

# **General or Selective Intervention?**

**An Evaluation of Sida's Partnership Programmes  
in Chile and South Africa**

**Börje Svensson**

**Department for Infrastructure  
and Economic Co-operation**



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**Sida Evaluation 05/22**

**Department for Infrastructure  
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## Executive summary

This report presents an evaluation of Sida's two partnership programmes in Chile (Fondo de Cooperación Chile Suecia, FCCS) and South Africa (the Swedish-South African Business Partnership Fund, SSBF) carried out during the period November 2004–February 2005. The primary purpose of the evaluation has been to assess the two funds with respect to achieved results employing Sida's five key assessment criteria, to discuss possible changes with respect to how the funds are operated and are administrated, and to assess the feasibility and justification for expanding the use of partnership funds to other countries on the basis of Sweden's new policy for global development.

The report is based on information and data collected through desk research and two week-long field studies in Chile and South Africa, including a two-day visit to Namibia. Direct information has been collected about 32 out of a total of 61 projects that have existed or that currently exist within the two funds. The frame of reference applied when analysing and discussing the results achieved by the two funds is based on current literature on development and growth, different policies and reports published by Sida, and the World Development Report 2005.

The evaluation of the two funds is summarised as follows, based on Sida's five key assessment criteria:

|                                                                                                                                        | FCCS                                                                                                                                                                                                                                       | SSBF                                                                                                                                                                                                                                                                                                                          |
|----------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Effectiveness</b><br>(extent to which the programs have achieved their objectives)                                                  | Relatively high measured in terms of output. High return on investment in terms of number of projects, potential partnerships and investments made by participating firms.                                                                 | Reasonably high in terms of output, i.e. number of activated firms in S.A. and Sweden. Low in terms of outcome; high degree of discontinued partnerships, low degree of Swedish commitment.                                                                                                                                   |
| <b>Impact</b><br>(totality of the effects of the programmes, positive or negative, intended or unintended)                             | Too early to judge. Some projects with potential of positive impact, others which could create negative impact on the economy at large by causing market distortions.                                                                      | Some negative impact already experienced due to failing partnerships. Risk of more negative impact with increasing number of failing or unrealised partnerships.                                                                                                                                                              |
| <b>Relevance</b><br>(the extent to which the programmes conform to the needs and priorities of target groups and existing policies)    | Unclear. Important that FCCS sticks to its facilitating role and avoids market distortion activities. The true potential of stimulating relations between Sw. and Chilean SMEs doubtful mainly due to distance.                            | Low with current focus. Almost a "mission impossible" to create viable partnerships between BEE (Black Economic Empowerment) and Swedish SMEs (Small and Medium Enterprises). True potential low due to distance (both sides) and lack of sufficient knowledge and skills (S.A.). There are better ways to support BEE firms. |
| <b>Sustainability</b><br>(the continuation or longevity of benefits from the programmes after their cessation)                         | FCCS represents sustainability through its link to previous Sida-programmes in Chile. Future sustainability hinges on if there really exists a market opportunity for increased cooperation between Chilean and Sw firms despite distance. | Low. High risk that the programme with its present focus will create very few viable partnerships between S.A. and Swedish firms. Probability that partnerships would emerge after cessation of programme low.                                                                                                                |
| <b>Efficiency</b><br>(extent to which the costs of the programmes can be justified by their results, taking alternatives into account) | Reasonably high. Quite a few contacts and relations have been created between Chilean and Sw firms at relatively low cost. No obvious better ways of facilitating relations and partnerships between Sw and Chilean firms.                 | Low. Basic approach of SSBF not optimal. Too much spent on trying to create non-viable p-ships or non-partnerships. Focus should be on supporting BEEs development of competence and skills by activities at the institutional level, e.g. school of entrepreneurship.                                                        |

As concerns FCCS the evaluation comes to the conclusion that the fund should be given the opportunity to continue its work under basically unchanged conditions for another year. Application procedures should be further simplified and the cooperation between the Secretariat in Chile and the Swedish focal point should be extended and improved in order to create an increased presence and awareness of the Fund in Sweden.

As concerns SSBF the conclusion arrived at is that the basic approach on which the operations of the Fund rests is not in harmony with Sida's private sector development policy or with general recommendations on PSD support. Achieved results are disappointing compared to original expectations and objectives and it is recommended that the focus and objectives of the Fund are reconsidered and changed.

The evaluation concludes that partnership funds can be a useful tool when implementing Sweden's new policy for global development depends provided that three conditions are met. One condition is that the operations of a partnership fund are based on well-defined and controllable criteria. A second condition is that partnership funds should be based on the principle of cost sharing. A third condition is that governmentally financed partnership funds should not be allowed to provide risk capital to individual firms.

## 1 Background and purpose of the evaluation

This report presents an evaluation of Sida's two partnership programmes in South Africa and Chile carried out during the period November 2004–February 2005. The fund in South Africa, SSBF (Swedish-South African Business Partnership Fund) was established in 1999 and is intended to operate until mid 2007 after which the operations of the fund will be phased out. The Chilean fund, FCCS (Fondo de Cooperación Chile-Suecia) started its operations during 2002 and can continue to operate under its current mandate and with current funds until the end of 2005/beginning of 2006. The purpose of the evaluation, which can be characterised as an interim, formative, process evaluation<sup>1</sup>, can be summarized as follows (for a detailed presentation of the Terms of Reference, see Appendix 1):

- Assess the results achieved by the two funds so far in terms of outputs and preliminary outcomes employing Sida's five key Assessment Criteria (Effectiveness, Impact, Relevance, Sustainability and Efficiency) as well as Sida's new Policy for Private Sector Development)
- Discuss possible changes with respect to how the funds operate and are administrated. This discussion should include the justification and feasibility of expanding the mandate of the funds to also include non-commercial areas of cooperation
- Recommend measures that could be introduced by Sida in its coming Annual Consultations for the operation of the funds
- Assess the feasibility and justification for expanding the use of Partnership Funds to other countries on the basis of the goals and guidelines presented in Sweden's new Policy for Global Development including the guidelines for EU development cooperation

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<sup>1</sup> "Looking Back, Moving Forward", Sida Evaluation Manual (2004), pp 10-13



## 2 Methodology and organisation of the report

The information and data on which this evaluation is based have been collected through desk research and two week-long field studies in Chile and South Africa. The desk research includes reading of policies and various programme related documents and perusal of current, relevant literature on development support and private sector development. The visit to Chile took place at the beginning of November 2004 while South Africa was visited at the end of January 2005. The visit to South Africa also included a two-day visit to Namibia, where the business partnership approach has been considered as a means to stimulate and increase business co-operation between Sweden and Namibia. In connection with the field studies board members and the management of Fondo de Cooperación Chile Suecia (FCCS) and the Swedish-South African Business Partnership Fund (SSBF) have been interviewed as well as representatives of firms that have been supported by the two funds. I have also interviewed representatives of Swedish organisations and firms involved in the partnership programmes as organisers of or participants in different types of activities. Through company visits, personal interviews and interviews via telephone or e-mail I have collected direct information about 19 of the 38 projects included in the evaluation of FCCS and 13 of the 23 projects included in the evaluation of SSBF. In connection with the visit to Namibia discussions were held with the head of development cooperation and the chargé d'affaires at the Swedish embassy, and the trade and regional integration officer at the EU mission in Windhoek.

Considering that the first approval of the board of FCCS was given in March 2003 and that the evaluation covers the operations of the fund until October 2004, none of the projects included in the FCCS evaluation has been in operation for more than 19 months. As a consequence of this the evaluation of FCCS is mainly about outputs. To the extent that possible outcomes and impacts will be discussed it will be from a hypothetical or speculative point of view. The evaluation of SSBF includes projects some of which were approved already at the end of 1999/beginning of 2000. In the case of SSBF the time period covered makes it possible to analyse and discuss many of the cases in terms of outcomes and possible impacts for the involved firms, for the facilitating agencies, and for the economy at large.

The evaluation focuses mainly on the results achieved by the two funds and deals only to a lesser extent with how the funds are administered and managed. Expressed differently; it is more about whether the funds are doing the right things than whether they are doing things in the right way. If achieved results are believed to be a direct consequence of how a fund is managed this will of course be considered.

The continuation of the report will be organised as follows. Chapter 3 presents the frame of reference of the study in the form of policies, models and concepts that will be applied in the interpretation and analysis of collected information and data. Chapter 4 gives an overview of the two funds with respect to their mandates, how they are organised, and different types of activities they have been involved in since their inception. The chapter also includes a qualitative assessment of the outputs and outcomes produced by the two funds so far in relation to established objectives and expectations. Chapter 5 presents the conclusions and recommendations of the evaluation. The conclusions and recommendations are based on an analysis of the funds with respect to purpose, operations and achievements in relation to different concepts, models, policies and opinions presented in the frame of reference. The chapter includes a discussion of the justification and feasibility of expanding the funds' mandates to also include non-commercial areas of cooperation as well as of using the partnership fund approach also in other countries.

### 3 Frame of reference of the study

A dominating opinion among experts on development and growth is that interventions by governments and national and international agencies of different kinds should aim at a general rather than firm-specific level. Interventions at the general level, such as securing property rights, increasing the supply of risk capital, facilitating the procedures for starting and operating firms, or increasing firms' and people's competitiveness and skills through education and training result in better opportunities for all firms. Interventions at the firm-specific level benefit, at best, a limited number of firms which quite often are arbitrarily or randomly selected. Despite this widely shared opinion among theorists as well as practitioners, selective intervention is frequently practiced by governments and development agencies. The rationales and explanations for this are plenty. A common justification or excuse for selective intervention is that it is intended to be of a short duration. It is frequently intended for firms that are considered to be at some type of disadvantage due to their location, their age, their competitive situation, or the characteristics of their owners. Selective intervention can sometimes be elitist by focusing on particular firms that are considered to have specific abilities to accelerate development and growth, for example university spin-offs or IT firms. These firms will function as "role models" and inspire other firms to follow their example. This approach is sometimes referred to as "picking winners", which is a key activity among venture capital firms.

A problem with selective interventions, apart from being conceived as unfair by firms excluded from them, is that they may lead firms into participating in activities or entering into relations they are not yet prepared for and therefore not capable of handling. A firm may acquire a technology that lies above its technological capability, or try to launch its products on markets on which they are not competitive enough. Another problem with selective intervention occurs when the facilitating agency is unable to provide the competencies or tools necessary to compensate for the deficiencies of the participating firms, or is not capable of or willing to provide necessary support long enough. A third problem, or risk, is that the selective intervention becomes an end in itself for the facilitating agency. If firms that meet the initially established criteria cannot be found, unfit firms are invited to participate to the detriment of all involved parties.

#### 3.1 Policy documents and literature of relevance for the evaluation

If we look at policies and literature of relevance for this evaluation we find that they reflect much of the concerns about selective intervention expressed above. A document of specific importance for this evaluation is Sida's Policy Guidelines for Support to Private Sector Development<sup>2</sup>. The policy guidelines are in their turn closely linked to the two reports "Making Markets Work for the Poor"<sup>3</sup> and "Approach and Organisation of Sida's Support to Private Sector Development"<sup>4</sup>. A report which has a special bearing on this evaluation, especially as concerns SSBF, is the International Business Linkages Study<sup>5</sup>. This study, initiated by the British Council and the UK's Department for International Development, analyses results and reflects on lessons learned from eight donor funded business linkages programmes in South Africa, including SSBF. Another recently published report that discusses matters of strong relevance for this evaluation is the World Development Report 2005<sup>6</sup> which contains, among other things, a chapter dealing specifically with selective interventions. A final document of relevance for the evaluation at a more general level is Sweden's New Policy for Global Development.

