



Approach and Organisation  
of Sida Support to Private  
Sector Development,  
Sunil Sinha et al.  
Sida Evaluation 01/14.

## Private Sector Development – A concern for all sectors

### Background

The market-oriented transition undertaken by many countries in the last decade, often involving structural adjustment programmes, has caused increased attention to focus on the private business sector. A well-functioning private business sector can promote economic growth and help to reduce poverty. Private sector development (see box) is therefore increasingly viewed as an important component of national development and of country assistance strategies.

Sida has supported private sector development for many years in a variety of ways: training for business competence, creation of micro credit schemes, support to the establishment of stock markets and government reforms, to mention just a few areas of co-operation. Like several other international development agencies, however, Sida lacks an overall policy and strategy for private sector development support. The conditions for such support have not been analyzed systematically and even though Sida has evaluated individual projects in this area, there has never been any evaluation of its private sector development support in terms of overall approach, orientation and organization.

Against this background, Sida's Department for Evaluation and Internal Audit (UTV) commissioned such an evaluation in 2001.

### The evaluation

The purpose of the evaluation has been to a) present an overall picture of Sida's private sector development support, b) describe and assess the approach to this support and how it has been organized, and c) to draw lessons from this in order to improve Sida's co-operation and facilitate policy and strategy formula-

tion. It is not an evaluation of impact but rather of Sida's general approach to private sector development support, seen in the light of broader knowledge and experiences.

The evaluation was carried out in three parts. First, the development of a conceptual framework, based on relevant academic literature and practical experience, to establish a benchmark against which Sida's support could be evaluated. Secondly, an empirical study of the magnitude, content, approach and organization of Sida's actual support. Finally, an assessment of possible implications for Sida's private sector development support.

The evaluation was carried out by a team of consultants from Emerging Market Economics (London) and ÅF – Swedish Management Group (Stockholm), comprised of Sunil Sinha (team leader), Anja Beijer, Julia Hawkins and Åsa Teglund, economists and social scientists. The report is published under the title *Approach and Organisation of Sida Support to Private Sector Development* (Sida Evaluation 01/14, Stockholm, October 2001).

This overall evaluation of Sida's support to private business sector development will be

#### Definitions used in the report are those adopted by the OECD:

- **Private business sector:** "A basic organizing principle for economic activity where private ownership is an important factor, where markets and competition drive production and where private initiative and risk taking set activities in motion."
- **Private sector development:** "The process by which the Private business sector moves along the path to becoming well functioning."
- **Private sector development support:** "Interventions aimed at the development of factors crucial to the development of a well-functioning private sector business sector."

Private sector development has a potential bearing on Sida's various development objectives, including poverty reduction.

Private sector development support should be an integral part of development co-operation. It should be based on an assessment of conditions for the private sector development and of the linkages between key determinant factors.

followed by two more in-depth studies in 2002, one focusing on such support to agriculture and related businesses and one on transition economies in Eastern Europe.

### Conceptual framework and "best practice"

The evaluation argues that a well-functioning private business sector can serve as the engine of economic growth. It can also help to achieve Sida's goals of environmental and social sustainability, including gender equality, provided the appropriate signals are given. Most importantly, it can serve as a vital contributor to Sida's overarching goal of poverty reduction, indirectly by helping to accelerate economic growth, and directly by providing incomes, security, opportunity and capacity for the poor. Its impact on poverty, through growth, may be strengthened by establishing conditions making growth broad-based, inclusive and hence pro-poor.

It is widely understood that an "enabling environment" is necessary for developing a well-functioning private business sector but there is less agreement as to what precisely constitutes such an environment. The analysis presented in this report points to a wide array of constituting factors at macro, meso and micro level, factors related to systems, policies and governance as well as the social and cultural context of the private business sector.

The report suggests that there are three clusters of factors which together constitute crucial preconditions for the development of a well-functioning private business sector:

- The effective operation of *markets as the organizing principle* of economic activity, bringing production, distribution and allocation of resources in line with demand. This is determined, inter alia, by economic policy and conditions for a stable market exchange.
- The level of *incentive* for private business to contribute to growth, poverty reduction and environmental and social sustainability. Determinants of incentives include the degree of liberalization of the economy, trade policy, stability of the economic environment, corporate and personal taxation,

stability and transparency of systems of governance and the cost of infrastructure.

