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Bilateral Official Finance for Private Sector Development and the Role of Non-Government Organizations

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Abstract

The study examines the official bilateral donors' current aid practice for private sector development (PSD). In particular, it reviews the donors' major instruments and channels for aid delivery and the extent to which official flows have catalytic effects on private direct foreign capital flows. The major donor instruments for PSD are investment support, an enabling-environment support, privatization and commercialization, and business partnership programmes, while the major participants in the alternative channels are NGOs, governments of poor countries, firms in the recipient countries and donors' own firms. The paper concludes that despite the prominent position occupied by NGOs in aid delivery, there is still a pertinent role for the governments of poor countries in the delivery of PSD aid, especially when the provision of public services (or social goods) is involved and the free-rider problems

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Keywords: official finance, private sector development, NGOs, catalytic effects, additionality effects, aid instruments, aid delivery

JEL classification: F34, F35, O14, O19

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major. Also, as a result of the decentralized nature of the private sector, the paper highlights the urgent need for the coordination of donor efforts, requiring either the involvement of recipient governments or/and the creation of a specialized multilateral institution for PSD aid delivery. The study also identifies a number of factors that have limited the effectiveness of PSD aid. These include the gap between donor design and local conditions. Further, the paper finds that official investment-related aid flows are yet to have a catalytic effect on private direct foreign capital flows.

Based on these findings, it recommends, among others, that donors should consider new approaches to their investment and partnership programmes so as to encourage technology and knowledge transfers. These alternative approaches include the propagation of the technology of the relatively more advanced poor countries into poorer countries. This would require donors to promote south-south business partnerships rather than the traditional north-south alliances. Finally, the study recommends measures that could enhance the catalytic and additionality effects of official development finance.

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1 Introduction

In the 1980s, development thinking shifted from seeing the state as the conducive force behind economic activities to viewing it as the facilitator of an enabling environment for the private sector which, in turn, is increasingly recognized as the prime mover of economic activities. By the mid 1980s and the early 1990s, the socialist systems were under strain and, indeed, crumbling. In 1991, the Soviet Union collapsed and market reforms progressed (Exeter and Fries 1998: 26). As if awakened by these events, the donor community, academics, policymakers and professionals in the aid business, increasingly focused attention on the effectiveness of previous aid efforts. There were suggestions that aid efforts in Africa for over 35 years, for instance, could have been more effective if they had been directed at private sector[1] development and if they had been channelled through the organized civil societies and NGOs. It is worth noting that until very recently, virtually all recipients of official aid were governments and such aid was for public sector development (Van de Walle 1999: 345).

Today, the conventional wisdom is that the private sector should be the engine of growth in developing countries. This being the case, it is only logical that development aid efforts be directed, increasingly, at private sector development (PSD) which provides the best hope for ending poverty in the less developed countries (LDCs) and for ending the need for development aid that could be replaced by private capital flows (Riddell 1999: 310). In other words, aid should facilitate the transition from a public sector led economy to one dominated by the private sector and in a manner which would alleviate abject poverty and empower minority groups in these countries.

Indeed, there is growing evidence that the current target of major development aid programmes is private sector development and a good share of this is being channelled through the NGOs rather than through the governments of LDCs. OECD (1988) confirms this trend for the aid programmes of its member countries the world over. Meyer's (1992) account of USAID activities in the Dominican Republic and Ecuador also testifies to the significant shift in donor aid efforts from public to private sector, using NGOs as the vehicle of aid delivery. Similarly, the World Bank (1993: 52-4) reports that since the early 1990s about two-thirds of all its operations include components that explicitly support private sector development. Thus, the private sector development aid[2] phenomenon is a reality and the role of civil societies (NGOs, in particular), is becoming significant by all accounts (see Charlton and May 1995: 1; Steward 1997: 1).

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[1] The private sector is the collection of firms or companies that are neither state owned or controlled, nor are they state-managed. In these firms, market conditions and competition drive production and exchange. Profit-seeking firms take initiatives that involve measured risks to set activities in motion. The private sector encompasses all private firms in industry, agriculture, services, commerce, etc. (OECD 1995).

[2] Any official aid or finance that is directed or aimed at private sector improvement qualifies to be called private sector development aid or in general, private sector development finance. The objective of this financing is to promote economic efficiency and social welfare by releasing and harnessing the productive power of the people, thereby satisfying their needs and desires (OECD 1995). In contrast to traditional official aid, which benefits the public sector directly, the intended immediate and ultimate beneficiaries of PSD aid are private enterprises and their entrepreneurs. Gains accruing from PSD aid would ultimately, however, spread to the entire economy.

Despite the significant role being ascribed to private sector development by major donors and the prime place given to NGOs in this regard, a good number of issues surrounding this new strategic direction are yet to be thoroughly examined or evaluated. For example, it needs to be determined whether the new focus and the corresponding practices are indeed superior to earlier approaches. First, there is the need to review the channels and instruments used by donors to determine their effectiveness *a priori* and whether donors are satisfied with them. While existing studies have examined some of these issues, most are focused on either donor instruments or channels. But rarely have the two aspects been examined comprehensively together, especially through the use of relevant aggregate time-series. For instance, employing case studies and relevant theories, Edwards and Hulme (1992) and Meyer (1992) examine only the role of NGOs in aid delivery, as donors shift their attention from public to the private sector. Similarly, Pedersen (2000), Gibbon (2000), and Schulpen and Gibbon (2001) focus on PSD aid instruments, while Phelan (1995) conducts a comparative analysis of Japanese PSD aid programmes in Philippines and Thailand. Even though Kragh *et al.* (2000) outline PSD aid instruments and channels, their main focus is on the relevant delivery instruments. Thus, issues like the relative merits of alternative channels of PSD aid delivery are not examined. Further, a conceivable channel of PSD aid delivery is not mentioned in Kragh *et al*.'s (2000) study. Second, none of the existing studies address in a satisfactory manner the issue of whether PSD aid efforts have catalytic effects on foreign direct capital flows (FDI) to poor countries. The aim of this paper is to examine these issues with a view to enhancing our understanding. This we do by examining the theoretical literature as well as data relevant to channels and instruments of PSD aid delivery to provide answers to some of the questions raised above. To ensure a manageable scope, this study focuses on bilateral financial flows in support of PSD.

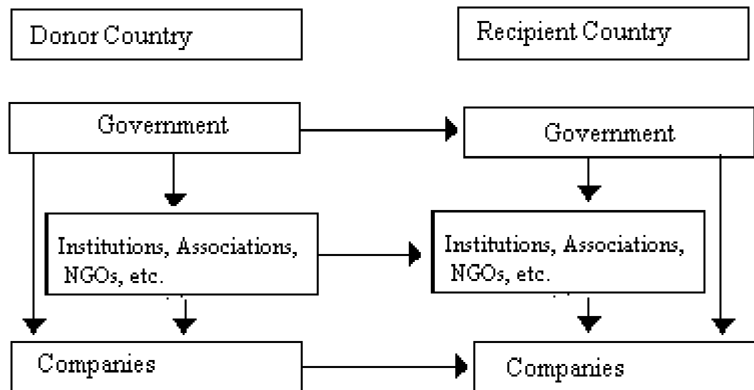
Towards this end, the rest of the paper consists of the following: section 2 on alternative channels of official finance for private sector development, section 3 on private sector development aid instruments, activities commonly financed and the catalytic effects of official PSD aid flows. Section 4 closes with a summary and concluding remarks.

2 Alternative channels of official finance for private sector development

In identifying the alternative channels through which official finance[3] can be made available to the private sector, we are greatly assisted by Kragh *et al.* (2000: 319). In particular, from their diagram of aid channels (Figure 1), five channels of PSD finance are identifiable.

