



Sida Evaluations Newsletter

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Macro-micro co-ordination essential for effective support to private sector development

Favourable macroeconomic conditions and an enabling environment are most often seen as essential prerequisites for private sector growth. How does Sida, in practice, plan and design its business development support projects when neither of these conditions prevails? Evaluations show that rather than investing in innovative, and perhaps more relevant projects, Sida often takes the safe route and gives priority to projects that are more likely to meet with success.

Increased recognition of the crucial role of the private business sector in economic growth, prompted Sida to commission a major review and evaluation of its approach to private sector development (PSD). This evaluation was later supplemented by focused evaluations of the PSD approach in Eastern Europe and in Africa. The results and findings of all three evaluations were summarised in a synthesis report.

Together, they constitute a wealth of

knowledge on contemporary ideas and debate concerning both the role of business in reducing poverty and the conditions for private sector growth. The evaluations span from 2000 to early 2004. Thus, many of the findings in the first general evaluation have already influenced subsequent policy. The evaluators, for example, specifically called for a policy on private sector development and, following discussions, Sida adopted a policy in June 2004.

Key issues

Instead of integrating PSD support with other forms of support, individual factors have often been addressed in isolation. By not systematically sequencing measures or addressing macro issues before implementing micro level activities, the full development potential of PSD support has not been utilised.

Multi-faceted, multi-sectoral approaches are likely to succeed better than single-factor, focused interventions, particularly if the former are designed with an understanding of the cultural context in mind.

With the 'organic' approach that characterises PSD support in Eastern Europe, there is a risk of prioritising projects that are perceived as feasible and safe while disregarding the relevance to the project portfolio.

Furthermore a more systematic goal-setting and follow-up procedure is needed. More concrete country strategies could guide assessment of relevance. A greater emphasis on knowledge management systems would facilitate feedback and learning.

In sub-Saharan Africa, interventions in geographically limited areas should be linked with national systems and with interventions at other administrative levels.

Closer attention should also be paid to existing framework factors for rural PSD interventions, particularly of socio-cultural aspects. Better analyses of how informal institutions and norms impact upon market behaviour are needed.



Without a clear understanding of the norms and systems that guide people's economic behaviour, it is difficult to successfully support entrepreneurial activities.

In short, the initial evaluation led by Sunil Sinha¹ found that:

- Sida's PSD support was, in fact, significantly larger than officially recorded since many development activities were not recognised as such;
- Although country analyses and strategies devoted considerable attention to macro economic stability, how to develop the business sector or how to address business needs was rarely mentioned;
- Whereas activities mainly were implemented at the micro level, scant attention was devoted to addressing the central issue of enabling environments.

This evaluation concluded that to be effective, PSD support should be multi-sectoral and multi-disciplinary, and integrated with other interventions. Interventions should, evaluators argued, address a cluster of inter-linked factors rather than specific factors on their own. Within a cluster, macro and meso factors should be addressed before micro factors. Evaluators found that PSD support had fallen short of expectations largely because it had failed to pay attention to institutional and other factors at the macro and meso level that influence the private business sector. These should be addressed prior to focusing on issues of how private businesses can gain access to markets, increase competence and raise capability factors at the micro level.

An overall conclusion was that Sida's approach to PSD support diverged from best practice. Instead of integrating its PSD support with other forms of support – addressing and linking it with other factors – Sida has tended to address individual factors in isolation. Thus, Sida had failed to utilise the

full development potential of its PSD support by not systematically sequencing measures or addressing macro issues before implementing micro level activities.

In its management response, Sida admitted it had not adequately tried to create synergy effects through parallel support measures at all levels and that there was a need for better sequencing between interventions. This was also the conclusion later drawn by Anders Danielsson, who was commissioned to carry out an independent interpretation of the three evaluation reports².

He found that a major lesson to be learned from the evaluations' findings was the importance of comprehensiveness. Even if substantial resources are allocated to PSD support, the sector may fail to develop because of several binding constraints, not all of which were targeted. 'Consequently, multi-faceted, multi-sectoral approaches are likely to succeed better than single-factor, focused interventions, particularly if the former are designed with an understanding of the cultural context in mind,' he wrote.

