approach should not preclude the Commission from making sure that the conditions for maximising the impact of its PSD support are fulfilled (R3), notably through diagnoses, prioritization, coordination between EU support mechanisms and appropriate M&E practices (R3.1-R3.4).
- Second, the provision of a wide range of different types of PSD support, poses challenges in terms of the variety of technical expertise required to deal with that support. Hence, the evaluation recommends to build on existing knowledge and expertise (R4), be it within the EU, through specific HR policies and by building on partners' expertise (R4.1-R4.3). This is also one of the key reasons why it is recommended to facilitate collaboration with private sector organizations (R5).
- Third, the evaluation shows that the role the EU intended to play in PSD was not always clear, nor the financial weight it represented in the field. Moreover, although it developed over the years a wide range of instruments that are appropriate for a 'generalist' role, this set of instruments was not always well known by stakeholders. Hence the recommendation to establish a clearer communication on these issues (R8).

In addition to the above the evaluation recommends to devote specific attention to reviewing support to middle-income countries to enhance differentiation and adapt it to the challenges of different income levels (R6). Finally, a specific recommendation is made on the consideration of employment impact throughout each stage of the project life-cycle. Indeed, EU strategy documents recognize the importance of PSD for employment creation, but in the field employment creation activities were often dealt with by social affairs units.

Figure 5.2 aims furthermore at providing the levels of priority for each recommendation, in terms of importance and urgency. Recommendations which are considered as most important are those which lay the main strategic directions for future support, and which specify essential conditions for successful development of the private sector (R1, R2, R3.1, R3.2, R4.1, R4.2, R4.3 and R5). In terms of urgency, the position of R3.1 and R3.2 reflects the fact that they could be put in practice in the relatively short term. The position of recommendations such as R4.1, R4.2, R4.3 and R5 shows that these recommendations may face institutional, administrative and other challenges which may delay their implementation. R1 and R2 are presented as for the longer term as they do not need much immediate action, in the sense that recent policies and strategies go largely in the recommended direction.

Figure 5 2 – Prioritisation of recommendations



5.1 On the EU's overall role in terms of PSD support

Recommendation 1 : Continue to be a provider of a wide range of different types of PSD support

Based on EQ 1, and Conclusions 3, 7

As a key partner of the countries in which it intervenes, the EU should continue offering a wide range of possible types of PSD support, so as to make sure it can answer to the priorities the partner country is facing. It should also communicate its positioning as a generalist player more widely.

As explained in Conclusion 3, the general EU approach to PSD support was nearly all-encompassing. Indeed, a wide range of activities spanning the macro-, meso- and micro-levels were eligible for EU support.

One could argue in favour of a more specialised approach and this was indeed done by the 2005 Evaluation, which called for a better prioritisation of the different areas of intervention. At the time the Commission had already answered that it wished to maintain a full range of instruments to answer to different situations.

The current evaluation also states that this choice of maintaining a wide range of eligible types of support enabled responsiveness to country needs and partner government priorities (see C3) and hence alignment with country strategies (C7).

Furthermore, the EU's value added laid, among other things, also in its capacity to build long term partnerships, based on its continued presence, its substantial financial weight and the fact that it was perceived as less tied to specific economic or political interest (C3).

Bearing in mind this partnership approach, the current evaluation recommends maintaining the approach of offering a wider range of eligible PSD activities.

It also recommends that the EU communicates more explicitly both internally and externally on this approach. Indeed, the reports shows (C3) that despite the substantial support provided by the EU with respect to PSD, the EU was not recognised by stakeholders as an important actor with respect to PSD support. Also among EU representatives involved with PSD support, it was not always clear what kind of actor the EU wished to be when supporting PSD.

Finally, it is important to note that this recommendation remains compatible with an approach that aims at making sure that the Commission's support contributes to a maximisation of the development impact, including through prioritisation, as explained in section 5.2.

Recommendation 2: Continue to embed support in the wider context of cooperation and reserve the option not to intervene or align

Based on Conclusions 6, 7

The EU should continue ensuring that its PSD support is embedded in the wider, non-technical context of cooperation with a country, and continue to reserve for itself the option of refraining from alignment or of not intervening when the conditions are not right.

As explained in Conclusion 6, the EU when providing support to PSD did not have a merely technical approach to this support, but embedded it in the wider context of its cooperation with a specific country. Often this context contributed to moulding the PSD support itself. The evaluation viewed this as a positive aspect, the EU being much more than a provider only of technical support, aiming at development effectiveness so that in some cases broader considerations should and do prevail over merely technical aspects.

Furthermore, as highlighted in Conclusion 7, in line with the Paris, Accra, and Busan Declarations, the EU generally strove for alignment as a general rule, but also reserved for itself the option not to align when the context called for such positioning (for instance when the EU could not agree with some of the policy choices made by the authorities of a specific country). In such cases, and with a view to ensuring the legitimacy of the EU support, it is best to suspend support for PSD.

The evaluation also notes that embedding PSD support within the country context is in line with the current EU development policy agenda. The “Agenda for Change” (2011) explicitly recommends that EU development assistance should be allocated according to country needs, including “economic and social/human development trends and the growth path as well as vulnerability and fragility indicators.”³⁴

This recommendation basically calls for the EU to maintain an approach that is broader than merely technical, aiming at the effectiveness of the cooperation as a whole. This means that alignment should remain the priority and that all means (notably policy dialogue) should be deployed to ensure that the Commission is on the same track as the national authorities. In some cases it might be not possible or desirable to align, notably when there is no strategy to align with or when there is a clear disagreement with the Commission on the PSD policy to be followed or on overall policies in the country. In the first case the Commission might still decide to provide PSD support; in the second it might decide to suspend all PSD interventions.

³⁴ European Commission, *COM(2011) 637: Increasing the impact of EU Development Policy: an Agenda for Change*, 2011, p. 9.

5.2 On the contribution to a maximised developmental impact

Recommendation 3: Make sure that conditions for maximising the impact of PSD support are fulfilled

Based on Conclusion 8, 10, 11, 14

The EU should ensure that the conditions for maximising the impact of its PSD support are fulfilled.

Several conclusions show that the EU did not ensure that all the conditions for maximising the impact of its support were fulfilled, *viz.*:

- Conclusion 14 states that results suffered from a lack of prior analysis and focused on the delivery capacity of intermediary organisations;
- Conclusion 8 states that in the different countries EU support responded to needs but did not deploy a strategy aimed at maximising the developmental impact through prioritization and focusing on VA and synergies with other actors and other types of support;
- Conclusion 11 underlines the efforts made in terms of monitoring and evaluation, but also highlights some weaknesses in this respect that might also be one of the factors explaining shortcomings in terms of CCI and the Decent Work Agenda, as noted in Conclusion 10.

Therefore the evaluation suggests several ‘sub-recommendations’ for the implementation of EU PSD support in a specific country or region.

R3.1 Provide mechanisms to ensure that technical analysis and consultations have been conducted prior to providing support for specific PSD interventions

The 2010 Guidelines are already explicit on the need to conduct technical analyses before providing support (for instance market surveys and identification studies prior to the implementation of support for fostering enterprise competitiveness), and the Commission’s Quality Support Groups were already tasked with checking that the relevant guidelines have been applied. However, the evaluation has shown that such analyses were often lacking. Therefore it is recommended that mechanisms be provided to ensure that the provisions of the Guidelines are enforced. This should also be the case when the EU channels its funds through another organisation or when it decides to tap into strategies defined by the Government. In those cases it should verify whether such analyses have been conducted by the mentioned counterparts.

R3.2 Ensure support is prioritised, targeted, built on the EU’s VA, and maximises synergies with other actors

As mentioned under R1, it is recommended that a broad range of PSD activities remain eligible for EU PSD support. With a view to avoiding support in a specific country or region being *ad hoc* or scattered, even when responding to needs, it is important to ensure

that PSD interventions are part of a comprehensive strategy at country level, which clearly articulates and prioritised the different PSD interventions with a view to maximising their impact. This should be displayed clearly in the intervention fiche.

It is also important that when providing PSD support the EU ensures that it builds on the VA it has compared to other MS and actors. As noted in Conclusion 2 above, the evaluation finds the following aspect of EU PSD support to be of added-value (both realised and potentially):

- financial weight of the EU's support;
- the continued presence in third countries and ability to build long-term cooperation partnerships;
- the fact that the EU is perceived as less tied to specific economic or political interest than some other donors ;
- the potential for widening the range of financial services offered to the private sector via the EU investment facilities and blending mechanisms;
- the Commission's trade mandate and its knowledge of compliance with EU market requirements;
- the ability to transfer good practices from within the EU when providing technical assistance in third countries.

It is important that the EU's areas of value-added are also made explicit in the CSP/RSP.

Finally, and this is closely related to the previous point, it is essential that EU support is provided in synergy with support provided by other actors. Such synergies have rarely been observed. CSP/RSP should describe how such synergies will be obtained and go beyond a mere description of the planned objectives and activities of the different actors. During implementation regular meetings with the other donors in the field should be undertaken, not with a view to exchanging information but rather to continue maximising synergies. It is of course important to note that this is not the sole responsibility of the Commission (and thus of EUDs), but also depends on the willingness of the other actors.

R3.3 Promote and facilitate coordination between EU support mechanisms for PSD

As explained under Conclusion 4, most EU support mechanisms had their own logic and mode of operation, with little internal coordination. The portfolio of PSD support in a country often stemmed from a juxtaposition of activities rather than from a structured PSD strategy with logical sequencing and distribution. The absence of clear communication on the overall EU architecture for support to PSD also confused many stakeholders, including Commission staff.

Therefore it is recommended that the EU promotes and actively facilitates coordination and synergies between EU support mechanisms for PSD, notably by:

- Ensuring active coordination and synergies between the different support mechanisms (country-level cooperation, regional operations, CDE, blending mechanisms, etc.) e.g. when designing the operational approaches to country-level PSD strategies and during implementation; and clarifying the scope and responsibilities where overlaps were observed (e.g. BizClim/ProInvest/CDE; FEMIP/NIF);

- Communicating clearly and comprehensively on the EU's range of mechanisms for supporting PSD, at global, regional and country levels. Interfaces should be user-friendly (web sites, documents, brochures, etc.) and adapted to the needs of the different target groups (enterprises and other private sector organisations, Government actors, EU staff, other EU actors, etc.). This would increase the potential for identifying opportunities and synergies, for both internal staff and external parties.

R3.4 Ensure that the expected results are well defined and targeted, baselines defined, and evaluations conducted, including for cross-cutting issues and the Decent Work Agenda

The EU took different initiatives with respect to monitoring and evaluation (M&E) but weaknesses remained in this respect. As detailed in Conclusion 12, M&E failed to provide a clear view of the results achieved, and even more of the impact, obtained by PSD interventions overall. This owed for instance to the lack of definition of expected results at the level of end beneficiaries ('result' or 'impact' versus 'output' levels), or the lack of baseline data and (measurable) target levels.

We recommend therefore to reinforce the existing M&E system and guidelines, but in particular to enforce its implementation.³⁵ It would require the following in particular:

- Precisely defined expected "results" and "impacts" for each individual intervention, in terms of "pure" PSD objectives but also of crosscutting issues and the Decent Work Agenda;
- Objectively verifiable indicators with baseline data and target levels over time. Indicators should also be defined in particular at the level of results and impacts on end beneficiaries. As a matter of example, indicators at the 'intermediate impact' level may relate, depending on the objectives of the intervention, to increase of exports of targeted enterprises/sectors, increase of turnover in targeted enterprises/sectors, increase of employment in targeted enterprises/sectors, etc.
- A system enabling consolidation of key findings on results (and other criteria/dimensions) from evaluations of individual interventions.

In addition, we recommend that the EU examines the possibility of conducting country-based PSD evaluations in the main beneficiary countries, on the combined efforts of different EU support mechanisms. These evaluations would ideally cover the main efforts from other parties also, such as national authorities, donors, and other (private sector) sectors, in a joint evaluation exercise with those actors. This recommendation is in line with the principles of both the 2005 Paris Declaration on Aid Effectiveness and 2011 Busan High-Level Forum.

³⁵ The evaluation recognises that many elements of the list included herein are already part of the EU's standard practice in development cooperation. Nevertheless, as noted in the Answer to Evaluation Questions above, many interventions reviewed in this evaluation lacked baseline data for expected results such as job creation, for instance. Ensuring minimum standards in this regard is therefore crucial if results-oriented evaluation is to be implemented across the EU's PSD portfolio.

5.3 On expertise for implementation

Recommendation 4 : Build on existing knowledge and expertise

Based on Conclusion 5, 6, R1

When providing support to PSD, the EU should make sure that it uses as much as possible the expertise that is already available in-house, but also that it uses expertise available elsewhere

Several elements led to this recommendation:

- The evaluation shows (C5) that in terms of expertise and knowledge management in general the Commission did not use and develop its potential, creating a discrepancy between the financial weight of the EU's support to PSD and the means it made available to implement that support.
- The evaluation recognises (C6) that the European Commission is at once both a political and technical institution and that EU support to PSD has benefitted by being placed within the broader political context of country cooperation. Making direct comparisons of technical expertise levels between EU institutions and bilateral development agencies is therefore an inappropriate undertaking.
- The evaluation recommends (R1) that the EU continues to be a provider of a wide range of eligible PSD activities.

Within this context it is essential that the EU develops approaches to make sure it can rely to the extent possible on sound PSD expertise to implement its support. In this regard, three sub-recommendations are proposed:

R4.1 Provide mechanisms and tools to ensure that existing knowledge of PSD support in EU DGs and in EUDs is shared and made available

As explained in Conclusion 5, the potential present within the EU in terms of useful knowledge for PSD support has not been fully exploited.

The first lead in this respect is to valorise as much as possible the expertise that is already available within the house. Therefore, in lieu of a “knowledge-hub approach”, the evaluation recommends that the EU seeks to “join-the-dots” of its existing expertise, by enhancing the knowledge-sharing practices between the many different EU bodies that possess PSD knowledge and experience – including both the EUDs and the full range of DGs with PSD expertise. The aim would therefore be to capitalise on current knowledge and lessons learned in a more proactive manner, in order to provide project officers in the EUDs with the most comprehensive pool of available knowledge with the current resources.

Such potential is available within different DGs, including those working with the private sector within Europe. But the evaluation shows that this expertise has not really been made available for External Action programmes. This is a missed opportunity.

Similarly, many EUDs have accumulated substantial expertise and experience through their PSD support programmes over the years, but limited mechanisms or tools have existed to ensure that this expertise is shared.

In this respect, the evaluation recommends that the EU reviews its knowledge-sharing approach for PSD, with a view to developing more tools for sharing practical lessons learned at project officer level between different DGs and EUDs from different countries and regions. Such tools might include, *inter alia*:

- Peer learning events targeting project officers at EUDs;
- Regular meetings (e.g. 'brown-bag lunches' at HQ level bringing together project officers from different DGs;
- Periodic dissemination of best practice examples to project officers within EUDs;
- Building and maintaining a user-friendly database of best practice examples of EU PSD support made available to EUD project officers.

By way of example, the peer learning events such as the EU/ACP Microfinance Programmes' Peer Learning Event in 2008 provided a powerful tool for sharing ideas between peers working in different organizations, countries and regions. The Commission could organize regular peer learning events across the spectrum of PSD thematic areas, with participants drawn from DEVCO, DG ENTR, DG TRADE, EUDs, and private sector representative organizations. The focus should be on sharing best practices from successful PSD projects amongst the peer group, with practical lessons learned being collated in e-publications to be disseminated across the broader stakeholder community. The evaluation specifically recommends that such knowledge-sharing activities target the project officer level, in order to help those implementing PSD projects overcome common challenges and benefit from lessons learned in other EUDs or Commission units, thereby helping to maximize the effectiveness of the EU's PSD support across its diversity of activity types and instruments (as per Recommendation 5).

R4.2 Devise and apply a specific HR policy to ensure that EUDs have sufficient staff with the required technical knowledge

Based on Conclusion 5 it is suggested that EUDs supporting PSD:

- ensure they recruit staff with the appropriate technical expertise;
- ensure that time and resources are available for the staff to attend relevant training courses.

R4.3 Build on the expertise of partners where they have a clear comparative advantage

In line with the focus in R4.1. on making the most of the available means to increase the PSD expertise within the Commission, it is also recommended that the Commission considers possible ways to build on the expertise of partner organisations that have clear competences in particular areas. Two avenues are worth considering in this regard:

- Increasing the proportion of funds either directly channelled through other donor organisations with high-levels of PSD expertise or delivered in partnership with such organisations;
- Finding ways to second PSD experts from other donor organisations to work within the Commission.

A notable example of how such options can work within the Commission would be the EU/ACP Microfinance Programme, which channelled a portion of its fund through a contribution agreement to CGAP as well as seconding a CGAP expert to lead the Programme during the initial phase. The Programme's final evaluation found both aspects positive with regard to the impact on Commission expertise in microfinance. This evaluation recommends that similar options are explored for PSD with respect to other donor organisations in possession of high levels of thematic expertise and/or an interest in partnering with the Commission in delivery of PSD support.

Recommendation 5 : Facilitate collaboration with private sector organisations

Based on Conclusion 15

Tailor support instruments to facilitate more direct involvement of private sector organisations as implementing partners, including by simplifying rules and procedures for dealing with enterprises in order to avoid counter-productive effects.

The Commission's global approach of supporting the private sector through the public sector often affected the effectiveness and efficiency of its aid, as explained in Conclusion 15. Whilst the evaluation recognises that it is important to maintain involvement of partner country authorities, it is recommended that the EU aims to increase private sector involvement in its PSD interventions. This would include targeting increased involvement of private sector organisations, such as private business support organisations or consultancies for business development services, as implementing partners in place of public sector organisations. It would also favour ownership by private sector organisations of mechanisms aimed at supporting their members, and hence their sustainability.

The Commission should also aim to avoid counter-productive effects from its standard rules and procedures. These often proved to be too complex and onerous for targeted enterprises (see also Conclusion 15). It is therefore recommended to define rules and procedures specifically for dealing with private sector organisations as beneficiaries and as implementing partners, or at least to allow amendments to the standard rules and procedures. These should be simple and flexible enough to deal with market realities and dynamics of the private sector. They should also be made as user-friendly as possible (available in the local language, avoiding EU jargon, etc.) so as not to become an obstacle for the less sophisticated SMEs, in particular when these are the most in need of support.

5.4 On support in middle income countries and on transversal issues

Recommendation 6: Review support in middle-income countries to enhance differentiation and adapt to challenges presented by different income levels.

Based on Conclusion 1, 6, 7, 8, 13

The EU should consider developing specific guidance for EUDs in middle-income countries. Such guidance could include consideration of the specific opportunities faced by the private sector in middle-income countries as well as the challenges that such countries present donors and the types of aid projects that have greater potential impact in middle-income countries than they do in low-incomes ones.

As explained in Conclusion 13, the EU's PSD support had notable strengths in middle-income countries (MICs). In particular, when compared to low income countries, support in imminent, recent and established MICs generally demonstrated stronger policy dialogue, alignment and partner country commitment as well as a clearer focus on specific EU development goals. Specific challenges relating to donor coordination were also noted in emerging MICs, due to the shifting dynamics created by bilateral donors phasing out of development assistance in order to move towards trade cooperation.

In light of these specificities – and in line with the EU's approach to embedding PSD support within the broader country cooperation framework, as noted in Conclusion 6 – the evaluation recommends that the EU reviews its approach to PSD support in MICs, with a view to identifying strengths and weaknesses and then optimising support on this basis. Consideration should be given to providing specific guidance for PSD to EUDs in MICs, both established and emerging. Such guidance could include an outline of both the needs and opportunities for the private sector in MICs, the specificities of the EU's role in providing aid in MICs, and the types of projects with particular potential in MICs as opposed to low income countries (LICs). Specific MIC-focused guidelines could also ensure that EU PSD interventions in MICs are designed in light of the most recent thinking on development aid in MICs. Systematically tailoring support in MICs on the remaining “pockets of poverty” by prioritising support to enterprises within disadvantaged communities,³⁶ for example, would bring the EU's approach into line with recent studies on the continued need for development aid targeting poverty reduction in MICs.³⁷

Moreover, this recommendation is in line with the current EU development policy framework, which explicitly emphasises the need for differentiated development

³⁶ Such practice was indeed observed by the evaluation in South Africa, where support was often targeted towards historically disadvantaged persons, in line with the Government's priorities. In Vietnam, however, several commentators from other donor organisations noted that the EU was not taking a similarly targeted approach, no doubt due to the emergence of Vietnam as an MIC after the design phase of the PSD interventions studied in the evaluation. The suggested MIC-focused Guidelines might be provide an opportunity for the EU to standardise good practices across all MICs and prepare EUD staff in emerging MICs ahead of time.

³⁷ C.f. Glennie, J., “The role of aid to middle-income countries: a contribution to evolving EU development policy”, *ODI Working Paper 331*, 2011.

partnerships in order to achieve maximum impact and value for money.³⁸ The Agenda for Change recommends, *inter alia*, that the EU engage in “comprehensive political and policy dialogue with all partner countries” to “define the most appropriate form of cooperation...policy mix, aid levels, aid arrangements and the use of new and existing financial tools, and building on the EU’s own experience in managing transition”.³⁹ It is further noted that this may lead to some countries receiving less grant-based aid and more in the way of loans or technical cooperation, including a specific recommendation in selected countries to deploy a “higher percentage of EU development resources...through existing or new financial instruments, such as blending grants and loans and other risk-sharing mechanisms, in order to leverage further resources and thus increase impact”.⁴⁰

The evaluation recommends that the EU places particular emphasis on this principle with regard to its PSD support, for the following reasons:

- The private sector landscape in MICs is qualitatively different from that present in LICs including, among other things, the increased availability of private investment, both foreign and domestic. This difference should be factored into the EU’s support for investment promotion activities, as well as placing extra emphasis on the potential for using EU aid to leverage private sector resources for increasing access to finance for private sector development in MICs.
- The inter-linkages between PSD and trade-related assistance have particular importance in MICs, where the EU is continuing to provide development assistance whilst bilateral donors are moving towards trade cooperation, e.g., South Africa and Vietnam. Coordination of PSD support with partner countries is therefore of particular importance in MICs.
- As noted under the Evaluation Question 3, the range of tools used by the EU for PSD support is particularly diverse, with grant-based aid being supplemented by blending of grants and loans (e.g., in the NIF and LAIF) or the use of grants for other purposes (such as loan guarantees in the ACP IF). Differentiation in this case may entail a greater use of blending instruments for PSD support in MICs compared to a greater reliance on grant-based support in LICs.

Recommendation 7: Ensure employment impact is considered through each stage of the project life-cycle

Based on Conclusion 9, 10, 12

The EU should ensure that, where appropriate, employment effects of PSD support and employment needs resulting from trade agreements and changes in the international environment, are both factored into project identification and design. Specifically employment targets, where used, should be constructed with baselines and verifiable indicators to allow monitoring of employment evolutions over time.

³⁸ European Commission, *COM(2011) 637: Increasing the impact of EU Development Policy: an Agenda for Change*, 2011.

³⁹ European Commission, *COM(2011) 637*, 2011, p. 10.

⁴⁰ European Commission, *COM(2011) 637*, 2011, p. 8.

As noted in Conclusion 9, the EU strategy documents and guidelines now recognise the importance of PSD to employment creation, and the necessity to take employment into account in PSD programmes. Indeed the 2010 Guidelines explicitly state that “employment issues clearly need to be taken into consideration in [trade and private sector development] programmes”⁴¹. However, the evaluation also concludes that the effects of PSD support on employment creation were rarely mentioned and, particularly at EUD level, employment creation activities were often dealt with by social affairs units whilst PSD was the remit of economic development units, with little interaction seen on a project-by-project level.

In light of these conclusions, the evaluation recommends that the Commission seeks to increase the utilisation of clearly defined and benchmarked employment targets for PSD projects where this is a relevant issue, as well as verifiable indicators and a monitoring and evaluation system that enables the tracking of such indicators over time, including after project closure.

Recommendation 8: Improve communication on the EU's strategy with respect to PSD support

Based on Conclusion 1, 2, 3, 4

The EU should improve its communication on the role it wishes to play in terms of PSD support and on the instruments that are available in this respect. This communication should target EU representatives and wider stakeholders.

Several conclusions indicate that the EU did not have a clear image, both within and outside EU institutions, in terms of its role as a provider of PSD support, its weight in this respect and the instruments it had at its disposal to provide such support:

- Conclusion 1 highlights the important financial weight of the EU's PSD support as well as the diversity of interventions funded, but also underlines that this is generally not recognized;
- Conclusion 3 shows that the EU opted for a ‘generalist’ role in terms of the provision of PSD support, but that this role was not so clear both within and outside the EU institutions. This might also explain why stakeholders had different views on the EU's VA with respect to PSD support (conclusion 2);
- Conclusion 4 shows that there was some confusion among stakeholders (again both with and outside the EU) in terms of which instruments were available for PSD support.

Therefore it is recommended to establish a clearer communication both at Headquarter level and in the countries of intervention on the fact that the Commission opts for a ‘generalist’ role, that it has substantial experience with respect to providing funds for PSD support and that it is equipped with an appropriate range of instruments to provide such support.

⁴¹ European Commission, Trade and Private Sector Development Reference Document no.10, 2010, p.27.