[3] The financing of private sector development can come from within the country or from outside. Outside financing may be official or private. The scope of this study is concerned with the official sources of finance for private sector development. Official sources (or flows) can further by categorized as either bilateral or multilateral sources. Similarly, official sources of finance may be categorized into official development assistance (ODA) or other flows. ODA are the flows to developing countries and to multilateral institutions that are aimed at the promotion of economic development and welfare of these nations, and convey a grant element of at least 25 per cent. The exception is an official bilateral transaction that is primarily aimed at promoting exports in the donor country. All other official flows that are not categorized as ODA fall into the other official flows (OOF) category. These include equity investments, grants essentially for commercial purposes, export credits or subsidies, etc. It is, therefore, clear that grants by NGOs except those funded by official grants, are private sources of finance for PSD.

Figure 1
Channels of PSD aid



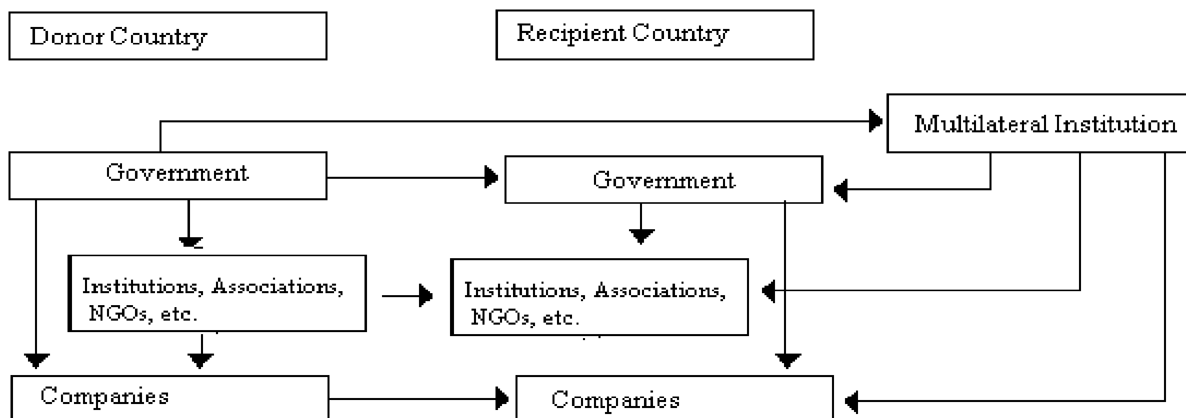
In addition to these five channels, two more may be added:

i) From a donor government to a multilateral institution which, in the recipient country, channels aid either directly to a firm or through institutions, associations, NGOs, etc. or even through the receiving government, etc.;

ii) From a donor government to individuals as, for example, scholarships for studies in marketing, or courses that are specific to the private sector.

Figure 2 modifies Figure 1 on the part of the first additional channel, thereby presenting six identifiable channels; the second channel is not shown because it is not significant for the delivery of PSD aid, nor is it likely to be one in the future. It must be noted that in all these six cases, the aid or finance is either directed at the international-, macro-, sector- (meso-) or enterprise-level activities.

Figure 2
Conceivable changes of PSD Aid
A modified version



Source: A modified version of Kragh *et al.*'s (2000) diagram.

2.1 Merits and demerits of the alternative aid delivery channels

Each of these six channels has its merits and shortcomings, which we examine next.

Channel (i): Donor government–government–recipient businesses

This channel is similar to the traditional vehicle for aid delivery. Its major advantage is that it allows for better coordination of donor efforts, as a government is in a good position to fit the disbursed aid into its own sector plans. This is particularly important for PSD aid because of the decentralized nature of the private sector, and this can, for instance, be done through the adoption of a sectoral investment programme approach (Jones 1997; Riddell 1999: 333; Hyden 1997: 64). Further, the government's administrative machinery can easily be deployed for PSD aid delivery to achieve substantial savings in overhead costs. Also, because government has the power to enact laws, regulate the production of social goods and social 'bads', it often can resolve the free-rider problem that hinders its optimal production (Meyer 1992: 1116). Consequently, aid that is channelled through *good* government and designed to promote the production of social goods which were under-produced in the first instance because of free-rider problems, has a greater chance of reaching the beneficiaries targeted by the donor. Finally, government would have a sense of project ownership, a fact which usually facilitates effective and efficient delivery of aid services or execution of the associated projects.

But if the government is corrupt, inefficient or ineffective, some of these merits are lost. In such instances, governmental *red tape* impairs aid delivery, especially in terms of delivery time and quality of work. Similarly, corruption makes aid delivery more costly and results in poor quality. Through the same political process that often allocates resources disproportionally so that some are over-satisfied and others (mainly the less privileged) remain under-satisfied (Meyer 1992: 1116), corruption furthermore works to bypass the targeted beneficiaries, because such aid commonly goes to those who would normally be excluded by donors. This often results in a very perverse outcome, giving the impression that such aid is ineffective. Further, because corruption worsens the problems generally associated with the lack of incentives for efficient operations by bureaucrats as these do not share in these efficiency gains (Meyer 1992: 1116), the expected savings in overhead costs cannot be realized. Finally, as with all aid targeted at the enterprise level, it can create an unequal environment for the non-assisted firms of the industry and at its worst, can induce rent-seeking behaviour instead of encouraging competition.

Channel (ii): Donor government-government-local institutions-businesses

By local associations and institutions, we mean NGOs,[4] which include chambers of commerce, trade unions, labour unions, village associations (usually age-grade groups), trader associations, farmers' associations, voluntary (and often unregistered)

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4 The term non-governmental organization (NGO) includes, in a very broad sense, churches, Islamic associations and even some educational institutions (provided that they are not government-owned), but in this paper, the term does not apply to these groups. It is used here to include all non-religious private voluntary organizations (PVOs) supported by either voluntary private contributions or/and official contributions (external or local), membership-based PVOs, often called grassroots organizations, and non-profit seeking non-governmental associations including non-profit business and trade associations.

craftsmen/artisan associations (for example, bricklayers, plumbers, mechanics, radio and electronics technicians, air conditioner technicians, etc.), cooperative societies and self-help groups. While most chambers of commerce represent only a tiny minority of the well-to-do entrepreneurs, trade and labour unions are often more broad based. In particular, most voluntary trade/craftsman/artisans organizations in poor countries that have been in existence for over five years, are attracting large memberships. These are credible, and enjoy the trust and respect of their members partly because they meet regularly (sometimes weekly) and make regular contributions with which they help their members. Discipline is high and obligation defaults very rare (Ibe 1990). Similarly, most village (age-based) associations are mandatory. Set up to execute communal development projects, these organizations are usually governed by customs and traditions, and are highly disciplined (Ibe 1990 and 1992).

One of the principal advantages of this channel lies in the general belief that southern NGOs, like their northern counterparts, have a comparative advantage in reaching the poorest of the poor, and those in the remote areas that are often difficult for the authorities to reach. Local NGOs can handle aid delivery faster and cheaper, especially when local institutions consist of grassroots-based and popular organizations.[5]

Furthermore, believed to be innovative, bureaucracy-free, flexible, small, and smart, these local NGOs have a comparative advantage in capacity building and participatory development (Smillie 1997; Atampugre 1997; Baldwin 1990 among others).[6] Voluntarism is a major feature of NGOs and probity one of their guiding principles, therefore the trust of the public and donors in their operations is somewhat higher (Charlton and May 1995; Davis and McGregor 2000). Finally, as illustrated by a number of donors' self-evaluation reports, NGO programmes are effective, and it is likely that donors will favour engaging NGOs in aid delivery (Norway 1995; Finland 1994; Sweden 1995; Australia 1995; UK 1992, 1995, see Smillie 1997: 571). Thus, their involvement in private sector development is expected to promote a higher level of donors' funding, and aid programme effectiveness.

Another advantage of this channel is the involvement of both the domestic government and local NGOs. This may combine the best of the two worlds because the government has the legislative means to resolve the free-rider problem, and regulate the production of social goods and bads, as necessary. The participating NGOs would provide the flexibility, responsiveness, expertise in reaching the poor to ensure efficiency and effectiveness of aid delivery (Meyer 1992). Each partner can also be a check on the other.