He also concurred with evaluators that obstacles at the macro and meso levels should be addressed prior to obstacles at the micro level. The other major lesson was sequencing, as emphasised in the initial evaluation. An enabling environment can improve conditions for the private business sectors, even in the face of market obstacles. The reverse, dismantling market obstacles in a continued unfavourable environment is less likely to succeed.

He found that although Sida and other development cooperation agencies devote 'considerable effort' in emphasising the importance of high-quality institutions and the role of macro factors for PSD, 'they are often occupied with micro-level interventions, delivered as financial or technical assistance through projects.' In fact, he noted that most of Sida's PSD support is channelled as technical assistance to micro-level projects aimed at removing market obstacles, although these are likely to be more successful if macro-level constraints are first removed.

Organic approach in Russia and Ukraine

In a study of all 44 ongoing PSD projects in Russia and Ukraine in 1996 and 2002³, Carl Fredriksson et al. found that there was limited renewal of the portfolio and that most projects were follow-ups. An ambition to achieve practical results largely characterised these projects that had been selected based on

¹ Approach and Organisation of Sida Support to Private Sector Development, Sinha, S. et al., Sida Evaluation Report 01/14. The evaluation was summarised in Evaluations Newsletter 01/4.

² Support for Private Sector Development; Summary and Synthesis of Three Sida Evaluations, Danielsson, A. Sida Studies in Evaluation 03/05

³ Private Sector Development Support in Action: Sida's Approach, Working Methods and Portfolio in Russia and Ukraine, Fredriksson, C. et al. Sida Evaluation Report 04/02

knowledge gained from previous projects and experience of conditions in the field.

Sida generally argues that projects are usually more successful if they originate from the recipient party. It actively seeks to involve partners in order to achieve greater sustainability in the projects. This aim for strong involvement from parties at both ends is based on previous experience and contractual forms, the KTS⁴ (Contract Financed Technical Co-operation) model. The evaluators described this as a risk-minimisation process with Sida working 'reactively rather than proactively' in these countries.

Most projects that evaluators examined were found to be flexible and open in order to address the specific context. There was no 'standard module' for all projects. This approach was characterised by evaluators as 'organic'. The organic approach is a gradual and opportunity-driven process based on learning-by-doing. By contrast, a more 'rationalistic' approach is characterised by a conscious planning perspective, based on systematic analyses and clear priorities.

In examining projects, evaluators found that the organic approach characterised selection, which was primarily based on past



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experience. In implementation, however, projects were largely guided by a rationalistic approach in following a set sequence of implementation procedures.

The organic approach relies on a tacit knowledge of right or wrong, relevant or irrelevant and feasible or not. This working method based on 'gut-feelings' concerning projects was found to be largely consistent within the concerned department and part

Slower Ukrainian progress towards privatisation and deregulation is reflected in Sida's PSD interventions, according to evaluators.

Creating better opportunities

The examined projects in Russia and Ukraine were classified by evaluators as interventions with the primary aim of:

- Improving business opportunities;
- Motivating people to develop businesses; or
- Enhancing skills and resources.

Opportunities

So far, the privatisation process in Russia and Ukraine has, according to evaluators, been disappointing with large sectors of the economies still in state ownership. Newly privatised companies are also run as de facto monopolies. PSD support therefore involves efforts to widen business opportunities. Measures include encouraging greater privatisation, stimulating trade as well as promoting private-public partnerships in providing infrastructure and social services. Other macro level measures are setting business rules and dismantling barriers.

Motivation

Creating opportunities is necessary but insufficient in establishing a well-functioning private business sector. Motivation is also needed. Prerequisites for profits as a motivator are reliable property rights, tax systems that provide incentives, subsidies for start-ups and business services.

Skills and resources

Without the proper skills, opportunities alone cannot drive private sector development. Raising skills and entrepreneurial alertness through training, information and contacts must be addressed.