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<sup>2</sup> Policy Guidelines for Sida's Support to Private Sector Development, October 2004, Department for Infrastructure and Economic Co-operation, Sida

<sup>3</sup> Making Markets Work for the Poor, Challenges to Sida's Support to Private Sector Development, October 2003, Sida (provisional edition)

<sup>4</sup> Approach and Organisation of Sida Support to Private Sector Development, Sida Evaluation Report 01/14

<sup>5</sup> International Business Linkages Study, Phase 2, Business Development Consulting, South Africa & ECI South Africa, January 2004

<sup>6</sup> World Development Report 2005 – A Better Investment Climate for Everyone, World Bank 2004

### **3.1.1 Approach and Organisation of Sida's Support to Private Sector Development**

This report presents an evaluation of Sida's support to private sector development made by Emerging Market Economics, London in co-operation with ÅF-Swedish Management Group in 2001. The report assumes that the private business sector (PBS) is an important engine for economic growth. Under certain conditions it can also contribute significantly to poverty reduction, which is the overall goal of Sida, as well as to environmental and social sustainability, including gender equality, which are among Sida's specific objectives to achieve the overall goal.

In order to function well, however, the PBS needs an enabling environment characterised by well-functioning markets, appropriate levels of opportunity, risk and reward, and adequate access to infrastructure, capital, and competence and capability. These factors form the "rules of the game" for the PBS. One of the main findings presented in the report is that private sector development (PSD) support can contribute to a better functioning PBS provided that it is multi-sectoral and multi-disciplinary, and integrated with other interventions. It should further address a cluster of rather than individual factors. As concerns the sequencing of interventions, macro and meso factors should preferably be addressed before micro factors. When intervening at the micro level, it is important that the proposed activities do not cause market distortions and that they are implemented with the least possible bureaucracy.

### **3.1.2 Making Markets Work for the Poor**

This report, which aims at presenting a basic descriptive framework and a source of knowledge on poverty focused PSD, repeats many of the recommendations given in the previous report. PSD support should, according to this report:

- focus on industrial or business sectors, including regional clusters, rather than individual enterprises
- avoid subsidies of capital to commercial operators unless there are very clear cases of positive externalities
- avoid distorting capital markets by providing subsidised credit to specific financial intermediaries
- avoid retarding or preventing the development of markets, for example in business services or micro finance
- avoid by-passing domestic organisational structures
- give preference to private sector organisations unless there are compelling arguments for a government intervention

### **3.1.3 Policy Guidelines for Sida's Support to Private Sector Development**

The guidelines are intended to provide guidance for the design and implementation of Sida's PSD support. They are based on the assumption that the development of efficient markets is a key to pro-poor PSD. They further consider the development of sound business environments and good governance to be a central element in PSD support, which is achieved through support to policy reforms, institutional development and capacity building. Market development should be supported primarily by addressing constraints in the business environment. It is clearly stated in the guidelines that direct support to market players should be limited to purposes that justify subsidies, e.g. human resource development with clear positive externalities. Sida should in this context make special efforts to avoid creating market distortions. Important in the implementation of PSD support is to apply participatory approaches, aiming at ownership by concerned stakeholders including the ultimate beneficiaries, to work in consortia with other donors, and to concentrate on knowledge domains where Sweden and Sida have comparative advantages.

### **3.1.4 International Business Linkages Study, South Africa**

The authors of this study claim that the eight business linkage programmes included in the study, one of which is SSBF, have had little or no impact on the South African economy. The main explanations to this are the following:

- Most of the programmes are supply rather than demand driven and seem to respond to symptoms rather than the underlying problem in the market;
- The services provided by the programmes have proven to be unsustainable, distort the market and lead to greater problems. The programmes should therefore facilitate rather than directly provide services;
- Analysis of programme achievements and costs has shown that the programmes are not as effective as they could be because their interventions are focused at the level of the firm and not of the market;
- Analysis of programme achievements and bilateral economic relationships shows that the programmes have had limited impact on the market;
- While linkage sustainability can be undermined by inappropriately subsidised services, none of the programmes considers sustainability of the services market, indicating a lack of understanding of what the underlying problem is.

### **3.1.5 World Development Report 2005 – on selective intervention**

Beyond the sequencing of reforms, beyond delivering the basics of a good investment climate, can governments accelerate growth by providing special and more selective support to particular firms or activities? This question is posed in the World Development Report (WDR) of 2005, and the answer given is “possibly”. In order for selective intervention to be successful, however, the government or supporting agency must, according to WDR, be capable of identifying candidates that merit special policy treatment, resisting rent-seeking and ensuring that any intervention is cost effective.

The report maintains that identifying specific firms or industries that merit special policy treatment is, at best, a gamble and that governments when entering the casino are betting with taxpayer resources. This should have implications for the size of the bet and the length of the odds they are willing to accept. Concerning rent-seeking, firms are prepared to invest considerable resources in making their case to policymakers according to the report. WDR also claims that schemes and programmes that transfer commercial risk to taxpayers through, for example, public-private joint ventures or subsidised credit weaken firms’ incentives to perform efficiently. These types of schemes are difficult to dismantle due to the privileges they create.

A factor that makes cost effectiveness difficult to achieve in connection with selective intervention is the problem of establishing the “right” level of intervention to reach the desired behaviour. WDR concludes that even if in theory selective intervention can yield positive outcomes, in practice cases of unambiguous success are rare.

### **3.1.6 Sweden’s New Policy for Global Development**

Two central concepts in Sweden’s New Policy for Global Development, which was approved by the Riksdag in December 2003, are coordination and cooperation. Sweden’s efforts to combat poverty should be coordinated so that decisions within different policy areas complement each other and are directed towards the same goal. The efforts should also be characterised by increased cooperation both with other countries and between different organisations and institutions in the public and private sectors. Through a broadened and more flexible cooperation with other countries, particularly within the EU, it should be possible for Sweden and Sida to concentrate their efforts to fewer areas and to

reduce the size and scope of the bilateral cooperation. The importance of strengthening the cooperation between the Government, various government agencies and other public sector actors on the one hand and actors such as the private industry, trade unions, cooperatives and churches on the other is reflected in that the policy not only recommends increased cooperation, but that the global development policy will be designed in close consultation with these actors.

### 3.2 A tentative tool for analysing outcome and impact of business partnerships

A key activity of both FCCS and SSBF is to stimulate and facilitate the establishment of partnerships between Swedish and Chilean and Swedish and South African firms. Facilitated partnership-building has three key actors; the partnering firms, the facilitating agency or agencies, and the economy at large. In order to be considered relevant and meaningful a programme aiming at stimulating the creation of business partnerships should in the long run result in positive outcomes and impacts for all three key actors involved. The three figures below illustrate possible effects of a partnership programme for the key actors in terms of outcomes and impacts.

Figure 1 shows possible effects of a business partnership for the partnering firms. The grid contains nine squares illustrating possible effects for the involved firms ranging from “positive” via “no result” or “too early to judge” to “negative”. Square 1:1 illustrates the ideal situation where both firms benefit from the partnership. The partnership may create an opportunity for the one party to extend the use of its technology to a new market, while the other party may improve its competitiveness and increase its sales on the domestic market. Squares 1:3 and 1:7 show win-lose or lose-win effects of a partnership. A technology transfer originally intended to improve the acquiring firm’s position on its domestic market may result in the acquiring firm becoming the transferor’s toughest competitor on all markets. The opposite situation occurs when the transferor uses the transferee as a test pilot only to take over the latter’s market if it turns out to be bigger and more profitable than expected. Square 1:5 illustrates a typical in-between situation where the parties experience a neither positive, nor negative result of the partnership, or where it is too early to judge about the outcome. Square 1:9 is at hand when a partnership turns into a failure for both parties.

**Figure 1: Possible effects of a partnership for the partnering firms**

|        |                                  | Firm B          |                                  |                 |
|--------|----------------------------------|-----------------|----------------------------------|-----------------|
|        |                                  | Positive result | No result/<br>too early to judge | Negative result |
| Firm A | Positive result                  | 1:1             | 1:2                              | 1:3             |
|        | No result/<br>too early to judge | 1:4             | 1:5                              | 1:6             |
|        | Negative result                  | 1:7             | 1:8                              | 1:9             |

Figure 2 presents possible effects of facilitated partnership-building for the facilitating agency and the partnering firms. As seen above the a partnership can give different results for the partnering firms, and the same goes for facilitating agencies, if more than one agency is involved. For the sake of simplicity, however, the effects are assumed to be identical or similar in the discussion below, and the partnering firms and facilitating agencies are consequently treated as singular entities. Square 2:1 illustrates the win-win alternative, when both the facilitating agency and the partnering firms benefit from the fact that a partnership is established. A positive result for an agency like FCCS, which limits its support to promotional activities and providing grants, has consequences mainly for its image. The agency gains respect and credibility by demonstrating its capacity to encourage and support viable and long-lasting partnerships.

For an agency like SSBF, which also provides loans and risk capital to facilitate the emergence of partnerships, a result must in order to be considered positive also include repayment of loans and a positive return on invested capital. Squares 2:3 and 2:7 illustrate the win-lose or lose-win situations where either only the partnering firms or the facilitating agency benefit from the existence of a partnership. Square 2:3 represents a possible situation, at least in a shorter time perspective, where unscrupulous firms exploit the benevolence or gullibility of a facilitating agency to gain unintended and wrongful advantages. The opposite situation, square 2:7, may occur when a facilitating agency reaps political gains from the mere fact that it contributes to the creation of partnerships regardless of their implications for the partnering firms. Square 2:5 illustrates the “no result” or “too early to judge” alternative, and square 2:9 the “complete failure” alternative.

Figure 3 illustrates the effects of facilitated partnership-building with respect to possible outcomes or impacts for the partnering firms and the economy at large. As in the previous cases the grid contains nine squares ranging from the win-win situation represented by square 3:1, via different in between or “too early to judge” results, down to the disastrous situation, represented by square 3:9, where a facilitated partnership has a negative outcome or even impact both for the partnering firms and the economy at large. This would be the case if a facilitating agency of the type that SSBF represents supports partnerships that are not viable, but which, thanks to the support received, are will drive other, more viable partnerships out of business.

**Figure 2: Possible effects of a partnership for the partnering firms and the facilitating agency**

|                         |                                  | Facilitating agency |                                  |                 |
|-------------------------|----------------------------------|---------------------|----------------------------------|-----------------|
|                         |                                  | Positive result     | No result/<br>too early to judge | Negative result |
| <b>Partnering firms</b> | Positive result                  | 2:1                 | 2:2                              | 2:3             |
|                         | No result/<br>too early to judge | 2:4                 | 2:5                              | 2:6             |
|                         | Negative result                  | 2:7                 | 2:8                              | 2:9             |

**Figure 3: Possible effects of facilitated partnership-building for the partnering firms and the economy at large**

|                         |                                  | Economy at large |                                  |                 |
|-------------------------|----------------------------------|------------------|----------------------------------|-----------------|
|                         |                                  | Positive result  | No result/<br>too early to judge | Negative result |
| <b>Partnering firms</b> | Positive result                  | 3:1              | 3:2                              | 3:3             |
|                         | No result/<br>too early to judge | 3:4              | 3:5                              | 3:6             |
|                         | Negative result                  | 3:7              | 3:8                              | 3:9             |

The three grids above will be applied primarily in the analysis of partnerships facilitated by SSBF, where sufficient time has elapsed in order to discuss achieved results in terms of preliminary outcomes and possible impacts. At a later stage they can also be applied on FCCS.



## 4 The organisation and operations of FCCS and SSBF

This chapter gives a detailed presentation of the two partnership funds with respect to how they are organised and what results they have achieved so far in terms of outputs and preliminary outcomes.

### 4.1 Fondo de Cooperación Chile Suecia (FCCS)

The Fondo de Cooperación Chile-Suecia (FCCS) originates from a co-operation agreement signed between the Chilean and Swedish governments in January 1998. The purpose of the Fund, according to the agreement, is to stimulate the creation and development of long-term business relations and alliances of mutual benefit between Swedish and Chilean small and medium-sized firms (SMEs). The Fund shall primarily focus on business sectors where Swedish firms can be expected to have a strong international position, including information technology, metallurgy, wood manufacturing and environmental protection. The organising of the co-operation between the two countries was entrusted Sida, CORFO (Corporación de Fomento de la Producción) and AGCI (la Agencia de la Cooperación Internacional de Chile). The total amount of money put at the Fund's disposal was 3 million US\$ of which amount the two countries have contributed 50 per cent each.