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5 For instance, as in most LDCs, in Nigeria there are the bricklayers' association, carpenters' association, etc. that have been in existence for years. These associations, mainly through member contributions, buy the tools used in their respective trades and stock these in the association's premises. Members, needing a tool they do not have, can hire these from the association at special fixed rates. The associations enjoy the trust of their members, majority of whom are poor. The poor can easily be reached by donors through their respective associations. Any assistance rendered to such groups will reach the poor directly and with minimum cost.

6 Among such others are Brown and Korten (1989); Clark (1992); Edwards and Hulme (1996); Howes and Sattar (1992); Bratton and Liatto-Katundu (1994: 562); Fisher (1994); Besley (1996); and Charlton and May (1995: 249).

The major disadvantage of this channel is the lack of incentives for the government and the NGOs to operate efficiently, as they do not share in the efficiency gains (Meyer 1992). However, voluntarism and the missionary spirit of the NGOs are expected to cater for this. Another demerit is that NGO/government involvement creates the possibility of conflict between the two, with disappointing outcomes, particularly so if the government is corrupt.

Some scholars have expressed doubts about the benefits usually credited to NGOs (Stewart 1997; Tendler 1982; Robinson 1992, etc.). But it is worth noting while these critical observations can be rather helpful in avoiding past mistakes, they do not negate the generally acknowledged virtues of NGOs.[7]

Available evidence, furthermore, suggests that the donor/NGO 'partnerships' may have proven to be satisfactory. The role of NGOs in aid delivery has, over time, become significant and their activities increasingly diversified.[8] As NGOs rely on official donors for their financing (see Table 1), and as official donors have shifted their focus to PSD, this is correspondingly reflected in the diversified NGO involvement in PSD activities.[9]

Today, donors support NGOs with outright grants, channel some of the ODA through NGOs, and engage them as contractors in the delivery of aid. As can be seen from Table 1, and Figure 3, the ODA channelled through the NGOs and the level of official

Table 1
Bilateral development assistance and NGOs levels of activities, 1970-2000

Period average	1970-79	1980-89	1990-99	2000	Average[a]
			($ billion)		
Bilateral ODA net disbursements	9.3	22.9	39.1	36.0	24.1
Grants by NGOs	1.3	3.0	5.7	6.9	3.5
Support received by NGOs from the official sector	0.3	1.6	1.3	1.2	1.1
ODA net channelled via NGOs		0.4	0.9	1.1	0.8
			(in %)		
Support received by NGOs from official sector as % of ODA	3.7	6.9	3.4	3.3	4.4
Grants by NGOs as % of ODA	14.3	13.2	14.7	19.2	14.4
% of ODA channelled via NGOs		1.5	2.3	3.1	2.1

Note: [a] Average for the years 1970-2000.

Source: DAC's International Development Statistics (online).

7 For instance, while it is sometimes claimed that the virtues of the NGOs 'depend precariously on highly motivated staff rather on the structure of NGO itself' (Meyer 1992: 1119), the value of such an assertion is in drawing our attention to a critical success factor as it does not negate the advantages in question.

8 In addition to their initial preoccupation with the delivery of emergency and relief aid, NGOs are also increasingly involved in policy advocacy and education, citizenship projects, poverty-reduction programmes, promotion of entrepreneurial activities, and private sector development (Charlton and May 1995: 237; Grugel 2000: 89-90).

9 They are engaged in activities that support private sector development such as training to facilitate the establishment of an enabling private sector environment, promoting health and safety in the sector's workplaces, providing credits for small-scale enterprises, promoting foreign-local firm partnership in business, etc.

Table 2
Determinants of selected variables, model of NGOs

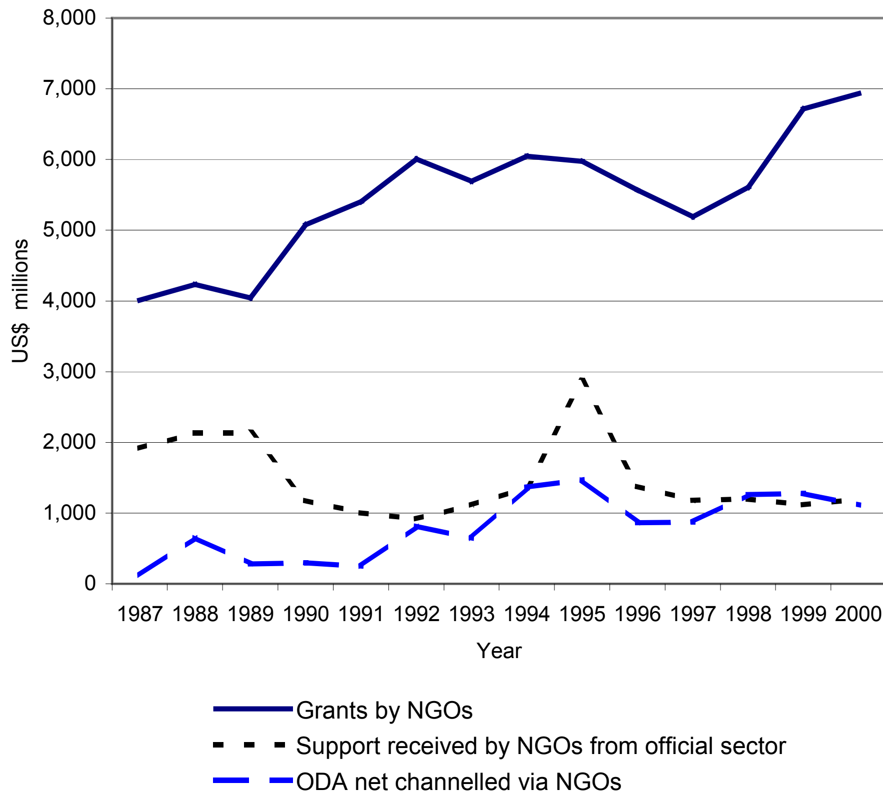
Dependent variables	Trend variable	Per capita income (log) (t-1)	Upturn in economic cycle (t-1)	Govt. expenditure GDP ratio (t-1)	Extent of govt. being right wing (t-1)	No of obs	Adj. R^2
ODA-type support received by national NGOs from official sector (Line IV.2) in relation to:							
(1) GDP	-0.000002	0.00007	0.00068	0.000008	0.00001	348	0.7[illegible]
	(-0.6)	(0.5)	(2.9)	(4.3)	(1.5)		
(2) Total ODA	0.00166	-0.1040	0.2235	0.00092	0.00023	348	0.5
	(2.3)	(-2.9)	(3.7)	(1.9)	(0.2)		
Net grants by total NGOs (Line IV.1) in relation to							
(3) GDP	-0.00001	0.00047	-0.00037	0.000004	na	476	0.7[illegible]
	(-3.9)	(4.0)	(-1.7)	(2.2)			

Notes: (a) The dependent variables are indicated in the first column and they are all sourced from the OECD's IDS (online), except the GDP which is from the World Bank's Global Development Indicators (online). The regressors (except the political variable) are also from the World Bank's GDI indicators. Political variable is from Beck *et al.* (2000).

(b) The estimates are panel data-based and the fixed-effect OLS method was employed in deriving the estimates.

(c) The figures in parentheses below the parameter estimates are the t-values. At 10%; 5%; and 1% levels of significance, the parameter estimates are statistically significant if its t-value, in absolute sense, are up to 1.6; 2.0; and 2.6, respectively.

Figure 3
Official support and NGOs activities, 1987-2000



support to NGOs constitute just about 7 per cent (i.e., about 2.1 and 4.4 per cent, respectively) of ODA, but account for as much as about 25 and 48 per cent, respectively, of NGOs total grants in 1995, or together, about 73 per cent. By the time account is taken of the role of NGOs as contractors to official donors, the story of the NGOs partnership (or should we say, NGOs' dependence on official donors) is well documented. Even though a noticeable decline has been recorded since 1995 in both official support to NGOs, and aid channelled through them, a deeper analysis suggests that the honeymoon may not be over yet. To conduct such an analysis, we formulate and estimate the model given in Table 2.