Appendix: Full answers to evaluation questions

This Appendix presents the full answers to the ten Evaluation Questions in further detail to the summary boxes presented in the Main Report Section 4. Three different levels have been used, providing three levels of reading:

- **Answers** to each Evaluation Question (EQ) in the form of **summary boxes**;
- **Findings and analysis** on which each answer is based, as provided in the remainder of the text with indications of the Judgement Criteria (JC) on which they are based. Appropriate reference is also made to the analysis made within the framework of the desk and field phases (Annexes 3-7);
- **Facts** on which the findings are based, as provided in the Data Collection Grids for the general-level data collection and for the meta-analysis (in Annexes 3 and 4). They consist of specific information on assessment at the level of the Indicators (I) under the EQs and JCs to which the different sections of this chapter refer. In addition, results of the CSP/RSP review (Annex 5) and of the EUD survey (Annex 6) are directly provided in each EQ when relevant.

EQ 1 on Evolution of Commission policies and programming

To what extent did the Commission's PSD strategy and programming take into account the recommendations of the 2005 evaluation and the evolution of the overall private sector environment?

Commission efforts to ensure that the recommendations of the 2005 Evaluation were taken into account (JC 1.1)

At Commission Headquarters (HQ) level the evaluation was one of the sources used during the reflection on the Commission's PSD support that ultimately led to the revision of the PSD Guidelines in 2010.

- A first element used in this respect was the *'fiche contradictoire'*. This document is used by the DEVCO Evaluation Unit for each evaluation it conducts. It lists the recommendations in a shortened form, collects the addressees' responses and reports on the actual follow-up to the recommendations one year later. As shown in Table A1 below, *the Commission expressed its agreement with most of the recommendations of the 2005 PSD evaluation in the corresponding 'fiche contradictoire'*.
- Furthermore the *revised guidelines issued in November 2010⁴² (hereafter, the 2010 Guidelines) make reference to the 2005 Evaluation* and have taken on board several of its recommendations (see under JC 1.2 for examples), notably through the thematic reviews on the Business Enabling Environment and on Business Development Services.
- *Several Commission representatives* met confirmed this use of the 2005 Evaluation.

However, with the exception of the "fiche contradictoire", there was no specific and systematic approach to using the 2005 Evaluation, despite some initiatives:

- The 2005 Evaluation was mainly used at the initiative of HQ staff. Interviewees explained that, apart from the *'fiche contradictoire'* tool which is compulsory for all evaluations, *no additional formal and specific procedure was in place to ensure the follow-up of those recommendations endorsed by the Commission.*⁴³
- However Commission staff highlighted the fact that the recommendations of the evaluation were mainstreamed through the internal quality assurance process (QSG, also training and related guidelines). Similarly *dissemination of the evaluation recommendations* to those responsible for programming and design *was done indirectly and not through a pro-active process* designed to ensure that recommendations endorsed by the Commission were widely broadcast and taken on board.⁴⁴ More specifically the 2005 evaluation was made publicly available on the

⁴² European Commission, *Trade and Private Sector Policy and Development. Support programmes financed by EU external assistance*, November 2010.

⁴³ For example, EUD staff interviewed during the field phase were not aware of any mechanism to ensure that new interventions were designed in line with recommendations of the 2005 evaluation.

⁴⁴ Whilst the evaluation views the absence of a formal dissemination mechanism as a useful indicator of the degree to which the evaluation was taken on board for future programming, it should nevertheless be recognised that such actions are far from a sufficient means with which to ensure that recommendations are taken into account. Indeed, adoption of recommendations within future guidelines and training activities are potentially more important. See JC1.2 for more on this point.

DEVCO (at the time AIDCO) evaluation website and, as mentioned above, in 2010 a number of the evaluation's recommendations were indirectly taken on board through the 2010 revised Guidelines.

Commission representatives in charge of PSD matters were in general aware of the existence of the 2005 evaluation, but less of its content, viz.:

- Commission interviewees in charge of PSD matters at HQ were generally aware of the 2005 evaluation;
- Country visits showed that several EUDs were aware of the 2005 evaluation, but not so much of its contents and recommendations;
- CSPS/RSPs rarely refer to the evaluation: only two of the 20 CSP/RSPs reviewed for the second programming period (i.e. after the evaluation was made publicly available) refer to the 2005 evaluation.

Taking into account specific recommendations of the 2005 evaluation (JC 1.2)

Table A1 below summarizes the different recommendations as they appear in the “*fiche contradictoire*”, also indicating the extent to which the Commission agreed with them and providing an assessment on how far they were taken into account.

Table A 1 – Taking into account the recommendations

RECOMMENDATIONS	EC RESPONSE	IMPLEMENTATION	REFERENCE
A. Recommendations at Strategy level			
A1: clarify the message conveyed by the strategy	Agreement		EQ 1 & EQ 2
A2: prioritise the various areas of intervention	Partial agreement		EQ 1 & EQ 2
A3: when updating the COM(2003)267 and the Guidelines, keep in mind their different function	Agreement		EQ1
A4: increase internal ownership with a view to reach a unique and common Community vision on PSD support	Agreement		EQ1
A5: PSD aid effectiveness can be increased through the sharing of experience	Agreement		EQ10
B. Recommendation at operational level			
B1: adopt a methodological procedure for selecting areas of intervention in a country	Agreement		EQ1 & EQ2
B2: maximise complementarities between areas of intervention as well as coherence	Agreement		EQ2
B3: design PSD programmes with a view to improving business sector competitiveness in a sustainable manner	Strong support		EQ6
B4: business environment: intervention (...) should be encouraged as long as there is sufficient government commitment	Agreement		EQ6
B5: Financial services: avoid meso- and microlevel interventions (...) unless in co-operation with other financial institutions	Agreement		EQ5
B6: BDS (...) should aim only at reinforcing the local BDS market, not at the direct delivery of services. BDS programmes should address market failures (...).	Agreement		EQ6

Recent developments, mainly the replacement of the 2003 Guidelines with the publication in 2010 of the Reference Document No. 10 ‘*Trade and Private Sector Policy and Development Support programmes financed by EU external assistance*’ (hereafter referred to as the 2010 Guidelines), **address in varying degrees of depth issues that relate to the recommendations of the 2005 evaluation** (even if the reference is not explicit). In addition, as mentioned under JC 1.1, Commission staff highlighted the fact that several initiatives were taken through the quality assurance process to mainstream recommendations.

With respect to the **five strategic-level recommendations**, the following emerges:

- ***The 2010 Guidelines provide elements of clarification on the role the Commission aims to play in private sector development and why this is an important contribution to the overall development objectives.*** The 2005 evaluation called indeed for a clarification (p. 61) on “*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*” and for a “*clear and sufficiently detailed explanation on the links between private sector development, economic growth, development objectives and, most of all, poverty reduction*”. In this respect the 2010 Guidelines underline the importance of the private sector in generating economic growth that in turn, through job creation and enhanced wealth, can lead to poverty reduction, depending on the patterns of growth and the distribution of income. It also highlights the importance of ensuring that policies for growth are accompanied by policies pursuing social and public service delivery. ***The second recommendation called for better prioritisation of the various areas of intervention, underlining the importance of identifying the areas in which Community support could better contribute to development of the private sector.*** In this respect the 2005 evaluation *advocates giving priority to interventions at macro level (institutional and regulatory reforms) and less emphasis to micro-level interventions (e.g. enhancing firms’ access to BDS), which should only be considered complementarily when the business environment is judged to be adequate. Low priority should be given to interventions in financial markets.* Whilst some clear examples of focusing on the macro-level were observed⁴⁵, ***several elements indicate that the recommendation for better prioritisation was not fully taken on board by the Commission, partly because the Commission did not entirely subscribe to it*** (see below).
 - In the “*fiche contradictoire*” the Commission welcomed the importance of setting priorities but at the same time underlined that *‘the full range of instruments should remain accessible for response to different situations.’*⁴⁶ On the specific issue of financial sector interventions, it was specified one year later that the structure of collaboration with the EIB had been further developed and that, for the Neighbourhood regions and the ACP, division of labour ensured *‘that financial sector interventions are taken over by the EIB (for example through the ACP Investment Facility), reducing Commission intervention in the financial markets.’*⁴⁷ It also specified that in Asia the emphasis was being placed ***on the institutional framework and that more importance was being given to interventions at macro level.***
 - ***The CSP/RSP review suggests that in the second period (and thus after the publication of the 2005 evaluation), the Commission more often prioritised its PSD interventions (35% of the documents reviewed compared to 20% for the first period).*** The criteria used to prioritise interventions included a mixture of alignment to country needs and a prioritisation of macro or meso level activities.
 - When examining the trend, between 2004 to 2010, in the relative weight (i.e. as a share of the overall Commission’s PSD support) of funding for access to finance,

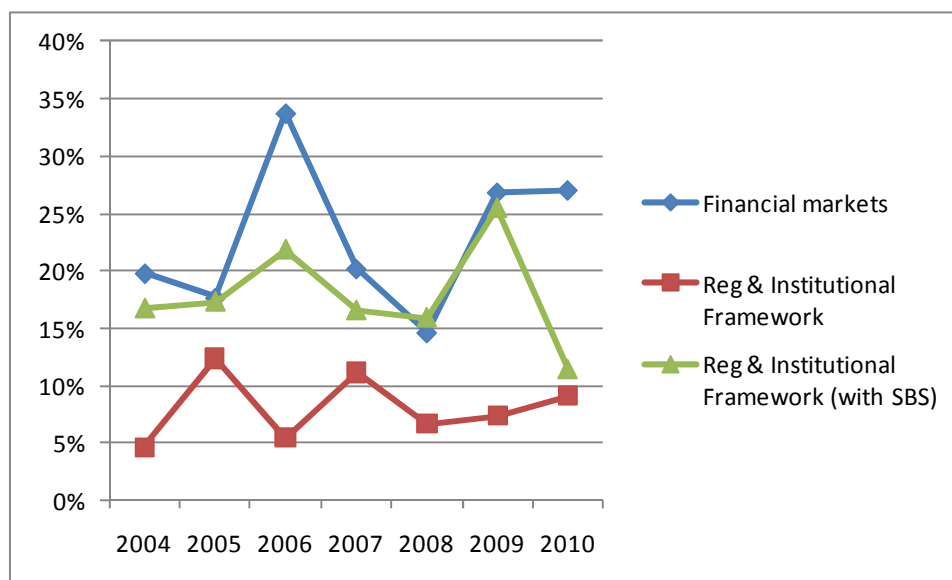
⁴⁵ E.g., the EU’s microfinance support pulled back from provision of credit lines to microfinance institutions in almost all circumstances, instead focusing on macro-level regulatory reform and meso-level capacity-building support. ADE for EC, *Final Evaluation of the EU/ACP Microfinance Programme*, 2012. Moreover, the sizeable contribution to institutional and regulatory reform, and the examples of successful macro- and meso-level interventions in other areas, e.g., access to finance, also support the view that the EU did prioritise macro and meso-level interventions over the evaluation period.

⁴⁶ EC, *Fiche Contradictoire, Evaluation of EC support to Private Sector Development.*, 2005.

⁴⁷ Ibid.

and of the Regulatory and Institutional framework (including whether or not an estimate of the SBS support was dedicated to this objective), the visible pattern gives no indication of any shifting of priorities (see Table A2 below).

Table A 2 – Evolution of some of the sector priorities over time



- The third recommendation concerned the updating of COM(2003) 267 and the 2003 Guidelines, and underlined the importance of keeping in view their different functions, notably that the Communication should define theoretical aspects and provide policy orientations, and that guidelines should be seen as operational support. The *'fiche contradictoire'* notes in this respect that the Guidelines would be updated in 2006. One year later it was noted that the Communication was still on track in its strategic policy orientations. At the time of this evaluation (2012) the 2010 Guidelines had been published, replacing the 2003 Guidelines as well as updating the strategic vision presented in the 2003 Communication. More details on the operational character of the Guidelines are provided under EQ 10. Shortly after the evaluation period closure, in 2011, the European Commission published the Agenda for Change document, which also goes some way to outlining the link between PSD and the EU's development objectives.
- The fourth recommendation aimed at increased ownership with a view to reaching a unique and common Community vision on PSD support. The *'fiche contradictoire'* notes the *"full agreement on the validity of the recommendation"*. It was recommended in this respect that EUD staff be involved and different tools be used to disseminate the updated strategy. Interviews and the *'fiche contradictoire'* indicate that ***initiatives have been taken***, such as training events and a restructuring of the EuropeAid Intranet Website (in 2007) with web pages on PSD and Microfinance, the use of a microfinance focal point, and the availability of in-house PSD expertise (and in 2005 the set-up of thematic unit on Private Sector Development, Trade and Regional Integration within AIDCO). However responses to the EUD survey indicate that ***a common Community vision on PSD support has not been reached yet, despite the above-mentioned initiatives***. Indeed, whereas 60% of respondents stated that the role the

Commission wanted to play in terms of PSD support was clear to them, 40% explicitly stated that it was not.

- The last strategic recommendation concerned the need to share experience with a view to increasing aid effectiveness, notably with EU Delegations. The Commission agreed with this recommendation and participated in different donor committees, but ***a specific network for sharing experience with EUDs has not been set up*** (see also EQ 10). As interviewees stressed, few in-house staff resources are available for organizing such a network.

Results are also mixed as far as the five **recommendations at operational level** are concerned. They are discussed further in the report under the EQs referred to in Table A1 above.

The Commission's awareness of the private sector environment and the impact on its strategies and programming (JC 1.3 & 1.4)

At HQ level the available literature on aid for PSD was used, but there has been no systematic or structured reflection to take into account recent changes in the private sector environment. Interaction with specialist PSD organisations did take place over the evaluation period:

- General documents on the Commission's support to PSD, such as the above-mentioned 2010 Guidelines, make regular reference to the available literature on aid for PSD.
- There has however been no systematic or structured reflection at general level within the evaluation period to take into account recent changes in the private sector environment (such as the BRICS, the financial crisis and the EPA). The 2010 Reference Document refers on several occasions to the EPAs. It contains little reference to the 2008 financial crisis⁴⁸ and does not mention the emergence of the BRICS. Consideration of the evolution of the international context and the new role of the PSD in EU development policy was however taken into account to a greater extent in the European Commission's policy documentation shortly after the evaluation period.⁴⁹
- Commission headquarters did maintain contacts with other specialist PSD organisations and donor groups, however, including most notably the Donor Committee for Enterprise Development and the Consultative Group to Assist the Poor.

At country level the Commission took into account the specific characteristics of the private sector context at national level, but little reference was made to developments on the international scene.

- The CSPs and RSPs, and their Mid-Term Reviews (MTRs), generally contain relevant information on the evolution of the private sector environment in the countries concerned. This is often directly linked to the specific characteristics of each country but sometimes also to overall trends, notably in the MTRs. Interviews conducted during country visits confirmed this concern.

⁴⁸ The document however specifies (pp. 130-131) that the problems developing countries are facing in terms of access to finance are aggravated by the global financial crisis, without further exploring the links.

⁴⁹ Notably in EC, *Agenda for Change*, 2011.

- A distinction can be made between different types of context with different impacts on the strategic choices made by the Commission:
 - In *MEDA countries the determining contextual factor was the existence of the Association Agreements* that shaped the type of PSD support the Commission provided in these countries;
 - The *“level of development” and specific history of the country were also at the heart of the strategic choices made by the Commission, notably in (new) middle-income countries:*
 - South Africa for instance is a middle-income country with a dual economy, little ODA (less than 1.5% of the budget), and a Government that has very clear positions on the strategies it wishes to follow. In this context the Commission decided to focus on the so-called ‘second economy’ by tapping into Government strategies in this respect and by aiming at developing innovative approaches with a demonstration effect, rather than aiming for a comprehensive strategy.⁵⁰
 - In Vietnam, EU PSD support was geared in part by the expected transition to the status of (lower) middle-income country and to membership of the WTO, combined with low levels of ODA and a Government with its own strategies. In a first phase (up until 2007), the Commission decided to support PSD within the evolving economy. In a second phase the Commission decided to phase out of PSD, judging that a sufficient number of other donors were present in this sector.
 - In some countries the EU’s support, including that for PSD, was in the first place shaped by the *need to deal with a specifically challenging political context*. A good example is the case of Ukraine where the EU’s support was challenged by the change of regime in 2010. Indeed, as of that time it has not been clear how far the national authorities are really supportive of PSD. Another example is Nicaragua where the Commission decided to suspend its Budget Support (which had some PSD indicators) because of lack of a consensus on the approach to follow.
- The evaluation found however that only *rare references were made to wider developments on the international scene* that might impact the PSD support:
 - Slightly more than half of the CSPs/RSPs reviewed (22/40) refer to one or other of the developments on the international scene; one-third of them explain how these trends have been taken into account in the strategy and programming exercises. (12/40)
 - In some countries the Commission’s approach to PSD can be linked to the emergence of the BRICS, but country visits suggest that this was not a strong trend:
 - Support to MEDA countries provide examples of how the emergence of the BRICS has been taken into account. In Morocco for instance support to the textile industry has been provided to enhance the sector’s competitiveness.

⁵⁰ The CSP 2007-2013 for South Africa explains briefly how the terms “first” and “second” economy should be understood (p. 7): *“The first economy is modern, capital-intensive and outward-looking. The second economy is, in the President’s words, “characterized by underdevelopment, contributes little to GDP, contains a big percentage of our population, incorporates the poorest of our rural and urban poor, is structurally disconnected from both the first and the global economy and is incapable of self-generated growth and development”.*

- The evaluation did not, however, find many examples of strategies taking into account the emergence of the BRICS, even though in some countries, such as South Africa, these elements played a key role.⁵¹
- Similarly, the evaluation identified some cases of pro-active adaptation of the Commissions strategies to the financial crisis, but these were rather the exception :
 - In South Africa, for instance, the financial crisis made it even more important to target employment and the second economy; in Ukraine, two projects were redesigned to make sure they could help address specific problems arising from the financial crisis.⁵²
 - Not many other examples were found but in some countries no specific initiatives had been taken despite notable effects (Nicaragua, Jamaica).
- Finally, stakeholders met rarely mentioned the EPAs, except in Jamaica.

⁵¹ Stakeholders in South Africa explained that, for a number of reasons, the South African authorities had a tendency to be oriented toward the other BRICS countries and to turn away from the EU, even if this still is its biggest trading partner.

⁵² The 2008-2010 project « *Strengthening of Ukrainian Financial Services Sector* » aimed to develop a financial sector strategy and clarify institutional competences. The final report in 2010 explains that changes in the environment required adjustments to the programme.

EQ 2 On Strategy

To what extent was EU support to PSD in partner countries part of a strategic approach geared to the overall objectives of EU External Policy, while aligning with the priorities of the country/region and maximizing its VA, including in terms of synergies with other actors and other types of EU support?

Extent to which the Commission geared PSD support towards overall EU external policy objectives (JC 2.1)

The Commission's overall Communications and PSD Guidelines link its support to PSD with its EU external policy objectives:

- This is explained in Section 3 of the present report, which presents the Commission's *Intervention Logic* in the field of support to PSD. It shows how the different activities were supposed to contribute to the above-mentioned objectives through a chain of expected results.
- In these documents *the objectives emphasized vary from one region to another*. While poverty reduction is at the heart of documents that concern the ACP region, documents on the MEDA region put more emphasis on integration into the world economy.⁵³

At country or regional level PSD support is also linked to one or more of the EU's external policy objectives, with a specific emphasis on 'integration into the world economy' and 'sustainable social and economic development', but less on poverty reduction (except in the ACP regions). Peace and security was only mentioned in a few cases. These findings are based on both the EUD survey and the CSP review, as shown in Table A3 below. For the survey percentages refer to the share of respondents that considered that there was 'a clear and direct link' between the support provided and the policy objective. With regard to peace and security, 30% of respondents stated that there was an indirect link, and 52% that there was a very distant link or no link at all. Country visits confirmed these observations. However the same sources show that the above-mentioned regional patterns were not always confirmed. The poverty reduction objective was found back in all regions, including in middle-income countries, although indeed not in MEDA countries. For example in South Africa, a middle-income country, the Commissions' approach was focused on poverty reduction (see also overleaf).

⁵³ The 2003 Guidelines already specified this difference in emphasis by region (p. 8): *'In all third countries, the private sector is an instrument for fostering development, but in the ACP countries its main objective is to fight poverty; in the Asia and Latin America region (ALA countries) the private sector contributes to supporting economic and social development; in the Mediterranean region its primary role is to help establish and support a free trade area. In the TACIS and CARDS regions it is an instrument for transition to a market economy and a security framework.'*

Table A 3 – Linkages PSD support and EU external policy objectives

EU external policy objectives	Survey	CSPs
Integration in world economy	65%	80%
Sustainable social and economic development	48%	63%
Poverty reduction	45%	30%
Peace and security	9%	0%

Linkages to EU external policy objectives are also explicit in the strategy documents relating to centralized operations or other EU funded initiatives, e.g.:

- The EU/ACP Microfinance Programme aimed at providing ‘a sustainable contribution to poverty reduction via the development of a range of financial services better responding to poor people’s needs’
- BizClim was launched ‘against a background of increased recognition of the impact of Private Sector Development as an engine of growth, consistent with the orientation expressed by the Cotonou Agreement’
- The CDE has the mandate, under the Cotonou Agreement, to support private sector development, and the Cotonou Agreement (2005 version) states in this regard that the priority is and remains poverty reduction and sustainable development.

There was however rarely a *clear articulation* to show how Commission PSD support was intended to contribute to pro-poor sustainable growth:

- The 2005 PSD Evaluation called (p. 61) for clarification on ‘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’ and for a ‘clear and sufficiently detailed explanation on the links between private sector development, economic growth, development objectives and, most of all, poverty reduction’.
- The 2010 Guidelines provide elements of clarification in this respect, notably by underlining the importance of the private sector in generating economic growth which in turn, through job creation and enhanced wealth, can lead to poverty reduction, depending on the patterns of growth and the distribution of income. They also highlight the importance of ensuring in this context that policies for growth are accompanied by policies pursuing social and public service delivery. Moreover at country level linkages remained rather indirect (through the generation of growth) and implicit.

Existence of explicit policies and guidelines to ensure that EU support to PSD is enshrined in a strategic approach (JC 2.2)

Several Commission policies and guidelines aim at ensuring that the EU’s support is part of a broader strategic approach:

- As mentioned above, at a general level *regional agreements overall incorporate PSD support into wider cooperation strategies with specific regions*. This relates for instance to the Cotonou Agreement and the EPAs for the ACP region, and the

Association Agreements with Mediterranean countries in the context of the Barcelona process.

- ***At country level the Commission aims at incorporating its PSD support into its overall strategy for the country, which in turn should be aligned with the priorities of the country itself.***
 - Commission activities in a given sector need indeed to be embedded in a CSP/RSP and NIP/RIP, which is a way of ensuring that it is part of and linked into a broader Commission strategy in a given country or region;
 - The Commission is also one of the signatories of the Paris Declarations and Accra Agenda for Action, where donors, including the European Commission, committed themselves to aligning with partner countries' priorities.⁵⁴

Strategic incentives and operational guidance on how to analyse the needs and design of the support are also provided. The 2003 Guidelines have a structured approach to each of the five fields of action grounded in, among other things, four key elements: 1) A description of the main features of the field of action (definition of concepts, its rationale, etc.); 2) the overall objectives to be pursued; 3) the suggested approach (types of programme that can be used); 4) guidance on how to implement the support (e.g. explaining the importance of making an analysis of needs and how to select an intervention instrument). The updated 2010 Guidelines have a similar approach, notably through the so-called "thematic reviews".⁵⁵

Less however is offered in these Guidelines on how to *prioritise* PSD support, whether in the sense of linking it to the other types of support provided in a country or region or – although this is present to a certain extent – in the sense of focusing on specific priorities in support to PSD. Except for linkages with trade, the 2003 and 2010 Guidelines do not really tackle the issue of how to link PSD support with support in other sectors. Moreover, although the Guidelines provide guidance on how to design and implement one of the fields of action (business development services), less is said on how to decide on what field of action to favour in what circumstances, or on how different fields of action interact, even if some elements of analysis are covered in this respect.⁵⁶ This indeed reflects the fact that the Commission chose not to fully implement the 2005 evaluation's recommendation to prioritise the macro-level of support.

⁵⁴ This means, among other things, that they should "*base their overall support – country strategies, policy dialogues and development co-operation programmes – on partner's national development strategies ...*" The importance of such alignment was already acknowledged and made in explicit in the 2003 Guidelines, i.e. before the signing of the Paris Declaration in 2005: "*The core idea that the recipient state should direct the country's development policy is increasingly accepted and advocated by donors such as the EC, the World Bank, the IMF, regional development banks and bilateral donors.*" (p. 22).

⁵⁵ As specified in the 2010 Guidelines (p. 28), "*they have been developed with a practical approach, for an operational use in identification and design of development projects and programmes*". "*They aim to assist Commission's cooperation sections in the EU Delegations at country level as well as HQ services in better understanding key elements of the topics and to provide them with a structured basis to lead or simply accompany their work in identification and formulation of development projects*". Each review has four sections, each dedicated to one of the following questions: what does the theme cover; what can be done; how can it be done; where to find out more?

⁵⁶ As an example the 2010 Guidelines tackle, among other things, the issue of the interaction between the business enabling environment and business development services.

