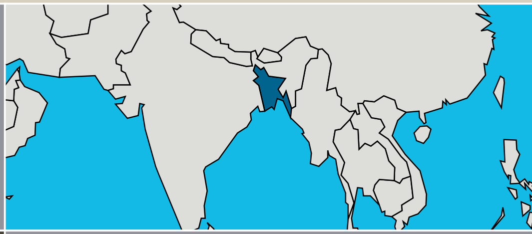
Evaluation Department

Norad

Evaluation of Norwegian Business-related Assistance Bangladesh Case Study

Report 5/2010 – Study



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Evaluation of Norwegian Business-related Assistance Bangladesh Case Study

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Devfin Advisers AB

"Responsibility for the contents and presentation of findings and recommendations rest with the evaluation team.
The views and opinions expressed in the report do not necessarily correspond with those of Norad".

Contents

List of Abbreviations

ABS	Application Based Support
ADB	Asian Development Bank
ANZ	Australia and New Zealand Banking Group Limited
ASA	A large micro-finance institution in Bangladesh
BDS	Business Development Service
AMTOB	Association of Mobile Phone Operators of Bangladesh
BDT	Bangladesh Thaka
BEE	Business enabling environment
BGD	Bangladesh
BKB	Bangladesh Krishi Bank
BRAC	Bangladesh Rural Advancement Committee
BRTC	Bangladesh Telecommunication Regulatory Commission
BSCIC	Bangladesh Small and Cottage Industries Corporation
CCTEL	Norwegian management and holding company
CBO	Community Based Organisation
CDC	Centers for Disease Control and Prevention
CEO	Chief Executive Officer
CPO	Central Project Office
CSR	Corporate Social Responsibility
DAC	Development Assistance Committee
DDCL	District development credit line
DFI	Development Finance Institution
DGM	Deputy General Manager (of RAKUB)
DPD	Deputy Project Director
DPO	District Project Office
DWDO	District Women Development Officer
EDT	Entrepreneurship Development Training
EU	European Union
FDI	Foreign Direct Investment
FK	Fredskorpset (“Norway´s Peace Corps”)
FMO	Finance for Development
FMR	Financial Management Review
GDP	Gross Domestic Product
GIEK	Garanti-istituttet for eksportkredit
GNP	Gross National Product
GoB	Government of Bangladesh
GP	Grameenphone Ltd
GPRS	General Package Radio Services, mobile data services
HSE	Health, Safety and Environmental (standards)
IBRD	International Bank for Reconstruction and Development

ICA	Investment climate Assessment
IFC	International Finance Corporation
IICL	Innovative industries credit line
ILO	International Labour Organisation
IPO	Initial Public Offering
ISO	International Organization for Standardization
JCI	Joint Commission International
KfW	Kredit Anstalt fur Wiederaufbau
LDC	Least Developed Countries
MDGs	Millenium Development Goals
MFI	Microfinance Institution
MIS	Management Information System
MMP	Match Making Programme
MoF	Ministry of Finance (Bangladesh)
MTR	Mid-Term Review
NA	Not Applicable (used in tables)
NDF	Nordic Development Fund
NGO	Non-governmental Organization
NOK	Norwegian Kroner
NPD	Norwegian Project Document
NUMI	Norad´s department for Private Sector Development
OECD	Organization for Economic Development and Cooperation
OPC	Open Portland Cement
PAR	Portfolio at Risk
PFI	Partner Finance Institution
PD	Project Director
PCP	Project Concept Paper
PMC	Performance Monitoring Committee
PP	Project Proforma
PCC	Portland Composite Cement
PSD	Private Sector Development
RAKUB	Rajshahi Krishi Unnayan Bank
RJSC	Registrar of Joint Stock Companies and Firms
RLF	Revolving Loan FunSCB
SDT	Skill Development Training
SECP	Small Enterprise Credit Project
SEDP	Small Enterprises Development Project
SF	Strømme Foundation
SMAGL	Strømme Microfinance Asia (Guarantee) Ltd
SME	Small and Medium Enterprises
TAF	Technical Assistance Fund
Tk	Thaka
ToR	Terms of Reference
UFO	Upazilla Field Office
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
USD	United States Dollar
VO	Village Organisation
WID	Women in Development

Main Report

I. Introduction and Background

1. Introduction

1.1 Purpose of the report

An evaluation of the Norwegian business-related assistance over the last 10-15 years has been undertaken by Devfin Advisers on behalf of the Evaluation Department in Norad. The evaluation is based on four case countries: Bangladesh, South Africa, Sri Lanka and Uganda, all undertaken during the second half of 2009. This is the report of the Bangladesh study.[1] A Main synthesis report for the evaluation, based on the evidence of the four case countries, has been prepared[2]. It should be consulted in parallel to this report.

1.2 The objectives and methodology of the evaluation

The overall objectives of the evaluation are, according to the Terms of Reference (ToR):

- to document and assess past results and performance;
- to analyse the potential for improving Norwegian assistance in the future and preconditions for successful assistance in former and new partner countries; and
- to give recommendations on future policy and guidelines.

For Terms of Reference, methodology and the terminology used for the evaluation, please see Annex 4. A list of persons met in the context of the Bangladesh study is given in Annex 1 and documents referred to in Annex 2.

For a description of the Norwegian business-related assistance in terms of the organisations involved, the instruments used and the policy framework governing this assistance, please see the Main report. The broad conclusions in respect of the two last questions of the ToR are mainly contained in the Main report, while the focus of this case country report is on the first question, assessing past results and performance in Bangladesh.

In the evaluation the term *business-related assistance* is used synonymously with *private sector development* (PSD).

1 The Devfin Adviser team for the Bangladesh case study consisted of Karlis Goppers and Henric Thörnberg.
2 Report 3/2010 Evaluation: *Evaluation of Norwegian Business-related Assistance. Main Report*

1.3 Structure of the report

This report contains three parts:

- An introduction including a review of the context for business development in Bangladesh, identifying the binding constraints for the sector; a review of the Norwegian commercial and official relationship with Bangladesh; and a mapping of the diverse Norwegian assistance for private sector development in Bangladesh over the last 10-15 years.
- A ‘findings’ chapter, which assesses the various Norwegian PSD programmes and instruments in Bangladesh in terms of results, all set in a table format for easy access.
- A last chapter, which sums up these programme evaluations and discusses how the programmes jointly perform against the Norwegian policies and strategies and the binding constrains for business in Bangladesh.

2. The Bangladesh Context

2.1 Economic development

Even if Bangladesh remains one of the poorest countries in the world, it has experienced impressive economic and social gains since the 1990s, showing an annual economic growth of over 5 % (3 % in per capita terms), low inflation and rather stable levels of external debt, foreign exchange rates and interest rates. The manufacturing sector has grown proportionately more, and industry has now surpassed agriculture as the country's 2nd economic sector. Services is the largest (50%) followed by Industry (rose from 20 % in 1990 to 28% in 2006) and Agriculture (dropped from 30 % in 1990 to 20 % in 2006). The population growth rate has declined from 2.5 % in the 1980 s to about 1,7% in 2004, which has led to a doubling of the per capita growth rate – from 1,6 % to 3,3 % annually. This is one of the highest figures of all Least Developed Countries (LDC)s.

Table 1: Bangladesh economic indicators (2008)

Population	**161 million**
GDP	US$ 82 billion
GDP per capita	US$ 506
GDP (according to PPP) as share of world total	0;33 %

With respect to achieving the Millennium Development Goals (MDGs) Bangladesh has already advanced considerably and in fact reached some of them well before the target date of 2015. Gross enrolment in primary schools went from 72 % in 1980 to 98% in 2001, and the MDG target of eliminating gender disparities in both primary and secondary school enrolment has been reached. Infant mortality declined from 145 to 46 per 1000 live births during 1970-2003, and child mortality from 239 to 69. Food security has improved markedly, also for the most impoverished groups. With respect to *poverty,* however, there is still a long way to go. In year 2000, some 50 % of the total population lived in poverty, even if it had gone down from 59% ten years earlier. Women today constitute 26 % of the labour force. Since 1996 more than 5 million women have entered the labour force. However, women still face important barriers and segregation in the labour market.

The country's foreign exchange reserves today stand at a record US$ 10 billion. 80 % of the country's exports are textiles. Remittances are growing strongly, with Bangladesh being one of the world's 10 largest receivers of foreign remittances. Every year 250,000 Bangladeshis migrate abroad for work. A total of 3 million today work abroad. Investments in Bangladesh have, in the last decade, been much lower than in the rest of Asia. Today gross capital formation is 23 % of Gross Domestic Product (GDP) in Bangladesh, compared to 28 % in India and 40 % in China. Foreign Direct Investment (FDI) in Bangladesh is only 3,4 % of the total gross fixed capital formation, which is very low given that the average for all developing countries is 12,6 %. As a share of GDP, the FDI in 2007 was 6,1 % which is to be compared with an average of almost 30 % for all developing countries.

2.2 The business and investment environment

Scarcity of resources in energy, finance, land, as well as labour skills, are increasingly appearing as obstacles to the country's further growth and gains in productivity. Because of the inefficiency of re-allocating resources, and the restricted access to finance for Small and Medium Enterprises (SME)s, the country's income growth and poverty reduction are curtailed. According to the Bangladesh Second Investment Climate Assessment[3] in 2008, the most important investment climate constraints (in the eyes of metropolitan firms) are: shortage of electricity, political instability, poor governance, access to land and access to finance. The firms located outside of the metropolitan areas, however, saw the following as their main constraints: low demand for goods and services, inflation, inadequate roads, and high cost of finance. This is shown in table 2.

Table 2: Percent of firms who saw it as a major problem

firms in metropolitan areas	%	firms located outside of the metropolitan areas	%
Electricity	78	Low demand for good and serviced	41
Political instability	73	Inflation	31
Governance	55	inadequate roads	19
Access to land	47	Cost of finance	19
Access to finance	43	Electricity	17

According to the Global Competitiveness report 2009-2010, the biggest problem areas for doing business in Bangladesh are

Table 3: Business Constraints: % of firms interviewed stating as the main problem

Problem area		%	
Insufficient infrastructure	20	Tax rules	5
Corruption	16	Political stability	5
Government bureaucracy	15	Crime	3
Access to finance	11	Inflation	3
Instability of govt. policy	9	Restrictive labour regulations	1
Lack of skilled labour	5		

3 The ICA, investment climate study is a more detailed and comprehensive survey than the doing business index.

Electricity persists as a major barrier for doing business, and power outages have been calculated to reduce the country's GDP by as much as 2 percentage points. Weak institutions result in regulatory uncertainty proliferation of red tape and administrative complexity.

The absence of business development services is striking outside of the big cities. Among small firms in Bangladesh it is considered that the hidden costs in connection with credit taking are very high. In one study[4] they were estimated amount to over 600% of the loan value. The cost consists of long waiting, collateral requirements, difficulty to produce business plans and other documents, and a complicating application process requiring many meetings with the bank. The Doing Business report of 2007 reported that a typical small business loan in Bangladesh required up to 29 different steps (among them 9 meetings with the bank) and 50 different documents totalling 200 pages.

2.3 International comparisons

In the following table we can see that in most aspects of doing business Bangladesh does *not* belong to the bottom segment. Typically, it places in the highest two third group of countries. Only when it comes to *enforcing contracts* is Bangladesh placed at the bottom. On the other hand, in aspects such as investor protection and access to credit it is placed in the upper third group.

Table 4: Bangladesh score in the World Bank Doing Business Index 2010[5] (out of 183 countries measured)

	Rank 2010	Change since 2090		Rank 2010	Change since 2090
Overall: Doing Business	119	-4	Protecting investors	20	-1
Starting a business	98	-5	Paying taxes	89	-4
Dealing with construction permits	118	-8	Trading across borders	107	+1
Employing workers	124	-3	Enforcing contracts	180	-1
Registering property	176	+1	Closing a business	108	0
Getting credit	71	-3			

The Investment Climate Assessment (ICA) surveys show that Bangladesh has *advantage* over other countries in terms of labour regulations, customs and import/export procedures, mobile telephones, micro-finance, licensing, but *disadvantages* in terms of contract enforcement, access to land, labour skills/training, electricity,

4 Ferrari 2007 cited by the World bank investment climate report

5 Beside the World Bank Doing Business index there is another alternative ranking made in the Global Competitiveness Index 2009/10, which is based on a total of 133 countries being measured. Here the score for Bangladesh was: Overall 106 (in 2008/09 the country's rank was 111), Institutions 122, Infrastructure, Macro-economic stability 84, Health and Primary education 105, Higher education; Training 129, Efficiency of goods markets 102, Labor market efficiency 112, Financial market sophistication 71, Technological readiness 125, Market size 48, Business sophistication 100, Innovation 122.

governance, access to finance, innovation/IT and tax administration. Bangladesh has a big comparative advantage in terms of potential FDI due to its low wages and its liberal labour laws, which are among the most liberal among low income countries. Enforcing contracts is slower in Bangladesh than in almost any other country of the world.

Compared regionally, non-metropolitan firms in Bangladesh operate in an environment of relatively good connectivity between rural and urban areas. In this respect Bangladesh is better off than both Sri Lanka and Pakistan, but not India. High mobile phone connectivity, proximity to markets and railways contribute to the country's good ranking. The rate of female entrepreneurship in metropolitan firms is similar to those of other South Asian countries, but is lower in rural non-farm firms. Looking closer at a few of the above indices, we can compare Bangladesh with the rest of South Asia and with the Organization for Economic development and cooperation, OECD average.

Table 5: Comparing with South Asia and OECD

		Bangladesh	**South Asia**	**OECD average**
Starting a business	Number of procedures needed	7	7,3	5,7
	Number of days	44	28	13
	Cost (% of income per capita)	36	27	5
Time and cost to build a warehouse	Number of Procedures	14	18	15
	Number of days	231	241	157
	Cost (% of income per capita)	645	2310	56
Difficulty to enforce a contract	Number of procedures	41	44	31
	Number of days	1442	1053	462
	Cost (% of claim)	63	27	19

Bangladesh compares favourably among other low income countries in terms of domestic credit to the private sector, even if long-term lending, lending to SMEs and lending to the rural non-farm sector have been and are inadequate.

Table 6: Access to finance (How many percent of the firms agree that finance is a major obstacle)

Kenya	**73**	**Thailand**	**22**
Pakistan	50	India	20
Bangladesh	44	South Asia	20
Vietnam	41	Low income countries	12
China	30	Lower middle income countries	11
Sri Lanka	28		

2.4 SMEs

There are nearly 1,5 million SME[6]s in Bangladesh, about 65 % of which are located outside of the metropolitan areas of Dhaka and Chittagong. The SMEs make up some 99% of all private industrial establishments and provide jobs to close to 80 % of the country's non-agricultural labour force. SME share in the manufacturing value added to GDP is around 30 %. The vast majority of non-farm enterprises outside of the metropolitan areas are micro-enterprises employing fewer than 10 workers. On average they employ 3 workers, while 93 % of them have less than 5 workers. Of the firms only some 40 % are registered firms.

With respect to the so called 'enabling environment' for SME growth a lot has been and is being done by the government. However a lot remains to be done. A major problem for rural SMEs is the lack of market demand, because the local market is limited and the firms' connectivity to larger towns is limited by lack of transport and other infrastructure. The main constraints and obstacles faced by the country's SMEs can be summarized as:

- lack of medium and long term credit
- lack of collateral for credit
- high transaction cost and limited information about credits
- limited connectivity to markets
- lack of infrastructure, especially reliable energy supply
- complexities with regard to taxes and tariffs
- low management capacity
- little access to training and capacity building.

The "Missing Middle" Limited access to credit is by most economists seen to be the strongest constraint on SME growth. A problem discovered some years ago, and since then confirmed in many studies, is that there is a *"missing middle"* of small firms, which have been cut out from credits for many years. The reason for this is explained by the fact that they are too small and lacking necessary connections and collateral, to be able to qualify for regular commercial bank loans. At the same time they are too large and too established to be suitable for the many micro-credit schemes available. Furthermore, being independent firms, they need individual loans and are not apt to participate in group loans, which is the common

6 SME is here defined as those enterprises employing up to 150 persons

model in micro-credit schemes. The total demand for credits on part of the country's small firms was estimated by the World Bank in 2008.[7] It is summarized in the table 7.

Table 7: SME demand for loans

Segment	Share of total %	Number of firms	Average loan size Tk	Lending volume Billion Tk	Market share %
Micro	78	805,477	175,000	140	35
Small	17	179366	650,000	117	30
Medium-sized	5	46,420	3,000,000	138	35
Total	100	1,031.263	3,825,000	395	100

2.5 The Banks

The banking sector in Bangladesh comprises of four categories of scheduled banks:

- four state owned commercial banks
- five state-owned development finance institutions
- 30 private commercial banks and
- nine foreign commercial banks

In all there were 48 banks in 2008 with a total of over 6700 branch offices. There are also 29 non-bank financial institutions operating in Bangladesh. The main source of financing for the country's agriculture is the state owned banks, mainly the specialized agricultural banks BKB (Bangladesh Krishi Bank) and the Rajshahi Krishi Unnayan Bank (RAKUB). Today the role of the private domestic and foreign banks is increasing. Sonali, Agrani and Janata banks are corporatized state-owned banks, while Uttara and Pubali are today in the private sector. The state owned banks have undergone substantial reforms in recent years, and have improved in terms of efficiency and corruption. However, salaries in the state banks remain lower than in the private sector banks.

Agrani Bank has been corporatized, with the government owning 100 % of the shares, of which it may decide to sell 10 or 20 % in the future. Even if it has been corporatized, it still needs to get permission from the government to set its salary structure. The bank is today considered to be in much better shape than earlier, after having gone through structural change, (something which RAKUB has not yet done). Agrani bank has "cleaned up" its balance sheet, but is still limited with respect to corporate governance. Compared to private commercial banks the government ones are still considered to perform poorly many. Regarding RAKUB the Government did not follow the recommendation of the WB to re-capitalize the bank. Sonali, Agrani and Janata are in a similar state. They are all receiving assistance from a Bank modernization project financed by the World Bank. Also the managers of these banks have been recruited from the private sector.

7 Ferrari: Increasing Access to rural finance in Bangladesh: The forgotten "Missing middle"". Washington D.C. 2008

Even though banks today have excess liquidity, interest rates remain high - the spread has been 6-8 % over the past three years. Persistently high interest rates spreads may be a sign of inefficiencies in the banking sector. While banks have money to lend, companies may not be able to earn a sufficient return on loans to justify the cost of capital when interest rates are about 17 %. Generally banks prefer to give loans to finance trade rather than investments. Bankers are not yet comfortable with financing SMEs in Bangladesh, as they see SMEs in general to be high risk clients, because they have few assets and therefore have difficulty in complying with collateral. Also, since there is a need to monitor such loans more closely than other ones, the administrative cost for the bank is bigger. They prefer to financing trade, which is a short term affair with safe and marketable collateral. Many potential investors do not invest today, because, with real estate prices rising sharply, it is more profitable to invest funds in land. The banks, however, are not allowed to finance land purchases, which in itself partly explains the excess liquidity that banks have today.

The World Bank reportedly has an operational policy not to work with banks that are not solvent, believing that if there is a market failure one should first deal with that market failure. In Bangladesh the World Bank has reportedly been wanting to get involved in rural credit, but has not found any suitable bank to work with. Many influential people in the Bangladesh economy, among them high level managers in the Bangladesh bank, today take the view that the banking system cannot be enhanced or developed through grant support. Also, specifically regarding projects like the Small Enterprises Development Project (SEDP) or the Small Enterprise Credit Project (SECP), it is believed that they should not have continued grant support in the form of TA-funds, because they need to be able to generate the income they need from their own operations. Overall, the banks have increasingly had difficulty to maintain the required level of provisions against non-performing loans.

3. Norwegian Relations with Bangladesh

The dominating economic relation between Bangladesh and Norway is in development cooperation, while very little is taking place in terms of commercial trade and foreign investments. Also, in the areas of institutional and general cultural exchange there are only relatively modest activities.

3.1 Development cooperation

Norway's bilateral development cooperation started over 30 years ago. The main document regulating Norways bilatreral cooperation is a Memorandum of Understanding entered into in 1995 and then again in 2003. While the relative composition of sectors has varied over the years, in 2005, as can be seen from the following table, the overwhelming focus was on environment and energy, with social sectors coming second.

Table 8: Norway's bilateral assistance to Bangladesh in 2005. NOK million

	From Norad		**Through NGOs**	
Sector	**Amount**	**%**	**Amount**	**%**
Health, education and other social services	11,2	15,5	9,9	61,5
HIV/AIDS	0,5	0,6	0,5	3,3
Economic Development and Trade	8,2	11,4	5,1	31,3
Good Governance	0,6	0,8	0,6	3,8
Environment and Energy	51,6	71,5	0	0
Emergency relief and unspecified	-	0	0	0
Total	72,1	100	16,1	100

In 2008 the Norwegian government took a rather dramatic decision to phase out the traditional government cooperation programme in 2010. In its place the intention is to introduce a variety of partnerships between different players besides the typical government agencies. In consequence, during 2008 the embassy staff was scaled down from 8 officers to 3. Possible problems that might have been created by the scale down in staff is addressed in the last chapter of this report.

3.2 Trade

Norway's trade with Bangladesh, both as regards imports and exports, is very small, as can be seen from the following two tables.

Table 9: Norwegian imports from Bangladesh, USD million

Product	Norway's imports from Bangladesh		Norway's imports from the world	
	2005	2008	2005	2008
All products	64	106	55,488	94,487
Knit textiles	33	62	751	1,178
Woven textiles	20	27	958	1,349
Other textiles	1	9	270	375
Fish	5	4	316	449
Ceramics	3	3	289	394

Norway's imports from Bangladesh add up to only 0,1 % of its total imports. However, looking at the main categories we find the following: 5 % of knit wear imports, 2 % of woven textile imports, 2,4% of other textiles. We can also see that the rate of increase in the imports from Bangladesh is *not* growing any faster than Norway's total imports – in both cases they have gone up by some 40 %. In the textiles group, however, the Bangladesh imports have gone up by 81 % compared to the global imports which have only risen by 46 %.

3.3 Norwegian investments

Norwegian official statistical office reports no Norwegian Foreign Direct Investment (FDI) into Bangladesh over the last decade. With the grand exception of Telenor and its 62 % majority holding of Grameen Phone, there is today very little business interactions going on between the two countries.

4. Norway's Business-related Support in Bangladesh

4.1 Earlier support

Norway together with Sweden and Denmark cooperated in the 1970s in the integrated rural development programme which had elements of business support. From 1986 to 1997 Norway provided support to Grameen Bank and its microfinance operations. A final joint-review of this support concluded that this is probably the single most successful development project in the world. During the 1980s Norway supported other projects for the development of micro and small enterprises. A number of weaknesses were identified during implementation, and support to these projects was discontinued. In 2002 there was a Norwegian NIS review, which discussed the economic conditions in Bangladesh in great detail, and arrived at the conclusion that SME development should be a future priority in Norwegian PSD cooperation with Bangladesh.

4.2 The Norwegian Private Sector Development support since 1999

Norway has been supporting the development of small and micro enterprises in Bangladesh since 1983. The initial interventions during the 1980s did not achieve the desired success. However, the experience from implementation led to the design of a new concept, based on substantial technical assistance. Thus, the Small Enterprises Development Project started operating in 1990, for a pilot phase of three years, as a credit line and training project. The Small Enterprise Credit Programme was run from January 2002 to June 2008 with support from the Norwegian government. It was implemented as a project of Rajshahi Krishi Unnayan Bank.

The table below lists all the projects since 1999, which, based on the data made available to the mission and according to the criteria applied by us, qualify as business-related or "PSD".

Table 10: Business-related (or PSD) projects in Bangladesh financed by Norway 1999-2009. Million NOK [8]

Project	Amount	Period	Implementer	Location
Institutional support through Norad				
Quality infrastructure	7		Unido	Mainly Dhaka
* Enterprise development facility (SEDF II)	50		IFC	Central project office in Dhaka

8 Projects with a funding of less than NOK 1 million not included

Project	Amount	Period	Implementer	Location
Development of the jute industry	3 (?)	1999-2003		
* Norad Concessional Loans				
* Scancem (Heidelberg Cement)	24			Dhaka; Chittagong
* Grameen Phone	50			The whole country
* Application-based support (Norad) Total 23 cases.				
Embassy level support				
* Agrani Bank Small Enterprises Development Project (SEDP)	50 for pilot and 49.5 main phase	1990 – 95 1996 – 04	Agrani Bank; Ministry of Finance	Faridpur/ Mymenshingh
* RAKUB Small Enterprises Development Credit Programme (SECP)	50	2000 – 08	RAKUB/ Ministry of Finance	Rajshahi
* IFC – South Asia Enterprise Development Facility (SEDF I) Regional Project Bangladesh, North-east India, Nepal and Bhutan.	50 (jointly by DFID, ADB, EC, Canada, the Netherlands	2002 – 08	IFC	Central project office in Dhaka
Independent Review of Bangladesh Development (IRBD)	1.2, jointly with other donors	2000 - 02 2003 - 08	Centre for Policy Dialogue	Dhaka
* FK Norway				
Norfund (three direct investments (two which also are Norad loans), and one through Aureos)				
* Apollo Hospital (Aureos Capital equity investment)				Dhaka
* BRAC for expansion of microfinance activities. FMO, KfW, and Norfund provide local currency loans equivalent to USD 55 million	Norfund's share is USD 10 million			The whole country
* Grameen Phone A club loan together with IFC and ADB. Telenor is the major shareholder in Grameen Phone	Loan USD 10 million			The whole country. Head office in Dhaka
* Scan Cement (equity investment)				Dhaka and Chittagong

Source: compilation from various different sources: Norad central archives as well as from the embassy in Dhaka
Projects and programmes marked with * are subject for the evaluation.

4.3 Future plans

According to a study[9] commissioned by the Norwegian government in 2009, the new cooperation in the field of PSD can take several forms: among them trade, investment, production cooperation, technology transfer, training and institutional development. It should focus primarily on trade, small enterprises, women entrepreneurship, and environment and corporate responsibility. The purpose of the Ministry of Foreign Affairs (MFA) study was to assess opportunities for a private sector programme in Bangladesh and to recommend a first design of such a programme. It focused particularly on designing a new match-making programme like the one that Norway already runs in Sri Lanka, South Africa and in Vietnam..

Even if today there are only a handful of Norwegian companies active in Bangladesh, the MFA has the view that there is a great potential referring to the experience of Denmark, which through its B2B programme has attracted 60 new business ventures between Danish and Bangladeshi companies.The study also assessed possibilities in trade and other types of PSD. It also explored some sectors of particular interest for Norwegian commercial cooperation. The contents of a future Norwegian PSD portfolio as recommended by the mission were the following: Matchmaking, Bangladesh quality support programme, Norwegian accreditation institutional support, ITC project linking women to the market, Trade delegations, SEDF II, and environment programme within ship-breaking.