#### 4.1.1 Inception of the Fund

The start of the Fund was delayed, but during 2002 different measures were taken to carry the intentions expressed in the agreement into effect. One important measure was the creation of a specific committee, “el Comité del Fondo de Cooperación Sueco”, located at CORFO and representing the three organisations included in the original agreement. The management of the Committee, or the Fund, was entrusted a board of five members, two of which were appointed by CORFO, one by AGCI and two by Sida. Another important measure was the creation of a Secretariat, “Dirección Ejecutiva del Comité”, to take responsibility for the day-to-day operations of the Fund. The Secretariat was headed by a director, working part-time for the Fund and recruited from CORFO. The inaugural board meeting of the Fund took place on September 30, 2002.

#### 4.1.2 Development of operating principles and promotion of the Fund

During the months following the inaugural meeting the board and the Secretariat focused their efforts on developing the operating principles of the Fund and on promoting it and creating awareness of its existence among Chilean and Swedish SMEs and various types of supporting business organisations in the two countries.

The board of FCCS identified four types of project considered to be of principal interest to the Fund, namely (1) Technology innovation projects, (2) Centres and institutes assisting SMEs in the development of their technological capability, (3) Projects involving technology transfer between firms, and (4) Activities or meetings bringing groups of companies together.

The only form of support offered by the Fund is grants, i.e. it neither gives loans, nor does it provide risk capital. The Fund contributes with maximum 50 per cent of the total cost of a project. The ceiling is 200,000 US\$ for a development project involving two companies, and 300,000 US\$ for a project involving three or more parties.

In December 2002 the Fund invited Swedish firms to submit proposals concerning the promotion of the Fund in Sweden. The winning proposal was presented by the consulting firm Lamtrac AB, with which firm the Fund signed a three-year agreement in April 2003.

Among different promotional activities applied by Lamtrac and FCCS to create increased awareness among Swedish firms about Chile as a market and the Fund as a possible tool to approach this market were:

- Meetings with different types of business organisations
- Distribution of press releases to business journals, newspapers, radio- and TV-channels
- Advertisements in journals, newspapers and web-pages
- Presentation of the Fund in a limited number of TV- and radio interviews (Chile)

In Sweden Lamtrac used a combined approach to promote the Fund. By co-operating with research centres at the universities and so called IUCs (industrial development centres) individual companies meeting the specific criteria of the Fund were identified and approached. By participating in the Technical Fair and co-operating with Chambers of Commerce, the Swedish Trade Council and different types of business associations and supporting organisations a more general diffusion of information to SMEs was aimed at.

#### 4.1.3 Profile and key characteristics of the project portfolio

In March 2003 the board of FCCS gave its first approval. At the beginning of November 2004, 14 months and some 28 board meetings later, the board has considered 52 applications, 38 of which have been approved, 7–8 have been rejected, and another 7–8 have been postponed until further information and convincing arguments have been presented by the applicants. The approved projects represent a total investment of 2,153,833 US\$ of which amount the Fund has provided 1,093,239. A detailed presentation of the 38 projects included in the project portfolio of FCCS as at October 2004 is given in Appendix 2.

Table 1 shows the distribution of the 38 projects with respect to area of technology. As can be seen, the area that has received most approvals is IT (information technology) followed by environmental protection, which area has received most support in terms of money, and natural resources (incl. forestry related projects).

**Table 1: Distribution of FCCS support on areas of technology**

| Area of technology       | No. of projects | Total project cost (US\$) | Supplied by FCCS (US\$) | Supplied by the firms (US\$) |
|--------------------------|-----------------|---------------------------|-------------------------|------------------------------|
| IT                       | 12              | 583,900                   | 256,658                 | 327,242                      |
| Environmental protection | 9               | 837,056                   | 450,227                 | 386,829                      |
| Natural resources        | 9               | 337,924                   | 173,205                 | 164,719                      |
| Manufacturing            | 3               | 256,664                   | 128,680                 | 127,984                      |
| Other areas              | 5               | 138,294                   | 84,469                  | 53,825                       |
| <b>Total</b>             | <b>38</b>       | <b>2,153,838</b>          | <b>1,093,239</b>        | <b>1,060,599</b>             |

Table 2 illustrates the distribution of funds on different project types. Roughly 50 per cent of the resources provided by the Fund has been allocated to five projects oriented at product and technology development either by acquiring technology and know-how from the counterpart or entering into some type of joint development co-operation. Fifteen per cent of the Fund's support has gone to projects aiming at increasing the knowledge of individual firms or groups of firms within specific areas such as forestry and environmental protection. Most of the projects, 21 out of 38, have been in the form of travel allowances to firms travelling either individually or as participants in organised missions. In total the Fund has shared the travel costs for 50 firms travelling to Sweden or Chile in search for potential partners and/or new technology.



**Table 2: Distribution of FCCS support on type of project**

| Type of project                                 | No of projects | Total project cost (US\$) | Supplied by FCCS (US\$) | Supplied by the firms (US\$) |
|-------------------------------------------------|----------------|---------------------------|-------------------------|------------------------------|
| Product and technology development              | 5              | 1,094,822                 | 547,341                 | 547,481                      |
| Capacity development                            | 3              | 340,717                   | 166,243                 | 174,474                      |
| Company missions:                               |                |                           |                         |                              |
| Search for technology                           | 6              | 366,231                   | 189,882                 | 176,349                      |
| Search for strategic partners                   | 15             | 210,630                   | 108,434                 | 102,196                      |
| Expert consultation                             | 6              | 62,540                    | 23,430                  | 39,110                       |
| Conferences and other group oriented activities | 3              | 78,898                    | 57,909                  | 20,989                       |
| <b>Total</b>                                    | <b>38</b>      | <b>2,153,838</b>          | <b>1,093,239</b>        | <b>1,060,599</b>             |

Some of the firms and institutions involved in the 38 projects have received support from the FCCI more than once. Fundación Chile, for example, which is a private, non-profit institution created in 1976 by the Chilean government and ITT Corporation, is involved in four projects which have received almost 30 per cent of the Fund's total grants so far. Fundación Chile's mission is to introduce new technology and develop human resources in key clusters of the Chilean economy, including agribusiness, environmental control, forestry and marine resources.

**Table 3: Distribution of FCCS support depending on size of individual projects**

| Size of Fund's contribution (US\$) | < 5,000 | 5,000–10,000 | 10,000–30,000 | 30,000–100,000 | > 100,000 |
|------------------------------------|---------|--------------|---------------|----------------|-----------|
| No. of projects                    | 9       | 8            | 12            | 4              | 5         |
| Total amount                       | 31,029  | 60,482       | 219,169       | 150,677        | 631,882   |
| Share of total support             | 3 %     | 5 %          | 20 %          | 14 %           | 58 %      |

From Table 3 can be seen that a limited number of projects account for a large proportion of the support granted by the Fund so far. Five projects, each of which have received a support exceeding 100,000 US\$, account for 58 per cent of the total contributions from the Fund. Seventeen projects, i.e. almost half of the total number of projects, have received less than 10,000 US\$ (typically travel allowances) and account together for only 8 percent of the Fund's total support. The predominance of small projects in the Fund's portfolio will probably decrease over time since many of the firms that have been granted an initial travel allowance can be expected to move into a more resource demanding second stage, involving partnership building and technology development.

#### 4.1.4 Most projects are in a pre-partnership phase

Table 4 classifies the 38 projects of FCCS with respect to in what stage they are in their search for a possible partner. The projects are also classified with respect to who is the recipient of the support, i.e. if it has been granted to individual firms, to groups of firms, for joint development activities or for a capacity building activity of some kind.

**Table 4: Projects classified with respect to development stage and type of recipient**

|                                         | <b>Pre-partnership phase</b>              | <b>Early partnership phase</b>           |
|-----------------------------------------|-------------------------------------------|------------------------------------------|
| Support to individual Chilean firms     | 10 projects<br>85,201 US\$                |                                          |
| Support to individual Swedish firms     | 6 projects<br>44,456 US\$                 |                                          |
| Support to joint development activities |                                           | 8 projects<br>689,430 US\$               |
| Support to groups of Chilean firms      | 5 projects<br>93,915 US\$                 |                                          |
| Support to groups of Swedish firms      | 4 projects<br>114,128 US\$                |                                          |
| Conferences, capacity building          | 5 projects<br>66,109 US\$                 |                                          |
| <b>Total</b>                            | <b>30 projects<br/>403,809 US\$ (37%)</b> | <b>8 projects<br/>689,430 US\$ (63%)</b> |

The content of Table 4 gives rise to the following observations and comments:

- The vast majority of projects in FCCS portfolio concerns firms that have not yet entered into any partnership with other firms. Their search for a potential partner is carried out either individually, or in company with other firms, or by participating in different type of capacity building and competence development activities. To what extent these projects will result in viable partnerships in the future is too early to judge.
- The 8 projects considered to be in an early partnership phase are identical with projects 2, 3, 16, 22, 26, 31, 36 and 37 in Appendix 2. These 8 projects account for 63 per cent of the total support provided by FCCS.
- Of the eight partnership projects, 2 and 3 are of minor size, 15,000 and 11,192 US\$ respectively, and concern adaptation of Swedish software for the Chilean market. Of the remaining six projects all but one have received a grant from FCCS exceeding 100,000 US\$.
- All conferences and capacity building activities have concerned Chilean firms
- Looking a bit closer at some of the projects in FCCS portfolio, project 26 concerns a Chilean IT firm co-operating with a Swedish firm, trying to adapt the Swedish firm's technology for the Chilean market. Project 36 is a Chilean firm producing pigment from lapis lazuli and collaborating with a Swedish firm to develop a production technology and find applications for paint based on the lapis lazuli pigment. Project 37 concerns a Chilean firm trying to introduce in Chile a biological sewage treatment system in collaboration with the small Swedish firm that is the inventor and proprietor of the system. All these three cases illustrate the "stepping-stone" model that can be expected to be applied in more cases in the future. The first step implies that the Fund grants a smaller travel allowance making it possible for the Chilean firm to visit Sweden (or vice versa) to search for firms with relevant technological or marketing skills and interested in starting some type of co-operation. Having found a suitable partner, the Chilean firm returns to the Fund with a second, more extensive application in order to develop the partnership and the technology or business concept related to it further. It can already now be foreseen that some firms will turn to the Fund to get support also for a third step in the development process, for example in connection with the market launching of a new product or technology.

- With regard to that all the eight partnership projects are in an early phase nothing can yet be said about possible future outcomes and impacts. Most certainly the firms learn a lot from their collaborations. To what extent this learning will lead to positive financial outcomes for the interacting firms and have a positive impact on the economy at large remains to be seen.
- Chilean firms dominate over Swedish firms as recipients of the Fund's support and as participants in different capacity building activities. Even if the eight partnership projects concern joint development activities, the Chilean firm is usually the applicant and the recipient of the Fund's support. This also means that the Chilean firms have made larger commitments to the partnerships than their Swedish counterparts.
- One way of expressing the outputs achieved by FCCS so far is that the operations of the fund has resulted in that around 80 firms and institutions, the majority of them Chilean, have invested more than 1 million US\$ to investigate the possibilities of starting, and in some cases already started cooperation activities with Swedish or Chilean firms and institutions.
- To what extent the results meet the objectives of the board of FCCS is difficult to tell since the board does not seem to have expressed its objectives or expectations in quantitative terms. My impression from the interviews with four of the five members of the board is that they are, in general terms, quite satisfied with the results achieved so far.