Extent to which the PSD strategies and programming of the Commission took into account the national/regional priorities (JC 2.3)

Overall, the Commission endeavoured to achieve alignment with national or regional priorities, as attested by most of the country case studies and other sources used:

- For seven of the country visits (Algeria, Jamaica⁵⁷, Jordan, Morocco, South Africa, Vietnam, and Kenya), the team observed a broad consensus among stakeholders to the effect that the Commission's support was well aligned on the national priorities. The two other cases (Ukraine and Nicaragua) are discussed below;
- The meta-evaluation also provided additional evidence that confirmed such alignment or positive trends in this respect, notably through the Country Evaluations conducted recently for Egypt, Guyana and Jordan, where support for SMEs in the country is described as a showcase of joint policy development⁵⁸;
- Respondents to the EUD survey themselves stated that, for the period 2007-2010, in 52% of the cases the Commission's strategy was aligned, in 26% it was 'aligned with differences' and in 13% 'developed mainly by the Commission and/or donor Community'. For the period 2004-2007 the percentages were the following: 39%, 20%, and 6%.

There were also cases where the Commission did not align or only partially did so:

- In some cases, the Commission clearly chose not to align for *reasons of a lack of agreement with the Government on the approach to be followed*. This was the case for instance in Ukraine, where many of the stakeholders met considered that since 2010 Government statements were not rooted in any genuine will to devote efforts to PSD. In this context the Commission's response has been to support civil society organisations in their lobbying function and to work at regional level. In Nicaragua there was insufficient consensus between the Commission and the national authorities on the strategy to be followed.
- Nevertheless *there are also indications that PSD support was provided in cases where the country did not really prioritise PSD; in some cases there were also shortcomings in terms of alignment*.
 - The CSP/RSP review shows that the EU supported activities in most of the countries or regions reviewed. It was a focal sector in 58% and a non-focal sector

⁵⁷ For the second part of the period covered; the second part being more problematic in terms of alignment as explained below.

⁵⁸ 'EC support to SMEs is a showcase of joint policy development. It has led to the establishment of a private-sector development policy which is now fully managed and owned by the Government, and partly funded by the EC through sector budget support. It took ten years from the initial pilot project to the full transfer of the policy to the Government' (Eureval (for the European Commission), Evaluation of the European Commission's support to the Hashemite Kingdom of Jordan, 2007, p. 36). It also states (pp. 17-18) that 'the EC's strategy has been aligned on Jordan's priorities in a dynamic way. Notwithstanding that the EC has provided only a minor share of external assistance to Jordan, it has managed to accompany all major shifts in the Government's strategy during the period under study and, in addition, has sometimes contributed to putting new issues on the Government's agenda through a mix of systematic dialogue and technical assistance.' The Guyana Country Evaluation states that 'Commission interventions in private sector development are consistent with the GoG 58 strategy, with the Commission's strategy in Guyana and with the general aim of Commission support to private sector development' (ADE (for the European Commission), Evaluation of the European Commission's support to the Republic of Guyana, 2008, p. 36).

in 23% of the cases examined. However the same review also shows that CSPs/RSPs did not refer to PSD as part of a national strategy, although the same document mentions PSD as a focal or non-focal sector.⁵⁹

- Some evaluations highlight the lack of alignment, notably for centralized operations. As an example BizClim was often operating in countries and regions where PSD was not a priority in the NIP/RIPs, as acknowledged during programme design⁶⁰.
- Some country evaluations are also less positive about alignment. Although it only covers the beginning of the period covered by this evaluation, the 2006 Country Evaluation for Jamaica⁶¹ notes that *'Actions to support private sector development, for example, are not fully coordinated with [Government of Jamaica] policy towards this sector. In this case, the CSP has minimized the relevance of the fact that the Jamaican economy functions mostly with micro and small scale enterprises, and that the informal economy represents around 40% of the business in Jamaica. The PSDP, however, targets Medium, Small and Micro Enterprises.'*

Finally, several elements indicate that policy dialogue was not considered or used as a key tool to enhance private sector development:

- The CSP/RSPs reviewed provide little reference to such dialogue: 40% refer to policy dialogue, but only 8% link this policy dialogue to PSD.
- Only a minority of respondents to the EUD survey stated that policy dialogue has been a key tool for enhancing PSD, although there is a trend over time (15% for the first period and 37% in the second period). Other respondents stated that policy dialogue has not been used with that aim (respectively 24% and 19%) or that policy dialogue was not a key tool even if PSD was part of it (30% and 33%). In cases where policy dialogue was used, respondents stated that this contributed to generating results in terms of institutional and legislative reforms, for instance through the creation of a Ministry for Trade and SMEs, or because *'competitiveness matters are now prioritized in the Government national strategy 2010-2014'*.
- Stakeholders met during country visits confirmed this limited use of policy dialogue specifically for PSD.

⁵⁹ Examples are the CSP/RSPs (for both periods), of Nicaragua, Central America, Russia, but also for instance Syria in the first programming period.

⁶⁰ *"In the text of the Financing Agreement it was acknowledged that, during the 9th EDF, the EC envisaged concentrating the respective National and Regional Indicative Programmes (...) primarily on social sectors and physical infrastructure. Consequently, PSD could not be expected to be a focal sector in many NIPs and RIPs but rather constitute a cross-cutting concern. It was therefore important that relevant private sector initiatives were put in place at an all-ACP level, to ensure that those options clearly expressed in the Cotonou Agreement for PSD were duly taken on board"* (European Commission, *Final Evaluation Private Sector Enabling Environment Facility*, p. 9).

⁶¹ Integration (for the European Commission), *Evaluation of the European Commission's support strategy. Country level evaluation Jamaica*, 2006, p. 43.

Extent to which the potential VA of the Commission geared its decisions on the nature of the support it would provide (JC 2.4)

Official Commission documents (COM (2003) 267) and the 2003 Guidelines on PSD Support list what they consider the Commission's value added⁶² in intervening in PSD, albeit without providing detailed evidence of such value added:

- The purpose of (COM (2003) 267) is to set down proposals for the reorganization and restructuring of the Community's support for the development of the business sector in third countries on the basis of five considerations, including '*A clear understanding of what the Commission does best and what is best left for other to do*' (p. 5). The Communication then lists the five areas of intervention or instruments⁶³ on which to base business sector support, but it does not provide detailed justification for the statement that these are what the Commission does best.
- The 2003 Guidelines refer to the basic principles for external action, including also the need to identify plans for action in one of the five fields referred to above.

Evidence indicates that generally the Commission's potential value added for intervening in PSD was not what drove its support, viz.:

- Only a minority of CSP/RSPs reviewed (around 28%) refer to specific VA of the Commission's support, but even there the VA invoked is not so much PSD related.⁶⁴
- In nearly all the countries visited, the information collected did not suggest that the Commission's strategies were based on its VA for PSD.
- Country evaluations do not provide evidence that the Commission's specific VA has influenced its support.⁶⁵

There are examples of value added being invoked as a guiding principle, but these are rather the exception:

- The Commission's VA related to grant funding for capacity-building is invoked to justify its support for microfinance.⁶⁶

⁶² As defined in Joint Evaluation Unit' *Note to the file on the use of the Evaluation criterion*, the basic definition of value added should be understood as "*the extent to which the development intervention adds benefits to what would have resulted from Member States' interventions only in the partner country*". An additional element of definition in the same note is that "*the criterion is closely related to the principle of subsidiarity and relates to the extra-benefit the activity/operation generates due to the fact that it was financed/implemented through the EC*". Starting from these elements, the notion of value added is broadened here beyond the value added to EU Member States, to include more generally other actors intervening in the field of PSD support, most notably other bilateral donors such as SDC, USAID and JICA and multilateral organizations such as the World Bank Group (albeit with a specific emphasis on EU Member States).

⁶³ More specifically: overall policy dialogue and support; investment and intra-enterprise co-operation promotion activities; facilitation of investment financing and development of financial markets; non-financial services to SMEs, and support to micro-enterprises.

⁶⁴ Even in these cases reference is made for instance to the Commission's VA in supporting regional integration, which is only indirectly related to PSD. In the other cases the reference mainly concerns previous projects implemented by the Commission in the field.

⁶⁵ On the contrary, the 2010 El Salvador Country Evaluation for instance notes (p. 57): "*Much less evidence could indeed be found of any comparative advantage in having the EC intervening vs. EU MS, for instance in the areas of education, juvenile delinquency, basic services or SME. At the contrary, interviewees deplore the lack of capitalisation (mechanisms), institutional memory and continuity of staff at the EC, and hence the lack of thematic expertise and country experience, including in terms of relations with the government*".

- In two countries visited the Commission's support was clearly guided by its VA: in South Africa (where the Commission focused its support on innovative practices, with a view to generating a demonstration effect), and, to a lesser extent, in Morocco⁶⁷.

Extent to which the potential synergies of the Commission with other actors geared the design of its PSD support (JC 2.5)⁶⁸

The Commission made efforts to enhance coordination with other donors, but these rarely aimed at or resulted in real synergies; the fact that in some cases donors were strongly tied to their own national priorities constituted an important obstacle:

- The CSPs and RSPs reviewed present in a number of cases the support other donors will provide but not how synergies are expected to be generated.⁶⁹
- The country case studies allowed the following observations:
 - Often coordination consisted of exchange of information rather than building genuine synergies and division of labour (e.g. Kenya; in Morocco synergies were sought to some degree; in Jordan coherence was sought with EIB in the field of venture capital).
 - In some cases coordination was weakened by the lack of Government coordination, as observed during the country visits to Jordan and Algeria; in others coordination was prompted precisely by the lack of consensus with Government, as in Ukraine and Nicaragua.
 - In some countries, especially middle-income countries, the Commission's ability to enhance coordination was hampered by the fact that donors remained tied to their national priorities. This was observed for instance in Vietnam and South Africa, where some donors had tendency to leave the development perspective and a focus on poverty reduction so as to concentrate on enhancing economic cooperation.

Evidence of interaction with private sector actors is mixed: the majority of survey respondents (77%) stated that they conducted a dialogue with the private sector on a systematic or regular basis. However most of the country visits indicated that such interaction was rather scarce. For instance, for Jamaica and Jordan no analysis of access to finance, based on structured consultation and involvement of the private sector (such as banks and PSOs) was found.

As regards more specifically Commission – EIB interaction, there were examples of good coordination and synergies, but overall they were rather the exception.

⁶⁶ The 2012 *Final Evaluation of the EU/ACP Microfinance Programme* indeed concluded that *'the Programme responded to a real need for grant funding for capacity-building in the area of microfinance in ACP countries'* Among the reasons for setting up the Programme it refers to *'the demand from the ACP Group of States for EC (EDF) grant funding in microfinance.'*

⁶⁷ Namely providing Morocco with the benefit of EU best practices in the "mise à niveau" of enterprises

⁶⁸ Synergies with other types of EU support are tackled under JC 2.6.

⁶⁹ They describe in about half of the cases the support provided by other donors, but in less than 20% of cases how this relates to EU support; they mention in a maximum of 20% of cases that the choices made by the Commission were grounded in the objective of enhancing synergies with other actors (for the EIB the figure is around 8%).

- Interviewees within both the Commission and EIB stated that Commission–EIB cooperation at country level often remained limited and consisted mainly of formalities and exchange of information.
- This is also supported by documentary evidence. As an example, the mid-term evaluation of the EIB IF and OR operations concludes that *'the Commission and the EIB generally operated on parallel tracks with few synergies despite the potential benefits of such synergies for enhancing development impact'*⁷⁰.
- There were however also examples of good coordination and synergies. As mentioned above, in Jordan the action taken for the creation of venture capital funds was well aligned. As another example, in South Africa, although the overall amount of ODA was relatively low, the Commission and EIB were key players, representing respectively 25% and 20% of ODA. Representatives of both the Commission and the EIB considered there was close collaboration reflected in specific interventions, such as for the *'Risk Capital Facility II'*, in which the EIB acted as technical advisor.

Prioritisation of the Commission's PSD strategies and programming as part of a wider Commission strategy in the country or region (JC 2.6)

Overall the Commission's PSD strategy fitted into the wider Commission's country or regional strategies and priorities:

- Such linkages are indeed made explicit in 80% of the CSP/RSPs reviewed;
- This is also confirmed by the country case studies. For instance, in MEDA countries such as Algeria, Jordan and Morocco PSD support was linked to the country strategies and, beyond that, to the wider cooperation framework of the Barcelona Process and the Association Agreements. And in several other countries strategy documents highlight the linkages with the country strategy.

Synergies with other types of EU support remained limited:

- Linkages between centralized operations and the Commission's support to PSD through country or regional strategies were weak:⁷¹
 - This is evident from different documents consulted. The Microfinance evaluation, for instance, provides little evidence of a strategic attempt to incorporate programming into the Commission's wider country or regional strategies and priorities, or to match the Programme grants with beneficiary country needs in particular. The same applies to BizClim, which did not include in its selection procedure any criteria directly related to Commission priorities in the country or region concerned. Also the CDE evaluation states that opportunities for synergies with the Commission remained underexploited.

⁷⁰ ADE (for the European Commission), *Mid-term evaluation of the Investment Facility and EIB own resources operations in ACP countries and the OCTs*, 2010, p. 84.

⁷¹ These comments should be considered in light of the fact that, within the ACP region at least, the rationale behind centralised operations is subject to the Cotonou Agreement, which states that intra-ACP interventions are envisaged when national and regional action proves impossible or less effective. In that regard, the bar cannot be set too high regarding the targeting of synergies between centralised and national/regional programming.

- This was also confirmed during country visits, when stakeholders explained that interaction with centralised operations consisted mainly of exchange of information rather than enhancing synergies with country operations. Insufficient links with centralised and regional support were observed in Jamaica (EU/ACP Microfinance Programme), Jordan (FEMIP) and Morocco (FEMIP), where no global approach encompassing all EU funding vehicles was observed.
- In terms of synergies between EU PSD support and trade-related assistance, different situations were observed. In MEDA countries and in Jamaica there were strong linkages. In MEDA countries PSD actions were largely tailored to making the progressive free trade regime a success; in Jamaica PSD support also related to market liberalisation with a view to preferential access to EU markets.
- In some other countries (e.g. South Africa and Vietnam) there were no or only limited bridges and synergies between PSD support and trade policy activities. In some cases neither Commission staff in charge of PSD nor those in charge of trade were well aware of the kind of support provided by the other. Although there are exceptions as in Jamaica⁷², the evidence does not point to overall mainstreaming of PSD support in other sectors. Indeed an option could have been to take the opportunity provided by support for one specific sector (e.g. agriculture, health, energy) to strengthen the development of companies of this sector and to do that in synergy with PSD-related activities in the country generally, but this has not been observed.

Finally, although there were examples of specific approaches to ensuring prioritization of the PSD-related activities, these were rather the exception and support had a tendency to be scattered:

- About one-third of the CSP/RSPs reviewed explain how the different components of the Commission's PSD support have been prioritised. In Zambia, for instance, the CSP justifies prioritization of EU PSD support on the basis of recommendations from previous evaluations.⁷³ It also outlines a procedure for selecting EU interventions in the country (including those related to PSD).
- Some other sources also provide examples in this respect, such as the Guyana Country Evaluation, which states that *"a methodological procedure has been devised for the selection of the areas of intervention for PSD support in Guyana"*; including for instance a pre-feasibility study. The evaluation also notes that *"key constraints conditioning success in the areas of intervention have been identified through a participatory approach and have for the most part been addressed"*.⁷⁴
- However most of the country case studies showed that no information was provided on the manner in which the Commission's PSD activities have been prioritized. Interventions are generally considered relevant because they address needs, without making clear what they have been targeted on with a view to addressing the most urgent needs.

⁷² In Jamaica, actions in the sugar and banana sectors were geared to changes in the trade regime (end of preferential access; EU Sugar Protocol) and the privatisation process.

⁷³ European Commission, *Zambia*, CSP 2008-2013, p. 24.

⁷⁴ ADE (for the European Commission), *Country Evaluation Guyana*, 2008, pp. 37-38.

- In many cases the Commission opted for alignment, which rendered the support demand-driven in the sense of not having its own prioritisation, but rather following what the recipient Government defined as the most urgent priorities.

The promotion of CCIs and of the Decent Work Agenda (JC 2.7)

Despite some specific exceptions, CCIs were generally included as a formality at best; there was rarely a PSD-specific approach in this respect. The CCIs deemed most important and to which most attention was devoted were gender equality and environment, while combating HIV/AIDS received less attention in the specific context of PSD support.

- Overall the Commission programming documents provide little information on the linkages between PSD support and the above-mentioned cross-cutting issues. In the CSPs/RSPs reviewed, gender equality and combating of environmental degradation are most often mentioned (in about 20% of the cases examined), while linkages with HIV and good governance are hardly mentioned at all (each in two out of 40 cases).
- This was also confirmed by the country visits, although good practice has been identified in some cases⁷⁵. In South Africa the Commission – and the national authorities – devoted specific attention to HIV/AIDS and previously disadvantaged people, while in Nicaragua specific attention was devoted to the environment.
- For most CCIs, only a minority of survey respondents (see table A4 below) stated that there was a PSD-specific approach, the cases most often cited (36-50%) being gender, governance and environment. These three CCIs were also most often cited by respondents when asked to rate the importance of CCIs in the country they cover, regardless of whether they were effectively taken into account or not. Rather striking also is the fact that in answer to the latter question, 76% of respondents considered that combating HIV/AIDS was not as important or had only marginal importance as a PSD-related cross-cutting issue.

⁷⁵ The Country Evaluation for Jordan mentions for instance that (pp. 39-40): “Gender is both an important and a difficult issue in the context of Jordan. In this respect, the main challenges are in the areas of women’s rights and equal job opportunities. Gender has not been mainstreamed in a systematic way, but it has been given appropriate attention in at least two areas where the main challenges could be adequately addressed, i.e. support to civil society organizations and to SMEs. In both instances, substantial impacts have been achieved.”

Table A 4 – Main EUD survey results on CCIs and the Decent Work Agenda

	Existence of a specific approach		Rating of the importance of the CCI for PSD	
	Non specific PSD approach	Specific PSD approach	Critical or very important	Not so important or marginal
Human rights	78%	9%	50%	46%
Gender equality	44%	37%	69%	30%
Democracy	81%	4%	48%	50%
Good governance	39%	50%	91%	7%
Children's rights	43%	13%	37%	56%
Indigenous people's rights	37%	11%	26%	61%
Environment	32%	50%	85%	13%
Combating HIV/AIDS	48%	4%	18%	76%
Decent work agenda	19%	26%	57%	35%

- These findings were confirmed by interviews with Commission staff who explained that crosscutting issues were generally taken into account in the action fiches, but that little further action was taken on them and that little has been done in terms of monitoring the impact of interventions on such issues. This might also be due to a lack of clarity on how such elements should be taken into account during implementation.

The information collected indicates that contributions to the Decent Work Agenda through support to PSD were limited or marginal.

- The Commission has committed itself to contributing to the Decent Work Agenda and improvement of core labour standards and rights at work, as evident from different sources:
 - A specific Communication was published in this respect in 2006, in which the Commission defines the Decent Work Agenda.⁷⁶
 - This support includes specific provisions related to the EU's Neighbourhood policy and its Development Cooperation.⁷⁷

⁷⁶ *The Decent Work Agenda is based on an integrated approach covering productive and freely chosen work, rights at work, social protection, the social dialogue and the inclusion of the gender dimension. It therefore encompasses the "core labour standards" which form the minimum basis of social rights established by the international community and whose implementation the Union already supports. But the Decent Work Agenda implies more than that: it seeks not only to guarantee a minimum basis of rights but also to tailor development to values and principles of action and governance which combine economic competitiveness with social justice'. European Commission, COM(2006) 249 final. Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions. Promoting decent work for all. The EU contribution to the implementation of the decent work agenda in the world, May 2006, p.2.*

⁷⁷ It lists several features of the neighbourhood policy that will help to promote decent work, such as for instance "implementation of clear reforms concerning core labour standards, employment, social affairs and equal opportunities set out in the action plans agreed between the EU and the countries concerned". Similarly, for development cooperation, it lists a number of measures to promote decent work, as part of the thematic programming and the country and regional programming, such as, "integrate decent work into national and regional strategies to promote development and reduce poverty", and "gradual inclusion of the decent work objective in budget support measures".

- The 2010 Guidelines also provide references to the Decent Work Agenda, but these remain general and do not provide for specific action in this respect.⁷⁸
- These general commitments have not yet been translated into increased attention to the Decent Work Agenda on the ground, as indicated by different sources:
 - Only three out of 40 CSP/RSPs reviewed contain any reference to the Decent Work Agenda and working conditions.
 - As shown by the survey results displayed in table A4 above, only one-quarter of respondents or fewer mention a (PSD) specific approach with respect to the Decent Work Agenda. The opinions of survey respondents vary: 57% consider it a critical or very important issue, but 35% not so important or marginal.
 - Country visits did not allow identification of specific initiatives with respect to the Decent Work Agenda
 - During interviews at HQ level it was also mentioned that there was not really a systematic approach to the Decent Work Agenda issue. It was explained that this could be considered a part of the corporate social responsibility (CSR) agenda, but that issues related to employment conditions fall under the remit of the unit addressing employment rather than by that addressing PSD.
 - Finally this lack of focus on the Decent Work Agenda is also one of the findings of the recent *thematic global evaluation of EC support in the sectors of ESI (employment and social inclusion) in partner countries*.⁷⁹

⁷⁸ As an example, the thematic review on competitiveness specifies the following (p. 166): '*Support to awareness raising and pilot projects is thus necessary, as is supporting the development of partnerships with value chain leaders, which may provide guidance to their suppliers in upgrading productivity and/or work standards. For maximising impact, interventions should first be targeted at meso-level (...) and subsequently reach enterprises with facilitation packages (training, support to implement labour standards, basic health awareness, safety and work conditions).*'

⁷⁹ '*EC bilateral support does not focus enough on coherence with international commitments to Decent Work as a key issue in the overall cooperation dialogue, and there is no systematic approach to setting out targets to promote implementation of this type of international agreement. (...) In spite of the ECs' specific value added on workers' rights, issues relating to labour market governance (such as social dialogue, labour disputes, trade unions; and the labour markets' normative framework) still have only limited weight in EC programmes' (DRN (for the European Commission), Thematic global evaluation of EC support in the sectors of ESI (employment and social inclusion) in partner countries, 2011, pp. 2-3.*

EQ 3 on Support Mechanisms and Modalities

To what extent did the set of Commission mechanisms and aid modalities for supporting PSD strategies and the associated activities of partner countries and regions result in the provision of timely responses, at a reasonable cost, to the challenges faced by the private sector in third countries, while fostering synergies between one other and with comparable mechanisms offered by other actors?

Set of funding mechanisms (JC 3.1, 3.2 and 3.3)

The Community had in place in 2003 a wide range of funding sources for support for PSD in its different regions, making administration and coherence a heavy task. **The purpose of the new Commission's approach to PSD in 2003 was "to set down proposals for the reorganisation and restructuring of the Community's support" for PSD with a view to a "single, coherent framework together with harmonised support",** while at the same time **"flexible to reflect regional and country differences"**. It specified thereby that *"the proposed simplification, rationalisation and harmonisation of the management of these instruments, leading to the improved coherence of the Community's external action, will boost the effectiveness and efficiency of the Community's assistance programmes"*. The Commission planned to retain complete control of the policy, programming and design aspects of the five areas of intervention, together with implementation of particular actions, including TA, where appropriate. But as regards implementation and management of financial instruments, including microfinance and non-financial services (BDS), it planned to make full use of intermediaries through specific agreements.

"Reorganisation and restructuring of the Community's support": The support for PSD was restructured during the evaluation period primarily through the creation of a number of blending mechanisms. It also launched a few regional operations managed at central level. This enabled the EU to cover quite comprehensively the range of PSD needs in the different regions.

- Blending mechanisms and regional blending facilities: A number of regional blending⁸⁰ facilities were launched during the last decade (ACP IF, FEMIP Support Fund, NIF, LAIF, AIF, CIF, IFP, etc.).⁸¹ They aimed at increasing the development impact of EU

⁸⁰ "Blending" refers to combining grants with other types of funding, with the aim of leveraging additional non-grant financing for important investments in partner countries.

⁸¹ Two main types of facilities may be distinguished. During the early 2000s the EIB was entrusted with the management of mechanisms such as the (ACP) Investment Facility, launched in 2003 following a provision in the 2000 Cotonou Agreement, as well as managing EU budget grants for Mediterranean countries consisting of risk capital, and interest rate subsidies and technical assistance relating to EIB loans (the latter through the FEMIP Support Fund launched in 2003, later called Support to FEMIP). The second type of facility includes the regional investment facilities coordinated by the Commission itself, in partnership and dialogue with governments, beneficiaries and financiers. In these cases, eligible financial institutions submit the project proposals (e.g. EIB, AFD, KfW, EBRD). The first of these facilities was the Africa Infrastructure Trust Fund (2007), which was followed by the Neighbourhood Investment Facility (NIF) in 2008, the Latin America Investment Facility (LAIF) in 2009, the Investment Facility for Central Asia (IFCA) in 2010, the Asia Investment Facility (AIF) in 2011, and the Caribbean Investment Facility (CIF) and the Investment Facility for the Pacific (IFP) in early 2012. Furthermore the Western Balkans Investment Framework (WBIF) was launched in 2009, but it falls outside the geographic scope of this evaluation. The Commission has also launched other blending mechanisms, but which fall outside the thematic scope of our evaluation (e.g. the ACP-EU Water Facility, the ACP-EU Energy Facility, the Global Energy Efficiency and Renewable Energy Fund - GEEREF, the EIB-managed EU-Africa Infrastructure Trust Fund - ITF).

grant money through a mobilisation effect, and to fulfilling the Aid Effectiveness agenda⁸². Most mechanisms included support to PSD as an objective through support to SMEs and financial intermediaries, but only a relatively small part of their funding was actually for PSD (compared with transport, energy, and water infrastructure for instance)⁸³. Notable differences were visible in the degree to which private sector financing was included within the objectives of the various blending mechanisms, with FEMIP and ACP IF specifically targeting the private sector, whilst the EU regional blending facilities did not.