The model postulates that the determinants of the level of donor ODA relative to GDP granted in support of NGOs as well as the share of donor ODA for NGO support, respectively, are the levels of economic prosperity in the donor country (growth in per capita income and upturn in economic cycle), the level of donor government expenditures, whether or not the donor government is right wing,[10] and whether or not the donor is satisfied with the effectiveness of support given to the NGOs in the past or the level of generosity (measured by the trend variable, **t**) is declining. Similarly, it postulates that the level of NGO grants relative to donor GDP is determined by the same set of factors, with the trend variable(**t**) representing the extent to which NGOs and their major funding sources are satisfied with the effectiveness of NGOs own past programmes or the extent of their generosity.

A priori, it is expected that prosperity in the donor country (growth in per capita income and an upturn in the economic cycle) and increased donor government expenditures increase the GDP portion that is allocated to ODA and is channelled through NGOs; positive coefficients are expected. On the other hand, a right-wing government often discourages ODA in general and therefore decreases the volume of aid channelled through NGOs; negative coefficients are expected. Similarly, economic prosperity and increased government expenditures (that increase government support to NGOs in general) are expected to have a favourable effect on net grants by NGOs to poor countries. In the case of ODA-GDP-ratio equation, a positive coefficient for **t** suggests an increasing donor generosity over time. For the second equation, it suggests that donors are satisfied with the effectiveness of previous aid allocations to (or through) the NGO channel, while in the third equation, it suggests an increasing generosity on the part of NGOs themselves or the major funding sources.

Judging by the statistical properties of the estimated equations in Table 2 and noting the fact that panel data (like cross sectional data) are often associated with low R^2, we believe that the estimated models have good statistical properties and that the sign expectations are, in most cases, met. Therefore, they are reliable estimates on the whole, from which valid inferences can be made.

These empirical results in Table 2 imply that the share of official support to national NGOs in relation to GDP increases with an upturn in the economic cycle, with increased government expenditures and with increased per capita incomes in the donor countries, but the per capita income variable is not statistically significant. Official

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[10] If the executive arm of government is right wing, centre or left wing, a value of 1, 0 and –1 is awarded, respectively. The same is repeated if the legislature is dominated by the right wing, centre, and left wing party. This means that the value of this variable ranges between –2 (both executive and legislature are of left-wing type) and 2 (both executive and legislature are of right-wing type).

support to national NGOs relative to total ODA increases as the economic cycle up-swings and as government expenditures increase, but—against expectations and for reasons yet unknown—decreases with increased per capita incomes in the donor country. Similarly, grants by NGOs increase with increased per capita income and increased government expenditures, but decrease with an upturn in the economic cycle (though this is not statistically significant at 5 per cent level of significance) and have a negative significant trend. The estimated coefficient of **t** in the first equation suggests that donor generosity to NGOs is declining, although the decline is not statistically significant. The significant positive coefficient for **t** in the second equation suggests that donors are satisfied with the effectiveness of previous aid allocations to NGOs while the significant negative coefficient for **t** in the third equation suggests a decreasing generosity on the part of NGOs themselves or their major funding sources. Thus, while donor generosity may be weaning, the honeymoon between donors and non-governmental organizations appears to be far from over, as an increasing proportion of ODA is being committed (after adjusting for other factors) in support of NGOs, probably as a result of their continued satisfactory performance.

It is worth noting that while the NGOs statistics, which forms the basis of our observations and conclusions, relates to all NGOs in general, it is expected that the same results apply with equal ease to those NGOs specialized in PSD activities.

Channel (iii): Donor government–donor businesses–recipient businesses

In this option, as in channels (iv)-(vi) discussed below, the government in the recipient country is not involved in the delivery of official support. Thus, the government does not provide any form of guarantee, unlike delivery options (i) and (ii) above where it does. This channel is most suitable for partnership and investment support programmes. Its effectiveness is less influenced by the quality of government in the recipient country. It has the advantage of being able to demonstrate the values of private sector organizing principles because, as they say, charity begins at home. However, because it lacks a built-in arrangement for the coordination of donor programmes, it has a greater likelihood of creating a situation in which one donor's activities undermine the activities of others. This is true of all channels in which the recipient government is not involved in the delivery of aid. Further, doubts could easily be raised about donor sincerity, as it may be difficult to ascertain which objectives are paramount to the donor: promotion of their business interests or the provision of genuine assistance to poor countries (Schulpen and Gibbon 2002: 10).

Channel (iv): Donor government-donor institutions/associations-donor businesses–recipient businesses

This, like channel (iii) above, is significantly different from the traditional form of aid delivery, but both have similar merits and demerits, especially with respect to by-passing the government. The involvement of northern NGOs encompasses all the advantages of NGOs discussed in channel (ii) above, so there is no need to repeat them here. However, because local NGOs are not involved, the ability to reach the poorest of the poor may be compromised without their in-depth knowledge of local conditions. Also, this option may be prone to transparency problems, inadequate consultation with intended beneficiaries and over-reliance on private consultants from the donor country, as observed by Smillie (1997). The free-rider problem is observed and accountability to the local public questionable. This channel may be very suitable for advocacy,

investment support and partnership programmes as well as for sector-level donor interventions.

Channel (v): Donor government-donor institutions or association-local institutions/associations-recipient business

Channel (v) is similar to the forgoing (iv), with the only difference being the involvement of institutions and associations in the recipient country. All the virtues of NGOs discussed under channel (ii) apply. The involvement of institutions and associations in both the donor and recipient countries allows for greater monitoring, and control by donors as NGOs are easier to control than governments. However, because the chain of aid delivery is lengthened, the probability of a breakdown in communication is increased. Similarly, the chances of bottlenecks are increased. Further, as with all channels by-passing the government and concerned with the provision of social services, the free-rider problem is present, and NGOs accountability to the local public is doubtful. Similarly, there is no built-in arrangement for the coordination of donor programmes. This channel could be very suitable for advocacy, training and education.

Channel (vi): *Donor government-multilateral institutions*

At present, donors do contribute to multilateral institutions in support of their programmes. The common vehicles for these flows are mainly grants, loans and purchase of securities. Table 3 shows these donor government flows to multilateral institutions between 1970 and 1999. Together, they constitute an average of about 22 per cent of total official flows.

In addition to this common practice, it is conceivable to have a specialized multilateral institution to which donors contribute funds in support of PSD. Such an institution would then channel the resulting resources for private sector development in the LDCs. This multilateral agency could be modelled along the lines of the International Financial Corporation (IFC) for co-existence with it. Thus, while IFC would strive to source the funds for PSD from the international capital market, the specialized institution would obtain its funds from official donors, for a common pool from which disbursements are made to beneficiaries.

Table 3
Disbursements and commitments of official flows to multilateral institutions, 1970-2000

Period average	1970-79	1980-89	1990-99	2000	Average
	(in US$ billion)				
1. Total official flows, gross	20.9	49.4	88.0	70.5	53.3
2. Disbursements to multilaterals, gross (MGD)	4.4	11.1	19.5	18.1	11.9
(a) ODA to multilaterals	3.8	10.2	17.3	17.8	10.7
(b) OOF to multilaterals (MOOF)	0.6	0.9	2.2	0.2	1.2
3. Total OOF disbursements, gross	6.1	13.5	24.0	10.5	14.4
	(in %)				
MOOF as % total gross OOF	11.4	6.8	9.0	2.2	8.9
MGD as % of total official flows	20.4	22.4	22.1	25.6	21.8

Notes: The average column records the average for 1970-2000.
Source: DAC's International Development Statistics (online).

The major attraction of this channel is that it creates room for effective coordination of donor efforts. For similar views but in a different context, see Riddell (1999: 333) and Hyden (1997: 64). Furthermore, as with multilateral institutions in general, this channel is most likely to ensure that aid allocations are based more on needs and swayed less by the strategic and political factors that commonly influence donor governments (Rodrik 1995: 177 and Stein 1998: 28).[11] The overall effectiveness of aid delivered through this alternative would depend on the channel being used in the delivery of aid from the multilateral institution to the recipient.

The proposal for a new multilateral approach to PSD aid delivery being put forward here envisages an arrangement whereby a good proportion of ODA-eligible flows (currently about 26 per cent of total gross official ODA) is channelled through a specialized multilateral institution whose main focus is private sector development. This is capable of increasing the magnitudes of flows passing through this channel manifold. It is worth noting that both the EU and OECD have bodies with similar features and roles to what is being proposed here, albeit on a much smaller scale.