#### 4.1.5 Allocation of FCCS resources

Table 5 shows the distribution of FCCS funds up till now and the reservations made for the remaining year of operations. By the end of 2004, 1,33 million US\$ had been spent, which corresponds to approx. 46 per cent of total funds. Of the total money spent administrative costs, including the marketing of the Fund in the two countries, accounted for 22 per cent which means that 78 per cent of the funds have been allocated to projects. In addition to the money spent so far, another 587 million US\$ of project support has been approved but not yet disbursed. Remaining funds for project support during 2005, after deducting calculated administrative costs in Chile and Sweden during 2005, amount to approx 0,75 million US\$.

Of total amount spent on administration (staff, consultants, marketing, travel costs, board meetings etc) so far, approx. 293,000 US\$, the Chilean side accounts for 54 per cent (158,000 US\$) and the Swedish side for 46 per cent (135,000 US\$).

**Table 5: Allocation of FCCS resources on type of activity**

|                                                 | (US\$)           | Share of expenditures (%) |
|-------------------------------------------------|------------------|---------------------------|
| <b>Total budget of FCCS</b>                     | <b>2,860,595</b> |                           |
| Expenditures 2002–2004:                         |                  |                           |
| Staff costs, Chile                              | 91,133           | 7                         |
| Administrative and facilities costs, Chile      | 33,222           | 2,5                       |
| Marketing of Fund, Chile                        | 34,170           | 2,5                       |
| Marketing and administration, Sweden            | 134,762          | 10                        |
| Project support, paid to firms                  | 1,033,549        | 78                        |
| Total expenditures, 2002–04                     | 1,326,836        |                           |
| Remaining funds, end 2004                       | 1,533,759        |                           |
| Project support approved, not disbursed         | 587,345          |                           |
| Administrative costs, Sweden 2005–06            | 104,031          |                           |
| Staff and administrative costs, Chile, 2005     | 90,000           |                           |
| <b>Remaining funds for project support 2005</b> | <b>752,383</b>   |                           |

#### **4.1.6 Some reflections on FCCS**

My impressions of FCCS with regard to how the fund is organised and managed, the profile and characteristics of the project portfolio, and the results achieved so far, can be summarised as follows:

- FCCS is still in a relatively early phase. At the time of my visit to Chile (November 2004) a little more than two years had passed since the board of the fund met for the first time, and only 19 months had passed since the first applications were approved. The short time of operation limits the possibilities of analysing achieved results other than in terms of outputs.
- FCCS has a well-functioning board that has met 28 times during the first two years of operation, and a professionally managed Secretariat, but with limited resources. Total costs for the management of the fund in Chile (Secretariat, board, consultants, travel costs etc) do not exceed 600,000 SEK per year, which must be considered surprisingly low. The limited resources of the Secretariat have caused delays in the handling of applications and in preparing adequate information material about the fund, including a professionally designed and interactive homepage.
- FCCS has made a careful due diligence of Chilean firms that have applied for support.

A corresponding careful examination of participating Swedish firms has not been made. Lamtrac has been prepared to assist in this work but has not received any, or very few requests from the Secretariat.

- Some board members express concern over the fact that the Fund lacks access to necessary tools, for example in the form of risk capital or royalty loans, to support their clients in later development stages.
- Swedish firms and organisations, among them the Swedish Trade Council, have complained about the complicated procedures applied by FCCS when dealing with applications and requests for payment. The Secretariat refers to existing laws and regulations in Chile and within Corfo, but has expressed a willingness to simplify procedures and reduce the red tape to the greatest extent possible.
- The fund has managed to handle a large number of applications during its two years of operations, most of which have been approved.
- There have been limited contacts and co-operation between the Secretariat and the Fund's focal point in Sweden, Lamtrac.
- Lamtrac's role as a facilitating agent on the Swedish market has been somewhat ambiguous. This can partly be explained by the overall design of the programme, with a very strong concentration of power and decision-making to Chile, and partly by a lack of trust in Lamtrac's suitability for the assigned role among some key actors on the Swedish side. Lamtrac also experienced a setback when its project proposal concerning a widened scope of assistance was rejected by the board at the beginning of 2004.
- The relatively big inflow of project proposals to the Fund can partly be explained by previous co-operation between Sida and Corfo and other Chilean organisations within forestry, environmental control and other sectors. Project ideas and contacts developed through these projects have been channelled to FCCS via Swedish consultants who were involved in the previous projects. The existence of previously established networks and linkages seems to have played a far more important role than general and untargeted promotional campaigns for the generation of projects.

## **4.2 Swedish-South African Business Partnership Fund (SSBF)**

The Swedish-South African Business Partnership Fund (SSBF) is a so called section 21 company established in 1999 in partnership between Sida and the Department of Trade and Industry, South Africa (DTI). Of the total amount of 80 million SEK provided for the administration and operations of

SSBF, Sida has contributed with all except 5,000 R (equivalent of approx. 6,000 SEK) contributed by DTI. Of the total founding capital 65 million SEK has been transferred to SSBF. Of the 15 million SEK kept in Sweden, one million SEK has been reserved for monitoring and evaluation activities to be carried out by Sida. The remaining 14 million SEK is kept by Sida and is not shown as an asset on SSBF's balance sheet.

SSBF was originally intended to operate during five years, which has later been extended to eight years. This implies that SSBF will make disbursements and carry out promotional activities until 30 June 2007 after which date the operations of the Fund will be phased out. The phasing out period mentioned in the original agreement is five years after which all remaining holdings will be transferred to a fully indigenous South African institution.

In an amendment to the original agreement is specified how the Fund's resources should be allocated to different activities. Of the total capital of 80 million SEK, 30 million SEK shall be allocated for promotional activities and SSBF's administration and overhead costs, and 49 million SEK for investments and investment related activities.

The vision and mission of SSBF are stated as follows:

#### **Vision**

To promote sustainable long term commercial relations between South African small and medium enterprises (SMEs) and Swedish enterprises; and thereby contribute to economic growth and job creation in South Africa through SME's with the largest possible participation of PDIs in management and ownership.

#### **Mission**

- To facilitate the creation of viable business partnerships between Swedish and South African SMEs, with the largest possible participation of previously disadvantaged groups, in terms of gender and race, in management and ownership;
- To promote the sustainable growth of such partnerships by creating awareness of business conditions and opportunities, as well as supporting cross-cultural business and entrepreneurship development;
- To participate in financing such business partnerships in selected cases

A quantitative objective for SSBF expressed in the original agreement was to facilitate the creation of 25–40 viable business partnerships. It was also mentioned that the fund is to retain at least 75 per cent of invested funds after a 10-year period.

SSBF may provide risk capital for South African enterprises during the establishment period of a partnership. The risk capital is provided either as share capital or as redeemable preference shares or royalty loans, where the repayment is tied to the sales or net profit of the venture. SSBF shall not lend money as ordinary interest bearing loans, it shall never provide more than 50 per cent of the total financing of a venture and never more than 49 per cent of the equity capital. SSBF shall further never be the largest equity holder in a venture, nor shall it provide more than 50 per cent of the total financing and not more than R 2.5 million in a venture. The ceiling for the second round of financing shall not exceed 50 per cent of the first round.

SSBF has a board of directors with seven members including the managing director of SSBF. Chairman since 2002 is the former Managing Director of Volvo, South Africa. Sida and DTI have one representative each on the board. The remaining three board members represent various sectors of the South African society.

A central activity of SSBF is, as has been mentioned above, to contribute to the creation of viable partnerships between Swedish and South African SME's. The concept partnership is defined as follows in the Annual Report of SSBF, 2003:

#### 4.2.1 The development of the fund

SSBF was managed during its first two years of operations (1999–2001) by a Swedish consultant who had a key role in the development process leading to the establishment of the fund. The Swedish consultant was succeeded by a South African citizen who was recruited at the end of 2001, and who was appointed Managing Director of the fund during 2002. The MD announced his resignation in November 2003, and a new MD was appointed as of April 1, 2004. The new MD left her position as of February 28, 2005 and a new MD, the third in three years, will join the fund during March 2005.

SSBF has during its five years of operations tried different approaches in order to create interest in and awareness of the fund among Swedish firms. The fund has, among other things, collaborated with the Swedish Federation of Trade and the Federation of Swedish Chambers of Commerce, without achieving satisfactory results. SSBF's current partner in promoting the fund to Swedish firms is the Swedish Trade Council, represented by its office in Pretoria. SSBF collaborates also with individual Swedish consultants in its search for potential Swedish partners.

A mid-term review of SSBF was carried out in May 2002. The reviewers came to the conclusion that the progress of SSBF fell short of the expectations of its promoters and/or principals and presented three possible options as to the continuation of SSBF. The options suggested by the reviewers were to either close the fund, identify other routes to achieve established objectives, or to make a last well defined effort to make progress under the present approach. The option finally chosen by the reviewers was the third one, to which was attached the recommendation that a new review or evaluation should be carried out within a certain timeframe (15 months). The result of this evaluation would decide whether to close the fund, proceed if the outcome was positive, or in case of a non-satisfactory outcome start from scratch with new people and a new approach.

#### 4.2.2 Profile and key characteristics of the project portfolio

Appendix 3 presents 23 projects which are assumed to represent the vast majority of projects and partnerships in which SSBF has been actively involved. Information about ongoing projects has been received from the current management of SSBF. Information about terminated projects has been collected through project documents and through interviews with representatives of the involved firms. Five of the projects were found on SSBF's homepage, which until recently presented five partnerships, three of which have ceased to exist and one of which never materialised. The five partnerships have now been removed from the homepage and been replaced by three ongoing projects. In addition to the 23 cases presented in Appendix 3, SSBF has some 10–12 projects in pipeline for which an active search for possible partners is going on.

**Table 6: Status of the 23 projects included in SSBF's project portfolio 2000–2005**

|                                                              | Ongoing   | Terminated/never implemented |
|--------------------------------------------------------------|-----------|------------------------------|
| Approved but never implemented                               | 6         |                              |
| Discontinued, causing losses for SSBF                        | 7         |                              |
| Ongoing, without current involvement of SSBF                 | 1         |                              |
| Ongoing, SSBF holds equity                                   | 2         |                              |
| Ongoing, SSBF provides royalty loans and/or proj. financing  | 5         |                              |
| Partnerships about to start where SSBF provides risk capital | 2         |                              |
| <b>Total</b>                                                 | <b>10</b> | <b>13</b>                    |

Tables 6 and 7 give us a picture of the status of all known projects that SSBF has been involved in since its inception as well as the profile of the current portfolio as at December 2004.



**Table 7: Current project portfolio of SSBF (thousand R)**

|               | Equity       | Royalty loans | Project finance | Guarantees | Grants     |
|---------------|--------------|---------------|-----------------|------------|------------|
| Vumo Waste    | 180          | 640           |                 |            |            |
| TK Maternity  | 700          | 351           |                 |            | 300        |
| Nyathi Energy |              | 189           |                 |            |            |
| GTL           |              | 547           |                 | 300        | 200        |
| Olympic       |              |               | 200             |            | 104        |
| Mergent Tech  |              | 1,000         | 1,617           |            |            |
| Cebisa        |              |               | 203             |            |            |
| Dest C.T.     | 300          | 545           |                 |            |            |
| Alicedale     | 20           | 183           |                 |            |            |
| <b>Total</b>  | <b>1,200</b> | <b>3,455</b>  | <b>2,020</b>    | <b>300</b> | <b>604</b> |

A closer look at the data on which Tables 6 and 7 are based reveals the following:

- The seven discontinued cases have resulted in losses for SSBF amounting to approx. R5,7 million, not including support in the form of grants.
- SSBF is currently shareholder in two ongoing projects and in two projects which are about to start.
- The total booked value of SSBF's shares in these four ventures is R1.2 million.
- The two firms with ongoing operations, in which SSBF owns shares at a total value of R880,000, are having problems and are currently not servicing their debts with SSBF.
- Of the seven projects in the current portfolio that are up and running Swedish firms are involved as shareholders in two (Vumo Waste and Nyathi Energy). The total value of these shares do not exceed R100,000. In Vumo Waste the Swedish partner has received its shares in exchange for transferred know-how.
- The Swedish firms participating in these partnerships are not as actively involved as originally intended and expected.
- The Swedish connection in two of the projects (TK Maternity and GTL Foods) consists of Swedish experts who are paid ordinary consultancy fees for delivering their know-how to the South African firms. The know-how provided by the Swedish experts can most probably be found in South Africa.
- One single firm (Mergent Technologies) accounts for approx. 40 per cent of the total value of the current portfolio of SSBF in the form of royalty loans (R1 million) and project financing (R1,6 million). Mergent Technologies and Cebisa are subcontractors to Ericsson, South Africa. The project financing to these two firms represents a not negligible source of income for SSBF.