- The Commission also launched several new regional operations managed at central level, aimed at addressing specific PSD needs. It did so notably for the ACP region, with the creation for instance of BizClim and the EU/ACP Microfinance Programme⁸⁴. There are indications that Pro€Invest and BizClim were established as separate entities given the weaknesses of the CDE (which is a fully-fledged joint EU-ACP institution). This resulted in fragmented and complex provision of services in this region.⁸⁵ Important centralized PSD operations in other regions included for instance the ANIMA network and the subsequent 'Invest in Med' programme for Mediterranean countries, and the 2004-2007 and 2009-2012 phases of the AL-INVEST Programme in Latin America.⁸⁶

“A single, coherent framework together with harmonised support”: The overall set of support mechanisms for the funding of support for PSD is not more streamlined than in 2003. As these were often managed on their own and as there was little clarity on the overall architecture, many stakeholders were confused by the EU's ways of supporting PSD.

- There have been efforts to provide a single, coherent *policy* and *programming* framework for harmonised support to PSD at global EU strategy level, notably through

⁸² Relating to the aid effectiveness process leading to the Paris Declaration, the Accra Agenda for Action, the European Consensus on Development, and the European Code of Conduct on Division of Labour in Development Policy

⁸³ A combined 8% of the ITF/NIF/LAIF/IFCA facilities were for instance for support to PSD, according to a 2011 Commission working document.

⁸⁴ The Pro€Invest programme (€110m, 2002-2008) was created to promote investment and technology flows from the EU to enterprises operating in key sectors in ACP States, with a focus on SMEs. The (first) BizClim initiative (€18m, 2005-2010) was launched in 2005 as part of the €20m Private Sector Enabling Environment Facility (PSEEF), to improve legislation, the institutional set-up and financial measures relating to the enabling environment of the private sector in ACP countries. The EU-ACP Microfinance Programme (€15m, 2005-2010) was also launched in 2005, with non-financial support (financial support in microfinance being left to the EIB) managed by a staff member of the multi-donor CGAP, the leading policy and research centre in microfinance

⁸⁵ There are indications that BizClim and Pro€Invest were established as separate entities, given the weaknesses of the CDE (which is a fully-fledged joint EU-ACP institution established in successive official agreements signed by the ACP States and EU MS). This set-up entailed complexity in governance and management. The management of Pro€Invest was for instance contracted by EuropeAid to the CDE. An autonomous management unit – the Pro€Invest Implementation Service (PRIMS) – was established within CDE, without a legal identity. The PRIMS manager was to report to the Director of CDE, although at the same time implementation of the Programme was to be supervised directly by the Commission, although the CDE/PRIMS would retain full responsibility for the implementation of the Programme.

⁸⁶ The ANIMA network (2002-2007) aimed to strengthen co-operation between European and Mediterranean organisations involved in investment promotion; the 2008-2011 Invest in Med Programme has taken over development of investments and trade flows in the region. The AL-INVEST Programme has supported the internationalisation of Latin American SMEs since 1994.

COM(2003) 267 and the subsequent PSD guidelines (*see EQ 2*). However, it is not clear to what extent the Commission has, over the evaluation period, actively sought a single, coherent framework or *support mechanism*.⁸⁷ Most operations and mechanisms were set up from a regional or country perspective, to some extent with the exception of the investment facilities, of which one has recently been systematically created in almost every region on a similar (but not identical) basis. There is still a multiplicity of sources and modalities for funding PSD interventions (bilateral cooperation, regional programmes, thematic budget lines, investment facilities, etc.)⁸⁸, reflecting the Commission's overall organisational set-up for aid delivery as well as the different types of approaches and levels addressing the range of PSD needs. This tendency has to some extent increased with the investment facilities and the new ACP centralised operations. In addition, all these sources of funding have their own approaches and requirements, with little coordination among them and sometimes overlapping.⁸⁹ A user-friendly and summarised overview of the set of all Commission mechanisms for supporting PSD in third countries could not be found in any form. This situation proved confusing for most stakeholders met, including Commission staff. For instance 45% of EU Delegation staff surveyed responded that it was not easy for them to determine which mechanism or modality to use to tackle a specific challenge.

- Moreover at country level there is little evidence of a structured Commission approach to exploiting the potential and complementarities of the set of mechanisms for supporting the private sector, such as a fully-fledged sector strategy encompassing all types of need along with a well thought-out mix of the potential of the different funding sources available (e.g. for ACP countries: bilateral aid, CDE, Pro€Invest, BizClim, the (ACP) Investment Facility, etc.). It appears rather to have been a juxtaposition of the opportunities presented by the different funding sources. The absence of a clear, global EU-Commission approach limited the potential additional impact from such a global approach; it also limited the visibility of the EU's support to PSD, entailing missed opportunities for support and collaboration.
- Recent reports have also highlighted the need for better coordination and common standards for the recently created blending mechanisms.⁹⁰ Discussions on an "EU

⁸⁷ However, it is worth noting that some changes have been made in this regard after the evaluation period. Notably, in December 2012, the EU launched a new EU Platform for Blending in External Cooperation to further increase the effectiveness of aid delivered by the European Union through blending by providing recommendations and guidance. The work of the EU Platform is led by the European Commission and involves representatives from Member States, the European Parliament, the European External Action Services and the finance institutions active in the EU blending mechanisms.

⁸⁸ Support for PSD can be funded, depending partly on the region, from resources from (i) National Indicative Programmes (NIPs), based on country strategy papers (CSPs) providing programmable aid, notably in the form of budget support, basket funding, and projects and programmes; (ii) Regional cooperation (RIP/RSP), including regional operations managed centrally such as BizClim, Pro€Invest or AL-INVEST; (iii) Thematic budget lines which have evolved over time but still make it possible to fund PSD-related projects on an *ad hoc* basis (e.g. NSA-PVD, FOOD); (iv) the CDE, a joint EU-ACP institution for the development of enterprise; etc.

⁸⁹ Some conceptual overlaps have been noticed between the activities of the all-ACP BizClim, Pro€Invest and CDE. In the support to PSD in Mediterranean countries, there seems to be no clear division of roles between Commission support through the EIB-managed FEMIP and that through the Neighbourhood Investment Facility, which also works with other EDFIs (e.g. KfW).

⁹⁰ In particular the 2010 evaluation of the EIB external mandates and relating 'Camdessus' report, the 2010 evaluation of the (ACP) Investment Facility, a 2011 study on future governance options of EU blending mechanisms, and another 2011 study on innovative approaches to EU blending mechanisms.

platform for external cooperation and development” for providing guidance for blending mechanisms and on ways of improving and coordinating blending mechanisms are ongoing within the Commission, European Parliament, EEAS, EIB and EU Member States.

In terms of the level at which the Commission intervened (national, regional, supra-regional), the information collected provides no adequate factual basis for judging the overall adequacy of the levels at which the EC intervened to meet specific PSD challenges. Nevertheless, there are some positive indications on overall appropriateness, despite some exceptions in the ACP and Mediterranean regions. (JC 3.3)

- 70% of the 54 EU Delegations surveyed responded that the Commission intervened at the appropriate level systematically or with exceptions (7% considered that a substantial share of interventions was tackled at the wrong level, and 23% did not know). The study of the selection of nine countries and 27 interventions indicated that the national level of intervention was often preferred. Nevertheless, information on the appropriateness of actions variously at national, regional or supra-regional levels was difficult to find. Project documentation often did not specify why the action took place at this rather than that level. Moreover no specific overall strategy or approach in this regard has been identified.
- In the ACP there has been a shift from funding at intra-ACP level in the 9th EDF (2000-2007) to more funding at regional level in the 10th EDF (2008-2013).⁹¹ The final evaluations of several all-ACP initiatives for support to PSD have also indicated strong governance and management weaknesses (e.g. ProInvest, CDE and to a lesser extent BizClim)⁹². Furthermore, commentators reported an absorption capacity issue among regional communities and organizations (e.g. SADC, ECOWAS) and also a lack of knowledge in the private sector.
- In the Mediterranean region, the regional programmes faced severe difficulties linked to the regional tensions and overall limited integration between countries, as highlighted in the MEDA II evaluation.⁹³ Stakeholders met during the country missions also pointed to difficulties with the regional programmes.

⁹¹ During the 9th EDF the Commission envisaged concentrating the respective National and Regional Indicative Programmes (NIPs and RIPs) primarily on social sectors and physical infrastructure. Consequently, PSD could not be expected to be a focal sector in many NIPs and RIPs but rather constituted a cross-cutting concern. It was therefore considered important that relevant private sector initiatives were put in place at an all-ACP level, to ensure that those options clearly articulated in the Cotonou Agreement for PSD were duly taken on board.

⁹² The final evaluation of the EU/ACP Microfinance Programme was positive overall, although it noted that the funding was too fragmented, “with a €15m across all (78) ACP countries for a relatively wide thematic scope”.

⁹³ The MEDA II evaluation found that “*the regional programmes faced severe difficulties linked to the political situation and regional tensions and were therefore oriented to maintaining and stimulating a dialogue and establishing networks between the MPC and with the EU*”. It specified that difficulties in operating at regional level in the Mediterranean were linked to the political situations and regional tensions but also to the limited economic integration between South Mediterranean countries. On the political front, the Israel-Palestinian conflict, the occupation of Iraq, regional tensions linked to the Western Sahara, other border issues, etc. negatively affected relations between sub-groups of the Mediterranean countries. For instance it made it hard to bring together all countries around the same discussion table. Economic integration among the South Mediterranean countries is among the lowest in the world. This originates in the regional tensions, the lack or destruction of infrastructure, closure of borders, etc. In addition the complementarities between the economies are limited, reflecting for instance insufficient diversification of the productive base (e.g. oil and gas exporting countries), differences in economic regimes, and unfavourable business environments.

In terms of aid modalities, only limited guidance existed for ensuring the choice of the most adequate modality for support to PSD in a specific context. There were cases in which the rationale was not optimal in the PSD context of the country, notably for budget support programmes.

- The Commission had different management approaches for delivering aid during the evaluation period. In particular these included general budget support (GBS), sector budget support (SBS), basket funding, and projects and programmes (incl. TA, twinning, etc.).
- Only limited guidance was found to clarify the specific conditions for the success of the different Commission aid modalities and combinations of them in support for PSD during the 2004-2010 evaluation period.⁹⁴ Moreover, only 61% of the 54 EU Delegations surveyed mentioned that there was a clear and specific rationale for the choice of one aid modality over another (21% said no, 18% did not know). Nevertheless, interlocutors from several countries visited mentioned that the decision for a budget support approach had not been taken in the light of the most effective way of supporting the *private sector* in the country (e.g. in Jordan, Morocco, South-Africa, Jamaica), but originated in the Commission's willingness to comply with general EU policy. In line with its engagement in the international aid effectiveness agenda (cf. 2005 Paris Declaration and 2007 Accra Agenda for Action), budget support has indeed become the preferred mechanism for Commission aid delivery over the last decade whenever conditions allow. Government officials met in those countries also confirmed their interest in such budgetary approaches.

Effectiveness & efficiency (JC 3.4 and 3.5)

Evaluation reports show that the EU grants channelled for blending purposes through the EIB have been managed effectively and efficiently overall, although without fully exploiting the development impact of the support. There are further high expectations for the recent EU regional blending facilities, but these need to be confirmed.

- The evaluation of Commission aid delivered through development banks and the EIB (2008) notes that it proved an efficient way of delivering EU grants for blending purposes (risk capital, interest rate subsidies, TA on EIB loans, etc.), in terms of both time and costs. An exception concerned the delays connected with interest rate subsidies, which were due mainly to the difficulty governments had in complying with conditionalities. Such delays with interest rate subsidies were also highlighted in the MEDA II evaluation. The EIB management of the (ACP) Investment Facility and of its external lending mandates were also considered effective and efficient overall, according to their recent evaluations. However, an issue repeatedly highlighted was a focus on financial considerations (e.g. risks and return) rather than on overall development considerations (e.g. development, social or environmental impact), thereby exploiting less than fully the development impact of the support.

⁹⁴ The 2003 Budget Support guidelines mention for instance the possibility of providing budget support for PSD, but there are no clear guidelines in this regard. Still, some indications on general trends in aid modalities for several PSD areas are provided in the Commission's November 2010 Reference Document on Trade and Private Sector Policy and Development

- A recent 2011 study on the recent EU regional blending facilities (NIF/LAIF/IFCA/etc.)⁹⁵ is prudently positive on these mechanisms, based on the little information available so far, the first of these facilities having been launched in 2008. The theoretical benefits of blending are well described in the global literature, but “*whilst blending has emerged rapidly and is now common practice in development finance, there is currently a limited evidence base on the effects of blending*”. Moreover, several issues with the specific governance of each of these facilities were identified in the study. The ODI study, and a CEPS study building on it later that year⁹⁶, provided recommendations in that regard.

Strong differences were observed in the quality of the management of centralised operations. The final evaluation of the EU/ACP Microfinance Programme is overall positive, specifying that this programme, managed by an external CGAP coordinator, was implemented to time and budget, with the majority of performance targets and indicators fulfilled by the Programme grantees. The final evaluation of the 2005-2010 BizClim initiative is overall prudently positive on its performance, albeit highlighting that an original five-year intervention effectively reduced to a two years’ duration “*cannot be expected to produce miracles*”. The mid-term evaluation of Pro€Invest (2007) notes that “*in summary, the analysis of the current situation shows that the programme has not been successful to date*”. Preliminary information from its on-going final evaluation suggests that it has not much improved since. The 2011 evaluation of the CDE concludes that it achieved very few results, and that efficiency was a serious concern.⁹⁷ These differences in effectiveness and efficiency can all be linked in part to the quality of the programmes’ design, governance and management.

The Commission’s global approach focusing on delivering aid through Governments or public institutions entailed missed opportunities for selecting the most adequate partners for supporting the development of the private sector.

- The Commission’s overall approach to delivering external aid is to work primarily with the public sector⁹⁸. Budget support has for instance become the preferred modality for EU aid delivery whenever conditions allow, in line with the global Aid Effectiveness agenda.⁹⁹
- Moreover, the Commission’s standard rules and procedures have become increasingly strict since the 2003 Financial Regulation, which came into force during a period of increased scrutiny on the Commission’s use of EU funding. The tender procedures

⁹⁵ ODI, *EU Blending Facilities: Implications for Future Governance Options*, 2011

⁹⁶ CEPS, *Innovative Approaches to EU Blending Mechanisms for Development Finance*, 2011

⁹⁷ Indeed, unlike many evaluations reviewed as part of the meta-evaluation tool, the CDE evaluation made the positive assertion that results had not been achieved, rather than stating that results were simply difficult to measure or identify.

⁹⁸ Incl. partner governments and public institutions, or other international organisations and EU MS. The Commission also delivers a (relatively small) part of external aid through NGOs and other Non-State Actors, albeit through specific tender procedures under thematic budget lines, for relatively limited grant amounts.

⁹⁹ Decentralised management to national or regional institutions are the main alternatives to budget support, unless channelling through international organisations or EU MS proves more feasible or relevant. Direct centralised management by the Commission has overall become the exception for delivering bilateral aid; it has also no longer been possible to work through Project Management Units (PMUs) since the 2003 Financial Regulation.

outlined in the Commission's PRAG (and subsequent revisions in the instruction notes) did allow for contracting of private sector organisations, but nevertheless the procedures were perceived as ill-suited to smaller private sector organisations rather than large companies bidding on infrastructure projects. Stakeholders argued that the tendering procedures lacked flexibility and a rapid response capability for adjusting to local market realities, notably for SMEs. Procedural and administrative constraints were often considered exceedingly onerous by enterprises, and hence had counter-productive effects. It showed how accountability for process took overwhelming precedence over accountability for results. The Commission's approach differs in this sense from many other development actors active in PSD.¹⁰⁰

- Governments or public institutions were often considered not to be really effective or efficient implementing partners for PSD interventions. Local stakeholders pointed this in seven of the nine countries visited by the evaluation team. This reflected a lack of capacity or competence on private sector matters, or issues of governance or commitment to agreed objectives (*see JC 3.4 in Annex 3*). In the same way 89% of the 54 EU Delegations surveyed responded that the lack of capacity of national or regional counterparts was a 'critical' or 'important' cause of inefficiency (see Figure A1 below).
- It has also been observed in a few of the countries visited that selecting a Government actor for implementing a given PSD programme has led to building capacity in a public sector entity which no longer felt concerned with the project at hand after completion. Opportunities were therefore missed for building up (existing) private sector channels sustainably in such a way that they could continue to serve enterprises (and mainly SMEs) in the longer term after project completion.
- Agreements with local or international private sector organisations (e.g. consultancies, business organisations) for the implementation of projects and programmes, wholly or in part, was considered to have been a better option in many of the countries visited. Support through the Government or public institutions proved **relevant for institutional & regulatory reforms**, but much less so in other areas of support for the private sector, in particular where the public sector lacked capacity (and where the private sector may have it).
- Many stakeholders also insisted on the importance of first achieving a **demonstration effect** of the importance of PSD in countries where this is still not widely accepted as a priority field of action, showing national authorities and all other types of stakeholder the concrete benefits they might expect from developing the private sector. This was for instance one of the major contributions of the 1999-2006 EJADA programme in Jordan). **Non-financial support** (TA, transfer of know-how, twinning, etc.) often proved to be a key success factor. A mix of budget support and other modalities, including non-financial support, proved effective in certain countries (e.g. in Morocco). In other cases the Commission relied too soon on the sole capacity of the partner country, for instance through the subsequent 2005-2010 SRF sector budget support to Jordan.
- The Commission's interaction with the private sector was often weak. This limited the understanding of their actors, dynamics, needs and issues.

¹⁰⁰ For instance the IFC, the Multilateral Investment Facility (MIF) of the IADB as well as a number of bilateral agencies (incl. USAID) all have the means of working direct with the private sector.

The Commission's standard rules and procedures lacked the necessary flexibility in adjusting to local market realities, notably of SMEs, with counter-productive effects.

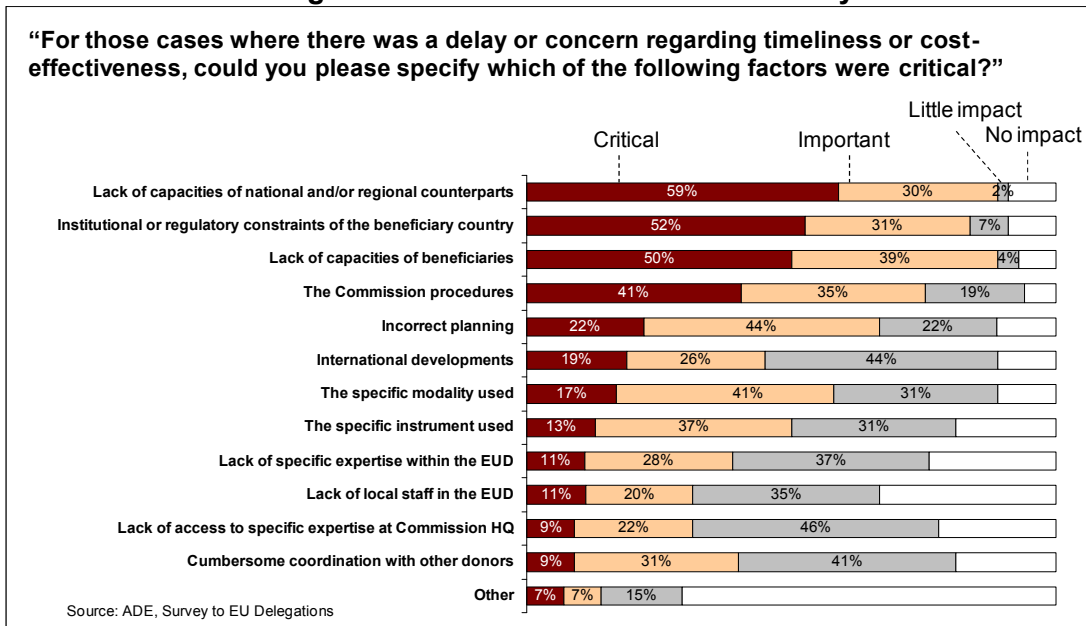
- As noted in the preceding paragraph (2nd bullet point), the EC standard rules and procedures have become increasingly strict since the 2003 Financial Regulation, which came into force during a period of increased scrutiny of the Commission's use of EU funding. 76% of the 54 EU Delegations surveyed responded that Commission procedures were a 'critical' or 'important' factor in delays or concerns regarding timeliness or cost-effectiveness (see Figure A1 below).
- There are many examples of the counter-productive effects of Commission rules and procedures, showing how accountability for the process had priority over accountability for results. The procedural and administrative constraints of Commission and other donor funding were indeed often considered exceedingly complex and onerous by enterprises and led to exclusion of SME segments that should have been targeted.¹⁰¹

Overall, timeliness and cost-effectiveness were a recurrent issue in Commission's country-level PSD interventions.

- Many Commission PSD interventions were delayed at the start of and during implementation, as revealed by the desk and field work. Moreover 48% of the 54 EU Delegations surveyed considered that the timeliness of the implementation of PSD support during the 2004-2010 period was overall below expectations (30% considered it in line, 2% above expectations, and 20% did not know). Cost-effectiveness was considered a general issue in PSD interventions by almost one-third of the EU Delegations surveyed (30%). The most critical factors affecting the efficiency of the interventions, according to EU Delegation staff surveyed, related to both the partner country (the national or regional counterparts' capacity, the beneficiaries' capacity and the national institutional and regulatory constraints) and the EU (Commission procedures and incorrect planning). The figure below provides details on the reasons given for shortcomings in timeliness and cost-effectiveness.

¹⁰¹ In Jordan for instance, many (potential) beneficiary enterprises had difficulties in reading and understanding the lengthy and complex Commission's tender procedures, which were additionally not available in Arabic. It resulted in SMEs refraining from applying; applications being rejected for administrative issues; support arriving too late; SMEs not being able to spend the support or to recover their costs; etc. It affected in particular the less sophisticated SMEs, i.e. the smaller SMEs outside of Amman. Some more sophisticated enterprises, on the contrary, were able to concentrate funding from EC and other donors' programmes by paying international consultants at a high price for interpreting tender procedures.

Figure A 1 - Main reasons for inefficiency



EQ 4 on the institutional and regulatory framework

To what extent did the Commission contribute to make the institutional and regulatory (I&R) framework more conducive to PSD?

Extent to which the Commission activities were geared towards tackling the main I&R obstacles to PSD (JC4.1)

Support for **institutional and regulatory reforms** in such a way as to facilitate an improved business environment is a **key macro-level intervention in EU PSD support**, as witnessed in the EU's strategic documentation, in the survey of EU Delegations, and during the interviews conducted during this evaluation.

As pointed out in the European Commission Reference Document on support to Trade and Private Sector, 2010, page 30, *'it is important that EU Delegations in third countries and HQ services, when participating in the programming, identifying and designing of interventions, ensure that such macro level initiatives [which include the business enabling environment] are included in the action or take place through other support programmes, be they funded by EU or other donors'*.

In the survey 70% of EUD respondents stipulated that in their country and over the period considered there was EU support for targeting improvements in the institutional and regulatory frameworks with a view to making them more conducive to PSD¹⁰². The necessity for having an I&R framework conducive to PSD was also largely acknowledged by the EU staff interviewed during the field phase and at Headquarters.

This mindset is to an extent translated into figures, with a **consistent**, albeit not dominant¹⁰³, **share of overall direct EU support to PSD dedicated to I&R reforms between 2004 and 2010**, accounting for almost 20% (€482 million) of the total, including both (i) SBS actions with an I&R focus (€285 million¹⁰⁴) covered by the 'multi (SBS)' category and (ii) the project-type support to improve regulatory frameworks (€197 million¹⁰⁵), keeping in mind the limits of this estimate¹⁰⁶.

Most of the ten case studies and the meta-analysis confirm that **efforts were made to understand I&R obstacles to PSD and gear EU interventions to address them**. This finding is backed by the systematic review of 40 CSPs and RSPs of which 62.5% identify the main obstacles to PSD in terms of the I&R framework¹⁰⁷. The percentage is even higher (70%) when it comes to developing strategies in the CSPs and RSPs geared to removing such obstacles¹⁰⁸.

¹⁰² 22% of the respondents state that there was no such support and 7% do not know.

¹⁰³ According to the figures presented in the Inception Report of this study, direct support to PSD dedicated to I&R reforms is the second most important (20%) type of direct support to PSD in budget between 2004 and 2010, after 'Facilitation of investment financing and access to financial markets, in general' (23%).

¹⁰⁴ Committed amount

¹⁰⁵ Contracted amount

¹⁰⁶ Among these limits are (i) the fact that committed and contracted amounts are compared, (ii) the fact that some additional support to I&R reforms might be embedded in GBS with references to PSD.

¹⁰⁷ But only 40% in terms of macro-economic environment, 47.5% in terms of integration in the world economy and 50% in terms of integration in the regional economy.

¹⁰⁸ It is also true for obstacles in terms of integration in the regional economy (62.5%), integration in the world economy (60%) but less with respect to the macro-economic environment (35%).

That said, it is interesting to note that in the studied countries and interventions there is an almost systematic **absence of references** in the consulted project level documentation to **studies or diagnostic tools to help an evidence-based identification of needs and obstacles to PSD in I&R frameworks**. There are however exceptions such as Tunisia for which the CSP indicates that *‘several TA activities and/or economic studies in parallel or prior to support programmes have contributed to a good targeting of the reforms’*.

