Sida Evaluations *Newsletter*

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Small business cooperation across the Baltic: Sida's Start East Programme

Background

Sida's Start East Programme provides support to small Swedish companies establishing business activities in the Baltic states, north-western Russia and Ukraine. Initially launched by SwedeCorp in March 1994, following a pilot project completed in 1993, the programme was taken over by Sida in 1995. The programme targets Swedish companies with less than 100 employees, providing investment loans for know-how and equipment transfer to partners in the host countries.

The overall objective of the programme is to increase business development opportunities, resulting in long-term business cooperation in keeping with the development objective of sustainable economic and social transformation and development.

Through the programme, credits are extended to the Swedish entrepreneurs. Two types of loans are available. A write-off loan, with a maximum credit limit of SEK 350 000, is available to finance the transfer of know-how. The loan is written off once the joint project has been completed and the results approved by Sida. In addition, conditional loans may be granted for investments in equipment, to be repaid with a market-rate interest within two years. The total sum of the two loans is maximum SEK 500 000 and may not exceed 30 per cent of the total investment cost. Continued financing from Sida for the selected projects is not possible. The programme is administrated by Sida and ALMI Företagspartner AB, a Swedish state-owned company grouping former regional development funds.

By autumn 1996, towards the end of the second phase, a total of 165 projects had received loans through the Start East Programme: 54 in Estonia, 22 in Latvia, 32 in Lithuania, 56 in Russia and 1 in the Ukraine. Together, these projects received loans to a total value of SEK 51.9 million. Write-off loans account for 80 per cent of the total; conditional loans for the remaining 20 per cent. On average, each project received SEK 312 000. Of the 164 projects, 56 had been reported and 35 followed up by ALMI. The results indicate that most of the projects were successful, but that they had taken more time to complete than expected.

In June 1995, an independent consultant was commissioned to assess the programme's implementation and results. In terms of implementation, the programme was assessed to be cost-effective. The study recognized ALMI as a good regional channel for marketing the programme, and recommended – in view of the growing stock of projects – that ALMI assume greater responsibility for project administration.

As for the programme's results, the study was inconclusive. In reporting the low rate of failure among the supported projects, the study also notes that very little time had passed since the start of the programme. As a basis for a decision regarding continued funding, Sida therefore decided to commission a second external evaluation of the programme's results in the host countries.

The Evaluation

An external evaluation of the Start East Programme was undertaken in the autumn of 1996 by a team from the ISO Swedish Management Group. According to the evaluation's Terms of Reference, the purpose of the evaluation was to determine whether the programme has accomplished its stated goals and objectives, and to examine the effects it has had in the host countries. As the evaluation was to provide basis for a decision regarding the appropriateness – and modes for continuation – of the programme in 1997, it was also to recommend improvements to the programme concept and its implementation.

The evaluation team used a case-study method to draw general conclusions. Among the Swedish firms that had been granted support in 1994 and had been followed up by ALMI, the evaluators selected 19 companies and their partners in the Baltic countries and Russia (St. Petersburg). Project files were studied and interviews were held with representatives from both the Swedish companies and their partners. Telephone interviews were held with ALMI personnel, and meetings were held with the Sida programme manager.

Sida's Support to the Start East Programme
Cecilia Karlstedt, Sven Hilding, Piotr Gryko
Department for Central and Eastern Europe
Sida Evaluation 97/6

Findings

In their report, *Sida's Support to the Start East Programme* (Sida Evaluation 97/6), the team describes the programme as relevant and well-managed. The evaluators note that it has contributed to a growth in the number of joint ventures linking small businesses in Sweden with small-scale local industry in the Baltic countries and Russia. Satisfied that the concept encourages entrepreneurial thinking without creating too much reliance on grants, they conclude that the Start East Programme has served as a cost-effective instrument for stimulating business cooperation with nearby markets.

The evaluators note that businesses with potential for growth were among those most frequently selected for support. A weakness in the selection process has been that not enough attention has been paid to the businesses' market analyses or their financial endurance. Investment needs often turned out to be greater than originally anticipated. Shortage of investment- and working capital was the most critical factor for the businesses' long-term sustainability, as profit levels remained low even after several years of operation.

Of the 125 projects approved during 1994 and 1995, 90 (72 per cent) remained active at the time of the evaluation. The importance of the Start East loans was confirmed by most companies; Start East had served as an incentive to develop project ideas and to get started. The importance of the transfer of know-how was confirmed by visits to companies in the host countries that remained actively engaged in the cooperation projects.

Three of five projects led to the establishment of new companies. On average, 50 new jobs were created by each venture. Almost two-thirds of the businesses increased their sales each year since establishment or since the start of cooperation, but only one out of four was making an adequate profit.