Based on the findings of the MFA "Identification" mission, the MFA also commissioned another study *("Private sector development programme in Bangladesh- assessment of business conditions and sector potential")* which was carried out in 2009. The purpose of this latter study was to "dig deeper into the sectors identified by the previous study as well as describing the general business framework in Bangladesh".

According to officers interviewed at the MFA and at Norad, there has been an increased interest on part of Norwegian firms for Bangladesh recently. Several new ABS are on their way. Two of them concern solar energy. Norad is planning to begin with a business-to-business (B2B) programme in Bangladesh. Norad´s department for Private Sector Development, (NUMI), is considering studying the environmental and health aspects in ship recycling. This will be an institutional cooperation programme on the part of NUMI involving environmental, security and health problems.[10]

9 "Identification and Feasibility: Private Sector development programme Bangladesh", ministry of foreign Affairs 2008
10 The wreck ships are sold based on steel process. The recycled steel is used for construction steel, but the ship steel is of much higher quality than what is required for the building industry. So there is waste today, and a potential economic opportunity for Bangladesh to enhance income from this activity.

4.4 Projects included in the evaluation

Coverage and Relative Focus The focus of the Bangladesh country study will be on two groups of projects and investments/loans respectively, namely:

Focus 1: Three projects providing a total of NOK 250 million in support of small enterprises
The *main thrust* is on the three large programmes, based on traditional grant aid, which are dealing with credits and other promotion of small enterprises, namely
- Agrani Bank Small Enterprises Development Project (SEDP)
- RAKUB Small Enterprises Development Credit Programme (SECP)
- IFC – South Asia Enterprise Development Facility (SEDF I and II).

These programmes – by their size alone – have dominated Norway's support for economic development in Bangladesh over the last two decades. SEDP started in 1990 and went on till 2004. SECP was implemented from 2000 to 2008, while SEDF started in 2002 and is scheduled to go on until 2014. Together Norway's support to these three programmes amounts to NOK 250 million, accounting for some 60 % of all the support, which we have classified as business-related.

Focus 2: Four Loans and equity investments amounting to a total of NOK 200 million
The second focus will be on the substantial Norwegian support to PSD in Bangladesh through loans as well as equity investments, both on part of Norfund and Norad, namely the following:
- BRAC
- Grameen Phone
- Apollo Hospital
- Scancem

Norfund together with four other foreign investors provided a USD 55 million local currency credit to *BRAC* (of which Norfund's share was USD 10 million), and, together with IFC and ADB, extended a USD 10 million club loan to *Grameen Phone*. Norfund also undertook equity investments in *Apollo Hospital* (through Aureos capital) and to *Scancem Cement factory*. Two of the beneficiaries of the Norfund investments also received sizeable concessional loans from Norad, namely Grameen Phone (NOK 50 million) and Scancem (NOK 24 million). All together, these four firms have thus benefitted from a total of almost NOK 200 million in Norwegian support.

In terms of volume of funds our seven focus projects account for 96 % of the support, which we have identified as business-related or "PSD" - NOK 444 million out of a total of NOK 462 million.

II Findings

5. Embassy level support

The evaluation has included three 'embassy level' implemented projects and programmes:

- The Small Enterprises Development Project (SEDP)
- The Rakub Small Enterprise Development Credit Programme (SECP)
- IFC-South Asia Enterprise Development Facility (SEDF)

While all of them are classified as Embassy implemented in our evaluation, they are in fact a mixture of embassy and Norad implemented projects and programmes. Thus, some of them were initiated before the organisational reform 2003, hence were 'Norad' programmes at the time, and Norad has also played an important role in the implementation afterwards.

5.1 The Small Enterprises Development Project (SEDP)

Background Norway has supported the development of small enterprises in Bangladesh since 1983. The first agreement was a NOK 5 million grant in support of micro- and cottage industries, passed on by the government as loans through Sonali and Janata banks. Another NOK 15 million went to Krishi bank for small scale industries. According to a review undertaken by Norad, "a large number of weaknesses were identified during implementation, and support was discontinued". The experience gained from these projects led to the development of a Small Enterprises Development Project, the SEDP, which started with a pilot phase in 1990.

An agreement for a 3-year pilot phase was signed in January 1990 for NOK 50 million, of which NOK 31,5 million was for a credit fund and NOK 18,5 million for a technical assistance (TA) fund. Uttara bank was implementing with Bangladesh bank acting as "executing agency". In its pilot phase the project consisted of two credit lines – a *District development credit line*, DDCL, and the *Innovative industries credit line*, IICL. DDCL was in Mymensingh and Faridpur with an individual loan ceiling of BDT 500,000, while IICL was in the metropolis areas of Dhaka and Chittagong with a BDT 3 million ceiling for individual loans. Subsequently, Norad agreed with the government to prolong the three years pilot phase with another two years, until March 1996, in order to plan for a main phase of the programme.

Table 11 The SEDP, Main Phase 1996-2001, NOK and BDT respectively

	Norad NOK	Agrani bank NOK	Total NOK	Norad Tk, million	Agrani Bank, Tk	Total Tk
Credit fund	39,070,000	39,070,000	78,140,000	252,5*	252,5	505
Technical assistance fund	10,484,000	5,740,000	16,224,000	68**	37	105
Total	49,554,000	44,810,000	94,364,000			610

I NOK = 5 BDT

The main phase of SEDP was designed with several important changes, e.g. a previous heavy presence of foreign consultants was dropped, and the Ministry of Finance (banking division) took over as executing agency from Bangladesh Bank, and Uttara bank was replaced by Agrani bank, another nationalized commercial bank. The agreement with Agrani bank was signed in January 1996. Norway was to provide NOK 10,5 million for technical assistance and 39 million in credit funding - a total NOK 49,5 million. Agrani bank participated in the credit fund with the same amount and with corresponding local financing of NOK 5,7 million for technical assistance.

After the project period formally ended in March 2001, it was decided that the project would continue operations under a formal "no cost extension" as far as the Norwegian embassy was concerned, until June 2003 to allow time to dialogue among the parties regarding a suitable continuation of the project. During this time the project expenses were to be covered by the interest income. The Mid-term review (MTR), carried out in July 2000, had recommended that the project be prolonged with another 5 years with a pronounced focus on intensive testing and gathering of experiences with a view to provide lessons and advice for other small scale financing in the future. But this recommendation was not followed by the Embassy. The last intervention on part of Norway appears to be a letter to the Ministry of Finance in December 2004 informing that from the end of 2004, Norway would not have any further financial nor administrative involvement in the project.

Design issues The structure and contents of the SEDP project were formulated in 1988. Several bilateral donors had previously been involved in the productive employment programme, PEP, and the capability and role of the state banks was not seen to be very good. Going into a project together with a state-owned bank in the 1990s was therefore not uncontroversial among donors. According to general assumption, the World Bank, for instance, would not consider such cooperation on the simple grounds that the state banks were not solvent. In the history of Bangladesh it was common for new governments, for political propaganda reasons, to decide to excuse outstanding loans of the state banks, something which created a culture of "not having to pay back loans".

Also in Norad itself, some officers were sceptical of the idea of cooperating with state banks that had a reputation for being inefficient and corrupt. However, Norad wanted to address the "missing middle" of loan-seeking firms, i.e. the entrepreneurs, which are either too large or too "individual" to opt for a micro-finance loan, while at the same time too small to qualify for regular bank loans.

Project objectives The main objective (in the original documents referred to as "Project Goal") of the SEDP was to contribute to increased employment and higher incomes among the rural population, while the Project purpose[11] was to provide credits to small rural entrepreneurs for new or existing activities. Particular attention was to be paid to female entrepreneurs, and specific targets were set for the percentage of entrepreneurs who should be women. Furthermore, the project was to provide relevant training for the entrepreneurs. A target formulated for the main objective was that at least 11,160 small scale entrepreneurs would have increased their income by at least 10 % five years after start of the main phase.

While employment creation was the most important objective/consideration for SEDP, institution building, i.e. trying to reform the state banks and the sector institutions, seems also to have been an important – if implicit - motive of Norad. "The SEDP model" was to work flexibly with the prospective clients. The project identifies and selects prospective loan clients, providing advice to the entrepreneurs from time to time, and giving loans easily without any harassment, bribery or corruption or inefficiency in shortest possible time.

SEDP characteristics Among the typical features of the SEDP, which sets it apart from most other rural credit programmes is that SEDP (and also its follow up SECP, see below) is meant for clients between the micro-credits and medium-sized enterprise – the so called "missing middle". These are entrepreneurs who are too small and without the strong collateral to qualify them for larger bank loans, while at the same, they are too large to be suitable for a micro credit. A problem for the firm to opt for a micro credit is that these are normally given on a cooperative basis. One attraction of SEDP compared to other banks is lower transaction costs and friendlier and more personal service than from commercial banks.

The SEDP loan policy is radically different from that of the Agrani bank and other, state as well as privately owned commercial banks. SEDP (and SECP) follow a model whereby the project goes out and seeks suitable entrepreneurs, and each prospective client is obliged to take a four day orientation course designed to capacitate him or her to become a good borrower. This is something which the rest of the bank does not do. SEDP officers have to be ready to go to the field to visit clients at any time. Not so in the rest of the Agrani bank. During the scouting for prospective clients and also during the training, the project will assess the ability of the clients.

11 In the project's progress report June 2009, the *Purpose* of the project is described as: *to increase the number of small-scale labour intensive enterprises and to strengthen existing ones.* We do not have the impression that the project is specifically or exclusively looking for labour intensive entrepreneurs, and there would be no real reason to do that. They should simply be looking for entrepreneurs with good profitable business opportunities or investments, because in an economy where there is no major distortion in the market prices for and capital one can trust that the entrepreneurs themselves know what is the best way, i.e., the most economic way, to produce something.

SEDP is encouraging its entrepreneur clients to use local inputs and materials. Loans can range from Tk 25,000 to Tk 750 000, with repayment periods of maximum 7 years. The value of collateral must be 1,5 times the loan amount, compared to 2 times, which is the usual level in commercial banks. No collateral is required for loans up to BDT 100,000. The loans today cost 14%, computed according to "reduced balance system", which is more favourable for the client. Commercial banks typically charge 18 %.

Means of assessment In this project, which is on going, but which Norad left already in 2000, no recent evaluations nor reviews have been carried out. Nor has a customary End-Project Review been undertaken by Norad. In 2007 the Norwegian Embassy in Dhaka prepared a 5 pages long Completion Document. Therefore, the only document of any evaluation character available to the mission has been the Mid-term Review commissioned by Norad in July 2000. In spite of considerable time spent by us searching the files of Norad and the Embassy, we were not able to access some older documents, which *do* exist.[12] To a certain extent, conclusions made with regard to the SECP (see next chapter below), could – with appropriate reservations and caveats - be applied also to the SEDP, given that the objectives as well as contents and structure of the two projects are similar. But it must be remembered that they are two different projects, in different locations, and with apparently no interchange between them taking place at all. Any conclusions, based on the inference from one project to the other must therefore be treated with caution.

5.2 Results of SEDP

According to the 2000 Mid-term Review, the project had more than fulfilled quantitative targets and was developing in a positive direction. However, it was not seen as being sustainable, mainly because the Ministry of Finance did not implement what had been agreed. Today, however, it is not entirely clear what sustainability for this project actually meant – to become integrated as a regular department of the Agrani bank *or* to develop into a separate institution independent from the bank. Eight years after Norad's financing ended, the project today continues and is functioning as well as ever - in fact better than before, and the revolving fund instituted by Norway in 1996 lives on more or less intact. The project has delivered twice as many jobs as planned. The main achievements are summarized in the following table:

12 So for instance we were not able to find the project document prepared for Norad, dated October 1995, a technical assistance pro forma prepared for the Bangladeshi partners, dated January 1967 (TAPP = Technical Assistance Project Proforma), and most importantly, Norad's appropriation document for SEDP. The contents of these important documents we tried to "derive" in indirect manner through other documents.

Table 12: Achievements of SEDP

	During the original agreement period with Norad January 1995 to June 2001	January 1995 to June 30 2009	During 2008
Number of loans disbursed	22,112 (target was 11,160)	49,825	2975
Number of loans to female entrepreneurs	5342 or 24,15 %	12,874 or 25,84 % of total	742 or 25 %
Total amount of loans disbursed	810,900,000	2276,500,000 (2276 million Tk)	179,800,000
Total amount of loans recovered	529,400,000	2322,900,000	237,100,000
Actual recovery rate	93,5 %	96,99 %	Cumulative recovery rate 96,86 %
Employment generated	44,083 (target rate was set at 20,000)	103,492	6394
Number of loan clients having received Entrepreneurs development training	15,069 (target was 11,160)	18,640	690
Loan clients having received Skill development training	1360 (target was 1800)	1,827	
Amount of loans outstanding		500,600,000	
Number of loan clients (outstanding loans)		12,880	
Amount of classified loans		61,400,000 (61,4/500,6= 12,3 %)	
Loan loss Provision		26,700,000 (26,7/500,6=5,3 %)	

Sources: Information sheet obtained from project November 2009, Project's annual progress report January–June 2009 complemented with other documents

The Loans During the official 5-year project period from 1996 to 2000, about 22,000 loans were given, compared to the target rate, which was set at 11,160. Women entrepreneurs constituted some 25 % of the firms, against a target rate of 20 %. The total cumulative loan volume was BDT 811 million, implying an average loan size of about BDT 37,000. The MTR found that 93 % of the entrepreneurs already had businesses, while only 7 % were new. 70 % of the loans were for working capital, only 7,5% exclusively for fixed investments. Of the entrepreneurs borrowing today, about 35% are semi-literate and 35% are illiterate. In its training SEDP distinguishes three groups of trainees: illiterate, semi-literate with up to 10 years of schooling, and literate. During the eight years, from 2001 to 2008, that the project has continued to operate without any grant TA support from Norway, another 27,000 loans have been given, suggesting that the project is moving ahead strongly.

Training The number of loan clients having received entrepreneur development training during the 5 year project period ending in 2001, was about 15,000. In the whole period of 14 years that the project has been operating (1996-2009), the total number of trainees was about 18,500 indicating that training has dropped sharply after Norway left the project, as only an additional 3,500 entrepreneurs were trained in the last 8 years as compared to 15,000 in the first 5 years. However, this decline also reflects the fact that the project is apparently favouring repeat loan clients – who do not need to be trained – in favour of new ones. And this also has to do with the project's desire to be able to achieve the target recovery rate, since the veteran clients are more reliable re-payers of loans than new firms can expected to be. During the first years the training was free of charge, but today entrepreneurs pay Tk 250 for the entire course. According to all observers, among them the MTR, the training has been appreciated by the firms, as has also been the general service mindedness of the SEDP staff in all their dealings with the clients.

Employment creation According to the figures supplied by the project, the loans given during the project period had contributed to creating some 44,000 jobs, compared to the target which had been set at 20,000. In the 8 years that have passed since the Norad agreement ended, some 27,000 new credits have contributed to add another 59,000 jobs. Every year the project undertakes a review of the employment creation in the client firms. In 2004 the Norwegian embassy asked a chartered accountant to evaluate if the project has had the employment generation effect which it claims. Reportedly he found that the outcome had been even better than what the project had claimed.

When interpreting these results it is important to consider the deficiencies in measuring the employment effect, which the MTR observed. In their estimation the recording of employment figures done by the project, could not always distinguish *marginal* from *average* labour creation. In many cases the firms reporting had included labour, which was already employed when the loan was taken. The conclusion is that even if the employment effect of the SEDP is large, it unlikely to be as large as the one reported. Another very important caveat to make is that the credit supplied by the project is but *one* of several necessary conditions in order to create an employment effect.

Loan recovery The mid-term review in 2000 found that some 18 % of SEDP´s loans were non-performing – representing some 5,5 % of the loan volume, and that the share was growing. It claimed that the quality of loan supervision is suffering both from lack of staff and poor or lacking transport equipment, something which would have a negative impact on the project's long-term performance. In 2006 SEDP started a scheme of loan loss provision. At present SEDP has BDT 64,2 million in doubtful loans, against which it has made a loan loss provision of 27 million. The project today reports an "actual recovery rate" of over 95% (compared to 78 – 80 %, which Agrani Bank has for its SME-loans). The non-performing loans in SEDP are reported to be around 6 % or 11 %, without adjusting for the provisions made. In the state commercial banks doubtful loans amount to about 25 %.

It has not been possible for us to independently assess the realism of these estimates of the volume of bad loans nor of the correctness of the recovery rate reported. However, based on the analysis recently carried out by Sigvaldsen *et alia* of the corresponding issues in SECP (see below), we must allow for that the SEDP may be facing similar problems. In SECP it was found that the real volume of non-performing loans was likely to be substantially higher than what the project had calculated, and also, that the real recovery rate was much lower than reported – in the vicinity of 80% to 85 % rather than the 95 %, which had been reported.

Reaching new business Supporting new entrepreneurs was not a goal specified in the Agreed Project summary, but was raised as an issue in the Mid-term Review, which found that only 3 % of the enterprises were new. The project has tried to increase the number of new enterprises but wants to guard against the associated risks that it might affect its recovery rate negatively. If there are too many new clients then the loan-recovery rate will go down, and this partly explains why the bank has a 70 – 30 % ratio between new versus old clients. The project has funds enough to carry out only two batches of basic training per month, which puts a limit on how many new loan clients they can take in. Since repeat clients do not require training, this introduces a bias for the project to focus on providing old clients with repeat loans, rather than going out to seek out new entrepreneurs. This must be seen as a deficiency, as it prevents the project from bringing in more new entrepreneurs, which after training can become productive and responsible borrowers.

Graduation of loan clients Many of the clients of SEDP are quite advanced with college education, and it is therefore a category of borrowers which would be qualified and capable to also deal with commercial banks. They have presumably chosen to go to SEDP because they find its services better and/ or cheaper than what the commercial banks are offering. There seems to be little evidence that SEDP´s clients graduate to normal bank lending, or that Agrani bank is taking a larger interest in SMEs as a result of the project. The incidence of repeat loans is high in SEDP, and entrepreneurs who would be eligible for bank loans stay with SEDP mainly due to lower transaction costs. The project should raise interest rates in order to avoid lending to firms who are able to qualify for commercial bank loans. This apparently has not happened in the project. In other words, it keeps lending to firms who would be perfectly capable of securing normal bank loans.

Influence of SEDP on Agrani and other banks An important potential impact of the project, albeit not an explicit objective, is that the credit operations of SEDP, which were designed to be more flexible and more client-friendly than regular credit operations of the Bangladeshi banking system, might positively influence other parts of Agrani bank operations. Therefore the location of the physical premises of the SEDP staff becomes an interesting issue. Initially the idea was *not* to have a separate entity. Sitting in the same office as the rest of the Agrani bank, the task of the SEDP would be simply to serve the 'missing middle' with needed credit funds. Subsequently, however, mainly for practical reasons it was decided to grant it a measure of independence and also placed SEDP in premises away from the mother bank. According to the Agrani Bank's general manger, SEDP has in fact been able to positively influence the operations of the rest of the bank. Thus, Agrani bank has (at least to some extent) adopted SEDP´s mode of working, e.g. its monitoring of the loan clients and its proactive search for potential clients. Agrani Bank has however, not yet adopted the practice of training the first time loan clients, but would like to do that in the future. Also Agrani Bank can today observe that the SEDP´s repayment rate is much higher than its own. The Prime Minister of Bangladesh has declared that the "SEDP´s model should be followed by commercial banks". If this influence of SEDP on Agrani Bank is real, it must be seen as a significant achievement of the project. If the SEDP through its positive example can influence the rest of the banking system, this will potentially be so much greater than the direct effects that are created by its own operations.

Accounting The Bangladeshi professional auditors in their report dated 15 October 2009, concluded that:

> *"….The project management was unable to provide any books of accounts for credit fund, interest income fund, revolving fund, bad debts provision, and loan risk fund. The Agrani bank management does not maintain any separate set of books of accounts for Project Fund. Accordingly the accounts maintained by Agrani bank Limited are not adequate for the preparation of these financial statements…" and "Consequent upon the poor maintenance of the books of accounts we are unable to form an opinion as to a true and fair view of the SEDP Revolving fund, Interest income fund, bad debt provision and loan risk coverage funs accounts on December 31 2008". The auditors also conclude that " the existing records keeping system of the bank is not adequate for the preparation of financial statements such as Balance sheet, income statements etc. as required in the TPA."*

It has not been possible for us to analyze further what lies behind this seemingly very harsh and serious criticism, but in general terms we have been assured that it does not imply anything dramatic or out of the ordinary as far as aid projects in Bangladesh are concerned.

Project follow-up Both for the SEDP and the SECP, Norway has made frequent use of a group of consultants who by following these projects as well as the Bangladeshi PSD scene in general, for over ten years, has developed very considerable expertise. On repeated occasions, most recently regarding the end review of SECP, these consultants have delivered important advice regarding crucial design issues, often to do with systemic issues such as the appropriateness of grant funds and subsidies. This has assured Norad of timely and reliable advice in its decisions. However, as it turns out, the Embassy and Norad have not always followed advice received. A case in point could be the failure [on part of the projects] to introduce safeguards for a financially sound operation. This has been pointed out on several occasions over the last 10 years, but has not been enough to steer the projects in a more desirable direction. In several cases internal correspondence shows that the points of view were shared by responsible officers at Norad or the Embassy, and the failure to implement therefore had to do with the general project dynamics, where many interests – not least government bureaucracy – compete and interact to steer the course of a project.

In the case of SEDP, in the MTR, the consultants pointed out that:

- *Current "best practice" in the field of rural credit is to build financial institutions that can survive on their own, and not to construct subsidized credit projects, that mix credit and advice and also provide free training. It is therefore a design flaw to have a subsidized project which is supposed to compete in a free credit market.*
- *The project has focused entirely on quantitative targets (number and volume of loans, people employed etc), and little on the qualitative process of building up a sustainable credit operation,*
- *On PMC: "A lesson from the chronicles of the command economy is that running market oriented operations by committees is quite futile"*
- *that the long-term sustainability had not been addressed sufficiently in formulating the project.*

Our conclusion, after having assessed the SEDP is that, had these pieces of advice been followed, the project would have been more successful.

Financial viability SEDP´s operational revenue was estimated to cover only 43 % of its operating cost in 1999, even though no provision had been made for loan losses or the cost of capital (which is an alternative economic cost, since the capital was given as a grant by Norway). Actually, the SEDP project documents did not include the issue of financial sustainability, probably because the project was meant to be integrated into the bank, and therefore was seen not to need to be developed into a profit centre of its own. The interest rate structure of SEDP was not rational, because smaller loans (up to Tk 50,000) which are more expensive (in relation to the amount) to service only have a 10 % interest rate while larger loans above Tk 250,000 were charged 14 %. Also, the administrative costs incurred by Agrani bank's services to SEDP are not included in the project reporting, and it is therefore not possible to calculate a correct financial profitability.

5.3 Conclusions on SEDP

The two tangible impacts of the project are employment creation and that many women entrepreneurs that have been identified and provided with credit. A potentially negative impact, reported by the MTR, is the possible crowding-out of commercial banks because of the SEDP lending. Donors should focus on supporting and building capacity and competence in the banks. However, in less developed areas, and in the country side rural areas, it may be reasonable to give grant support also to transactions during a build-up phase.

Relevance Access to credit on reasonable terms has been identified by the government and donors alike as one of the main constraints on SME development. The SEDP was designed to address this constraint, and by providing jobs in the countryside it has contributed substantially. Job creation among rural poor being a priority objective of the Bangladeshi government, the project is therefore clearly relevant. The relevance of working through a government bank is another issue, highlighted in the reporting of the project.

Sustainability Establishing a sustainable operation was *not* a formulated objective of the project. The agreement, while not setting any targets regarding sustainability, does specify[13] that *"At the end of the project period the parties shall decide whether the funds and other assets created by the project shall remain with Agrani bank to be used for the same purposes as during the project period, or shall be transferred to another institution in Bangladesh for continuation of activities".* Norway's original ambition for SEDP was limited mainly to employment creation. After the Review in 2000, concern for sustainability was added, and also the needs to apply market based mechanisms to determine the pricing of its financial services.

The Embassy Completion Report from 2007 concluded that *"from a sustainability point of view it (i.e. the project) could not be considered very successful[14]".* Presumably the basis for the Embassy's disappointment here is the fact that the government had failed to integrate the project into the banking operations of Agrani Bank. But paradoxically, this failure on part of the government has allowed the project to prove that it *is* at least potentially sustainable. If it had been integrated into Agrani Bank, it would likely, as Sigvaldsen points out in his exit analysis, have been drowned quickly in other operations. Now, by remaining a functioning operation even after Norway pulled out, the project has been forced to operate and survive on the revenue it could raise on its own.

According to the *Exit* analysis, the project document prepared by the government indicates that the SEDP could be implemented without Norad support, and that it would have a good chance of surviving on its own. The report's main conclusion was that:

> *"current performance numbers indicate that it is indeed possible for SEDP to become financially sustainable. However, it needs a dedicated and business-like owner, and this is only thought a likely outcome if the donor and the GoB is removed from the direct operation"*

It also stated that SEDP is one of very few organizations addressing "the missing middle" segment of SMEs. Therefore, if SEDP can develop a financially sustainable model for credit delivery to this target group, this can have a considerable impact also beyond the organization itself.

According to official project accounts of SEDP as per 31 December 2008, the total value of its assets are BDT 440 million, as compared to the BDT 505 million that SEDP started out with in 1996, after both Norad and Agrani Bank had each con-

13 In chapter IX. 4,
14 Some of the embassy's and Norad's correspondence around 2003, gives an impression that they were more pessimistic about the project than they needed to be, referring to the lack of audited clear data which prevented one from calculating a true financial position of the project.

tributed BDT 252,5 million to the revolving credit fund. We have not been in a position to analyze the SEDP accounts. However, at face value this account seems to suggest that the project, after 14 years of apparently successful subsidized credit operations, still retains assets that are almost as large as the size of the revolving fund at the beginning. Since its operating income has only covered about half of its running costs, maintaining the revolving fund has, of course, only been possible with the Norwegian TA grant. As a commercial bank operation, the performance is unsatisfactory. However, because it is a rural credit operation aimed at a largely un-serviced segment of the SMEs, it might be seen as acceptable in comparison to similar bank schemes. i.e. it is less expensive than many other credit schemes.

