

# EVALUATION DEPARTMENT

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## Norwegian Development Assistance to Private Sector Development and Job Creation

A Mapping of Policy Objectives, Aid Flows  
and Lessons from the Literature



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The Evaluation Department

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This report is the product of the authors, and responsibility for the accuracy of data included in this report rests with the authors alone. The findings, interpretations, and conclusions presented in this report do not necessarily reflect the views of the Evaluation Department.

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# Foreword

This report summarises the work done by the Chr. Michelsen Institute to assess to what extent Norwegian development assistance promotes private sector development in light of best practices identified by research and evaluations and compared to stated objectives.

The report provides an important contribution to the debate on private sector development in Norwegian development assistance as it univocally concludes that it is not enough to develop commercial businesses, unless it can also be established that this support has improved circumstances for people and the planet.

However, the report has some shortfalls. It proved more challenging than expected to map the Norwegian assistance to private sector development, and to get a comprehensive view of partners, programmes and projects.

The evaluation adopts the OECD/DAC definition of private sector development, focusing on commercial business, and activities such as promotion of favourable policies, addressing market imperfections and

providing capital and competence. Aid is classified as private sector development support if this aid is either categorised as such in the Norwegian budget proposal or if the aid goes to production sectors or economic infrastructure and services. The challenge with this approach is that the evaluation risks excluding private sector development in other sectors, such as climate and health. Furthermore, there is a risk that the mapping include aid to the public sector, which appears to be outside the chosen definition.

This means that the numbers presented in this report must be treated with caution as the report may not give a complete overview of Norwegian assistance to private sector development. The literature on sustainable private sector development is vast, and the evaluation team has decided to focus on investments in firms/markets and on literature that documents effects of direct investments on specific development objectives. This choice means that other areas have received less attention, including literature on how to promote sustainable private sector development, and a responsible

business that does not endanger biodiversity, human rights and the environment. Similarly, the report pays limited attention to literature on different instruments, such as guarantees, equities and loans.

The Evaluation Department encourage the interested reader to look at the evaluation brief by Reidar Kvam accompanying this report and our previous private sector evaluations ([1](#), [2](#)) to get a better understanding of different strategies to promote responsible business. We are also glad to see that there is an increasing interest and surge of evaluations in this area, and refer interested readers to the [DAC network on Development Evaluation](#) for upcoming related evaluations on this topic.

Oslo, February 2020



Per Øyvind Bastøe  
Director Evaluation Department



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## Executive Summary

A healthy private sector that powers sustainable, inclusive growth is widely recognized as key to achieving many of the world's most urgent development goals. Norway has made private sector development (PSD) and job creation a priority thematic area for its development assistance, and has consistently allocated a significant portion of its aid in recent years to supporting the private sector in developing countries and improving the conditions in which it operates.

The Evaluation Department of Norad commissioned CMI to conduct a wide-ranging evaluation of this assistance. This report, the first comprehensive overview of Norwegian PSD support, identifies and then maps this aid in terms of volume, targeted sector and, where possible, the stated aims of interventions. It then analyzes these in terms of the government's overall objectives and, importantly, in light of lessons drawn from the literature on the likely impacts and best design of private sector interventions.

The government's objectives for support to the private sector, as stated in the annual budget proposals and discussed in other policy documents, centered on inclusive and sustainable economic growth, a responsible private sector, job creation, poverty reduction, and reducing greenhouse gas emissions through renewable energy. These reflect the global goals of the 2030 Agenda for Sustainable Development that Norway has adopted as the platform for its development cooperation.

We find that both aggregate aid flows and development objectives have remained relatively stable and in alignment. Over the period of 2010–2017, Norway allocated a total of nearly NOK 28.4 billion to interventions that can be considered as PSD support. This amounted to 11.3% of total Norwegian development assistance over this eight-year period. Based on the program theory that we elaborated using policy documents and data, we also conclude that Norwegian aid is designed and implemented in ways that are likely to contribute to the development objectives.

Nevertheless, there are pertinent lessons to be drawn from research and from other donors' practical experience on the development effects, challenges, tradeoffs and benefits of different approaches and uses of aid in support of the private sector, either directly to firms or generally to improve the enabling environment.

For instance, aid invested in specific firms (for instance, through finance, technology or knowledge) risks "crowding out" other private investment. Even if the project is profitable in itself, it may crowd out other investors, and thus have no impact on the aggregate production or provision of capital in the market. Our analysis finds that in 2017, the latest year for which data were available, 70% of Norwegian PSD support was classified as direct support. This does not mean that direct support should be avoided, but rather that careful market analysis can contribute towards the desired effect of catalyzing and generating additional investments – and thus growth and jobs – in developing countries.



*The report presents the lessons relevant to Norwegian aid in substantial detail. In brief, some of the key challenges and our findings are as follows:*

- **Aid to the private sector risks altering competitive relations and markets in ways that undercut the donor’s overall objectives.** The rationale for PSD interventions is country- and market-specific, which calls for careful pre-investment analysis of underlying market failures. This should include analysis of the competition in the market, not only whether the investment may be profitable. One key aspect to be analyzed is the degree of market concentration. Norfund was conducting market analysis that indirectly provided information about the market concentration and potential competitors, and could have been used as an input in crowding out assessments.
- **While market analysis should focus on crowding out and removing binding constraints, many of the Norwegian PSD disbursements are too small to justify the costs of carrying out this analysis.** It appears that such market analysis was missing both at the project level and at a higher institutional level for the time period of this evaluation.
- **Sectors that use unskilled labor more intensively also tend to have stronger effects on poverty reduction, and agriculture, particularly small-scale agriculture, is the most poverty-reducing sector.** Agriculture is a priority sector for Norwegian PSD support. Excluding Norfund projects, 19% of this aid went to agriculture in 2017, the latest year for which data were available. That year, 15% of Norfund commitments were to agriculture. However, the Norfund commitments were by and large to agrobusiness rather than smallholders.
- **While support to promote responsible business focuses on communicating expectations and promoting regulations related to wage levels and labor standards, there is little empirical evidence to suggest the best way to promote responsible business.** PSD interventions should be used to support international companies to gradually lead the way towards better wages and higher labor standards. Norwegian PSD support contributes to the International Labour Organization, which is considered the main multilateral institution for promoting the work-related parts of responsible business.
- **Increasing the supply of renewable energy to replace fossil fuel is one important approach to foster sustainable economic growth.** Energy is a priority sector for Norwegian PSD support, and a large share was provided to investments in clean energy. In most cases, increased production of clean energy will replace other forms of energy such as coal, natural gas and oil. However, if new providers improve the competition in the local energy markets, demand may increase and the renewable sources may only add to the other forms of energy. In general, the preparation of support to the energy sector requires a market analysis to assess the likely impacts of the investment on energy prices and the likely replacement of less clean energy sources.

Broadly speaking, this report finds that Norwegian support to PSD is designed in ways that, if well implemented, are likely to support the intended outcomes of economic growth that is inclusive and environmentally sustainable, creates jobs, promotes a responsible private sector, and reduces poverty. Going by lessons that emerge from research and evaluative literature, Norwegian aid would be more effective if it can be based on analysis of the business environment and competitive relationships in developing countries.



# Introduction

The private sector can play an important role in achieving the global ambitions of sustainable and inclusive development, job creation and poverty reduction. Norway recognizes this potential and has committed resources and implemented a range of measures to support private sector development (PSD) in partner countries.

While Norway has been supporting PSD and job creation in partner countries for some time, this report provides the first comprehensive overview of this development cooperation.<sup>1</sup> It aims to elaborate on and answer a number of questions. What is Norway spending on support to PSD and where and how? What are the objectives of

Norway's PSD support? To what extent is Norwegian aid flowing to projects, interventions and investments that match those policy objectives? Is its PSD support going to sectors that Norway has prioritized in support of those objectives? Broadly speaking – and given that the effectiveness of these individual projects, interventions and investments is not evaluated in this report – is Norway designing and funding its PSD support in such a way that its inputs are likely to produce the desired outcomes?

This report approaches these questions from different angles. It analyzes data from numerous sources to present the relative size and volume of resources allocated to PSD support in recent years and identifies policy and project objectives of this support and tracks how these have changed over time. The report uses several lenses, including a program theory developed for this report, through which to evaluate the extent to which the allocated and committed resources match up to stated objectives and are likely to achieve the development outcomes.

Finally, the work included an extensive review of practical studies and research to illustrate challenges, tradeoffs and benefits of different approaches and interventions in PSD support, framed against the five main development objectives of Norwegian PSD support identified in this report: economic growth that is inclusive and environmentally sustainable, creates jobs, promotes a responsible private sector, and reduces poverty. This evaluation report finds that overall, Norway broadly allocates its PSD resources in line with these objectives. If well implemented, the support is likely to contribute to the intended outcomes. However, the lessons that emerge from research and evaluative literature suggest that Norwegian aid would be more effective if it can be based on analysis of the business environment and competitive relationships in developing countries.

[Chapter 2](#) sets out the context of this evaluation, underscoring the importance of the private sector in achieving global sustainable development goals and Norway's priorities of job creation and poverty reduction.

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1 The absence of a comprehensive overview of Norway's PSD support is illustrated by the overview of Norwegian aid related to private sector development in Meld. St. 35, 2014-15 (page 14): it concluded that NOK 3.6 billion went to PSD in 2014 but acknowledged that many relevant categories were not included. As a comparison, our data from the Norad database showed that NOK 4.0 billion was disbursed to PSD in 2014, which excludes large multilateral trust funds that also include PSD components (such as disbursements to trust funds that are not coded as PSD because their main components are not for PSD). Our estimate also excluded imputed values from core support to multilateral organizations. More details are provided in Section 4.2.





Annex 4–8 can be found as a separate document together with this report at [www.norad.no/evaluation](http://www.norad.no/evaluation)

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[Chapter 3](#) discusses the conceptual framework, key concepts and methodologies employed to provide this overview of Norwegian support to PSD. [Chapter 4](#) identifies the government's objectives for this support over time, maps the disbursements and evaluates the extent to which investments and other aid line up with those objectives and lessons from the literature. [Chapter 5](#) highlights some of the most pertinent issues in the field, as well as the potential tradeoffs and effects of this type of development cooperation, while [Chapter 6](#) concludes.

The six objectives set out in the Terms of Reference for this evaluation are addressed across the chapters. Chapter 4 addresses Mapping of objectives (Objectives A1) and Mapping of aid flows and comparing to objectives

and lessons from the literature (Objective A4); The overview of literature and how to promote PSD as a means to pursue development objectives to policy objectives (Objective A2) informs the entire report and is the backbone of Chapter 5; Program theory (Objective A3) and Priority areas and gaps in support (Objective A5) are covered in Chapters 4 and 5 as well as *Annexes 5, 6 and 7*. Priority areas and gaps in support (Objective A5) are discussed in Chapters 4 and 5. Suggested case studies for further evaluation (Objective A6) are listed in *Annex 8*.



## Background and Context

The 2030 Agenda for Sustainable Development implicitly and explicitly looks to the private sector to help achieve the global ambitions of sustainable and inclusive growth.<sup>2</sup> Indeed, the imperative of private sector development is embedded across the Sustainable Development Goals (SDGs) and targets. Norway has adopted the SDGs as the platform for its development cooperation (Meld St. 24, 2016–2017, p. 62), and one of the five thematic priority areas for official development assistance is PSD and job creation (Meld. St. 24, 2016–2017, p. 9). The strong positive relationship between jobs and poverty reduction is a key reason for the importance attached to PSD among donors.<sup>3</sup>

The private sector's potential has prompted most donors, including Norway, to make PSD a key part of their assistance to developing countries. As the World Bank

notes, the private sector, including agriculture and the informal non-farm sector, accounts for 90% of employment in developing countries and is “the key engine” for job creation. Transforming our world cannot be done without it.

While Norway has developed many policy objectives and sub-goals for support to PSD and job creation, there seems to be limited knowledge about the degree to which these aims are followed by adequate resource allocations, and to what extent the allocations leads to the desired effects.

This question poses another challenge, which is inherent in all aid interventions that work through markets. It is difficult to establish what is the best intervention for achieving a given objective when the results of the interventions cannot be accurately established at the outcome and impact levels. This is particularly the case for PSD interventions, for example those intended to create jobs. Supporting one firm may lead this firm to expand production and hire new workers, but this might

replace the production of another firm in the same market, and cause a down-sizing of labor in that firm. The net effect in terms of jobs created can therefore be very difficult to measure. These interrelationships, and sometimes tradeoffs, are much studied in theory. What are the practical implications of these insights for Norway as it explores how to improve its support to PSD?

### WHAT IS PSD SUPPORT?

PSD support encompasses a range of activities at different levels to promote an enabling environment for the private sector. Strategies for PSD are highly context-specific. Donors work with various implementing partners including recipient country governments or multilateral organizations in some cases and directly with firms in other cases. Adverse business environments can be addressed with compensating interventions; if, for example, poor property rights are an obstacle and the necessary legal reforms are not implemented, donors may set up guarantee schemes in support of private sector operation.

<sup>2</sup> <https://www.un.org/sustainabledevelopment/sustainable-development-goals/>

<sup>3</sup> Villanger, E. (2016). Back in business: Private sector development for poverty reduction in Norwegian aid. *Forum for Development Studies*. 43(2), 333-362.



*The potential outcomes of effective PSD support can include:*

- Changing adverse business conditions and/or enabling environment
- Mobilizing and catalyzing private investment
- Fostering decent jobs, employment creation, income growth and poverty reduction
- Contributing to a responsible private sector
- Accomplishing a “green” agenda by spurring investment in clean energy

PSD is the subject of wide debate and research. The modality of PSD support, the implementing partners, the priority sectors for aid and investment are all context-specific. As this evaluation discusses, the impact of interventions will likely be determined by the type of support, general or direct to firms.

#### **NORWEGIAN SUPPORT TO PSD AND JOB CREATION**

Norwegian development assistance to the private sector is provided through official development assistance (ODA). The largest amounts are extended by the Norwegian Ministry of Foreign Affairs, the Norwegian Agency for Development Cooperation (Norad) and the Norwegian Investment Fund for Developing Countries (Norfund). Other main channels are multilateral organizations and governments in developing countries.



# Methodology and Key Concepts

This report relies on a conceptual and theoretical framework developed from economic theory and shows how PSD support can be used to pursue development objectives. It also draws on a wide range of sources, analysis and methodologies to evaluate Norway's PSD support.

We conducted a desk review of relevant documents, including government budget proposals and White Papers that set out development objectives and policy priorities for PSD support; analyzed aid flow data from Norad, Norfund and the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD); and held discussions with relevant staff in the Norwegian Ministry of Foreign Affairs, Norad and Norfund.

Further, we undertook an extensive literature review to examine what works in practice and the challenges of designing and implementing effective PSD support that aligns to development objectives and priorities. Finally, we developed a program theory and identified a set of priority sectors for Norway's PSD support, based on our

review and interpretation of budgets, policy documents and other documentation.

This evaluation follows the guidelines of the OECD-DAC Quality Standards for Development Evaluation.<sup>4</sup>

## 3.1. Scope of the Evaluation

The focus is on Norwegian PSD support for the period 2014–2017<sup>5</sup> that was classified as ODA, i.e. support with the main objective of promoting developing countries economic development and welfare. We therefore exclude support that promotes the Norwegian private sector.<sup>6</sup>

However, some instruments that promote the Norwegian private sector (instruments for næringsfremme) are also sometimes active in developing countries, used by such

<sup>4</sup> See <https://www.oecd.org/dac/evaluation/qualitystandards.pdf>

<sup>5</sup> The most recent data was from 2017 at the time of the analysis.

<sup>6</sup> The White Paper, Working Together, clearly demarcates private sector support for development purposes and support to the Norwegian private sector. See Meld. St. 35, 2014–2015.

entities as Innovation Norway, the Norwegian Export Credit Guarantee Agency (GIEK) and Export Credit Norway (Meld. St. 35, 2014–2015, p. 15). These instruments may in some cases be aid-funded projects. Innovation Norway, for example, has managed the Business Match Making Program on behalf of Norad.<sup>7</sup> As such projects are counted as ODA, they are included in our evaluation. Likewise, while the private sector may play a role in achieving a wide range of development objectives, our analysis only includes objectives that are explicitly mentioned in relation to Norway's PSD support.

## 3.2 Conceptual Framework

To evaluate how PSD support affects development objectives, we need to understand how firms respond to PSD interventions. To do this, we use standard economic theory on the behavior of firms in markets. Firms compete in the market and there can be both entry of

<sup>7</sup> See, for example, Prop. St. 1, 2016–2017, p. 208.

new firms into the market and exit of existing firms. The firms that are not competitive will exit (i.e. close down), while new firms enter the market in order to capture a market share.

Key elements of the conceptual and theoretical framework that guide this evaluation are illustrated in Figure 1, next page, which was developed from economic theory and shows how private sector development can be used to pursue development objectives.

### DEFINITIONS AND KEY CONCEPTS

As a general rule, we use the terminology and definitions adopted by the OECD DAC in a 2016 paper on modalities for private sector engagement in development cooperation.<sup>8</sup>

*The private sector* is defined as:

“Organisations that engage in profit-seeking activities and have a majority private ownership (i.e. not owned or operated by a government). This term includes financial institutions and intermediaries, multinational companies, micro, small and medium-sized enterprises, co-operatives, individual entrepreneurs, and farmers who

operate in the formal and informal sectors. It excludes actors with a non-profit focus, such as private foundations and civil society organisations.”

To simplify the discussion, we refer to such private sector organizations as “firms.”

*Private sector development* is defined as:

“Activities carried out by governments and development organisations with the objective of promoting an enabling environment for the private sector in partner countries. Private sector development refers to the substantive nature of particular development activities (i.e. the sector targeted by development interventions). Activities include the creation of an adequate policy environment, addressing market imperfections (e.g. value chain development) and firm-level interventions (e.g. capacity building, access to finance and markets).”

It should be noted that this definition refers to private sector development as a set of activities with a specific purpose and is not linked to whether the purpose was actually achieved, that is whether the private sector was actually “developed”.