#### **4.2.3 Allocation of SSBF's resources**

Table 8 shows the development of SSBF's funds since the start in 1999 until the end of 2004.

The values indicated in the table are estimations based on the annual reports of 2002 and 2003, and on project documents presented by SSBF including a preliminary balance sheet as at 31 October 2004.

**Table 8: Development of SSBF's founding capital 1999–2004**

|                                                | (million R) |
|------------------------------------------------|-------------|
| <b>Founding capital of SSBF</b>                | <b>67.0</b> |
| of which transferred to SSBF                   | 54.2        |
| interest received, 1999–2004 (est)             | + 21.0      |
| operating expenditures, 1999–2004 (est)        | - 24.0      |
| foreign exchange losses (est)                  | - 0.8       |
| impairment losses                              | - 5.4       |
| <b>Remaining operational capital, Jan 2005</b> | <b>45.0</b> |
| of which as equity                             | 1.2         |
| of which as royalty loans                      | 3.5         |
| of which as project financing                  | 2.0         |
| of which as cash and bank balances             | 38.3        |
| <b>Founding capital remaining at Sida</b>      | <b>12.8</b> |

SSBF has annual operating costs amounting to approx. R4.5 million of which personnel costs including director's remuneration account for R1.5 million and office operating costs for another R1.5 million. The fact that most of the founding capital was transferred to SSBF at an early stage has made it possible for SSBF to generate income in the form of interest from different bank accounts which almost balances operating expenditures. As can be seen from Table 8, of SSBF's founding capital of 80 million SEK, 60–68 million SEK still remains at SSBF's disposal, depending on the value of SSBF's assets in the form of equity and outstanding debts. This includes the 14 million SEK that still remains with Sida.

#### 4.2.4 Preliminary outcomes and possible impacts of SSBF's operations

If we apply SSBF's broad definition to partnership, all the 23 projects that SSSB's has been involved in can be looked upon as partnerships or at least intended partnerships. Below an attempt is made to classify the projects that SSBF has been involved in using the tentative tool suggested in the frame of reference (see section 3.2). We start by analysing the outcomes, or preliminary outcomes for the South African and Swedish firms that have been involved in the partnerships (Figure 4).

The three “win-win” cases, where both partners have experienced a positive outcome, are identical with projects 1, 20 and 21 in Appendix 3. Project 1 concerns a South African firm representing a Swedish firm on the South African market for a unique colour definition system. SSBF has played a temporary role in connecting the two firms and is no longer involved in the partnership. Projects 21 and 22 concern two BEE companies which are subcontractors to Ericsson, South Africa. SSBF provides project financing until the subcontractors have completed their assignments and been paid by the buyer. The project financing yields certain income for SSBF but it can be debated whether it is an activity that falls within the mandate of SSBF.

**Figure 4: Outcomes for the participating firms**

|                     |                                  | South African firm |                                  |                 |
|---------------------|----------------------------------|--------------------|----------------------------------|-----------------|
|                     |                                  | Positive result    | No result/<br>too early to judge | Negative result |
| <b>Swedish firm</b> | Positive result                  | 3                  | 2                                | –               |
|                     | No result/<br>too early to judge | 1                  | 9                                | –               |
|                     | Negative result                  | –                  | –                                | 8               |



In one case the partnership has been classified as positive for the South African firm and as “too early to judge” for the Swedish firm. The case referred to is project 17, which is a BEE company specialised in energy and air quality management services in which company the Swedish branch of a large international engineering consulting firm is minority shareholder. The partnership is considered to have had positive results for the South African firm. The opinion of the Swedish partner, however, is that the partnership has not met initial expectations, which is partly explained by the Swedish company’s own lack of engagement. The two cases considered to have had positive outcomes for the Swedish partners but where the outcome is still unclear for the South African partners are projects 15 and 18. The explanation is quite simple. The Swedish partners, if they really are to be talked about as partners, take no risks and receive immediate payment for their contributions through grants provided by SSBF.

Of the nine cases placed in the quadrant at the centre of the grid, two are included in SSBF’s current portfolio, namely projects 14 and 19. SSBF is an active shareholder in project 14, while it’s involvement in project 19 is limited and about to terminate. In both cases it is still too early to judge the outcome. Project 14, which is one of only two partnerships in which a Swedish firm holds equity, is in trouble and represents a potential failure. The remaining seven cases are “no result” cases, i.e. projects where support from SSBF was approved but where activities never took off.

The eight cases which have resulted in negative outcomes for both (or all) the firms involved in the partnership are represented by projects 2, 4, 5, 6, 9, 10, 11, and 12 (see Appendix 3 for further information on these projects). These cases have resulted in losses both for SSBF (approx. R5,7 million) and the involved Swedish and South African firms. The experiences of some of the Swedish firms involved in these partnerships are presented in Appendix 4. Although the opinions presented can be characterised as biased, they illustrate the risk that organisations like SSBF, DTI and Sida expose themselves for and the obligations they assume when taking on the role as venture capitalists.

Figure 5 illustrates the outcomes of the partnerships for the participating firms and for SSBF. The three success cases indicated in the upper left box are the same as in the previous grid, and the eight complete failures in the lower right box as well. The seven cases placed in the quadrant at the centre of the grid are all of the type “too early to judge” and refer to projects 14, 15, 18, 19, 22 and 23 in Appendix 3.

At least two of these seven projects can be characterised as potential failures considering the problems they are currently experiencing. The main difference as compared to the previous grid is that the outcomes of projects that were approved but never implemented have been classified as “no result” for the participating firms but as negative for SSBF. The five cases represent projects 3, 7, 8, 13 and 16 in Appendix 3. Before an application is approved by the board of SSBF a considerable amount of time and money has been invested by the staff of SSBF. If such a project never gets implemented it represents in my opinion a negative outcome for SSBF.

**Figure 5: Outcomes for SSBF and the participating firms**

|                     |                                  | SSBF            |                                  |                 |
|---------------------|----------------------------------|-----------------|----------------------------------|-----------------|
|                     |                                  | Positive result | No result/<br>too early to judge | Negative result |
| Participating firms | Positive result                  | 3               | –                                | –               |
|                     | No result/<br>too early to judge | –               | 7                                | 5               |
|                     | Negative result                  | –               | –                                | 8               |

Figure 6 illustrates the outcomes of the partnerships for the participating firms and the possible impact of SSBF’s facilitating activities on the economy at large. The eight projects which have been discontinued, with negative outcomes for the participating firms, and the five projects that were approved, but

never implemented are too insignificant to have any impact on the economy at large. In the remaining, ongoing ten cases it is too early to judge the possible effects on the economy at large.

**Figure 6: Outcomes for the participating firms and possible impact on the economy at large**

|                            |                                  | Economy at large |                                  |                 |
|----------------------------|----------------------------------|------------------|----------------------------------|-----------------|
|                            |                                  | Positive result  | No result/<br>too early to judge | Negative result |
| <b>Participating firms</b> | Positive result                  | –                | 3                                | –               |
|                            | No result/<br>too early to judge | –                | 12                               | –               |
|                            | Negative result                  | –                | 8                                | –               |

A more negative interpretation of the results presented in Figure 6 is to say that the operations of SSBF have not had any positive impact on the economy at large, neither in Sweden and, which is more alarming, nor in South Africa. A positive outcome would certainly have been the case had the original ambitions of SSBF been realised, which were to contribute to the creation of 25–40 viable business partnerships between Swedish and South African SME's within five years.

#### 4.2.5 Some reflections on SSBF

The information and data presented above give rise to the following reflections on SSBF:

- SSBF has recently started its sixth year of operations which is longer than was originally intended.
- In order to fulfil its vision and mission (see above) the company has facilitated the establishment of at least 23 partnerships/relations or intended partnerships/relations between South African and Swedish firms, 13 of which have been discontinued or were never implemented, one of which is ongoing but without current involvement from SSBF, and two of which are about to start.
- Of the remaining seven cases there are very few, if any, that meet SSBF's criteria for assistance and contribute to the fulfilment of the vision and mission of the Fund.
- Only two of the existing partnerships involve Swedish ownership. The size of the Swedish ownership in these two cases is very limited – it does not exceed R100,000. The co-operation and interaction between the Swedish and South African partners in the two cases are limited and the partnerships have not met the expectations of the Swedish partners. In one of the cases the Swedish firm received its ownership in the South African firm as payment for transferred know-how.
- There has been a lack of continuity in the management of SSBF which is illustrated by the fact that the recently appointed MD is the third in three years. Despite this fact SSBF seems to be a relatively well-managed company with a highly qualified board of directors.
- SSBF has managed to retain most of its founding capital. This is partly due to careful handling of the funds by the board, but mainly due to the fact that it has been impossible to find projects meeting the Fund's criteria for assistance.
- The fact that suitable projects have been difficult to find has induced the Fund to disregard its original criteria, to try to create partnerships by offering sometimes dubious incentives, and to put the partnership label on relations that are no real partnerships.
- This reflects the strong misfit that exists between what SSBF is aiming to achieve and what the company realistically can achieve given its competencies and resources, and given the characteristics of the environment in which the Fund operates. In my opinion the whole approach on which SSBF is based needs to be reconsidered and changed. A positive thing in this connection is the fact that most of the Fund's money still remains.

## 5 Conclusions and recommendations

In accordance with the terms of reference for this study this final chapter will deal with the following issues:

- Assess the outputs and outcomes achieved by the two funds employing Sida's five key Assessment Criteria (Effectiveness, Impact, Relevance, Sustainability and Efficiency)
- Discuss the work and achievements of the two funds in relation to Sida's Private Sector Development Policy and other concepts and models of relevance referred to in the frame of reference
- Discuss possible changes with respect to the management and objectives of the funds including the possibility of also including non-commercial areas of cooperation
- Recommend measures that could be introduced by Sida in its coming Annual Consultations for the operation of the funds
- Assess the feasibility and justification for expanding the use of Partnership Funds to other countries on the basis of Sweden's new Policy for Global Development

### 5.1 Assessment of the two funds with respect to Effectiveness, Impact, Relevance, Sustainability and Efficiency

Table 9 is an attempt to classify the operations of the two funds and the results they have achieved so far, and can be assumed to achieve in the longer run, based on Sida's five key assessment criteria. Due to the different lengths of time the two funds have been in operation FCCS is primarily assessed based on achieved outputs, while SSBF is assessed both with respect to achieved outputs and outcomes, or preliminary outcomes.