From 2004 the project started a dialogue with the Ministry of Finance on how SEDP could exist without the assistance of an outside grant, and it was proposed that an independent company be created, an idea which was subsequently approved by the Prime Minister. The cabinet has now formally decided – in a first reading – that the project will be turned into a subsidiary company of the Agrani bank, named *"Agrani SME Finance Company LTD."* The company is to have Tk 500 million paid-out capital, and the authorized share capital is Tk 5 billion. The scope and objectives of the bank's activities will remain the same as previously. It is as yet unclear whether the new company will be able to decide itself on its hiring policy. The impression today is that by becoming an independent unit by itself, and with its own board of directors, albeit as a subsidiary company of the Agrani bank, SEDP will have much better chance of further enhancing a successful credit operation with SMEs, and thereby exert a more positive influence on the credit market than it could have done as a unit within the Agrani bank.

The ***cost effectiveness*** in terms of job creation we can calculate as the number of additional jobs compared to the actual cost of the project. The project claims to have contributed to the creation of about 44,000 jobs. The cost in terms of administration can be approximated by the grant funds for TA supplied, which is NOK 10,5 million from Norway and NOK 5,7 from Agrani bank, or a total of NOK 16,2 million. In addition we must account for the cost of capital supplied both by Norway and by Agrani Bank. Using an interest rate of 5% we get a capital cost of 0.05 x (39,070,000 + 39,070,000) = NOK 3,9 million per year, or NOK 19,5 million over the 5 year project period. Disregarding other possible costs, such as e.g. non-recoverable loan funds the cost effectiveness ratio becomes: NOK 19,5 + 16,2/ 44,083 =NOK 35,7/44,083= NOK 809, is estimated to be about BDT 4045. Comparing the figure BDT 4045 with the yearly salary of a Bangladeshi worker, we can conclude that cost effectiveness of the SECP has been quite good. And it is potentially even better, because there are other (non-quantifiable) benefits that need to be included in the denominator, such as entrepreneurship, beneficial economic as well as socio-economic effect on gender balance.

Gender The project has set up a special action plan for women entrepreneurs, which includes awareness workshops, sessions on the status of women in business, arranging field visits to encourage women entrepreneurs and special drives to the defaulter loan clients. In the project's opinion these special initiatives have paid off in producing a higher number of women loan clients than they would otherwise have reached. According to project management impact assessments show that through the financial assistance of SEDP, women entrepreneurs *"have started getting grips on matters like voice in family decisions, asset ownership, income generation, health care, child education and mobility".* It is also reported that the status of women entrepreneur has become more visible in the household and in the neighbourhood, which indicates that a large portion of rural women have benefited significantly from participation in this credit programme. While all of these assertions on the part of the project appear plausible and realistic given the project's good results in terms of reaching women entrepreneurs with its credits, no concrete evidence for these outcomes have been presented.

The project also reports some negative side-effects, e.g. that many women become dependent on the credits, that they have to bear the risks of non-payment due to interference of their husbands in utilizing the borrowed fund, or "*other relations who may have been utilizing the loan proceeds, and concludes that "when women try to resist and protest financial indiscipline by male members, their family peace is disturbed*". The MTR in 2000 did a survey of a sample of 250 borrowers randomly selected from lists prepared by SEDP on the active borrowers. With respect to gender, the reasons given by respondents as to why more females did not become clients were: Social and religious obstruction 57 %, non-cooperation from husband 37 %, women do not know that SEDP provides loans 37 %, lack of entrepreneurial capability/ awareness 34 %.

Child labour There are no guidelines with regard to environment and child labour issues, but the project claims to be sensitive to these. The project asserts that "special attention was given lest child labour was employed in enterprises established by loans from SEDP". It seems plausible that the assertions are correct given that the project staff has such intimate contact with the loan clients and their production premises. Overall in Bangladesh some knowledgeable observers are of the opinion that child labour is, in spite of the government's efforts to fight against it and despite its claims to the contrary, still quite pervasive.

Summary assessment. For a detailed assessment of the project, see Annex 3.

5.4 The Rakub Small Enterprise Development Credit Programme (SECP)

The SECP project is essentially a replication of the SEDP project, which had already been going on for 10 years when the SECP was designed. The appropriations document for SECP pointed out that the programme was responding to an important need in the credit market - supporting a group of clients who are not covered by the Micro Finance Institutions (MFIs), and who did not have easy access to commercial bank credit. Furthermore, that the project had been able to reach targeted goals and contributed to reducing poverty through creation of employment opportunities. The review of SEDP in 2000 had also found that there are questions regarding the real demand for realistically priced loans, and that SEDP is weak in financial monitoring and reporting which undermines effective management.

Therefore, the *"new RAKUB-SECP should be developed based on the good experiences of SEDP, but also on its shortcomings."*[15]

Norway, as the only external donor, contributed all in all Tk 253 million (NOK 50 million) over 6 years, of which Tk 73 million (NOK 14 million) for TA and the balance for the revolving credit fund. According to the agreement, RAKUB contributed the same amount for the revolving fund, but none for TA. In late 2007 Norway decided that it would not support the project after June 2008.

The Rajshahi Krishi Unnayan Bank (RAKUB) is a government bank specializing in agriculture. It had been reformed in the end of 1990s and was in 1999-2000 able to earn profit for the first time after incurring losses for 7 consecutive years. RAKUB was selected and suggested by the Government of Bangladesh. It is the only bank covering the whole of Rajshahi division with local offices in all *upazillas*. Rajshahi is one of the poorest regions of the country, until 1998 separated from the rest of the country by two rivers without a bridge.

Objectives and Project Design The objective of the SECP is to alleviate poverty in Northwest Bangladesh through direct increase of non-farm income of small entrepreneurs and indirect creation of non-farm employment among the population in the region, and the purpose to support the increase in the number of new and expansion of existing profitable and sustainable small enterprises in three selected greater districts in the NW region.

This project *purpose* will be achieved through the following project outputs:
- suitable entrepreneurs identified, given orientation and training, and recommended for loans
- loan applications appraised and sanctioned, and loans disbursed and recovered.
- effective management established and functioning, and programme progressing towards financial sustenance.

The target ***beneficiaries*** were entrepreneurs without collateral who lacked access to credit from commercial banks and who need larger loans than what is offered by MFIs. The project was not to support traditional agriculture activities like production of paddy, jute etc. Regarding the funds remaining after the project ends the appropriations document (Para 4.9 Phasing out/ Exit Strategy), stipulated that: *"Assets created under the project will remain under the possession of RAKUB. … The capital base created out of Norway's support will be owned by the Government of Bangladesh and kept by RAKUB for continuation of similar activities, possibly on a self-sustained basis after 10 years"*

Logical Framework Analysis matrix Based on the chains of causes and effect in the goal hierarchy, and based on the information in the project documents, we can summarize the various objective statements and the corresponding targets, along with their corresponding indicators, in a *Logical Framework Analysis matrix.*

15 It should be note that a Norad Assessment Note dated 20 June 2001 had recommended that the programme *not* be supported in its current definition. Recommendations given w.r.t. to sustainability and ownership issues were subsequently not followed.

Table 13: Logical Framework Analysis matrix SECP

Level	Target statement	Indicator
Objective	Alleviate poverty in Northwest Bangladesh through direct increase of non-farm income and indirect creation of non-farm employment among the population in the region	
Purpose	To support the increase in the number of new, and expansion of existing, profitable and sustainable small enterprises in three selected greater districts in the NW region.	
Output 1	- suitable entrepreneurs identified, given orientation and training, and recommended for loans	- 21,600 entrepreneurs have been identified, of which - 19,400 have participated in orientation courses - 18,500 have received entrepreneurship training - 1850 have received skill development training - 18,500 have been recommended for loans - 20 % are to be women - 53,000 jobs have been created
Output 2	- loan applications appraised and sanctioned, and loans disbursed and recovered.	- 23,000 loans have been appraised - 21,900 loans have been sanctioned and disbursed - 96 % recovery rate maintained
Output 3	- effective management established and functioning, and programme progressing towards financial sustenance.	- SECP is established as a separate Small Enterprise Development Department (SED) within RAKUB - progressing towards financial sustainability, upazilla operations will reach break-even by year 5, and whole project will reach break-even by year 10.

5.5 Results RAKUB[16]

All targets were not met as fewer SMEs received *loans* and fewer areas were covered than planned. But the project achieved the target for *employment* generation, and reached 28% women clients, (against a target of 20%). Results for *training* targets were almost in line with targets, but the loan *recovery* target was not met. Delays in implementation, which were partly due to the shortage of staff, but also bureaucratic decision making, can explain some of the inability to reach targets. The main reason for the low recovery rate is a general lack of focus on financial profitability.

16 Most of the observations and assessments made in this chapter are based on the recent evaluation by Sigvaldsen et alia. In many cases direct or indirect quotes are used. Because the text excerpts from the evaluation have been rewritten and abbreviated and juxtaposed with our own words, we have mostly *not* used quotation marks.

The loans

Table 14: Disbursement, BDT million

	Actual 2002 - 2008			Target	Actual 2008-09			Cum. total
	Men	Women	Total		Men	Women	Total	
Loan Disbursed (no. loans)	9,371	3,732	13,103	12,500	4,356	1,311	5,667	18,770
Loan Disbursed (Amount mn)	387.2	138.8	526.0	506.6	250.7	64.3	315.0	841.0

Source: End Project Review. Sigvaldsen et alia Draft 16 November 2009

From the table we can see that during the project period the project achieved slightly more than13,000 loans and as of June 2009 it had achieved a total of nearly 19,000 loans, thus seemingly surpassing a target of 12,500.[17] We have no information from the project on how many SMEs have been SECP clients, *id est* how many *new* loans have been given. A reasonable approximation would be to see how many entrepreneurs have taken the orientation training which is compulsory for all new loan clients. This figure was about 9,500 by June 2008 and 11,500 by June 2009. Based on this we can then conclude that the project has, by June 2009, almost reached the target of 12,500 new loans.

The average number of loans per client is in aggregated terms is 1,6. Of the clients that we visited, most had had 3 or 4 loans. The total accumulated value of all loans is Tk 840,000 million. With 18,770 loans we can conclude that the average loan size has been Tk 46,700. In other words the majority of loans have been quite small given that there are also a number of loans in the range of over Tk 100,000. About 60-70 % of all the entrepreneurs approached by the field workers have tried to get commercial bank loans, but found it difficult. The programme today has more demand for loans than it has capacity to accept.

Employment creation The project documents give the following employment figures:

Table 15: Employment generation (as reported by SECP)

	Before Loan			After Loan			Increase		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
As per June 2008	17688	7946	25634	38988	19415	58403	21300	11469	32769
As per June 2009	33256	14927	48183	54550	28254	82804	21294	13327	34621

Source: End Project Review. Sigvaldsen et alia Draft 16 November 2009

17 There has been some confusion in the project between number of *new* loans (=number of total SMEs reached) versus total number of loans. The original target stated that 22,700 *new* firms should be reached. However the MTR in 2005 noted that this figure was so high that it would make repeat loans very difficult, and therefore the target was revised down to 12,500, which figure the project subsequently, however, interpreted as being the *total* number of loans.

According to analysis carried out by the End review, the "after loan" column does not include the firms with outstanding loans, and the real employment figures are therefore substantially higher than the numbers shown in the "Increase" column. A figure of 50,000 jobs has been mentioned, and the project has thus likely contributed to the creation of many more jobs than the revised target of 37,500, even if all the jobs cannot be attributed to the influence of SECP alone, credit being just one of several inputs needed to create employment.

Training

Table 16: Training Results

	Actual 2002 - 2008			Target	Actual 2008 - 2009			Cumulative Total
	Men	Women	Total		Men	Women	Total	
Orientation Course	6,976	2,490	9,466	13,000	1,887	266	2,153	11,619
Entrepreneur Dev.	5,835	2,112	7,947	12,500	1,806	299	2,105	10,052
Skills Development	246	102	348	1,250	0	0	0	348

Source: End Project Review. Sigvaldsen et alia Draft 16 November 2009

The targets for training were reduced to correspond to the revised target of 12,500 new SMEs being given a loan. SECP has not reached the targets set for any of the three categories of training. In all, SECP has carried out about 500 one-day orientation courses for a total of 11,600 people, 277 entrepreneurship development trainings (lasting 4 days) for a total of about 10,000 and 16 skills development courses (also lasting 4 days) for about 350 participants. Training seems to have been appreciated by the clients. A contributing reason may be that there is hardly any alternative training to be had in the region. The MTR carried out in-depth interviews of 40 entrepreneurs who reported high satisfaction with the training.

Loan recovery According to the project the loan recovery rate is over 90 % (compared to that of RAKUB and other banks which often have 60% to 70 %.), but according to the End Review, most likely, the actual recovery rate is lower than 85%. Thus the project has not met the target of 95%. Already in 2005 a Mid-term review of the project warned against the low recovery rate and its implication for achieving financial sustainability.

Organization SECP has operated with incomplete staff during the whole project, as only 76 of the planned 115 have been employed. The reason is said to be the slow handling by the Ministry of Finance, whose formal approval of the project is needed for every individual it wants to hire, even though the posts have already been authorized. Slow execution has affected all of SECP´s operations. The organization of SECP is bureaucratic, inflexible and authoritative. Computer-based systems of the management have not yet been introduced.

According to the appropriations document, there will be active *coordination* between SECP and SEDP. However, in spite of that a coordination unit has been set up in the office of the joint secretary in the Ministry of Finance, there appears to have been remarkably little contact between the two “sister-projects”. Our interviews revealed that the respective project directors have on only very few occasions visited each other’s project. This means that most contacts – if any – have to go through the joint secretary in the Ministry of Finance in Dhaka, who is coordinating both projects. There does not appear to be an explicit coordinated strategy in place such that SECP raises and nurses new clients, and after having capacitated them they can graduate to become suitable customers of RAKUB or of other commercial banks.

Project design issues According to current “best practice” in the financial and PSD sectors, government-to-government grant aid is not the best type of assistance. Also, donors are reluctant to assign to the government a key role in implementation. Furthermore, it is questionable to give grant money to commercial entities as Norad has done in the case of SEDP and SECP. It is important that project management has a mandate to act, without being overly dependent on an external steering committee, which was the case in SECP. A critique which has been raised by many observers, not least by the end review mission, is the fact that the targets set for SECP were overwhelmingly of a quantitative nature and little of qualitative requirements e.g. in terms of the profitability and strength of the loan portfolio. Nor was the issue of sustainability sufficiently addressed, neither in project design nor in implementation. The end review concluded that:

> *“A key design flaw is that SECP was not conceived as a private sector operation, but rather as a project with a social “donor stamp” placed on top. There was too little business and too much grants. While the social objective is the ultimate rationale for the intervention, the tool - SECP - that was employed to reach this social target requires a business approach to be effective”. But that the End Review also concluded that “The concept of SECP was quite unique in its nature, i.e. this type of credit project for entrepreneurship development was new to the north Bengal region. There were micro finance providers, but no specific SME credit mechanism. Rajshahi Division is among the poorest in the country and this willingness to try such a scheme in this region is perhaps the main strength of the SECP design.”*

The appropriations document points out that financial sustainability has been a major concern in the planning of SECP. Even so, it is the lack of efforts and systems to achieve financial sustainability, which has been the one single factor most heavily criticized, not only by the end-review[18] of SECP in 2009, but also in the mid-term review of SEDP carried out in 2005. Judging from this document as well as some other correspondence, the Embassy did get warnings on its project design, but

18 The Project End review argued strongly that the SECP must be organized as a profit centre and that funds, income and expenditures should be consolidated in one set of accounts. Keeping separate accounts for Norway and RAKUB should not be necessary since they are both to hold an equal share of the revolving fund. Interest earned on the loans should be treated as an operational income of the project, not separated away from the rest of the project operations. The accounts should thus be built this way: Income *minus* cost of capital *minus* losses and loan loss provision = balance to cover cost of operations. As a consequence, instead of Norway putting up a TA fund, it should finance the deficit that occurs if the cost of operations turn out to be bigger that the income earned after paying for cost of capital and loan loss.

Norad, as Sigvaldsen's study shows, did little to safeguard against the risks of not having a good monitoring system for loans.

Creating the *Performance Monitoring Committee, PMC* to act as *"decision-maker, guide, facilitator, coordinator and problem-solving body"* sitting outside of the project itself, was not a good idea. There should have been enough insight available not to have chosen a solution where a committee consisting of different ministries is given the highest authority over the project. This is a point, which was discussed in Norad before the project, and Norad's senior PSD adviser actually argued in favour of giving all responsibility and ownership of the project exclusively to the RAKUB bank, and that the Ministry of Finance should *not* be a partner in implementation.[19] Another shortcoming of design is the decision to offer training services free of charge without considering if there might be similar services available in the market. This is a point, which was brought up by Norad's senior adviser on PSD in commenting on the appropriations document. The fact that field officers visit the entrepreneurs two to three times a month, to follow-up on the utilization of the loan, to assist the entrepreneurs in solving problems, advising on management, reminding about date for repayment, is a strong feature of the project, which not many other project have. It is expensive, on the other hand, and without donor funding this is a service level which will be difficult to maintain. Given the serious mistakes in design that this project appears to have had, one is tempted to say that Norad has been lucky that the project has achieved many of the targets it has and also that it has come close to sustainability in its operation.

5.6 Conclusions RAKUB

Relevance The appropriations document states that poverty reduction has been named the top priority in the country's Fifth Five year plan 1997 –2002. Creation of productive employment opportunities in the private sector is in the modern development literature considered to be one of the most effective means of fighting poverty. Therefore the SECP was seen as relevant. According to the Memorandum of Understanding, signed by Norway and the government of Bangladesh, poverty alleviation is the overall objective of the cooperation of the two countries, and one of the two main objectives selected to contribute to the overall objective, is to promote increased employment and higher income among the poor sections of the population. Thus the SECP is in line with both the overall and specific objectives of the MOU between Norway and BGD.

Sustainability The Norwegian Project Document has included as an indictor for achievement of the project purpose that *"RAKUB-SECP is established and functioning as a separate Small Enterprise Development Department within RAKUB".* This cannot be said to have been achieved. However, plans for establishing SECP as a subsidiary public company of RAKUB have progressed to the extent that such a formation is likely within early 2010, as the government has reportedly declared its intention to do so. SECP is today an established operator in the market, and the

19 "unfortunately the (BD) document appears to have been written based on the experiences about assumed short run development effects from SEDP without consideration of long-run sustainability.....it is important to make clear who is to assume ownership and what the ownership means in order to ensure sustainability. The proposed agreement is not satisfactory in terms of the ownership and undivided responsibility on part of the RAKUB....The project is not recommended for support in its present form". (NOTAT – UT-KAST: BGD-RAKUB-SECP – Kommentarer till BD (Bevilningsdokument). Dated 20 June 2001 by Dag Larsson, Senior Adviser on Business-related development cooperation)

owner – RAKUB is willing to run it on its own account. SECP has improved its operation after Norway left in June 2008, and is now showing more determination to collect interest payments. It is now a going concern, and is noticed both by the RAKUB top management itself and by the Government of Bangladesh.

Existing Revolving Loan funds have been sufficient to cover loan disbursements, and no new infusion of money has been necessary. A small operational surplus was made in the last year, which does not however take account of loan loss provision and depreciation, and there is a suspicion that SECP has uncertain loans, which are not clearly shown in the accounts. Interest collected from loans disbursed were deposited into a separate account and not used for covering operational costs. By June 2008, SECP had charged Tk 31.5 million in cumulative interest, but only collected Tk 19.9 million. The end review in 2009 concluded that:

> *SECP has not been operated as a business, and accounts are not of the standard required to run a credit business, There are no provisions for loan loss, and the auditors have not assessed the quality of the loan portfolio. If the interest income is compared to costs (thus taking out the TA funds from Income), SECP financial statements show a loss every year except 2008-09.....A key problem is that SECP does not have a good monitoring system in place to track portfolio performance, and their real recovery rate is probably less than the 85% they claim.*

The 30 June 2009 Balance Sheet prepared by SECP shows a Fund balance of Tk 420 million according to the following:

Table 17: SECP fund balance

Revolving Fund	BDT
SECP (Norway)	188,645,285
RAKUB	183,502,269
Sum	372,147,554
Excess of Income over Expenditure	48,117,827
Total balance	420,265,381

However, the end review concluded that the balance must be adjusted for loan loss provision, depreciation of fixed assets, donor grants for fixed assets must be excluded from income and shown as a Fund, and interest income must be shown under ‘Interest Income Fund’. With these adjustments, instead of the currently shown Tk 420 mn, the real value of SECP´s capital is about Tk 342 mn. This is a serious situation, and may indicate that a large part of the capital invested in SECP may have been lost.

Cost effectiveness Approximate calculations show that the cost effectiveness can be seen as good. Up until June 2009 the project is thought to have contributed to some 50,000 jobs. The main item on the cost side is the NOK 16 million Norwegian[20] grant to cover technical assistance and operational losses in the project. However, we must also calculate in the cost of the cost of capital. Using an interest rate of 5 %, we would get a capital cost of 2 x 34,000,000 x 0,05= NOK 3,4 million per year, or NOK 17 NOK million over 5 years. If we disregard other possible costs, such as e.g. non-recoverable losses in the revolving fund, we get a total cost of 16,3 + 17 = NOK 33,3 million (app. equal to BDT 166,5 million). The cost effectiveness ratio then is: NOK 33,3 million/ 50,000 jobs = NOK 666 per job created or Tk 3330. Comparing the figure BDT 3330 with the yearly salary of a Bangladeshi worker, we can conclude that cost effectiveness of the SECP has been quite good. And in addition we know that there are other benefits that have been created, but which are harder to quantify in numbers, such as entrepreneurial activity and enhancement of women's socio-economic status.

Gender aspects The programme has actively worked to achieve as balanced a distribution as possible among men and women in its loan portfolio, with a result that 28 % of all loans have been given to women entrepreneurs, thus exceeding the target figure of 20 %. It should, however, be pointed out that in some cases the real entrepreneur may be the husband, but the wife is registered as the loan client. The project document allows for positive discrimination with respect to gender by offering a longer grace period and longer repayment period to women entrepreneurs – "if they prefer". An important task of the field workers is to look/ scout for suitable women borrowers. Apart from the target of 20 % set in the project document, SECP has no written policy in respect of gender, but in practice the project works actively with a view to enhancing the gender balance.

Environment Environmental hazards is one of the aspects that SECP´s loan officers claim to look out for, and we are not aware of any loans having been given to entrepreneurs whose operation has an obvious negative effect on the environment. On the other hand there is no policy that credits should be given primarily to projects specifically designed to enhance environment. Therefore our conclusion is that the programme has been neutral from an environmental point of view.

Summary of Assessments

For a detailed assessment of SECP, see Annex 3.

5.7 IFC-South Asia Enterprise Development Facility (SEDF)

The programme

SEDF[21] is a technical assistance programme supporting SME development. It has three main components:

- Access to Finance – various means to upgrade banks to lend to SMEs
- Business enabling environment – interventions aim at the policy and regulatory systems for business
- Value addition to firms – various forms of direct business support

20 According to our information RAKUB did not contribute any grant TA funds like Agrani Bank did in the case of SEDP

21 SEDF is the 5th facility of this kind that the IFC has started (altogether there are today about 10). Norway also participated in the first one, which was *The Africa project development facility*, APDF, launched in 1986. Since 1997 Norway has supported the corresponding programme in South East Asia: *Mekong Project Development Facility, MPDF*. In 2005 Norad began financing a corresponding programme in Sri Lanka.

Besides Bangladesh the programme also includes Eastern India, Nepal and Bhutan, but 80 % of the funds are earmarked for Bangladesh. The programme focuses on enhancing the efficiency and expansion of existing SMEs which are seen to offer the best potential to create new employment opportunities. All components work with transfer of competence to local cooperation partners like private banks, business consultants, training institutions and local business associations.

The programme started in 2002 and formally ended in June 2007, having spent a total of US$ 37,3 million. In 2008 it was prolonged into a second phase – SEDF II. It operates as a multi-donor trust fund under the umbrella agreement between the Government of Bangladesh and the World Bank Group and is operated and managed by IFC´s SME department. It is funded by IFC, the United Kingdom, (for the Bangladesh and Nepal programmes), Norway and during phase I also by the ADB. the Netherlands, the EC, Canada.

Table 18: Sources of finance for SEDF (Phase I)

Source of SEDF funds	US$ millions	Source of SEDF funds	USD million
IFC	5.0	Norway	6.0
ADB	0.7	UK	6.0
Canada	6.1	Subtotal donors	34.6
European Commission	8.8	Investment and other income	2.0
Netherlands	2.0	Client-paid fees	0.7
Grand total	37.3		

The project employs some 40 persons, all of them in Dhaka. Of the total budget USD 9 million, or 22 % of the total, was spent on management and overheads. A *Donor Oversight Committee* (DOC), with representatives from all donors, was created to supervise the implementation and to approve work plans and budget.

Objectives The overall objective of this project is to *"reduce poverty by stimulating economic growth in particular by increasing the contribution of SMEs in the National Economy of Bangladesh".*

With respect to Norad's motives, the appropriations document expresses that:

> *"Norwegian participation in SEDF can be seen as an excellent way to become involved in the challenges for local business development in the respective countries",*

and further that:

> *"As a co-financing project, it will also be of little administrative burden (to Norway) and in good compliance with overall objectives to promote cooperation with the multilateral institutions, contribute to donor cooperation and strengthen regional cooperation and exchange of experiences"*

The document also states that "participation in *SEDF is believed to be a good complement to SEDP and SECP, with considerable mutual learning possibilities"*[22]. This statement is remarkable because our impression from visiting the respective projects was that the SEDF people know nothing about SEDP or SECP, and reversely, that the latter know nothing about SEDF. It is also noteworthy that in the 240 pages of the very thorough evaluation carried out in 2008, the SEDP and SECP projects are not referred to even once.

Available documentation Two independent evaluations were carried out of SEDF in 2008. One of them was commissioned by IFC, carried out by Nexus Associates and published in May 2008.[23] The other, commissioned by the EU, was carried out more or less simultaneously and also published in May 2008.[24] While both of these evaluations appear to be based on thorough research, as well as visits to many project beneficiaries and interviews with over 100 individuals, they differ substantially in their assessments and conclusions. The IFC commissioned evaluation is rather balanced in its opinions, finding some positive and other negative aspects. The EU commissioned evaluation, on the other hand, is negative in almost all of its assessments and conclusions. Both reports are comprehensive and detailed, covering virtually all aspects of all of the sub-projects. In the IFC commissioned report, little is said about impact even if it is called "Impact assessment", the reason being that, because of the nature of the project, it is difficult to identify impact, especially after only a few years have passed since the interventions according to the evaluators. Most of the observations and assessments made in this chapter are based on the two major evaluations referred to above. In many cases direct or indirect quotes are used. Because texts from the evaluations have been rewritten and abbreviated and juxtaposed with our own words, we have in many cases not used quotation marks.[25]

5.8 Results SEDF

According to the evaluation commissioned by *IFC:*

- Some initiatives have had considerable success; others have had limited reach and little impact
- The limited effectiveness of some initiatives stem, in part, from a combination of inadequate planning and execution.
- Recommendation for future is that continued funding is warranted provided that SEDF takes the necessary actions.