### DIRECT SUPPORT AND GENERAL SUPPORT

Analytically, we distinguish between direct support and

general support (Figure 1 next page). Direct support is private sector development targeting specific firms, for instance provision of finance, technology or knowledge to an individual firm. It can range from targeting a firm in a specific sector to increasing production of a particular output, for example an investment or technology transfer to a firm that produces clean energy, to support that targets a particular microfinance institution.<sup>9</sup> Direct support to a firm might also aim to develop improved environmental and labor standards in that firm or to support the firm in creating new jobs.

General support targets the business environment that firms operate in. We distinguish between the business environment at the sector level (e.g. finance, technology, human capital or market functions relevant to a specific sector); national level (e.g. infrastructure, laws and regulations, law enforcement, property rights, security, taxation, labor and environmental standards, etc.); and regional/global level (e.g. trade regulations or international standards).

<sup>9</sup> This is similar to impact investing, which is profit-seeking firms targeting a specific sector for increasing the production of a desired output. (See, for example, <https://thegin.org/>). A key difference is that private sector development is carried out by governments or development organizations, and their requirements for the risk profile and profitability of the support are different than those of private investors.

<sup>8</sup> See <http://www.oecd.org/dac/peer-reviews/Inventory-1-Private-Sector-Engagement-Terminology-and-Typology.pdf>



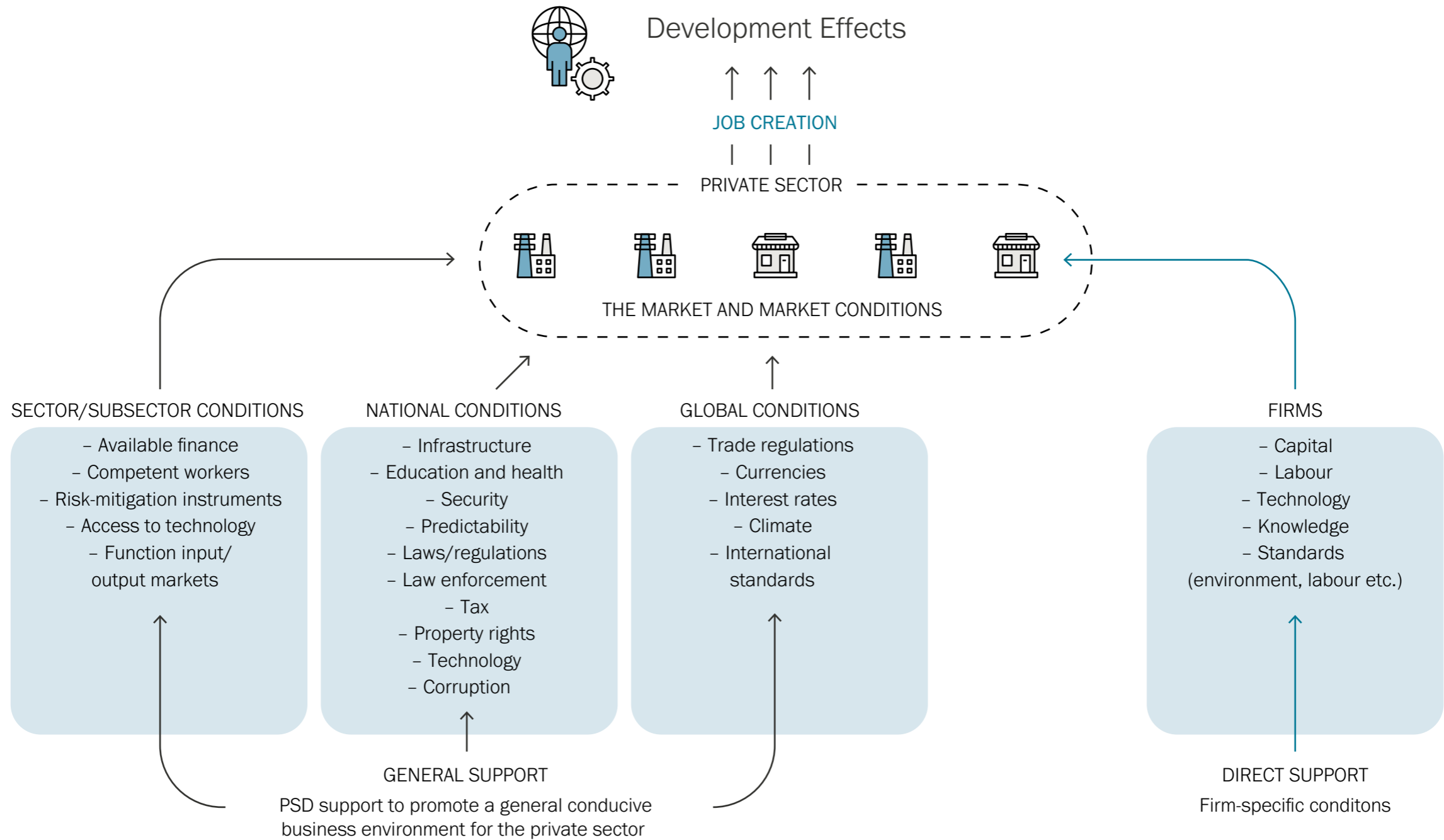


Figure 1. A Theory of ODA to PSD to Promote Development Objectives: an Illustration

In practice, however, it is not always possible to draw a clear line between direct and general support. In some instances, direct support to a firm may have positive effects on the business environment of other firms, for example when capital is provided to a financial institution that on-lends to other institutions and investments in clean energy production.<sup>10</sup> Nevertheless, the distinction is useful for understanding how the support affects the market and the development objectives. The implications of direct support versus general support are discussed throughout this evaluation and in the annexes, as are the intended and unintended consequences of a support to private sector development.

### 3.3 Methodologies for Evaluating Norwegian PSD Support

The conceptual and theoretical framework provided the broad structure and analytical approach for conducting the evaluation. More specific methods were required to map and evaluate Norway's support to PSD in detail.

<sup>10</sup> The categorization is done based on the market of the receiving firm. Direct support is when a grant or investment is provided to specific firms. This implies for example that support to building a hydropower plant is categorized as direct support, even if the result of building the plant leads to a general constraint to be removed (i.e. access to electricity).

#### MAPPING OBJECTIVES

To identify the objectives of Norway's support to PSD and job creation, we analyzed the budget proposals<sup>11</sup> that are presented annually to the parliament, focusing on the four years from 2014–2017. It is important to note that the objectives under each budget chapter can be found in the introductory text under the chapter and in other parts of the text under the specific budget lines as well as in the sections labelled “objectives” (Mål).<sup>12</sup> While the private sector may play a role in achieving a wide range of development objectives, our analysis only included objectives that are explicitly mentioned in relation to Norway's PSD support.

We also reviewed the most relevant White Papers. These papers are presented to the parliament to introduce policies and inform members about various issues without proposing any decisions.<sup>13</sup> White Papers also are frequently referred to as a basis for the government policy. The White Papers often provide more detail on

<sup>11</sup> See <https://www.regjeringen.no/no/dokument/prop/id1753/>. The government is accountable for the objectives in the budget proposal.

<sup>12</sup> Torgeir Fyhri, Head of Section for Grant Management in the Ministry of Foreign Affairs, confirmed this clarification of where the objectives may be placed in the 2014–2017 budget proposals.

<sup>13</sup> <https://www.stortinget.no/no/Stortinget-og-demokratiet/Arbeidet/Om-publikasjonene/Regjeringens-publikasjoner/>

the government's main development objectives, the background and rationale for the objectives, and the logical link between support and objectives. These documents are therefore important for understanding the objectives stated in the budget propositions, and how they are intended to be achieved.

Norway's commitments to international agreements and resolutions, such as the Sustainable Development Goals, also reflect government priorities regarding PSD support and job creation. We therefore also considered these. To identify objectives and priorities for Norfund, we reviewed its key policy documents, principally the Norfund Act and the Norfund 2016–2020 strategy.

#### MAPPING AID FLOWS

We mapped PSD support using the Norad project database. While the main period of data analysis was 2014–2017, we examined data starting with 2010 to capture trends in aid flows. From 2014, when most of the Norfund support was consolidated into a few (2-4) disbursements, we supplemented disbursements from the Norad database with Norfund data on commitments to identify the specific projects. This provided quantitative estimates of Norwegian PSD support allocations over time.



Two main categories of aid in the Norad database can be classified as PSD support in such a way that it allowed us to assign each project to a separate category: either amounts allocated over Chapter 161 (Private sector development) in the government budget or aid allocated to chapters other than 161. These included Chapter 160 (Civil society and democratization), Chapter 170 (UN organizations), Chapter 171 (Multilateral finance institutions), and Chapter 166 (Environment and sustainable development). Support to PSD and job creation over these chapters is classified by DAC code 200 (Economic infrastructures and services) or DAC code 300 (Production sectors).<sup>14</sup>

### **EVALUATING AID FLOWS IN RELATION TO OBJECTIVES**

As the Norad database did not contain sufficient information to categorize many of the disbursements by their development objectives, an inspection of the project documentation was required. Given that 2,682 disbursements were categorized as PSD support in the 2014–2017 period, and a full inspection of all projects would be too time-consuming under this evaluation, we were obliged to confine the identification of

development objectives to one year. We selected 2017, the most recent year for which data were available at the time of our analysis, in order to develop the most up-to-date, and therefore most useful, snapshot of the alignment and gaps between aid flows and development objectives.

Both the mapping of aid flows by categories and the more in-depth mapping of the 2017 disbursements were used to assess whether there were gaps between aid flows and objectives.

### **SECTORAL DISTRIBUTION**

Some development objectives, such as poverty reduction and reduced greenhouse gas emissions, are clearly linked to sectors of support (see the discussions of the program theories below). We thus mapped the sectoral distribution of Norwegian aid and compared this to other European donors with similar aid budgets.

### **USING RESEARCH ON CHALLENGES AND WHAT WORKS AS A LENS TO EVALUATE NORWEGIAN PSD SUPPORT**

We attempted to identify what works in practice by examining a range of sources. A key input was our conceptual and theoretical framework and the more

specific theories for the various types of PSD interventions, as identified in an extensive literature review. We used the relevant theory to assess whether there is a strong and clear logical link between the PSD support and its intended development effects. We also conducted an extensive review of evaluations and research.

Due to the volume of literature on PSD interventions, we concentrated on research in highly ranked journals and in particular on research analyzing the underlying structure of the economies where the PSD projects were implemented in order to identify the conditions that the PSD support might help to improve. With respect to impact evaluations, we only considered as evidence those that were designed to identify development effects of the interventions – that is, the evaluation had an empirical strategy that could credibly identify what would have happened without the PSD intervention. In some cases, influential reports are still included, despite not meeting the required quality standards, to illustrate methodological problems.

We then developed a summary of the literature centered on how to promote private sector development and job creation in developing countries as a means of pursuing relevant development objectives. This was used to

<sup>14</sup> Any Chapter 161 aid beyond these DAC sector codes is reported separately in this report.





develop a synthesis of the lessons from the literature. However, mapping the Norwegian PSD support according to these lessons was challenging and sometimes not possible. The full summary of the knowledge garnered from the literature review is contained as an unpublished working note.

### **EVALUATING NORWEGIAN PSD SUPPORT THROUGH THE LENS OF THE PROGRAM THEORY**

The underlying program theory describes how this support is intended to affect each step in the causal chain from the inputs to the activities, outputs and ultimate contribution to the development objectives. The theory identifies and discusses assumptions that need to hold in order for the theory to be valid.

The policy documents and strategies identified during the mapping of development objectives provide information about the logical links between inputs and development

objectives, and the underlying assumptions for the support. We used these documents to develop the program theory. We also developed two sub-program theories of two of the main sectors of Norwegian PSD support, which were chosen because of their direct links to key development objectives (as stated in the policy documents). These were used as inputs to develop the overall program theory.

In addition, we used our conceptual and theoretical framework along with the theories and empirical findings identified during the literature review as a guide to what should logically be included in the program theories. These were used to assess the degree to which the support design was likely to deliver according to the stated objectives.



# Mapping and Analysis of Norway's PSD Support

This chapter evaluates Norway's support to private sector development (PSD) in the period 2014–2017 through several lenses.

It first presents the stated objectives of PSD support, as drawn from budget proposals and from the policy documents on which the proposals are built. These documents, among them key White Papers, often discuss objectives in greater detail than is found in the budget.

We then present data on actual annual disbursements of aid that is categorized as PSD support. To better understand how these aid flows align to the objectives, priority sectors and other policies, we then focus on a snapshot of PSD support in 2017, the latest year for which Norwegian aid statistics were available. This enabled us to provide a detailed description of the specific development objectives of the projects funded in this year and to categorize them according to whether they were direct or indirect support to firms.

We also evaluate Norway's PSD aid through the lens of the government's program theory for such support, which we developed from analysis of the policy documents and other information available, and the lens of the extensive literature on support to private sector development.

The chapter presents an in-depth discussion of the objectives, commitments and investments of Norfund, which invests in some of Norway's biggest projects related to PSD support and is a main instrument for this support. While objectives for Norfund are stated in budget proposals, priorities and objectives pertaining to Norfund investments also are contained in its strategy, project descriptions and other sources describing its commitments. Thus, these are discussed separately.

Our findings indicate a commitment to PSD support as part of Norway's overall development cooperation. Both aggregate aid flows and development objectives remained relatively stable from year to year in the period 2014–2017. PSD support as a share of all Norwegian

official development assistance (ODA) fluctuated more and ranged from 8.7% to 12.5% over these four years. To a great extent, the aid went to projects and investments that match up to Norway's objectives.

## 4.1 Objectives of Norway's Support to PSD

The government's overall objectives for official development assistance (ODA) are found in the budget proposals presented each year for parliamentary approval. We reviewed budget proposals for each of the four years from 2014–2017 for ODA that can be categorized as support for PSD and job creation. Objectives for aid channeled through Norfund and multinational organizations are discussed separately below. As the budget proposals are built on White Papers and other policy documents, we supplemented our review of budget proposals with an examination of policy objectives set out in these documents.



We found that the stated overall objectives for Norway's aid to PSD remained stable, and largely aligned with the relevant White Papers and other policy documents.

Broadly, the government's objectives for PSD support center on inclusive and sustainable economic growth, a responsible private sector, job creation, poverty reduction and reduction of greenhouse gas emissions through renewable energy. The policy development objectives of aid channeled through Norfund, as seen in its commitments and investments in priority sectors and Norfund strategy documents, were also stable and centered on economic growth, job creation and poverty reduction.

#### **OBJECTIVES STATED IN BUDGET PROPOSALS, 2014–2017**

##### **2014**

The government stated that the objectives for Chapter 161 (Private sector development) were to promote economic growth, reduce poverty and create local employment (Prop. St. 1, 2013–2014, p. 167). The budget proposal also highlighted that decent work with a stable income was the most important instrument for poverty reduction and for ensuring a more just distribution of resources.

Chapter 161 post 70 included these objectives but added women's participation in economic development as an objective (Prop. St. 1, 2013–2014, p. 168). The priorities for 2014 were to improve general conditions for the private sector in developing countries; increase long-term, commercially viable investments; promote inclusive economic growth with an emphasis on women's participation and youth employment; improve terms of trade; and improve the development effects of investments made by both Norfund and private companies (Prop. St. 1, 2013–2014, p. 168).

Private sector development support was seen as important for promoting renewable energy and increasing access to modern energy services in order to reduce greenhouse gas emissions (Chapter 166 post 74, see Prop. St. 1, 2013–2014, p. 209). It was also noted in the budget proposal that increasing the supply of energy could lead to economic growth and social development (Prop. St. 1, 2013–2014, p. 209).

It was stated that Norwegian businesses were required to act in accordance with the government's expectations regarding responsible business (Prop. St. 1, 2013–2014, p. 168).

The objective set out for Norfund was to promote the development of profitable, sustainable business in developing countries (Prop. St. 1, 2013–2014, p. 169). In 2014, the allocated funds were to be used for investments in renewable energy, including in collaboration with Norwegian power companies and other commercial investors, and for other direct investments in line with the Norfund strategy. In addition, Norfund was to provide credit to small Norwegian firms for investments in poor developing countries.

The core support to multilateral organizations was also intended to support private sector development. One objective of the support to the United Nations Development Programme (UNDP), under Chapter 170 post 70, was to contribute to inclusive and sustainable economic growth and development that would spur employment creation and improve livelihoods for poor and excluded people (Prop. St. 1, 2013–2014, p. 235). The objective of the support to the International Labour Organization (ILO) was to promote decent work (Prop. St. 1, 2013–2014, p. 244). The support to the World Bank aimed to contribute to eliminating extreme poverty and ensuring income growth for the poorest 40% of people in each developing country; key instruments were support for improving the investment climate and spurring private investments (Prop. St. 1, 2013–2014, p. 261).



Support to regional development banks and funds (Chapter 171 post 71) aimed to contribute to inclusive and sustainable economic growth, poverty reduction, and employment creation (Prop. St. 1, 2013–2014, p. 263-268).

In conclusion, the 2014 budget proposal focused on these overall development objectives: inclusive and sustainable economic growth, including women's and youth's participation; Norwegian firms act responsibly; employment creation and decent work; poverty reduction; and reduction of greenhouse gas emissions through renewable energy.

## 2015

The government stated explicitly that private sector development for increased private investment is “of crucial importance and will be given priority in the government's development policy” (Prop. St. 1, 2014–2015, p. 177), and that its overall development objective for Chapter 161 PSD support was to “ensure sustainable economic growth, local employment and industrial development.” The proposal also highlighted the importance of job creation for poverty reduction as the rationale for PSD support.<sup>15</sup>

<sup>15</sup> The government's budget proposal further notes that the private sector accounts for 90% of jobs in developing countries and that the World Bank,

Chapter 161 post 70 aimed to promote sustainable economic development, including employment creation and women's participation.<sup>16</sup> The priorities for 2015 were to improve general conditions for the private sector in developing countries; increase local content from private investments; increase long-term, commercially viable investments; promote inclusive economic growth with an emphasis on women's participation and youth employment; improve terms of trade; and improve the development effects of investments made by both Norfund and private companies.