- *Access* to product and factor markets, along with *competence* and *capability* of businesses to become efficient and competitive. The level of access is determined by the depth of markets, the coverage and cost of infrastructure and the social capital that businesses can use to mobilize resources and participate in markets. Competence and capability are affected by the level of competition in the economy and by access to know-how, business support services and training. The state has a major role to play in establishing the crucial conditions for developing a well-functioning private business sector; the report concludes. Furthermore, the report points to several important implications of the above stated crucial conditions for the way in which private sector development support should be approached and organized:

- Private sector development support should be multi-sectoral and multi-disciplinary and form an *integral part of development interventions*. This approach should be reflected in country strategies.
- The design of support should take account of the extent to which *conditions for private sector development* are in place. Country analyses need to include a diagnosis of prevailing conditions.
- When designing interventions, it is important to take account of the *linkages between the above factors* constituting crucial conditions. Interventions should aim to address clusters of inter-linked factors rather than single factors.
- The *sequencing of interventions* is critical. In general, a donor should prioritize the conditions that affect the organizing principle for economic activity and provide incentives to the private business sector before addressing access, competence and capability.
- Micro level interventions must be designed carefully in order to *avoid distortion of markets*.

### Findings regarding Sida support

The report notes that the proportion of total Sida funds allocated to private sector development support, as traditionally and more nar-



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*High Court,  
Calcutta.  
Governance and  
legislation are  
crucial for the  
development of  
the private sector.*

rowly defined, accounted for a mere 3% of total aid expenditure in 1999. However, if all interventions relevant to the development of factors identified as crucial to private sector development are included (for example, governance support and institutional strengthening at macro level) private sector development support accounted for an estimated 34% of Sida's total aid expenditure.

This potential bearing and impact of relevant interventions, representing a third of the organization's interventions, on private sector development, is however often overlooked or not given prominence when the purpose of interventions is defined.

The evaluators found the range of relevant interventions quite narrow in terms of both sectors and levels. Projects were largely limited to Sida's Department for Infrastructure and Economic Co-operation (INEC) and generally consisted of direct support to businesses at the micro level. The amount of private sector development support provided for rural development, health, education and governance was noticeably low. The evaluators found this surprising, and a cause for concern, given the potential role that private sector development support could play in helping the departments concerned to fulfil their mandates.

Private sector development support interventions, within the wider classification of such interventions, were usually found to be

aimed at addressing individual factors, not the cluster of factors likely to work together to affect the efficiency of the private business sector. Few interventions address markets and incentives at the macro level, the majority aimed at micro level support to businesses. This suggests that the issue of the sequencing of private sector development support interventions is not being addressed systematically.

These findings stood in contrast with the evaluation team's interviews with key Sida staff, which revealed a broad understanding of the conditions that constitute an "enabling environment" for private sector development and the contribution that this support could play in achieving Sida's development goals. There could be several reasons for the failure to translate this understanding and awareness into practice or any guiding documentation. The limited importance accorded the private business sector in policy and strategy documents and the failure to attempt any codification of best practice in providing private sector development support certainly contribute. Another possible reason is the fact that, outside INEC, departments rarely integrate private sector development skills into their programme and project teams. Furthermore, when they do so, they are likely to source these skills from outside Sida.

The report notes that there is a need to enhance and improve Sida's inter-departmental co-operation in its support to private sector

**Private sector development support** provided for rural development, health, education and governance is surprisingly low, given its potential role in these sectors.

**Sida needs to improve** inter-departmental co-operation in its support to private sector development.

development. Few projects are combined or designed to be complimentary with other projects within the same department/division or with other departments/divisions. In the limited instances in which there is project-based co-operation, such co-operation has proved problematic.

## Recommendations

In view of their findings, the evaluators present a number of recommendations, their main implications being the following:

- Sida needs to determine for itself the role and importance that should be given to the private business sector in achieving the overall goals for its development co-operation (as set by the Swedish parliament). The organization also needs to develop an approach to the provision of private sector development support, setting out the crucial conditions for a well-functioning private business sector; the inter-linkages between determining factors and the need for proper combination, integration and sequencing of relevant interventions.
- The result should be reflected in an overall policy on private sector development support and in guiding documentation at departmental level. A set of such steering documentation needs to be developed.
- Country analyses should identify key constraints to the development of a well-functioning private business sector. Country strategies should take account of this and integrate private sector development support.
- On an organizational note, Sida needs to review (a) the placement within the organization of the private sector support function, and (b) the way projects are organized and managed, in order to facilitate the development of multi-departmental interventions allowing for better integration of private sector development into the development co-operation generally.