On the other hand, according to the *EU evaluation:*

- SEDF failed to deliver what it was designed for….SEDF has implemented a large number of interventions, mainly limited to short-term actions, of which a too large number only consisted of diagnostic studies and assessments, which did not materialize in practical solutions to address the problems. … SEDF has sown many seeds but the germination rate is not satisfactory and the yields

22 We have been informed that the "learning possibilities" referred not least to the Embassy and Norad, apart from the respective projects.
23 SEDF Impact Assessment. Final report, 13 may 2008. Prepared by Nexus associates for IFC-SEDF. 242 pages.
24 Bangladesh: Final Evaluation of the South Asia Enterprise Development Facility (SEDF). FINAL REPORT, Contract Number: 2007/146-681. 15 May 2008 By Pierre Mahy, Terence Burley and Alim Haider
25 It may be noted that the mission was not able to find the EU-evaluation in the archives neither in Oslo, nor in the embassy in Dhaka. Reading the supplied project documentation, the mission found hardly any references made to the EU evaluation, and came across it by chance at a late stage.

from those that did germinate have not been as high as desired. In short, the SEDF productivity has been inadequate.

- The implementation reflects an unclear focus …. The outcome often has been the emphasis on ad hoc responses to prominent issues instead of addressing the fundamentals of the SME sector... in many cases SEDF did not entertain specific proposals from major clients, the implementation of which could have taken the SEDF interventions to a more sustainable level.
- SEDF management pretends to measure the impact of their interventions through beneficiaries public data, and taking the full credit for them. While it is virtually impossible to quantify the impact of SEDF´s interventions, mainly due to the fact that valid impact indicators were never defined, this evaluation has made it possible to demonstrate on basis of selected examples that the impact is not what SEDF pretends it to be.
- SEDF mainly provides pre-selected indirect assistance to pre-qualified intermediaries which then assist favoured target groups and direct interface on part of SEDF with ultimate beneficiaries is limited. This approach is designed to make best use of limited resources … But such interventions do not necessarily achieve a meaningful impact.

The EU evaluation team's advice to the EC was to reject the proposed concept of SEDF II, and to consider further support to the continuation of SEDF with extreme caution.

Which is the true picture? It is really an impossible task for us – based on a limited number of company visits and interviews - to be able to judge which of the two evaluations come nearer to the truth. According to the EU mission itself, its overall negative findings (as compared to that of the IFC-commissioned evaluation), can be partly explained in terms of the different formulations that EU uses compared to the ones that SEDF management use to describe SEDF´s role. While SEDF describes its role as providing SMEs with:

I Assistance in facilitating access to finance
II Support for an improved enabling environment
III Access to business services and the development of key sub sectors

the European Commission, on the other hand, sees SEDF´s role as:
I Increasing access to finance for SMEs
II Improving the business environment for SMEs
III Value addition to SMEs

According to the EU evaluators, the latter formulation expects SEDF to achieve something concrete and measurable, i.e. ***results***; whereas the SEDF interpretation is limited to ***outputs.***[26]

26 The EU evaluators in their report also expressed the opinion that ".. the current SEDF impact assessment commissioned by SEDF itself is seriously flawed."

IFC Commissioned evaluation (Nexus)

Access to credit

- The Bangladesh bank risk management intervention has been beneficial and should place the central bank in a better position to audit compliance with risk management guidelines in the years to come.
- Most Partner finance institutions (PFIs) have increased lending to SMEs over the past few years, but the correlation between the level of SEDF expenditure on projects for particular banks and growth in SME lending at those banks is not strong. Most participating PFIs described SEDF´s role as minor or incidental.
- Financial institutions have made scores of changes in the last years, and few report that SEDF has played a major role in this process. None of the banks interviewed saw SEDF as being critical to the changes made.
- SEDF gave training to mid-level officers of the PFIs, but had little influence on senior management or owners.
- While SEDF support to BRAC bank has been appreciated, its impact with respect to increasing SME-lending at BRAC bank has been modest.
- All of SEDF´s work with the banks should be done on a cost-recovery basis, because they are profitable and should be prepared to pay for SEDF advisory services.
- SEDF should not pay for, or subsidize promotional materials directed toward a particular bank, nor should it pay for hardware and software used in the normal course of banking operations.
- Analysis showed that the firms that received a loan added on the average two more employees to its work force than did those that did not get a loan.
- The principal constraint to expanding SME borrowing is not the willingness of banks to give loans, but the high cost of capital. Very few companies that apply for a loan are actually refused a loan.

EU Evaluation

Access to credit

- Training on risk management was well received and compliance with guidelines established by the Bangladesh bank is expected to increase. Also, Bangladesh Bank confirmed that it is very satisfied with the training received through SEDF.
- While recognizing that the introduction of 20 new SME banking products was helpful, banks do not give the full credit of these product launches to SEDF.
- Accomplishment indicators used by SEDF suggesting that a substantial impact has been achieved (e.g. more than 150,000 SMEs served, 55% increase in SME loan portfolio, etc.) provide a false image of the real impact of SEDF´s work. Numbers are in some cases incorrect and, cannot be directly related to SEDF´s interventions. Multiple examples demonstrate that SEDF systematically takes credit for their performance in relating statistical data provided by PFIs and other sources to the interventions delivered. This has been confirmed by all PFIs visited during the mission, except one.

Business environment

- Under the heading *Policy & Regulatory Reforms,* research has been done, surveys published, study tours organized and policy recommendations have been made. The main achievement of SEDF is seen to be paving the way for the Bangladesh Investment Climate Fund (BICF).
- Automating the *Registrar of Joint Stock Companies and Firms (RJSC)* is a relevant initiative of SEDF and has been implemented in an efficient and effective way by short-time consultants appointed for the implementation. The reduction of time and cost for businesses to register and file annual returns will have an immediate positive impact.
- The idea to set up *Knowledge Centres* was a relevant initiative, but the implementation of the project has not been very efficient, and there has been little effort to advertise the concept. The sustainability of the centres is problematic.

IFC Commissioned evaluation (Nexus)	EU Evaluation
Value addition • SEDF played a critical role in establishing the consultancy firm Agrovision, which has been able to help hundreds of small farmers to improve management practices in poultry, but the company has a limit in its capacity to serve more firms. • All five lead firms in the poultry sector, which SEDF has worked with, say that they have adopted recommendations from SEDF sponsored consultants, but the impact of SEDF´s work has been limited due to the nature of SEDF assistance and conditions in the market. • Some textile firms claim to have increased sales and productivity as a result of SEDF assistance, but the impact on compliance [with environmental measures etc] has yet to be demonstrated. • Efforts to build the capacity of local service providers to deliver consulting services to RMG companies have had limited success and scale-up will be difficult.	**Value addition** • Overall, interventions under the *Value Addition to firms* component have been relevant for the sector in general and to a large extent for sub-sectors. • Since SEDF subcontracts its activities to consultants and other service providers based on competitive tenders, the quality and efficiency of the interventions generally is high • Achievement of substantial impact reported by SEDF could not be borne out by an inspection or from the client opinions given in questionnaires. Only 3 out of 24 respondents claimed to be able to quantify the impact. • SEDF systematically takes credit for performance by uncritically relating statistical data provided by firms to the interventions delivered. • The impact of SEDF´s work through the VA2F component is literally impossible to quantify and its sustainability is open to question.

As noted, the delivery of ***outputs*** in the programme is overall considered good by the two evaluations. Thus, there is no critique of the quality of support services by any of the evaluations. IFC has done a good job in providing an overall good quality programme. In terms of achieved ***results***, the picture is more mixed. A common critique by the two evaluations is that the programme is attributing its outputs to manifested changes, for example in the banking system, which is not well substantiated or sometimes substantiated at all. Rather, changes are often due to other factors according to the evaluators.

Making use of evaluation results in Norad's decision making In Norad's appropriations document[27] for SEDF II it is stated that the embassy had informed SEDF that it will participate in SEDF II "on condition that the evaluation is positive and a satisfactory agreement (between Norway and IFC)". In paragraph 3 "Received comments and evaluations" the appropriations document states very briefly that "Nexus Associates carried out and impact assessment review … and concluded that " some initiatives have had considerable success; others have had limited reach and little impact"". This seems to us to be a very summary dispensation of the evaluation report, given that it was quite critical in respect of most activities of the programme.

27 dated 27 august 2008, paragraph 2.1.1

Even more remarkable is the very brief and passing way how the EU-commissioned evaluation is dispensed with:

> *"EU on its own and in parallel, carried out an evaluation which to some extent dealt with the same improvements [needed for the future] that Nexus did, but which basically concluded that SEDF had failed based on that the objective [of the project] was: "strengthening the SME sector in general and exporting SMEs in particular.". However the steering committee [of SEDF] concluded that also the evaluators had failed in their approach and in the information basis for the evaluation"*

Given that the EU evaluation was so massively negative in its findings and conclusions, and given that the EU report, just like the Nexus one, is detailed and comprehensive, it is remarkable that the appropriations document disposes of it so easily. We are not claiming that it was unreasonable for Norway to decide to continue with its support to SEDF II, but it is not satisfactory to go ahead with a new NOK 50 million appropriation if such a serious critique of the project as had been levelled by both evaluations, is left virtually uncontested. The negative findings and conclusions should have been addressed and an explanation should be given why Norad decided to go ahead in spite of such a critique[28]. The main donor, EU, took part in preparing for phase II, but subsequently decided to leave the programme because the rest of the donor consortium would not meet special requirements that it had posed.

5.9 Conclusions SEDF

Relevance The relevance of the SEDF cannot be questioned. The SME sector is crucial in Bangladesh (as elsewhere) as an engine for employment, income and economic growth. The constraints in Bangladesh have been mentioned earlier, and the programme is clearly addressing most of these.

Effectiveness The most important conclusion from the two evaluations discussed above is that it is very difficult to determine to what extent the programme has or is on its way to achieve its objectives even at the level of enhancing the performance of the SMEs. The attribution problems are inherent in technical assistance programmes. To judge from the evaluations, SEDP is clearly overstating its impact.

Sustainability The Norad Appropriations document makes an interesting comment on sustainability, namely that

> *"SEDF is a channel for transferring competence and build up of capacity without establishing new institutions, and therefore does not raise questions about institutional or financial sustainability. Based on the fact that the most important target group is medium sized enterprises we believe it is likely that the supply of credits and services can be continued in the future by the cooperation partners on commercial grounds"*

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28 It should be noted that Norad, while believing that the phase II proposal had captured the main important features of the programme, also counted upon being able to undertake various needed modifications along the way after the programme had been launched.

While this is an important point to consider in general, we must examine the sustainability requirement in relation to different actors in the project. With respect to *Access to Finance* the EU evaluation believes that, because there is little participation of in-house PFI trainers and involvement of local training institutes, the sustainability of training is not assured. In the *BEE-component* automating the Registrar of Joint Stock Companies and Firms (RJSC) sustainability is guaranteed for the immediate future, but needs to be established beyond external support, but also that the sustainability of the *Knowledge Centres* is problematic. With respect to the *Value Addition* to firms component, the IFC-commissioned evaluation concluded that, even if the consultancy firm Agrovision was able to help hundreds of small farmers to improve management practices in poultry, the company has a limit in its capacity to serve more firms, and therefore not sustainable. The EU believed however that, in the poultry project the sustainability and scale-up of the business model had not yet been demonstrated, and that, in general, sustainability of SEDF´s work through the VA2F component is open to question.

Cross-cutting issues With respect to *environment* the project can be said to have neither positive nor negative impact on the environment. *Health and child labour* considerations are included in many of the interventions, and we can expect the project to have positive impact on e.g. worker health and safety, although progress regarding this aspect is reported to be slow. The project is attentive to *gender* aspects, which are included or taken account of in most interventions, and on several occasions a measure of success has been reported.

Summary of assessment For a summary, see Annex 3.

6. Norad Instruments

6.1 Application based support

The programme Bangladesh is one of the recipient countries of the Norad funded Application-based support. This programme, started in the 1970s, contains a number of sub-programmes such as support for feasibility studies, pilot production, training, marketing and environmental investment as discussed earlier. The programme is based on a system whereby the Norwegian companies can apply for support based on the criteria established, and the applications are screened by Norad. The support is based on cost-sharing with varying percentages dependent on the sub-programmes. A company can also seek repeat support in the same sub-category.

Programme objectives The overriding objective of the ABS programme is to contribute to the overall objective of Norwegian development assistance, i.e. elimination of poverty. The specific programme objectives and its assumed results-chain are similar to the MMP, i.e. it aims at building local competence and capacities through linking and utilization of the (Norwegian) business sector for transferring technologies and know how, creating external markets, etc. The rationale for the support is to strengthen economic development, employment and income generation through productive use of local resources. Sustainable development and consideration of environmental standards is essential, as is promotion of female participation according to official statements.[29]

The Bangladesh portfolio Lists provided by Norad for the ABS for Bangladesh for the period 1999-2009 indicate that 23 'projects' have been approved and funds disbursed to Norwegian enterprises. We have assessed a sample of 5 projects, (22% of all companies on Norad's data list for 1999-2009, selected randomly). Of the five projects, two relate to telecom, two to exports of ceramics and one to the Jute sector.

29 Norad (2009): *Retningslinjer for tilskudd til nærings- og handelssamarbeid.* These directives have been largely unchanged over the last decade.

Table 19: Sample of Norad Application based support in Bangladesh

Project Name	Amount in NOK	Activity
CCTEL	342 000	Feasibility study call centre
Eksportfinans	16 000	Legal opinion on Norad loan agreement to GrameenPhone
Johan Tomsen	124 000	Marketing support for imports of ceramics to Norway
Norag	36 000	Marketing support for imports of ceramics to Norway
Pubali Jute Mills	1 000 000	Product development in the Jute industry

The support to ***CCTEL*** in form of a feasibility study and some follow up work worth a total of about NOK 0,3 million did not result in the planned project (a call centre a J/V with BRAC and Grameen Bank and Grameen Phone). The major reason appears to be the time factor. When the project started the number of subscribers was a few hundred thousand but by the time all agreements were in place in 2005 the subscriber base had increased to 3 million. This changed the project concept as much larger investments and resources were now needed. The delay in signing the agreement killed the project. CCTEL was a small company and unable take the project further due to lack of managerial resources and no financial muscle. According to one of the sponsors: *"We should have been there at much earlier at the start, then we could have grown organically but the network just became too big"*

Eksportfinans: This support is linked to a Norad backed loan in 2001 of NOK 25 million to Grameen phone by Eksportfinans. The support was paying for a legal opinion of the loan agreement.

Johan Thomsen. The support was limited to marketing support over two years beginning in 2000 with a total cost of NOK 124,000. Johan Thomsen A/S (now known as Glass Thomsen) is a retail group sale of glass, ceramics and porcelain in Norway. At the time of the support Johan Thomsen A/S had its own import. The import activity has ended but the products produced in Bangladesh are being sold in Glass Thomsen´s stores. Hence no direct continued co-operation with a Bangladesh business emerged.

Norag is a Norwegian company that received marketing support for the import of Bangladesh table ware ceramics. Total value of the ABS was NOK 180,000 between 2000 and 2002. The company has developed close ties with the Bangladesh factory Shinepukur Ceramics Ltd, which is now exporting globally. Norag is the exclusive agent for the Nordic market and for selected projects in the German market. The local company employs 3,200 people of which 65% are women. It has the coveted ISO 9001 standard certified by Den Norske Veritas, and labour conditions have improved significantly. The product has high consumer exposure in the importing countries where Shinepukur are suppliers to established European brand names e.g. Porsgrund, Rörstrand, Italla Villeroy & Bosch. A few years ago there were adverse press reports concerning the intrinsic quality of the Bangladesh imports. Due to this exposure and consumer reaction, the importing agent jointly with the producer has implemented mitigating environmental measures and addressed and labour issues. The new factory that was recently completed is a so called “Non-toxic” factory – i.e. no use of toxic reagents.

Norag has formed a J/V in Bangladesh with a German company, Ceramic Info Centre (CIC) and laboratory. The centre will work towards improvements in the local ceramic industry with regard to Laboratory Testing of ceramic tableware, product development, maintenance of equipment, machinery imports and quality assurance. There are also plans for a training centre to train unskilled workers for the ceramic industry, a pottery project for rural women with a CSR profile where the J/V will provide furnace, advice and distribution channels and a plastic recycling project, using a CIC patent. To date all of these activities has been funded by the J/V partners. Discussion with Norad has recently been initiated with a view to obtaining support. According to Norag, two new factories are being set up in Bangladesh after seeing the Shinepukur success story. The exports that started at modest levels in 2000 are now expected to reach EURO 2 million for the Nordic and German market collectively.

Pubali Jute Mills The company, an old establishment with some 1200 employees, today produces jute products, mainly sacks and other materials used for packaging, but has, as a sideline, also been producing innovative clothing made from Jute. Most of its production is for the domestic market, but it also exports fabrics (a mix of jute and cottons). The value of the total programme was NOK 3 million of which the Pubali Jute Mill, according to its own documentation, received NOK 1 million during the period 1998 – 2003.

The Norwegian support consisted of several components. Norad selected a few organizations and rented a stall in the Heimtextil exhibition in Hamburg. Pubali produced the products and exhibited them in the stalls. Norad had selected a number of producers, Pubali being one of them. During the first years it was just exhibitions, repeated every year. The company produced jute sacks plus some value added products. Most of the Norwegian money was paid to Dutch designers – their hotel and travel costs, fees, etc, and for renting the stalls in Hamburg. In the late 1990s Norad financed machinery in the form of a wet processing equipment (a machine for dying), an effluent treatment plant, and also training and consultancy fees.

Participation in the exhibitions allowed the firm to capture a new market for newly developed products – export markets in Europe and USA. The manager is convinced that the Norad contribution was instrumental in being able to enter new markets with new products.. The manager claims that an increase in export of USD 5 million was a direct effect of the Norwegian support.

Conclusions on ABS From our sample, we conclude that one project failed (the telecom venture), while the three marketing support projects overall were successful in their attempts, contributing to enhanced exports in all cases and not only to the Norwegian market. In one case, the Eksportfinans ‘project’, ABS was used in the much larger context of a loan to Grameen Phone, and the very small contribution is not relevant to assess. ABS in Bangladesh has overall been quite limited especially in comparison to some of the other case countries included in the evaluation. We atribute this to two factors: a (i) limited interest by Norwegian SMEs to explore investments and joint ventures in Bangladesh; and (ii) the absence of a programme such as MMP.

6.2 Norad loans

Norad has provided two loans in Bangladesh, which were outstanding when Norfund took over the administration in year 2001. These loans were for Grameen Phone, a joint venture between Grameen Telecom and TeleNor; and the other for ScanCement International. In both cases Norfund has also provided loans, in the case of Grameen Phone in 2004, and in the case of Scancem in 1999. Below, the Grameen Phone project is reviewed, while Scancem is reviewed under the heading of Norfund.

6.3 Grameen Phone

Background In 1996 the Norwegian telecoms operator Telenor formed a joint venture with the network service provider Grameen Telecom, a 'not-for-profit' company working in close collaboration with Grameen Bank. The joint venture was later awarded one of three licenses to operate a GSM network for 15 years. Total amount invested in equity was USD 67,5 million giving Telenor a 62% stake and Grameen Telecom 38%. When the network was launched in 1998, the telephone density was less than 0,4% in Bangladesh with no access to telephony in most of the rural areas.

The initial investment 1997-98 of USD 153,5 million consisted of sponsors equity of USD 47,8 million and loans from IFC, CDC, ADB and Norad. IFC/CDC/ADB had a small equity (in the form of preference shares) USD 4,7 million which was subsequently bought out by the partners. A shareholders loan of USD 13,3 million from Marubeni Japan and Telenor of USD 13,3 million was added at the time of the investment. In 1997, Norad contributed with a soft loan on the following terms: 3 year grace plus seven year amortization of USD 7,1 million (NOK 50 million) and a cost free guarantee in favour of Eksportfinans A/S who provided an additional loan of USD 3,6 million (NOK 25 million) at a low interest rate in 2001. The guarantee premium was paid by Norad. The two loans had similar repayment terms and conditions. The total Norad contribution to the initial loan financing was USD 10,7 million or NOK 75 million. Both loans have been serviced and should be fully repaid by Dec 2010. The grant element of this loan is estimated at NOK 26,3 million.[30]

A Norfund loan. A refinancing plan for Grameen Phone was completed in 2004. It resulted in an additional five-year loan provided by Norfund of USD 10 million on commercial terms five years repayment. This was part of a club loan from Asian Development Bank and the IFC. The total amount was USD 50 million. The club loan is expected to be paid back by June 2010. Total loans from Norfund amounted to USD 10 million plus NOK 50 million (USD 7.1 million) making a total of USD 17.1

30 Grant element of NOK 50'' loan considering the terms it is assumed that the grant element is 35% according to OECD standard

million. Other loans to the project are from a local syndicate (16 local finance institutions), 2007 in Bangladeshi Taka (BDT) (approx USD 25 million equivalent) 4 years fully paid back 2011 and a local bond in 2008, approx USD 60 million in BDT local currency, 2 years.

Current status of Grameen Phone The company now provides GSM telephony to over 21 million subscribers with the most comprehensive network in Bangladesh covering 98% of the population. Most importantly, it is a well managed and profitable company. It offers messaging services, music and data (e.g. Internet) and so called Infotainment. There is a large range of services such as call block, international roaming, blackberry, mobile e-mail, fax and backup, stock market information, health line, study line. Except for 3G, it provides the same services as Telenor in Norway, a noteworthy achievement in one of the poorest countries in the world.

Impact of Grameen Phone With net profit close to USD 42 million and over 21 million subscribers the company is financially strong. The country now has a competitive and well functioning mobile phone industry. Grameen Phone is a profitable company with a very high profile in the country. Health, Safety and Environment (HSE) and Corporate Social Responsibility (CSR) issues are well addressed by dedicated departments. A concept of so called business assurance i.e. certifying suppliers and sub suppliers with regard to Child labour, Health, Work Safety and environment has been introduced. The company places special emphasis on the business assurance scheme launched in 2008. This initiative is attributable to a Danish investigative journalist who disclosed use of child labour and the hazardous working environment within the supply chain of Grameen Phone's sub-contractors in 2008. The documentary film was aired on Norwegian Broadcasting in 2008 making headline news in Norway.

Today the cellular market has close to 30 million subscribers of which Grameen Phone has 21 million. It is believed that the sector contributes to 8% of the GDP. The penetration is today estimated to be over 30% compared with 0,4% in 1996 and a network that covers 98% of the population.[31]

The operational scale of Grameen Phone, with a market share of 45% and 60% revenue share, gives the company an important voice in the Association of Mobile Phone Operators of Bangladesh (AMTOB) to continue dialogue with the Bangladesh Telecommunication Regulatory Commission (BRTC). The AMTOB has lobbied without success for the removal of the new subscriber tax of BDT 850. In AMTOB's view, this prevents operators expanding to the poorer segment of the potential client base. So far, operators subsidize this assuming the clients´ use of the services will pay it back in the long run. These attempts have however not yet resulted in any change of policy and this tax continues to be an entry barrier for the poorer segment.

Foreign direct investment from Norway as a result of Grameen Phone is in total approx USD 248 million. Initial investment of USD 131 million from Telenor (Total

31 GP Company Presentation November 2009

USD 211 million, Telenor´s share 62% thereof), plus the retained earnings of approx USD 117 million (total USD 188 million, Telenor´s share 62%). Grameen Phone has had a significant *impact on the financial market* in Bangladesh. In November 2009 the company made the largest Initial Public Offering (IPO) in the country's history. A total of approximately USD 140 million was raised 50% through the IPO and 50% through pre-IPO or private placement. The IPO generated over 316,000 new shareholders, the IPO was oversubscribed three times, and allotments were made through a lottery.

GP has over 4,800 people directly employed and indirect employment or sub-supplier increases the socio economic impact to over 300,000.[32] It can be argued that Telenor has had an *impact by introducing new technologies and service concepts* to the market. As the market leader in the country, GP has successfully introduced and continues to bring new products and services. Some of these came from other operators in the Telenor sphere, whilst some products are developed locally. The local market is very competitive so local operators follow suit in order to meet competition from GP. A sophisticated mobile phone industry has a major impact on all forms of business and the *country's competitiveness*. Significantly, experience gained, products and services developed in this market have been deployed by the Telenor group in other developing countries. Grameen Phone's impact on the macro level is also significant. GDP growth has been boosted by 1,17% due to GPs operations.[33] Exports have increased by 9.5%.[34] The company has also paid USD 1,7 billion income tax paid from its inception to December 2008.

Telephone usage in low income groups is increasing but not for the ultra poor segment who are not part of the financial system. The company has a 98% 'foot-print' coverage of the country. Some products are aimed at the low income group and one such product is the 'village phone initiative' targeting rural areas. A person, usually a woman, is given a micro credit loan for a phone, which can be used by village people against payment. The role of the 'Village Phone' has been reduced as competition has increased and prices reduced, the same target groups can now afford their own phone.

Cross cutting issues The environmental impact has been low save for disposal of old phones and minimal consumption of electricity for servers. GP has an active Health and Safety policy not only for its own company but for suppliers and sub suppliers. They have introduced the 'Business Assurance programme' that certifies suppliers and sub suppliers with regard to Child labour, Health, Work Safety and environment. The company follows relevant ILO conventions, and is also monitored by the IFC coordinating the 'club loan' from DFIs through its Annual Monitoring Report.

32 GP own figures.

33 There is a causality between GDP Growth and Telecom penetration. Penetration has gone from 0,4% to almost 30% of which 45% is attributable to GP since 1996. This increased penetration has lead to a 1.8% growth in GDP of which 0,81 is attributable to GP. A 10% higher mobile penetration boosts GDP growth by 0.6%. Source: Information and Communication for Development-Global Trends and Practices, World Bank 2006 Quoted in Corporate and Sustainability report 2008, Grameen Phone

34 There is also causality between GDP growth and internet penetration. The number of internet users has gone up from 0.1% of population in 1997 to 5% in 2008 of which 45% is attributable to Telenor increase in exports should thus be 21.07% of which 5.5% is attributable to GP. A 1% increase in the number of Internet users increases total export by 4.3%.

Sustainability The company is profitable, highly solvent, and listed with financially strong shareholders.

Additionality According to sources in Grameen Phone, the support of the Norad loans and guarantee was crucial in the start up phase when the business was seen as high risk by both commercial banks and DFIs. The loans were seen as a catalyst for the whole investment. Considering the low interest for a FDI at the time and the mobile telephone industry being in its infancy in emerging markets, the Norad additionality was high. It should also be noted that GPs success would not have been the same without the lease of the fibre-optic cable (Chittagong-Dhaka) financed by Norad ten years earlier.