Investments in renewable energy (Chapter 166 post 74) were also considered important for stimulating private sector development, with the main goals to increase access to modern energy services and reduce greenhouse gas emissions (Prop. St. 1, 2014–2015, p. 220). More broadly, the budget proposal noted, increasing the supply of energy could lead to economic growth and poverty reduction (Prop. St. 1, 2014–2015, p. 220).

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in 2013, predicted that 600 million new jobs will be needed globally over the next 15 years. This “implies that the most important tool for combating poverty is to secure income-generating work [which] has far greater impact on poverty reduction than other types of transfers” (Prop. St. 1, 2014-15, p. 177).

<sup>16</sup> Sustainable economic development can encompass a broad range of development objectives. For an overview, see Todaro, M.P. and S.C. Smith (2015). *Economic Development*. Twelfth Edition. New Jersey: Pearson.

Norwegian firms receiving support were required to act in accordance with the government's expectations regarding responsible private business (Prop. St. 1, 2014–2015, p. 177) and prioritized sectors in which Norway had particular competence, such as renewable energy, environmental technology, forestry, and the maritime sector and marine resources.

The objectives for Norfund were identical to those in 2014 (Prop. St. 1, 2014–2015, p. 177).

Inclusive economic growth and private sector development were objectives in 2015 (Prop. St. 1, 2014–2015, p. 139) for the regional support to Africa (Chapter 150 post 78), and the support to civil society (Chapter 160 post 70) was aimed to contribute to overall development policies and emphasized support to PSD, and particularly to small and medium enterprises (SMEs) (Prop. St. 1, 2014–2015, p. 172).

The objectives for the support to PSD through core support to multilateral organizations and support to the multilateral development banks remained the same as the year before. (see Prop. St. 1, 2014–2015, p. 250 for UNDP, p. 261 for ILO, p. 275 for the World Bank, p. 277-283).



In conclusion, the 2015 budget proposal focused on these overall development objectives: inclusive and sustainable economic growth, including women's participation; Norwegian recipient firms act responsibly; employment creation and decent work, including a focus on youth; poverty reduction; and reduction of greenhouse gas emissions through renewable energy.

## 2016

The development objectives for PSD support under Chapter 161 post 70 were to “contribute to sustainable economic growth, job creation and competence building in developing countries.”<sup>17</sup> This growth should be inclusive (Prop. St. 1, 2015–2016, p. 201). The rationale for aid under this chapter further highlighted the relationship between job creation, poverty reduction and economic growth (Prop. St. 1, 2015–2016, p. 200). The requirement to promote responsible business, which focused solely on Norwegian firms in 2015, was elaborated and broadened. Norwegian

<sup>17</sup> Competence is arguably an objective in and of itself. In PSD, it is considered an instrument for achieving certain objectives (e.g. acquiring a job or gaining a higher salary) and, thus, a key input for economic growth. We therefore treat competence building as an instrument in this evaluation. For a discussion of the impact of human capital and education on developing countries' ability to absorb modern technology and to develop the capacity for self-sustaining growth and development, see Todaro, M.P. and S.C. Smith (2015). *Economic Development*, Chapter 8. Twelfth Edition. New Jersey: Pearson.

support was to be based on the international standards and best practice concerning responsible business, and should contribute to improving human rights, worker rights and the environment and to fighting corruption.

The budget stated that Norfund was the most important instrument for strategic collaboration with the private sector and that its investments were directly linked to poverty reduction.<sup>18</sup> The objective, purpose and sectors of the allocation to Norfund were identical to those in 2014–2015. Priority sectors for PSD support in Chapter 161 post 70 were energy, the maritime sector, fisheries and marine resources (Prop. St. 1, 2015–2016, p. 201), as they were in 2015, as well as two new sectors – information and communications technology (ICT) and agriculture – that replaced environmental technology and forestry.

Investments in renewable energy (Chapter 166 post 74) continued to be emphasized as key inputs to private sector development, with support to be given strategically to attract commercial capital to investments in

<sup>18</sup> Prop. St. 1, 2015–2016 states, on page 203, “New business start-ups in the most difficult markets have the most trouble attracting equity, since it has higher risk than loans. Norfund has therefore chosen to invest mostly in equity. The goal of fighting poverty requires strengthening of the business sector in developing countries.”

energy in poor countries, especially in renewable energy. The main goal for renewable energy support was to contribute to universal access to energy services, increasing the share of renewable energy, improving energy efficiency and reducing greenhouse gas emissions (Prop. St. 1, 2015–2016, p. 245). The budget proposal stated that stable access to better and more modern energy services is a prerequisite for economic growth, social development and poverty reduction.

Inclusive economic growth was an objective of regional support to Africa (Chapter 150 post 78), as it was in 2015, and job creation was added as a new objective (Prop. St. 1, 2015–2016, p. 150). Job creation was also introduced as a new objective for civil society support (Chapter 160 post 70, Prop. St. 1, 2015–2016, p. 193).

The objectives of PSD support to multilateral organizations were almost identical to those in 2015 (Prop. St. 1, 2015–2016, pages 281, 294, 310, 313 and 315–317).

The 2016 budget proposals suggest similar development objectives to those for 2014–2015, with a few adjustments: inclusive and sustainable economic growth; responsible private sector; job creation; poverty reduction; and reduction of greenhouse gas emissions through renewable energy.



## 2017

The main development objectives for Chapter 161 post 70 were similar to those of 2014–2016, but with some changes. First, the budget line included a reference to poverty reduction “to contribute to sustainable economic growth in developing countries” and specified that the “support will contribute to poverty reduction by supporting private investments, job creation and competence building” (Prop. St. 1, 2016–2017, p. 207). Second, inclusiveness was not included explicitly in ambitions for increasing economic growth. The intent of the changes may have been to narrow the aim of inclusive economic growth to focus more specifically on promoting inclusive growth for the poor. Including the poor in economic growth – the growth that would result from the private investments, job creation and competence building – can be one important way of promoting inclusive economic growth for this particular group.

As was the case in 2016, support aimed at promoting a responsible private sector was to be based on the international standards and best practice concerning responsible business, which includes taking human rights, worker rights, the environment and anticorruption into account.

The objectives of contributing to the economic rights of women and girls and improving access to education were introduced in 2017 (Prop. St. 1, 2016–2017, p. 206). These can be seen as an aspect of inclusive growth; access to education is part of the Norwegian overall policy on education, which is not covered in this evaluation.

Sector priorities, including for Norfund, were the same as for 2014–2016. The objectives for Norfund also remained the same, with the addition of an explicit statement that access to capital was a prerequisite for business development and economic growth. The Sustainable Development Goals (SDGs) were cited in a new rationale for Norfund’s focus on agriculture: “The agricultural sector is particularly important for the achievement of the SDG to eradicate hunger and poverty [and] the sector is highly labor intensive and is one of the biggest sources of employment in developing countries.”

The language on renewable energy (Chapter 166 post 74) was the same as in 2016, that stable access to better and more modern energy services is needed for economic growth, job creation, social development and poverty reduction. To contribute more effectively to private sector development and economic develop-

ment, the budget proposal stated that the main focus should be on support that facilitates private commercial investments (Prop. St. 1, 2016–2017, p. 256). As in 2016, the main aim was to contribute to the SDG to ensure access to reliable, sustainable and modern energy at an affordable price for everyone and reduce greenhouse gas emissions from the energy sector.

Inclusive economic growth and job creation were the objectives of regional support to Africa (Chapter 150 post 78), the same as in 2016 (Prop. St. 1, 2016–2017, p. 155). For civil society support (Chapter 160 post 70), inclusive economic growth was added to the objective of job creation (Prop. St. 1, 2016–2017, p. 198). The objectives of PSD support channeled through multilateral organizations did not change (Prop. St. 1, 2016–2017, pages 292, 306, 324, 327 and 328).

The 2017 budget proposals suggest similar development objectives to those for 2014–2016, with a few adjustments: sustainable economic growth; responsible private sector; women and girls’ economic rights and access to education; job creation; poverty reduction; and reduction of greenhouse gas emissions through renewable energy.



### Summing up objectives over 2014–2017

The main development objectives have remained relatively stable over the four-year period of 2014–2017. With a few deviations, they have been to contribute to:

- Inclusive and sustainable economic growth
- Responsible private sector
- Job creation
- Poverty reduction
- Reduction of greenhouse gas emissions through renewable energy

### OBJECTIVES ENUMERATED IN WHITE PAPERS AND STRATEGIES

White Papers, which often discuss policy issues in detail, are important for understanding the development objectives stated in the government budget proposals. In addition, all the budget proposals 2015–2017 stated that they built on the White Paper, *Working Together* (Meld. St. 35, 2014–2015) in terms of government support for PSD and job creation.

As noted, the government has taken the Sustainable Development Goals (SDGs) as a platform for its

development policy (Meld. St. 24, 2016–2017, p. 62). Objectives for PSD support are embedded in the goals, and SDG 8 – “promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all” – in particular covers PSD.

Overall, we found that the development objectives from White Papers and strategies coincided with the objectives stated in the 2014–2017 government’s budget proposals, with good governance as an additional objective. The objectives and the source documents are presented in [Table 1](#), and the individual objectives are discussed below.

Table 1. Policy Objectives for PSD Support in White Papers and Strategy Documents

Development objectives	Sources
Inclusive and sustainable economic growth	SDG 8; Meld. St. 35, 2014–2015; Meld. St. 24, 2016–2017
Responsible private sector	Meld. St. 35, 2014–2015; Business and human rights. National Action Plan for the implementation of the UN Guiding Principles, MFA 2015
Job creation and decent work	SDG 8, Meld. St. 35, 2014–2015; Meld. St. 24, 2016–2017; Strategy for decent work environment; Norfund Strategy.
Poverty reduction	SDG 1; Meld. St. 35, 2014–2015; Meld. St. 24, 2016–2017; Norfund Strategy
Climate and environment	Meld. St. 35, 2014–2015; Meld. St. 24, 2016–2017
Good governance	Meld. St. 35, 2014–2015

Meld St. 35, 2014–2015 (p. 15) indicates that *job creation* is central because of its importance for poverty reduction.<sup>19</sup> Other important objectives cited for the support are economic growth, job creation and a more competent workforce.<sup>20</sup> These are to be achieved in a way that reduces negative consequences for the environment and climate (Meld St. 35, 2014–2015, p. 11).

Contributing to a *responsible private sector* is referenced as an important aim of Norwegian support. The most important framework for responsible business consists of the OECD guidelines for international investments and the United Nations Guiding Principles on Business and Human Rights (UNGPR), according to Meld. St. 35, 2014–2015, p. 80. This White Paper also argues that PSD support is most needed in countries with weak governance systems, less developed legal frameworks

<sup>19</sup> The role of the private sector for poverty reduction is re-iterated in the white paper Common Responsibility for Common Future. The Sustainable Development Goals and Norway's Development Policy (Meld. St. 24, 2016-17) "A well-functioning private sector is decisive for job-creation and economic growth, and thus for contributing to poverty reduction" and "The Norwegian policy in this area is elaborated in Meld. St. 35, 2014-15". See also Meld. St. 10 (2014–2015) Opportunities for all: Human Rights in Norway's Foreign Policy and Development Cooperation.

<sup>20</sup> A competent workforce is stated as an objective, but clearly has an instrumental role. See Meld St. 35, 2014–2015, pages 15 and 17. In this report, we treat this as an instrument.

for protecting human rights and the environment, and the highest risk of corruption (Meld. St. 35, 2014–2015, p. 80) and that these challenges can be reduced if the private sector takes responsibility for maintaining the standards in its areas of operation. The paper further states that the government is committed to integrating social responsibility in all parts of Norwegian PSD support and to promoting the OECD guidelines for international investments, which cover the full range of social responsibilities (Meld. St. 35, 2014–2015, p. 80). Norfund states that it uses the International Finance Corporation performance standards on environmental and social sustainability for managing environmental and social risks.<sup>21</sup>

The paper also noted that a well-functioning public sector may be a requirement for a well-functioning private sector. *Good governance* is mentioned as both important for private sector development and as a policy objective in its own right: "The government will emphasize good governance as a prerequisite for private sector development, and contribute in the areas most important to the private sector in the respective countries" (Meld. St. 35, 2014–2015, p. 8).

<sup>21</sup> See [https://www.ifc.org/wps/wcm/connect/Topics\\_Ext\\_Content/IFC\\_External\\_Corporate\\_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards](https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards)

The White Paper<sup>22</sup> further states that Norwegian PSD support should include marginalized groups and integrate women's rights and gender equality in private sector development (Meld. St. 35, 2014–2015, pp. 7-8). These objectives can be included under the broader heading of *inclusive economic growth* when the aim is to include such groups in the income growth and under *responsible private sector* when the aim is to ensure the rights of marginalized groups are not violated.

### PRIORITY SECTORS

The White Paper *Working Together* stated that Norwegian PSD support was to be concentrated in sectors where the Norwegian private sector had particular competence, and identified agriculture, energy, ICT, fisheries/marine resources, and the maritime sector as priority sectors (Meld. St. 35, 2014–2015 (p. 49-50).

<sup>22</sup> The long list of policy instruments in the White Paper (Meld. St. 35, 2014-15, pp. 7-8) combines budget priorities (increased support for PSD, including for Norfund and infrastructure); policy instruments (multilateral coordination, a new competitive scheme for private sector support, export financing schemes, information, advice, and research and development); and additional policy objectives, priority areas and priority sectors.





According to our conceptual framework, selecting priority sectors may be conducive to achieving the development objectives.<sup>23</sup> Renewable energy was selected as an instrument to foster sustainable economic growth and reduce greenhouse gas emissions; support to the energy sector was considered important for job creation and poverty reduction. Agriculture was considered a core sector for PSD support because it was important for poverty reduction as most of the poor make a living in this sector (Meld. St. 35, 2014–2015, p. 26 and 57). ICT was considered a core sector for competence building, which is an important factor for generating economic growth. Support to fisheries was considered important to economic growth, employment creation and poverty reduction (Meld. St. 35, 2014–2015, p. 62–63).<sup>24</sup> Priority sectors in Norfund support to PSD are discussed separately below.

23 For example, to have the maximum effect on poverty reduction, efforts should be concentrated in sectors where the poor make a living. See Loayza and Raddatz, 2010. The composition of growth matters for poverty alleviation. *Journal of Development Economics*, 93(1), 137-151.

24 The White Paper explicitly states connections between the priority sectors and overall development objectives, but not in a systematic way. In fisheries, for example, it highlights that increasing incomes in subsistence fishing can have a large effect on poverty reduction (Meld. St. 35, 2014–2015, pp. 62-63). However, most of the priorities under PSD to fisheries focus on other interventions that are not clearly linked to the main objectives.

## HUMAN RIGHTS

Human rights are a central focus of Norwegian diplomacy and development cooperation. Norway is committed to promoting human rights “through the systematic use of foreign and development policy instruments,” as stated in the 2014–2015 White Paper entitled “Opportunities for All: Human Rights in Norway’s Foreign Policy and Development Cooperation.”<sup>25</sup> The paper further elaborates that Norway will use its private sector development support to strengthen human rights in countries with poor human rights regulations by “engaging the private sector in efforts to safeguard and ensure respect for human rights” (Meld. St. 10, 2014–2015, p. 11).

A separate national action plan further elaborates Norway’s commitment to implementing the United Nations Guiding Principles on Business and Human Rights (UNGP).<sup>26</sup> However, a recent evaluation<sup>27</sup> called this plan “thin on new and specific commitments,”

25 See Meld. St. 10, 2014–2015.

26 See Norway Ministry of Foreign Affairs, «Business and Human Rights National Action Plan for the implementation of the UN Guiding Principles,» [https://www.regjeringen.no/globalassets/departementene/ud/vedlegg/mr/business\\_hr\\_b.pdf](https://www.regjeringen.no/globalassets/departementene/ud/vedlegg/mr/business_hr_b.pdf)

27 See Norad (2018). “UNGP, Human rights and Norwegian Development Cooperation Involving Business.” Norad, Evaluation Department. Report 11/2018.

adding that it does not explain how and when agencies and businesses involved in development cooperation are required to conduct a human rights due diligence – which is, according to the report, considered the main instrument for assessing human rights conditions. A difference between institutions was noted, though: “[Norfund] provides for a more detailed and systematic assessment of risks up-front, than what is done by MFA/embassies and Norad...”.

## 4.2 Mapping of Aid Flows to PSD Support

We mapped Norwegian aid to private sector development using Norad aid statistics that capture disbursements made over Chapter 161 (private sector development) in the government budget as well as disbursements under other chapters that also constitute aid for PSD. The latter are identified by their DAC codes.<sup>28</sup> Norfund investments and commitments are discussed separately.

28 All Norwegian aid data are downloaded using *avansert datauttrekk* from the Norad website. This project database is publicly available and can also be downloaded, but with less detail, from the OECD DAC Creditor Reporting System (CRS). While we used the OECD DAC database to compare Norwegian PSD support to that of other donors (Annex 4), we otherwise used the Norad version of the database in particular because it includes information on Norwegian budget chapters.



### OVERALL FLOWS OF AID FOR PSD

Aid flows over 2010–2017 in support of PSD are shown in Table 2.a. In terms of total volume, this support has been relatively stable since 2011, with a small decline in 2016. Over the period of 2010–2017, Norway allocated a total of NOK 28.4 billion to interventions categorized as PSD support. This amounted to 11.3% of total Norwegian development assistance over this eight-year period.

After a low level in 2010 (NOK 2.666 billion) it was stable with an average yearly aid flow for the 2011–2013 period of NOK 3.706 billion. This was similar to the annual average for the period 2014–2017 (NOK 3.644 billion). Within the 2014–2017 period the aid flow declined with 14% from an average of NOK 3.923 billion for the two first years to an average of NOK 3.366 billion for the two last years.