The field phase largely confirmed that there was limited documented identification at the project level of the main I&R obstacles to PSD when this type of support was envisaged. **Instead, a more informal and pragmatic approach based on dialogue was usually preferred**. This dialogue normally takes place formally between the national authorities and the EU in coordination with the donor community. Relying on policy debates and informal exchanges of views rather than documentary evidence to prepare I&R reforms has the advantage of ownership by the implementing authorities but may potentially lead to inadequate, unsustainable or incidental reforms.

Again at the project level, there are indications from the ten case studies, in both the desk and field phases¹⁰⁹, that **the private sector was generally not thoroughly consulted¹¹⁰ when I&R reforms conducive to PSD were prepared and undertaken**. The survey confirms this finding, dialogue on I&R issues with business associations being mentioned in only 15% of project cases.

This is again confirmed by the CSP/RSP review, there being explicit reference to such dialogue in only 10% of cases. Relevant private sector actors would have been enterprises and their representative bodies as well as the financial institutions in the country. An explanation may be that the (formal) private sector was still embryonic in poor economies or economies in transition, as mentioned for Vietnam. It could also be that the culture of private-public dialogue was not well installed in a number of developing countries such as Nicaragua. The EUD itself may not compensate for this lack of consultation of the private sector by competent authorities, for various reasons such as lack of resources as mentioned for Jamaica.

Apart from relatively generic references to SMEs, there is limited characterization of the types of private business (or their intermediaries) identified as targets of the I&R reforms in the documentation consulted. In Algeria for instance, there was an *‘absence of preliminary studies and operational strategies to select beneficiaries’*, while for El Salvador *‘the lack of identification study on potential beneficiaries resulted in poor targeting and reorientation of the support’*. In particular micro-enterprises were generally not pinpointed as specific targets for the reforms. Such characterization may however prove useful and necessary, depending on their size, sector, orientation or localization, different private businesses may have different regulatory and institutional needs to support their development.

¹⁰⁹ With some exceptions from the field phase where consultation of the private sector was mentioned but not necessarily evidenced like in Morocco.

¹¹⁰ In a number of cases there is no mention in the CSPs of a dialogue with the private sector to identify and tackle I&R obstacles to PSD (Zambia, South Africa, Morocco, Algeria). When this dialogue is mentioned, it is generally done briefly and without substantiation (Ukraine, Nicaragua), or perceived as insufficient :

- *‘The role of the private sector and its collective business "voice" in its relationship with Government needs to develop further in order to be more effective.’* (Sector Reform Facility (SBS) – Jordan, Financing Agreement, Annex II, page 4)
- *‘Component 6 (of ETV2 in Vietnam) especially, with structures and procedures where the private sector would have virtually no power share and where synergies have remained marginal and eventual benefit/ impact on private sector elusive. Involvement of the private sector could also have been better developed in component 4.’* (ETV2 – Vietnam, Final Evaluation, page 47)

Despite a relatively limited score (50%) from the systematic review of 40 CSPs and RSPs, there are indications from the documentation consulted in the ten case studies and the meta-analysis, as well as from interviews at HQ, that among the main identified obstacles to PSD¹¹¹ and the reasons for tackling them, **an important and recurrent issue was facilitation of international trade** (and sometimes regional trade, particularly in Central America), particularly in the context of WTO accession and trade with the EU, and all the more so when an Association Agreement exists as is the case in the Mediterranean region. The field phase largely confirms this finding in cases where a trade agreement is (in the process of being) formalized, such as in Ukraine, Morocco, Algeria, Jordan, or Nicaragua.

Conversely, national and local markets were far less addressed by PSD support, according to the different sources of documentation consulted during the desk phase. The field phase has shown that when they were targeting the national or local market, I&R reforms tended to first of all encourage movements away from the informal economy towards formal registration of businesses, thanks to initiatives such as “one-stop-shops”.

Policy dialogue on the institutional and regulatory frameworks (JC 4.2)

By its nature policy dialogue is liable to trigger I&R reforms, particularly when such reforms are supported by BS. However specific references to policy dialogue on PSD were not systematic in the documentation consulted during the desk phase, the only examples of strong PSD-specific policy dialogue arising from GBS operations. This point is further confirmed by the systematic review of CSPs and RSPs in which policy dialogue with the country public authorities on I&R reforms was mentioned in 35% of cases¹¹². On the other hand the survey of EU Delegations indicates that, according to the 38 respondents that provided I&R support, 55% regarded the role of policy dialogue as of critical importance while 29% found it useful.

The **difficulty of having a clear picture of the nature and intensity of the policy dialogue on I&R reforms conducive to PSD** was confirmed by the field phase during which a number of different situations were encountered and a variety of opinions collected, *but* with one point common to all situations encountered during the field phase, namely that **genuine and repeated efforts from the side of EUDs and other donors were deployed to maintain a fruitful dialogue with the competent authorities**.

In principle, support to I&R reforms can be based on a thorough and sustained policy dialogue with the national authorities, in line with the principle of alignment, whenever the Government is capable, stable and committed, and has identified PSD and its I&R framework as a priority. One can consider this to be the case for instance in Morocco and Algeria, facilitated by the existence of an AA. But this **optimal situation was rarely encountered** and cases of support for I&R reforms for PSD accompanied by weak, uneven or unfavourable policy dialogue exist (e.g. in Nicaragua), with the attendant problem that, with the strong focus on alignment and ownership initiated by the Paris Declaration, **guidance on alternative approaches is lacking** to tackle these situations, which in practice are quite frequent.

¹¹¹ Among the main I&R obstacles to PSD identified in this study are : macro-economic environment, institutional and regulatory framework, integration in the regional economy and integration in the world economy.

¹¹² The scores are even lower when it comes to dialogue with business associations (15%) or other actors and donors (c.a. 10%).

It appears from the field phase that in cases when there was a lack of commitment (e.g. Ukraine) or capacity (e.g. Kenya) on the part of the national authorities, dialogue with the Government on I&R reforms conducive to PSD may have been very limited or did not even take place. However in such cases the dynamics of the reforms may have happened at other levels or taken other forms (e.g. coordination between donors with limited debate with the Government in Nicaragua, actions at regional rather than national level in Ukraine).

Extent to which the I&R frameworks have been strengthened (JC 4.3)

In the absence of a well-established monitoring and evaluation system that would make possible a clear appraisal of the results of I&R strengthening, the findings arising from this evaluation indicate that **achievements in institutional and regulatory reforms, when they were addressed by support schemes**, exhibit very varied degrees of success (e.g. weak in Kenya and strong in MEDA), but **were generally reported as encouraging in the documentation consulted**, as confirmed by the field phase during which a number of successful I&R achievements were reported (e.g. interventions in Vietnam, EJADA and JEDCO in Jordan, PAE-PIE in Morocco), with the following key conditions for success often identified:

- A strong policy will and sufficient institutional capacity;
- Links to trade agreement, as already mentioned above in the previous JCs of this question, providing an incentive for reforms;
- Strong TA and non-financial support;
- The human factor.

From preparation of laws to their voting, adoption, enforcement, and effective and successful implementation, the **degree of advancement of regulatory reforms varied greatly** in the cases studied. In a small number of the countries studied, this process was reported as achieved, but in a majority of cases the reforms were still in progress, not necessarily following a smooth and straightforward path, particularly when moving from a draft law to its formal approval and even more to its effective enforcement. In Jordan some I&R reforms, despite the fact that BS conditionality was considered met (i.e. disbursement made) several years ago, had still not taken place by the time of the country visit, examples being credit bureaux and investment promotion law. This was due to BS conditionality being expressed in processes rather than actual results. In Jamaica, *'policy proposals were elaborated, which appear well considered, but only very few of the proposals have actually led to decisions'*. In El Salvador, *'the « Ley de Calidad », much expected as a result of the recent EC cooperation strategic change from programme support to budget support, was still pending approval in September 2009'*.

These different rates of progress are not of themselves an issue but shed light on **the phasing-out process that occurs at some point between an EU-supported reform scheme and self-management by the country authorities**. When commented on, **this transition appeared particularly critical and risky**, such as in Jordan, where *'the policy developments in support to SMEs have been implemented but have faced repeated difficulties in the transfer of EC responsibilities to Jordanian institutions.'*

From the field phase there are additional indications along the same lines, showing that this phasing-out process, from a donor-supported reform to self-management by the country authorities, was not optimal in a number of situations, particularly where institutional capacity was weak (e.g. Nicaragua) or where the political and institutional context was unstable with a high rate of turnover (e.g. Ukraine).

It also appears from the field phase that, when cases of successive support schemes for I&R reforms were reported (e.g. EJADA and SRF in Jordan, PIE following PAE in Morocco, or COMPETITIVIDAD following PRAMECLIM in Nicaragua), they often reflected an intention to follow up actions initiated in a given intervention but not concluded as planned, sometimes with mishandling, rather than a structured strategic plan designed from the outset. So the **complexity and length of supported I&R reforms seem to have been rather systematically underestimated.**

The 2010 European Commission Reference Document on support for Trade and Private Sector also raises the issue of the necessary linkages between law reforms and their institutional framework¹¹³. According to the ten case studies it is **difficult to ensure full coherence between the pace of reforms in the regulatory sphere on one hand and the institutional structure on the other**, and difficulties were reported when lack of coordination between the two components existed. This was the case whenever institutional reforms were less advanced than regulatory reforms, such as in Algeria where ANDPME, an institution which was expected to support implementation of a PME strategy, was not operational, or in the ETV2 intervention in Vietnam focusing on the policy area but insufficiently supported by institutional adaptation. Less frequently the opposite situation occurred, with regulatory reforms lagging behind the institutional set-up, as in Morocco where legislation supporting certification organisms has been delayed five years.

Building on the above, a more **general question relates to the sustainability of the reforms**. This concern is mentioned in several places in the consulted documentation, at three levels, as confirmed during the field visits:

- Regulatory-wise, having new laws facilitating better business is one thing, but keeping them updated in a changing global environment is another, particularly for instance with respect to international trade rules or to sanitary or safety standards in food products or plant material. In Vietnam, on the ETV2 programme it is said that *'the technical sustainability of most achieved results is good. However, these results need to continue to evolve further. Legislation and standards keep evolving internationally and Vietnam needs to keep up.'*
- Institution-wise, staff stability and capacities, along with institutional memory and financial viability, are reported as critical issues in the cases studied, such as in Jordan on the EJADA programme, on which *'a pending question is how to maintain the acquired knowledge and some institutional memory during a long enough time after the transfer of EC responsibilities to Jordanian institutions.'*
- Institution-building is not always an implementation step for the regulatory framework. Sustainable institutional build-up of business service organisations is a key component

¹¹³ *'Many business enabling environment reforms can be undertaken in parallel, but some must be sequenced in order to be effective. For example, it might be necessary to establish institutional capacity before giving an agency regulatory authority, or to implement specific laws and regulations.'* (page 110)

of private sector capacity-building; in some countries (Jordan) it was stronger than might be the case elsewhere (e.g. Jamaica).

I&R reforms and impact on the private sector (JC 4.4)

Overall the **available information on impacts of I&R reforms on the private sector was limited** in the documentation consulted during the field phase.

The survey of EU Delegations is more informative on this issue, with respectively 42%, 61% and 55% of the EUDs having supported I&R reforms and taken the view that the EU interventions contributed to (i) creation (ii) better functioning, or (iii) growth of enterprises, although it should be noted that the rest of the respondents considered that the EU support did not help in these three respects (20% on average), or did not know (27% on average).

It should also be noted that, during field phase interviews or on other occasions, **whereas officials and public authorities expressed positive views on the effects of I&R reforms in terms of business facilitation, final beneficiaries encountered in the field were often less enthusiastic about these reforms which in their view had adverse effects** (e.g. Nicaragua). So the question of ownership of the reforms by the private entrepreneurs themselves was posed in different places such as in Morocco where it was said that *'a random transfer of international norms is made without preliminary study on the needs and existing capacities of the Moroccan market'*. This issue relates to the above-mentioned lack of involvement and dialogue with the private sector.

Despite the well-known benefits of the **formalisation of businesses**, such as facilitated access to customers, one important adverse effect of such initiatives, reported by final beneficiaries encountered in the field, was **the excessive and sudden regulatory and tax pressure** that it creates (e.g. of the Nicaraguan shoe-maker who had his taxes increased 20-fold between one month and the next).

Difficulties were also reported in the countries visited with respect to I&R reforms aimed at facilitating international trade, with the **perception that non-tariff requirements for accessing the EU market are unattainable**, and that the free trade arrangements are of greater benefit to the foreign importers and investors. It is interesting to note the special provisions adopted in Algeria to mitigate this adverse effect, in terms of an obligation to make shared investments, with local investors contributing a minimum of 30% of commercial business.

Both of the above findings tend to indicate that enhanced competitiveness is desirable prior to triggering and implementing important I&R reforms, so as to strengthen and prepare the private sector, particularly SMEs, for the new regulations before they are enforced. Even so, statements encouraging operation the other way round were also made, for example in Jamaica, or in South Africa where the I&R framework is perceived as an obstacle to PSD, due for example to corruption or red tape. The optimal approach is probably mid-way and needs to be thought through on a case-by-case basis.

EQ 5 on Access to Finance

To what extent did the Commission contribute to improving access to finance by enterprises?

Access to finance is recognised as a key constraint for the private sector in Commission beneficiary countries, in particular for SMEs:

- In every country visited, access to finance was cited as one of the most important challenges for private sector development, particularly for MSMEs.
- Stakeholders cited a range of reasons for finance gaps occurring in third countries, including risk aversion on the part of local banks, capacity and financial strength of MSMEs, weak financial sector infrastructure (e.g. lack of credit bureaux or collateral registries, as well as bank supervisory rules in the recognition of collateral); the impact of the 2008 financial crisis in certain countries (e.g. Ukraine).

European Union support to promote access to finance includes a range of activities, dimensions and funding vehicles:

- Activities included, among other things: support to improve the regulatory environment for financial institutions and encourage credit provision; support to intermediary organisations that help enterprises seek finance; supporting enterprises, including small and micro-enterprises that face difficulties accessing finance.
- These activities in turn covered three broad dimensions of the access to finance challenge: supply-side challenges (such as the availability of financial products and services for small and micro enterprises); demand-side challenges (e.g. the capacity of enterprises to access financial products and services previously on offer) and the enabling environment (e.g. the low prevalence and capacity of credit bureaux and collateral registries).
- Finally, the support was channelled through several different funding vehicles, including: regional and bilateral cooperation; centralised operations such as the EU/ACP Microfinance Programme which targeted specific aspects of the access to finance challenge; blending mechanisms such as the Neighbourhood Investment Facility and the ACP Investment Facility.

As a whole, financial access promotion represented one of the main areas of EU funding to private sector development over the evaluation period, even though the EU is not seen as one of the major actors in this field:

- The promotion of access to finance was one of the main areas of direct EU support to PSD over the period 2004-2010:
 - In financial terms, the EU contributed €559 million to activities classified as access to finance interventions¹¹⁴, although much of this related to investment support. This constituted 23% of the total direct support to PSD, placing it first

¹¹⁴ That is, those activities classified under CRIS as “Facilitation of investment financing and access to financial markets, in general”.

in the list of intervention types by contribution size presented in Figure 2.2 of the Main Report.

- This contribution was spread across a comparatively high number of EU Delegations: 37% (20) of the EU Delegations that completed the evaluation survey reported the conduct of access to finance activities in their country/countries of activity during the evaluation period.
- The result of the EU Delegation survey is supported by the survey of CSPs/RSPs, where 40% of CSPs/RSPs reviewed contained a PSD strategy that was at least partially geared towards the removal of supply and/or demand side constraints regarding access to finance.
- Moreover, direct support to PSD was only one channel of EU support for access to finance over the evaluation period. In addition, the EU also contributed via investment financing facilities, such as the Neighbourhood Investment Facility, Latin American Investment Facility, and the EIB-managed (ACP) IF and FEMIP, among others. Between them, these facilities have provided a range of different types of financing, including loan and equity finance and, in some cases, guarantees or credit enhancement, as well as TA for capacity-building.
- However, despite the importance of access to finance as a key part of the PSD support, the European Commission's visibility in the field of access to finance is relatively low when compared to other donors and financing institutions. Interviews held in several countries visited by the evaluation team (including Kenya, Jamaica, Morocco, Ukraine, Vietnam) suggest that other bilateral donors and financing institutions (e.g., the European Investment Bank, World Bank IFC, IDB, DFID, IDB/MIF, or USAID, as the case may be) were seen as the main players in this sector, not the Commission.

In line with the recommendations of the 2005 Evaluation of European Community Support to Private Sector Development in Third Countries, the Commission's activities were primarily at the macro-level, with limited direct provision of credit lines at micro-level and meso-level support prioritising cooperation with financial intermediaries:

- The 2005 evaluation of European Community support to PSD in third countries recommended that, regarding support to financial services, the Commission should "avoid meso- and micro- level interventions aimed at intervening in financial markets, unless in co-operation with other financial institutions"¹¹⁵. The Commission's own Fiche Contradictoire noted agreement with this recommendation.
- In particular, the evaluation recommended that:
 - At the micro-level, the Commission should avoid programmes aiming at just the provision of credit lines;
 - At the meso-level, the Commission should avoid working on its own, instead cooperating with other financial institutions with the technical capacity to identify constraints, design solutions and draw up implementation procedures;
 - At the macro-level, the Commission should continue intervening as appropriate.

¹¹⁵ European Commission, *Evaluation of European Community Support to Private Sector Development in Third Countries*, 2005, p.67.

- Over the evaluation period, evidence suggests that the Commission prioritised macro and meso level interventions, with a strong preference for working through intermediary organisations:
 - Of the 20 EU Delegations responding to the EU Delegation survey that conducted access to finance activities, 65% (13) conducted activities aiming to improve the regulatory environment of financial intermediaries and 80% (16) conducted activities supporting intermediary organisations;
 - Very little evidence was found of the direct provision of credit to private enterprises (except through the ACP IF).¹¹⁶ Indeed, in line with the PSD Guidelines (2005), very few PSD interventions acted at the micro-level, barring some cases of projects aiming to enhance enterprise ability to access finance (e.g. in Jordan). (See the answer to EQ3, above, for more information on the choice of intervention level for PSD as a whole).
 - Moreover, with specific regard to microcredit-provision, the 2008 Commission Guidelines on Microfinance ruled out the provision of credit lines in almost all cases, instead recommending that the Commission focus on capacity-building of microfinance actors and meso-level activities to enhance market transparency and efficiency. The 2012 evaluation of the EU/ACP Microfinance Programme noted that this recommendation has been broadly followed, both by the (Centralised) Programme itself and the EU Delegations implementing bilateral assistance.¹¹⁷

On the use of diagnostic analysis to target EU support (JC5.1):

In several cases, Commission activities in this area have not been based on strong diagnostic and strategic approaches, and there is evidence to suggest that this has affected the relevance of support in certain instances:

- No overall strategic analysis of the Commission's approach to fostering access to finance was published until the very end of the evaluation period, in November 2010. This publication¹¹⁸ presents a specific, though relatively brief, thematic review of access to finance. It does address some of the constraints to improved SME access to finance and provides an overview table (p138) of the areas of intervention and key activities for facilitating access to finance at macro, meso and micro levels. The supply-side focus is strong (particularly regarding activities relating to financial intermediaries), but the demand-side focus (e.g. on the use of business development services tailored specifically towards fostering access to finance) is more limited. Moreover the list does not identify target areas identified by numerous fora and surveys¹¹⁹ over recent years such as capital markets or resource mobilisation, including harnessing of remittances.
- Some Centralised Operations, however, were undertaken on the basis of comprehensive needs analyses and/or strategic reviews:

¹¹⁶ The ACP IF provided loans to private sector operations, see p.51 of European Commission, *Mid-term evaluation of the Investment Facility and EIB own resources operations in ACP countries and the OCTs*, 2010.

¹¹⁷ European Commission, *Final Evaluation of the EU/ACP Microfinance Programme*, 2012.

¹¹⁸ European Commission, *Reference Document No. 10 on Trade and Private Sector Policy and Development*, 2010

¹¹⁹ For instance diagnostics of the SME financing gap by the OECD and the G-20 Financial Inclusion Expert Group's (FIEG) SME Finance Sub-Group

- Both Bizclim and the EU/ACP Microfinance Programme, for example, benefitted from formal needs analyses conducted during the design phase.
- In the latter case, this was in response to an independent peer review of the Commission's strengths and weaknesses in the sector of microfinance, carried out by a leading donor organisation in the field, CGAP.¹²⁰
- This approach allowed the EU/ACP Microfinance Programme to clearly define its objectives, strategy and modus operandi from the outset.¹²¹
- Aside from these specific cases, Commission activities promoting access to finance were often conducted without a comprehensive needs analysis:
 - Needs analyses in CSPs/RSPs were often omitted or conducted without reference to formal studies of access to finance obstacles:
 - Whilst 40% of CSPs/RSPs reviewed during the evaluation included strategies to tackle supply and demand side constraints on access to finance, the number of CSPs/RSPs that included analyses of these constraints was notably less: 30% for supply-side constraints and 13% for demand-side ones.
 - The majority of those CSPs/RSPs that did include such analyses did so without referring to formal studies or assessments conducted by the Commission or other actors.
 - Project documents reviewed during desk and field phases often included only short descriptions of constraints, without reference to identification studies or formal analyses of the sector conducted by other actors.
- In certain cases, the lack of formal needs analysis at project and programming levels has contributed to problems regarding the relevance of the Commission's approach to financial access in particular countries:
 - In Jordan, two large access to finance projects were implemented during the evaluation period, but analysis of the financing challenges during project design was limited and lacked thorough consultation with the private sector. Consequently, avoidable implementation problems were observed, such as the provision of risk-mitigation mechanisms (e.g., credit guarantee schemes) before the supporting risk-reduction infrastructure had been laid (e.g., before credit bureaux were established and strengthened).
 - In Moldova, the focus of Commission activities was on financial market liquidity whilst the capacity of SMEs to attract financing, as well as the capacity of financing institutions to target SMEs, were both reported as greater needs. The country-level evaluation of EU cooperation with Moldova notes that it is known that there is no shortage of liquidity in the Moldovan banking system, and questions why so little of it is translated into credit to SMEs; *"A review of the situation should be carried out to ascertain why lenders are reluctant to lend and, equally important, why potential borrowers are reluctant to borrow."* Commentators noted that, globally speaking, the problem is not so much lack of liquidity, but a) the capacity

¹²⁰ CGAP is the multi-donor Consultative Group to Assist the Poor managed by the World Bank.

¹²¹ European Commission, *Final Evaluation of the EU/ACP Microfinance Programme*, 2012.

of SMEs to submit bankable dossiers, and b) the capacity of financial institutions to target SMEs (and address the higher complexities and risks associated with SME lending). The support gave inadequate weight to helping the local private sector to improve capacities, for instance through business environment reforms, improving the financial sector infrastructure, and SME capacity building.

- In the Caribbean, the Carib-Cap initiative, supported by the EU/ACP Microfinance Programme, was criticised for targeting provision of microcredit, whilst potentially greater needs existed for other products, such as saving schemes for cooperatives.¹²²

On the impact of Commission activities on enterprise (including MSMEs) access to finance (JC5.3, 5.5, 5.6, 5.7):

Regarding impact of EU interventions, little evidence was found by the evaluation of improved access to finance by SMEs, despite some positive intermediary results:

- Several cases of relatively positive outcomes and results were seen, including the Risk Capital Facility II (RCF II) in South Africa and the EU/ACP Microfinance Programme in the ACP region. Both cases specifically targeted access to finance challenges for SMEs or microenterprises and achieved results in terms of increased financial access for SMEs run by disadvantaged people (RCF II) and increased provision of microfinancial products and services (the EU/ACP Microfinance Programme).
- More broadly, field visits, meta-analyses of country evaluations and the EU Delegation survey suggest that end results in terms of the impact on SME access to finance was limited:
 - Both field mission interviews and meta-analyses of country evaluations point towards limited impact on SME financial access in several countries, including: Jordan, Morocco, Algeria, Jamaica, and Kenya. Nevertheless, moderate impact was reported in Nicaragua.
 - Of the 54 Delegations that responded to the EU Delegation survey, 20 Delegations targeted access to finance over the evaluation period. Of these 20, 75% (16) reported that Commission activities reached results regarding improvements to MSME access to finance. However the quality of these results was patchy, with only 45% (9) Delegations reported that results were in line with expectations, whilst 30% (6) reported that results were below expectations. Of the remainder, only 1 Delegation reported results above expectations, 2 Delegations claimed that results were not achieved and 2 Delegations had not monitored the results.
- In several cases, the final impact of Commission activities on SME access to finance was hampered by background conditions. Examples of common issues highlighted included:
 - On the supply-side: an absence of a local SME bank or other banks specifically geared towards providing services for SMEs; high collateral requirements within the local banking sector; or high interest rates

¹²² European Commission, *EU/ACP Microfinance Programme*, 2012.

- Within the enabling environment: absence of credit bureaux, lack of export credit services or limited availability of guarantee schemes
- To a lesser extent, background problems were also seen on the demand-side, including the capacity of SMEs to prepare bankable dossiers.