This specialized multilateral institution could deliver aid to recipient businesses via institutions, associations and NGOs in the participating donor country or via businesses in the participating donor country. In other words, channels normally available to donor governments would also be available to this multilateral institution.

3 PSD instruments, activities commonly financed and the catalytic effects of official PSD aid flows

Kragh *et al.* (2000) identified four private sector development aid instruments, namely, programmes to support (i) an enabling environment, (ii) privatization and commercialization, (iii) investment, and (iv) business partnership programmes. To these, one may add the enabling international environment programmes or such are subsumed in the enabling environment programmes. Alternatively, PSD aid instruments may be classified into just two categories, namely, financial or non-financial instruments (Schulpen and Gibbon 2002: 5-6; Pietilä 2000: 2; Schulpen 2000: 88-94; etc.). Donors use either financial or non-financial instruments or a combination of both in their various support programmes. Financial instruments include, for example, grants, loans, credit lines, subsidies, equity acquisitions, risk capital and guarantees, etc. Non-financial instruments include technical aid, vocational aid, training assistance (e.g. export training), provision of information and advice, management and consultancy services, etc. (see Appendix Table A1). The major features of these programmes as well as the extent to which they are used by official donors in private sector development are reviewed next.

[11] See also Alesina and Dollar (2000: 21); Botchwey *et al.* (1998); Collier and Gunning (1999); Devarajan *et al.* (2000); UK (1997: 6-7); Riddell (1999:316); Ozawa (1979), and Van de Walle (1999: 1).

3.1 PSD instruments that benefit the private sector indirectly

By their very nature, programmes for supporting an enabling environment and those supporting commercialization and privatization benefit, for most part, the private sector indirectly. We outline their major features first before the review of instruments that benefit the private sector directly.

3.1.1 Enabling environment support programmes

An environment favourable to a business concerns forces and resources created outside the business and therefore beyond its control, but which affect operations within the business. These forces include rules and regulations, business services, physical and financial infrastructure, research and development, education, training, societal attitudes (including trust or social capital in general), information preparation and dissemination framework, access to world market, etc. Programmes for enhancing an enabling environment direct assistance, be it financial or non-financial, for ascertaining that the above-named resources are available in good quantity and quality as well as at optimal prices. This type of financial support is usually provided at the international-, macro- and sector-levels.

It is generally acknowledged that creating an enabling environment promotes competition and thereby efficiency and effectiveness among firms (Porter 1990). Creating an enabling environment means paying attention to numerous aspects of the environment, such as the usual factor and demand conditions, the nature, scope and structure of linkages among firms and sectors, and the nature and degree of competition that exists (Porter 1990).

Some of the factors of production required in a well-enabled environment are best provided by the state, as it has the comparative advantage in their provision. Such services include, for instance, pubic services, law and order, defence and internal security, etc. Some other goods require the state to facilitate their production through incentives to and regulations of private firms. Similarly, demand conditions, existence of appropriate network of linkages and existence of optimal patterns and degree of competition among firms are conditions which the government cannot provide directly but can facilitate through appropriate structures of incentives, regulations and enforcement.

In many LDCs, where governments have been unable to satisfactorily provide services in which they are generally known to have comparative advantage or to facilitate their provision, firms have to divert a significant portion of resources to these at great social costs.[12] Similarly, as is well known in network theories, firms develop more rapidly in competitive situations, when they cooperate to share resources, engage in sub-contracting, order passing, and flexible specialization. But distrust among entrepreneurs in many LDCs is at such a level that, if unassisted either by their governments, associations or donors, they cannot aspire to build confidence among themselves. This mistrust in the LDCs is apparent in the manner in which these entrepreneurs restrict

[12] For instance, through the acquisition of heavy duty generating sets, construction of bole holes or even mini dams, etc., firms and households provide electricity, water, and other conventional public services for themselves. Beside the negative externalities associated with such activities, the individual average costs of production are many times the cost at which these services could have been centrally provided by the state or private firms.

their business dealings to few trusted individuals or to close relations. In addition they diversify vertically into several economic fields in order to ensure their self-sufficiency, albeit at high social costs (Cowen and MacWilliam 1996; Swainson 1987; and Collier and Gunning 1999).[13] These practices and attitudes need to be changed by putting in place appropriate laws, regulations and arrangements. Thus, in addition to the 'first-generation' interventions aimed at macroeconomic stability and appropriate pricing, 'second-generation' interventions for promoting trust and business linkages, competition and generally aimed at creating a truly enabling environment (at sector-level) in the LDCs are needed if appreciable economic progress is to be expected (Camdessus 1997). However, creating an enabling environment involves substantial costs, and donor contributions can go a long way in funding these. It also requires the technical experience, skills and knowledge that donor countries have acquired over the years in their own countries. Thus, donor interventions, when well designed and properly implemented, can make a significant difference to accelerating economic development in the recipient countries.

Because of these conditions in poor countries, donors often support activities that include studies to identify constraints in the business environment, the formation and implementation of policies, laws and general regulatory framework to promote competition in the private sector, to alleviate poverty and ensure gender equality, and to encourage private-public sector consensus building. Donors export development programmes, training and technological transfer programmes, financial sector reforms and assistance, judicial reforms, democratization and good governance, business services, etc. (Pedersen 2000: 67).

Major donors include the World Bank, German aid agencies, European Union (especially via the Lome convention), regional development banks (e.g. Asian Development Bank, African Development Bank, etc.), among others. Typical beneficiaries are the national export promotion agencies (capacity building with respect to trade regulations, export credits, export promotion, seminars, collection and dissemination of market intelligence, etc.), and governments in transition (training and education in marketing and modern management, support for environmental protection, occupational health and safety through education programmes, networking and sub-contracting among firms, etc. and for chambers of commerce and industry).

Generally, the effects of donor aid instruments for promoting an enabling environment are difficult to isolate. It is, therefore, difficult to evaluate their impact because these are often implemented in conjunction with privatization and commercialization measures within a much larger SAP programme. However, some major problem areas which need donor attention have been identified by many existing studies (Kragh *et al.* 2000: 325; Grierson 2000:42; Schulpen and Gibbon 2001, among others). First, it is generally agreed that recipient countries are not sufficiently involved in the design of many of the enabling environment support programmes (Putzel 1998). Consequently, these are

[13] Thus, because of the lack of trust, they spread their resources thinly across many fields instead of specializing and growing in size to benefit from the advantages of specialization and economies of scale. The informal sector in most LDCs is not integrated in the formal sector, resulting in the 'missing middle', a characteristic typical of most African economies that commonly impede economic development (Pietilä 2000: 4). But this pervasive general lack of trust is probably not unfounded. It is common knowledge, for instance, that in Nigeria the majority of partnership businesses fail due to a breach of trust in a agreement or contract.

supply-driven rather demand-driven (Kragh *et al.* 2000: 325), which calls for increased donor-recipient dialogue. Second, there is not sufficient coordination among donors, which means that there is duplication of effort (Riddell 1999: 315-6; Hyden 1997: 64). Third, donors are commonly reported to have excessive concern for the export of the hardware at the expense of institutional building (Schulpen and Gibbon 2001; Schulpen 2000). For instance, insufficient attention is commonly given to the development of inter-business and inter-industry linkages. Yet, if greater attention were to be given by donors to promoting and enhancing these linkages among businesses in the recipient countries, a significant dividend could be realized (Grierson 2000: 42). But all this notwithstanding, there is no evidence to suggest that the traditional approach to aid delivery could have been more effective, as it also suffers from similar problems.

3.1.2 Commercialization and privatization programmes

One of the major activities financed by donors that aims to improve the effectiveness and efficiency of resource utilization in poor countries is the facilitation of privatization and commercialization measures,[14] usually within a larger SAP programme. The most direct theoretical justification for privatization/commercialization measures can be found in private sector-led development literature that has become dominant since the 1980s. Thus, to facilitate the transition from a hitherto public sector-dominated economy to a private sector-led economy, ownership must be transferred from the public to the private sector, that is, privatization must be implemented.