**Table 9: Assessment of the programs based on Sida's five key assessment criteria**

|                                                                                                                                     | <b>FCCS</b>                                                                                                                                                                                                                                | <b>SSBF</b>                                                                                                                                                                                                                                                      |
|-------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Effectiveness</b><br>(extent to which the programs have achieved their objectives)                                               | Relatively high measured in terms of output. High return on investment in terms of number of projects, potential partnerships and investments made by participating firms.                                                                 | Reasonably high in terms of output, i.e. number of activated firms in S.A. and Sweden. Low in terms of outcome; high degree of discontinued partnerships, low degree of Swedish commitment.                                                                      |
| <b>Impact</b><br>(totality of the effects of the programmes, positive or negative, intended or unintended)                          | Too early to judge. Some projects with potential of positive impact, others which could create negative impact on the economy at large by causing market distortions.                                                                      | Some negative impact already experienced due to failing partnerships. Risk of more negative impact with increasing number of failing or unrealised partnerships.                                                                                                 |
| <b>Relevance</b><br>(the extent to which the programmes conform to the needs and priorities of target groups and existing policies) | Unclear. Important that FCCS sticks to its facilitating role and avoids market distortion activities. The true potential of stimulating relations between Sw. and Chilean SMEs doubtful mainly due to distance.                            | Low with current focus. Almost a "mission impossible" to create viable partnerships between BEE and Swedish SMEs. True potential low due to distance (both sides) and lack of sufficient knowledge and skills (S.A.). There are better ways to support BEE firms |
| <b>Sustainability</b><br>(the continuation or longevity of benefits from the programmes after their cessation)                      | FCCS represents sustainability through its link to previous Sida-programmes in Chile. Future sustainability hinges on if there really exists a market opportunity for increased cooperation between Chilean and Sw firms despite distance. | Low. High risk that the programme with its present focus will create very few viable partnerships between S.A. and Swedish firms. Probability that partnerships would emerge after cessation of programme low.                                                   |

|                                                                                                                                        |                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                        |
|----------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Efficiency</b><br>(extent to which the costs of the programmes can be justified by their results, taking alternatives into account) | Reasonably high. Quite a few contacts and relations have been created between Chilean and Sw firms at relatively low cost. No obvious better ways of facilitating relations and partnerships between Sw and Chilean firms. | Low. Basic approach of SSBF not optimal. Too much spent on trying to create non-viable p-ships or non-partnerships. Focus should be on supporting BEEs development of competence and skills by activities at the institutional level, e.g. school of entrepreneurship. |
|----------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

## 5.2 The work and achievements of the funds in relation to Sida's PSD Policy and other concepts and models of relevance

When comparing the objectives and modes of operation of FCCS and SSBF with statements and opinions expressed in Sida's PSD Policy as well as in other Sida and non-Sida documents referred to in the frame of reference of this report, the difference is striking. With a slight exaggeration one could say that what FCCS to some extent, and SSBF to a large extent are doing or trying to do, is contrary to the recommendations expressed in the policy documents.

Sida's PSD Policy clearly states that direct support to market players should be limited to purposes that justify subsidies and have clear positive externalities, for example human resource development. Sida should further make special efforts to avoid creating market distortions. In the report "Making Markets Work for the Poor" is emphasised that PSD support should focus on industrial or business sectors rather than individual enterprises and that subsidies in the form of capital or credit should generally be avoided. The World Development Report 2005 compares selective intervention at the firm level with gambling and maintains that supporting activities such as public-private joint ventures and subsidised credit tend to weaken firms' incentives to perform efficiently.

Supporting increased interaction and co-operation between Swedish and South African and Chilean firms, respectively, as a means to maintain and extend existing cultural and political linkages can be seen as a relevant and meaningful activity. What should be kept in mind, however, is the large geographical distance that exists between the countries, which is an important explanation why Swedish business activities in South Africa and Chile are mainly limited to very large firms operating in areas where Sweden historically has had comparative as well as competitive advantages. Likewise Chile and South Africa have managed to conquer the Swedish markets with products that have demonstrated unique qualities and advantages, for example wine, which have enabled their success in spite of high transportation and transaction costs. One should therefore have realistic expectations on the possibilities of eliminating competitive disadvantages through partnership programmes like FCCS and SSBF.

This evaluation confirms, particularly in the case of SSBF, the dominating opinion among experts on PSD, namely that PSD support should address the business community at large, or selected sectors of it, rather than individual firms. One important reason why Sida together with partnering institutions in other countries should avoid getting involved in developing programmes or schemes supporting individual firms is that they tend to create market distortions. Another reason is that Sida as a public institution is very sensitive and vulnerable to individual business failures. There is an evident risk that, in a crisis situation, other partners will expect and demand contributions from a company or institution linked to Sida that go far beyond what would be reasonable to expect from a "normal" business partner. This has been confirmed in some of the SSBF projects that have gone bankrupt. Being involved in bankruptcies and other types of business failures can also have image-damaging consequences for Sida.

The focus on individual firms is particularly strong in the case of SSBF, which operates as a venture capital firm by providing risk capital in the form of equity and royalty loans at low interest. One difference between SSBF and a traditional venture capital firm is that SSBF is surrounded by many more restrictions. These restrictions further reduce the already limited possibilities of reaching success.

One restriction is that the venture should be oriented towards creating a partnership. Another is that the South African partner preferably should be a BEE firm, and a third restriction is that the partner of the BEE firm should be a Swedish firm, preferably a SME. There are also restrictions for example as concerns how much capital SSBF can contribute in a second round of investment. In addition to all these restrictions, the competencies and skills of the staff, management and board of SSBF are not quite the same as those of a traditional venture capital firm. The results achieved so far by SSBF serve as an illustration to the difficulties of creating viable partnerships given the restrictions under which SSBF operates.

### **5.3 Possible changes and recommended measures with respect to management and strategies of the funds**

A discussion on possible changes of the management and strategies of the two funds must have different points of departure considering that they have existed for different lengths of time.

#### **5.3.1 Recommendations concerning FCCS**

As concerns FCCS one could say that the fund has achieved promising results during the relatively short time it has existed. By spending 1,3 million US\$ during less than two years the fund has contributed to the creation of 38 projects in which the participating firms have invested close to 1,1 million US\$. Eight of the projects, which are in an early partnership phase, have received 63 per cent of the total contributions of the Fund. It is still too early to judge about the outcomes of the projects for the participating firms and the economy at large, but it is reasonable that the FCCS is given the opportunity to continue its work under basically unchanged conditions for another year. The fact that FCCS supports individual firms is acceptable as long as the support is provided at an initial stage and that FCCS share of total project costs does not exceed 50 per cent. The fact that the Fund has exceeded the 50 per cent limit in one of the projects (project 37) is a memento. The Fund should avoid getting involved in relationships for too long and too deep and leave to the market to decide which relationships should develop into partnerships. Project 22 and 36 are examples of projects where the fund runs the risk of creating market distortions if it continues to provide support. FCCS should under no circumstances become a provider of risk capital.

Concerning the management of the Fund no major changes seem to be needed. Application procedures should be further simplified and the cooperation between the Secretariat in Chile and the operations of the Swedish focal point should be extended and improved in order to create an increased presence and awareness of the Fund in Sweden.

#### **5.3.2 Recommendations concerning SSBF**

SSBF has operated for more than five years. The fund has spent approx. 6.5 million US\$ which has resulted in a portfolio which by the end of 2004 contains seven ongoing projects and two projects about to start. The booked value of SSBF's investments in these projects amounts to approx. 1.1 million US\$. Some of the firms included in the portfolio are facing problems and the Swedish involvement in the seven ongoing projects is generally low.

A major problem as concerns SSBF is, as previously mentioned, the basic approach on which the operations of the Fund rests. SSBF is currently operating in a way that is not in harmony with Sida's PSD policy or with general recommendations on PSD support. If SSBF had achieved very positive result a possible recommendation would have been to reconsider existing policies. This is not the case, however. Achieved results are quite disappointing compared to original expectations and objectives, and although it cannot be excluded, there are very few indications that things will improve in the future unless the focus and objectives of the Fund are reconsidered and changed.



It has not been possible within the framework of this evaluation to make any more detailed assessment of the work and management of SSBF. My main impression, however, is that SSBF has a well-qualified staff, management and board that have been given, or taken on a very difficult, almost impossible task.

A positive fact as concerns SSBF, as previously mentioned, is that most of the Fund's money still remains. There are in other words no financial limitations to a reorientation of the Fund's operations. Included in a reorientation would be that SSBF ceases to provide risk capital. Existing commitments have to be fulfilled, of course, but SSBF should strive for as early an exit as possible from these engagements.

The exact design of SSBF's new strategy should be decided in dialogue between involved partners. From a Sida perspective it is important that the new strategy is in harmony with Sida's PSD policy and Sweden's new policy for global development. In this connection it must be considered a weakness that the financing of SSBF is not based on the principle of cost sharing. It is also important when developing a new approach for SSBF, that the possibilities of increased interaction with other donors operating in South Africa are carefully considered.

### **5.3.3 Recommendations of relevance for both FCCS and SSBF**

Examples of activities that both SSBF and FCCS could support, and to some extent already are supporting, without risking to distort the market are group oriented activities such as trade exhibitions and fairs, to organise and facilitate missions and contacts between specific sectors of industry, and to organise or participate in the organising of thematic seminars and conferences.

An area where both FCCS and SSBF could increase their participation is the development of knowledge, competencies and skills among existing and potential managers and entrepreneurs. Lack of knowledge, role models, and international outlook and experience are factors that severely limit the possibilities of young entrepreneurs from previously disadvantaged groups, currently working in a local environment, from expanding their businesses domestically and internationally. Providing training and education for these categories of business leaders can never be a waste of money and has no distorting effects on the market.

There is nothing that prevents FCCS and SBBF from cooperating with non-commercial actors, and at least FCCS is already doing this to some extent (see for example project 33 in Appendix 2). Training and education is an area where the funds could stimulate and support cooperation between non-commercial actors such as vocational training centers and universities in the three countries.

Universities and industrial associations of different types could be encouraged to participate in activities aiming at creating an enabling environment for BEE firms through, for example, benchmarking and cluster development.

It should be kept in mind that what has been said about distance above is also valid for non-commercial actors. There are lots of interesting offers and opportunities at a closer distance than South Africa and Chile competing for the attention and scarce resources of municipalities, regions, unions, churches, schools and all different sorts of non-commercial actors in Sweden, and vice versa.

### **5.3.4 Expansion of Partnership Funds to other countries**

#### *The role of partnership funds in Sweden's new policy for global development*

The usefulness of partnership funds as a tool when implementing Sweden's new policy for global development depends, of course, on how the tool is applied. It has been stressed in the frame of reference of this report that interventions by governments and agencies of various kinds should aim at the general rather than the firm-specific level. This does not exclude partnership funds from being used when trying to develop a wider economic cooperation based on mutual incentives for sustainable cooperation and development. There are, however, three important conditions that should be met in order for partnership funds to function as a constructive rather than a destructive tool. One condition is that the opera-

tions of a partnership fund are based on well-defined and controllable criteria. These criteria should be in harmony with existing policies (for example Sida's PSD policy and Sweden's new policy for global development), and should not be allowed to deviate from. A second condition is that a partnership fund should be based on the principle of cost sharing. This means that costs should be shared between the countries setting up a partnership fund as well as the firms or the organisations involved in the projects being supported by the fund, be it companies, communities, schools, theatre companies or football clubs.

The third condition, which is based on the results of this evaluation, is that governmentally financed partnership funds should not be allowed to operate as venture capitalists and provide risk capital to individual firms.

What role partnership funds can and will play in Sweden's future cooperation with other countries within the framework of the new policy for global development is difficult to judge. Most important is that whatever tool is used, it should support the development of an enabling environment for firms in general, and for SMEs in particular. At the heart of the analysis must be the needs of the commercial or non-commercial actors that a fund intends to support, and the context in which the cooperation takes place.

#### *General or selective intervention*

Is it advisable that partnership funds, in addition to generally promoting and stimulating cooperation between firms and organisations, also provide selective support to particular firms despite the difficulties and ambiguities that are linked to this approach? Well, it depends, and again I would like to stress the importance of well-defined criteria that are agreed upon in advance. A situation where support to individual firms or pairs of firms can be an acceptable, or even useful approach is when there is a selection process including different qualifying steps. A parallel can be drawn with the principles on which scholarships or research grants are awarded. All firms belonging to a certain category, for example SMEs operating in the transportation sector, are invited to participate in a seminar or a conference at a subsidised fee. Next step could be an invitation to participate in a travel mission on a cost sharing basis (50/50) to a specific country including meetings with potential future partners or clients. A third step could be to invite firms that participated in the travel mission to present a development project of some kind, possibly in partnership with a company from the country visited. Projects meeting certain criteria can again get support on a cost sharing basis.