On the impact of the Commission's macro-level activities targeting access to finance (JC5.2):

In terms of impact at the macro level, including institutional and regulatory reforms geared towards financial access, results were mixed:

- **Several activities showed positive results:**
 - The EU/ACP Microfinance Programme supported the CGAP work programme at macro-level in this field (€3m out of a €15m budget). CGAP contributed for instance to policy improvements in West-Africa (BCEAO), in Nigeria and in the DRC. Both the Programme directly and CGAP also raised awareness and built capacities in microfinance of a number of policy makers and regulators from ACP countries;
 - In Algeria the "Appui PME/PMI" intervention has introduced the concept of "garantie financière des crédits aux PME/PMI" in the Algerian banking system and this has facilitated SMEs' access to finance;
 - Jamaica: DRGEP (GBS) - facilitation of the process of business registration was one of the conditions for release of the second variable tranche of this GBS, and was complied with.
- **But other projects did not deliver in this respect, e.g.:**
 - In Algeria the *ex post* ROM Monitoring Report of the Modernisation Secteur Financier programme argued that the programme lost sight of the PSD element of its overall objective and it did not facilitate lending to MSMEs.
 - Indirect support at macro-level in CDE operations also had limited impact, according to the 2011 evaluation of CDE.
 - The mid-term evaluation of Pro€Invest (2007) noted that overall it had so far been unsuccessful. It also notes that lack of monitoring makes it impossible to indicate the potential impact of the Programme. Not much evidence was found in this mid-term evaluation of specific results on the business environment. It further noted that "*the lesson to be learnt for Pro€Invest is that the policy and environment dimensions must have priority.*" It specifies in this context that cooperation with trade-related initiatives¹²³ should be allocated high and structured priority for the future.

Impacts of meso-level support (JC5.4)

At the meso-level, the Commission continued to conduct activities supporting access finance through intermediary organisations. Support focused, however, on financial intermediaries rather than non-financial support groups, such as business development organisations:

¹²³ The economic partnership agreements (EPAs), the ACP Multilateral Trading System (MTS) Programme, BizClim and Trade.com

- The Commission's November 2010 Reference Document on Trade and Private Sector Policy and Development provides an overview table (p138) of the broad areas of intervention and key activities for facilitation of access to finance, including at meso-level. The list focuses on the supply side (financial intermediaries); some references are nevertheless provided to the demand side such as business development services which can provide capacity-building for SMEs, for instance for submitting bankable dossiers to financial intermediaries.
- The MEDA II evaluation notes that a variety of modalities has been used, including TA programmes and twinning, to strengthen institutional capacity and transfer of know-how to SMEs, professional associations, trade facilitating institutions, and others.
- In Jamaica, an important achievement of the Competitive Jamaica programme was the setting up of advisory centres (Export Centre/Business Information Point) around the country in partnership with private sector organisations such as chambers of commerce or other public or private organisations. The Corporate Finance Broker (CFB) component is regarded as having been effective: according to the progress reports, a large number of MSMEs were given advice and 100 loans were facilitated. A positive aspect was that the CFB approach was rolled out to the advisory centres, which have found an important role in matchmaking between MSMEs and banks, including writing business plans.
- The EU/ACP Microfinance Programme focused on capacity-building of microfinance institutions and on improving the transparency of the overall microfinance market. It included support at meso level, notably to regional and national microfinance networks and to the CGAP-related Rating Fund and Information System Programme (both since closed). The EU/ACP Microfinance Programme's final evaluation is positive overall on meso-level support, apart from concerns regarding the viability of the supported networks.
- Most operations examined from (the EIB-managed) investment facilities targeted financial intermediaries such as banks, local investment funds or guarantee funds, rather than non-financial 'intermediary organisations' which focus on increasing the capacities of enterprises to obtain funding from financial institutions or intermediaries.
- With regard to BDS activities targeting improved competitiveness in general, see EQ 6.

However, positive results and impacts were found resulting from the activities of EU investment facilities and blending mechanisms:

- The range of financial services or products offered was increasingly well-adapted to the needs of private enterprises thanks to the use of EU Investment Facilities and blending mechanisms, such as the EIB-managed FEMIP Support Fund, the ACP Investment Facility or the support to guarantee funds in Morocco, (PAIGAM). Such facilities provided risk capital, loan guarantees, interest rate subsidies, technical assistance and feasibility studies, among other things.
- In addition, the provision of risk capital contributed to increase the total pool of funding available to enterprises in both the ACP and Mediterranean countries:
 - The **MEDA II** evaluation has shown that the provision of risk capital by the EIB could contribute positively to increasing the risk capital available to enterprises. But the macroeconomic impact of this facility remains difficult to perceive owing

to the limited level of the Risk Capital Facility and therefore its marginal contribution to the development of the private and financial sector in the region.¹²⁴

- The mid-term review of the Investment Facility and of EIB's own-resource operations in **ACP countries** notes that there is evidence that the EIB has significantly improved access to finance both through the funds it provided and through the strengthening of the financial intermediaries through which they were channelled. It is unlikely that IF/OR resources alone can cover a substantial share of a country's total needs, but there is a presumption that global loans and other operations targeted on SMEs were significant contributions not only to the needs of the individual borrowers but also to the needs of this segment of the respective economies.

Finally, mixed evidence was found regarding operational coordination on access to finance between the Commission and local banks and development finance institutions, including the EIB:

- Some positive cases were seen regarding Commission-EIB coordination:
 - Commission and EIB venture capital activities in Jordan were coherent and mutually reinforcing, despite some issues concerning the sequencing of activities (as noted above, risk-mitigation activities were implemented prior to the appropriate financial sector supporting structures being established)
 - EIB-Commission cooperation was seen in several cases of projects combining risk capital and technical assistance, e.g., the Risk Capital Facility II in South Africa (where the EU managed the project and the EIB sat on the advisory board and also advised on the creation of the facility) and the Capmezzanine project in Morocco (which was managed by the EIB under the FEMIP Support Fund).
- But evidence suggests that EU Delegations often worked with other (non-EIB) financial institutions when implementing activities promoting access to finance, including local institutions:
 - Of the 20 Delegations surveyed that conducted access to finance activities, 50% reported that these activities were regularly implemented in cooperation with other financial institutions.
 - In several countries with a more advanced local financial sector (e.g., South Africa and Vietnam), working with local financial institutions was viewed as preferable to working with European institutions, in order to increase local ownership and ensure alignment with beneficiary government requests.

¹²⁴ Of the funds provided by the Commission to the EIB, the Risk Capital Facility with an envelope of €200m for the period 2001-2006 allowed the EIB to support the private sector through the acquisition of equity or quasi-equity funds in private companies or in investment funds, and through local currency loans to micro-finance institutions

EQ 6 on fostering enterprise competitiveness

To what extent did the Commission contribute to a better ability of enterprises, in particular SMEs, to compete and to access technology and new markets?

Amount and type of Commission activities fostering enterprise competitiveness

- **Support to foster enterprise competitiveness constituted the largest area of Commission direct support to PSD over the evaluation period**, amounting to €758m, or 32% of the total €2.4bn contracted for direct support to PSD over the same period (see Figure 2.2 in the Main Report).
- **This contribution was made across a wide range of countries and regions:**
 - 102 countries and each of the beneficiary regions (ACP, ENP-MEDA, ENP-TACIS, DCI-Latin-America, DCI-ASIA, South Africa);
 - 65% (35) of the 54 EUDs surveyed by the evaluation reported the conduct of activities fostering enterprise competitiveness over the evaluation period.
- **The Commission focused its support at the meso-level, with a view to building sustainable capacity within intermediary structures**, such as business development service providers, chambers of commerce and technical/training institutions. But notably, in most cases public sector implementation partners were chosen, thereby missing the opportunity to build the long-term capacity of private sector intermediary organisations.
- **Despite the relatively narrow focus in terms of intervention level, the type of intervention approaches were relatively diverse.** Commission interventions included business development services (BDS), industrial upgrading, cluster development, value chain analysis and support to chambers of commerce & industry. These approaches have been used in various ways to target a range of objectives, as described in the Table A5 overleaf:

Table A 5 – Typology of Commission approaches to competitiveness upgrading¹²⁵

	Overcoming supply-side rigidities	Strengthening productive capacities	Product diversification	Encouraging innovation	Fostering involvement in value chains	Improving market linkages
Business development services	X	X	X	X	X	
Industrial upgrading	X	X	X		X	
Industry-specific cluster development	X	X		X	X	X
Geographical cluster development	X	X		X	X	X
Value chain analysis & development				X	X	X
Support to chambers of commerce & industry					X	X

- **In order to capture this diversity, the evaluators reviewed project documentation from interventions classified under several different areas of the inventory, including capacity building for intermediary organisations providing business development services, support for enterprise management and organisation, non-financial support for SMEs, non-financial support for microenterprises, and, where relevant to enterprise competitiveness and including non-investment type support, Sector Budget Support and investment promotion interventions have also been included.**

Targeting of support on the basis of enterprise needs analyses (JC6.1)

- **With specific regard to business development services (BDS), the Commission's 2005 PSD Guidelines explicitly endorse the BDS market development paradigm developed during the late 1990's and early 2000's by the multi-donor Donor Committee for Enterprise Development (DCED). Indeed, 50% of the BDS-focused CSPs and RSPs reviewed during the desk phase explicitly targeted sustainable reinforcement of the structures and functioning of local BDS markets, as the market development paradigm dictates.**
- This paradigm entails a focus on the development of a sustainable market in business development services in partner countries, rather than the direct provision of such services by donor organisations.
- **Within this context, Commission PSD Guidelines specifically identify the need for market surveys and identification studies, but evidence suggests that this was not translated at the project/intervention level:**

¹²⁵ Adapted from European Commission, *PSD Guidelines*, 2010 pp.159-160.

- The 2010 PSD Guidelines emphasise the importance of market surveys¹²⁶ and also provide an indicative list of questions to be addressed by such an assessment and a list of diagnostic tools for identifying local problems to be addressed by, among other things, BDS-type interventions.
 - But of the 35 surveyed EUDs that conducted competitiveness upgrading activities, 42% (15) reported that needs analyses were either rarely conducted or not at all. In contrast, only 23% (8) said that needs analyses were systematically conducted.
 - Several activities were found within the evaluation case study selection that did not include thorough needs analysis prior to implementation. The Competitive Jamaica intervention (see below) in Jamaica, the ASMEP intervention in Kenya and the SEEP intervention in Jordan, for example, were conducted without formal needs analysis.
 - Regarding the implementation of the BDS market development paradigm, the results of the EUD survey suggest that EUDs view this as only a mitigated success: of the 35 surveyed EUDs that conducted competitiveness upgrading activities, 57% (20) reported that the support helped foster a sustainable market in most or some cases.
- **The absence of a systematic approach to market analysis during the design phase of competitiveness upgrading activities led to three distinct weaknesses:**
- In several of the evaluation case study interventions¹²⁷ and elsewhere, **beneficiary selection was hampered by the absence of systematic identification studies during project design.** Problems included the selection of public sector beneficiaries with limited capacity or willingness for implementing the activities as well as the passing over of other well qualified local providers, including technical institutes and universities. For example:
 - The *ex post* evaluation of the Competitive Jamaica intervention cited problems with target group definition which it argued stemmed from the absence of a formal assessment of target group needs.¹²⁸
 - The evaluation of Commission support to El Salvador (1998-2008) suggests that poor needs assessment in this case led to inadequate targeting of micro and small enterprises.¹²⁹
 - **Interviews also suggested that an opportunity was missed in countries such as Morocco, Jordan or Vietnam, where trade liberalisation processes were taking place over the evaluation period.** In these cases, stakeholders argued that more thorough needs analysis of SME preparedness for trade liberalisation –

¹²⁶ As noted in the PSD Guidelines 2010: “A proper understanding of the existing BDS landscape...is a key prerequisite for designing BDS-related interventions. This requires undertaking a BDS market assessment.” European Commission, *PSD Guidelines*, 2010, p.176.

¹²⁷ E.g. the “Competitive Jamaica” intervention in Jamaica, ASMEP in Kenya or VPSSP in Vietnam

¹²⁸ European Commission, *Ex-post evaluation of Competitive Jamaica / PSDP*, 2003

¹²⁹ ADE for European Commission, *Evaluation Commission support to El Salvador*, 2010, p39

and the impact this had on competitiveness upgrading needs – would have helped to tailor support to the country context.¹³⁰

- **Finally, interviewees in Vietnam and Kenya argued that the absence of a systematic use of identification studies made it impossible to tightly target smaller segments with the greatest poverty reduction potential, e.g., rural/remote areas; excluded ethnic minorities.** This point was of particular relevance in lower and upper middle income countries, where pockets of poverty remain, such as South Africa and Vietnam.

Appropriateness of the delivery channels or intermediary organisations (IOs) for this support (JC6.2)

- **The Commission's selection of delivery channels for competitiveness activities often prioritised implementation via government bodies and ministries rather than private business development IOs:**
 - Stakeholders in Kenya, South Africa, Vietnam, Algeria, Morocco and Jordan all noted that competitiveness activities were channelled through government ministries and agencies;
 - Each of the 10 competitiveness activities in the evaluation case study was implemented via partner country government bodies, with the exception of the Centralised Operation PROINVEST.
- **The rationale provided by EUDs for selecting public sector implementing partners often focused on constraints in working with the private sector rather than assessments of the delivery capacity of public sector organisations:**
 - Delivery capacity was used as a key selection criteria in many cases, but not all: of the 35 EUDs surveyed that were conducting competitiveness activities, 48% (17) said that delivery capacity was used (either systematically or in most cases) as a key selection criteria for intermediary organisations; whilst for the remaining 52%, usage of this selection criteria was either less prominent or unrecorded.
 - The most common explanation provided by EUD officials for selecting public sector partners was that EU rules and procedures, in particular those governing the 9th EDF,¹³¹ made it difficult to select private sector organisations as implementing partners without launching an open call for tenders, which proved impractical in the timeframes involved.
- **Consequently, major segments of potential beneficiary enterprise, mainly smaller SMEs, were missed or excluded in view of the complexity of the application procedures, requiring them to hire specialised services simply to fill application forms (not even in the local language in certain cases). Accountability for**

¹³⁰ As noted in the European Commission's PSD Guidelines 2005, developing a tailored approach in this manner is indeed part of the objective of the "BDS market development paradigm" referred to above. European Commission, *PSD Guidelines*, 2005, p.64.

¹³¹ European Commission, *Practical Guide to contract procedures financed from the 9th European Development Fund*, 2004. EUD staff consulted during the evaluation field phase argued that the revision of the PRAG documentation during the evaluation period meant that procedures in place for the 10th EDF were less restrictive than those for the 9th.

the application of non-adapted procedures often took precedence over accountability for results at the enterprise level.

- **Moreover, a range of stakeholders noted problems with this approach:**
 - Government ministries were often cited as lacking **capacity** or **competence** to provide support to private sector organisations¹³²;
In countries still in transition towards market-based economies, the **commitment** of government ministries to private sector reform was also questioned by stakeholders, sometimes to such an extent that stakeholders argued delivery through non-governmental intermediary organisations was the only realistic option;¹³³
 - Private sector IOs were not selected as delivery channels (such as in Jamaica and Jordan) due to their assessed lack of capacity, whereas in fact opportunities were missed for precisely building-up their capacity in a sustainable way;
 - Working with large government ministries increased the **delays** occurring from procedural requirements of the partner country government departments;¹³⁴
 - Finally, channelling money through partner country governments reduced the **visibility** of EU support among final beneficiaries (e.g., Kenya).¹³⁵
- **Finally, satisfaction levels with the chosen intermediary organisations were rather low:**
 - Of the 35 EUDs surveyed that were conducting competitiveness activities, only 46% (16) said that they were satisfied with the selected organisations in most cases. The overwhelming majority of these 16 EUDs, however, had also reported using delivery capacity as a key selection criteria (see above), suggesting that usage of this criteria had an impact on satisfaction levels.
 - In addition, several interviewees in the field (e.g., in Algeria, Jamaica, Jordan, Vietnam) questioned the ability of the selected intermediary organisations to represent the private sector and/or noted the absence of other, well placed, local organisations including industry member organisations or technical/training institutes that had visibility within the partner countries.

Impact on beneficiary enterprises' capacity and ability to access markets & technologies (JC6.3 & JC6.4)

- **The impact on final beneficiary access to new markets and technologies was not systematically monitored by EU Delegations.** This can in part be explained by the focus on meso-level interventions, for which EUDs did monitor the impact on intermediary organisations supported by Commission activities under this intervention area, but did not systematically measure the impact on final beneficiaries.

¹³² This was noted in particular in Vietnam, Kenya and Jamaica.

¹³³ This was noted in particular in Ukraine and Vietnam.

¹³⁴ This was noted in particular in Kenya and South Africa.

¹³⁵ See, in particular, the debriefing presentation given to the EUD in Nairobi, Annex 6.

- **Nevertheless, some examples of successful competitiveness activities were seen in some countries, particularly in the Maghreb, Jamaica and Nicaragua.** Common success factors included:
 - Provision of **direct capacity building grants for enterprises**, e.g., SEEP in Jordan or PRAMECLIM in Nicaragua
 - Provision of **non-financial support** (e.g., transfer of know-how and expertise from EU) was often as important as the financial support (e.g., Jordan, Algeria and Morocco).
- But it was also stressed that the end impact on enterprise competitiveness is heavily determined by the enabling environment, e.g., transport infrastructure, electricity costs, regulations¹³⁶.

¹³⁶ See, for example, the debriefing presentations to EU Delegations in Jamaica and Nicaragua, Annex 6.

EQ 7 on investment promotion

To what extent did EU support contribute to increased cross-border investment in partner countries' private sectors?

The place of investment promotion and inter-enterprise cooperation activities within the Commission's PSD portfolio:

- Investment promotion and inter-enterprise cooperation activities were listed as one of the five key activity areas of the Commission's 2003 Communication on support to PSD in third countries (COM(2003) 267) ;
- Total expenditure on investment promotion over the evaluation period amounted to €452 million, or one-fifth (19%) of the €2.4 billion EU's direct PSD support (see Figure 2.2 in the Main Report).
- This support was spread across approximately half of the countries where the EU provided direct PSD support.¹³⁷
- In the countries targeted for country visits under this evaluation, investment promotion was not a focus in Kenya, Morocco, Ukraine and South Africa.

Use of investment needs analyses to target support (JC7.1)

- **The systematic use of investment needs analysis to target investment promotion support was not mandated by Commission PSD strategy documentation** (notably, COM(2003) 267 and the 2003 Guidelines). This contrasts with the approach to business development services (BDS), as noted under EQ6.
- **At the level of CSPs/RSPs, there is evidence to suggest that investment needs analyses were not systematically included as a base for investment promotion activities.** The desk review of 40 CSPs/RSPs covering the evaluation period included seven papers¹³⁸ that foresaw support to investment promotion agencies, meetings and events. Of these, only two based this support on an analysis of investment needs of the enterprises in the country or region. This was also supported by the field interviews with EU Delegations, suggesting that systematic needs analyses were not conducted.
- **At the level of individual interventions, evidence suggests that the use of investment needs analysis was *ad hoc* rather than systematic:**
 - In some interventions included in the evaluation case study,¹³⁹ country constraints on investment were referred to in project documentation, including sectoral opportunities for international investment and associated potential for export earnings in specific industries;

¹³⁷ EUD Survey respondents from 23 out of the 54 EUDs (43%) surveyed by the evaluation reported investment promotion activities in their countries during the evaluation period.

¹³⁸ Asia 2005-2006; Lebanon & Russia 2002-2007; Caribbean, Euro-Med, Morocco and SADC 2008-2013

¹³⁹ See, for example, the Caribbean Association of Investment Promotion Agencies (CAIPA) and the Sector Reform Facility (SBS) in Jordan, as described in Annex 2.

- In other cases, even where EU support was explicitly targeted on investment promotion activities, the project documentation did not contain a formal analysis of enterprise investment needs.¹⁴⁰
- **However, it should be noted that at least one Centralised Operation, the Private Sector Enabling Environment Facility (“BizClim”) specifically targeted the conduct of investment needs analyses in countries with limited available information.** BizClim’s activities were intended to identify specific bottlenecks to private sector growth in ACP countries, including *inter alia* production and dissemination of investment guides, tackling of administrative barriers and regulations, and advocacy of the one-stop shop concept for investment promotion.

Results of business-to-business meetings and investment promotion events (JC7.3)

- **Monitoring of the results of investment promotion activities was conducted by a minority of EUDs, but not systematically:**
 - 35% of EUDs reported that they monitored investment flows resulting B2B meetings;
 - 43% reported monitoring of the quality of new business relationships;
 - 39% reported monitoring of foreign direct investment flows resulting from Commission activities;
 - However, an average of 78% of EUDs that conducted investment promotion activities reported that they were not aware of whether the results were in line with expectations or not.
- **Whilst the outputs of the Commission’s investment promotion activities were generally reported as positive by stakeholders, the final results stemming from these activities were less clear:**
 - Stakeholders interviewed in several countries¹⁴¹ noted that the investment promotion events were well attended and specific outputs were achieved, e.g., by encouraging participant enterprises to sign of letters of intent regarding future collaboration
 - But the impact of these events were more often than not below the expectations of the EUDs themselves: when asked whether the results of these activities were in line with expectations, only 15% of EUDs agreed regarding impact on new investment flows, 17% with respect to the quality and impact of business relationships created by these events, and only 9% with respect to foreign direct investment resulting from Commission activities.

¹⁴⁰ For example, neither the Industrial Modernisation Programme in Jordan (EJADA) nor the Appui au Développement des PME/PMI in Algeria included investment needs analysis in their respective financing agreements. In the latter case, the initial objective of facilitating access to finance for SMEs was ultimately revised in the light of a poor analysis of SME investment needs (European Commission, Rapport Évaluation Finale PME I (2008)).

¹⁴¹ Including, for example, South Africa, Jordan and Morocco.

Results of investment promotion activities on SMEs and investment-related intermediary organisations (JC7.2 & JC7.5):

- **Commission Communications and Guidelines specifically emphasised the importance of both (i) SME-focused investment promotion activities and (ii) investment-related intermediary organisations:**
- **Commission Communications and Guidelines specified the importance of meso-level interventions for investment promotion:**
 - Commission Communications pinpointed the potential for “strengthening the role of Investment Promotion Agencies (IPAs) and other private intermediaries (Chambers of Commerce and Industry, professional associations, consultancies) and providers of investment - related business services”.¹⁴²
 - Commission Guidelines also specify the importance of tailoring investment-related services to SMEs, e.g., the 2003 PSD Guidelines, which state that all investment promotion activities “*are mainly intended for SMEs*”.¹⁴³
- **However, results in both these areas were noticeably weak:**
 - Of the case study and field phase interventions reviewed, only one intervention successfully implemented support to investment-related intermediary organisations: the support to CAIPA, which provided institutional capacity-building to investment promotion agencies across the Caribbean. In contrast, both the Appui PME/PMI in Algeria and the Appui aux Enterprises in Morocco had to cancel key elements of their planned support to intermediary organisations due to implementation difficulties associated with the IO support in particular.
 - In one country visited (Jordan) intermediary organisations were of the opinion that direct or sectoral B2B linkages would yield more results than larger and more diluted investment promotion events.
 - In the same country (Jordan) the investment promotion agency reported significant results, but these could not be confirmed by the EUD. Regarding support to SMEs, evidence suggests that the Commission did not adequately meet the investment needs of SMEs in this regard. Of the 23 EUDs that reported investment promotion activities in response to the EUD survey, only 39% reported that SMEs had been adequately targeted by investment promotion activities.
 - Stakeholders met during the field phase also reported that the investment needs of SMEs are overlooked by EU support¹⁴⁴. Interviewees suggested that the support provided to investment promotion activities which was channelled through government ministries and/or large chambers of commerce often targeted larger enterprises rather than increasing outreach to smaller organisations with lower capacity levels. Several stakeholders suggested that tailored SME information centres for investment promotion would be more useful in this

¹⁴² European Commission, COM(2003) 267, p.7

¹⁴³ European Commission, *Guidelines for Commission support to the business sector*, 2003, p.34

¹⁴⁴ Including in, for example, Algeria, Kenya and Vietnam.

regard than large-scale projects channelled through national chambers of commerce.

Encouragement of FDI (JC7.4)

- The Commission's 2003 PSD Communication stress the importance of increased FDI, alongside domestic resource mobilisation, in terms of increased knowledge transfer and development of management skills. Specifically, **the Communication describes increased FDI as one of the reasons motivating investment promotion activities in third countries.**¹⁴⁵
- **However, there is evidence to suggest that monitoring of FDI flows resulting from Commission investment promotion activities was not comprehensive:** FDI flows were monitored in only 39% (9) of the 23 EUDs surveyed that conducted investment promotion activities
- **Consequently, EUDs were not in a position to set or achieve targets regarding the levels of FDI flows as an impact of their PSD interventions:**
 - The overwhelming majority (80%) of the 54 EUDs surveyed during the evaluation were not able to say whether Commission activities had impacted FDI flows in line with their expectations or not;
 - The remaining 20% were roughly evenly split between the number of EUDs which felt the impact on FDI flows was in line with expectations (5) and the number which felt the impact was below expectations (6).
- **However, it is questionable whether the targeting or even of measuring the impact of Commission activities on FDI flows is feasible.** The evaluation of Invest in Med, which specifically targeted increased FDI in the Mediterranean region, concluded that the overriding influence of external factors on FDI flows (e.g. national and international macroeconomic conditions) make analysis of EU development cooperation's contribution to FDI evolutions impossible.¹⁴⁶

¹⁴⁵ European Commission, COM(2003) 267, pp.6-7

¹⁴⁶ European Commission, "Ongoing Evaluation of the Project "Invest in Med"", 2011.

EQ 8 on Employment

To what extent has the EU PSD support contributed to facilitating the generation of employment?