Similarly, efficiency arguments favouring private over public ownership—the first indication of the shift in development thinking—provide further justification. These, together with market-discipline arguments, justify the commercialization of natural monopolies. For instance, Gillis *et al.* (1996) indicate that public-owned enterprises in LDCs were making significant losses in the 1970s and the situation has worsened during the 1980s. Yet, many of these enterprises continue to exist through subsidies from governments. Their privatization/commercialization would promote efficiency and improve fiscal stance. Even though these measures are needed, the huge adjustment costs involved are often beyond the means of the LDCs. Furthermore, the successful design and implementation of reforms require skill, experience and knowledge—which the donor countries have relative abundance. Consequently, donor assistance in this regard could significantly reduce the associated adjustment costs, making the change smoother.

The major donor in this area is the World Bank Group; its efforts are also supported by some bilateral donors like the US (through the USAID) and Japan. The modes of support include provision of technical assistance and advice, equity investments, and loans and grants in support of the following activities: (i) establishment of mechanisms for controlling natural monopolies, for example, anti-trust laws, commercial courts, etc., (ii) preparation of privatization and commercialization programmes, (iii) providing support in the formulation and facilitation of the implementation of appropriate regulatory environment for the privatized sector and to enable firms adjust to the new

[14] In general, privatization programmes encourage poor countries to transfer the ownership of some state-owned enterprises to the private sector. Other SOEs (especially those that are natural monopolies) are commercialized, and still remain state-owned but are required to operate at market terms. This requires a separation of their management from political-level activities.

dispensation, (iv) assisting the financial sector to better understand the needs of the privatized enterprises, and (v) conducting necessary training, etc.

In addition outright grants, grants may come in the form of debt cancellation, while equity investments may, among others, come in the form of debt-for-equity swaps.

Efforts of the donors are difficult to evaluate here for same reason as outlined in the previous section on the enabling environment support programmes. In general, the implementation of privatization has been sluggish and gains slow in coming. Privatization may even be associated with deteriorating social conditions in recipient countries, resulting in massive and hostile opposition. These have often beclouded the positive impacts. In a number of cases, difficulties in finding potential buyers have delayed implementation (Van de Walle 1989) either because many enterprises are operating at a loss (Larsson 1994) or because of the general atmosphere of policy uncertainty in LDCs. Potential buyers are often put off by the unattractive conditions attached to the sale of SOEs, mainly in terms of buyer obligations regarding the old company's debts or workforce, or in terms of conditions crafted deliberately to make the sale difficult and preserve the privileges of some groups.[15] On the whole, however, efficiency gains have been reported at company-level in a number of countries implementing privatization and commercialization programmes. These appear to be more successful in Asia than in Africa because the former has an environment more conducive for success (Kragh *et al.* 2000).

3.2 PSD instruments inducing direct benefits to the private sector

Investment support programmes, partnership support programmes and mixed credits benefit the private sector directly. These and issues related to the catalytic effects of official investment flows are discussed in this section.

3.2.1 Investment support programmes

Investment programmes are of two broad varieties. One is the type in which donor governments or their agencies invest directly. Another variety is that in which donor governments or their agencies facilitate private direct investment in the recipient countries. Under the first type, a government or a multilateral organization using financial instruments, undertakes an equity or portfolio investment in a project in a recipient country. Commonly, finance flows directly from the donor government to the recipient business via the donor government's venture capital funds and such investments are later disposed off at prevailing market terms.[16] Under the second variety, donors encourage their private companies to set up fully owned subsidiaries in the target countries. This is slightly different from partnership programmes that involve 'twinning'. Under this variety, incentives provided by donors may be financial or/and non-financial.

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[15] In Nigeria for instance, the main obstacle to the sale of the national telecommunication carrier, the Nigerian Telecommunications Limited (NITEL), was the demand for a core investor, a difficult stipulation. If this had been dropped and NITEL offered for public subscription, it could have been over-subscribed given its commercial attractiveness. It is not unlikely that this deadlock was contrived by the policymakers and NITEL workers who are concerned that privatization would cancel the privileges, kickbacks and other corrupt enrichments that the current arrangement confers.

[16] When the investments are at market terms, the only aid element is the forgone risk premium. However, when loans are given at below market rates, the aid element is more feasible.

Notable donor governments that have used venture capital funds to provide investment support include some European countries (e.g. Denmark through Danish Industrialization Fund for Developing Countries, etc. [see Appendix Table A1]), the EU Commission, multilateral institutions, like the International Finance Corporation (IFC); regional development finance institutions like the Asian Development Bank, African Development Bank, etc.

The most direct support for investment support programmes can be found in the two-gap growth models where savings and/or foreign exchange shortage constrain economic growth. Thus, through this instrument, donors, by injecting or facilitating capital inflows to the LDCs, loosen the constraint on growth in the recipient countries imposed by low savings and poor foreign exchange earnings. When donors promote, under this programme, direct investment by foreign private firms in the LDCs, subsidiary firms thus established could facilitate technology transfer through the training of engaged local staff and the introduction of new methods of production/machinery (Kragh *et al.* 2000: 319).

The extent to which official donors use investment support instruments of the first variety is reflected in their equity acquisitions, joint venture investments and other investment-related transactions in the LDCs. As can be seen from Table 4, Development Assistance Committee's (DAC) bilateral ODA-eligible equity acquisitions between 1970 and 2000 are a small proportion of bilateral ODA and of total bilateral official flows, being on average of about 0.3 per cent and 0.2 per cent, respectively. Similarly, it shows that donors' other investment-related transactions per annum in the OOF category between 1995-2000 are about 6 per cent of average annual ODA, 4 per cent of average annual total official flows and 88 per cent of average annual total official investments in support of LDCs. In a similar manner, Table 5 shows that between 1995-2000, official flows in support of joint ventures constituted about 17.7 per cent of total official investment flows and about 0.5 per cent of total official flows.

Table 4
ODA eligible equity acquisitions and other investment-related transactions, 1970-2000

Period average	1970-79	1980-89	1990-99	2000	Average
	(in US$ billions)				
Bilateral ODA gross disbursements	11.07	25.66	46.71	42.18	28.28
Bilateral OOF gross disbursements	5.46	12.55	21.83	10.29	13.19
Total bilateral official disbursements (TOD), gross	16.54	38.21	68.55	52.48	41.47
ODA bilateral equity acquisition (ODAEA), gross	0.02	0.10	0.14	0.26	0.09
Investment-related transactions (IRT), gross			3.14	0.73	2.73
Total official investment (TOI)			3.35	0.98	2.96
	(in %)				
ODAEA as % gross bilateral ODA	0.1	0.4	0.3	0.6	0.3
ODAEA as % TOD	0.1	0.3	0.2	0.5	0.2
TOI as % of TOD			4.8	1.9	4.3
IRT as % ODA			6.9	1.7	6.0
IRT as % TOI			90.7	73.9	87.9
IRT as % TOD			4.5	1.4	4.0

Notes: The average column records the average for 1970-2000;
IRT is the support with respect to investment transactions that do not qualify as ODA.