In their analysis, the evaluators found that almost half of the projects had been very successful. Common denominators for these were:

- The participating companies had a clear and relevant business idea.
- The Swedish partner was well established in the market before the cooperation started.
- The host company or key staff working within the host company had a solid track record in the relevant production technology.
- The host company had experience in dealing with local bureaucracies.
- The project was strategically important to the Swedish partner.
- The business had sufficient financial backing.

One third of the projects is regarded as stagnant. Common denominators for this group were:

- The projects suffered from a lack of capital.
- The companies had insufficient knowledge of the markets served.
- The venture required use of technology new to both parties.
- The supply of raw material was insufficient.

In its first four years of operation, the total managing cost of the Start East Programme has been approximately SEK 3.9 million. This corresponds to an administrative cost of 7 öre per lent krona, or, on average, SEK 21 000 per loan.

Recommendations

The evaluators recommend that:

- A third phase of the Start East Programme is initiated.
- The screening procedures are strengthened to ensure: (a) better market assessment; (*b*) improved appraisal of the financial strength of the Swedish partner, and a more thorough analysis of whether the investment needs in the application are sufficient; (*c*) improved assessment of the development potential of host companies; and (*d*) more emphasis on the practical experience and industry knowledge of the Swedish partner.
- Investment credits are extended to three years, with a one-year grace period.
- Successful businesses are allowed to apply for a second loan, focused on transfer of management skills and installation of management tools.
- A less expensive follow-up procedure is developed.
- ALMI takes measures not to be too inclined to approve applications.

Lessons learned

A contributing factor to the success of the Start East Programme has been the close – in many cases daily – contact that the Swedish entrepreneurs have been able to maintain with their partners in the host countries. This has clearly been critical for the willingness of the Swedish companies to invest substantially in the cooperation projects and to maintain a high level of commitment. The evaluators note that such close contacts were possible because the programme serves to link companies in neighbouring countries. Presumably, a similar programme with partner companies in non-neighbouring countries will require greater outlays for communications and logistic support. Thus, the Start East Programme may be difficult or inappropriate to replicate for cooperation ventures in more distant markets.

A second lesson regards the programme's success in focusing on credits for the transfer of know-how through training. While crucial to successful business establishment in less developed economies, this is not something entrepreneurs are keen to invest their own capital in. By helping to finance the transfer of know-how through loans that are written off upon successful completion of projects, the programme has provided a valuable incentive to such training. This is a strategy that may be applicable in other development programmes.

A third lesson regards the screening process. As in all credit programmes, all aspects of a given project proposal – the business idea, markets, supply of raw materials, investments, working capital and financial backing, as well as both parties' motivation, practical skills and experiences – need to be given due consideration. The challenge is to define criteria and procedures that are neither so cumbersome as to risk deterring suitable candidates nor so cursive as to fail to provide the creditor with the basis for a reasonable estimate of success. The track record maintained so far indicates that the Start East Programme has managed to strike a fair balance in this regard. ■

Transferring labour market know-how:
AMS and Amu projects in Estonia, Latvia, Lithuania, Poland and Russia

Background

Labour market policy is a relatively new concept in the post-Communist states of the Baltic littoral. Before the start of the economic reforms set in motion in the past decade, unemployment was a problem unheard of in the then-socialist economies, and it follows that no institutions for dealing with the problem had been developed.

The introduction of market economies meant that chronic underemployment was translated into unemployment, as recently privatized industries scrambled to cut labour costs and increase productivity. This first surge of unemployment, essentially a corollary to the economies' structural transformation, was followed by a second surge – this time, however, provoked by recessionary trends exacerbated by the lack of established and functioning labour market policies and institutions.

To strengthen these, AMS (the Swedish Labour Market Board) and AmuInternational (the Swedish state-owned vocational training institute) have provided technical assistance programmes arranged in co-operation with the labour market authorities in five countries: Estonia, Latvia, Lithuania, Poland and Russia. Starting in Poland in 1991, these first projects were financed by the Swedish Ministry of Labour. Since 1994, BITS (the former granting agency), later Sida, has provided continued financing for this cooperation by approving additional projects to develop labour market institutions, training and employment services at central and local levels in the five countries. Activities include model office support, forecast computation, computerization and data processing. Programme funding for each country is given in the table below.

The Evaluations

In 1997, Sida decided to review progress and results of the projects financed by Sida and undertaken by AMS and AmuInternational in co-operation with the national employment services in each country. Dr Susanne Oxenstierna, specializing in labour market economics and other issues in transition economies, was commissioned to lead the evaluations. Assisting her were Henrik Huitfeldt, Irena Lundberg and Gunnar Pihlgren (see box). This article synthesizes the five studies.