The last loan in 2004 by Norfund was not crucial as such, but a natural follow up considering previous Norwegian funding. It should however be stressed that the presence of Norfund had an indirect positive impact on corporate governance. Norfund relies on IFC's requirements in the Common Terms Agreement for the loan of 2004 with regard to environment, labour conditions and health. In the initial Norad loan this was only addressed by a default clause relating to various ILO conventions. No reporting was required.

Relevance GP has been supported by Norad and Norfund in line with Norway's PSD strategy from 1998 for economic growth and inclusion of marginalized groups in a high priority country. The project has improved Foreign Direct Investment in the country. Furthermore the project has addressed the fundamental and enabling need for improved communication and this has had an unexpected positive impact on poverty reduction. The project has also been very important in Telenor´s own expansion into emerging markets.

For a detailed assessment of the Norad loans (Grameen Phone and Scancem, see Annex 3.)

7. Norfund

7.1 Norfund in Bangladesh[35]

Norfund's activities in Bangladesh comprise of three direct investments, in telecom, micro finance and cement production, and one indirect investment, a hospital managed by Aureos Capital fund South Asia. In two cases Norfund is administering Norad loans in addition to its own direct investment as noted above. Below, is an assessment is of all these projects, except Grameen Phone, which we discussed under Norad loans above.

7.2 Scancement (Heidelberg)

The company In 1998 Scancem International started a trading company in Bangladesh for bulk cement with imports from Malaysia. In parallel the work of an investment in a production plant started. Investors were Scancem International, a local consortium, IFC Norfund, and NDF. The company also acquired a stake in a local government company CCCGCL in Chittagong. At a later stage this plant was merged with the Dhaka plant. Scancem invested in 1998-99 NOK 89 million. Norad provided that this time a NOK 24 million loan. The total investment amounted to NOK 376 million. Norfund invested USD 5 million jointly with the Nordic Development fund, USD 2 million, in the form of convertible equity.

Norfund and NDF divested in 2003 as major shareholders exercised an option to buy their shares and repay the NDF loan. The Norad loan continued and was paid back according to the repayment plan in 2008.

The newly formed company faced strong competition from cheap clinker imports and other local producers. It was only in 2004 that the situation improved as the local market was over supplied until then. The company started its own power plant with a gas turbine, which was one of the successes of the company as competitors did not have a reliable source of energy. The company introduced new technology into the country: Portland Composite - Cement PCC versus the traditional Ordinary Portland Cement (OPC). The former process requiring less clinker and is therefore cheaper. The staff was trained with some support from Norway. The company had a consistent anti corruption policy which according to management delayed some investments and managed to change the tax system to be quantity based instead of value based.

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35 Our findings and conclusions below are based on interviews at the company level, Norfund staff, annual reports, company presentation news articles, the loan documentation and various internal documents with Norfund. No evaluation reports have been available. In some cases other lenders have produced their own in-house evaluation/reports, which we have however not been able to access.

At the time of the review the project was a competitive and profitable cement company with 250 employees and with new technology (PPC). The company has its own power plant using gas turbines. This cement plant was the first international investment in the industry and its success initially led to other investors following suit, which actually led to an over-production. At a later stage the company undertook a full acquisition and expansion of an existing plant in Chittagong. The amalgamated company, Heidelberg Cement Bangladesh Ltd is today a profitable listed company.

Aid costs The grant element of the Norad loan of NOK 24 million is estimated at NOK 8.4 million based on a grant element of 35% according to OECD standards. The value of the grant element to the investor is different, as it considers the price of a credit insurance to achieve attractive loan conditions[36]. The Norfund equity stake was exited at a profit, hence had no aid cost involved.

Results The project has had an impact on tax charged on clinker imports. It was previously value based versus quantity based as it is today. The company identified unfair competition i.e. tax avoidance and managed to convince a change in legislation which is beneficial for the country and the industry. The company also was part of the formation of Cement Manufacturers Association of Bangladesh. ScanCement was later the founder of Cement Manufacturers Association. The investment lead to *increased competition*, new factories started in the country but led to overproduction at one stage as noted above.

The company has 250 employees and has created a significant number of indirect employment opportunities in the order of 5,000 jobs. Of this total, 1,200 are employed on the retail side, 3,500 on road transport, 300-400 sea transports as well as clearing and forwarding. Job creation was one of Norad's goals. Due to strong competition in the market the company has been forced to improve productivity which has resulted in a reduction of workforce by almost half since the start. Out of context this could be seen as a failure but the alternative would be unprofitable company that would not have survived in a competitive environment. The company has introduced *new technology*: Portland Composite Cement PCC versus the traditional Ordinary Portland Cement OPC. The former requires less clinker and is thus cheaper and uses fewer imports. PCC cannot be used for heavy structures like large bridges but lends itself well to construction of buildings. The PCC is now accepted and used by the building industry, and competitors have followed by selling the same product.

The impact on Bangladesh's *country competitiveness* is limited, as the product is not exported. Production is mainly aimed to substitute imports, which was one of the initial objectives by Norad. The fact that the country now has a well developed cement industry is crucial with regard to infrastructure development. The company paid USD 18 million taxes in 2008, and since 2004 has paid a total of approx USD 70 million.

36 In considering what a guarantee from an Export Credit Agency would cost one can use OECD Benchmarks for a class 7 country – this is 3.2% interest p.a. discounted over 12 years with a discount rate of 5% - this results in a cost of 16.35% as an upfront premium on total loan amount. Total value is thus NOK 3.8 million which is less than half of the "aid based" calculation. The actual cost for the investor is therefore assumed to be zero. No premium was paid, Norad took the risk

Environment The cement industry is a high energy user and has problems of dust emissions. Since the company has been ISO 9001 certified there has been a reduction of dust and emissions in line with the standards of the Heidelberg Cement Group. On a group level a bi-annual Sustainability Report is produced addressing this issue. Health and safety has improved and is monitored according to group standards through the so called: "Group-wide Health and Safety Initiative". Labour conditions were not assessed by the team, but claimed by management to be following group standards. There is no specific gender policy at company level and there are hardly any female employees in production. At the HQ, however, the majority of sale staff are women.

Sustainability The company is a profitable listed company and is not dependent on expatriates in management or any other form of external support.

Additionality At the start, no bank would lend to this green field investment in the industry, hence the first Norad loan was crucial. The Norfund investment of USD 5 million was instrumental in leveraging IFC and local branch of the international bank ANZ to come on board.

CSR The company has an independent audit. The company is listed which implies full transparent reporting as well as group reporting to a listed company in Germany. There are other control systems verifying quality and results: The company is ISO 9001 certified and at time of IFC shareholding it had to provide Annual Monitoring Report, a report covering *inter alia* HSE issues. In Norad's loan the only requirement on soft issues related to a default close requiring the company to follow a number of ILO conventions, no reporting was required on this matters. The corruption risk is limited thanks to strict external audit systems. The company sells to private buyers not government and there is a clear anti-corruption policy.

The ***effectiveness*** is high as impact is positive in most areas looked into at a relatively low investment cost and no cost- or low opportunity cost - for Norwegian aid. There are no ties to Norwegian exports but the loan was linked to the Norwegian investment.

Relevance The project is in line with 1998 PSD strategy with strong impact on country's infrastructure which is a priority of government. When started there was a shortage of cement in the country.

7.3 BRAC

Background. Bangladesh Rural Advancement Committee (BRAC), a Bangladeshi national private development organization set up in 1972 was initially established as a relief organization focused on resettling refugees returning from India after the War of Independence in 1971. Today BRAC has broadened its focus to long-term sustainable poverty reduction and empowerment of the poor especially women in rural areas. BRAC is registered in Bangladesh under the societies Registration Act and operates as a NGO. It is one of the largest NGOs in the world with 42,000 employees. BRAC operates in more than 69,000 villages in Bangladesh covering more than 100 million people in the field of income generation, health care population control primary education.

BRAC also carries out banking activities through BRAC Bank Ltd, and has a number of other income generating projects such as Aarong Rural Craft Centre, BRAC Printers, BRAC Dairy and Food project and BRAC Tea Estates. It is one of the largest micro finance institutions in the world with over 6.3 million active borrowers (in 2008). These micro finance loans are, however, not lent from BRAC Bank Ltd but from the NGO BRAC. The micro finance loans are channelled through a number of programmes to so called Village organizations (VOs) where landless poor are organized. There are 203,000 such VOs with 8 million members. The members' deposits are important for the micro finance lending; 47 % of the loan portfolio was financed by deposits from members. About 27,000 people worked with BRAC Micro Finance programmes in 2008.

The loan package In total there is close to USD 285 million from various financial institutions lending to BRAC for its micro finance activities. Norfund, FMO and KFW provided in 2007 financing of USD 55 million in local currency for micro finance. Norfund's portion was the BDT equivalent of USD 10 million. The loan is denominated in and repayable in BDT with seven years amortization. German KFW offered a USD 20 million guarantee in favour of the local Standard Chartered Bank Bangladesh who was providing the BDT funding. FMO lent the BDT equivalent of USD 25 million on the same terms as Norfund. The lenders are taken full currency risk.

Results In general a long term loan in local currency will enhance BRAC´s activities, the impact of which cannot be attributable directly to the loan, but through its contribution to the overall financing of BRAC. In total BRAC's industrial activities has created over 9 million jobs. For BRAC the loan meant: additional funding for approximately 200 000 borrowers, reduced the foreign exchange exposure for BRAC and longer tenure for a BDT loan than the local market previously has offered. The loan represented at the time close to 20% of term borrowings BRAC has taken up for microfinance. The loan from Norfund, can in theory have increased the capacity of the loan portfolio by approx 4%. Number of staff increased is according to Norfund 530 people.

It could be argued that the loan should lead to an extension of the yield curve in BDT. Yield curves are based on fixed income instruments. If a corporate, however, is able to borrow much longer term than the bond market offers it will eventually have an impact on the yield curve, a crucial benchmark for the capital market. Another example of impact in the financial market is that in BRAC´s microfinance lending an informal cross default practice has been developed on the field level amongst the three largest micro finance lenders being BRAC, Grameen and ASA. This is not commonly done among micro finance lenders in Bangladesh. If exercised properly throughout all MFIs, it would reduce the risk of borrowers ending up in a debt trap.

Institutional Assessment BRAC is highly experienced in the field of offering micro finance and taking up loans for the same. BRAC has several ways of *measuring results* and quality assurance e.g. independent financial auditors. The audit committee assists the board to review the financial condition of the organisation, "the effectiveness of the internal control systems of the organisation, performance and findings", "the audit committee shall have direct communication channels with external auditors, internal auditors and senior management of BRAC". An organisation like BRAC is reviewed from many angles as it is a large beneficiary of donor funds. The programme is part of BRAC´s micro finance activities, which are well evidenced showing high *effectiveness* of the programme. The loan had no ties to Norwegian interests; there was full co-ordination between the lenders, as for other donors to other BRAC activities no assessment was made. The programme can well be scaled up or repeated.

Sustainability Micro finance lending has for several years now not been based on grants. The input from Norfund was a loan, and provided the loan is paid back, which there is now reason not to believe, the activity is *sustainable*.

The main feature of ***additionality*** in this loan was the fact that it was denominated in local currency BDT and the seven-year tenure offered. There is also an element of additionality with regard to the requirements on environmental reporting. The loan to BRAC is well in line with the poverty reduction goal of Norwegian aid as well as in line with Government policies, and therefore *relevant*. Micro finance addresses a major binding constraint, the lack of credit resources for the poor.

Cross-cutting issues One lender in the consortium of lending banks, KfW, has introduced requirements on increasing environmental awareness among borrowers, and a study has been carried out in April 2009 showing positive results of this awareness. BRAC agreed to produce an annual report on environmental performance of its microfinance programme.[37] BRAC has focused on health and safety of the people in the programme, integrating essential health care activities with its micro-credit based poverty alleviation interventions. The health care aims to ensure a minimum health care for the poor. BRAC has a strong gender profile as close to 100% of members are women.

Conclusions The impact of a USD 10 million loan to a balance sheet of USD 957 million might look insignificant but the total facility of USD 55 million equivalent in BDT had two interesting features: long tenure, of seven years, and the fact that it is being nominated in local currency. The foreign currency risk is moved from the borrower to the lender. Furthermore it should be noted that at the time of the loan the total facility of USD 55 million represented 20% of all term loans taken up by BRAC. The question if this would have happened without Norfund is hard to answer. But the fact that the loan led to a closer relationship between BRAC and Norfund which has resulted in investments in BRACs project in Uganda is a plus in the wider picture.

37 BRAC Research and Evaluation Division, Environmental Performance of BRAC Microfinance Programme: An Assessment, September 2009

7.4 Aureos South Asia fund

Norfund's stake in the South Asia Fund II has the objectives to make Aureos to:

- become a viable, professional fund manager with a strong presence in the important Asian market;
- be able to mobilize private capital to invest in the funds, especially from the demanding Indian market, and hereby contribute to the regional capital market development; and
- provide improved corporate governance, including HSE standards, to the companies invested in.

So far, one investment has been made in Bangladesh by Aureos' fund, the Apollo Hospital

Apollo Hospital The plan to develop the Apollo Hospital was started in 2000 by the sponsors STS Holdings Limited, a business Group in Dhaka engaged in education, banking, real estate, manufacturing and exports, freight consolidation and container services, and Apollo Hospitals Enterprise Limited that has similar operations in Sri Lanka and India. In 2005 the 450-bed multi-disciplinary tertiary care hospital was completed in Bangladesh. Several local institutions had invested in both equity BDT 1,099 Million (USD 15,7 million) and loans of BDT 455 million (USD 6,5 million.) The main sponsor is STS holdings with 73% of the shares. Seven local financial institutions and NGOs (including BRAC) have invested in Apollo.

In 2007 Aureos South Asia Fund took a 9% stake for USD 5 million in Apollo Hospital. Shares were bought at a premium as the operations had already started.

Company performance Apollo is a modern hospital with a capacity of 450 beds, 64, consultants, a hospital that is accredited to Joint Commission International, JCI, (see below). The hospital offers virtually all the same modern services provided by large hospitals in Europe or other parts of the world. Apollo has developed into a profitable modern multi-disciplinary tertiary care medical facility with over 1,200 people employed and a total of near 15,000 successful surgeries has been performed since opening 2005.

Apollo is the only hospital in Bangladesh certified by JCI a U.S. based accreditation body dedicated to improving the quality of health care around the world through voluntary accreditation. Joint Commission International's uniform, high standards for patient care and safety are designed to be adaptable to local needs thus accommodating legal, religious and cultural factors within a country.[38]

Results The project has had little impact on *government policies*, however, one may note that government delegations often visit the hospital where the consultants share experience on e.g. sterilization, which are believed to have influenced medical practices and routines in government hospitals. The high standard of Apollo has encouraged competing private hospitals to achieve similar standards and offering similar services. Thanks to the competition created by Apollo, two other

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38 www.jointcommisioninternational.org

private hospitals have entered into the market since 2007 according to Aureos. Other private hospitals in the country are trying to increase the range of services offered.

Apollo Hospital has increased competition among other private hospitals in Bangladesh aiming at the same level of expertise and services and achieving the same level of accreditation. The *poverty* impact is negligible as prices for services are far too high. In theory Apollo has a target of 10% for treating the poor on an emergency basis (10 percent bed for poor in the country which is group standard and government requirement). This is, however, not practised, and the hospital design and services are focused on the wealthier class of society. This situation is understood to prevail in all other private hospitals in Bangladesh. Out of a population of 150 million – only about 5% can afford private medical care.

Cross Cutting Issues On the *environmental* side Apollo has introduced new waste management systems introduced following JCI standard according to Apollo other private hospital has carefully looked in to these issues, e.g. the hospital has its own sewage plant. Gas turbines for electricity, backup systems are however diesel driven. There are some positive effects on the environment but limited in scale due to the size of the project. There is very high *Health and Safety* awareness, which one would expect of in a hospital business. Due to competition between private hospitals *labour conditions* are good. Wage levels are comparatively high compared to those in the public sector. The company also has a clear human resources policy, which is being monitored as part of the JCI accreditation. The company has no specific *gender* policy but stresses that the company is an equal opportunity employer.

Sustainability The company is profitable with strong sponsors. The hospital has reduced its dependence of foreign staff. At start 90% of staff was expatriates, today the figure is reduced to 20%, due to successful training of local staff to international standards.

Additionality Aureos entered at a critical point when company was heavily dependent on borrowings whilst the company's cash flow was under pressure. Hence, Aureos' contribution enabled a quicker expansion. Additionality on Corporate governance is minimal as they were of a high standard when project started.

Institutional assessment The operating efficiency and the key financial ratios are high in comparison with similar hospitals in India according to Aureos. The project has a well-monitored results measuring system in the form of independent financial audits done annually. Furthermore, weekly management accounts are also produced. In monitoring, Aureos also uses an index to measure non-financial performance, Aureos Sustainability Index. This index measures: *Economic linkages* - multiplier effects, export- and infrastructure development, economic diversification and substitution effects and others. The Government has a role of implementing a quality control system for both the public and private sectors, and implementing a certification system for private-for-profit and NGO facilities.[39]

The company has a sophisticated internal financial control system to avoid misuse of funds. Corruption is the same for all the companies in the country and not just Apollo. This risk is reduced thanks to serious investors with strong anti corruption policies. The company has reached its objectives to a great extent, except for the free treatment for the poor. Cost effectiveness is high for the hospital and high for Aureos that is an increasingly professional fund management company. Aureos will come out at profit provided the exit is successful.

Relevance The project is in line with the Norwegian 1988 PSD strategy with regard to strengthening profitable business but very little element of poverty reduction or impact on marginalized groups. The investment is in line with government policies of increased FDI and encouragement of investments into private hospitals.

39 *Bangladesh development series, World Bank Dec 2005*

8. FK Norway

8.1 Background

The Norwegian Peace Corps (FK Norway) is one of Norway's three official channels for development assistance since 2001.[40] FK Norway's main purpose is to stimulate exchange of personnel between Norway and the South and also to stimulate South–South exchange.[41] While most of such interactions concern NGOs and public organizations, Norwegian enterprises can also participate. The exchange programme is usually for one year involving a minimum of two persons, but an exchange can include several persons. The programme can be repeated for the same organization(s) up to five times

8.2 Objectives

The overall objective of FK Norway is to '*contribute to increased contact and collaboration between individuals and institutions in Norway and in Africa, Asia and Latin America and contribute to development*.' Another objective of the organization is to increase the interest and commitment for the South in Norwegian society. Each exchange project has its own specific objective, generally linked to institutional development and capacity building. Such objectives are stated explicitly in the agreements signed with participating organizations.

8.3 The business-related programme

Our assessment of FK Norway's business-related assistance is limited to its exchange programme involving Strömme Foundation in Bangladesh, a Norwegian NGO supporting formal and non-formal education and a microfinance provider. The FK Norway sponsored exchanges of 3 persons sent from Bangladesh to East Timor and 10 persons received from Sri Lanka and East Timor during five exchanges. The purpose was to develop capacity and human resource training for both partner organizations and participants. The support was USD 626,000 (last phase will be finalized March 2010) including salaries, travel and administration of personnel exchanges between organizations.

8.4 Results

The project has had impact mainly on capacity building e.g. SF-Bangladesh creates model schools for quality education in primary schools and female adolescent capacity building. Support is given to the partner organizations in their work with microfinance for the poor with in total close to 135,000 members. It is a focus of

40 Fredskorpset Norway has a history dating back to 1960s and was modelled after the US Peace Corps. This organization ended in the 1990s, but a renewed organization was established in 2001.

41 The division of participants in the various programmes by FK Norway since 2001 is 40% 'North-South', 20% South-South and 40% a Youth programme

SF to address religious and ethnic minority and lowest professionals, which shows *inclusion of marginal groups*. The fact that SF Bangladesh only supports partner organizations in disadvantaged regions addresses *regional imbalances*. *Employment* is created indirectly through the micro finance programmes. Transfer of know-how is the purpose of the exchange and very well addressed. On *crosscutting issues* the programme is strong on *gender* issues through education and the fact that the majority of members are women. SF has its own operational *sustainability* index OSS (Operational Self Sustainability) and for SF Bangladesh this is 98, i.e. 98% of costs are covered from revenue.

As for *efficiency* FK Norway a smoothly operating organization with streamlined procedures and a standardized 'product' continuously being reviewed and refined. The project has achieved its qualitative goals showing satisfactory *effectiveness* of the programme with reasonable *cost effectiveness.* The programme has high *relevance* for Norwegian aid as poverty reduction is the focus of SF.

III Summary and Conclusions

9. Summary of the Evaluation

9.1 Overall conclusions

Norway's portfolio of business-related development cooperation in Bangladesh consists of traditional grant-based development co-operation with institutions (SEDP, SECP, SEDF) on the one hand, and more "modern" modalities like soft Norad loans (Scancem, Grameen) and Norfund investments (Apollo, BRAC, Grameen, Scancem) on the other. Norwegian private direct investment is not large in Bangladesh, but it has one impressive flagship, namely Telenor´s investment and 62 % ownership in Grameen Phone.

On the one hand, Norway, like most other donors, has been engaged in traditional government to government grant-based development cooperation, sometimes in sectors and with partners that many donors would not have dared to enter in the 1990s, e.g. cooperating with state-owned banks in the provinces. But Norway did, and has, in spite of its fair share of shortcomings and deficiencies, come out very well, and has in fact achieved a large measure of success even in the so called impossible projects. All of the traditional aid has perhaps not been so successful. With regard to the IFC/SEDF it remains to be seen how successful it is, but the two evaluations that were carried out were not enthusiastic.

On the other hand Norway, early on, went full force into the more modern type of development cooperation, consisting of loans and investments on the part of DFIs, and in this area they have scored some spectacular success – most of all in Grameen Phone. Norad's soft loan, given in 1997, was small compared to other actors, but it came at a strategic time, and appears to have had a tremendous influence, as it facilitated Telenor investment and Norfund support.

9.2 The projects

The two rural SME credit schemes, SEDP and SECP, have both had their share of problems, mainly associated with bureaucratic implementation of traditional government structures. Failures include the application of modern market-based management techniques in general, and the hesitation to introduce financial efficiency in particular. The recovery rate of their loans is also a major weakness for both projects. Nevertheless both the programmes have delivered impressive outcomes in terms of employment impact, and in identifying many new women entrepreneurs, amounting to over a quarter of all credit clients. And at the end of it, several years after Norad has left, both programmes are still in operation (now without the Norad technical assistance grant, which subsidized its recurrent costs).The revolving credit funds that were instituted by Norway at the beginning of the respective projects, have remained almost intact.

The fact that Norad chose to cooperate with state banks, in spite of their reputation for low efficiency and corruption in the past, suggests that Norway also had a motive of institutional development in mind with this project. This is not stated explicitly in the project documents but has been confirmed in interviews. Today it is clear that grant funds from donors are *not* effective ways to develop banks and credit facilities. Banks, to become effective in the long run, must be able to generate revenue and build up capacity on their own strength. This is today actually the position of the country's central bank, even if this is not stated, at least not that bluntly, in official documents. Nevertheless, it cannot have been considered wrong on the part of a donor – for a limited period of time – to support the building up of credit facilities like SEDP and SECP.

The support to the South Asia Enterprise facility, SEDF implemented by IFC, has so far not been very successful, at least not according to the two major evaluations that were carried out in 2008 of this USD 37 million programme. However, the Norwegian embassy along with most of the other donors who participated in the first phase (DFID, Canada, Belgium, the Netherlands) apparently thought it was good enough to also support in a second phase, which started in July 2008. Of the financiers of the first phase, only EU declined to support the 2nd phase.

Norfund's loan to ***BRAC*** has contributed to further development of this very successful NGO, which is active in many areas of social welfare beside micro finance. The impact of a USD 10 million loan to a balance sheet of USD 957 million might look insignificant, but the total facility of USD 55 million had two interesting features: long tenure of seven years and being in local currency, whereby the foreign currency risk is moved from the borrower and its beneficiaries to the lender. At the time of the loan the total facility of USD 55 million represented 20% of all term loans taken up by BRAC.

The loans from Norad and Norfund to ***Grameen Phone*** we believe, have been instrumental in generating a large positive impact. With a functioning mobile phone operator, penetration in Bangladesh increased from 0,4% to 30% (of which Grameen Phone has 45%), over 4,800 jobs have been created, services provided to some 21 million users, technology has been transferred and active CSR outreach to rural and poor people has taken place. The role of Norwegian support was crucial at the time of start up when the project was perceived as being highly risky and with no commercial funding available. Because of the high profile of the investor Telenor and the presence of Norwegian aid, measures to improve child labour conditions were taken by the company; and the concept of Business Assurance was introduced.

Through Telenor´s investment and majority ownership of Grameen Phone, Norway, has become an important actor in the *PSD systemic* development in Bangladesh. The constructive role played by Norwegian actors is now followed closely in Bangladesh. The Telenor-led company has become the largest taxpayer in the country – a total of USD 1,7 billion in taxes to date, and in November 2009 the company launched the largest IPO in the country's history.

Norfund's investment, through Aureos capital, in the ***Apollo hospital*** has been profitable, and it has supported a well-run operation, with good governance and international standards in medical services. The investment meets the country's demands for increased FDI and the need for services in this sector. The high standard of Apollo has encouraged competing private hospitals to achieve similar standards and offering similar services. Obviously, this is an investment whose target group is the wealthier part of the population, hence is far from a direct poverty orientation. The additionality aspect of this investment can be questioned, because other sources of finance would most probably have been available for Apollo. The Aureos investment consisted only in buying existing shares from another shareholder, and has thus not contributed to Norfund's objective of also supporting new entrepreneurs.

The USD 17 million Norwegian investment in ***Scancem*** cement factory, of which USD 5 million was from Norfund, helped develop a company, which is today competitive and profitable. It was the first international investment in the cement industry, and its success led to other investors following suit, (which subsequently led to an overproduction). The company today has 250 employees, and has contributed to a significant – around 5000 - number of *indirect* employment opportunities. It has since 2004 paid approx USD 70 million in taxes. The initial support from Norad is seen to have been important in order to get other investors on board as soft long term funds were not available in the local or international market. The project has been instrumental in forming a highly competitive cement industry. The measurable impact on poverty reduction is limited but impact on the economy is significant.

9.3 The performance ratings assigned to the main evaluation criteria

The table below summarizes the scores we have assigned to the projects with respect to the standard DAC criteria for evaluation plus gender and environment. 0 = poor, 5 = excellent. The scores assigned are *not* meant to be the averages, nor the arithmetically weighted averages, of the scores given to the individual sub-categories in the respective individual project matrixes. Rather they are assigned to reflect the perceived relative importance of the different sub-categories, given the project's objectives. Under 'impact', for instance, the subcategory *Employment* is seen to be much more important than e.g. FDI, Trade etc.