A portfolio analysis by evaluators shows that in Ukraine five of seven projects aimed at increasing opportunities. These included sector development projects in agriculture and forestry as well as creating opportunities for better self-government. That the focus continues to be on opportunity strengthening may, according to evaluators, reflect the stage of development of the Ukrainian private sector and the relatively slow progress towards privatisation and deregulation. In Russia, by contrast, there has been a shift from skills and resources projects to projects aimed at creating opportunities. In 1996, two-thirds of the projects concerned skills and resources such as management training programmes and sector-specific training. By 2002, skills and resources projects had declined to less than half. However in financial terms, skills and resource projects still constitute the largest financial share of commitments. The shift is explained both by greater experience and knowledge in Sida and by a more favourable political climate in Russia.

⁴ Evaluations Newsletter 1/04 reviews the KTS model.

of its culture. Managers worked according to the same concepts.

The drawback to this organic approach, according to evaluators, is that Sida in these countries ‘runs the risk of prioritising projects that are perceived as feasible and safe while disregarding both their relevance and the relevance to the overall portfolio’. Relying on tacit knowledge is problematic at the portfolio level – when projects should be assessed and selected in relation to other existing or prospective projects. Is support to one project more effective in overall terms than support for another? The approach also relies heavily on certain individuals and thus runs the risk of knowledge being lost in staff turnover.

Evaluators therefore recommended that a more systematic goal-setting and follow-up procedure should be developed. Country strategies were generally too vague to serve as a real tool for project selection. More concrete country strategies could guide assessment of relevance. Finally, evaluators recommended a greater emphasis on knowledge management systems that would facilitate feedback and learning.

Diverse PSD approaches to rural development support in sub-Saharan Africa

An evaluation was commissioned to ascertain to what extent deregulation and the extensive state withdrawal from the agricultural sector in sub-Saharan Africa had influenced Sida’s approach to rural development from a PSD perspective⁵. The evaluation team examined changes in, and the potential for, increased levels of commercialisation of production among ‘non-state production agents’, for example private entrepreneurs and industries, individual small-holders, rural households, and groups such as co-operatives and communities.

The evaluation noted that Sida’s support traditionally had been geared towards the raising of farm productivity but that the direction had shifted towards a greater diversity in programme approaches. Decentralisation and market orientation had become more prominent. ‘However, a majority of Sida’s rural programme interventions still has increased farm productivity as a main objective, and a majority of interventions are still area based.’

Evaluators identified three, what they defined as ‘major narratives’, within Sida towards PSD. The narratives, they noted, influences Sida’s internal processes, both in

terms of how Sida thinks but also when deciding on PSD interventions.

The poverty/market narrative

PSD is the engine of growth, and thus also of poverty alleviation. Furthermore, the poor suffer disproportionately from weakly functioning markets due to their particularly high transaction costs. Sida’s main channel for poverty alleviation is to reduce market failure and transaction costs through institutional and governance reform. Traditional development projects tend to distort markets and should therefore be treated with caution.

The poverty/supply narrative

PSD is important, but is mostly driven by the private sector itself and Sida’s role should be relatively limited. Donors need to provide assistance to enable the poor to take advantage of market opportunities. In the process, some market distortions may be unavoidable because the value of directly helping the poor is greater as they will otherwise lose out to large-scale or more powerful actors.

The poverty/rights narrative

Poverty alleviation is about human rights, and the largest obstacle to promoting a rights-based agenda is the prevailing imbalance of power. A rights-based agenda requires the assignment of responsibilities among specific individuals and actors, something that is difficult to do when considering private sector roles. PSD may be seen to be of indirect importance for enhancing agricultural productivity, but the sector is not specifically targeted to have an important role in this context.

Whereas the first of these narratives effectively sees PSD as a normative objective in itself the other two view the private sector as part of the production or the political economic context. In these two latter narratives, PSD may be one of many means of – or occasionally even an obstacle to – achieving the objectives for poverty alleviation.

Against the background of these three Sida views, the evaluation studied interventions included in four major rural development programmes in Ethiopia, Mozambique, Tanzania and Zambia⁶.