As a share of total Norwegian ODA, support to PSD varied somewhat year to year over the 2010–2017 period. The average share in the 2010–2013 period was 12.1% while in the 2014–2017 period it was 10.6%.

The capital replenishment to Norfund, which amounted to NOK 1.5 billion in 2017, makes up a large share of the total flows for PSD support (40% in 2014–2017). Prior

Table 2a. ODA for Private Sector Development (Current Million NOK)

Category	2010	2011	2012	2013	2014	2015	2016	2017	Total
Chapter 161	1031	1985	1890	1229	1447	1692	1606	1715	12595
Other chapters (DAC 200-300)	1635	1797	1847	2369	2546	2160	1587	1824	15764
Total DAC 200-300	2518	3640	3576	3402	3970	3833	3178	3504	27621
Chapter 161 (not DAC 200-300)	148	142	161	196	23	19	15	35	738
Total PSD support	2666	3782	3737	3598	3993	3852	3193	3539	28359
All ODA	26424	26653	27638	32800	32046	34486	36791	34118	250956
PSD share of total ODA (%)	10.1	14.2	13.5	11.0	12.5	11.2	8.7	10.4	11.3

Source: Norad aid statistics.

to 2014, all Norfund projects were recorded in the Norad database, including any negative transfers when Norfund had incomes. As a result, the aggregate allocations over Chapter 161 varied more from year to year, averaging NOK 1.3 billion per year for the period 2008–2013.

Aid flows go to a number of sectors (see Annex 5 for details). Within the DAC 200 codes (infrastructure and services), most Norwegian aid goes to energy (230) and business and other services (250); within the 300 codes (production sectors), most PSD support goes to agriculture (311). The largest PSD projects were within

the energy sector. One is the Mt. Coffee hydropower plant in Liberia, which received NOK 584 million in aid over 2013–2017, and electrification on Zanzibar, which received NOK 300 million over 2008–2010.

Some allocations across other budget chapters are also classified by these DAC sector codes and considered support to PSD. Such allocations ranged from NOK 1.6 to NOK 2.5 billion per year since 2010. As shown in Table 2b, the regional allocation for Africa (Chapter 150) and environment and sustainable development (Chapter 166) received the largest flows.

Table 2b. ODA for Private Sector Development (Current Million NOK)

Category	2014	2015	2016	2017	Total
Chapter 161	1447	1692	1606	1715	6460
Other chapters (DAC 200-300)	2546	2160	1587	1824	8117
Chapter 150-153 (region)	675	661	661	662	2659
Chapter 160 (civil society)	212	188	187	188	775
Chapter 164 (peace)	121	123	97	78	419
Chapter 165 (research)	156	167	137	213	673
Chapter 166 (environment)	1147	806	429	439	2821
Chapter 170 (UN)	95	82	60	84	321
Chapter 171 (multilateral development banks)	69	68	3	48	188
Other chapters	71	65	13	112	261
Total support	3993	3852	3193	3539	14577

Source: Norad aid statistics.

Most of the projects over Chapter 161 are classified under economic development and trade as the target area in the Norad aid statistics. It should be noted that this target area also includes allocations that ranged from NOK 1.1 billion to NOK 2.3 billion over the decade 2008–2017, but are not classified as either DAC 200 and 300 sector codes and are not allocated over budget Chapter 161. The largest allocations have been

for the World Bank Afghanistan Reconstruction Trust Fund in Afghanistan; allocations involving the World Bank for budget support for the Tanzanian government for implementation of the National Strategy for Growth and Reduction of Poverty; and budget support for the Zambian government for direct budget support for priority sectors of Zambia's Poverty Reduction Strategy Processes. These projects are very broad and, based

on advice from the Norad statistics department, are not included in the statistics presented in this report.

The OECD Creditor Reporting System (CRS) database (latest year of data available was 2016) allows a comparison of DAC members in terms of their aid for PSD as a share of their total ODA, although this can be done only using DAC codes. We selected four donors for this

Table 3. ODA for DAC-Sectors 200 and 300 (Current Million USD)

Country	2010	2011	2012	2013	2014	2015	2016	Sum	All aid	Share
Norway	432	667	709	643	635	482	383	3951	25661	15%
Sweden	315	406	474	503	430	329	327	2785	27209	10%
Denmark	350	453	411	376	343	259	247	2439	14785	16%
United Kingdom	1213	1396	1395	1464	1744	2236	1867	11341	72269	16%
Germany	3020	3057	2472	3439	4563	4966	4458	25975	93348	28%

Note: This table is labeled Table A.5.1 in Annex 5.

Source: DAC-CRS database on disbursements

comparison. As shown in Table 3, Norway, Denmark and the United Kingdom gave approximately the same priority to PSD over 2010–2016, i.e. 15-16% of their total aid budgets were allocated to DAC sectors 200 and 300). Sweden allocated relatively less to these sectors (10%) and Germany more (28%). See Annex 5 for a more detailed breakdown by sector and other comparisons of Norwegian and other donors' PSD support.

#### CHANNELS OF PSD SUPPORT

Norfund is the main channel<sup>29</sup> of Norwegian support to private sector development, with 29% of the support.

<sup>29</sup> The channel label used is "Norwegian public sector".

The two other main channels are multilateral organizations (19%) and governments in receiving countries (17%). Norway channels some support through multilateral partners, mainly the Food and Agriculture Organization (FAO) and the United Nations (UN) Industrial Development Organization (UNIDO). The largest program supported by the FAO is the EAF Nansen program for fisheries management, which receives large annual allocations from Norway. Norway also supports many smaller FAO projects. UNIDO has relatively small projects, with the largest one receiving NOK 12 million per year from Norway. The largest program channeled through developing country governments is the Mt. Coffee hydropower plant.

#### SUPPORT THAT CAN BE IMPUTED FROM NORWEGIAN CORE SUPPORT TO MULTILATERAL ORGANIZATIONS

Norway also contributes to the support of PSD globally through its allocations to multilateral organizations. While most of these are reported in Norad and OECD databases as Norwegian projects, Norway also provides core support to the International Development Association (IDA) that is classified as administrative support (DAC-910) rather than sector support. It can be argued that some of this support should also be counted as Norwegian support for PSD since IDA provides loans to DAC 200 and 300 sectors, although we have not included such imputed amounts in the totals shown in our tables.

In 2016, for instance, Norwegian core support to IDA amounted to NOK 866 million; that same year, 37% of the total amount allocated by IDA (USD 4.6 billion of the total USD 12.3 billion) went to DAC 200 and 300 sectors. Thus, one can say that Norway contributed an additional NOK 320 million to PSD support – that is, 37% of its NOK 866-million allocation. This would add 10% to the 2016 aggregate amounts shown in Table 2a above. The Asian Development Bank (ADB) is next largest multilateral donor within DAC 200 and 300 sectors. In 2016, 56% of its allocations (USD 1.5 billion of USD 2.7 billion) to those sectors; applying that percentage

to Norwegian support to the ADB results in PSD aid of NOK 35 million, which would add 1% of imputed aid. However, we considered the methodology too imprecise to include the imputed amount in the tables.

Beyond the core-support Norway provides support to trust funds that can be used strategically to provide directions for the World Bank, for instance to the World Bank's Solutions for Youth Employment Global Coalition and Umbrella Trust Fund on Jobs and to the African Development Bank's Youth Entrepreneurship and Innovation Multi Donor Trust Fund.<sup>30</sup> As discussed above, many of these trust funds are not coded as PSD because their main components are not for PSD, and are thus not included in Table 2a.

### 4.3 Alignment of Norfund Objectives, Priorities and Commitments

This section focuses on Norfund. It first reviews its objectives, then the sectors and projects in which

<sup>30</sup> While the European Commission and European Development Fund (EDF) also support PSD, it is not common to add imputed aid via its allocations to European Union (EU) institutions. This is because there are no designated allocations from Norway to EDF, other allocations from Norway to the EU are normally tied to particular programs implemented in Europe and there is no DAC-910 aid to European institutions.

Norfund has invested or made commitments to invest. It then looks at how these commitments and investments align to the overall development objectives stated for Norfund.

#### NORFUND OBJECTIVES AND PRIORITIES

Norfund is regulated by a specific act (særlov) that sets out its mandate "to establish viable, profitable undertakings (virksomhet) that would not otherwise be initiated because of the high risk involved."<sup>31</sup> The act is specific as to how this is to be accomplished, stating that Norfund's purpose "is to assist in developing sustainable business and industry in developing countries by providing equity capital and other risk capital, and/or by furnishing loans and guarantees." The Norfund act does not enumerate its development objectives. Instead, these are elaborated in budget proposals, its strategy, White Papers and through its governance bodies.<sup>32</sup>

<sup>31</sup> See page 3 of Act No. 26 of 9 May 1997, the "Act relating to the Norwegian Investment Fund for Developing Countries", at <https://www.norfund.no/getfile.php/134377-1487337018/Dokumenter/Norfund%20Act%20%28ID%20144939%29.pdf>

<sup>32</sup> Norfund's highest governing body is the General Meeting, which is constituted by the Minister of International Development. The general meeting appoints the Board of Directors and approves the statutes. The MFA conducts its control authority through four annual contact meetings, and annual reporting. The Board of Directors decides on the fund's strategy.

The overall objective for Norfund in all budget proposals in 2014–2017 was "...to promote the development of profitable, sustainable private enterprise in developing countries." with a priority to invest in renewable energy and in accordance with the Norfund strategy.

The Norfund strategy states that its development objectives are to contribute to job creation, poverty reduction<sup>33</sup> and economic development through investment in profitable enterprises and the transfer of knowledge and technology.<sup>34</sup> This strategy defines four investment areas: clean energy, agriculture and the food industry, and financial institutions and SME funds, all chosen because of the likelihood of large development effects of the investments (Meld. St. 35, 2014–2015, p. 26):

- Clean energy because it is key to growth and poverty reduction
- Financial institutions because access to capital is a barrier for private sector development

<sup>33</sup> The White Paper *Working Together* also stated that the overall objective for Norfund investments was to contribute to poverty reduction (Meld. St. 35, 2014–2015, p. 26).

<sup>34</sup> See <https://www.norfund.no/getfile.php/131726-1476449669/Dokumenter/Norfund%20strategy%202016-2020%20ENG%20%28ID%20161654%29.pdf>



- Agriculture because most of the poor make a living in this sector and is key to food security
- Small and medium enterprises (SME) because of its importance to employment<sup>35</sup>

#### NORFUND INVESTMENTS AND COMMITMENTS IN PSD SUPPORT

In 2014, the reporting of the funding to Norfund in the Norad database was consolidated into a few (2-4) annual allocations. In 2017, the funding to Norfund amounted to NOK 1.5 billion, 42% of total PSD support.<sup>36</sup> One consequence is that the Norfund database,<sup>37</sup> which contains project information, and the Norad database cannot be directly compared as regards flows to PSD support. The Norfund database contains investment commitments, which will not be the same as the grants registered in the DAC and Norad databases for the

<sup>35</sup> Norfund states that “SMEs employ a large share of the workforce and contribute to economic diversification.”.

<sup>36</sup> Note that Norfund is re-investing any surplus and has yet to pay dividends to the MFA. In contrast, the government of Denmark in 2016 allocated the equivalent of NOK 275 million to the parallel agency, its Investment Fund for Developing Countries, which paid a NOK 63-million dividend that same year.

<sup>37</sup> See [www.norfund.no/investments/category857.html#offset=0|sortOrder=](http://www.norfund.no/investments/category857.html#offset=0|sortOrder=)

same year.<sup>38</sup> The preparation phase before the actual grant is made may last from four or five months to four or five years, according to Norfund, and a committed amount will be disbursed over a period of years.

Figure 2 shows commitments by sectors over 2014–2017. The commitments in a particular year reflect the objectives and priorities that year.

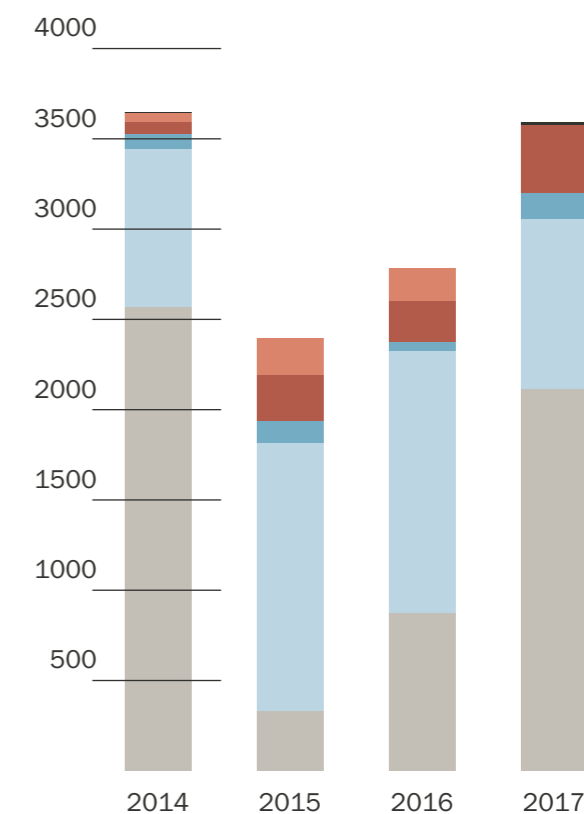
#### NORFUND SECTORS AND PROJECTS

In 2017 and 2014, in particular, there were large commitments within energy. In 2017, the major commitment was a NOK 1-billion commitment to invest in a clean energy project by SN Power in the Philippines.<sup>39</sup> Within agriculture, Norfund made recent commitments to invest in some large projects; the largest of these is a commitment of NOK 63 million for a beef farm in Ethiopia (Verde Beef) near the railway line to Djibouti, with the purpose of creating jobs and increasing exports, and a NOK 62-million commitment to a commercial wheat producer (Agrivision) in Zambia. Agrivision provides 10% of the wheat

<sup>38</sup> For example, a NOK 2.6-billion commitment is registered in the Norfund database in 2016 to Arise, an African investment firm, while the ODA allocation that year to Norfund was only 1.5 billion.

<sup>39</sup> The 2017 SN Power Philippines commitment, as well as the SN Power commitments was part of a restructuring of SN Power in 2017, and not new investments that year.

Figure 2.



#### Commitments by Sector 2014–2017

■ Energy ■ Financial Institutions  
 ■ Food and Agri ■ Funds ■ Other  
 ■ Tourism

Source: Norfund

consumed in Zambia, according to the Norfund website, and also runs a large-scale mill for wheat and maize.

The company has recently purchased other commercial farms in Zambia. These and other investments show that Norfund prioritizes commercial agriculture.

Prior to 2014, the largest Norfund allocation within the energy sector was the support of Statkraft's investments (SKIHI) in Brazil with NOK 821 million in 2012 and NOK 361 million in 2011 and support of Statkraft's investments in Chile of NOK 199 million in 2008 and NOK 187 million in 2012. The largest DAC-240 (finance) allocation was a NOK 143 million allocation in 2012 to Real People, described in the Norad database as South Africa's largest independent, non-banking financial services provider operating in Southern Africa. The second largest allocation was a NOK 139 million allocation in 2011 to Sacombank, described as a leading commercial SME bank in Vietnam. The third largest allocation was a NOK 136 million allocation to CIFI, a regional financial institution that provides long term loans to medium sized private infrastructure projects in Latin-America and the Caribbean.

#### ALIGNMENT OF NORFUND COMMITMENTS TO DEVELOPMENT OBJECTIVES

The objectives for Norfund for 2017 were to create

Table 4. **Norfund Commitments in 2017 According to Development Objectives**

Development objective	Number of commitments	Share of commitments	Share of funding
Economic growth	18	64.3	80.4
Job creation	10	35.7	18.6
Renewable energy - climate	8	28.6	59.2
Competence building	1	3.6	1.1
Technology transfer	2	7.1	0.8
Export	5	17.9	10.4
Sum	44	157.2	170.5
Number of commitments	28		

Source: Authors' own coding based on descriptions of committed projects on Norfund and project websites.

Note: Each commitment can be aimed aim to fulfil up to three development objectives.

economic growth, job creation in a sustainable way and building competences; to invest in renewable energy, the finance sector and agriculture; and to transfer technology (Prop. St. 1, 2016–2017). Table 4 shows that Norfund commitments were well aligned to the development objectives.

Note that SN Power constitutes 47% of the commitments, and is coded as economic growth, renewable energy and climate. In some other energy projects the

objectives were not mentioned, we have still coded the objective in line with the general objectives for Norwegian PSD support to the renewable energy sector, which is economic growth and climate. With SN Power and the other smaller energy projects, the main objectives are thus economic growth and renewable energy with the purpose of counteracting climate change. Job creation is also a core objective for a number of Norfund projects. On top of this export is explicitly mentioned in some projects. Norfund supports three core sectors,

renewable energy, finance institutions including microfinance, banking and investment funds, and agrobusinesses.

#### 4.4. PSD Aid Flows to Objectives: A Snapshot

To evaluate the extent to which Norwegian PSD support matches up to government policy and development objectives, we looked at 2017, the most recent year for which Norad aid statistics were available. We narrowed our focus to PSD disbursements of greater than NOK 3 million. There were 128 of these, including four disbursements to Norfund which we excluded from our mapping of disbursements against objectives (see Section 4.3). Our sample covered more than 92% of the total funds of the 2017 disbursements.

##### METHODOLOGY

The projects receiving these disbursements often supported more than one development objective, so we report up to three development objectives per disbursement. For example, support to climate smart agriculture that increases productivity of poor farmers may promote two different Norwegian PSD development objectives, i.e. sustainable economic growth and poverty reduction.

Table 5. *Norfund Commitments in 2017 According to Sectors*

Sectors	Number of commitments	Share of commitments	Share of funding
Renewable energy	10	35.7	62.9
Finance	11	39.3	24.5
Agrobusiness	6	21.4	15.0
Forest	1	3.6	0.5
Tourism	1	3.6	0.5
Sum	29	103.6	103.4
Number of commitments	28		

Source: Authors' own coding based on descriptions of committed projects on Norfund and project websites.