The model described above is quite similar to the one applied by FCCS. What is of key importance is that the handling of the whole process is transparent and based on pre-established criteria. When the support concerns a collaboration between two firms it is essential that both firms receive identical information. This does not necessarily mean that they should receive equal support. It is also essential that partnership funds provide support only in the initial stages of a development process. The fund should help firms to identify a business opportunity, for example in the form of a joint venture, but not enter as a partner or make any major financial commitments for the development of the joint venture in itself, thereby avoiding distorting the market.

#### *Partnership funds as a tool to increase business interaction between Sweden and Namibia*

One country where the use of partnership funds is currently being considered is Namibia. Through an amendment recently suggested to the original co-operation agreement between Sweden and South Africa it should be possible for SSBF to offer its services in SACU countries where there is an interest. There has been an expression of interest from the Swedish Embassy in Namibia to use the services of SSBF as a means to increase commercial relations between Sweden and Namibia. This interest is expressed in the existing country strategy for Namibia, where it is mentioned (my translation): "The increased Swedish interest in Namibia's neighbouring country South Africa has demonstrated that there is a potential for increased commercial relations with the region. That so many Swedish

companies already are present in South Africa represents a possible gateway for trade and investments also in Namibia. The possibilities of including Namibia in SSBF are being investigated”.

My evaluation of SSBF does not indicate that there really should exist a potential for increased commercial relations with Sweden. The evaluation also shows that SSBF has not contributed to any significant increase of Swedish firms doing business in South Africa. I do not consider SSBF, and particularly not the working tools presently used by SSBF, i.e. provision of risk capital in the form of equity and royalty loans, as an optimal way to increase commercial relations between Sweden and Namibia. Instead I recommend the Swedish Embassy in Namibia to try to apply the approach presented in Sweden’s new policy for global development, and to invite other Nordic and/or EU countries to participate in the development of a joint programme. The aim of such a programme should be to improve the surrounding business environment and to develop the competencies and skills of Namibian SME’s, thereby increasing their possibilities of interacting with and competing on the international market.



# Appendix 1: Terms of Reference

## Consultancy Study on Sida's Partnership Programme for wider economic cooperation

### Background and purpose of the assignment

In the last few years Sida has agreed on Partnership Programmes with the governments of South Africa (1999) and Chile (2002) with the view to promote long-term commercial relationships and business alliances of mutual benefit to enterprises in Sweden and these countries.

The overall objectives of the Partnership Programmes are to contribute to economic growth- with a particular focus on job creation in small and medium sized enterprises (SMEs). Both programmes are seen as instruments for the creation of *wider economic cooperation* – which is less dependent on traditional financial grants and more based on mutual incentives for sustainable cooperation and development. In both programmes there is thus a maximum grant fund coverage of 50% of project cost. The initiative to apply for funds may come both from Swedish companies and institutions and similar parties from South Africa and Chile.

The bulk of the funds is used to promote overall technical and commercial cooperation. The Fund for South Africa also includes one component for provision of risk capital for the creation of equity joint ventures between local enterprises and Swedish enterprises.

The administration of the funds is managed by entities located in Chile (a government body) and in South Africa (a non-profit organisation). Both programmes have been in operation for about half the agreed period of duration. For both programmes there is a need to conduct so called Mid-Term Reviews.

Sweden's new Policy for Global Development (from December 2003) gives increased importance towards broadened structures of cooperation between countries. In this connection the Swedish government has invited Sida to assess the experience and outcome of various instruments that have been used with the purpose to generate mutual contacts with a broad group of Swedish actors (government authorities, NGOs, scientific institutions, commercial enterprises etc) and corresponding actors in developing countries.

As a part of Sida's efforts to assess the value of these instruments Sida's Department for Infrastructure and Economic Cooperation (INEC) has decided to conduct a review-cum-evaluation of the mentioned Partnership Programmes. This Review should be conducted by an independent consultant with broad experience of private sector development cooperation work in English and Spanish speaking developing countries.

### The Assignment

The following issues will be covered in the Review :

- a) Assess the results so far (outputs and the preliminary outcome) of the two Partnership Programmes with the employment of Sida's five key Assessment Criteria (Relevance, Effectiveness, Efficiency, Sustainability and Impact – see also *Sida At Work* and *Sida's Evaluation Manual*) as well as Sida's new Policy for Private Sector Development)
- b) Discuss possible changes (e.g. selection of target areas, target groups, procedures for application, design of projects that are eligible for grants and risk capital provision as well as modes for administration of the partnership funds- including vehicles for promotion in Sweden and in Chile and South Africa) that may be introduced with the aim of increasing the development impact of the Swedish contribution. The discussion will also include the justification and feasibility of expanding the mandate of the South Africa Fund to include non-commercial areas of cooperation.

- c) On the basis of b) recommend measures (in order of priority) that could be introduced by Sida in its coming Annual Consultations for the operation of the Programmes
- d) Assess the feasibility and justification for expanding the use of Partnership Funds (or similar vehicles) with other types of developing countries- on the basis of the goals and guidelines presented in Sweden's new Policy for Global Development including the guidelines for EU development cooperation.

## **Methodology, Work Plan and Reporting**

The consultant will initiate his/her work studying relevant programme documents, progress reports, web sites etc (desk study to be conducted in Sweden). Some contacts with Swedish parties will also be taken during this period. Duration: 1 week

On the basis of this work the Consultant will present, for approval by Sida, a plan for field visits to South Africa and Chile. The field visit will include visits to a selection of enterprises and institutions in these countries, interviews with representatives of the two fund administrations (including board members), interviews with representatives of a selection of trade and investment agencies as well as with government officials of these countries. The field visits will be conducted in consultation with Swedish embassy staff members.

*Duration: 1 week in each country.*

Following the field visits the Consultant will conduct visits and interviews with relevant Swedish enterprises, authorities and agencies and present a draft Review Report in English to Sida.

*Duration: 1 week*

Following comments by Sida (within two weeks) the Consultant will present a Final Report to Sida.

*Duration: ½ week*

*Total number of consultancy weeks: 4 ½*

## Appendix 2: Project Portfolio FCCS, 2003–2004

| Company                                   | Partner                  | Type of project or technology        | Project description                                                                                          | Amount approved (US\$) | Total budget (US\$) | Status, Oct 2004 | Comment                                                       |
|-------------------------------------------|--------------------------|--------------------------------------|--------------------------------------------------------------------------------------------------------------|------------------------|---------------------|------------------|---------------------------------------------------------------|
| 1. Franmar Ltda, Chile                    | Sw. researcher, LTH      | Food chemistry                       | Search for possible partners for development of natural aromas based on CO2-technology                       | 4,750                  | 9,500               | Accomplished     |                                                               |
| 2. Sigma Servicios Informaticos, Chile    | Intentia Operations AB   | IT, business management              | Adaption of Movex, a management system for manufacturing and distribution, for the SME-market                | 15,000                 | 30,000              | Ongoing          |                                                               |
| 3. Johnson Industries Chile Ltda          | Lära Mera AB             | IT, E-learning                       | Development of software initially for pre-school level, later to be applied in primary school                | 11,192                 | 22,384              | Ongoing          |                                                               |
| 4. ILH Technologies, Chile                | Opening Ways             | IT, broadband                        | Search for possible partner for transfer and development of broadband technology                             | 3,225                  | 6,450               | Accomplished     |                                                               |
| 5. Opening Ways, Sweden                   | ILH Technologies         | IT, broadband                        | See case 4                                                                                                   | 3,900                  | 7,800               | Accomplished     | Homepage of Op. Ways (www.openingways.se) only in Spanish (!) |
| 6. Hypernet Ltda, Chile                   | Not found                | IT, software                         | Evaluation of strategic partner through external consultant                                                  | 7,000                  | 29,680              | Terminated       | More info from Lamtrac                                        |
| 7. EUROCHILE                              | Eurolatina, Sweden       | Capacity building                    | Participation in Networks Telecom 2003, seminars, visits to and negotiations with potential Swedish partners | 25,539                 | 52,887              | Accomplished     | Phone conversation with MD of Eurolatina                      |
| 8. EUROCHILE                              | Svensk Skogscertifiering | Capacity building                    | Conference on forest management, transfer and exchange of know-how and experiences                           | 15,000                 | 25,000              | Accomplished     | Check number of participating Chilean firms                   |
| 9. Instituto Forestal Chile               | Sw. consultant           | Capacity building, forestry          | Societal and structural aspects of forestry management                                                       | 3,500                  | 7,000               | Accomplished     |                                                               |
| 10. Fundación Chile                       | Sw. consultant           | Capacity building, forestry          | Similar to above                                                                                             | 4,700                  | 9,400               | Accomplished     | Fundación Chile visited Nov 2004                              |
| 11. Lapis Pigment S.A. (see also case 36) | Trätek                   | Search for partner, paint production | Visit to Sweden to search for potential partners for production of paint based on pigment from lazuli        | 6,224                  | 12,448              | Accomplished     | Lapis Pigment visited Nov 2004                                |
| 12. Quezada, Pozo y Aguilar               | None                     | Seminar for Chilean firms on CAD/CAM | Use of CAD/CAM in metals and plastics production                                                             | 12,265                 | 23,254              | Accomplished     |                                                               |
| 13. Fundación Chile                       | IVL, Sveco               | Environmental protection             | Evaluation of possibilities for strategic co-operation                                                       | 5,616                  | 11,232              | Accomplished     | Fundación Chile visited Nov 2004                              |

| Company                               | Partner                   | Type of project or technology                       | Project description                                                                                        | Amount approved (US\$) | Total budget (US\$) | Status, Oct 2004  | Comment                                                                     |
|---------------------------------------|---------------------------|-----------------------------------------------------|------------------------------------------------------------------------------------------------------------|------------------------|---------------------|-------------------|-----------------------------------------------------------------------------|
| 14. Original Film AB, Sweden          | Various firms             | Film production                                     | Planning of a film, "El Clavel Negro", about the coup 1973                                                 | 5,650                  | 11,300              | Accomplished      |                                                                             |
| 15. Appeal Networks System AB, Sweden | Nowire, Chile             | IT, Wi-Fi systems and products                      | Investigation of Chilean market and search for potential partners                                          | 16,000                 | 32,360              | Accomplished      |                                                                             |
| 16. Fundación Chile                   | Svensk Skogs-certifiering | Forestry management in Chile and Latin America      | Creation of SSC-Americas, a j/v betw. Fund Chile, Svensk Skogscertif. and the British firm Wildhorus Ltd   | 131,743                | 282,635             | Under development | Fundación Chile visited Nov 2004                                            |
| 17. Corus Technologies                | To be found               | IT, application integration techn.                  | Evaluation of Chilean market and search for potential partners                                             | 5,446                  | 10,892              | Approved          |                                                                             |
| 18. MA & C Consultores                | None                      | Slaughterhouses, meat production. Study and seminar | Mapping of Swedish slaughterhouses and analysis of possibilities for co-operation between Sweden and Chile | 19,500                 | 28,082              | Accomplished      | Evaluator participated in seminar, Nov 2004                                 |
| 19. Tech Invest S.A., Chile           | Securia, Sweden           | IT, handling of customer databases                  | Meeting between potential partners to evaluate possibilities of cooperation                                | 8,856                  | 17,712              | Accomplished      |                                                                             |
| 20. Paradigma (see case 26)           | Blue2Net AB, Sweden       | IT, wireless data and voice communication           | Meeting between potential partners to evaluate possibilities of cooperation                                | 3,000                  | 6,000               | Accomplished      | Paradigma visited in Nov 2004                                               |
| 21. Eurolatina AB, Sweden             | Cámara de Comercio, Stgo  | Mining                                              | Visit of group of Swedish firms to Expomin 2004, search for partners                                       | 37,500                 | 76,875              | Accomplished      | Phone conversation with MD of Eurolatina                                    |
| 22. Drillco Tools, Chile              | Rubenssons, Sweden        | Drilling technology, energy solutions               | Development of tools for drilling in connection with bedrock heating                                       | 110,000                | 220,000             | Under development | Drillco visited Nov 2004. Repr of Rubenssons interviewed by phone Dec 2004. |
| 23. Scandroots AB, Sweden             | GSI Consultores Chile     | Technology for biological sewage treatment system   | Meeting between potential partners to evaluate possibilities of cooperation                                | 7,045                  | 14,090              | Accomplished      | GSI visited Nov 2004                                                        |
| 24. Vattenbrukarna Sweden             | To be found               | Cultivation of fish                                 | Visit of Swedish SME's to evaluate possibilities of cooperation in cultivation of salmon and mussels.      | 22,822                 | 40,349              | Accomplished      |                                                                             |
| 25. Sw. Trade Council                 | EUROCHILE                 | Transport sector                                    | Mission of Swedish firms within the transport sector, search for partners                                  | 18,475                 | 36,950              | Accomplished      | Repr of Sw. Trade Council interviewed                                       |
| 26. Paradigma, (see case 20)          | Blue2Net AB, Sweden       | IT, wireless data and voice communication           | Joint development of software for Chilean market                                                           | 120,000                | 290,860             | Under development | See case 20                                                                 |