Of these programmes, evaluators found that Ethiopian interventions were most closely linked to the poverty/supply narrative with an emphasis on increasing supply in agricultural production. The Tanzanian programme had emerged from the poverty/rights

⁵ Rural Development and the Private Sector in Sub-Saharan Africa: Sida’s Experiences and Approaches in the 1990s. Havnevik, K. et al., Sida Evaluation Report 03/18

⁶ The Swedish Amhara Rural Development Programme (Ethiopia), the Malonda Programme (Mozambique), the Land Management Programme (Tanzania) and Economic Expansion in Outlying Areas (Zambia).

narrative. Access rights to land, forest and wild-life resources were seen as the basis for increased productivity and business development. The Zambian programme combined the poverty/market and poverty/supply narratives with a belief that people may come to participate in markets if their understanding of the functioning of markets is enhanced. The Mozambican Malonda programme was exceptional for its clear poverty/market narrative. The focus was on establishing markets with the support of outside investors and entrepreneurs.

Thus, the different narratives, or perspectives, concerning the role of PSD for poverty reduction co-exist, suggesting the lack of a coherent PSD approach. However, a shift from a narrow focus on increasing supply and production at the micro level towards a broader market and private sector oriented approach seems to be taking place. Yet evaluators found that the extent to which PSD was taken into consideration remained limited. 'Furthermore, putting the different programmes analysed in this study on a timeline indicates that this evolution of PSD support has not been consistent. Over time, what seems to be emerging is that more up-to-date approaches have not always followed more traditional programme designs chronologically.'

They also noted the lack of attention to socio-cultural aspects in Sida's PSD approach. Without a clear understanding of the norms and systems that guide people's economic behaviour, successful support to entrepreneurial activities, or the building of trust necessary for PSD, either will be impossible or at least difficult. It is important to understand 'where the motivation of people stems from, and which norms and value systems

guide their behaviour. Otherwise, the move into formal and better functioning institutions will be very difficult.'

Further, Sida was found to be weak in dealing with framework factors – the policy and institutional factors at the macro level. More attention should also be given to developing vital linkages between the micro and macro level in Sida's PSD approach to rural development.

Finding the right approach

Private sector development in the sub-Saharan African and the Eastern European context are bound to differ despite the fact that both aim at introducing and stimulating private market initiatives. While the African projects generally concern increasing market participation by small farmers, projects in Eastern Europe largely focus on public sector reform to create better enabling conditions for business.

The narratives in the approach to rural development in sub-Saharan Africa referred to by evaluators would indicate that both partners are still in the process of deciding on the most efficient course of action. Can private sector support be effective before macro-level obstacles are removed, is one valid question. In Eastern Europe, by contrast, the blueprint for transition from public to private ownership has largely been agreed upon – locally, nationally and by development partners. Thus, projects can focus on realising a common agenda.

Despite differing environments and state of development, the general conclusion is that PSD requires a coherent approach encompassing parallel or sequenced support and interventions at the micro, meso and macro level to achieve success.

PHOTO: HELDUR NETOCNY/PHOENIX



Sida's PSD support in Ethiopia has an emphasis on increased agricultural supply.

New PSD approach in Mozambique

With its clear focus on the private sector as a means of poverty alleviation, the Malonda programme in the north-western province of Niassa of Mozambique 'represents a further evolution in Sida's thinking, according to evaluators.' It has a strong emphasises on market mechanisms, such as price and information systems, financial systems and marketing facilities. It is also strong on capability factors by providing agricultural extension, technology development and training. Framework factors such as legislation, rule of law and taxation are also more systematically considered. The linkages to the national policy dialogues and other interventions are more structured than in the other programmes studied by the evaluation.

The programme seeks to increase agricultural production and productivity and to support the development of entrepreneurs and entrepreneurship. This, in turn, is expected to have effects on income generation, job creation and the provision of goods and services.

The programme aims at building markets for agricultural produce, as well as for inputs and credits. Extension services are provided both by private and public bodies. The productivity of farmers is to be increased through the introduction of high-yielding varieties and modern inputs. A business ombudsman and a centre for private sector development supports people in dealing with complicated bureaucracies. Support to large-scale farming and promotion of investments from neighbouring country farmers are also planned.

Yet, evaluators claim, even more could have been done in terms of coordinating the Malonda programme with other interventions to address policy and institutional factors at the macro level. More could also have been done in terms of strengthening capabilities. 'The Malonda approach may be expected to produce strong results in terms of market development, but at the same time there are weaknesses inherent in the approach concerning capability enhancement.' Thus, strong results in one area are likely to be achieved at the cost of worse outcomes in other areas, the evaluation concluded.

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