Note: Each commitment can be aimed aim to fulfil up to three development objectives.

We further categorized disbursements that aim to contribute to economic growth into three types, depending on their supplemental development objective(s): inclusive economic growth when the project targeted marginalized groups such as women and food indigenous groups; sustainable economic growth when the project included climate and environmental objectives; and general growth when the project's objectives did not include sustainability or inclusiveness. Typically, projects in the latter category included capacity building of ministries and government agencies important to improving general national conditions for private sector growth.

In addition, we categorized the disbursements in our sample according to whether they were direct support to a firm or general support, a key distinction in our conceptual framework. The framework, supported by empirical evidence, suggests that direct support to a firm is best avoided if that support crowds out other similar firms or similar activities.<sup>40</sup>

<sup>40</sup> As discussed in more detail in Chapters 4 and 5 and in Annexes 4 and 6, direct support can also distort the competition in the local markets, making it more difficult for local businesses to contribute to development objectives such as job creation and sustainable and inclusive economic growth.



## THE SNAPSHOT

The results of our analysis are presented in Table 6, which shows the distribution of development objectives for the non-Norfund disbursements in 2017.

## HIGHLIGHTS OF THE ANALYSIS

Aid flows aligned to varying degrees to the main, stated development objectives and priorities of Norwegian PSD support in 2017.

*Poverty reduction.* A large share (44.2%) of the funding went to projects with a stated objective of poverty reduction. Many of these disbursements included economic growth objectives.

*Inclusive and sustainable economic growth.* Inclusive economic growth was an objective for 23% of the funding, while 17% of the funding aimed to increase economic growth in general. More than half the funding went to projects with an objective of sustainable economic growth. Only 9% of the disbursements did not contain any of the three growth objectives.

*Responsible private sector.* Promoting a responsible private sector was an objective in 10% of the disbursements, accounting for 6% of the funds. This share appears low, given that all Norwegian support is supposed

Table 6. **Norfund Commitments in 2017 According to Sectors**

Development objective	Share of funding	Share of disbursements	
Poverty reduction	44.2	34.7	43
Inclusive growth	23.3	23.4	29
Economic growth	17.0	23.4	29
Sustainable growth	60.0	52.4	65
Renewable energy/ climate	22.3	20.2	25
Job creation	10.5	4.8	6
Responsible private sector	6.2	9.7	12
Sum	183.5	168.5	209
Number of disbursements			124

Source: Authors' own coding based on descriptions of committed projects on Norfund and project websites.

Note: Each commitment can be aimed aim to fulfil up to three development objectives.

to be based on the best international standards and practices in this area. However, as noted in the relevant budget proposal, dialogue and collaboration are main vehicles for achieving this objective (Prop. St. 1, 2016–2017, p. 206), the projects related to these disbursements could well include activities to promote the objective of a responsible private sector without this being included among the main objectives of the projects. A closer assessment of the project

documentation would be necessary to verify this, but is beyond the scope of the current evaluation.

*Job creation.* Only 10.5% of the funding was reported to include job creation as an objective. However, job creation could be implicitly or explicitly included in the rationale for the projects without being mentioned as a specific objective. Job creation is sometimes treated as an instrument to achieve development objectives, in the

same way as we specified in our conceptual framework. In those cases, job creation would not appear among the main objectives even if the project relied on job creation to deliver on its main outcomes. We explore this in more depth in our discussion of the program theory and rationale of Norwegian PSD aid in Section 4.5 and Annexes 6 and 7.

*Reduction of greenhouse gases through renewable energy.* One fifth of the disbursements, amounting to 22% of the funding, were to promote reduced greenhouse gas emissions by investing in renewable energy.

Our mapping suggested that 44% of the 124 disbursements (excluding Norfund) was direct support. Categorizing all Norfund support as direct support provides a rough estimate that around 70% of Norwegian PSD support in 2017 was direct support (excluding the small projects below NOK 3 million).

Most of the largest disbursements in 2017 were used for investments. Moreover, among the 124 disbursements above 3 million in 2017 (i.e. excluding Norfund), our mapping showed that 52% included competence building. The disbursements were for vocational training, research and development, extension services and support to national knowledge disseminating institutions. Knowledge was also important for the choice of sectors

for PSD support; the support was concentrated within sectors where Norway had particular expertise.

## 4.5. Lessons for Norwegian PSD Support

Determining the best way of supporting PSD is particularly challenging because of the difficulty of identifying the effects of PSD interventions<sup>41</sup> and the multiplicity, and overlap, of objectives. It is particularly difficult and sometimes impossible when the results of interventions cannot be established accurately at the outcome and impact levels. This is particularly the case for PSD support, and therefore the literature is often inconclusive.

Nevertheless, our literature review, combined with the development and assessment of the program theory, provide some insight into whether Norway's support is designed and implemented in ways that are likely to lead to success in achieving development objectives. This section first presents highlights of the literature review on lessons regarding PSD, then sets out the program theory and finally uses these as lenses to analyze Norway's support to PSD development objectives. All of

41 For one report see: [www.cgdev.org/sites/default/files/elusive-quest-additionality.pdf](http://www.cgdev.org/sites/default/files/elusive-quest-additionality.pdf)

these issues are discussed in greater detail in Annexes 4, 5, 6 and 7 as well as in Chapter 5.

### LESSONS FROM THE LITERATURE REVIEW

A key finding from the literature is that *crowding out* can make direct support less effective, and it may distort the competition in the local markets, making it more difficult for local businesses to contribute to development objectives.<sup>42</sup> However, the lessons from the literature does not suggest to avoid direct support, but rather to conduct a market analysis to inform the decision of whether the envisaged project is likely to achieve its objectives.<sup>43</sup> One key aspect is the degree of market concentration, which can

42 We discussed crowding out in Hatlebakk, M. (2016). Hva virker i utviklingspolitikken? En gjennomgang av forskningslitteraturen. CMI Report. The core empirical findings discussed were from: Morrisey, O. and Udomkerdmongkol, M. (2016). Response to 'Institutions, Foreign Direct Investment, and Domestic Investment: Crowding Out or Crowding In? World Development. 88: 10-11; and Görg, H. and Greenway, D. (2004). Much Ado About Nothing? Do Domestic Firms Really Benefit from Foreign Direct Investment? World Bank Research Observer. 19(2): 171-197. For another recent study see: Ndikumana, L. and Mannah Blankson, T. (2015). Financing Domestic Investment in African Countries: Does the Source of Financing Matter? Journal of African Development, 17(2).

43 This should follow the standards as taught in the field of industrial organization: Tirole, J. (1988). The theory of industrial organization. MIT press. Such market analysis is an element of Rodrik's growth diagnostics: Rodrik, D. (2010). Diagnostics before prescription. Journal of Economic Perspectives, 24(3), 33-44.



be analyzed with a Herfindahl index.<sup>44</sup> If there is limited competition, then direct support to a new entry may be beneficial, if some underlying market failures are counteracted.

The literature review suggested that *market analysis* should focus on three different features that are important to how a PSD support will work; crowding out, removing binding constraints and growth diagnostics. The different types of analysis require different resources, both in terms of expertise and in terms of costs. Conducting a full growth diagnostic is likely to be a relatively big project in itself and is usually conducted by the multilateral development banks. We therefore focus on crowding out and removing constraints, but note that many of the Norwegian PSD disbursements are too small to justify a full analysis.

A crowding out assessment should include likely contributions to the development objectives such as aggregated number of decent jobs created, reduction in total emissions when the competitive situation is considered, and net changes in local poverty levels when some jobs are created while others are removed.

44 For two examples on use of the Herfindahl index, see: Bigsten, Gebreeyesus and Söderbom (2016). Tariffs and Firm Performance in Ethiopia, *Journal of Development Studies*, 52:7, 986-1001; Beck, Hoseini and Uras (2019). Trade Credit and Access to Finance: Evidence from Ethiopian Retailers. *Journal of African Economies*. <https://doi.org/10.1093/jae/ejz018>

In the Norwegian aid administration, we found that Norfund is conducting similar analysis. Norfund conducts a market analysis that potentially can inform the degree of crowding out at two stages in the pre-investment phase. First, in the initial investment proposal, the competitive landscape is assessed.<sup>45</sup> Second, at the final approval stage, further information about the competitive situation and likely profits is considered.<sup>46</sup> The assessments at both stages indirectly provide information about the market concentration and potential competitors and can be used as an input in crowding out assessments.

The literature review also indicates that *crowding out* may appear further down in the results chain: even if jobs were created, the impact on income and poverty could still be zero.<sup>47</sup> This analysis requires a theory of change that considers the counterfactual development without the Norwegian PSD support. When Norway supports a hydro-power plant, for example, there is a need

45 Norfund (2017). In principle approval, D1730. IC date 08.11.2017.

46 Norfund (2018). Final Approval, D1730. IC date 12.04.2018

47 For one example see Banerjee's review of the impacts of microcredit, which may lead to new businesses, but not necessarily to increased incomes and poverty reduction: Banerjee, A. V. (2013). Microcredit under the microscope: what have we learned in the past two decades, and what do we need to know? *Annual Review of Economics*, 5(1), 487-519.

for analysis of competing funders, competing firms that may build the plants, and an analysis of the existing local and regional energy market.<sup>48</sup>

When analyzing the *binding constraints* that arise due to market failures, it is important to assess whether the direct support is subjected to the same forces that prevents private investors from entering the same markets.<sup>49</sup> For example, if corruption makes the risk of failure high, then an aid-funded investment will face the same losses as private investors. However, if there are incorrect beliefs about high risk, potentially due to large costs for each investor in collecting information, then an aid-funded investment can lead the way to showing that the beliefs are not correct. This can have large effects on development objectives as other private investors will follow the aid-funded first-mover.

48 In Hatlebakk (2016) we discussed the case of Brazil, which has had a well-developed energy market for decades. We argued that the role of Norwegian PSD support has likely been limited, due to the well-developed market. The energy market itself, however, has contributed to Brazil's development, see Lipscomb, M., Mobarak, A.M. and Barham, T. (2013). Development effects of electrification: evidence from the topographic placement of hydropower plants in Brazil. *American Economic Journal: Applied*. 5(2): 200–231.

49 For a general discussion of the need to overcome market-failures in PSD, see: DFID (2008). Private Sector Development Strategy. Prosperity for all: making markets work.



We find that Norfund conducts similar analysis of binding constraints. For their investment in Somaliland prepared in 2017, for example, a pre-feasibility study was conducted which relied on World Bank analyses of likely constraints.<sup>50</sup> In the initial investment proposal, many large obstacles against private investment is mentioned, but no analysis was conducted on whether the project would be hindered by these obstacles. In the final investment proposal, it is stated that there were insignificant losses for the operating partner. This may therefore be an example where PSD support can lead the way for private investors by showing that there indeed exist profitable opportunities in a region. An analysis of constraints should include an analysis of the information that different types of investors may have, where local investors may be better informed about local obstacles than the international ones.

The literature suggests that *self-discovery* can be a powerful instrument to achieve several of the development objectives.<sup>51</sup> The Enterprise Development for Jobs grant scheme is an instrument in Norwegian PSD

50 Norfund and Utviklingsfondet (2016). Pre-feasibility study: Financing Vehicle for SMEs in Somaliland.

51 Hausmann, R. and Rodrik, D. (2003). Economic development as self-discovery. *Journal of development Economics*, 72(2), 603-633.

support that provides grants like those that would be provided under the self-discovery approach.<sup>52</sup> The scheme provided grants to firms to reduce their risk ahead of an investment decision, including support for feasibility studies, partner search, trial production, local employee training, local vendor enhancement and local infrastructure investment. However, the grant scheme did not consider the key element in the self-discovery approach – to support firms to identify a country's comparative advantage. Moreover, it would require a different focus and an additional component to establish or strengthen existing dialogue forums where businesses and sectoral associations and government meet.

In order for *growth to be inclusive*, poor and marginalized groups need to benefit from the income increases.<sup>53</sup> Since these groups usually only rely on labor as their income source, PSD instruments to promote inclusive growth should focus on employment generation and productivity enhancements for these groups.<sup>54</sup>

52 See the grant scheme for 2016 (in Norwegian), available here: <https://norad.no/globalassets/filer-2015/tilskudd/naring/ordningsregelverk-for-bedriftsstotte-september-2016.pdf>

53 For one discussion of inclusive growth versus pro-poor growth, see Klasen (2010): [www.think-asia.org/handle/11540/1404](http://www.think-asia.org/handle/11540/1404)

54 For a broad discussion of the role of jobs, see: World Bank (2012). *Jobs. World Development Report*. Washington DC; World Bank.

*Several lessons emerge from this literature:*

1. Promoting inclusive economic growth through PSD support should focus on improving the conditions that enable marginalized groups to participate in economic activities, especially to enhance their ability to take advantage of economic opportunities. Donors should take into account the characteristics of different sectors/subsectors in terms of their production structure and how marginalized groups can utilize and develop their labor within these sectors. Sectors that use unskilled labor more intensively also tend to have stronger effects on poverty reduction, and agriculture, particularly small-scale agriculture, is the most poverty-reducing sector.<sup>55</sup>
2. PSD support should focus on removing barriers that may exclude groups from equal participation in the economy,<sup>56</sup> which in many cases can have large economy-wide positive effects on development outcomes. Social exclusion where marginalized groups

55 Loayza and Raddatz, 2010. The composition of growth matters for poverty alleviation. *Journal of Development Economics*, 93(1), 137-151).

56 For one study see: Villanger, E. 2015. Entrepreneurial abilities and barriers to microenterprise growth: A case study in Nepal, *Journal of Entrepreneurship*, 24(2).



(women, ethnic minorities, indigenous people) are barred from taking advantage of economic opportunities will hamper economic growth and lead to a less inclusive economic growth. Removing biases against some groups of labor and their access to capital, whether policy-induced or not, may create opportunities for excluded groups to use their skills productively, which in turn will contribute to inclusive economic growth.

3. To promote inclusive economic growth, PSD could also focus on the informal sector.<sup>57</sup> This sector provides a livelihood for many poor and vulnerable groups, but is unregulated and contains many jobs considered to be insecure, hazardous, and in conflict with international labor standards including regulations against child labor. The support should therefore focus on improving the working conditions for these groups, and to ensure they take part in the income growth. For this support, ILO has made guidelines on formalization and decent work standards for the informal sector that may fulfill these aims.

<sup>57</sup> For a broad discussion of the role of the informal sector in economic development, see: La Porta, R. and Shleifer, A. (2014). Informality and Development. *Journal of Economic Perspectives*. 28(3): 109-126.

In promoting *sustainable economic growth*, increased production of clean energy will, in most cases, replace other forms of energy, such as coal, natural gas and oil.<sup>58</sup> When an economy grows, the demand for energy will usually increase consumption of all viable energy sources, i.e. both renewable and non-renewable sources. In these cases, emissions would be lower than what it would have been in the absence of renewable energy. However, this may not be the case when energy markets are highly regulated, as is the case in many poor countries.<sup>59</sup> In general, the preparation of support to the energy sector requires a market analysis as part of the decision to select a project in order to assess the likely impacts of the investment on energy prices and the likely replacement of less clean energy sources.

*Building competence* is important both for sustainable and inclusive economic growth and for poverty reduction, and PSD support can be used to create well-functioning

<sup>58</sup> For a national level analysis of substitution, see Bello, M. O., Solarin, S. A. and Yen, Y. Y. (2018). Hydropower and potential for interfuel substitution: The case of electricity sector in Malaysia. *Energy*, 151, 966-983.

<sup>59</sup> If the entry of a new supplier of clean energy leads to more competition and lower prices, then the clean energy may, however, just add to other energy sources, and thus not reduce emissions. This will happen if the new competitive price is lower than the marginal income for the incumbent producers prior to the entry of the clean producer.

institutions that can contribute to knowledge diffusion and competence building, such as training workers in industry-specific skills, or train smallholders in new agricultural technics. Ensuring a skilled labor supply can be supported through universities, research institutes, vocational schools, polytechnic colleges, and other educational institutions important to the functioning of the private sector. It can also be supported through on-the-job and business training, entrepreneurship programs, and, within agriculture, through research stations, extension services and model farmers.

*Decent jobs* can be promoted either at the project level, or via general mechanisms. Again, the literature indicates that an analysis of the context needs to be conducted. Interventions to improve labor standards in the formal sector has been documented to have positive effects. However, in developing countries the formal sector is linked with the large informal sector, and interventions in the formal sector can potentially have negative impacts in the informal sector. These negative effects are much more difficult to document. ILO plays an important role for designing and analyzing programs for decent work, including integrated market analysis.<sup>60</sup>

<sup>60</sup> <http://www.ilo.org/emment/Projects/the-lab/lang-en/index.htm>



*Promoting responsible business* in PSD support includes communicating expectations and promoting regulations related to wage levels and labor standards. It is expected that firms receiving PSD support comply with local wage and labor standards, and ideally lift these standards by providing a good example for competing businesses. In some cases, this may be profitable in the short run, if there is a demand for products of decent standards. In other cases, it may be profitable in the long run, as the company complies with, and potentially also affects, the stricter standards that may follow economic development. Similarly, there may be a cost in the local market, but a benefit in the international market if western consumers value responsible business practices. But we also expect, in some cases, that such standards may be a cost for companies, but still worth it for share-holders including international development agencies. On the balance, the PSD interventions should be used to support international companies to gradually lead the way towards better wages, and higher labor standards. ILO should have a central role in this work.<sup>61</sup>

61 For one example of an ILO intervention for responsible business practices see: [https://www.ilo.org/brussels/information-resources/news/WCMS\\_622811/lang-en/index.htm](https://www.ilo.org/brussels/information-resources/news/WCMS_622811/lang-en/index.htm)

## 4.6. Program Theory of PSD Support

The program theory for Norwegian PSD support presented below is based on our interpretations of the policy documents reviewed in [Section 4.1](#), the research and evaluations in our literature review and projects reviewed during the mapping of aid flows. The support comprises a large number of projects with a wide span of causal relationships between inputs and development outcomes. The program theory therefore only covers the main lines. Annex 6 discusses the program theory in detail. Annex 7 presents two specific program sub-theories, for support to agriculture and energy, that were used as inputs to the development of the overall program theory.