According to their respective Terms of Reference, the evaluations were to assess performance in six areas: achievement of objectives, relevance, sustainability of results, side-effects, efficiency of project implementation and cost-efficiency. In addition, the reports were to provide recommendations on the potential for supporting future projects and to suggest improvements in project objectives and design.

The teams made extensive use of available documentation, including decisions, project reports, statistical and economic analyses of the national and – in particular regarding Russia – regional labour markets, as well as material produced in the course of the evaluations, e.g. interviews with key persons and others engaged in different project activities and in project implementation. Interviews were conducted with both BITS/Sida staff and consultants and with local employment officers.

Findings

The evaluators of the five reports are largely concerned with the project implementation processes. While providing a panorama of challenges and approaches to the development of national labour market policies, the evaluations do not assess the development effects of project outputs, i.e., project impact and sustainability in the respective countries. Nor is the issue of cost-effectiveness adequately dealt with.

Following are a few of the main, common findings:

- Projects characterized by close, informal contacts between Swedish and local staff have performed significantly better than projects where such contacts have been lacking. This was clearly exemplified by the AMS project in Lithuania, involving the establishment of a model employment office in Klaipeda, staff training and the development of planning and other management tools. The fact that AMS' input was administrated through the Blekinge County Labour Market Board, based in Klaipeda's twin town Karlskrona in south-east Sweden, was instrumental in the establishment of a close and familiar rapport between Swedish and Lithuanian project staff.
- Project performance seems to vary significantly with the commitment and priority given by the host government to funding programmes addressing unemployment. Although the AMS project in Latvia has trained about one fourth of the staff in the Latvian State Employment Service, neither this nor the Amu project in the country has performed as expected. According to the evaluators, the reason for this is primarily inadequate government support.
- Gender aspects and issues of ethnic segregation are not addressed by the evaluated projects. The lack of

AMS and Amu budgets (SEK) for evaluated programmes

Country Evaluation period	Estonia 1994–97	Latvia 1994–96	Lithuania 1995–97	Poland 1994–95	Russia 1994–96	Programme total
AMS	1 917 000	1 850 000	2 346 000	2 400 000	3 730 000	12 243 000
Amu	3 279 000	1 460 000	–	1 800 000	5 230 000	11 769 000
Country total	**5 196 000**	**3 310 000**	**2 346 000**	**4 200 000**	**8 960 000**	**24 012 000**

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concern with ethnicity is highlighted by the evaluators with regard to the ethnic segregation that characterizes the Latvian labour market, where the country's large Russian-speaking minority is grossly overrepresented among the country's unemployed.
- Several projects have suffered from organizational and financial weaknesses in the host countries' employment services.
- Organizational problems were also evident on the Swedish side, such as insufficient planning, coordination and follow-up.

Recommendations

Each report presents a range of recommendations regarding the administration, focus and organization of support to the various specific projects. The recommendations of a more general nature may be summarized as follows:
- Sida should make greater effort in securing guarantees that host countries match Swedish input with appropriate resources, such as through adequate funding of host country employment services, the providing of venues for training and other Sida-supported activities, and the internal training of staff to disseminate and entrench new competencies.
- Segregation issues should be addressed explicitly in projects and expanded to include a broader range of questions regarding different types of minorities and vulnerable groups on the labour market.
- Sida is recommended to continue funding labour-market projects in all five countries and, in doing so, to explore possibilities of enhanced cooperation with other donors.
- Sida should review its practices regarding follow-up and supervision, notably where documentation and project management is weak. Specifically, Sida should make sure that operational consultants receive all relevant Sida information and documents, including instructions on how to report on project outcome and results. ■

AMS and Amu Technical Assistance Projects in the Russian Federation 1994–1996
Sida Evaluation 97/18
Susanne Oxenstierna, Gunnar Pihlgren

AMS and Amu Technical Assistance Projects in Poland 1994–1995
Sida Evaluation 97/20
Susanne Oxenstierna, Irena Lundberg, Henrik Huitfeldt

Swedish Labour Market Projects in Latvia 1994–1997
Sida Evaluation 97/35
Susanne Oxenstierna, Henrik Huitfeldt

Swedish Labour Market Projects in Estonia 1994–1997
Sida Evaluation 97/40
Susanne Oxenstierna, Henrik Huitfeldt

Swedish Labour Market Projects in Lithuania 1994–1997
Sida Evaluation 98/3
Susanne Oxenstierna, Henrik Huitfeldt

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