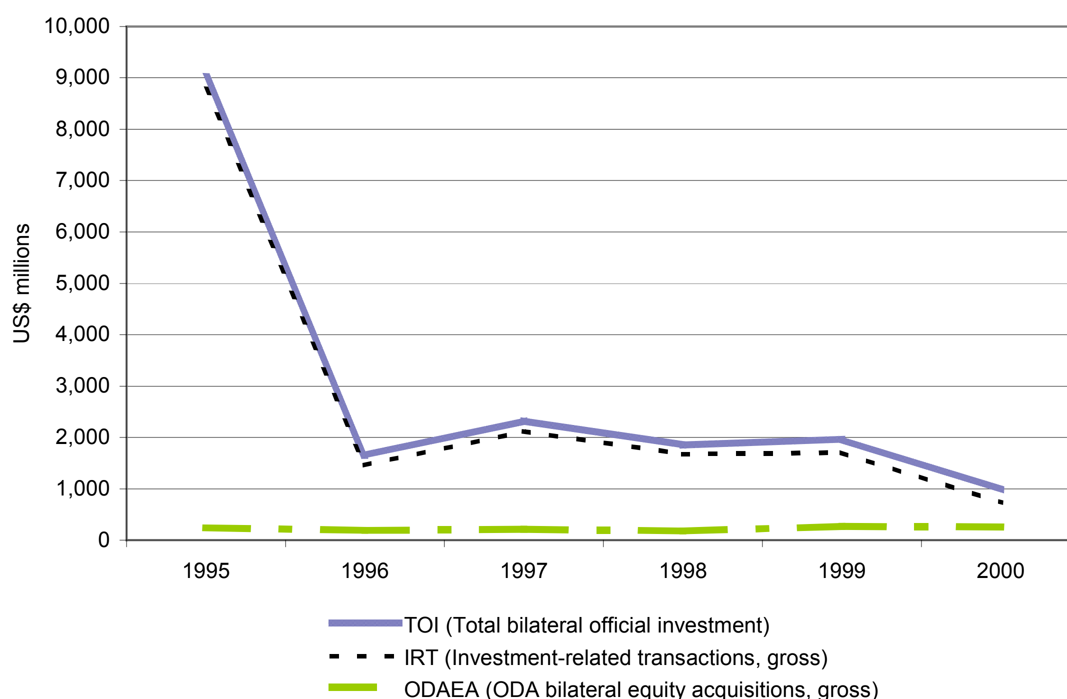
Source: DAC's International Development Statistics (online).

Table 5
Official development assistance, joint ventures and some investment channels, 1970-2000

Period average	1995	1996	1997	1998	1999	2000	Average
	(in US$ billions)						
1. ODA-bilateral joint ventures equity acquisitions, net	0.02	na	na	0.004	0.01	-0.01	0.01
2. Gross IRT with developing countries (IRTDCs)	0.67	1.28	2.01	1.24	1.68	0.67	1.26
of which gross joint ventures (gross JV)	0.08	0.26	0.68	0.81	0.13	0.09	0.34
of which gross JV loans	5.67	0.25	0.15	0.11	0.41	0.44	1.17
of which gross JV acquisition of equity (JVAE)	0.02	0.01	0.67	0.71	0.74	0.00	0.36
3. Gross IRT with residents (IRTR)	0.12	0.13	0.11	0.12	0.02	0.06	0.09
IRTR, gross loans to national private investors (IRTR loans)	0.05	0.07	0.10	0.04	0.02	0.01	0.05
IRTR, subsidies to national private investors (IRTR sub)	0.07	0.06	0.01	0.09	0.00	0.04	0.05
	(in %)						
4. Investment-related transactions (IRT), gross	8.79	1.41	2.11	1.67	1.70	0.73	2.73
RTDCs as % of total bilateral official investments (TOI)	7.4	80.2	86.3	67.2	85.4	68.3	65.8
IRTDCs as % of IRT	7.6	90.9	94.9	74.3	98.8	92.4	76.5
Gross JV as % of TOI	0.9	16.3	29.3	43.9	6.3	9.4	17.7
Gross JV as % of TOD	0.1	0.4	1.1	1.2	0.2	0.2	0.5

Notes: IRT stands for support for investment-related transactions;
The average column records the average for 1995-2000;
TOD stands for total bilateral official disbursements.

Figure 4
Investment support programmes: total official investments



In terms of the channels discussed in the previous section, Table 5 presents the breakdown of the official investment flows of donors between 1995 and 2000 according to the identifiable channels. Table 5 indicates that official bilateral donors channelled directly to the LDCs about 77 per cent of their investment-related support in the OOF category or 66 per cent of their total investment support, mainly through LDCs governments and their national agencies.

Our observation that the majority of financial flows related to donor investment support programmes do not qualify for ODA classification conforms with that of Kragh *et al.* (2000: 321). On the whole, financial flows through investment support programmes have recorded a significant downward trend, especially during 1995 (Figure 4). The factors responsible for this are reported in our statistical analysis in Table 6.

The explanatory variables of the model set out in Table 6 are the same as those in the NGO model in Table 2. *A priori*, it is expected that prosperity in the donor country (per capita income growth and an economic upturn) and increased donor government expenditures increase the portion of donor GDP to be allocated to the ODA-type equity acquisitions, and will tilt resources away from the OOF-type. While a right-wing government often discourages ODA in general, the government, if it has to give aid at all, would favour OOF-type transactions that are undertaken more at market terms. In the case of equity acquisition-GDP-ratio equations (equations 1 and 3 below), a positive coefficient for **t** variable suggests an increasing donor generosity over time; for equity acquisition-ODA-ratio equation (equations 2 and 4 below), it suggests that donors are satisfied with the effectiveness of previous aid disbursed through these instruments.

Judging by the statistical properties of the estimated equations in Table 6 and noting the fact that panel data (like cross sectional data) are often associated with low R^2, we are encouraged that the estimated models have good statistical properties and the sign expectations are met in most cases, as no significant coefficient had the wrong sign. Therefore, these are reliable estimates on the whole, and valid inferences can be made.

Table 6
Determinants of selected variables—investment support variables

Dependent variables	Trend variable	Per capita income (log) (t-1)	Upturn in economic cycle (t-1)	Govt. expenditure/ GDP ratio (t-1)	Extent of govt. being right wing (t-1)	No of obs	Adj. R^2
ODA-type acquisition of equity (Line I.A.2.2) in relation to:							
(1) GDP	0.00001	-0.0004	0.0008	0.000003	-0.000002	88	0.583
	(2.1)	(-1.8)	(2.7)	(2.4)	(-1.0)		
(2) Total ODA	0.0023	-0.1041	0.1743	0.00068	-0.000093	88	400
	(2.1)	(-1.8)	(2.4)	(1.8)	(-0.1)		
OOF-type joint venture acquisition of equity (Line II.A.2.1) in relation to:							
(3) GDP	0.00003	-0.0015	0.0005	-0.000018	0.000008	70	0.670
	(1.6)	(-1.7)	(0.5)	(-4.0)	(1.8)		
(4) Total ODA	0.0078	-0.4386	0.1559	-0.0050	0.0027	70	0.636
	(1.7)	(-1.8)	(0.6)	(-4.4)	(2.3)		

Note: The dependent variables are as indicated in the first column. See also Table 2 notes (a), (b), and (c).

The empirical results in Table 6 suggest that economic prosperity and government expenditures in donor countries, on the whole, have positive impacts on the ODA-type of PSD aid instruments and that they steer allocations away from the OOF-type to the ODA-type. Also, they suggest that right-wing governments favour OOF-type equity acquisitions, though the negative impact of their preference on ODA-type acquisitions was not statistically significant. The positive estimated coefficients of **t** in all the equations suggest increasing donor generosity to and satisfaction with the instruments of investment support. Thus, the overall downward trend is probably due to factors other than the lack of donor satisfaction with these programmes.

3.2.2 Business partnership programmes

Under business partnership programmes, companies in the donor country are encouraged to be involved in partnership with firms in the recipient country, thus sharing their experience. In addition to capital provision for firms in the recipient country, these partnerships enhance the transfer of technology, know-how and management skills and open access to foreign markets. The encouragement given by donors may be in the form of financial incentives (flows) including investment-risk guarantees or non-financial incentives like the exchange of information, advice, facilitation of pre-investment studies or visits, etc.

Theoretical support for the donor partnership programmes can be found in the evolutionary and network theories of firms. A major conclusion in the evolutionary theory is that for a firm to upgrade its technology and innovate, it needs to have the in-house capabilities that come with education and training (Nelson and Winter 1982; Evenson and Westphal 1995). Another major observation, especially of network theories, is that cooperation among firms often facilitates the upgrading and renewal of their capabilities (Grabher 1993).[17] Thus, cooperation between a firm in the donor country and a firm in a developing country is expected to facilitate technology transfer as it provides the most conducive atmosphere for the development of internal capabilities of the firm needing assistance. In addition, it provides the recipient firm with access to foreign markets.