Extent to which the generation of employment has been a concern of the EU when providing PSD support¹⁴⁷ (JC8.1)

Although the EU's overall strategic framework has increasingly recognized the importance of the private sector as a means of generating employment, this concern has not trickled down to country and intervention levels. Rather, the EU has isolated its attention to employment from its PSD assistance and addressed it under education, vocational or social assistance in an effort to improve labour force employability.

Attention to employment within PSD assistance grew over the evaluation period but, overall, while employment and job creation were mentioned in the documents which laid the strategic framework, they were not central.

- While COM (267) 2003 stresses that a dynamic private sector is essential for economic growth and provides the main source of employment in developing countries, particularly when the informal sector is included¹⁴⁸, employment generation or improvements in labour conditions have not been put at the centre of the Communication on PSD assistance.
- The 2003 PSD Guidelines indicate that the prime objective of PSD support varies from one region to another, but nowhere are employment concerns clearly set out: “*in all third countries, the private sector is an instrument for fostering development, but in the ACP countries its main objective is to fight poverty; in the Asia and Latin America region (ALA countries) the private sector contributes to supporting economic and social development; in the Mediterranean region its primary role is to help establish and support a free trade area*”¹⁴⁹. Job creation is also mentioned in the description of two of the five categories of activities to be supported by the European Commission, namely “*Investment and inter-business cooperation promotion activities*” and “*Support for Microenterprises*”. The link made between job creation and poverty reduction is however weak.
- The effects of PSD on employment feature much more prominently in the 2010 Guidelines which state that “*Employment issues clearly need to be taken into consideration in TPSPD programmes. Given that high levels of unemployment feature strongly in most developing countries, impact on employment must be taken into account as from the stage of identification and design of the programmes*”¹⁵⁰. The Guidelines also mention that attention needs to be paid

¹⁴⁷ JC 8.1 and JC 8.2 as they stand in the Inception Report have been inverted in the present report for purposes of clarity.

¹⁴⁸ Communication from the Commission to the Council and the European Parliament - European Community Cooperation with Third Countries: *The Commission's approach to future support for the development of the Business sector*, p. 2.

¹⁴⁹ European Commission, *Guidelines for European Commission Support to Private Sector Development*, 2003, p. 8.

¹⁵⁰ European Commission, *Tools and Methods Series Reference Document No 10, Trade and Private Sector Policy and Development Support programmes financed by EU external assistance*, 2010, p.27.

to the effects of opening-up of trade on employment¹⁵¹, notably by “*adapting targeted programmes for skills development and requalification (e.g. through vocational training aimed at facilitating the transfer of labour to other promising sectors of the local economy, in the longer term)*”¹⁵², as well as to the type and quality of work that the private sector generates¹⁵³ and also on its gender effects¹⁵⁴.

- Another reason for the employment impact of PSD to be of concern to the EU is, as emphasized by stakeholders in the countries visited (notably Jordan and Kenya), the importance of generating employment as a source of stability, given extremely high rates of youth employment. It is noteworthy that the FEMIP 2011 Annual Report devotes considerable analysis to this issue.

CSP/NIP-RSP/RIP and project documents show that the importance and level of priority given to employment generation, or of its quality, in PSD assistance has varied depending on the context, on specific needs, and on national priorities:

- **Employment concerns were not systematically mainstreamed in the economic reform and private sector support provided.** The Thematic Evaluation of the Commission's support to Employment and Social Inclusion in third countries (1999-2008) indicated that “*ESI-related support is often relatively weak or merely applies an indirect focus on employment creation in the majority of its [economic growth and promotion of the private sector] interventions*”¹⁵⁵.
- **A majority of CSPs/NIPs and RSPs/RIPs which programmed support for PSD included specific reference to employment generation but only as one objective among others**¹⁵⁶. Some CSPs mention more specifically the negative effects of privatization on employment and of exposure to more competitive markets (Egypt, Jordan, and Jamaica). Similarly, 43% of EU Delegation staff survey respondents have considered that “*employment generation has been an objective of some PSD interventions but not all*” and a quarter considered that “*employment generation has not been an objective in most PSD interventions*”.
- **In the MEDA/ENPI South region job creation was in some cases considered in the assistance, given the risk of an increase in unemployment following the opening-up of national economies.** For example, in Algeria this risk, which was a result of the lack of competitiveness of Algerian SMEs following the opening-up of its economy and the WTO accession negotiations, informed the “*Appui PME/PMI Algeria*” intervention. In other cases integration into the European and global markets

¹⁵¹ *Op.cit.*, p. 36. “Opening up domestic markets to greater competition or the adoption of higher technology could displace production out of uncompetitive sectors leading to unemployment and income loss in the short run in those sectors as the economy adjusts to new conditions.”

¹⁵² *Ibid.*

¹⁵³ *Ibid.*

¹⁵⁴ *Op.cit.*, p. 125.

¹⁵⁵ DRN-Particip (for the European Commission), *Thematic global evaluation of EC support in the sectors of ESI (employment and social inclusion) in partner countries*, 2011, p.2 and 4.

¹⁵⁶ Amongst the 32 CSPs/NIPs and RSPs/RIPs reviewed which included PSD support as a priority or non-priority focal area, the generation of employment, as an objective of Commission PSD support, is mentioned in 69%. It is mentioned more in the first programming period (in 73% of the relevant CSPs) than in the second programming period (53%).

was given higher priority, as stated in the 2003 Guidelines “*in the Mediterranean region [the private sector’s] primary role is to help establish and support a free trade area*”¹⁵⁷.

- **The limited prioritisation given to employment issues within the EU’s PSD assistance is reflected in the selection criteria for potential beneficiaries - at intervention level - which were often not employment-oriented**, e.g. selection of beneficiary based on labour-intensity or on labour standards. Exceptions existed where a clear employment objective was included in the programme, such as the banana, rum and rice support programmes in the ACP.
- **In addition, in some cases employment generation was lost sight of at intervention level.** For example, in Jamaica, while the link between PSD, employment and poverty reduction was central to the CSP under the 9th EDF¹⁵⁸ in response to the Government’s objective to “*resume growth with employment creation and that growth is expected to be led by the private sector*”¹⁵⁹, the generation of employment was neither a major nor an explicit objective of the PSD programmes¹⁶⁰. In Vietnam, while the 2002-2007 CSP mentions the need for employment creation within the State Owned Enterprises reform process¹⁶¹, it was not reflected in the EU’s PSD projects. Similarly in Ukraine, while support to the creation of a middle class was an overarching objective of the EU’s assistance, in line with the government’s, almost no attention was given to the effects of its PSD assistance on employment.
- **In some countries employment was considered in relation to education, vocational curricula and training and to match the private sector’s needs in terms of a skilled labour force.** For example, in Nicaragua the CSPs indicate that the Commission consistently - in both programming periods - aimed to support education and vocational training, taking private sector needs into account¹⁶². This was also mentioned in the CSPs/NIPs for Jordan, Algeria (2nd period), Vietnam (1st period) and Nicaragua.

¹⁵⁷ European Commission, *Guidelines for European Commission Support to Private Sector Development*, 2003, p. 8.

¹⁵⁸ “*Achieving sustainable private sector growth and employment creation*”, CSP, p.28.

¹⁵⁹ MTSEPF, p.25.

¹⁶⁰ Namely under the 8th EDF Trade Development Programme and under the 9th EDF PSDP.

¹⁶¹ Which is part of the second focal point (“*Integration into the International Economy – promotion of the private sector*”) and was supported under the successive PRSCs.

¹⁶² “*Non-governmental bodies, and in particular the private sector, will be actively encouraged to take part in both the planning and implementation of EC cooperation in this focal sector.*” (CSP 2002-2006, p.29) and “[T]he EC made a long-term commitment and will continue to support and co finance the 2001- 2015 National Education Plan, with a special emphasis on primary and secondary schools as well as vocational training based on an assessment of the private sector’s needs.” (CSP 2007-2013, p.26).

Employment *standards* (labour standards, CSR, wages) were rarely considered or mainstreamed in PSD assistance:

- While a substantial share of survey respondents considered employment standards to be an important issue to address within PSD assistance, only few were aware of a EU approach towards this. More problematic is that fact that there is some evidence that this also applies to contexts where employment *standards* were more important than the actual *generation* of employment (Nicaragua). While 39% of respondents considered that “promoting the Decent Work Agenda” was “very important” as a cross-cutting issue in relation to support to PSD in the country they cover¹⁶³, the largest share of survey respondents (32%) answered that they did not know whether the Commission had a specific and systematic approach to promoting the “Decent Work Agenda”¹⁶⁴.
- In some of the countries visited this lack of consideration was explained by the organizational split whereby employment-related considerations have been handled by the Social Sections of the EUD/ HQ Units rather than being mainstreamed in PSD programmes.

It is worth mentioning, despite its being out of the timeframe of the present evaluation, that **current evidence indicates increased attention by the EU to the employment effects of its PSD support**, especially in ENPI South and especially following the 2010-2011 Arab Spring and the importance of youth employment as a factor in social unrest.

Extent to which the EU monitors employment effects (JC8.2)

The EU has generally not assessed the effects of its PSD assistance on employment.

- The COM 2003 does not give any indications on the monitoring and evaluation of the effects of PSD on employment. The 2010 (T)PSD Guidelines also limit themselves to suggesting a generic employment-related indicator (“*Increased level of employment*”) in the exercise of monitoring and evaluating “enabling environment” support programmes specifically.
- The Employment and Social Inclusion evaluation has found that “*at the programme design level, major weaknesses exist in the lack of ESI-related indicators - such as job creation and levels of social protection*”¹⁶⁵. As a result, it recommends the introduction of adequate employment indicators¹⁶⁶.

¹⁶³ Regardless of whether the Decent Work Agenda was effectively taken into account or not. 23% of respondents considered that “promoting the Decent Work Agenda” was “not so important” as a cross-cutting issue in relation to support to PSD in the country they cover (regardless of whether they were effectively taken into account or not); 16% of respondents considered it was “critical”; 13% of respondents considered it was “of marginal importance” and 9% did not know.

¹⁶⁴ 25% answered that the Commission did have a specific and systematic approach to promoting the “Decent Work Agenda”, including for PSD support; 20% answered that the Commission did have a specific and systematic approach to promoting the “Decent Work Agenda”, but *not* for PSD support; 18% answered that the Commission did *not*.

¹⁶⁵ *Op. cit.*, p. 3.

¹⁶⁶ *Op. cit.*, p.4.

- An approach to monitoring PSD's employment effects was mentioned in 21% of the reviewed CSPs and RSPs which included PSD support as a priority or non-priority focal area of the Commission's cooperation; however this was considerably more true in the first programming period (33%) than in the second (6%). When such an approach was mentioned, indicators were also included in the NIPs and RIPs.
- PSD programmes' effects on employment were not clearly monitored or identified. It was reported that the systematic monitoring of employment generation only occurred in 4% of cases. For example in Algeria and Morocco, although the "*Appui PME/PMI Algeria*", "*Appui aux entreprises –Maroc*" and "*Appui aux institutions financières- Maroc*" included job creation in their performance indicators, a lack of follow-up mechanisms to measure impact on employment was evident. In Jamaica, employment was intended to be monitored under the PSDP but in the end this was not done. **A number of interventions, although aimed at having an effect on employment, did not include any employment-related indicators.** This was the case in a number of SBSs¹⁶⁷. For instance the SBS "*Employment Creation, Sector Policy Support to the Economic Cluster Programme of Action*" in South Africa aimed at creating long-term quality employment but indicators for monitoring this objective were not employment-related¹⁶⁸.

The following reasons for the shortcomings in the monitoring of employment effects have been identified:

- In some cases, while employment creation or improvement in employment standards were included at strategy or programming levels, practical implementation at project level lost sight of this issue and the effects on employment were therefore either not monitored or were only vaguely.
- M&E has tended to focus on the assessment of interventions' *short-term* effects, whereas employment is considered a *long-term* effect of PSD support. Within the Commission's project cycle, once an intervention comes to an end no additional monitoring of longer-term effects is expected to be carried out. Because of this, growth in sales and market shares were generally the preferred performance indicators.
- A direct link between EU-supported PSD activities and employment generation has been considered hard to verify with the consequence that most assessments of direct and indirect job creation have been estimates.
- The reliability of employment statistics was also called into question by some survey respondents as well as during some field visits (Morocco, Jamaica, Ukraine, and Nicaragua).

¹⁶⁷ Based on the detailed list of the 24 SBSs which supported TPSD over the period 2005-2009, provided by unit E4 of DEVCO, three SBSs (the 2007 "Employment creation" SBS in South Africa, the 2007 SBS "Poverty Reduction through Private Sector Development employment and growth" in Grenada, and the 2009 "Economic Growth and Trade (Procalidad)" in Nicaragua) identified employment generation as central to the support but only one of the three included any employment-related monitoring indicators: the 2006 "Sector Wide Enterprise, Employment and Equity Programme (SWEEP)" in South Africa included one relevant indicator: "*Number of jobs created as result of Industrial Development Corporation actions*".

¹⁶⁸ «*Increase in the number of exporting firms*» and "*Implementation of Competitive Supplier Development Programmes (CSDP)*" and "*Number of companies implementing cleaner production activities*". Source: European Commission, *Annex A: Performance indicators used for disbursements, Technical and Administrative Provisions*, p.10-11.

- As reported by the EIB, one needs to be realistic about PSD's impact on job creation. Job creation is not always present in the more sustainable projects; competitiveness upgrading may actually result in employment shedding. But among the more sustainable projects there have been opportunities to select those that are more labour-intensive.

Extent to which EU support to formalisation of MSMEs has contributed to increased employment opportunities and JC 8.5 Extent to which EU support has contributed to the transition of entrepreneurs from the informal to the formal sector (JC8.3)

Formalisation of the PS not having been an important area of the EU's PSD assistance in third countries over the period 2004-2010, the contribution of the Commission's assistance to the informal sector on employment (access to and conditions of employment) has been limited:.

- Support for the formalisation of the economy as an area of EU intervention is mentioned in the 2003 PSD Guidelines, and informal actors are also included among beneficiaries to be supported¹⁶⁹. The 2010 Guidelines clearly indicate the purpose of supporting the formalization of the economy as *“improving conditions for self-employment, can be an effective way of making economic opportunities accessible to the poor and therefore of fighting poverty”*¹⁷⁰ and also describe in detail how formalization is to be addressed.
- This however is not found in CSPs/NIPs-RSPs/RIPs, in which formalisation of the private sector was rarely an objective of the EU's support to PSD. Only 7% of the CSPs/NIPs and RSPs/RIPs reviewed with PSD support as a priority or non-priority focal area include reference to support to the formalization of the private sector (entrepreneurs included). It should be noted that:
 - the Employment and Social Inclusion evaluation also finds that *“the informal economy is often overlooked [and...] the EC development strategy does not reflect adequate attention to improving access to employment and working conditions for the poor in the informal economy”*¹⁷¹;
 - this was the case even in countries where the importance of the informal sector was acknowledged in CSPs (Algeria, Jordan, Morocco, Zambia, or South Africa), an exception being Nicaragua;
 - it was found that certain stakeholders fundamentally questioned the sense of supporting the informal sector which is often made up of single shopkeepers, despite the 2010 (I)PSD Guidelines' provisions.
- **Such an important issue was not completely ignored by the EU, but attention to the informal economy was generally considered only in *ad hoc* ways rather than being rooted in a strategic approach.**

¹⁶⁹ European Commission, *Guidelines for European Commission Support to Private Sector Development*, 2003, p. 8.

¹⁷⁰ *Op.cit.*, p. 11.

¹⁷¹ *Op. cit.*, p.3.

- For example, in Kenya support for formalisation of the economy was considered as a component of individual projects (e.g. ASMEP) without being rooted in a particular strategic approach to this issue. Similarly in Jamaica the inclusion of informal companies as potential beneficiaries was included only after revision of the assistance. The mid-term evaluation of the PSDP stated that, at the start of the PSDP in Jamaica, micro-enterprises and SMEs - some of which were not registered - were not well targeted by the programme activities. As a consequence, the mid-term evaluation recommended adapting the programme to take account of the specific needs of informal enterprises.
- There is additional evidence of some support for formalisation in Nicaragua, Vietnam and Burkina Faso.

Finally, in cases where support for formalisation was provided, it is difficult to assess the impact on employment. However some of the evidence (Ukraine, Nicaragua) collected points to **the necessity of addressing formalisation in tandem with capacity-building at company level and with adaptation of the regulatory framework (I&R) to prevent adverse effects such as stifling fiscal pressure or environmental requirements.** For instance, in Ukraine the 2010 revision of the tax legislation has created perverse incentives which have discouraged SMEs and entrepreneurs from formalising themselves, thus preventing access to other support programmes such as the EBRD Ukraine Micro Lending Programme.

EQ 9 on Commission Value Added

What was the Commission's added-value when providing support to PSD in third countries?

Extent to which the Commission displaced the role and work of the beneficiaries by providing his PSD support (JC 9.1)

Before examining specific features of the Commission's added value in terms of supporting PSD, it is important to determine whether the Commission was not displacing other players when providing such support, in the first place the beneficiaries themselves.

Even if Commission documents do not highlight extensively the need to avoid displacement when providing support, they contain elements that effectively advocate it:

- The 2003 Guidelines on support to Private Sector Development, for instance, propose 'administrative and macroeconomic reform' as the first of five fields of action, given that inadequate regulatory frameworks and institutional weaknesses are key constraints for PSD in developing countries and need to be tackled by the public sector.¹⁷² Although this does not necessarily imply a specific role for the Commission, it acknowledges the need for public sector support.
- In the four other fields,¹⁷³ the necessity for support from a public agent is not as evident, but even so the Commission has included in its policies provision for elements that ensure that the added value of its support is considered prior to action.¹⁷⁴

Despite some specific examples, it cannot be stated that the Commission applied systematic and structured practices to avoid such displacement:

- The Commission has devoted a substantial amount of funding for I&R reforms (see also EQ 4). As said above, this is potentially a field in which the Commission can provide clear value added, but the evaluation does not provide evidence that the Commission did not displace the beneficiary authorities. There are nevertheless examples of the Commission striving for real value added in this respect, such as the South African example discussed under EQ 2.
- Only 8% of CSPs/RSPs reviewed mentioned that beneficiaries were not in a position to provide the support themselves or to provide it as swiftly and with the same result as the Commission itself.
- Nor did the meta-analysis of evaluation reports allow identification of a trend in this respect:
 - most reports did not address the extent to which beneficiaries could or could not implement a programme without the Commission's support;
 - in some cases the Commission's support was described as indispensable if beneficiaries were to be able to benefit from the programme¹⁷⁵;

¹⁷² *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* (European Commission, Guidelines for European Commission Support to Private Sector Development (2003), p. 22).

¹⁷³ As a reminder these are: a) Investment and inter-business cooperation promotion activities; b) Investment financing and development of financial markets; c) developing services for SMEs; and d) support for microenterprises

¹⁷⁴ For example, with respect to the field of 'investment financing and development of financial markets', the 2003 Guidelines (*op. cit.*) state that: "A key element to consider before any intervention is the added value of EU support compared with private operations of support from other donors." In the field of "micro-enterprises" the Commission highlights the need to cover financial and non-financial services and not to focus "as most donors" do on micro-credits.

- In other cases the Commission's support was described as dispensable, for example in a Court of Auditors report on banking measures in the Mediterranean region.¹⁷⁶

Specific value added of the Commission with respect to the provision of grant support (JC 9.2)

Blending grants with non-grant resources (such as loans) has emerged over the last decade as a key new tool in development financing, particularly capital-intensive public and private infrastructure. **The Commission's key expected added value in this respect is that it can provide grant funding in complementarity with non-grant resources from financial institutions that can, if well targeted, support PSD activities.**¹⁷⁷

Blending was used in some of the countries visited and gave the Commission's support for PSD different forms of added value, for example the following:

- **The ability to leverage investment provided by international institutions.** The Commission could in this way attract public and private finance in areas of PSD that were in its area of interest. This was explicitly underlined in several strategy and project documents.¹⁷⁸
- **The ability to address certain constraints to PSD through improved complementarity between Commission and DFIs in the sector.** In PSD risk is an essential constraint and the Commission's investment facilities allowed it to bear risks that could not have been borne by DFIs without breaching their governance rules and

¹⁷⁵ In Morocco the evaluation found that the beneficiaries would not have been able to benefit from the consultancy services funded under the 'Modernisation des PME' outside the programme. '*Le financement des interventions par le PAE a ouvert la voie de la consultance à de nombreuses entreprises qui n'auraient pas pu se payer ces interventions sans cet apport financier. Parallèlement, le programme a offert aux bureaux de consultants marocains un accès plus aisé aux PME souvent hésitantes ou réticentes à recourir à la consultance, tant par manque de moyens financiers que par manque d'expérience quant à l'utilisation de consultants externes*' (ADE (for the European Commission), Evaluation finale ex-post du Programme d'Appui aux Entreprises – Maroc (2010), p.11). Similarly the recent evaluation of the Centre for the Development of Enterprise (CDE) highlighted the valuable technical assistance and professional expertise provided to enterprises at relatively low cost (ADE (for the European Commission), *Evaluation finale ex-post du Programme d'Appui aux Entreprises – Maroc* (2010), p. 11). Finally, the final evaluation of the ACP Microfinance programme highlights the fact that only a few beneficiaries have managed to leverage non-public funds, demonstrating their limited capacity to implement projects without EU support.

¹⁷⁶ 'For several projects, there was no evidence that EU participation was playing a significant role and that they would not have been realised without it'. Court of Auditors, *Banking Measures in the Mediterranean Area in the Context of the MEDA Programme and the Previous Protocols*, p.19.

¹⁷⁷ This was the case in particular with the EIB, the EBRD and other European Public Finance Institutions. Such blending took place through blending mechanisms and other regional blending facilities such as the Neighbourhood Investment Facility (NIF), the Latin America Investment Facility (LAIF), and in 2011 the Investment Facility for Central Asia (CAIF). The evaluation of the Commission's aid delivery through development banks and EIB explains for instance that the regional cooperation agreements (essentially in the MEDA and ACP regions) on which the Commission's support was based aimed precisely at complementing the EIB-managed financial instruments with Commission grants for interest rate subsidies, technical assistance, and risk capital (see ADE (for the European Commission), *Evaluation of Commission's aid delivery through development banks and EIB*, p. 82). The Commission's working group on blending mechanism explained in this respect in its 2009 final report: "Resources for external assistance are scarce while financing needs have grown globally [...] These circumstances call for finding more efficient ways of using available resources and for achieving higher "leverage effects" of external assistance through blended instrument where loan grant blending attract public and private finance in those areas of EU policy priority" (European Commission, *Working Group on the Additionality of Grants in the Framework of Blending Mechanisms* (2009), p.5). As mentioned briefly under JC 3.1, the future of EU blending mechanisms is currently at the centre of high-level discussions, within the Commission, the EIB and EU Member States. These relate for instance to a possible "EU platform for external cooperation and development", which would govern blending facilities. This should be considered in the aftermath of the recent evaluations of the EIB external mandate and of the (ACP) Investment Facility.

¹⁷⁸ The country strategy paper 2007-2013 for Ukraine states for example: "Interest rate subsidies and other ways of blending grants and loans can leverage investments by international financing institutions in the fields of environment, energy and transport" (European Commission, *Country Strategy Paper: Ukraine, 2007-2013*, p.16).

risking affecting their credit rating. This was the case for example with the resources made available to the EIB within the framework of the risk capital facility under MEDA II or with the Investment Facility for ACP countries. Another constraint is access to finance by SMEs, a problem which could be mitigated by bringing down the costs of borrowing through interest rate subsidies. This was done, for example, in one of the interventions selected for in-depth examination in the present evaluation, namely for the Risk Capital Facility 2 in South Africa which supplied low-interest or interest-free loans to enable SMEs to acquire technical assistance and training.

- **The ability of the Commission to intervene at all three - macro, meso- and micro - levels of PSD.** Through its regional blending facilities the Commission can increase the pool of investment resources available for lending institutions, who in turn can provide loans and credit lines for enterprises, in this way helping tackle supply shortages at the micro level. However, the potential of such added value was limited by the fact that no systematic effort was made to integrate the measures taken at the three levels into a coherent whole as recommended in the 2003 Guidelines for European Commission Support to PSD. For example, according to a Commission representative this could not be achieved between, on the one hand, the programmes financed by the investment facilities giving access to finance to SMEs at micro level, and on the other hand the bilateral cooperation programme at the macro and meso levels, since these programmes were designed and implemented alongside one another. Indeed, EU Delegations were not sufficiently aware of the activities financed by the investment facilities in their regions to be able to create synergies with these programmes.

It is however interesting to note that **respondents to the EUD survey did not particularly seem to regard such blending as a valued Commission VA**. Indeed, among 12 types of VA the capacity to blend grants with loans is the least mentioned as 'observed value added' (in 19% of cases). It also does not score well as 'potential' VA (10th out of 12), but scores most highly as 'not a VA' (in 35% of cases, making it the second most chosen VA in this respect). These results are perhaps explained by the fact that blending is relatively new, and moreover that its use for PSD in particular still remains limited.

It must also be noted that where the Commission provided grant funding for risk mitigation to foster SME access to finance (such as guarantee schemes) under bilateral programmes, these schemes were not well conceived (probably through lack of technical expertise); this was the case in Jamaica and Jordan, though in Morocco the PAIGAM scheme had discernible results.