Following an explanation of the theory, we discuss the degree to which it is likely to produce the intended, stated outcomes. At the overall level, developing a program theory is a useful tool for assessing whether support is likely to achieve its objectives. Here we use our conceptual framework supported by the literature review to assess how Norway envisages the PSD support will achieve the intended development objectives, and whether there are logical links between inputs and development objectives.

### OVERVIEW OF THE PROGRAM THEORY

Figure 3 (next page) is a schematic representation of the program theory. The page numbers in the figure and text refer to Meld. St. 35, 2014–2015, which provides the most detailed descriptions of the underlying mechanisms that are supposed to lead to the development objectives. The articulation of the expected links between these inputs financed by PSD support and the outcomes and impacts is usually explicit. The instrumental role of job creation in reducing poverty is one example (Prop. St. 1, 2015–2016, p. 20; Meld. St. 35, 2014–2015, p.11). Some links are not well developed, as we note on the following page.



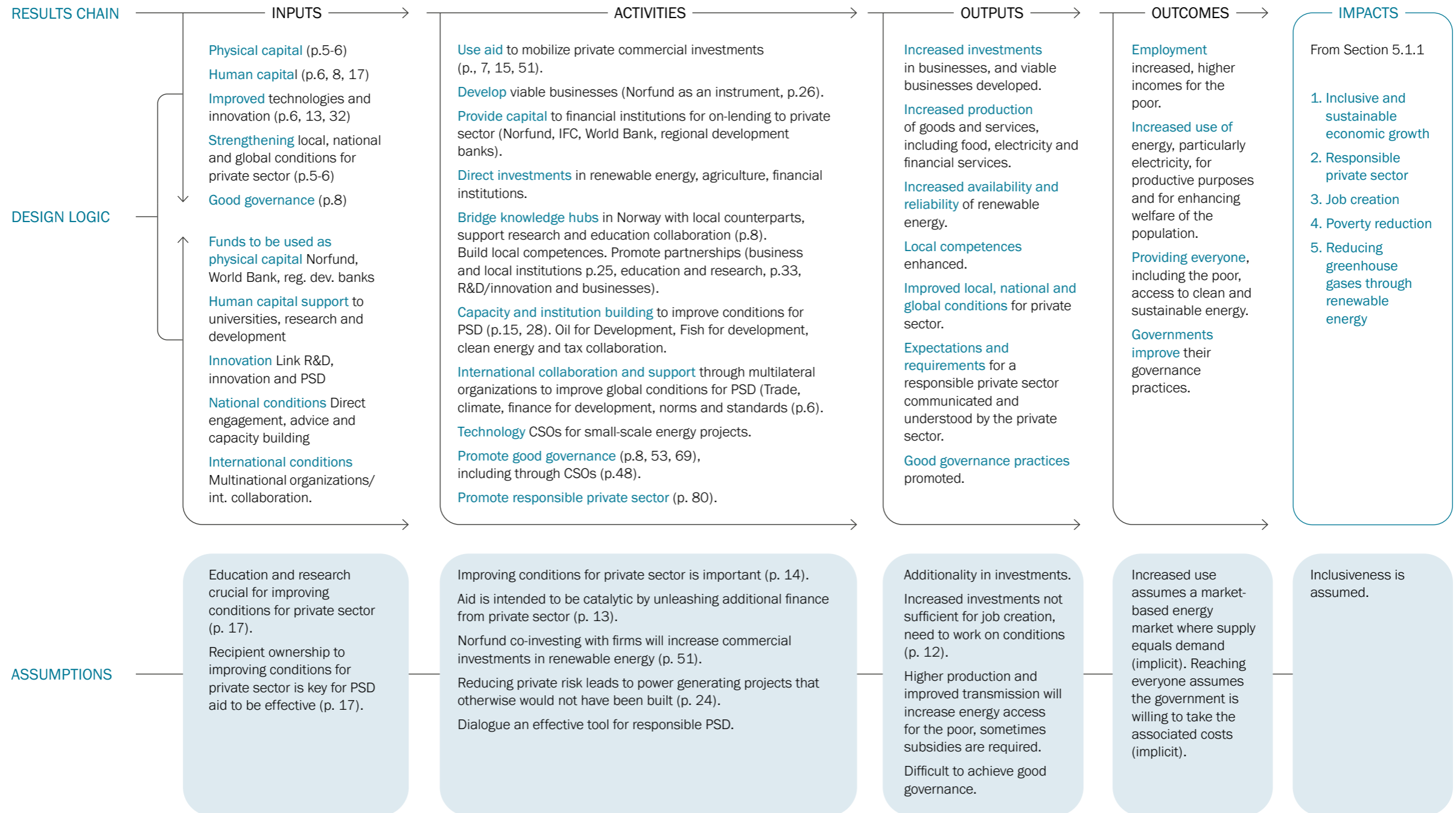


Figure 3. Program Theory for Support to Private Sector Development

## RESULTS CHAIN

The main **inputs** of support (see the column labeled “results chain”), the building blocks of economic growth models, include investments in physical and human capital and in technology development; improving conditions for the private sector by direct engagement to advice and build capacity; and promotion of good governance (pp. 5-8). The assumption for the success of latter input is ownership on the part of the recipient ownership (p. 17).

The inputs are used for a range of **activities**. Increased investment is stressed, reflecting the importance attached to the provision of capital as an input. Aid should therefore seek to be catalytic to mobilize investments from private investors (pp. 7, 15, 24, 51). Norfund has an important role to play in making direct investments (p. 7), and other activities include infrastructure and business support by multilateral organizations (p. 7), infrastructure investments through private-public cooperation (p.8), support to the improvement of conditions conducive for private investments (p. 15), education initiatives to attract foreign direct investments (p. 17), and support to conducting feasibility studies for assessing the viability of new investment projects (e.g. the Norad Enterprise Development for Jobs grant scheme).

Support for building competences is provided through many channels. Support is given to university collabora-

tion and to connecting knowledge hubs in Norway with similar hubs in the recipient countries (Meld. St. 35, 2014–2015, pp. 8, 17). Moreover, Norfund contributes with knowledge and competence directly in its investments, for example through board participation. This is another form of human capital building (p. 26).

While the importance of supporting improved technology and innovation is recognized, PSD support includes these chiefly in agriculture. Norway intends to use its experiences of connecting research and development (R&D) with innovation and the private sector to connect research communities in Norway with those in the recipient countries (p. 33). There are also some initiatives under the promotion of clean energy, and it is envisaged that civil society organizations will have a role in promoting new technological solutions for energy efficient solutions at the household level (p. 52).

PSD support to improve the national conditions for the private sector includes technical assistance, capacity-building programs and institution-building programs such as Oil for Development, Fish for Development, the clean energy initiative and tax collaboration. Additionally, support to developing country governments to promote good governance is considered “a requirement for private sector development” (pp. 8, 53, 69-72).

Responsible business is to be integrated in implementation of all Norwegian support to PSD,<sup>62</sup> with a strong focus on communicating international standards on responsible business to the private sector (p. 80-83) and working through multilateral organizations to promote decent work life and workers’ rights (p. 83). Norfund, and also the multilateral development banks, use the IFC Environmental and Social Performance Standards which define their clients’ responsibilities for managing their environmental and social risks.

Further down the results chain, these activities are expected to produce **outputs**, especially increased investments in businesses, the development of viable businesses and increased production of financial services, energy, food and other goods and services – especially food consumed as part of food security efforts (see Annex 6) and greater access to electricity for the poor.

Communicating the government’s expectation that firms comply with responsible business standards as part of Norwegian PSD interventions is intended to elevate firms’ understanding of how to meet these standards. The

62 The Norwegian Ministry of Foreign Affairs has also established a new portal for corporate social responsibility. See <https://www.regjeringen.no/aktuelt/portal-naeringsliv/id2589726/>.





program theory does not envisage how to ensure that jobs are created and that existing jobs are decent, other than at the general level of conveying the Norwegian expectations and collaborating internationally to achieve a decent work life. Norwegian policy emphasizes that it is the recipient government's responsibility to put adequate regulations in place to ensure a decent work life.

Similarly, the support to governments on good governance practices is expected to create recognition of these approaches by the recipient government. It is explicitly stated, however, that due to strong interests in maintaining existing patterns, many practices such as corruption, illegal capital movements and tax evasion are very difficult to change.

Regarding **outcomes and impact**, if investments have been additional,<sup>63</sup> they have likely contributed to economic growth. Similarly, if investments in renewable energy have been additional and led to increased use of such energy, they have likely contributed to sustainable economic growth by increasing the share of

63 The private sector may grow, create jobs and contribute to achieving development objectives without any targeted private sector development initiatives. To justify public interventions, such interventions must therefore bring about something that would otherwise not have happened, i.e. they must bring additionality. Additionality is discussed in Chapter 3 and Chapter 5.

clean energy in the energy mix. Moreover, investments contribute to inclusive economic growth depending on the degree to which all people benefit from increased income. The investments have then also contributed to sustainability. An important assumption in the program theory is that all firms that receive support operate in a sustainable way and act responsibly.

It is also emphasized that support to private entities should be conducted in a competitive way, in line with the rules for the individual countries and international standards (pp. 49-50). This is likely included in order to prevent distortion of markets. This is an important point for PSD and particularly for direct support to firms.

Support to agriculture has a high potential of stimulating sustainable and inclusive growth. The envisaged support to smallholders, such as investments in climate-smart, productivity-enhancing technologies, is likely to contribute to both sustainable economic growth and poverty reduction.

#### ASSESSMENT OF THE PROGRAM THEORY

At the overall level, developing a program theory is a useful tool for assessing whether support is likely to achieve its objectives. Here we use our conceptual framework supported by the literature review to assess how Norway

envisages the PSD support will achieve the intended development objectives, whether there are logical links between inputs and development objectives, and the likelihood the support as designed will contribute to the objectives. In addition, we present conclusions as to whether resources are supporting these intentions.

#### Inclusive and sustainable economic growth

There is a consensus in the literature that inputs contributing to physical and human capital, improved technology and innovation, and improved general conditions for the private sector are likely to lead to economic growth. These inputs are used in Norwegian PSD aid.

We also find that the aid flows, to a large degree, were used for such inputs. The funds that went to Norfund, which account for a large share of the PSD support, were solely used for investments and provision of competence. In 2017, most of the largest disbursements were used for investments. Moreover, among the 124 non-Norfund disbursements above NOK 3 million, more than 52% included competence building. The disbursements were for vocational training, research and development, extension services and support to national knowledge disseminating institutions. Knowledge was also important for the choice of sectors for PSD support; the support was concentrated within sectors where Norway had



particular expertise. Only four of these disbursements mentioned technology development explicitly among their main objectives. However, the literature review suggested that technology development is often embedded in the investment rather than a main objective.

It is evident that the support focuses on activities that promote sustainability, such as the production of clean energy and climate-smart agriculture. A de facto increase in electricity available for the private sector at a lower cost or a more reliable electricity supply is likely to lead to increased production of goods and services (economic growth). The degree of sustainability of the intervention can be discussed with regards to the degree to which the clean energy is crowding out polluting energy production. In well-functioning energy markets, the introduction of more clean energy production may crowd out polluting energy. However, in highly regulated or non-functioning markets and if new producers lead to more competition and thus lower prices for all forms of energy, this may not be the case.

This is an empirical question that can be analyzed ex ante of the decision to support the clean energy project. The support to climate smart agriculture follows similar mechanisms and rationale and is also conducive to economic growth. Our assessment is that the likelihood of

the support contributing to sustainable economic growth is high.

Ensuring inclusiveness in economic growth is often taken as an assumption in the policy documents. It is stated that inclusive economic growth is the development objective, but it is not explained how the support will include those who fall behind. This was a weakness in the program logic as marginalized groups may not necessarily benefit from economic growth. There may be discrimination in the labor market. Remote areas may lack the infrastructure necessary to take part in the growing economy. Reference is made to the importance of taxes for redistribution, but responsibility for inclusiveness is left with the developing country government and therefore external to aid.

In order to foster inclusive economic growth, the lessons from the literature suggest supporting inputs to economic growth in agriculture that will benefit these groups. There are many ways of doing this, but there should be a logical link between the activity and increased smallholder income. Norwegian PSD support has taken agriculture as a priority sector, and the allocations shows that agriculture is one of the main sectors also in terms of aid flows (Annex 5, Table A.5.2). Inclusiveness can be, and sometimes is, included as an objective in the actual PSD projects, but we note here that there

is no design logic that will ensure the inclusiveness in economic growth. In 2017, 15% percent of Norfund commitments were to agriculture while 19% of non-Norfund disbursements to PSD support went to agriculture. Norfund prioritizes commercial agriculture, rather than targeting smallholders directly.

#### Responsible private sector

Promoting regulations on labor standards seems to work well, although the effects on job creation and the informal market is hard to identify. Norwegian PSD support contributes to the ILO, which is considered the main multilateral institution for promoting the decent-work-agenda, which is an essential part of responsible business practices. Norway also held a seat on the ILO board from 2014–2017.

In addition, as of 2016, all Norwegian PSD support under Chapter 161 was to be based on the international standards and best practices concerning responsible business. This is potentially a strong tool if it is used as a condition for granting support. Our conceptual framework highlights that if responsible business measures appear as costs for the involved firms, they can reduce their competitiveness and make them unwilling to abide by the measures. The literature review indicates that firms need to be incentivized to act responsibly, but this



is not a part of Norwegian PSD support according to the policy documents. Rather, the policy documents highlight dialogue with firms and communicating the government expectations as key tools, which in this setting appear to be rather weak instruments.

### Job creation

The mechanisms leading to job creation, where firms invest in new production and expand their work force, are also well established in the literature. However, support to innovation and new technologies such as labor-saving technologies may also reduce the number of jobs. Although the links from inputs to activities to outcomes suggest that employment creation is a likely outcome, the lack of consideration of the possible negative employment effects of the support is a weakness of the program theory.

### Poverty reduction

Both our conceptual framework and the literature review confirm that economic growth is necessary for reducing poverty and that inclusive economic growth is more effective to this end. Economic growth in sectors where the poor are more concentrated have the highest poverty-reducing effects; the agriculture sector offers the greatest potential for reducing poverty. Norway has selected agriculture as a main sector for PSD support and uses a range of inputs to meet the development objectives (see

Annex 6). In principle, these inputs are the same inputs that are likely to lead to economic growth, which is one logical step towards poverty reduction.

Another logical step chosen is the focus on smallholders. Since most of the poor are smallholders, there is direct relationship between smallholder interventions and poverty reduction. The value chain development projects are related to this. The ambition of these projects is to support agribusiness on either the supply or demand side of smallholder production. When focus is on value chains where the poor are involved, the interventions can also have clear poverty-reducing effects. However, the support is also for higher-level commercial agriculture with few links to the poor. Here a trickle-down model has to be applied in order to envisage poverty-reducing effects. Such a logical link may not always be present, and no such links are explained in the policy papers.

A range of other inputs to reduce poverty are envisaged, and most of these go through job creation. Access to jobs is frequently referenced in the policy documents as one of the most important forces in the fight against poverty,<sup>64</sup> and this is supported by the literature. Taken together, the design is likely to contribute to poverty reduction.

<sup>64</sup> See for example Prop. St. 1, 2016–2017, p. 296.

### Reduction of greenhouse gas emissions

Support to clean energy is the main input to achieve reductions in greenhouse gas emissions. As discussed in greater detail in the sub-program theory for energy in Annex 5, the inputs are conceptually the same as the inputs in economic growth models. The main mechanism leading to reduced greenhouse gas emissions goes through provision of clean energy to replace polluting energy such as coal and through improved energy efficiency. Reducing the emissions requires a crowding-out effect on polluting energy. Although this is a likely effect, this mechanism is not always in place in such markets and is only an assumption in the policy documents. Our assessment, nevertheless, is that the support is quite likely to lead to reduced emissions, in particular in markets with lack of private investors in the clean energy sectors.

Most of the Norwegian aid follows the lessons from the literature at the macro level in that it is geared towards inputs used for promoting economic growth. In addition, large shares of support take into account inclusiveness and sustainability, as well as poverty reduction and job creation (indirectly). When it comes to responsible business, we do not have the empirical evidence of what works.



# Improving PSD Support

Aid to developing countries can have unexpected and potentially adverse impacts, and there will inevitably be tradeoffs in the pursuit of development goals through interventions and investments in the private sector.

As noted, private sector development (PSD) support by its very nature aims to change conditions for doing business, and this strongly suggests the need for careful analysis of how inputs and activities might play out in different environments. The lesson to identify additionality in PSD support, as in other forms of development assistance, is essential in designing and implementing support that shall contribute to sustainable economic growth and job creation.

This chapter explores some of the pertinent interrelated challenges and opportunities inherent in PSD support. While not an exhaustive review, it draws from the substantial literature on PSD of the past 20 years, as summarized in section 4.5. It first looks at the types of PSD support being used by donors, including Norway, and factors to be taken into consideration. This chapter also presents a synopsis of the lessons from the

literature on the design of inputs and activities for the different objectives, concluding that there is no one-size-fits-all toolbox.

## POLICY INSTRUMENTS

PSD support covers a broad range of activities at different levels to promote an enabling environment for the private sector. The root cause for an adverse business environment can sometimes be difficult to address. In those cases, compensating interventions may be considered. If, for example, poor property rights are an obstacle and the necessary legal reforms are not implemented, donors may set up guarantee schemes in support of private sector operations.

Many interventions are primarily designed to generate and catalyze investment by private businesses in order to contribute to inclusive and sustainable economic growth. However, there is a concern that aid projects may be crowding out private investments, particularly in relation to projects that directly provide capital for investments in specific firms (direct support). Crowding out is a standard concern that is raised by many

development finance institutions.<sup>65</sup> See Annex 4 for a detailed discussion of development effects – positive and potentially negative – of PSD support.