## EVALUATION BRIEFS

### Positive labour market experiences should be spread

Through the Swedish National Labour Market Board (AMS), Sida has supported the creation of model labour market offices in Russia. The results of this support are generally impressive, but the positive experiences from the model of-

fices have not been sufficiently spread nationally, a recent evaluation report concludes. Potential explanations for this include the lack of a strategy, as well as of people specifically appointed or trained for spreading relevant information.

This is an area where Sweden could play an important future role, the report states. A long-term, though less intense, partnership is recommended, with the Swedish side functioning as a discussion partner for its Russian colleagues.

### Promoting human rights in Vietnam

The Human Rights Training Project between the Vietnamese Research Centre for Human Rights and the Raoul Wallenberg Institute has provided human rights training to high-level government officials and MPs. An evaluation of this project notes that it has resulted in an increased

human rights awareness among selected target groups. However, any further impact of the project is uncertain, as the evaluation was unable to determine any changes in the participant's professional competence or behaviour. The evaluators propose a continuation

of the programme that goes beyond training and seminars, to include other activities for promoting international human rights standards in Vietnam, such as establishing resource groups and support networks for different functions and levels in society.

### Military partner for humanitarian assistance

The Swedish battalion in Kosovo, whose main mission is to assure the security of citizens, has also been engaged by Sida to provide humanitarian assistance. An evaluation found representatives of the coun-

try and partner organizations positive to the arrangement. The report concludes that the competence and resources of the Swedish battalion may be used for similar work elsewhere in the future. It also notes that

even quite small humanitarian interventions may have a decisive effect on the stability and optimism of a region.

### Active labour Market Policy in Russia – An evaluation of Swedish technical assistance to the Russian Employment Services 1997–2000

Henrik Huitfeldt  
Sida Evaluation 01/9

### Human Rights Training in Vietnam

Carl-Johan Groth et al.  
Sida Evaluation 01/16

### Svenska bataljonens humanitära insatser i Kosovo

Maria Broberg Wulff,  
Karin Ströberg  
Sida Evaluation 01/10





Photo: Per-Ulf Nilsson

*India has succeeded in reaching 95 per cent water supply coverage. UNICEF should further address the opportunities for community managed services, according to the evaluation.*

## Catalytic support for water development

Since the mid-1960s UNICEF has been carrying out a programme in Water and Environmental Sanitation (WES) in India, in co-operation with the Government of India. The programme, in principle comprising advisory and technical support at national and state levels, started in response to drought emergencies and then moved towards supporting the government's goal of universal access to safe water and sanitation services. Sweden, through Sida, has been a major contributor to the programme since the mid-1980s.

In order to derive from this experience lessons which would benefit both the India programme and global work, UNICEF commissioned an evaluation, which was carried out in 1998–1999 and funded by the Netherlands, United Kingdom, Sweden and UNICEF itself. The three contributors were all involved throughout the evaluation process. The evaluation has played an important role for Sida's decision to extend its funding to the programme.

The evaluation found that, although financially the UNICEF programme is a mere fraction of total government expenditures to the sector, UNICEF has played an important catalytic role in developing, testing and advoca-

ting key technological and institutional changes. These have influenced government policy and investment priorities. Water supply coverage has increased greatly and now reaches 95 per cent of the population.

According to the evaluation report, UNICEF's support has helped to achieve minimum acceptable standards in borehole designs and implementation procedures and has contributed to appropriate choices of drilling and hand pump technology. In sanitation, UNICEF has taken a leading role in shifting the focus from hardware to services that combine latrine construction with hygiene and health services. Moreover, UNICEF recognized at an early stage the need for an approach enabling communities to manage and sustain their own water services, sanitation and hygiene programmes. In this area, however, much still remains to be done.

The evaluation recommends UNICEF to focus on fewer subject areas in the future, one of these being sanitation and hygiene promotion. It should further scale back its work in rural water supply, strengthen its partnerships through working with fewer, closer partners and address the new opportunities for community managed services.

**Learning from Experience.**  
**Evaluation of UNICEF's Water and Environmental Sanitation Programme in India, 1966–1998.**  
 Pete Kolsky et al.  
 Sida Evaluation 01/4

**UNICEF recognized**  
 at an early stage that technological improvements have to be fully combined with user participation if systems are to be fully utilized and sustained.

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December 2001

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