Table 20: Summary assessment of the PSD programmes and projects in Bangladesh

Main Evaluation Criteria	SEDP	SECP	SEDF	Norad loans	ABS	Norfund	FK Norway
Relevance	5	5	5	5	3	5	3
Impact	4	4	2	4	2	3	3
Additionality	4	4	2	4	3	2	4
(Cost) Effectiveness	4	4	2	4	2	4	2
Sustainability	3	3	1	4	3	5	3
Efficiency	2	2	2	3	3	4	4
Gender	3	3	3	3	2	3	4

Relevance All the assessed PSD projects in the Bangladesh portfolio are addressing important constraints for the country's economic development. The two credit projects have been providing crucial financial services to the 'missing middle', one of them in one of Bangladesh's most deprived areas. The IFC SME programme has an orientation which is clearly relevant in the sense of addressing credit needs, the enabling environment and the value chains of the SMEs. The Norad loans (and later Norfund's investments) were relevant: *Grameen Phone* provides millions of poor people in rural areas with phone communication, where there was none before. It is relevant because it facilitates business to develop, and also because enhanced communications have beneficial social and economic effects. *Scancem´s* production of cement, even if it does not have any direct major impact on the poor, is relevant because it is a healthy investment, which will replace expensive imported cement, and thereby drive down the price of cement, which will benefit the construction sector. Norfund has undertaken investments in organisations with high relevance for Bangladesh's development and for poverty reduction in particular. For example, *BRAC´s* micro-loans facilitate small enterprises to develop and to generate employment and income for a poorer segment of rural population than SEDP and SECP.

Impact By providing an innovative loan operation and training to small entrepreneurs who have had poor access to credit before, the two rural credit projects, SEDP and SECP, have contributed to enhancing the access to credit for the 'missing middle' in the regions where they operate. There might also be a ripple effect on the (public) banking sector as the projects are judged as somewhat of a model by the government. With respect to employment the order of magnitude of job creation is significant. The two projects together are claimed to have created about 100,000 direct jobs. There are considerable measuring problems in this, however. One of the projects, SECP, being located in an impoverished area of the country, Rajshahi, has positively addressed regional imbalances. *Grameen Phone* has had a significant impact not only on the development of the telecom market, the access to mobile phone services by also the poor. As the market leader in the country, the company has successfully introduced and continues to bring new products and services.

Grameen Phone's impact on the macro-economic level is also significant as Bangladesh's largest taxpayer.

Additionality For the provincial areas of Mymensingh, Faridpur and especially the more remote and poverty-stricken area of Rajshahi, the SEDP and SECP have been, we believe, additional, as there are not many alternative credit schemes offered there. The additionality of *SEDF* is more difficult to judge. *Firstly*, there are quite a few other donor-financed programmes that do more or less the same thing as SEDF is doing. *Secondly*, the evaluations of the programme both indicate that evident changes in the SME institutional framework, including the banking system, seems largely unrelated to the programme.

The Norad loans to Grameen Phone and Scancem can be considered additional and instrumental for the projects as judged by our interviews. Norfund's investments in the same companies were probably less additional. This is also the case of Aureos investment in *Apollo hospital* and Norfund in BRAC.

Cost Effectiveness As a means of creating mass employment, the rural credit projects in Bangladesh appear quite effective as measured in terms of assumed additional jobs in relation to the aid funds, indicating a cost per job of.about NOK 800. However, such a calculation must take into account that (i) the overall figure of additional job-creation is uncertain; (ii) that the quality of the jobs created in mostly micro enterprises and informal household ventures might be low, temporary and with low payments; and (iii) a loan often is not the only factor contributing to employment creation.

The cost effectiveness of *SEDF* has most likely been low if the assessment of limited results from the programme is correct. With respect to BRAC, Grameen Phone, Apollo hospital and Scancem, all four are successful and profitable operations, each in its own field, that have no problem repaying their loans or providing shareholders with dividends. As the Norfund investments are made on a commercial basis, and likely to provide good return in total, cost-effectiveness is by definition high.

Sustainability All the projects and programmes included in the Bangladesh PSD portfolio which were subject to our assessment have been sustained, minus one smaller ABS support in the telecom sector. In terms of the two credit projects, the sustainability is maintained by drawing on the initial donor funding, and possibly a cross-subvention in the host banks. The on-going arrangements seem to indicate that sustainability will be enhanced. The SEDF programme is designed in a way that sustainability is difficult to assess. However, the evaluations indicate an overall change process in the banking and institutional system, which seems self-driven, hence there is sustainability. At company level, the existing results-measuring systems do not allow an assessment. BRAC, Grameen Phone, Scancem and the Apollo hospitals are performing well or very well financially, hence sustainable. Also the majority of the ABS supported projects are ongoing.

Efficiency There are features of *SEDP* and *SECP*, e.g. in the administration and the decision making process, which makes these projects much less efficient than they could have been. The implementation has been carried out by the banks with their inherent weaknesses. The Norad/Embassy's performance in designing and supervising the projects have problems, as noted earlier, partly as a result of the shifting responsibilities between Norad and the Embassy, partly due to severe staff constraints at Embassy level. The efficiency of *SEDF* in delivering the outputs is generally considered good in the SEDF programme based on the assessments made. Regarding all the four Norad/Norfund loans and investments, they have all performed well financially. Norad's role in the financing of Grameen Phone and Scancem seems to have been efficient, and we have no indication that the same is not also true for Norfund/Aureos for the remaining loans and equities. FK Norway has a streamlined administration of its exchange programme also apparent in Bangladesh.

Gender SEDP and SECP have both been successful in identifying a substantial number of women entrepreneurs in a Bangladeshi context, as 25 % and 28 % respectively of all loans have been given to firms run by women. The programmes have actively worked to achieve as balanced a distribution as possible among men and women in their loan portfolio. Reaching a level of 28 % in Rajshai must be seen as high, given the traditionally conservative values prevailing in this province. However, an issue might be that in some cases women are used as fronts for loans. The credit programmes might also be compared to microfinance operations in Bangladesh where generally over 90% of participants are women. Also the SEDF is attentive to gender aspects, which are included or taken account of in most interventions, and on several fronts a measure of success has been reported. BRAC and the entire Grameen organization are strongly focused on empowerment and involvement of women, which the Norwegian support contributes to.

Environment and Climate In all of the three SME projects *(SEDP, SECP and SEDF),* the loan and extension officers respectively are supposed to keep watch on any production practice, which might be harmful for the environment, and we are not aware of any loans or extension services having been given to entrepreneurs whose operation would have an obvious negative effect on the environment. However, no specific assessment was made in this respect.

Except for the waste disposal of old phones and the consumption of electricity for servers, there is little potential negative environmental impact from *Grameen Phone*'s operations. *BRAC* has introduced requirements with regard to increased environmental awareness among borrowers, and a study, carried out in April 2009, shows positive results of this awareness. *Apollo* has introduced new waste management systems following JCI standard, and the hospital has its own sewage plant. Gas turbines for electricity, backup systems are however diesel driven. Environment in the Cement industry is a high-energy user and has problems of dust emissions. Since *Scancem* was ISO 9001 certified, there has been a reduction of dust and emissions in line with the standards of the Heidelberg Cement Group.

9.4 Fulfilling the objectives of the 1998 PSD Strategy

Three objectives for business related support were suggested by Norway's 1998 PSD Strategy, namely:

- Strengthening of profitable enterprises and production in the 'South', whether in primary production, industries or services;
- Assuring and increasing employment and income, especially for under-privileged groups (the poor in rural areas and women);
- The support within the strategy should adhere to the broad objectives of the Norwegian development assistance, including environment, gender and human rights.

Our conclusion from the Bangladesh case study is that most of the projects in the portfolio, among them the three largest ones, have not only directly addressed these three objectives, but also – to a quite a large extent - been successful in achieving the objectives. The following table summarizes our assessment in respect of the key criteria mentioned in Norway's 1998 PSD Strategy.

Table 21: Assessing overall project performance in Bangladesh against the PSD Strategy

Criteria	Result	Rating
- Reduce the (economic) marginalization of the poorest nations	Bangladesh is an LDC, and the portfolio addresses constraints for economic development.	Fair
- Increase the commercial links and trade between developing countries	No specific connection to trade issues	Poor
- Work towards a more comprehensive support for business development at country level, and identify the most important constraints and prioritized needs. Assure better coordination and synergies in what is done in different areas and through different channels	The Embassy level support is largely coherent and integrated. No such linkage occurs with Norad and Norfund investments. Good coherence with binding constraints.	Fair
- Improve the frame conditions for business development in developing countries ('enabling environment')	Addressed to some extent in SEDP, but with unclear results.	Fair
- Promote increased investments both through domestic and foreign capital, including Norwegian capital	Most of the portfolio is investment oriented, both in small scale /the credit programmes, Norad loans and Norfund projects.	Good
- Promote trade with developing countries and stimulate exports from them	No clear impact evident from the portfolio.	Poor
- Work towards untying aid	The Norad loans and ABS are largely tied. The balance not	Fair

Criteria	Result	Rating
- Increase the use of local suppliers to the aid financed projects	The rural credit schemes promote the use of local and domestic inputs rather than imported ones, Also Scancem is an example of a shift from import to local supplies.	Fair
Make active and good use of the - Norwegian competence base, including the business sector.	The Grameen Phone is an excellent example of Norwegian commercial operations with a development impact. Otherwise there has been marginal use.	Fair

9.5 Alignment with the 2009 Norwegian development policy

Two objectives of relevance for PSD have been identified in the 2009 Norwegian Development Policy. These are:

- *Natural resources management,* with an emphasis on good governance and sustainability. (Anti- corruption measures, a fair and transparent distribution of resources and income. Specific areas for assistance the petroleum sector, environment, hydropower and fisheries and how these are managed locally, nationally and internationally), and
- *Equal rights, inclusion and economic justice.* (Focus is on the fair distribution of resources and equal rights for marginalized groups. Economic rights and access to resources and services within finance, technology, education, employment conditions and safety).

In general terms we conclude that none of the projects comprising Norway's PSD portfolio in Bangladesh give any pronounced focus to the above stated new objectives. However, there are some aspects, which are addressed. E.g. in the case of economic rights and access to finance, employment, safety etc., both the SEDF and to a certain extent the SEDP and SECP, do address these issues. Also, in Bangladesh sizeable loans from both Norad and Norfund have been given to the telecommunications sector, which in the 2009 policy is identified as one of the key sectors for future Norwegian assistance.

9.6 Addressing binding constraints for PSD in Bangladesh

The largest three projects of the Norwegian PSD-portfolio in Bangladesh, namely SEDP, SECP and SEDF, (together accounting for NOK 250 million in grant support or over half of the total) are directly and concretely geared towards addressing key binding constraints to SMEs, namely the lack of credit to the group of "missing middle" SMEs, and the need to enhance the enabling environment for SMEs. We can therefore safely conclude that Norway's development cooperation in PSD with Bangladesh is relevant, because it addresses the constraints that the government as well as the World Bank and all the donors have identified as being the main obstacles for economic development of the country. However, the relevance of the way these projects address the constraints is a different issue. Today, support of government owned banks with generally bureaucratic and top-heavy decision making processes, which, furthermore, tend to be subsidised from the government budget due to poor repayment discipline, is not considered to be a "best praxis" approach.

9.7 Promoting Norwegian investments and business relations

Norad's loan to Grameen Phone and the subsequent Norfund loan involving Telenor, a large Norwegian telecom company, had a strong impact on Norwegian investments and utilisation of competence. Norad's matchmaking programme (MMP) is not active in Bangladesh, and the ABS programme is relatively modest, which may be due to the fact that Bangladesh has until recent years not been seen as an attractive place to do business, given the poverty and particularly the country's previous economic stagnation.

9.8 Administration of the Norwegian development cooperation with Bangladesh

Aid administration reform As a result of an administrative reform in 2003, all government-to-government assistance was taken from Norad and placed in MFA, which in its turn delegates the responsibility to the Embassy. Today there is no Norad staff in the Embassies; all are MFA officers. Norad´s main role is to act as an adviser to MFA, but it also retains responsibility for (some) global programmes, e.g. PSD and business related support and Civil Society support. According to the new strategy, some projects will be discontinued because e.g. the embassy in Dhaka lacks the staff to run them. This seems like a remarkable causality. Normally one would expect the MFA to first decide on the number and volume of programmes it wants/needs in a certain country, and then subsequently decide on the staff size and capacity needed at the embassy.

Three years ago the foreign ministry in Oslo decided to cut the expatriate staff of the embassy in Dhaka from eight to three persons. The scaling down was to be done over three years. The staff now consists of one ambassador, whose day is filled with political as well as representation duties, often having to do with trade and diplomatic visits. There is one 1st secretary, who besides his many duties as acting charge d´affaires and political coverage etc, now also has to get involved in about 20 different, development cooperation projects in all areas. There is also a local programme officer with many years of experience from development cooperation and with deep knowledge of the PSD sector, who is directly responsible for the embassy's PSD projects.

Depending on how one chooses to see it, there is a total of one or perhaps one and a half officers to look after the whole development portfolio in Bangladesh. This is in the Embassy of a donor, which used to be very active with many large and important projects, not least in the business related area. The contrast to other embassies could not be bigger. All other bilateral donors in Dhaka seem to have at least 3 or 4 persons just working on development cooperation. An example showing the very disparate capacity of personnel in the different embassies is Spain, which has four expatriate officers in its embassy, even though Spain is not engaged in development cooperation.

It is tempting to speculate whether the fact that Norway decided to allocate such a large sum of money (a total of NOK 100 million) to a programme like SEDF could possibly have been influenced by the strained staff situation at the Embassy, especially when deciding to extend Norway's support to a 2nd phase with another NOK 50 million – in spite of the fact that the evaluations were rather negative.

In the estimation of the Embassy, there was no kind of policy criteria behind the Ministry's decision to dismantle the Embassy's capacity. It seems to have been based exclusively on overall organizational considerations of the entire Norwegian foreign representation. There was no corresponding decision that development cooperation with Bangladesh should be down-scaled, so this is not what could have triggered the decision to dismantle. As a consequence of the decision to down-scale the staff, the embassy had to decide about cutting down its involvement in development cooperation. For instance they transferred the responsibility for SEDF to Norad, who would be running it from Oslo. The Embassy chose not to break the agreements with its development partners in spite of the loss of personnel, but raised the question of whether the Embassy should be dealing with development cooperation at all.

Local donor coordination is quite active in Dhaka, but Norway has pulled out of most of the 23 different Local Coordination Committee (LCC) sub-groups that work on development coordination. The only remaining Programme Officer assigned exclusively to development cooperation used to attend four sub-groups of the LCC. There is an Embassy policy decision that they will not attend the LCC meetings, with occasional exceptions for the sub-groups on government, women and education.

Division of responsibility for projects between embassy and Norad, Oslo The division of responsibility for different projects held by the embassy and Norad respectively, seems simple enough. However, in reality it is not a solution, which can be labelled as problem-free. Having local presence in a large project it is almost expected (by government and donors alike), who believe that there should be someone in the Embassy or mission who knows the projects, who can be consulted and who can participate in different meetings or just provide information. With the dramatic scaling-down of capacity as has been implemented in the Dhaka Embassy, it is simply not possible for the Embassy to keep abreast with developments in all projects, least of all with regard to projects administered by Norad, Oslo.

Another disadvantage with this division of project responsibility between the field and Oslo is that the embassy personnel can never be certain *if* they have received all the documents, and if they are, or are not, informed about recent project developments or of possible trends of Norad's policy impacting on a particular project. In the case of the UNIDO quality infrastructure project, for example, the Embassy states that it does not know what its [exact] role is. In most cases the Embassy today does not seem to receive key documentation regarding the projects handled by Norad. This in our view is an important shortcoming, as it prevents the Embassy from sharing documents with its local development partners and the government, and also with consultants like us.

Annexes

Annex 1: Persons Met

Norad

Bente Humberset
Åshild Vigtel
Hans Petter Melby
Elisabeth Sollner
Dag Larsson
Elin Røhme

Norwegian Embassy in Dhaka

Arup K Biswas	Senior Adviser
Ingebjorg Støfring	Ambassador
Arne Haug	Deputy Head of Mission

Bangladesh Government

Amalendu Mukherjee	Joint secretary Ministry of finance, Finance Division
Arijit Cjhowdury	Deputy secretary Ministry of finance, Finance Division
Md. Abul Quasem	Bangladesh Bank, Executive Director

Banks and Donor Agencies

G.M. Kurshid Alam	World Bank, PSD Specialist
Ayako Inagaki	Asian development Bank, ADB, Principal Social
Sector Specialist	
M. Zahid Hossain	Asian development Bank, ADB, Head Country Programming
M.M. Zillur Rahman	Asian development Bank, ADB, Financial Management Officer
Samuel Egerö	Swedish Embassy
Syed Khaled Ashen	Senior Programme Officer

SEDP, SECP and SEDF

Mad Afoul Islam	Project Coordinator SEDP Mymensingh
BUM. Abu Yusuf	Project coordinator SEDP Faridpur
MD. Johor Islam	Project director SECP; Deputy General Manager RAKUB
David Holbourne	Chief Technical Adviser Bangladesh Quality Support Programme
Mrinal Sircar	Programme Manager SEDF/ IFC
M. Rehan Rashid	Sr. Financial Specialist SEDF/ IFC

Md. Muzahidul Islam Zoarder	Administration Manager in charge, SEDP/ Agrani Bank
Md. Mobinur Rashid Sarker	SECP/ RAKUB Principal Officer
A.K.M. Mujibur Rahman	Agrani Bank Ltd., General Manager

BRAC

S.N. Kairy	Director of Finance
Syed Masud Ahmed	Research Co-ordinator

GrameenPhone

Debashis Roy, Deputy	General Manager, CSR
Md. Mainur Rahman Bhuiyan	General Manager, Head of Treasury Division
Munni Marufa	Head of Support and Services, HR
Sayed Talat Kamal	Deputy General Manager, Public Relations
Md. Arif Uddin	Head of Financial Reporting & Planning
Ahmed Iftekhar	Deputy Manager, Co-ordination Finance Division
Khandoker Golam Azam	Deputy General Manager, HSE
Pål Støtte	Oslo
Per Erik Hylland	Telenor Group Country Manager, Senior Vice President
Arild Kaale	GrameenPhone

Apollo Hospitals

Imam Hassan	General Manager Finance
Kishwar Imdad	General Manager Operations

Heidelberg cement Bangladesh Ltd.

Jashim Uddin Chowdhury	Chief Financial Officer
Mahbub Alam	Manager Finance
Ola Schippert	Oslo

Strømme Foundation

Joel S. Das	Operations Manager Bangladesh
AKM Zahirul Islam	Microfinance Manager
Sonjit Leo Gomes	Education Programme Specialist
Md. Shakawat Hossan Majumder	Programme Officer Microfinance

Application based support

Inge Skaar	CEO CCTEL
Catherine Mikkelsen	Johan Thomsen AS
Terje Aasheim	Norag AS
Kamran T. Rahman	Pubali Jute Mills Ltd., Chairman and Managing Director
Adnan N. Rahman	Pubali Jute Mills Ltd., executive Director Technical

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Annex 3:
Detailed Assessment

The Small Enterprises Development Project (SEDP)[43]

Assessment criteria	Rating	Explanation
Inputs	X	In the pilot phase, 1990-1993, Norway contributed NOK 50 million of which 31,5 went to the revolving credit fund and 18,5 was a grant for technical assistance. During the main phase of the project, 1996-2001, the Norwegian contribution was another NOK 50 million of which 39 was for the credit fund and 11 for TA. In addition, Agrani bank contributed the same amount, NOK 39 million for the revolving fund and NOK 5,7 for TA. The total Norwegian contribution to this project is thus NOK 100 million.
Cost to Norwegian aid	X	All of it, i.e. NOK 100 million
Other inputs (leverage)	?	For the main phase of the project Agrani Bank contributed the same amount, i.e. NOK 50 million for the revolving credit fund, plus another NOK 5,7 million for Technical assistance
Outputs	4	It processed and gave some 22,000 loans, as compared to the target rate of 11,000. It also provided entrepreneur training to some 15,000 clients as against the target rate of 11,600
Outcome	4	The project loans are reported to have contributed to creating about 44,000 jobs
Impacts		
Policy; regulations	0	None that can be discerned or readily identified
Sector institutions	3	There is a realistic hope that the overall successful (in spite of its flaws) credit operation based on a model of active searching for, identifying and servicing of the rural clients in the field, will have somewhat influenced in a positive direction, not only the host bank Agrani, but perhaps also other banks and financial institutions in the region.
Enabling environment	2	By providing an innovative loan operation and providing training to small entrepreneurs who have had none before, we believe that the project has enhanced the "enabling environment" for SMEs

43 The achievement figures provided refer to the main phase of the project, 1996-2001

Assessment criteria	Rating	Explanation
FDI from Norway	0	No discernible connection
FDI general	1	In very general terms we must believe that the project has had a beneficial effect on FDI by virtue of the fact that it has positively contributed not only to the expansion of successful SMEs, but also to the enhancement of the business climate
Trade Norway	0	No discernable connection
Trade general and with other developing countries	2	By contributing to the creation of new SMEs and the expansion of existing ones, the project must also have contributed to an increase of, at least regional and domestic trade
Financial systems and capital market	2	The SEDP model of identifying and interacting with its existing and new potential rural entrepreneurs is, by at least some people in other banks, seen to be an effective way to enhance SME activity
Business organization	0	None that we are aware of
Employment direct	4	Even though there are a number of measurement problems in order to define employment creation which has been occasioned by the loan, the order of magnitude of job creation is high.
Employment indirect	5	It can be estimated (or guessed) that volume of indirect employment caused by the investments and SME enhancements could be as high as the direct employment effects.
Technology and know how transfer at company level	3	Training part of the design.
Sector development	0	None
Country competitiveness	1	Too marginal to impact on macro economy
Poverty Impact		
Local/regional socio-economic conditions	3	Since the SEDP credits have contributed to creating in the order of 44,000 new jobs, then obviously it has also had an impact on local socio-economic conditions
Inclusion of marginalized groups	NA	We are not aware of any marginalized groups within the project area who have[directly] profited from this programme.
Addressing regional imbalances	1	Nor Mymensingh nor Faridpur, nor the Dhaka region in general belong to the poorer areas in the country. Therefore we cannot say that the project has addressed regional imbalances
Macro effects	1	Limited due to scale – if the model spreads in government banking, some long-term impact possible

Assessment criteria	Rating	Explanation
Cross-cutting issues		
Environment	2	The loan officers are supposed to keep watch on any production practice which might be harmful for the environment. In general we believe the project is neutral from an environmental point of view.
Health and Safety	2	Same answer as for environment above
Labor conditions	2	Same answer as for environment above
Gender	3	The project has been successful in identifying a large number of women entrepreneurs, as 25 % of all loans have been given to firms run by women
Sustainability	4	Project surviving after end of Norad funding 10 years ago in spite of problems with loan recovery. Planned to make a separate organisation.
Additionality	4	Unlikely the project type had emerged without Norwegian assistance
Institutional assessment		
Efficiency	1	There are features of this programme, e.g. in the administration and the decision making process which makes this project much less efficient than it could have been
Results-measuring	1	We have little insight in the results-measuring system of this project. Shortcomings in the methodology to measure employment effect- The project has not yet introduced computers in its accounting
Quality assurance	0	There are no particular systems or initiatives, that we are aware of, that have been taken to enhance quality assurance
Coordination with other Norwegian PSD programmes	0	There seems to have been hardly any interaction between the SEDP and the SECP, which is remarkable given that the two projects have largely identical objectives and design
Exit strategy	2	There was no concrete exit strategy in place while the project still lasted. Two years after Norad pulled out with its support, the embassy commissioned an Exit strategy report, which was instrumental in deciding the embassy's strategy w.r.t. future support to the project.
Corruption risk	3	The government owned banks, including Agrani, have undergone reforms in recent years and are today considered to be in much better shape in all respects, including transparency, efficiency and corruption. No allegation of corruption in the programme has surfaced in any of the surveys made. However serious flaws in financial systems
Effectiveness	4	Project above target for job creation, the main objective
Cost-effectiveness	4	As means of creating employment probably quite good as measured in jobs per donor dollar.

Assessment criteria	Rating	Explanation
Relevance		
Coherence Norwegian policies	5	Contributing to job creation among rural poor figures prominently in policy; also in line with PSD strategy for Bangladesh
Coherence Government priorities	5	See above
Addressing binding constrains	5	Access to credit a defined key constraint for micro and small enterprises
Relevance for Norwegian business	0	No such effect can be identified
Aid issues		
Untying of aid	5	The Norwegian grant support has been untied (with respect to choice of clients or suppliers), both formally and from a practical point of view
Donor coordination	0	No coordination with other donors seems to have taken place in this project, neither formally nor in practice
Replicability and scaling up opportunities	2	There is no obstacle to scaling up this project as such as long as the banks can make the loan system financially viable, which so far is a problem.

The Rakub Small Enterprise Development Credit Programme (SECP)

Assessment criteria	Rating	Explanation
Inputs		Norway contributed NOK 36 million for a revolving credit fund, and 14 million to finance technical assistance
Cost to Norwegian aid		NOK 50 million
Other inputs (leverage)		Norway was the only donor involved. The implementing bank –RAKUB – contributed a matching sum, BDT 181 million for the revolving credit fund
Outputs	4	Output targets in terms of number of loans processed, share of women SMEs among the beneficiaries, number of entrepreneurs trained were in some cases almost reached, in others surpassed. W.r.t. to recovery of outstanding loans at most 85 % seems to have been recovered compared to the target rate of 95%.
Outcome	4	The credit operations of SECP have had a large number of satisfied clients who have created in the order of 40-50,000 new jobs because of the loans. The entrepreneurs have received training and enhanced their businesses as a result.