## SELF-DISCOVERY

Discovering and igniting a new sector in a country can have tremendous effects on job creation and growth. One proposal made in the literature is to establish a co-financing facility to subsidize the costs of self-discovery.<sup>66</sup> Even if the general conditions for spurring economic growth are in place, there may not be growth unless entrepreneurs in the country know or can find out which investments would be profitable, that is, there is sufficient self-discovery. Such search for opportunities is costly for entrepreneurs, and the benefits of actually discovering a profitable opportunity will also accrue to the other entrepreneurs, which provides a rationale for PSD interventions.

65 See for example a report to DFID (and references therein): <https://assets.publishing.service.gov.uk/media/57a08992e5274a27b200014f/Development-Impact-of-DFIs.pdf>

66 Hausmann, R. and Rodrik, D. (2003). Economic development as self-discovery. *Journal of development Economics*, 72(2), 603-633.



Support to self-discovery can be made as general support, for example through competitive schemes where any firm can apply for support, and any direct support may in this case be positive, as long as it leads to information spillovers, and not crowding-out of competing firms.

### IMPLEMENTING PARTNERS

It is not always possible to achieve development outcomes by collaborating with a particular recipient government. For example, if a government has weaker environmental standards than those of the donor, it can be difficult for the donor to fulfil its environmental goals through government collaboration. In this case, it may be more effective for the donor to work with another recipient government, or another agency within the selected country of development co-operation.

If national environmental regulation and enforcement is poor, donors may choose to work with the private sector instead of the government to create the desired environmental minimum standards. Alternatively, the donors can work with multilateral organizations to achieve the development objectives. This could be more effective in recipient countries where the multilateral organizations have a strong influence on the government, for example if the multilateral is a large

donor and has high expertise on the private sector development issues of interest. In other cases, the donor can work with the civil society to improve environmental standards and practices.

Some development objectives, such as cross-border environmental problems, are best pursued at the international level. For those challenges, foreign aid can be used to support efforts to create international agreements on the topic.

### DEVELOPMENT EFFECTS

One important implication of the theory is that direct support to one firm is likely to also affect the decisions of competing firms. For example, providing finance to one firm may cause growth and job creation in this firm, while at the same time cause decline and loss of jobs in other firms. Another example is environmental standards. If higher environmental standards give a competitive advantage, then supporting one firm to introduce higher environmental standards may lead other firms to follow (in order to be competitive), resulting in a higher environmental standard for all firms in that market.

Similarly, private sector development support to specific sectors, can have negative or positive effects on

other sectors. It is therefore crucial to adopt a market perspective in the evaluation of private sector development interventions in order to capture the full effects on the development outcomes.

### ADDITIONALITY<sup>67</sup>

To identify the effects of direct support to one firm on competing firms, a market analysis should be conducted. This should be integrated in a broader analysis of additionality. Additionality is relevant at different levels of the PSD value chain, and the support can be considered additional either because of its “financial additionality” or “value additionality” or both. PSD financial support is considered financially additional if it is extended to an entity that cannot obtain finance from private capital markets with similar terms or quantities without official support, or if it mobilizes investment from the private sector that would not have been otherwise invested. It is additional in value if the support offers non-financial value that the private sector is not offering and which will lead to better development outcomes.

<sup>67</sup> Again, we rely on the previous mentioned OECD DAC paper on PSD terminology: <http://www.oecd.org/dac/peer-reviews/Inventory-1-Private-Sector-Engagement-Terminology-and-Typology.pdf>



Both financial additionality and value additionality refer to changes in inputs, and “additional” means that these inputs would not have been provided in the absence of the PSD support. If there is financial and/or value additionality, the behavior of firms is likely to change. These changes may cause development additionality, which refers to the development impacts that arise as a result of the PSD support (that would not have occurred in the absence of that support). As such, financial and value additionality can be seen as prerequisites for development additionality.

Assessing the additionality of private sector development is particularly challenging because of the complexity of establishing a reliable counterfactual (i.e., what would have happened without private sector development). This is especially the case for PSD support that may affect market outcomes, such as support provided by development finance institutions like Norfund, direct firm support and labor market interventions. A PSD investment project will add to aggregate investments unless there is full crowding out. If there is full crowding out, then there is no

additionality in the support. As a result, the concept of additionality is also central to the discussion of whether or not a particular private sector development intervention is justified.

#### **TRADEOFFS AND IMPACTS OF PSD SUPPORT**

PSD may affect development outcomes without any effects on job creation. Interventions that aim to develop a responsible private sector will work differently than those that aim to create jobs. Similarly, interventions to reduce poverty through private sector development can be designed to increase the productivity of the poor, for instance by improving their skills or health, without affecting job creation. This may cause higher wages for the individuals and thereby reduced poverty, without necessarily influencing supply and demand for labor. Improved business skills among marginalized poor people (e.g. through entrepreneurship training for disadvantaged groups) may reduce poverty by further development of their businesses, reduce inequality and improve their position in society, even though the aggregate number of jobs may not increase. *The overlapping and sometimes mutually exclusive nature of PSD interventions makes it difficult to settle on a one-size-fits-all toolbox of PSD support.*

It also is inherently difficult to identify an optimal policy and the best tools for achieving an objective when the empirical verification of its effects is not reliable. When the true effect of the relevant instruments is not known, one cannot compare the instruments according to their efficiency. This is often the case in private sector development support: it is in many cases impossible to identify its effects in a reliable way. Moreover, when there are two or more objectives, *selecting the best tools (or interventions) will usually involve a trade-off* between the two, which can only be identified by a normative clarification.



## Conclusions and Recommendations

Support to private sector development can alter competitive relationships and change the business environment. Market analysis to investigate the likely impacts of project and sector level interventions can help to identify the potential effects, both positive and negative, of Norway's support and establish whether a PSD project is likely to achieve its intended objectives. Information about market concentration and potential crowding out is, to some extent, available in analyses that Norfund is already conducting in the pre-investment phase, and can be expanded.

We recommend that the aid administration include a requirement for a market analysis to ensure that PSD projects going into new markets are designed to deliver the expected development effects. Market analysis already being conducted by Norfund could be developed into a full-fledged methodology for assessing both crowding out and binding constraints.

The requirement can, however, not apply to all small projects. There are too many different types of projects supported by Norwegian PSD to be subjected to full market analysis. The required market analysis can be time consuming, costly and technically challenging. We conclude that it is not likely to be feasible to conduct such an analysis for all PSD projects. A smaller or more concentrated set of projects would allow for proper market analysis and help to ensure that the development objectives are likely to be met. For smaller projects one will have to rely on general sector analysis, or prior analysis of similar projects.

Promoting inclusive economic growth through PSD support should focus on improving the conditions that enable marginalized groups to participate in economic activities, especially to enhance their ability to take advantage of economic opportunities. Focusing on support that benefits small-scale agriculture is likely to have the largest poverty-reducing effect.

Finally, we conclude that the Norwegian PSD support has been in line with the main development objectives as stated in the budget proposals. The support was also designed in ways that, if well implemented, are likely to contribute to the intended outcomes of economic growth that is inclusive and environmentally sustainable, creates jobs, promotes a responsible private sector, and reduces poverty. Going by lessons that emerge from research and evaluative literature, Norwegian aid would be more effective if it could be based on analysis of the business environment and competitive relationships in developing countries.



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## Annex 1. Terms of Reference<sup>68</sup>

Three evaluations of Norwegian development assistance to private sector development and job creation

### 1. BACKGROUND

Private sector development in general and job creation specifically are key priority areas for Norwegian development assistance<sup>69</sup>. It is believed that development support to the private sector will create jobs, reduce poverty, and speed up economic growth, while also adhering to accepted human right principles and promoting equity, ensuring that this is done in a sustainable and environmentally friendly manner. A central concept for this support is additionality. The donor committee for enterprise development (DCED) defines additionality as the<sup>70</sup>: “channelling [of] resources to the private sector

68 Revised 04.09.18. The only change from the tender invitation is a change in numbering of the evaluations. Evaluation B is now C.

69 See for example white papers: *Working together: Private sector development in Norwegian development cooperation* – Meld. St. 35 (2014 – 2015) Report to the Storting (white paper) and *Common Responsibility for Common Future* – Meld. St. 24 (2016–2017) Report to the Storting (white paper). Also highlighted in the Busan partnership for effective development cooperation.

70 [https://www.enterprise-development.org/wp-content/uploads/DCED\\_Demonstrating-Additionality\\_final.pdf](https://www.enterprise-development.org/wp-content/uploads/DCED_Demonstrating-Additionality_final.pdf) see also: <http://www.oecd.org/dac/peer-reviews/Inventory-1-Private-Sector-Engagement-Terminology-and-Typology.pdf>

to bring about investments and activities which would not otherwise have happened (at all, or in the same way, extent or time)”. Another central concept is development effectiveness in terms of “Doing the Right Things” and “Doing Things Right” to achieve development goals. Safeguards are also key to ensuring that private sector development is promoted in a sustainable manner promoting the sustainable development goals. Additionality and development effects may be difficult to demonstrate for a wide array of reasons: relatively low levels of support by single donor funded projects, complex processes and lack of credible counterfactuals. Adding to the complexity is the lack of a one size fits all-solution to private sector development that is valid for all countries for all times.

### 2. PURPOSE

The purpose of these three evaluations is to improve Norwegian support to private sector development and job creation in developing countries. This will be done through mapping and comparing support to private sector development with best practices when such exist, and by contributing to new knowledge of how to most effectively measure private sector development and evaluate job creation (development of new methods). It is expected that these three evaluations will create new knowledge, spur learning within the aid administration and promote evidence-informed decision-making.

### 3. AUDIENCE AND USE

The main users of these evaluations will be the Norwegian aid administration. To promote interest and learning stakeholders will be actively involved in all aspects of the evaluation process. In addition to the Norwegian aid administration, it is expected that other entities that promote private sector development and job creation and academia may take an interest in the evaluation. While it is expected that the evaluations will be based on the most relevant academic research and relevant evaluations, and will uphold methodological rigour, it should be presented in such a form that it is accessible to non-experts. That said, descriptions of methods should contain sufficient detail for experts within the field and may be included in annexes.

### 4. SCOPE

The evaluation object will be Norwegian development assistance promoting private sector development and job creation from 2014/15 – 2017/18<sup>71</sup>. Private sector development is defined broadly to include development assistance that targets the private sector to pursue developmental objectives, including support to safeguards and assistance targeting operating conditions.

71 The evaluation team can propose changes to this timeline if such are well founded.



The evaluation team will define, further narrow and explain the scope of the three evaluations in more detail in the inception phases of these exercises.

## 5. EVALUATION QUESTIONS AND OBJECTIVES

**5.1 Evaluation A** Map and describe Norwegian support to private sector development and job creation

Objective A1 Map policy objectives for support to private sector development and job creation

Objective A2 Provide an overview of literature (research and evaluations) on how to promote private sector development, including job-creation in developing countries as a means to pursue development objectives

Objective A3 Describe the underlying programme theory, if any, for Norwegian development support to private sector development. This should include the overarching development objectives.

Objective A4 Map Norwegian official development assistance to private sector development and job creation, and compare to policy objectives and best practices as identified by literature

Objective A5 Identify priority areas and gaps in support, in terms of stated objectives and best practices.

Objective A6 Suggest case studies and detailed methodology for evaluation C.

Evaluation question A1 *To what extent does Norwegian development assistance promote private sector development in light of best practices identified by research and evaluations and compared to stated objectives?*

**5.2 Evaluation B** A new approach to measuring job creation

Objective B1 Provide an overview and assessment of the common ways to measure job creation<sup>72</sup> and the strengths and weaknesses of these approaches<sup>73</sup>.

Objective B2 Discuss how this is done for Norwegian funding and identify strengths and weaknesses of the current approach.

<sup>72</sup> This should include an assessment of methodological rigour, the extent to which measurements can be aggregated, the extent to which detailed/costly examination is required and the extent to which development effects are considered.

<sup>73</sup> See for example the work done by <https://letswork.org/>

Objective B3 Suggest new methods for measuring/evaluating job creation. This could include an evaluative approach to a portfolio.

Evaluation question 1B *What is the most appropriate way to report on jobs created through Norwegian development projects?*

Evaluation question 2B *How can evaluations be used to improve the effectiveness of portfolios?*

**5.3 Evaluation C** Effectiveness and efficiency of the Norwegian portfolio of support to private sector development over the period 2014/15 to 2017/18

Objective C1 Assess the effectiveness and discuss the efficiency of priority areas of Norwegian development assistance through case studies of priority areas of support. Case studies<sup>74</sup> should be carefully chosen based on scope and magnitude of development support<sup>75</sup>.

<sup>74</sup> Case study here refers to an up-close, in-depth, and detailed examination of a subject of study. This in-depth examination can utilize any method deemed appropriate.

<sup>75</sup> See also: [https://www.enterprise-development.org/wp-content/uploads/DCED\\_DemonstratingAdditionality\\_OnePageSummary.pdf](https://www.enterprise-development.org/wp-content/uploads/DCED_DemonstratingAdditionality_OnePageSummary.pdf)



Objective C2 Identify strengths and weaknesses of Norway's current approach

Evaluation question C1 *What is the additionality and development effects, exemplified through case studies, of Norwegian development assistance to private sector development?*

Evaluation question C2 *To what extent is the Norwegian approach to private sector development efficient (assess value for money)?*

The discussion of efficiency should also draw on evaluation A.

## 6. APPROACH

The evaluation approach shall be theory-based relying on the most relevant academic literature and evaluations. Theory-based evaluations usually open the so-called black box and explain causality and changes, including underlying assumptions. In this instance a theory-based approach means that the evaluation team shall both describe any existing programme theory for private sector development, and develop a theory of change for the additionality of the Norwegian portfolio based on the most relevant evaluations and research. In addition, potential development effects should be spelled out.

All links should be thoroughly explained. All underlying assumptions shall be spelled out, including potential adverse effects. The second evaluation shall test / validate the theory of change through case studies. The third evaluation shall rely on the most up-to date research and evaluation methods for assessing job creation and if possible propose new methods. The approaches chosen shall adhere to the highest methodological standards appropriate for the methods chosen.

Unless otherwise agreed, the three evaluations will use the OECD DAC-developed terminology for private sector development: <http://www.oecd.org/dac/peer-reviews/Inventory-1-Private-Sector-Engagement-Terminology-and-Typology.pdf>

## 7. METHODOLOGY

It is suggested that data will be collected and analyzed using different methodologies:

- a. A desk review of documents including relevant white papers, budget propositions, research and evaluations.
- b. Norad statistical aid databases.
- c. Case studies and other methods chosen by the team. Case studies should utilize qualitative and/or quantitative methods for assessing the additionality of Norwegian development assistance. These methods should pay particular attention to causality.

- d. Methods for analysing the effect of development assistance on job creation.

## 8. ALL THREE EVALUATIONS WILL EACH HAVE THE FOLLOWING THREE SEPARATE PHASES.

- 8.1. The inception phase will include a visit to MFA, Norad and Norfund headquarters in Oslo, including a mapping of issues mentioned in these Terms of Reference, a review of existing literature and an initial mapping of relevant documents and literature. At the end of the inception phase, the evaluation team will prepare and present, in Oslo, a draft inception report, elaborating on the ToR describing how the evaluation will be carried out, refining and specifying expectations, methodology, roles and responsibility and timeframes. In addition, where relevant, all tools that are to be used in data collection shall be submitted.
- 8.2. The implementation phase will include data collection and analysis. During the finalisation phase a draft report and draft recommendations will be discussed with the management in the MFA and Norad, in Oslo, to allow for feedback before the final report is published and discussed at a public seminar in Oslo.



**8.3** The evaluation team will receive comments from stakeholders and the Evaluation Department to the draft inception report and draft final report, which can be used to finalize the reports.

## 9. DELIVERABLES

The deliverables for each of the three evaluations consist of the following outputs:

- a. Draft inception report, including all tools. After circulation to stakeholders, the Evaluation Department will provide feedback
- b. Final inception report to be approved by the Evaluation Department
- c. Draft report. All underlying data, such as transcripts, shall be made available to the Evaluation Department upon request
- d. Workshop to discuss the draft, including recommendations with stakeholders
- e. Final report not exceeding 50 pages excluding summary and annexes
- f. The draft inception report and the draft final report should be presented to key stakeholders in Oslo.
- g. Public presentation seminar in Oslo
- h. Evaluation brief not exceeding four pages

All reports shall be prepared in accordance with the Evaluation Department's guidelines and shall be submitted in electronic form in accordance with the progress plan specified in the tender documents or in the approved inception report.

## 10. CONDUCT OF EVALUATION

All parts of the evaluation shall adhere to recognized evaluation principles and the OECD Development Assistance Committee's quality standards for development evaluation, as well as relevant guidelines from the Evaluation Department. It is expected that the evaluation is carried out according to accepted research and evaluation ethics and the evaluation shall be undertaken with integrity and honesty and ensure inclusiveness of views. The rights, dignity and welfare of participants in the evaluation shall be protected. Anonymity and confidentiality of individual informants should be protected unless otherwise agreed. Ethical considerations shall be documented throughout the evaluation processes.

The evaluation process will be managed by the Evaluation Department in Norad. The evaluation team will report to the Evaluation Department through the team leader. The team leader shall be in charge of all deliveries and will report to the Evaluation Department on the team's progress, including any problems that

may jeopardise the assignment. The Evaluation Department and the team shall emphasise transparent and open communication with stakeholders. Regular contact between the Evaluation Department, team and stakeholders will allow for discussion of any arising issues and ensuring a participatory process. All decisions concerning the interpretation of these Terms of Reference, and all deliverables are subject to approval by the Evaluation Department. The team should consult widely with stakeholders pertinent to the assignment. In some evaluations, the Evaluation Department participates to better understand the context of the evaluation. This might also be discussed for this evaluation. Stakeholders will also be asked by the Evaluation Department to comment on the draft inception report and the draft final report. In addition, experts or other relevant parties may be invited to comment on reports or specific issues during the process. The evaluation team shall take note of all comments received from stakeholders. Where there are significant divergences of views between the evaluation team and stakeholders, this shall be reflected in the final report. Quality assurance shall be provided by the institution delivering the consultancy services prior to submission of all deliverables. Access to archives and statistics will be facilitated by Norad and stakeholders, however all searches will have to be conducted by the evaluation team.