| Company                                      | Partner                  | Type of project or technology                                               | Project description                                                                                                           | Amount approved (US\$) | Total budget (US\$) | Status, Oct 2004                                | Comment                                                                         |
|----------------------------------------------|--------------------------|-----------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|------------------------|---------------------|-------------------------------------------------|---------------------------------------------------------------------------------|
| 27. Swedish Embassy                          | None                     | Design exhibition + three seminars                                          | Exhibition "Improving Life, the Design of Swedish Innovations"                                                                | 30,644                 | 30,644              | Accomplished                                    | Repr of Sw. Embassy interviewed                                                 |
| 28. Sw. Trade Council                        | Corfo, Antofagasta       | Cooperation between SME's, mining sector                                    | Visit by Swedish firms to north of Chile, search for partners                                                                 | 35,331                 | 65,160              | Accomplished (Nov. 2004)                        | Repr of Trade Council interviewed                                               |
| 29. Recycla, Chile (phase 2)                 | Retech, Sweden           | Capacity building, recycling                                                | Transfer of know-how and equipment for cable recycling                                                                        | 2,954                  | 5,908               | Accomplished                                    |                                                                                 |
| 30. Instituto Tecnológico de Salmon, Intesal | Vattenbrukarna           | Cultivation of salmon                                                       | Visit to Sweden to exchange information and evaluate possibilities of cooperation                                             | 18,800                 | 30,600              | To be accomplished                              |                                                                                 |
| 31. Fundación Chile                          | IVL, Sweden              | Examination and cleaning of contaminated areas                              | Development of methodology for evaluating and reducing environmental risks in the mining sector                               | 166,067                | 332,134             | Approved                                        | Fundación Chile visited Nov 2004                                                |
| 32. Minimet S.A., Chile                      | Biosystems JL AB, Sweden | Environmental technology                                                    | Evaluation of possibilities of strategic cooperation                                                                          | 8,230                  | 16,460              | Approved                                        |                                                                                 |
| 33. Municipalidad de Arauco                  | To be found              | Production of cheese and other dairy products                               | Study-visit of group of local producers to Sweden to improve product quality and competitiveness                              | 19,576                 | 32,556              | Accomplished (?)                                |                                                                                 |
| 34. Lööve Släp, Sweden                       | Paul Sepúlveda, Chile    | Production and sales of trailers                                            | Visit to Chile to investigate possibilities of co-operation for production and sales of trailers on the Latin-American market | 6,415                  | 13,410              | Accomplished                                    |                                                                                 |
| 35. Camara de Comercio, Santiago             | Eurolatina AB, Sweden    | IT, "Tools for the new economy"                                             | Visit of Chilean firms to Sweden for participation in fair (Telecom?) and meeting potential partners                          | 25,000                 | 50,000              | To be accomplished                              | Phone conversation with MD of Eurolatina                                        |
| 36. Lapis Pigment S.A. Chile (see case11)    | Linotech AB, Sweden      | Development of production technology to produce paint based on lapis lazuli | Transfer of know-how, mutual visits of company representatives, development of production technology                          | 47,202                 | 115,311             | Under development                               | Lapis Pigment visited Nov 2004, personal interview with MD of Linotech Dec 2004 |
| 37. GSI Consultores, Chile (see case 23)     | Scandroots, Sweden       | Feasibility study for biological sewage treatment system                    | Feasibility study to be followed by construction of pilot plant                                                               | 104,072                | 136,517             | Approved and contractual arrangements completed | GSI visited Nov 2004                                                            |
| 38. EMERES: Exvertederos de Renca, Chile     | Borlänge Energi, Sweden  | Environmental protection                                                    | Study visit to learn about methods for decontamination of garbage dumps and to initiate cooperation                           | 5,000                  | 9,998               | Approved                                        |                                                                                 |

## Appendix 3: Project portfolio SSBF, 2000–2005

| Project                    | Partner                            | Type of investment          | Date approved | Amount approved (R) | Amount disbursed (R) | Status, Jan 2005                                             | Comment                                                                                                                      |
|----------------------------|------------------------------------|-----------------------------|---------------|---------------------|----------------------|--------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------|
| 1. National Colour Systems | Scandinavian Colour Institute      | Not known (possibly grants) | Early stage   | n.a.                | n.a.                 | System sold on S.A. market, size of business unknown         | Case presented on SSBF's homepage until Jan 05                                                                               |
| 2. Ethnic Cuisine          | Agro Union (Dr Per's Food)         | Grants + equity (probably)  | Early stage   | not known           | not known            | Non-existent                                                 | Case on SSBF's homepage until Jan 05. Launching of EC's products on Sw market failed. AU claims no support from SSBF.        |
| 3. Zimstone                | Scandaidd Display                  | Grants                      | Early stage   | n.a.                | n.a.                 | Non-existent                                                 | Case on SSBF's homepage until Jan 05. SD visited S.A. in 1999. Mutual sales agreement. Never took off.                       |
| 4. Norsjö                  | New firm to produce mopeds in S.A. | Roy loan/equity             | Oct 2000      | 275,000             | 275,000              | Non-existent                                                 | SSBF lost 215' R. Repr of Norsjö spent 2 years in S.A.                                                                       |
| 5. Munken SA               | Lack of info                       | Roy loan/equity             | March 2001    | 122,000             | 122,000              | Non-existent                                                 | SSBF lost 122' R. Lack of further info                                                                                       |
| 6. Sviab                   | Lack of info                       | Roy loan/equity             | March 2001    | 125,000             | 45,000               | Non-existent                                                 | SSBF lost 45' R. Lack of further info.                                                                                       |
| 7. Mohamed                 | Lack of info                       | Roy loan/equity             | Jan 2001      | 1,500,000           | 0                    | Non-existent                                                 | Lack of further info                                                                                                         |
| 8. Intesol                 | Comex                              | Roy loan/equity             | May 2001      | 2,000,000           | 0                    | Non-existent                                                 | Lack of further info                                                                                                         |
| 9. Freecom                 | Atea                               | Roy loan/equity             | May 2001      | 2,000,000           | 2,000,000            | Bankruptcy                                                   | On SSBF's homepage till Jan 05. SSBF lost 2 mill R. Atea lost 0,7 mill SEK. Atea held no equity, only provider of computers. |
| 10. ScanMerx               | Scandigruppen + Merx Team          | Roy loan/equity             | Dec 2001      | 2,000,000           | 1,500,000            | Bankruptcy                                                   | On SSBF's homepage till Jan 05. SSBF lost 1,5 mill R. SSBF the only provider of "cash". Merx Team disappointed.              |
| 11. ECI                    | ?                                  | Roy loan/equity             | Dec 2001      | 1,500,000           | 1,300,000            | Bankruptcy (?)                                               | SSBF lost 1,3 mill R. Lack of further information                                                                            |
| 12. Merx Promotion         | Merx Team (see case 10)            | Roy loan/equity             | Aug 2002      | 500,000             | 500,000              | Field for bankruptcy                                         | SSBF lost 0,5 mill R. Merx claims losses of 3–4 mill SEK on cases 10&12                                                      |
| 13. Q-matic                | ?                                  | Roy loan/equity             | Oct 2002      | 500,000             | 0                    | Possibility of resuming talks. Passivity from local partner. | Lack of further info                                                                                                         |

| Project                                                 | Partner                                                                                          | Type of investment                                                                     | Date approved | Amount approved (R)  | Amount disbursed (R)                           | Status, Jan 2005                                                                                                                | Comment                                                                                                                                                 |
|---------------------------------------------------------|--------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------|---------------|----------------------|------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|
| 14. Vumo Waste                                          | IL Recycling                                                                                     | Roy loan/equity                                                                        | Nov 2002      | 1,100,000            | Equity: 300'<br>Loan: 640'                     | High risk of failure (hopes of replacing Vumo Waste with other firm)                                                            | Swedish partner given 5% of share capital in exchange for know-how. SSBF owns 30%.                                                                      |
| 15. TK Maternity                                        | Swedish MD, L-Å Mattsson                                                                         | Roy loan/equity + grants                                                               | Feb 2003      | 1,100,000 + grants   | Equity: 700'<br>Loan: 351'<br>Grants: 300' (?) | High risk of failure. Company not able to attract sufficient number of clients                                                  | Swedish expert paid for providing expertise, no Swedish ownership                                                                                       |
| 16. Bua Africa                                          | ?                                                                                                | Roy loan/equity                                                                        | May 2003      | 1,000,000            | 0                                              | Status unknown                                                                                                                  | Lack of further information                                                                                                                             |
| 17. Nyathi Energy                                       | WSP owns 37% through S.A. partners                                                               | Royalty loan                                                                           | May 2003      | 500,000              | Loan: 188,766                                  | Project running well acc. to SSBF                                                                                               | Project has not met WSPs expectations, partly due to lack of own engagement                                                                             |
| 18. GTL Foods                                           | Sw. technician, Anders Mohss                                                                     | Roy loan + grants + guarantee                                                          | May 2003      | 1,000,000            | Loans: 547'                                    |                                                                                                                                 |                                                                                                                                                         |
| Grants: 200'<br>Guarantee: 300'                         | Project in development. GTL must increase on private market. Need for further techn. assistance. | Swedish expert paid for providing expertise (18 months contract), no Swedish ownership |               |                      |                                                |                                                                                                                                 |                                                                                                                                                         |
| 19. Olympic                                             | Libendo                                                                                          | project finance + grants                                                               | 2003/04       | 200,000              | Proj.fin: 200'<br>Grants: 104'                 | Internet-based learning-mgt system for schools                                                                                  | System under development. Relation with SSBF strained.                                                                                                  |
| 20. Mergent Technologies                                | Ericsson                                                                                         | Roy loan + project finance                                                             | 2003/04       | 2,616,511            | Loan: 1,000'<br>Proj fin: 1,617'               | Subcontractor to Ericsson                                                                                                       | SSBF bridging M.T.'s need for capital until project completed                                                                                           |
| 21. Cebisa Telecom                                      | Ericsson                                                                                         | Project finance                                                                        | 2003/04       | 202,754              | Proj fin: 203'                                 | Subcontractor to Ericsson                                                                                                       | SSBF bridging C.T.'s need for capital until project completed                                                                                           |
| 22. Destination Cape Town                               | Visit Technology Oden Invest Linell Hospitality Sunglide Bus. Metabolics                         | Roy loan + equity                                                                      | 2003/04       | 1,200,000            | Equity: 300'<br>Loan: 400' (new loan: 500')    | Project originating from regional co-operation project, Gothenburg – Elisabethville                                             | Potentially big project in its initial phase.                                                                                                           |
| 23. Alicedale (luxurious lodge incl golf courses) etc.) | Mr. Hansen                                                                                       | Roy loan + equity to holding firm + individual entrepreneurs                           | 2004/05       | 2,500,000 (at least) | Equity: 20'<br>Loan: 183'                      | Project that could become SSBF's biggest commitment. SSBF will support BEE firms to which Alicedale will outsource key services | Unclear after talks with SSBF's MD and board members whether SSBF's engagement will stop at 2,5 mill R, which is one version, or exceed to 10-15 mill R |



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