Assessment criteria	Rating	Explanation
Impacts		
Policy; regulations	0	None that can be discerned or readily identified
Sector institutions	2	There is a realistic hope that the overall successful (in spite of its many flaws) credit operation based on a model of active searching for, identifying and servicing of the rural clients in the field, will have somewhat influenced in a positive direction, not only the host bank RAKUB), which is a government owned commercial bank, but also the rest of the banking and financial sector at large.
Enabling environment	2	Given that there are very few options available in rural Rajshahi to access business services or training courses, and also because of SECP´s active and dynamic style vis-à-vis the customers, might positively influenced the enabling environment in rural Rajshahi province
FDI from Norway	0	No discernible connection
FDI general	0	No Foreign direct investment likely
Trade Norway	0	No discernable connection
Trade general and with other developing countries	2	By contributing to the creation of new SMEs and the expansion of existing ones, the project has likely contributed to an increase of domestic trade.
Financial systems and capital market	2	The SECP might act as a model to other (government) banks
Business organization	0	None that we are aware of
Employment direct	5	Even though there are a number of measurement problems in order to define employment creation which has been occasioned by the loan, the figures given by the project, 37,000 jobs, have not been questioned by outside observers and reviewers
Employment indirect	2	It has been estimated (or guessed) that indirect employment caused by the investments and SME enhancements undertaken by the SECP credits, could be 20,000 jobs, i.e. about one on each two direct jobs
Technology and knowhow transfer at company level	2	There could be some general knowledge transfer from the project to the firms through the training session that the loan clients are required to sit through. However, in general there is little that the project could contribute in terms of running the firms, especially w.r.t. technical and engineering questions.
Sector development	0	None
Country competitiveness	0	Unlikely due to scale and type of client companies

Assessment criteria	Rating	Explanation
Poverty Impact		
Local/regional socio-economic conditions	3	SECP credits probably contributed to creating in the order of 50,000 new jobs in the Rajshahi province, essential local impact is likely
Inclusion of marginalized groups	3	The province of Rajshahi is one of the poorest in the country
Addressing regional imbalances	4	One of the cornerstones of the project was to address regional imbalances
Macro effects	0	Unlikely due to scale
Cross-cutting issues		
Environment	NA	Environmental hazards is one of the aspects that SECP´s loan officers claim to look out for. No assessment undertaken by us
Health and Safety	NA	Same answer as for environment above
Labor conditions	NA	Same answer as for environment above
Gender	4	The programme has actively worked to achieve as balanced a distribution as possible among men and women in their loan portfolio, with a result that 28 % of all loans have been given to women entrepreneurs, thus exceeding the target figure of 20 %.
Sustainability	4	Project continues after end of Norwegian funding. Likely to be made into a separate organisation. Loan recover a problem affecting financial sustainability
Additionality	5	Unlikely that a project had emerge without Norwegian funding
Institutional assessment		
Efficiency	1	The team that evaluated SECP concluded that SECP´s efficiency could have been substantially enhanced if their mode of decision making and organization had been different. A figure of 20 % loss in efficiency has been mentioned.
Results-measuring	1	There are many deficiencies in the results measuring system if this project. Some have to do with the fact that the project has yet to introduce computers on its accounting
Quality assurance	0	There are no particular systems or initiatives that have been taken to enhance quality assurance
Coordination with other Norwegian PSD programmes	0	Given that the SECP is essentially a replication of the SEDP programme, it would seem natural that many communications and interchanges between the two programmes would have taken place. This seems however not at all to have been the case. As far as could establish the officers of one programme have only on a few rare occasions visited the other programme

Assessment criteria	Rating	Explanation
Exit strategy	3	The project plans contained a model of how the SECP would develop into a sustainable and independent unit within the host bank RAKUB. The real development has however been a different one, whereby there are now plans to make SECP into an independent entity just like was recently decided for SEDP. This will entail that SECP gets a board of directors of its own, but RAKUB would be the owner of this independent credit institution.
Corruption risk	3	See under SEDP
Programme effectiveness	4	By having been instrumental in creating 50,000 jobs in the client firms, the programme has been effective in achieving its main objective, which is to alleviate poverty in the North-western part of the country.
Cost-effectiveness	4	High in the sense of donor funds versus jobs created (main objective) Similar to SEDP.(see above)
Relevance		
Coherence Norwegian policies	5	Job for the poor key objective
Coherence Government priorities	5	Job for the poor key objective
Addressing binding constrains	5	Access to credit a defined key constraint for micro and small enterprises
Relevance for Norwegian business	0	No such effect can be identified
Aid issues		
Untying of aid	5	The Norwegian grant support of NOK 50 million to this project has been 100 % untied (with respect to choice of clients or suppliers), both formally and from a practical point of view
Donor coordination	0	No coordination with other donors seems to have taken place in this project, either formally or in practice
Replicability and scaling up opportunities	2	There is no obstacle to scaling up this project, other than that one must be of sustainability before any replications or scaling-up are contemplated convinced of its chances ed.

South Asia Enterprise Development Facility (SEDF)

Assessment criteria	Rating	Explanation
Inputs		The total external financial support for the SEDF I was USD 37,3 Million, of which 8,8 came from EU, 6,0 from each of Norway, Canada and UK, 5,0 from IFC, 2,0 from Holland and 2,7 from other sources.
Cost to Norwegian aid		NOK 50 million for SEDF I and NOK 50 million for SEDF II, thus a total of NOK 100 million
Outputs	3	As shown in the *Logical Framework Analysis* matrix: column for "Achieved results", the project can point to a long list of outputs that have been achieved. However, both the evaluations that have been recently carried out of this programme, found that in very many cases it is not possible to prove that the results can be attributed to the programme as the programme managers claim
Outcome	2	The same applies w.r.t. the outcomes of the project, as for the outputs, namely that evaluators of the programme are not at all convinced that the outcomes claimed by project management to be a result of its interventions, can actually be fully attributed to the project
Impacts		
Policy; regulations	2	Some limited impact
Sector institutions	1	So far very limited impact
Enabling environment	2	With all its flaws and shortcomings, one must nevertheless, reasonably, assume that the project has positively influenced the enabling environment for SMEs in Bangladesh
FDI from Norway	0	None likely
FDI general	1	Given that the project is judged to have had some positive influence on the overall business environment of the country, we must conclude that it has also had a [limited] beneficial effect on FDI
Trade Norway	0	None likely
Trade general and with other developing countries	2	Given that the project is judged to have had some positive influence on the overall business environment of the country, we must conclude that it has also had a [limited] beneficial effect on both internal and international trade
Financial systems and capital market	2	It has clearly has some beneficial impact on the functioning of the financial markets, although not the extent that the project had hoped and that it claims to have had
Business organization	NA	The outreach of this project has so far been limited w.r.t. business organizations, but the ones that have come in contact with the programme have no doubt received at least some limited amount of positive influence.

Assessment criteria	Rating	Explanation
Employment direct	NA	No quantification has been attempted by either the project itself nor by the two very ambitions and detailed evaluations carried out.
Employment indirect	NA	See answer above
Technology and knowhow transfer at company level	3	One of three components of the programme is directly geared toward servicing individual firms in three sectors. These firms have benefited in terms of technology and know-how transfers from this project – even if it may not be to the extent claimed by the project management
Sector development	3	The three targeted sectors, namely, poultry, ready-made garments and light engineering have been positively affected
Country competitiveness	1	Unlikely due to scale
Poverty Impact		
Local/regional socio-economic conditions	2	To the extent that the affected firms have been able to raise their production and revenue, this will – at least indirectly and in the long run – also have a beneficial effect on local and regional socio-economic conditions.
Inclusion of marginalized groups	0	There is no targeting of either socially or geographically marginalized groups in this project.
Addressing regional imbalances	0	The effects and benefits of the project are relevant for the entire country, but it is not possible to say that the project actively addresses regional imbalances. On the contrary, normally a project of this kind can be expected to benefit the firms residing in the cities to a greater extent than those in the countryside
Macro effects	2	By raising the number of SMEs operating and by enhancing the economic environment for them, which the project is starting to do – albeit in a small way so far – it will in the long run have positive macro-economic effects.
Cross-cutting issues		
Environment	NA	Not assessed
Health and Safety	3	Given that CSR questions are included in many of the interventions, we can expect the project to have positive impact on worker health and safety, although progress in this score is reported to be quite slow, e.g. with respect to child labour.
Labor conditions	3	Same answer as above
Gender	3	The project is attentive to gender aspects, which are included or taken account of in most interventions, and on several fronts a measure of success has been reported.

Assessment criteria	Rating	Explanation
Sustainability	0	Both major evaluation that have been carried out have reached the conclusion that sustainability is not strong in any of the components of the project
Additionality	2	There are quite a few similar SME targeted projects in Bangladesh. Attribution was a difficult issue to determine by the evaluations carried out.
Institutional assessment		
Efficiency	2	Not good according to one of the evaluations made, while the other one seems to be saying that it is OK, at best.
Results-measuring	2	About two years into the project SEEDF started introducing a monitoring system which today by the evaluations is seen to be promising
Quality assurance	NA	There is nothing particular in place along these lines
Coordination with other Norwegian PSD programmes	0	According to the Norad appropriations document there should be grounds for interchanging experiences and ideas between SEDF on the one hand and the Norway-supported rural credit schemes of SEDP and SECP. However, as far as can be ascertained, no such interchange at all has taken place between the respective projects. Not clear why.
Exit strategy	NA	No exit strategy seems to have been devised.
Corruption risk	4	IFC is quite attentive in this regard, and procurement systems both w.r.t. goods and services are designed to counteract corruption risk. All procurement is strictly based on competitive tender procedures.
Programme effectiveness	2	According to both the evaluations carried out effectiveness has so far not been high
Cost-effectiveness	2	In consequence with the answer to the previous point, also the cost effectiveness of the project has most likely been low. But no calculations have been carried out to our knowledge.
Relevance		
Coherence Norwegian policies	5	Yes, fully
Coherence Government priorities	5	Yes, fully
Addressing binding constrains	5	Yes, according to all observers the project addresses the relevant constraints
Relevance for Norwegian business	0	None.

Assessment criteria	Rating	Explanation
Aid issues		
Untying of aid	5	The funds granted by the Norwegian government to this project, as is the case of all the other contributions, are totally untied in its use.
Donor coordination	5	Through the donor oversight committee, which meets twice a year, and which has a rather wide and strong mandate, donor coordination in this project is assured
Replicability and scaling up opportunities	2	In its present form it appears that scaling up opportunities are quite limited, given that evaluators have found that the resources and capability of management has already been stretched with the present scale of operations.

Norad soft loans

Assessment criteria	Rating	Explanation
Inputs		NOK 50 million loan *plus* NOK 25 million guarantee to GrameenPhone, and NOK 24 million loan to Scancem (Heidelberg Cement
Cost to Norwegian aid		Loans are repaid. Equity investment will likely be recovered.
Other inputs	5	About 20 other financial institutions have contributed credits and/or equity
Outputs	5	Functioning mobile phone company and factory producing cement with a capacity of 750,000 tonnes per annum
Outcome	5	Profitable companies employing over 4,250 employees, 21 million mobile phone subscribers
Impacts		
Policy; regulations	3	Grameen phone is believed to have influenced the country's policy in several respects
Sector Institutions	2	Scancem has introduced new cement production technology. GP through continuous product development
Enabling environment	3	Both projects strong market leaders, created strong competition in market
FDI from Norway	4	High, Total USD 17.5 million (Scancem) plus USD 258 million (GP)
FDI general	2	Not fully assessed. likely to be positive as both Scancem and GP can be seen as a example of success for other investors to follow,.
Trade Norway	0	Limited to sale of management services from Norway

Assessment criteria	Rating	Explanation
Trade general and with other developing countries	3	Scancem: Considerable impact clinker imports from China, Thailand, Malaysia and Indonesia. Imports of machinery from South Korea. GP: Limited
Financial systems and capital market	4	Scancem: Limited impact, credit sales were introduced vs. cash sale which now is the norm in the industry GP: Largest IPO in 2009 in the country with 320,000 new shareholders, significant bond issue in 2008
Business organizations	2	Scancem: Founding member of Cement Producers Association GP is the driving force behind AMTOB Association of Mobile Phone Operators of Bangladesh
Employment direct	3	Scancem: 250 employees, GP: 4,800
Employment indirect	5	Scancem: 5,000 mainly in transports, by truck and barges. GP: 300,000 (GP´s own figures)
Technology and knowhow transfer at company level	5	Scancem: Green field plant, New technology introduced, using less clinkers, Portland Composite Cement, today no expatriates in the company GP: Number on new products and services introduced
Sector development	3	Scancem: Usage of Portland Composite Cement now widely used GP: New players new products Competition in market
Bangladesh competitiveness	3	Scancem: In macro terms marginal impact import substitution no exports GP:Indirect as mobile phone industry is recognized as the major drive for business in an emerging market.
Poverty impact		
Local/regional socio-economic conditions	2	Scancem: indirect employment high of mainly unskilled labour GP: Competition has generated expansion over the country as well as for low income groups. Active CSR policy with a number of projects
Inclusion of marginalized groups	4	GP:Village phone project a serious attempt to reach out but has become exposed to competition from low cost subscriptions, which is a positive thing
Addressing regional imbalances	4	Scancem: Company's two factories operates in Dhaka and Chittagong GP: 98% coverage of the country
Macro effects	3	Scancem has to date paid about USD 70 million in taxes. Cement industry is crucial for development of national infrastructure. 8% of GDP growth is attributed to the mobile phone industry, which GP dominates with 45 % of the market

Assessment criteria	Rating	Explanation
Cross-cutting issues		
Environment	3	Scancem: Following the Heidelberg Cement´s group standards, gas turbines are today used for energy and active dust control GP: Strong policy, even ambitions to certify suppliers to GP
Health and Safety, CSR	3	Monitored globally from head quarters, follows group standard Very high, follows group standard as well as including the suppliers through the Business Assurance programme
Labour conditions	NA	No assessment done at company level, Tied by covenants in loan agreements with follow ups at the annual monitoring reports (the latter w.r.t. GP)
Gender	3	Scancem: Few women employed in production GP: 14% women employed, CSR activities with focus on women
Sustainability	5	Profitable company with expansion plans
Additionality	4	Norad loan crucial at the start up for both projects. Norfund participation at a later stage was a natural follow up.
Institutional assessment (implementing agency)		
Efficiency	4	High in both companies
Results-measuring	5	Independent financial audit, listed companies requiring full transparency. GP is in addition monitored by IFC (Annual Monitoring Report)
Quality assurance	4	Monitored from Group level in both companies, Annual Monitoring Report by IFC (only applicable to GP today, IFC has exited in Scancem
Coordination with other Norwegian PSD programmes	4	Scancem: Loan and Training from Norad, equity investment from Norfund GP: Minor scale, only applicable for ABS support to a project linked to GP, CCTEL
Exit strategy	5	Norad loan paid back in 2008, Norfund exited with profit GP: Loan has a repayment plan which is being followed.
Corruption sensitivity	4	Independent financial audit, Group policies re anti-corruption
Programme effectiveness	4	Scancem: Objectives met at low input e.g. technology transfer, import substitution. Profitable and sustainable company Employment reduced to maintain sustainability. GP: High, much larger operation and impact than initially anticipated
Cost-effectiveness	4	Low input from aid, high outcome

Assessment criteria	Rating	Explanation
Relevance		
Coherence Norwegian policies	5	GP: In line with PSD 1998 policy. Inclusion of marginalized groups- rural areas, environment considerations
Coherence Government priorities	5	FDI. infrastructure priorities
Addressing binding constrains	4	Scancem: No FDI into the industry prior to investment by Scancem. Lack of infrastructure in country. Cement industry crucial for infrastructure development GP: Privatization of telecommunications
Importance Norwegian business	1	Limited
Aid issues		
Untied aid	3	No commercial ties with Norway re exports, initial Norad loan was however linked to Norwegian interest in the project, Norfund investment not tied
Donor coordination	N/A	DFI funding co-ordinated no donor funds
Replicability and scaling up opportunities	3	Replicable in another emerging market being at the same phase as ScanCement or Telenor was in 1999. No need for aid/DFI funding in expansion plans

Norfund loans and equity investments

Assessment criteria	Rating	Explanation
Inputs		USD 10 million loan GrameenPhone, and USD 5 million equity investment in Scancem (Heidelberg Cement) USD 5 million equity investment (through Aureos Capital) in Apollo Hospital USD 10 million loan to BRAC (in local currency)
Cost to Norwegian aid		Most of the loans have been repaid. Exit from Scancem was with profit and same is likely to happen w.r.t. Apollo
Other inputs	5	Altogether 27 financial institutions have contributed credits and equity
Outputs	5	Well functioning business in communication, health, cement and micro lending
Outcome	5	Profitable companies employing over 125,000 employees, 21 million mobile phone subscribers
Impacts		
Policy; regulations	1	Tax on cement quantity based instead of based on value

Assessment criteria	Rating	Explanation
Sector Institutions	2	Scancem introduced new cement production technology in Bangladesh. GP: Continuous product development Apollo: New “state of the art “hospital services introduced
Enabling environment	3	All projects are strong market leaders. Have contributed to competition in market
FDI from Norway	3	Total USD 17.5 million (Scancem) plus USD 258 million (GP) USD 10 mil BRAC and USD 1.2 mil in Apollo (equates to Norfund’s share in Aureos).
FDI general	2	Not fully assessed. likely to be positive as both Scancem and GP, “pioneer investments” can be seen as a example of success for other investors to follow,.
Trade Norway	0	Limited to sale of management services from Norway
Trade general and with other developing countries	2	Scancem: Considerable clinker imports from China, Thailand, Malaysia and Indonesia. Imports of machinery from South Korea. GP, BRAC, Apollo: very limited impact
Financial systems and capital market	5	Scancem: Limited impact, credit sales were introduced vs. cash sale which now is the norm in the industry GP: Largest IPO in 2009 in the country with 320,000 new shareholders, significant bond issue in 2008 BRAC: One of country’s largest microfinance institution
Business organizations	3	Scancem: Founding member of Cement Producers Association GP is the driving force behind AMTOB Association of Mobile Phone Operators of Bangladesh. BRAC is driving force behind MFI association
Employment direct	3	Scancem: 250 employees, GP: 4,800, Apollo 1,250, BRAC; 117,0000
Employment indirect	5	Scancem: 5,000 mainly in transports, by truck and barges. GP: 300,000 (GP´s own figures) Apollo limited: BRAC Very High 8 million members of which large portion self employed, over 9 million through “Job Creation” programme
Technology and knowhow transfer at company level	5	Scancem: Green field plant, New technology introduced, using less clinkers, Portland Composite Cement. Today no expatriates in the company GP: Many new products and services introduced Apollo: new technology introduced in country. BRAC: limited
Sector development	3	Scancem: Portland Composite Cement now widely used in Bangladesh GP: New players new products Competition in market Apollo: competition within private hospitals BRAC: High due to size of operations. Introduction of new schemes and projects

Assessment criteria	Rating	Explanation
Bangladesh competitiveness	4	Scancem: Marginal impact through import substitution GP: Indirect as mobile phone industry is recognized as the major drive for business in an emerging market. The existence of a high-quality hospital as Apollo is said to attract Bangladeshi professionals in Diaspora as well as ex-pats to live in the country. BRAC: World leader in micro finance
Poverty impact		
Local/regional socio-economic conditions	2	Scancem: indirect employment of mainly unskilled labour GP: Competition has generated expansion over the country as well as for low income groups. Active CSR policy with a number of projects BRAC: Very high, nationwide operation
Inclusion of marginalized groups	4	GP:Village phone project a serious attempt to reach out but has become exposed to competition from low cost subscriptions, which is a positive thing BRAC: Very high, marginalized groups are targeted.
Addressing regional imbalances	4	Scancem: Company´s two factories operate in Dhaka and Chittagong GP: 98% coverage of the country BRAC: Nation wide operation
Macro effects	4	Scancem has contributed Approx USD 70 million in taxes to date. Local cement industry is crucial for development of national infrastructure GP: 8% of GDP growth is attributed to the mobile phone industry, of which GP dominates with 45% of market. GP has paid 1,7 billion in tax since inception in 1999 BRAC: Relatively small in size of impact on GDP but high on number of people affected
Cross-cutting issues		
Environment	3	Scancem: Following the Heidelberg Cement´s group standards, gas turbines used for energy, active dust control GP: Strong policy and setting of group standards. Also, ambitions to certify suppliers to GP BRAC: Strong environmental policy
Health and Safety, CSR	3	Apollo and Scancem: Monitored globally from head quarters, follows group standard. GP Very high, follows group standard as well as including the suppliers through the Business Assurance programme. BRAC: strong policy on health.
Labour conditions	NA	No assessment done at company level, Tied by covenants in loan agreements with follow ups at the annual monitoring reports (the latter re GP)

Assessment criteria	**Rating**	**Explanation**
Gender	3	Scancem: Few females employed in production GP: 14% women employed, CSR activities with focus on women BRAC: High, women target group
Sustainability	5	Profitable companies/entity with expansion plans
Additionality	2	Scancem and GP: Norfund loan came in later in process after start up, not crucial but natural follow up after Norad loans. BRAC: High as loan was denominated in local currency, Apollo: To some extent as capital sources were exhausted among existing stakeholders.
Institutional assessment (implementing agency)		
Efficiency	4	High. Objectives well met with little inputs.
Results-measuring	5	Independent financial audit for all projects. GP and Scancem: listed companies requiring full transparency. GP is in addition monitored by IFC (Annual Monitoring Report), Apollo monitored by holding company as well as Aureos BRAC monitored by number of lenders and donors
Quality assurance	4	Monitored from Group level in all companies, Annual Monitoring Report by IFC (only applicable to GP today, IFC has exited in Scancem) Apollo monitored through international accreditation (JCI), BRAC through number of lenders and donors.
Coordination with other Norwegian PSD programmes	3	Scancem: Loan and Training from Norad. GP: Loan from Norad and on inor scale, ABS support to a project linked to GP, CCTEL, BRAC: n/a, Apollo: n/a
Exit strategy	5	Scancem: Norfund exited with profit. Apollo: exit expected through trade sale or sale of shares to other shareholders GP and BRAC: Loan has a repayment plan which is being followed.
Corruption sensitivity	5	Independent financial audit, Group policies re anti-corruption, BRAC: high attention to corruption issues
Programme effectiveness	4	Scancem: Objectives met at low input e.g. technology transfer, import substitution Profitable sustainable company Employment reduced to maintain sustainability. GP: High, much larger operation and impact than initially anticipated BRAC: Objectives met, well functioning operation in place providing access to finance. Apollo: Objectives met well functioning profitable company
Cost-effectiveness	5	Low input from Norfund (in financial terms giving a return), high outcome

Assessment criteria	Rating	Explanation
Relevance		
Coherence Norwegian policies	5	BRAC and GP n line with PSD 1998 policy. Inclusion of marginalized groups- rural areas, environmental considerations
Coherence Government priorities	5	Infrastructure priorities; MFI development
Addressing binding constrains	5	Scancem: No FDI into the industry prior to investment by Scancem. Lack of infrastructure in country. Cement industry crucial for infrastructure development GP: Privatization of telecommunications BRAC: Access to finance for poor, Reduction of dependency on foreign exchange
Importance Norwegian business	1	Limited
Aid issues		
Untied aid	5	No commercial ties with Norway
Donor coordination	N/A	DFI funding co-ordinated no donor funds
Replicability and scaling up opportunities	3	Replicable in another emerging market being at the same phase as when ScanCement or Telenor entered in 1999 or Apollo in 2005. No need for aid/DFI funding in expansion plans. BRAC: Loans in local currency replicable in other countries

Annex 4: Terms of Reference for the Evaluation

1 Purpose

There have been a number of reviews, studies and also appraisals of different elements of the Norwegian assistance to business sector developments during the last 10-15 years, but no evaluation of the results, the performance and interplay of the main actors or the different policy instruments. This evaluation has therefore three purposes;

- to document and assess past results and performance,
- to analyze the potential for improving Norwegian assistance in the future and preconditions for successful assistance in former and new partner countries, and
- to give recommendations on future policy and guidelines.

The main purposes are to:
- Provide information about the results of Norwegian business sector assistance both at the *project/programme level* and at the *policy instrument level, and assess the performance of the main actors involved and their interactions as perceived also by the users.*
- Outline *lessons* that can be used in design and implementation of future result-oriented programmes and projects in partner countries.

The main users of the evaluation results will be the Norwegian policy makers in the Ministry of Foreign Affairs (MFA) and the eight other public institutions[44] that are involved in developing and implementing business related assistance. The reports will also be useful to partner countries and other stakeholders, including non-governmental organizations (NGOs), private companies and consultants in Norway and their counterparts in the South. The findings should also be of value for different beneficiaries including individuals, households, communities, and relevant local and national Business Sector actors that benefit directly or indirectly from the interventions.

The first results should be ready early autumn 2009 and the final report delivered in spring 2010.

44 The active public institutions include Ministry of Foreign Affairs (MFA), Ministry of Trade and Industry, the Norwegian embassies, the Norwegian Agency for Development Cooperation (Norad), the Norwegian Investment Fund for Developing Countries (Norfund) and its Information Office for Private Sector Development, Innovation Norway, GIEK (the Norwegian Export Credit Agency) and FK Norway (Fredskorpset.

2 Background

The first formal guidelines for implementation of Norwegian assistance to private businesses who wanted to invest i the South were formulated by Norad in 1978-79[45]. Later these guidelines were supplemented by a Private Sector Development (NIS) [46] strategy document published by Ministry of Foreign Affairs in 1999. The main focus of this strategy document is on bilateral assistance at national level. Since the publishing of the strategy more than 5.5 billion NOK has been used on direct and indirect business assistance worldwide. Nearly 50% of this assistance has been channeled through the Norwegian Investment Fund for Developing Countries (Norfund). In addition nearly 700 other institutions, companies and persons have been partners directly in disbursement of assistance. This is in addition to the nine main public institutions in Norway that have been involved in the administration of the assistance. Altogether, Norway has since 1978-79 assisted a number of projects in more than 80 countries.

Norwegian assistance and trade with partner countries in the south has been a subject of public debate at various occasions. A report delivered in 2008 by a public committee established by the Ministry of Foreign Affairs (MFA) examined Norwegian investments and trade as two of its main themes. The report documented differing view-points among the policy makers and stakeholders concerning the analysis of the current situation, as well as on the way forward[47]. A key recommendation of the report was the development of a Fund for investments in the South, with 10 billion NOK as the starting capital. The last budget Proposition to the Storting (No. 1 2008-2009) emphasizes an increase in level of Norwegian investments in partner countries in the South, and especially in the Low Income Countries south of Sahara. The new white paper presented in February 2009 argues also for the need for strategic public partnership with private business sector, to leverage private investments. The conditions for private investments will, however, vary substantially among partner countries, and Norwegian policy will be adapted accordingly.

3 The Evaluation Process, Involvement of Stakeholders and Confidentiality

The evaluation will be conducted in three phases:

- the preparation phase, including dialog on Terms of Reference (ToR), an international tender process and contracting of a team of independent consultants,
- the implementation phase when the evaluation team conducts the evaluation according to ToR, with the production of an inception report clarifying the work plan, a draft final report and the final report
- the follow-up phase, disseminating and discussing the findings with the stakeholders and giving advice to the Ministry for Foreign Affairs on policy change and how management should respond.

The planning and organizing is undertaken by Norad's evaluation department (EVAL). Consultations with relevant Norwegian institutions and other stakeholders will ensure relevance of the Terms of Reference (ToR), the tender process and

45 However, prior to this The Norwegian Parliament already in 1963 had approved a number of measures related assistance to business sector development in developing countries.
46 Næringsutvikling i sør (MFA 1999) or Business development in the south
47 NOU 2008:14. Samstemt for utvikling

criteria for selecting the evaluation team. Stakeholders will be invited to give their comments before the inception report is approved.