## Annex 2a. List of Those Consulted

### CONSULTATION ON PROGRAM THEORIES

Name	Position	Unit	Theory
Stefan Almehagen Sandstad and Åse Elin Bjerke (Confirmed they received the theories, provides comments, if any)		Ministry of Foreign Affairs, Section for Private Sector Development	Overall
Kim Kristmoen	Acting leader (at the time of interview)	Norad, Section for Private Sector Development	All
Semund Haukeland	Leader	Norad, Section for Environment and Food Security	Agriculture
Ørnulf Strøm	Leader	Norad, Section for Renewable Energy	Energy
Ola Nafstad Kristin Imafidon	Chief Economist Senior Development Economist	Norfund	All



## Annex 2b. List of Those Consulted

Name	Position	Unit
Jon Hansen	Director	MFA
Marianne Damhaug	Senior Advisor in the Section for Multilateral Development Banks	MFA
Kristin Teigland	Senior Advisor in the Section for Multilateral Development Banks	MFA
Ola Nafstad	Executive Vice President	Norfund
Kristin Imafidon	Senior Advisor	Development Impact, Strategy and Analysis, Norfund
Hilde Janne Skorpen	Director, Section for Business Relations and Private Sector Development	MFA
Paul Wade	Assistant Director, Section for Private Sector Development	Norad
Ole Morten Stavland	Head of PMEAL	Stromme Foundation
Andrej Viotti	Team leader, monitoring and evaluation	Norwegian Church Aid
Lene Bakker	Advisor	The Development Fund
Jorunn Nordgard	Program manager	Plan Norway
Phyllis Horea	NA	Plan Norway
Linda Haltbrekken	NA	Plan Norway



## Annex 3. Stakeholder Comments

### COMMENTS FROM NORFUND

Norfund notes and is disappointed that the evaluator has not taken into account several of our comments to the draft report dated 10th October 2019. Most comments given to the draft final report submitted to Norad's Evaluation Department on the 5th November are still valid.

Particularly, Norfund would like to highlight the following topics that that could have considerably strengthened the report:

The present document fails to fully cover Norwegian PSD. Particularly, the analysis is weak on funds channeled to PSD through the multilateral banks (The World Bank system, AfDB and others). Much of these are for investments, with similar goals, ambitions and instruments as the funds channeled through Norfund, however the geography-, sector- and project size profiles may be different. To understand how Norwegian PSD serves the overall development goals, the multi-lateral channels should have been more thoroughly analyzed and compared to the bilateral development assistance.

The theoretical background in the evaluation leads to a biased argumentation against direct support in favor of general measures and overstates market distortions and the "crowding out" issue, relative to the potential developmental effects from direct private sector instruments (PSI), without discussing the relevance for the markets where Norwegian PSD is implemented, typically the poorest countries where access to capital is scarce. The "crowding out" issue may in some instances be relevant, but that aspect is well taken care of in Norfund's investment process, something that the report fails to acknowledge.

The choice of literature is particularly weak on the most relevant themes such as the role of energy supply and access for economic growth and job creation, and the role of a functioning financial market and financial institutions for private sector development. Further, the report fails to draw on any lessons learned from highly relevant recent evaluations of Norfund and the other Nordic Development Finance Institutions (DFIs). Lessons referred from IFC evaluations are not that relevant, as IFC's geographical scope and project sizes differ significantly from direct Norwegian PSD.

Investments are the most important element of Norwegian PSD. The report conflates grant aid and investments, which have fundamentally different characteristics, both to donors and clients. The differences, both in donor cost, and in short- and long-term outcomes and impacts should have been discussed and compared. The report would have been strengthened by a better understanding of the role of investments and not conflating it with grant aid.

### COMMENTS FROM THE SECTION FOR PRIVATE SECTOR DEVELOPMENT, NORAD

#### Strategic partnerships

The report is coming out in late 2019, but the data used is from 2017. Thus, the report is completely missing an important, new policy tools which has been launched and extensively highlighted by various Development Ministers and the private sector – namely the strategic partnership scheme. Norad has entered around 25 strategic partnerships in the period 2017–2018, which have not been reflected in the report.



These are partnerships between private sector and civil society, often also including local governments and financial institutions as partners. These schemes target most of the key goals of the Norwegian PSD policy:

- Providing a thorough context analysis prior to intervention
- Systematically targeting binding constraints in a value chain in order to improve the business climate and competitiveness of the private sector, without distorting competition
- Involving private sector players in the effort, but without favoring one player over the others (as the projects look at improving the framework conditions for the whole value chain and not only one player)
- Strengthening skill development (as many of the projects provide on the job training and vocational training as the key output – but in consultation with private sector needs)
- Generally

The report talks a lot about Norfunds investments, the multi-support and to some extent enterprise development for jobs. However the grant scheme Strategic Partnership is not mentioned, although it is accounting for a increasing portion of Norads PSD-effort, and additionally is the policy tool that best meets the multiple develop-

ment objectives initially stressed by the report. It is important that this be included in the report, and Section for Private Sector Development of Norad will be available for providing the needed data to CMI on this scheme.

### Blended finance

Another important topic which was missing from the report was a discussion on the need for subsidies and blended finance vs pure commercial capital.

A lot was written about Norfunds mandate and investments, but very little about the need for blended instruments in order to reach the poorest markets and segments. As long as Norfund accounts for the largest part of Norwegian aid to PSD, this is an important topic for the report.

The World Bank (IFC), the Asian Development Bank and other international multi-banks have all recognized the importance of this.

In brief, the poorest countries and segments are too risky to attract private investments on a pure commercial term. More often than not, therefore some “subsidy” (defined as financing offered at a lower rate than the current market rate) is needed to incentivize the private sector to make the needed investment. Therefore these institutions have created separate tools (Private

Sector Windows) to provide blending with the normal development finance, which is offered at market rates.

Of course such instruments must be applied with care, and a systematic step-wise analysis of the context needs to be made, before deciding to apply blending. The head of IFC, Le Houerou states on Oct 10 2019: “blended finance is an instrument to compensate for some of the many market failures and uncertainties that are stifling private investment in the more challenging places.

We see its great potential to help countries meet their development goals and ultimately to give citizens in poor countries the opportunity to grow businesses, create jobs, purchase homes, and access electricity.”

“The PSW is not a giveaway to private companies, but an important de-risking tool that allows private sector investors and lenders like IFC and insurers like MIGA to support projects that would otherwise not happen”.

There has in recent years been a lot of talk about blended finance, and industry has asked for blended schemes, e.g. guarantees for the energy sector and blended finance for the most risky markets. A report on Norwegian PSD in 2019 should therefore include a section about that and come up with considerations on whether this is needed for Norwegian PSD or not.



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Annex 4-8 can be found as a separate document together with this report at [www.norad.no/evaluation](http://www.norad.no/evaluation)



## Acronyms and Abbreviations

CGIAR	Consultative Group on International Agricultural Research	NIBIO	Norwegian Institute of Bioeconomy Research
CRS	Creditor Reporting System	NOK	Norwegian kroner
CSO	Civil society organization	Norad	Norwegian Agency for Development Cooperation
CSR	Corporate social responsibility	Noragric	Department of International Environment and Development Studies
DAC	Development Assistance Committee (OECD)	Norfund	Norwegian Investment Fund for Developing Countries
DFID	Department for International Development (United Kingdom)	ODA	Official development assistance
DFI	Development finance institution	OECD	Organisation for Economic Co-operation and Development
EDF	European Development Fund	OfD	Oil for Development
EU	European Union	PSD	Private sector development
GCDT	Global Crop Diversity Trust	R&D	Research and development
GIEK	Norwegian Export Credit Guarantee Agency	SDG	Sustainable Development Goal
ICAI	Independent Commission for Aid Impact	SME	Small and medium enterprise
ICT	Information and communications technology	TVET	Technical and vocational training
IDA	International Development Association	UK	United Kingdom
IFAD	International Fund for Agricultural Development	UN	United Nations
IFC	International Finance Corporation	UNGP	UN Guiding Principles on Business and Human Rights
ILO	International Labour Organization	UNIDO	United Nations Industrial Development Organization
IMF	International Monetary Fund	WFP	World Food Programme
LDC	Least developed country	WTO	World Trade Organization
MFA	Ministry of Foreign Affairs		
NGO	Non-governmental organization		



All reports are available at our website [www.norad.no/evaluation](http://www.norad.no/evaluation)

## Former Reports from the Evaluation Department

### 2019

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1.19 Evaluation of Norway's Multilateral Partnerships Portfolio The World Bank and UN Inter-Agency Trust Funds

Making Evaluation Work for the achievement of SDG 4.5 Equality and inclusion in education

### 2018

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13.18 The Norway-India Partnership Initiative Phase II: Impact Evaluation of Five Interventions

12.18 Evaluation of Organisational Aspects of Norwegian Aid Administration

11.18 UNGP, Human Rights and Norwegian Development Cooperation Involving Business

10.18 A Trusted Facilitator: An Evaluation of Norwegian Engagement in the Peace Process between the Colombian Government and the FARC, 2010–2016

9.18 Civil society under pressure: Synthesis study of evaluations of Civil Society Organisations' democratisation and human rights work in Southern and Eastern Africa

8.18 Evaluation of Norwegian Efforts to Ensure Policy Coherence for Development

7.18 International tax agreements and domestic resource mobilisation: Norway's treaty network with low-income countries in Africa

6.18 Country Evaluation Brief: Mali

5.18 Country Evaluation Brief: Tanzania

4.18 Evaluation of the Norwegian Aid Administration's Practice of Results-Based Management

3.18 Country Evaluation Brief: Haiti

2.18 Country Evaluation Brief: Ethiopia

1.18 From Donors to Partners? Evaluation of Norwegian Support to Strengthen Civil Society in Developing Countries through Norwegian Civil Society Organisations

### 2017

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11.17 Country Evaluation Brief: Myanmar

10.17 Country Evaluation Brief: Nepal

9.17 Realising Potential: Evaluation of Norway's Support to Education in Conflict and Crisis through Civil Society Organisations

8.17 Norway's International Climate and Forest Initiative: Lessons learned and recommendations

7.17 Real-time evaluation of Norway's International Climate and Forest Initiative. An evaluation of empowerment of indigenous peoples and forest dependent local communities through support to civil society organisations





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| <p>6.17 Monolog eller dialog? Evaluering av informasjons- og kommunikasjonsvirksomhet i norsk bistands- og utviklingspolitikk</p> <p>5.17 Country Evaluation Brief: Palestine</p> <p>4.17 Country Evaluation Brief: Malawi</p> <p>3.17 Country Evaluation Brief: Somalia</p> <p>2.17 How to engage in long-term humanitarian crises – a desk review</p> <p>1.17 The Quality of Reviews and Decentralised Evaluations in Norwegian Development Cooperation</p> <p><b>2016</b></p> <hr/> <p>8.16 Country Evaluation Brief: Mozambique</p> <p>7.16 Country Evaluation Brief: Afghanistan</p> <p>6.16 Country Evaluation Brief: South Sudan</p> <p>5.16 Evaluation of Norway's support for advocacy in the development policy arena</p> | <p>4.16 Striking the Balance: Evaluation of the Planning, Organisation and Management of Norwegian Assistance related to the Syria Regional Crisis</p> <p>3.16 Real-Time Evaluation of Norway's International Climate and Forest Initiative. Literature review and programme theory</p> <p>2.16 More than just talk? A Literature Review on Promoting Human Rights through Political Dialogue</p> <p>1.16 Chasing civil society? Evaluation of Fredskorpset</p> <p><b>2015</b></p> <hr/> <p>10.15 Evaluation of Norwegian Support to capacity development</p> <p>9.15 Evaluation series of NORHED: Evaluability study</p> <p>8.15 Work in Progress: How the Norwegian Ministry of Foreign Affairs and its Partners See and Do Engagement with Crisis-Affected Populations</p> <p>7.15 Evaluation of Norwegian Multilateral Support to Basic Education</p> | <p>6.15 Evaluation Series of NORHED Higher Education and Research for Development. Evaluation of the Award Mechanism</p> <p>5.15 Basis for Decisions to use Results-Based Payments in Norwegian Development Aid</p> <p>4.15 Experiences with Results-Based Payments in Norwegian Development Aid</p> <p>3.15 A Baseline Study of Norwegian Development Cooperation within the areas of Environment and Natural Resources Management in Myanmar</p> <p>2.15 Evaluation of Norway's support to women's rights and gender equality in development cooperation</p> <p>1.15 Evaluation of the Norwegian Investment Fund for Developing Countries (Norfund)</p> <p><b>2014</b></p> <hr/> <p>8.14 Evaluation of Norway's Support to Haiti after the 2010 Earthquake</p> <p>7.14 Baseline. Impact Evaluation of the Norway India Partnership Initiative Phase II for Maternal and Child Health</p> |
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| <p>6.14 Building Blocks for Peace. An Evaluation of the Training for Peace in Africa Programme</p> <p>5.14 Evaluation of Norwegian support through and to umbrella and network organisations in civil society</p> <p>4.14 Evaluation Series of NORHED Higher Education and Research for Development. Theory of Change and Evaluation Methods</p> <p>3.14 Real-Time Evaluation of Norway's International Climate and Forest Initiative: Synthesising Report 2007–2013</p> <p>2.14 Unintended Effects in Evaluations of Norwegian Aid</p> <p>1.14 Can We Demonstrate the Difference that Norwegian Aid Makes? Evaluation of results measurement and how this can be improved</p> <p><b>2013</b></p> <hr/> <p>5.13 Real-Time Evaluation of Norway's International Climate and Forest Initiative: Measurement, Reporting and Verification</p> | <p>4.13 Evaluation of Five Humanitarian Programmes of the Norwegian Refugee Council and of the Standby Roster NORCAP</p> <p>3.13 Evaluation of the Norway India Partnership Initiative for Maternal and Child Health</p> <p>2.13 Local Perception, Participation and Accountability in Malawi's Health Sector</p> <p>1.13 A Framework for Analysing Participation in Development</p> <p><b>2012</b></p> <hr/> <p>9.12 Evaluation of Norway's Bilateral Agricultural Support to Food Security</p> <p>8.12 Use of Evaluations in the Norwegian Development Cooperation System</p> <p>7.12 A Study of Monitoring and Evaluation in Six Norwegian Civil Society Organisations</p> <p>6.12 Facing the Resource Curse: Norway's Oil for Development Program</p> | <p>5.12 Evaluation: Real-Time Evaluation of Norway's International Climate and Forest Initiative. Lessons Learned from Support to Civil Society Organisations</p> <p>4.12 Evaluation of the Health Results Innovation Trust Fund</p> <p>3.12 Evaluation of Norwegian Development Cooperation with Afghanistan 2001–2011</p> <p>2.12 Hunting for Per Diem. The Uses and Abuses of Travel Compensation in Three Developing Countries</p> <p>1.12 Mainstreaming disability in the new development paradigm</p> <p><b>2011</b></p> <hr/> <p>10.11 Evaluation of Norwegian Health Sector Support to Botswana</p> <p>9.11 Activity-Based Financial Flows in UN System: A study of Select UN Organisations</p> <p>8.11 Norway's Trade Related Assistance through Multilateral Organizations: A Synthesis Study</p> |
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- 7.11 Evaluation: Evaluation of Norwegian Development Cooperation to Promote Human Rights
- 6.11 Joint Evaluation of Support to Anti-Corruption Efforts, 2002–2009
- 5.11 Pawns of Peace. Evaluation of Norwegian peace efforts in Sri Lanka, 1997–2009
- 4.11 Study: Contextual Choices in Fighting Corruption: Lessons Learned
- 3.11 Evaluation: Evaluation of the Strategy for Norway's Culture and Sports Cooperation with Countries in the South
- 2.11 Evaluation: Evaluation of Research on Norwegian Development Assistance
- 1.11 Evaluation: Results of Development Cooperation through Norwegian NGO's in East Africa
- 2010**
- 18.10 Evaluation: Real-Time Evaluation of Norway's International Climate and Forest Initiative
- 17.10 Evaluation: Real-Time Evaluation of Norway's International Climate and Forest Initiative. Country Report: Tanzania
- 16.10 Evaluation: Real-Time Evaluation of Norway's International Climate and Forest Initiative. Country Report: Indonesia
- 15.10 Evaluation: Real-Time Evaluation of Norway's International Climate and Forest Initiative. Country Report: Guyana
- 14.10 Evaluation: Real-Time Evaluation of Norway's International Climate and Forest Initiative. Country Report: Democratic Republic of Congo
- 13.10 Evaluation: Real-Time Evaluation of Norway's International Climate and Forest Initiative. Country Report: Brasil
- 12.10 Evaluation: Real-Time Evaluation of Norway's International Climate and Forest Initiative (NICFI)
- 11.10 Evaluation: Evaluation of the International Organization for Migration and its Efforts to Combat Human Trafficking
- 10.10 Evaluation: Democracy Support through the United Nations
- 9.10 Study: Evaluability Study of Partnership Initiatives
- 8.10 Evaluation: Evaluation of Transparency International
- 7.10 Evaluation: Evaluation of Norwegian Development Cooperation with the Western Balkans
- 6.10 Study: Evaluation of Norwegian Business-related Assistance Uganda Case Study
- 5.10 Study: Evaluation of Norwegian Business-related Assistance Bangladesh Case Study
- 4.10 Study: Evaluation of Norwegian Business-related Assistance South Africa Case Study
- 3.10 Synthesis Main Report: Evaluation of Norwegian Business-related Assistance
- 2.10 Synthesis Study: Support to Legislatures
- 1.10 Evaluation: Evaluation of the Norwegian Centre for Democracy Support 2002–2009



# EVALUATION DEPARTMENT

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Development Cooperation

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