Specific value added of the Commission compared to the support provided by other public agents, in particular but not only the EU MS (JC 9.3)

Stakeholders both within and outside the Commission highlighted different types of 'observed value added':

- The *financial weight*: the Commission was indeed often an important funder in the country:
 - in some countries (for instance in Nicaragua or Jamaica where the Commission was the largest grant donor), stakeholders highlighted that this enabled the Commission to intervene at macro, meso and micro levels; *but*
 - that said, some stakeholders also underlined that the potential for leveraging this weight was not being, or could not always be, realised (cf. below);

- The **trade mandate** of the Commission and its knowledge with respect to **compliance with EU market requirements** :
 - this was clearly mentioned in the MEDA countries, but also elsewhere such as in Nicaragua and Vietnam;
 - the Commission's capacity to 'promote a national impetus' for PSD, including reform acceleration, was mentioned in this respect (notably in Jordan and Kenya);
- The capacity to **transfer EU good practices**, both on specific PSD issues *via* innovation and demonstration effects (for instance in South Africa and Morocco), but also on more general issues such as governance and accountability, as was mentioned in Kenya.
- The fact that the Commission was perceived as being **less tied to specific economic or political interests than bilateral donors**;
- The **capacity to use a variety of support mechanisms and modalities** was mentioned during several country visits (e.g. Morocco, Nicaragua), but these were among the least mentioned by EUD survey respondents (ranking respectively 10th and 11th out of 12), although then again they considered the broad range of funding vehicles and programmes to be among the Commission's most important underutilized VAs (3rd out of 12);
- Several stakeholders also mentioned the Commission's **continued presence and focus on poverty reduction**, whereas other donors left for reasons of unrest (for instance in Nicaragua) or because the country had graduated to middle-income country status (e.g. in South Africa or Ukraine).

Commission representatives also invoked different types of potential VA that in their view were underutilized:

- In some countries the Commission had the potential to have **specific political leverage which however did not always materialize**. This potential leverage arose from the fact that the Commission had substantial financial weight or strong political, historical or economic links with a country. It did not always materialise for various reasons:
 - In South Africa, for instance, one could expect such leverage, not so much in terms of ODA, as this represents only around 1.3% of the countries' budget (even if the EU provides the lion's share), but because of the strong trade links (70% of South Africa's trade is with Europe). Even so, stakeholders explained that, for instance, the South African authorities were much more focused on the other BRICS and that the Commission's leverage was quite limited.
 - Even if this was the third most mentioned VA by EUD survey respondents (44%), it was also the fourth most frequently mentioned in terms of potential but underutilized VA (41%).
- The **capacity to build synergies with other institutions** (EDFIs, EIB, World Bank, etc.) and **ensure coordination among EU players**, did not really come out as a VA:
 - Weaknesses were observed in this respect, as noted already under EQ 2. It should however be recalled that the country visits permitted the observation that, notably in middle-income countries such as South Africa and Vietnam, such weaknesses in coordination fell outside of the range of the Commission's action as some EU MS had decided to leave the country or focus on their own strategies and interests.
 - During the country visits stakeholders did not mention these elements as a VA.
 - Among the 'observed' types of VA these are less ticked by EUD survey respondents (respectively 28% and 33%), but they are respectively the first and second most often ticked in terms of underutilized potential (54% and 46%). This

indicates that Commission representatives feel that an opportunity has been missed in terms of VA.

Survey results suggest that Commission representatives did not have a clear and shared conception of what the Commission's VA was or should have been when it came to supporting PSD, or at least that they saw it as very dependent on the country-specific context. Indeed, apart from the elements mentioned above, survey results provide no very clear pattern of both observed and potential types of VA. As shown in Table A6 below, in the first case the percentage of respondents choosing a specific VA varies between 19% and 50%, while in the second it varies between 24% and 54%, but with none standing out very clearly.

Table A 6 – EUD respondents' views on observed and potential but underutilised VA

	Observed	Potential
Linkages with other types of support	50%	39%
Country-specific knowledge (overall)	46%	28%
Conducting policy dialogue	44%	41%
Provision and demonstration of best practice	39%	24%
Technical expertise	37%	37%
Ensuring coordination	33%	46%
Capacity to combine efforts with other institutions	28%	54%
Critical mass of financial support	28%	35%
Long-term partnerships	24%	35%
Diversity of aid modalities	22%	31%
Funding vehicles and programmes	20%	46%
The capacity to blend grants with loans	19%	31%

EQ 10 on Means provided

To what extent were the Commission's organisational set-up and management practices fit to a successful implementation of its PSD support?

Extent to which devolution facilitated the implementation of the EU PSD support (JC10.1)

The Devolution process, which started in 2000, facilitated the design and implementation of the EU's PSD assistance. However as devolution was partial and was accompanied by other organisational choices, some negative effects were also identified.

In 2000 the European EU made its Delegations responsible for the management of external aid¹⁷⁹.

- Devolution aimed to make the EU's external actions more responsive to local needs; facilitate coordination between donors and speed up implementation; improve the impact and visibility of the external assistance; and, more generally, make the EU a more accessible and service-oriented donor.
- Delegations were expected to take on a more active role in presenting, explaining and implementing EU policy, in analysing and reporting on developments in partner countries and in conducting negotiations based on a given mandate.

Evidence shows that devolution has had positive effects on the provision of PSD assistance, notably proximity to beneficiary and other international actors in country allowed for improvements in the design (relevance/quality) and implementation (responsiveness and flexibility) of assistance. 74% of EUD staff surveyed considered that devolution facilitated both the design of the EU's PSD support and its implementation¹⁸⁰. In addition, all field visits confirmed that that proximity contributed to better programming of PSD support as local stakeholders could make direct inputs and as political dialogue could feed into the process.

¹⁷⁹ http://ec.europa.eu/europeaid/who/about/devolution/index_en.htm, accessed 6 February 2012.

¹⁸⁰ A number of respondents (around 20% in both cases) answered "do not know" however.

A disconnect between the bilateral assistance managed by the Delegation and the centralised operations¹⁸¹ implemented by partners who report directly to HQ (and not to EUDs) was identified.

- The evaluation of the Centre for the Development of Enterprise (CDE)¹⁸² finds that, whilst decentralisation improved the CDE's visibility and proximity to beneficiaries, the full potential was curbed by the CDE's Regional Field Offices' limited decision-making capacity, which was within HQ's mandate.
- In the case of the three banking measures supported by MEDA and managed by the EIB (Risk Capital Operations, TA and interest rate subsidies), the Court of Auditors reported shortcomings in EUD's knowledge of EIB in-country projects¹⁸³ as reporting by the EIB was made directly to HQ with insufficient involvement from EUDs concerned. The Report noted however that EIB representatives' offices in the countries had improved communication flows.
- Similar comments apply to the LAIF, the NIF and the EIB-managed Investment Facility (ACP), since identification, design and implementation has been conducted by the EIB or contracted through development agencies (e.g. AFD, KfW) in isolation from the local EUD.
- The evaluation of the EU/ACP Microfinance Programme¹⁸⁴ highlights the low priority given to Microfinance support in some EUDs as programme was not part of the bilateral cooperation envelope. In the case of BizClim-supported interventions (Private Sector Enabling Environment Facility), the evaluation reports that *"EC Delegations were not actively involved in the implementation of BizClim projects but in most cases provided opinions before approval of interventions in their respective countries"*¹⁸⁵.

The following **additional negative effects** were also noted:

- A few stakeholders highlighted **the increase in EU delegation staff's workload following the devolution process**. This, it was reported, **limited other key activities**, such as meeting and consulting with local stakeholders, keep abreast of developments at grassroots level
- **There was some country-specific evidence that the ongoing devolution process limited the efficiency of the provision of PSD support**. The country evaluation for Jamaica reports that under the 9th EDF the division of labour between HQ and EUD was unclear and this affected the implementation of PSD which was a focal area of cooperation.

¹⁸¹ For example, the Private Sector Enabling Environment Facility (BizClim), the Centre for the Development of Enterprise (CDE), PROINVEST, the EU/ACP Microfinance Programme, and Commission investment facilities, e.g. the Facility for Euro-Mediterranean Investment and Partnership (FEMIP), the Neighbourhood Investment Facility (NIF), and the Latin American Investment Facility (LAIF).

¹⁸² ADE (for the European Commission), *Evaluation of the Centre for the Development of Enterprise*, Final report, 2011.

¹⁸³ European Court of Auditors, *Banking measures in the Mediterranean area in the context of the MEDA programme and the previous protocols*, Special Report No 1, 2009.

¹⁸⁴ Under which the selection and contracting was conducted by HQ (with consultation of Delegations) and the follow-up of grants (in particular the contractual and financial reporting) was decentralized to EUD level.

¹⁸⁵ TRANSTEC (for the European Commission), *Final Evaluation Private Sector Enabling Environment Facility*, 2010, p.29.

Extent to which the division of responsibilities between different DGs did not hamper an optimal implementation of the EU's PSD support in the different countries or regions concerned (JC10.2)

The division of responsibilities between different DGs was not conducive to optimal PSD support. PSD expertise present in DGs with an internal mandate was not systematically available to those DGs with an external mandate (AIDCO, DEV, RELEX and EUDs). Evidence shows that in-house expertise from DGs with an internal mandate, such as DG ENTR, was not systematically and thoroughly fed into the design, development and implementation of the EU's external assistance in support to PSD managed by AIDCO and EUDs.

Commission Services with PSD-related expertise existed mainly in DGs with an internal mandate:

- ENTR on support to enterprise growth and SME development - e.g. advanced EU mechanisms for European SME access to finance, to improve the regulatory environment, and access to markets through certification and other means, as well as support in third countries: support to the setting-up of business centres and of the "Enterprise Europe Network" which also involved Chambers of Commerce in 18 third countries.
- DG ECFIN in the design of financial instruments
- MARKET on EU internal market rules (to which the private sector in third countries can export),
- SANCO on Sanitary and Phyto-sanitary rules,
- DG REGIO on innovation and regional development
- DG TRADE on market access rules.

Another centre of expertise with SME financial instruments is the European Investment Fund (EIF)¹⁸⁶: Expertise in SME, venture capital, private equity funds, and guarantees to banks for SME access to finance.

The following coordination mechanisms were set up in the course of the evaluation period to encourage the cross-fertilization of the Commission's intra-EU experience with its support to PSD support to third countries.

¹⁸⁶ Owned jointly by the European Commission (30%), the EIB (62.1 %) and private financial institutions (7.9%)

Table A 7 – Examples of mechanisms of coordination across Commission services concerned by PSD

Name	Function
The Office Quality Support Groups (oQSGs)	They performed peer reviews during the preparation phases of external assistance measures, building on in-house expertise, as well as on best practice from previous and ongoing measures ¹⁸⁷
Inter-service groups	These groups entail inputs from different DGs concerned with a particular topic, to ensure a coherent approach
TPSD training events	Revamped in 2008

The coordination mechanisms presented in Table A7 had limitations and quality varied. In parallel or in their absence, communication channels remained *ad hoc* and based on individual's initiatives rather than being institutionalised.

- The level of participants' activity and interest within the o/iQSG was found to have varied, notably on account of participants' mandate which, in the case of internal services, was separate from external assistance, e.g. there was close to no ENTR involvement in the external services' o/iQSG reported over the period 2004-2010 (efforts in this regard having been identified as of 2011-2012). In addition, several Commission staff members met (in country and at HQ) considered the QSG as formal with limited AV, the use of which was dependent on individuals' interest and level of initiative. This being said, examples of improvements in the design of interventions following inputs from thematic experts within the oQSG were also found (Algeria and Nicaragua).
- The revamping in 2008 of the **TPSD training** for EUD and AIDCO staff has provided **an opportunity for inter-service exchange** as SANCO and TRADE provided inputs on SPSP or market access rules for example.
- More generally, **the exchange of information between DGs on EU interventions in the same partner regions was also dependent on individuals' initiative:**
 - ENTR's International Affairs Directorate organised bi-annual high-level policy coordination meetings between EU and Mediterranean industry ministers in order to coordinate industrial cooperation and to evaluate progress in the implementation of biannual work programmes. Whilst policy dialogue between DEVCO, DG ENTR and the respective EU Delegations did occur during the evaluation period, coordination of DG ENTR policy dialogue activities with AIDCO/DEVCO PSD assistance was lacking, which limited the concrete follow-up on needs identified during the high-level policy meetings.
 - Similarly, whilst, under the "convergence" agenda, some EU programmes with implications for PSD (e.g. FP7) have been open to Neighbourhood countries, AIDCO's knowledge of such forms of support has been limited and information exchanges were not formalized. Generally, the existence of

¹⁸⁷ http://ec.europa.eu/europeaid/how/ensure-aid-effectiveness/quality-support-groups_en.htm, accessed 7 February 2012.

strong dialogue between AIDCO and TRADE was reported, but less so with ENTR and MARKT.

- Half of survey respondents (52%) strongly agreed or agreed that “*it was easy for EUD staff to access expertise of specialised staff at HQ level*” and 38% disagreed with that statement¹⁸⁸. Similarly half of survey respondents (46%) considered that “*overall, the Commission support to PSD provided in the country has benefited from general PSD knowledge and networks present within the Commission's Headquarters (in different DGs), but that more could have been done*”. In addition, 20% of respondents indicated that this had not been the case and that this had been a shortcoming¹⁸⁹. The field visits showed that in a few cases, EUD staff did not systematically know whom to contact for technical support at HQ or reported inconsistent responsiveness, or feedback of variable quality, from HQ DGs to information requests (albeit due to capacity constraints).

Whilst out of the present evaluation's temporal scope, most stakeholders noted notable improvements in coordination across DGs due to the maturing of the EEAS and involvement from top management, as well as coordination by the Secretariat General. The Arab Spring was reported as key in creating this momentum to improve coordination.

Overall, no central PSD knowledge depository was found easily accessible to and identified by all (HQ and EUDs) processing PSD activities.

Extent to which the Commission's HR policy was conducive to optimal design and implementation of its PSD support (JC10.3)

The Commission's general HR policy, characterised by a five-year rotation system and extensive use of short-term staff¹⁹⁰ as well as use of external consultants¹⁹¹ for the design, and M&E of assistance, has not been conducive to the building a core and sustainable in-house team of PSD experts.

- **Thematic expertise at HQ improved overtime:**
 - While a TSPD thematic Unit (E2) responsible for “*Entreprises, commerce et intégration régionale*” existed as of 2005 at AIDCO, expertise was reported as low.
 - Thematic expertise picked up in 2008-2009 with the arrival of thematic experts whose role has been, inter alia, to provide quality (not just remote) support to EUDs. The unit mandate was consolidated during the reorganization (in 2011) by adding a policy-making mandate to the thematic support mandate. Some Commission representatives regretted that this was done without expanding the human resources, thereby overstressing resources between their policy and quality support mandates between three thematic areas: private sector development, trade and regional integration.

¹⁸⁸ 4% strongly disagreed and 9% answered « I do not know ».

¹⁸⁹ 9% answered it had clearly been the case ; 11% considered it had not but that *much of this knowledge is not really useful in the specific context of the country*; 11% answered “do not know”.

¹⁹⁰ Three-year contractual agents.

¹⁹¹ FWC BENEFL.

- Commission staff recognized however that considering staff capacity constraints considering the scope of the EU's intervention, when specific expertise was required, DEVCO/EUDs generally called on external consultants rather than on in-house experts.
- In addition the five-year rotation system results in changeable career paths whereby staff could be staffed in very different thematic units in the course of their careers.
- Finally, important staff turnover in certain EUDs as well as the use of contractual agents also precluded strong capitalization of in-house expertise.
- The extensive use of **external short-term experts** for the design and management and M&E (e.g. for the checking of Budget Support conditionalities) has also prevented in-house capacity-building.
 - Whilst this has been prompted by the overall increase in the EU's development assistance funding, by the historical pressure to limit the size of the institution, and by independence requirements, the externalization of a number of tasks, including technical ones has resulted in EUD staff mostly *managing* projects rather than working on their strategic or technical aspects. As project management expertise has become key, shortcomings in the level of PSD expertise in EUDs has contributed to making PSD support less efficient than it could have been.
 - In addition, certain EUDs reported that the FWC beneficiary selection procedures did not guarantee quality external expertise.
 - Only a little over half of survey respondents considered that "*sufficient expertise was available at EUD level*" and 29% disagreed with that statement. In addition, half of survey respondents considered that the technical expertise within the EUD on PSD related matters was not "*its key expertise*" but had been sufficient; 21% considered there had been some shortcomings and 11% considered it had been high.
- More generally **whilst EUDs build up expertise at the level of each intervention, it was not systematically fed back into the external assistance system to be capitalised on.**
 - It was found that PSD programmes did not sufficiently draw on similar programmes which preceded them (Jamaica, Morocco, Ukraine).
 - Some exchanges of information and staff rotation between EUDs in the same region were reported however.

PSD training has been considered as important in creating a shared Commission-EUD wide approach to PSD assistance. The TPSD training was reviewed in 2008 before which it was mostly focused on trade-related assistance (TRA) (see Table A8). Financial and time restraints in sending staff to training events existed. 59% of EU delegation staff surveyed agreed with the statement "*training for EUD staff in charge of PSD matters was available*" and 29% disagreed with that statement¹⁹². Limited, albeit improved, leveraging of expertise from internal Services within the PSD training was also noted.

¹⁹² 11% strongly disagreed and 5% answered "do not know".

In terms of PSD management, it was not clear to what extent PSD managers were made accountable for results of PSD operations which they designed or supervised.

Table A 8 – PSD training events pre- and post-2009 (types and format)

Name	Type of training	Format
Pre-2008	Focus on trade-related assistance.	Online training plus face-to-face training.
Post-2008	<p>Three annual training sessions on PSD have been set up, including one in Brussels and in every region once every two years.</p> <p>In the area of Micro-Finance,</p> <ul style="list-style-type: none"> ▪ CGAP scholarships for participation of key Commission staff members in the renowned Boulder Microfinance Training Programme. ▪ Internal 2/3-day training events on microfinance 	<p>The chosen format has been that of a workshop so as to facilitate exchange of experience and best practices within EUDs and with HQ.</p> <p>Other DGs have participated: notably DG SANCO has delivered a module on SPS (sanitary rules) and DG TRADE has presented EU market access rules, albeit within the Brussels-based training event only, for capacity constraint reasons.</p> <p>Discussion on the creation of a database of information.</p>

Extent to which the Commission developed and used specific tools and guidance to facilitate the design and implementation of its PSD support (JC10.4)

The Commission progressively developed some tools and guidance to facilitate the design and implementation of its PSD support. Those were:

- The 2003 PSD guidelines and the 2010 guidelines,
- The 2008 Microfinance guidelines,
- Thematic support from relevant Units provided within the oQSG at the formulation and approval stages of a PSD intervention,
- Input from the thematic PSD unit in post-2009 PSD training.

However evidence shows that their use was limited and some stakeholders challenged their usability. A large share of EUD staff were not aware of their existence and only a minority used them in the formulation, management and implementation of PSD support.

- The survey to EU Delegations indicates that 55% were not aware of COM(2003) 267, 45% were not aware of 2010 TPSD guidelines and 38% of 2003 Guidelines. In addition, no reference to the use of the 2003 PSD guidelines in the identification, formulation or follow-up of interventions was found and there was no evidence of the use of 2008 Microfinance guidelines.¹⁹³
- They were also generally considered as insufficiently context-specific for use in the design of a specific intervention or in its implementation. A manual of “best and worst

¹⁹³ This finding is drawn from the evaluation's review of intervention and action fiche for the 27 case study interventions.

practices” at regional level, as well as the formalisation of exchanges between EUDs of a same region, were suggested several times.

- This being said, numerous examples of the use, and usefulness, of thematic guidance from thematic Units at HQ were also found (Algeria, Nicaragua and of one Microfinance intervention in Uganda). In addition, the input provided by the thematic PSD unit in post-2009 PSD training constituted a notable quality improvement.

Extent to which the Commission monitored/evaluated its support to PSD and used and disseminated the results (JC10.5)

The Commission almost systematically envisaged M&E of its PSD assistance but in most cases did not conduct it thoroughly.

There has been a growing commitment towards M&E over the period 2004-2010:

- Whilst the 2003 PSD Guidelines only give a few instructions relative to the M&E of PSD support (e.g. the necessity of enhancing the monitoring of Micro-Finance Institutions¹⁹⁴), the 2010 Guidelines highlight the importance of evaluating PSD support much more by providing concrete guidance, for instance illustrations of expected results and indicators to be used when monitoring and evaluating enabling environment support programmes¹⁹⁵.
- Provision for Monitoring and Evaluation was included in nearly all interventions analysed, with stringent M&E requirements (indicators, sources of verification, attention to EU visibility) under Budget Support in accordance with the instrument (Zambia, SA, Jamaica, Vietnam).

Effectively, however **thorough M&E was limited by:**

- **cases of weak indicators or lack of baseline data and clearly-defined expected results** (Morocco, Algeria, Nicaragua, Jamaica, Vietnam, CDE-supported interventions);
- **incomplete or delayed M&E:** the CDE and BizClim evaluations show for instance that the qualitative M&E of CDE- and BizClim-supported interventions were neither formalized nor systematic¹⁹⁶;
- **EUD staff lack of availability to conduct thorough and regular M&E, beyond quarterly, mostly quantitative reports, e.g. project visits.** For example, one of the interventions selected in Algeria was not monitored at all owing to EUD HR restraints;
- **reliance on M&E by implementing partners coupled with insufficient follow-up:** there is evidence of this in the case of the MEDA-funded “EIB managed banking measures” (see Box A1) as well in monitoring procedures for LAIF-funded interventions.

¹⁹⁴ European Commission, *Guidelines for European Commission Support to Private Sector Development*, 2003, p.82.

¹⁹⁵ European Commission, *Tools and Methods Series Reference Document No 10, Trade and Private Sector Policy and Development Support programmes financed by EU external assistance*, 2010, p. 110.

¹⁹⁶ TRANSTEC (for the European Commission), *Final Evaluation Private Sector Enabling Environment Facility*, 2010, p.24-25 and ADE (for the European Commission), *Evaluation of the Centre for the Development of Enterprise, Final report*, 2011.

Box A1 – Reporting and control of the MEDA-funded “EIB managed banking measures”¹⁹⁷

Until 2007 the reporting and control of the MEDA-funded “EIB managed banking measures” was exclusively conducted by the EIB. However the European Court of Auditors considered it to have been weak and too financially-oriented with cases of lack of reporting from intermediaries or promoters, resulting in some late recovery or non-recovery of certain funds. From 2005 corrective measures were taken: (1) the EIB’s monitoring and control system was further structured and (2) since 2007, with the creation of the ENPI, projects managed by the EIB have been included in the Commission’s ROM system.

There has been **some evidence of dissemination and uptake of M&E results**, notably:

- the uptake of recommendations from the ROM exercise or programme evaluations in a number of interventions (Algeria, Jamaica);
- the role of certain country evaluations in (1) reorienting cooperation from a project approach to a sector approach (Nicaragua, although this was later suspended for political reasons), and (2) deconstructing some assumptions on which previous programming was based and enable programming to be better oriented to technical barriers to trade and support to regional integration (Jordan).

Evidence also shows however that **the dissemination and uptake of M&E results**:

- has been **constrained by output-oriented M&E systems** (checking that outputs - such as number of loans granted or trainings followed - have been produced) which impedes attention to the effects at outcome and impact levels, notably on growth and poverty reduction;
- has been **too financially-oriented** in the case of Investment Facilities and of the MEDA-funded “EIB banking measures” whereby insufficient attention was given to social performance indicators (employment, gender), considering the developmental nature of the interventions supported.

Extent to which the Commission developed and used specific mechanisms to ensure capitalisation and sharing of its knowledge with respect to PSD (JC10.6)

Capitalization activities, at HQ and EUD levels, to ensure management of in-house PSD knowledge, were limited.

A number of initiatives, previously-mentioned and presented in the table below, have been taken over the evaluation period to improve the Commission’s capacity and its knowledge base in the field of PSD.

¹⁹⁷ European Court of Auditors, *Banking measures in the Mediterranean area in the context of the MEDA programme and the previous protocols*, Special Report No 1, 2009.

Table A 9 – Progression in capitalization tools/mechanisms and elements of usefulness

Period	Capitalization tool/mechanism	Elements of usefulness
Early 2000s	Commission Microfinance Thematic Network Newsletters' to Commission staff member	Mentioned by few interviewees
2003	PSD Guidelines	Weaknesses existed
2003	Launch of the EU/ACP Microfinance programme, as part of an effort to improve the microfinance capacity and knowledge-base within the Commission and ACP Secretariat	Key inputs in 2008 Microfinance Guidelines and in training on Microfinance. Sustainability of effects considered limited though progress noted
2006	Creation of a Commission Microfinance Focal Point	Commission Microfinance Focal Point has reviewed interventions with microfinance activities through the Quality Support Group
Pre-2008	Online and physical training	Mostly TRA-oriented
Since 2009	Triennial PSD training	Workshop format has encouraged the exchange of EUDs' experiences and best practices
2010	Publication of TPSD Guidelines	Inter-service consultation in the development of the 2010 Guidelines on TPSD (DG TAXUD, TRADE, ENTR)
2011	Creation of thematic unit at DEVCO on "Private Sector Development, Trade, Regional Integration"	Capacity within DEVCO considered to have significantly improved.

However, a majority of EUD staff surveyed (56%) disagreed with the statement that "*Mechanisms were in place to ensure the capitalisation of Commission knowledge on PSD*". Initiatives taken to address this were appreciated but generally considered as insufficient: 83% stated that "*More should be done in terms of capitalisation between EUDs on support to PSD*". Reasons are linked to shortcomings in the Commission's external services organizational model, in its HR policy, an in its M&E, as identified under the previous JCs.