The draft final report will be sent by EVAL to partner countries representatives, the involved Norwegian embassies and other involved stakeholders, giving them the opportunity to comment on the findings, conclusions, recommendations and lessons learned which are presented in the draft report. DACs quality standard for evaluations require that the final evaluation report reflects and assess such comments, and acknowledge any substantive disagreements. The stakeholders will also be invited to participate during the follow-up phase in discussions about the conclusions and recommendations in the final report.

An evaluation team, independent of the stakeholders and EVAL, will be selected after an international tender process and is responsible for the findings, assessments, conclusions and recommendations in their reports. EVAL has the professional responsibility for the evaluation process and choice of consultants. EVAL is also responsible for its independent advice to the Norwegian Minister for international development on policy change and management response.

Confidential information about individual business enterprises will NOT be disclosed in draft and final reports or in other recognisable ways. To secure strict confidentiality sensitive information about enterprises will be published only on aggregate level combining statistical data or other forms of information for no less than 3 different enterprises. The design of this evaluation is therefore based on choosing at least 3 enterprises of the same type for analytical purposes which makes it possible to protect business-information.

4 Objective and Scope

The main objective of the analysis is to evaluate the results on output, outcome and impact level of the Norwegian assistance to the Business sector in the partner countries, both managed directly through Norwegian channels and by different partners abroad.

The focus will be on the on following two objectives;

1. Document and assess to what extent Norwegian and partners assistance to Business Sector at **project level** has produced:
   - The anticipated or planned results for the partner countries, institutions, businesses, local communities and/or households,
   - Identify unplanned positive or negative results for the involved stakeholders,
   - Identify reasons for why interventions have been successful or not.
2. Document and assess the main Norwegian policy instruments used after the Private Sector Development (NIS) of 1999 was established according to DACs usual criteria, with emphasis on assessments of:
   - the planning, designing, implementation and the follow-up phase of assistance used normally by Norwegian assistance agencies, but also requirements by the application based activities of Norad and investment initiatives managed by Norfund and partners.
   - the cost-effectiveness of selected key policy instruments

Business sector development is often a term which includes private sector enterprises and those public sector enterprises that operate under market conditions. This evaluation will cover private enterprises, Norwegian public enterprises or institutions who are involved in businesses in the South and public/private institutions in partner countries that assist or regulate activities in the private sector. The Norwegian assistance includes both donations and investments based on commercial terms after negotiations which have to be assessed accordingly. The evaluation will not cover mixed credit instruments.

The focus is on *direct assistance* in the form of investments in enterprises, improvements in frameworks and the building of public institutions that assist development and regulations of private sector. *Indirect assistance* will also be covered through a few selected examples from prioritized sector elements as infrastructure projects related to energy, telecommunication and finance, but also from management of renewable resources and travel/tourism[48].

The evaluation is limited to assistance at bilateral level and covers only interventions where Norway alone or in cooperation with other donors have planned or implemented interventions, pooled assistance included. Assistance through multilateral organizations is not included.

The projects assessed in this evaluation shall cover both the support provided directly by MFA, the embassies, Norad, Innovation Norway and Fredskorpset, but also the investments of the Norwegian Investment Fund for Developing Countries (NORFUND), including Norfunds investments through funds managed by Aureos Capital and their regional/local partners in the South. A few projects organised by NHO and a key NGO will also be included.

The scope of the evaluation shall cover the assistance following the adoption of the Norwegian action plan for private sector development in 1999. However, to capture the long term impacts of assistance, the evaluation shall also include a sample of projects started before or during 1990-1999. The reason for this broader time frame is that results of Norwegian input most often will manifest itself long after the assistance takes place, meaning there is a considerable time-lag between input and results. It is therefore important that the evaluation not only covers projects and programmes that have been implemented more recently.

This scoping is based on a preliminary statistical study of the main elements of Norwegian business related assistance which clarifies the evaluation object in general, and a "background paper" that refers to the main "programme theories" behind earlier policies and strategies, in addition to some of the knowledge base documented internationally. Appendix A-5 includes the background paper and some key statistical information.

48 These sector elements have priority in the very recent white paper to the Norwegian Parliament (Stortingsmelding nr. 13: 2008-2009)

5 The Evaluation Questions

Assessments of Results

i. What have been the results at local, national and regional levels of Norwegian project assistance for the partner country, its business sector, institutions, enterprises, and when applicable to local communities and households?

Results here refer to direct or indirect, positive or negative, intended or unintended **changes** in legal or regulatory frameworks for the business sector, institutional competence and capacity development, creation of employment and income (including tax revenues, export earnings, import savings and incomes among households), creation of local business opportunities and infrastructure, changes in enterprise profitability, corporate governance and labor working conditions, transfer of technology, know how and also standards (administrative, economical or social). Of particular relevance is a documentation of the distribution impacts of these changes across stakeholders and beneficiaries. The impacts on women, particular in terms of work and income, should be identified and assessed. Similarly effects on the environment should be taken in to account, when relevant and possible.

ii. Provide an assessment of the project level results, and outline the reasons for success or failures.

The assessments shall be based on well defined objective indicators that are common for the comparable interventions. The result indicators used for assessments and comparisons shall be common for different types of businesses, as between small and large businesses or institutions. If they differ, for example because of different guidelines for Norwegian donations and commercial investments, or different contexts and regulatory frameworks in partner countries, that should be explained in the final report. Assistance that has been influenced by internal conflicts or war should especially be identified and such contextual challenges clarified.

The assessments shall identify the result chains for long-term effects. When relevant the assessment of the assistance to individual companies should cover the full period from the grants for pre-studies to possible investments and business operations, and in particular identify the risk management strategies used in the different stages of the project[49].

Changes that take place over time is often be related to other external factors than conflicts/war. The evaluation team shall analyze how these external factors or processes have influenced the results. Included herein are the changes in partner countries' policies and institutional arrangements, privatization policies, interventions by other Donors, changes in the market conditions, and access to inputs such as energy and credit.

The evaluation shall identify how the performance and interactions of the different Norwegian public institutions and their partners in the value chain, including private

49 Assistance to enterprises may start after the planning process and be based on "un-normal" risk criteria as the enterprises have to assess the whole risks themselves.

commercial and not-for-profit organizations, have influenced the results. The perception among private sector users of the services delivered by different public actors should be a key indicator. In addition, the evaluation shall assess the quality and effectiveness of the monitoring and reporting routines of the involved public actors and, when relevant[50], how threats or risks have been handled by the responsible units. The response of Norwegian public actors to weaknesses and recommendations in mid-term project reviews, progress reports or other documents are of special interest in this context.

Assessments of instruments and the performance of actors

The evaluation shall focus on the following two instruments in Norwegian assistance to the Business sector development:

- Financial support provisions directly to enterprises and institutions, with focus on Norads provisions including the Match-Making Programmes (MMPs)[51]
- The Norwegian Investment Fund for Developing Countries (NORFUND), including investments in financial institutions and funds managed by others, in particular by Aureos Capital.

The evaluation shall provide a mapping of how these types of instruments have been used from 1999 onwards, how the actors have been involved and what their contributions to results in different contexts have been. The mapping will identify the main public and private, commercial and not-for-profit Norwegian actors and their partners involved in assistance or investments through these instruments. For Norfund it will also provide an overview of their investments in financial institutions and through Funds, including key fund managers in the South, and Norfund's assistance in capacity and competence building with focus on Africa.

Key evaluation questions are:

- What has been the performance of the financial support provisions, the match-making programmes and other forms of direct assistance as instruments to promote the efforts of the small and medium size Norwegian businesses who have been involved in trade (not including export from Norway) or have undertaken direct of indirect foreign investment in the Norwegian partner countries in the South?

The evaluation should give a clear description of the instruments and the interventions by the involved actors in selected four case countries and regions. This description should include the objectives and content, volume of resources, the time pattern, influence area, partners and cooperation with other donors and relationships to other relevant interventions taking place in the same geographical area.

- What has been the performance of the direct and indirect portfolio investments of Norfund, Aureos Capital and their partners, including the performance of investments made through regional or local funds and financial institutions?

50 Risk assessments, mid-term reviews and normal reporting are not relevant for many short term financial support provisions managed by Norad. Investment assessments by Norfund and partners have also different requirements.

51 As support for feasibility studies, provisions for loans and guarantees, support for investment in basic infrastructure, training and marketing efforts

The emphasis shall be on Norfund's and Aureos funding of direct and indirect investments in Africa south of Sahara. The evaluation shall track the channeling of funds through the different involved partners to document the performance in terms of the different actors. A limited number of partner funds and investments will be selected for fact-finding regarding resource use and results. The evaluation shall also identify factors and forces which have influenced the design and implementation of the investments and capacity building efforts, and assess especially the quality of the Monitoring and Reporting routines for such actions.

6 Methodological Comments

The quality standard and evaluation criteria

The evaluation will be conducted in accordance with the mandate of the Evaluation Department and follow the norms and quality standards laid down in OECD/DACs evaluation guidelines[52]. The assessments will cover all of the internationally adopted DACs criteria of Relevance, Effectiveness, Efficiency, Impacts and Sustainability, as appropriated:

- Relevance then refers to the extent to which the selected projects, programmes or policy instruments were consistent with the Norwegian priorities and guidelines, and the needs and requirements of the beneficiary countries. These assessments should be based on the requirements that were relevant when projects/programmes was planned or implemented, not what has been required later on.
- Effectiveness refers to the extent to which the selected interventions have attained (or are likely to attain) their objectives, taking into account major factors influencing the achievement or non-achievement of the objectives
- Efficiency will measure the benefits/outputs or outcomes in relation to the resources/inputs. The expected benefits/costs in appraisals (ex ante) or project documents should be compared with the observed realities ex-post.
- Impacts refers here to long-term benefits or negative effects, intended or unintended
- Sustainability is the degree of or likelihood of continued long-term benefits of interventions and the resilience to risks after the intervention is undertaken.

The methodological design

Norwegian Business sector cooperation programmes have been a subject of reviews and evaluations in a number of earlier reports and studies. The evaluation will avoid duplication of work, and the discussion of the previous evaluations will be limited to a brief comparative overview of the main finding of the earlier studies. This evaluation shall draw on the previous work where relevant, and primary data collected in the evaluation shall be quality checked through use of appropriate triangulation strategies. The evaluation will focus on *results* of the assistance and be based on methods developed for measuring results of private sector development[53]. The consultant will reconstruct the *intervention logic* for the main policy instruments used in Norwegian Business assistance in consultations with the stakeholders involved in the policy development.

52 Including the guidelines in DAC Evaluation Quality Standards, March 2006
53 As for example the 2008 report from ITC of the ILO "Measuring and Reporting Results. The Reader on Private Sector Development.

One of the main methodological challenges will be that several interventions are not based on explicit or documented objectives, or a well formulated "programme theory" of how anticipated results will be achieved. Another methodological challenge is how to obtain information from a representative sample of Norwegian interventions which makes it possible to draw general conclusions. The Norwegian business related assistance has covered more than 80 different countries and a very complex mix of interventions in very different contexts. The main alternative strategies for designing the evaluation have therefore been to do a limited number of thorough case studies or a broad more "superficial" study.

The proposed design is a methodological compromise and based on a case study design which covers four of Norway's partner countries. It will be supplemented by a study at regional level in Africa south of Sahara which focuses on the assistance through Norfund and partners, as Norfund so far has not been broadly involved at country level. New primary data will be collected mainly through field studies in these four countries and on regional level in Africa south of Sahara.

The case country studies

The four partner countries proposed for in-depth case studies are Bangladesh, Sri Lanka, South Africa and Uganda. Norway has been involved for a long period in all of these countries with comprehensive assistance programmes for business sector development. The aid has covered both small and large enterprises in various sectors, direct investments and assistance on the development of policy frameworks and institutions. Sri Lanka and Uganda were identified as key nations early in the implementation phase of the NIS strategy. South Africa has the largest number of Norwegian businesses establishments supported through the Norwegian assistance. This is also a country where the business climate differs from the three other country cases.

6.0.1 Assistance to enterprises

The *Bangladesh case-study* should cover 3 Norwegian investments in the telecom, cement and energy sectors (Grameen Phone & Telenor, Scancem, Solør Treforedling and/or ABB), a microfinance project organised by Strømme Foundation, and 3 smaller projects in jute and other industries selected at the end of the inception phase. The study in Bangladesh should also include one enterprise related project involving Fredskorpset.

The case studies in *Sri Lanka, South Africa and Uganda are good candidates for assessments of different types of* ***direct assistance to enterprises.*** *Case studies in Sri Lanka and South Africa* are especially relevant for assessments of the financial support provisions and the Match Making Programmes, including the performance of the administration of the MMPs by Innovation Norway and a private company. The evaluation should cover in each of these two countries 3 projects through the Match-Making Programme and 20 projects where enterprises have got financial support for feasibility studies after 1999. 20-30% of the enterprises that got support for feasibility studies have normally follow up with investments. The analysis should follow up the later phases in business developments to clarify if – and why – investments and productions have become a reality or not. It is important to investigate why actions have taken place or not, and the short and long-term outcome and impacts of investments. The selected enterprise projects should cover the sector elements given priority in the recent White Paper, but also 3 randomly selected projects. Among the selected projects in Sri Lanka will be 3 of 4 projects by Trondheim Energiverk, Hydrogas, Green Farms and ABB. The number of projects to be included and the final selection of projects will be decided at the end of the inception phase when information will be available on how many of the supported feasibility studies have resulted in investments. It is, however, important that the evaluation covers at least 6 investments that have become a reality (3 in each of Sri Lanka and South Africa).

These two studies of enterprises in Sri Lanka and South Africa should be supplemented by studies of the support to 3 enterprises in ***Uganda*** with focus on agribusinesses (Jambo Roses Ltd, Gilde Norsk Kjøtt and Green Resources). The study of the assistance by Fredskorpset to enterprises should be limited to two projects in each of these three countries.

6.0.2 Institutional capacity building

Case studies in Sri Lanka, South Africa and Uganda makes it also possible to evaluate different types of assistance to business related institutions and commercial association. Norway has given long-term assistance to build capacity in local business and trade associations in Sri Lanka, and especially to a District Chamber of Commerce (in Hambantota). Long-term institutional assistance on national level has also been given in South Africa and Uganda. The later assistance has been channeled through The Norwegian Confederation of Norwegian Enterprises NHO to their partner organizations in these countries. The case study in *Uganda* can in this case draw on the ongoing review of NHO's programme in that country.

The intention is that each country study should include at least three *Norwegian investments and one major project related to institutional capacity building.* The sample of enterprise projects to be covered will emphasise the sectors that have high priority in the recent White Paper. The final selection of projects or programmes will be finally approved by EVAL in the inception phase.

The regional study of investments and capacity building through Norfund and partners

A key issue is the results of Norfund's investments and capacity building efforts, directly or through separate financial institutions and private equity funds managed by others. The evaluation of Norfund will especially include the activities of funds managed by Aureos Capital. It will follow the resources from Norfund through Aureos-managed funds and other financial institutions to the underlying enterprises, and assess the results of a sample of their investments with focus on funds, institutions and investments in Africa south of Sahara. The evaluation should assess the results of Norfund not only by the goals given in recent budget or programme documents, but by aggregated result data from a sample of individual investments during the last 5-10 years. The assessments will be according to DACs criteria, with emphasis on value creation, development impact and cost-efficiency. Potential catalytic effects of actions together with sister organizations should also be clarified, but with fact-finding limited to cooperation in Africa south of Sahara. The sample of financial institutions and regional/local private equity funds will cover investment activities and capacity building especially in Uganda, but also on regional level. The final sample will be decided at the end of the inception phase after an assessment of the evaluation team. When relevant the results from the evaluation of Norfund should be compared with the case country studies, looking for general patterns or dissimilarities in the results and the quality of Norwegian assistance.

7 Evaluation team and tender process

The tender process will be international and in accordance with EU rules. The main competition criteria will be the quality of team, the design and methods proposed, the quality assurance system, availability of team members and price as specified in the tender document.

All members of the evaluation team are expected to have relevant academic qualifications and evaluation experience. In addition, the evaluation team shall cover the following competencies.

Competence	Team Leader	At least one member
Academic	Higher relevant degree.	
Discipline	Relevant disciplines	Economics, investment analysis
Evaluation	Leading multi disciplinary evaluations	Impact assessment methods, institutional assessment
Sector	Private sector finance	Energy, private equity management, renewable resources/agrobusiness, infrastructure,
Development Cooperation	Yes	Yes
Country/region	Developing countries	Southern Africa, South Asia
Language fluency		
English	Written, Reading, Spoken	
Norwegian		Reading, Spoken

The evaluation team should as far as possible, include both international and experienced local consultants from the South.

8 Budget and deliverables

The project is **budgeted** with a maximum input of 60 **person-weeks (5 days & 42 hours).** The **Deliverables** in the consultancy consist of following outputs:

- Work-in-progress reporting **workshops** (maximum 2) in Oslo, arranged by the EVAL on need basis.

- **Inception Report** not exceeding 30 pages shall be prepared in accordance with EVAL's guidelines given in *Annex A-3 Guidelines for Reports.* It will be discussed with the team and the relevant stakeholders before approval by EVAL.
- **Draft Final Report** for feedback from the reference group, stakeholders and EVAL. The feedback will include comments on structure, facts, content, and conclusions.
- **Final Evaluation Report** prepared in accordance with EVAL's guidelines given in *Annex A-3 Guidelines for Report.*
- **Seminar for dissemination** of the final report in Oslo or in the case countries, to be arranged by EVAL. Direct travel-cost related to dissemination in the case countries will be covered separately by EVAL on need basis, and are not to be included in the budget.

All presentations and reports are to be submitted in electronic form in accordance with the deadlines set in the time-schedule specified in the *Tender specification*. EVAL retains the sole rights with respect to all **distribution, dissemination and publication** of the deliverables.

EVALUATION REPORTS

8.97 Evaluation of the Nordic Africa Institute, Uppsala
9.97 Evaluation of Norwegian Assistance to Worldview International Foundation
10.97 Review of Norwegian Assistance to IPS
11.97 Evaluation of Norwegian Humanitarian Assistance to the Sudan
12.97 Cooperation for Health DevelopmentWHO's Support to Programmes at Country Level

1.98 "Twinning for Development". Institutional Cooperation between Public Institutions in Norway and the South
2.98 Institutional Cooperation between Sokoine and Norwegian Agricultural Universities
3.98 Development through Institutions? Institutional Development Promoted by Norwegian Private Companies and Consulting Firms
4.98 Development through Institutions? Institutional Development Promoted by Norwegian Non-Governmental Organisations
5.98 Development through Institutions? Institutional Developmentin Norwegian Bilateral Assistance. Synthesis Report
6.98 Managing Good Fortune – Macroeconomic Management and the Role of Aid in Botswana
7.98 The World Bank and Poverty in Africa
8.98 Evaluation of the Norwegian Program for Indigenous Peoples
9.98 Evaluering av Informasjons støtten til RORGene
10.98 Strategy for Assistance to Children in Norwegian Development Cooperation
11.98 Norwegian Assistance to Countries in Conflict
12.98 Evaluation of the Development Cooperation between Norway and Nicaragua
13.98 UNICEF-komiteen i Norge
14.98 Relief Work in Complex Emergencies

1.99 WID/Gender Units and the Experience of Gender Mainstreaming in Multilateral Organisations
2.99 International Planned Parenthood Federation – Policy and Effectiveness at Country and Regional Levels
3.99 Evaluation of Norwegian Support to Psycho-Social Projects in Bosnia-Herzegovina and the Caucasus
4.99 Evaluation of the Tanzania-Norway Development Cooperation1994–1997
5.99 Building African Consulting Capacity
6.99 Aid and Conditionality
7.99 Policies and Strategies for Poverty Reduction in Norwegian Development Aid
8.99 Aid Coordination and Aid Effectiveness
9.99 Evaluation of the United Nations Capital Development Fund (UNCDF)
10.99 Evaluation of AWEPA, The Association of European Parliamentarians for Africa, and AEI, The African European Institute
1.00 Review of Norwegian Health-related Development Cooperation1988–1997
2.00 Norwegian Support to the Education Sector. Overview of Policies and Trends 1988–1998
3.00 The Project "Training for Peace in Southern Africa"
4.00 En kartlegging av erfaringer med norsk bistand gjennomfrivillige organisasjoner 1987–1999
5.00 Evaluation of the NUFU programme
6.00 Making Government Smaller and More Efficient.The Botswana Case
7.00 Evaluation of the Norwegian Plan of Action for Nuclear Safety Priorities, Organisation, Implementation
8.00 Evaluation of the Norwegian Mixed Credits Programme
9.00 "Norwegians? Who needs Norwegians?" Explaining the Oslo Back Channel: Norway's Political Past in the Middle East
10.00 Taken for Granted? An Evaluation of Norway's Special Grant for the Environment

1.01 Evaluation of the Norwegian Human Rights Fund
2.01 Economic Impacts on the Least Developed Countries of the Elimination of Import Tariffs on their Products
3.01 Evaluation of the Public Support to the Norwegian NGOs Working in Nicaragua 1994–1999
3A.01 Evaluación del Apoyo Público a las ONGs Noruegas que Trabajan en Nicaragua 1994–1999
4.01 The International Monetary Fund and the World Bank Cooperation on Poverty Reduction
5.01 Evaluation of Development Co-operation between Bangladesh and Norway, 1995–2000
6.01 Can democratisation prevent conflicts? Lessons from sub-Saharan Africa
7.01 Reconciliation Among Young People in the Balkans An Evaluation of the Post Pessimist Network

1.02 Evaluation of the Norwegian Resource Bank for Democracyand Human Rights (NORDEM)
2.02 Evaluation of the International Humanitarian Assistance of theNorwegian Red Cross
3.02 Evaluation of ACOPAMAn ILO program for "Cooperative and Organizational Support to Grassroots Initiatives" in Western Africa 1978 – 1999
3A.02 Évaluation du programme ACOPAMUn programme du BIT sur l'« Appui associatif et coopératif auxInitiatives de Développement à la Base » en Afrique del'Ouest de 1978 à 1999
4.02 Legal Aid Against the Odds Evaluation of the Civil Rights Project (CRP) of the Norwegian Refugee Council in former Yugoslavia

1.03 Evaluation of the Norwegian Investment Fund for Developing Countries (Norfund)
2.03 Evaluation of the Norwegian Education Trust Fund for Africain the World Bank
3.03 Evaluering av Bistandstorgets Evalueringsnettverk

1.04 Towards Strategic Framework for Peace-building: Getting Their Act Togheter.Overview Report of the Joint Utstein Study of the Peacebuilding.
2.04 Norwegian Peace-building policies: Lessons Learnt and Challenges Ahead
3.04 Evaluation of CESAR´s activities in the Middle East Funded by Norway
4.04 Evaluering av ordningen med støtte gjennom paraplyorganiasajoner. Eksemplifisert ved støtte til Norsk Misjons Bistandsnemda og Atlas-alliansen
5.04 Study of the impact of the work of FORUT in Sri Lanka: Building CivilSociety
6.04 Study of the impact of the work of Save the Children Norway in Ethiopia: Building Civil Society

1.05 –Study: Study of the impact of the work of FORUT in Sri Lanka and Save the Children Norway in Ethiopia: Building Civil Society
1.05 –Evaluation: Evaluation of the Norad Fellowship Programme
2.05 –Evaluation: Women Can Do It – an evaluation of the WCDI programme in the Western Balkans
3.05 Gender and Development – a review of evaluation report 1997–2004
4.05 Evaluation of the Framework Agreement between the Government of Norway and the United Nations Environment Programme (UNEP)
5.05 Evaluation of the "Strategy for Women and Gender Equality in Development Cooperation (1997–2005)"

1.06 Inter-Ministerial Cooperation. An Effective Model for Capacity Development?
2.06 Evaluation of Fredskorpset
1.06 – Synthesis Report: Lessons from Evaluations of Women and Gender Equality in Development Cooperation

1.07 Evaluation of the Norwegian Petroleum-Related Assistance
1.07 – Synteserapport: Humanitær innsats ved naturkatastrofer:En syntese av evalueringsfunn
1.07 – Study: The Norwegian International Effort against Female Genital Mutilation
2.07 Evaluation of Norwegian Power-related Assistance
2.07 – Study Development Cooperation through Norwegian NGOs in South America
3.07 Evaluation of the Effects of the using M-621 Cargo Trucks in Humanitarian Transport Operations
4.07 Evaluation of Norwegian Development Support to Zambia (1991 - 2005)
5.07 Evaluation of the Development Cooperation to Norwegion NGOs in Guatemala

1.08 Evaluation: Evaluation of the Norwegian Emergency Preparedness System (NOREPS)
1.08 Study: The challenge of Assessing Aid Impact: A review of Norwegian Evaluation Practise
1.08 Synthesis Study: On Best Practise and Innovative Approaches to Capasity Development in Low Income African Countries
2.08 Evaluation: Joint Evaluation of the Trust Fund for Enviromentally and Socially Sustainable Development (TFESSD)
2.08 Synthesis Study: Cash Transfers Contributing to Social Protection: A Synthesis of Evaluation Findings
2.08 Study: Anti- Corruption Approaches. A Literature Review
3.08 Evaluation: Mid-term Evaluation the EEA Grants
4.08 Evaluation: Evaluation of Norwegian HIV/AIDS Responses
5.08 Evaluation: Evaluation of the Norwegian Reasearch and Development Activities in Conflict Prevention and Peace-building
6.08 Evaluation: Evaluation of Norwegian Development Cooperation in the Fisheries Sector

1.09 Evaluation: Joint Evaluation of Nepal´s Education for All 2004-2009 Sector Programme
1.09 Study Report: Global Aid Architecture and the Health Millenium Development Goals
2.09 Evaluation: Mid-Term Evaluation of the Joint Donor Team in Juba, Sudan
2.09 Study Report: A synthesis of Evaluations of Environment Assistance by Multilateral Organisations
3.09 Evaluation: Evaluation of Norwegian Development Coopertation through Norwegian Non-Governmental Organisations in Northern Uganda (2003-2007)
3.09 Study Report: Evaluation of Norwegian Business-related Assistance Sri Lanka Case Study
4.09 Evaluation: Evaluation of Norwegian Support to the Protection of Cultural Heritage
4.09 Study Report: Norwegian Environmental Action Plan
5.09 Evaluation: Evaluation of Norwegian Support to Peacebuilding in Haiti 1998–2008
6.09 Evaluation: Evaluation of the Humanitarian Mine Action Activities of Norwegian People's Aid
7.09 Evaluation: Evaluation of the Norwegian Programme for Development, Research and Education (NUFU) and of Norad's Programme for Master Studies (NOMA)

1.10 Evaluation: Evaluation of the Norwegian Centre for Democracy Support 2002–2009
2.10 Synthesis Study: Support to Legislatures
3.10 Synthesis Main Report: Evaluation of Norwegian Business-related Assistance
4.10 Study: Evaluation of Norwegian Business-related Assistance South Africa Case Study

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