Donors that have funded partnership programmes include Norway through the Norwegian Enterprises Facility (NEF); Canada through the Canadian Industrial Cooperation; the EU through its Centre for Development Industry as well as through the European Community Investment (Appendix 2).

Though some progress is reported with respect to this instrument in general (Schulpen and Gibbon 2001), there are a number of problem areas. First, the design of the technology and business models being transferred are commonly reported not to fit local circumstances (Sverrisson 2000: 24-9; Gibbon 2000: 61). Second, because there are no clearly defined objectives for many of the programmes, monitoring and evaluation are problematic (Schulpen and Gibbon 2001). Third, some donors have multiple aid agencies; therefore activities are not coordinated and there is no transparency in the selection of target firms and benefiting partners (Putzel 1998). Fourth, problems related to the lack of capacity on the part of the private companies implementing aid are

[17] Even though the focus of most network theories is on cooperation among firms in same country, the same rationale is applicable to cooperation among firms across national frontiers, especially in today's world of globalization.

reported in a number of cases (Schulpen and Gibbon 2001).[18] This is a major weakness in view of the fact that the capacity of the private intermediaries is generally identified as a key success factor (Schulpen and Gibbon 2001; Schulpen 2000).

Thus, it is necessary for the donors to adopt more innovative approaches to technology transfer to ensure that partnership programmes fit local conditions because, first of all, significant technological and knowledge gaps exist between the donor and recipient countries. The improvement and diffusion of existing engineering and technical capabilities in poor countries is bound to be a more effective approach than a wholesome importation of donor technology. Alternatively, donors, by redesigning their programmes to enhance south-south business partnerships rather than north-south partnerships (Sverrisson 2000: 24-9), could propagate the technology of the relatively more advanced developing countries (India, Brazil, China, Malaysia, etc.) to the poorer countries (Nigeria, Ghana, Niger, etc.), the advantage being that the corresponding technology and knowledge gaps would be minimal.

Second, local universities and technology institutes could be used to adapt donor technology and knowledge to local conditions and diffusing these in the recipient countries to bridge the gaps between the donor and recipient countries for better results (Sverrisson 2000: 27). Third, donors could, through the use of appropriate incentives, promote industry-based vocational training using the large foreign-technology based companies in the recipient country (Sverrisson 2000: 28).[19]

It is worth noting that the effectiveness of PSD aid within this category is enhanced when efforts are made, as is done by some donors, to provide potential investors with some investment risk insurance coverage. Other than this, a specialized guarantee arrangement, modelled after the Multilateral Investment Guarantee Agency (MIGA) could better serve the purpose. Under this arrangement, donor governments contribute to a specialized multilateral institution whose only agenda is to insure investment risks with respect to suitable foreign private-sector investments in eligible poor countries.

Overall, existing studies suggest that partnership programmes are popular with donors and participating firms alike; drawing from Denmark's experience, official flows through this channel could be as much as 3-4 times of those associated with investment support programmes (Danida 1995), about 12 per cent of total official flows pass through this instrument. There is every reason to believe that this instrument has recorded significant gains in poverty alleviation in places where it has been directed at small-scale enterprises; again the Danish experience clearly illustrates this fact. (Danida 1995). However, in the final analysis, the most conclusive evidence of the effectiveness of this instrument is determining whether it eventually has a catalytic effect on direct foreign capital flows to the LDCs, the issue investigated in the subsequent section. But notwithstanding the outcome of such an investigation, available

[18] Donors should, therefore, make greater efforts at ensuring that the donor companies selected as agents of technology transfer have adequate capacity for their envisaged role as agents of change. Available evidence suggests that the chances of success in technology transfers increase with the size of the donor country company serving as partner because size determines the capability to transfer technology (Danida 1995), and donors are thus advised to give some weight to this in the selection of change agents.

[19] Such incentives could include a scheme to compensate trainer-firms for the competition that graduates are likely to pose in setting up similar businesses or being employed by competitors.

evidence suggests that traditional approaches, with the same objectives, may not have been as effective as this instrument.

3.2.3 Mixed credit programmes

Some other donor instruments, which are designed to support donors interests, also promote private sector development in the LDCs. These are the mixed credit programmes. Examples of these are the credits and subsidies directed at promoting donors' own exports, although they can be considered as aid to importers in the recipient countries and classified under the enabling international environment support programmes[20] (promoting international linkage). But as these instruments raise unique issues on their own, they are treated as a distinct category.

As can be seen from Table 7, between 1970-2000, official export-related credits (in the OOF category) constituted about 15.8 per cent of total bilateral official flows for the same period, with a noticeable downward trend.[21] The explanatory factors are investigated, and the results reported in Table 8. The explanatory variables of the model in Table 8 are the same as in Tables 2 and 6. *A priori*, it is expected that during periods of prosperity in the donor country (per capita income growth and an economic upturn), the incentive for donors to stimulate their own exports through government policy is reduced. Thus, a negative relationship is expected between export-related PSD aid and donor per capita incomes or/and an upturn in economic cycle. Also, in periods when the

Table 7
Disbursements and commitments of official development assistance (export-related), 1970-2000

	1970-79	1980-89	1990-99	2000	Average
	(in US$ billions)				
1. Export-related transactions (ERT)	3.74	5.61	7.12	3.97	5.44
2 Official exports credits to developing countries (EXpLDC)	2.16	3.73	5.07	3.95	3.71
3. Loans to national private exporters (ERT loans)	1.39	1.45	0.82	na	1.25
4. Interest subsidies to national private exporters (ERTsub)	na	0.53	0.25	0.03	0.29
	(in %)				
ERT as % of gross total bilateral official flows	22.1	15.6	10.4	7.6	15.8
ERT as % of bilateral OOF	70.1	45.4	33.4	38.6	49.3
EXpLDC as % of bilateral ERT	55.1	65.9	70.3	99.3	65.2

Notes: na = not applicable;
Average implies the average for the period 1970-2000.

Source: DAC's International development statistics (online).

[20] Because firms in the LDCs require considerable output from the industrialized countries both as inputs and final goods, the shortage of these outputs usually impacts adversely on the business environment in developing countries. Production becomes disrupted as a result of shortage of inputs or the lack of foreign exchange. Thus, it can be argued that this type of aid promotes the recipient country's international linkages, promoting, as a consequence, an enabling environment. Therefore, it can be said that export-related aid that is primarily designed to promote donors' own exports impacts on the business environment of firms in the LDCs.

[21] The breakdown of these shows that export-related aid flows (in the OOF category) channelled directly to the LDCs constituted about 65.2 per cent of official export-related flows in the same period while those channelled through transnational investors in donor countries accounted for about 28.7 per cent of total export-related official flows.

Table 8
Determinants of selected export-related variables

Dependent variables	Trend variable	Per capita income (log) (t-1)	Upturn in economic cycle (t-1)	Government expenditure/ GDP ratio (t-1)	Extent of government being right wing (t-1)	No of obs	Adj. R^2
OOF-type export-related transactions (Line II.A.1) in relation to:							
(1) GDP	-0.00003	0.0008	-0.0028	0.00001	-00006	441	0.213
	(-2.3)	(1.4)	(-2.7)	(0.6)	(-3.1)		
(2) Total ODA	-0.00012	-0.1033	-0.8568	-0.00575	-0.0145	422	0.184
	(-0.03)	(-0.6)	(-2.7)	(-2.1)	(-2.6)		

Note: The dependent variables are as indicated in the first column. See also Table 2 notes (a), (b), and (c).

ratio of government expenditures to GDP is high, a decrease in export-related PSD aid is expected, because an expansionary fiscal stance is expected to tilt aid allocations away from OOF to ODA. Also, when right-wing governments which generally are known to oppose subsidies (or government interventions in general) are in power, export-related aid mainly in the form of subsidies is expected to decrease. And finally, the value of the trend variable can be interpreted to suggest the extent to which donors are satisfied with the past effectiveness of the concerned instrument or the extent of their generosity.

Judging by the statistical properties of the estimated equations in Table 8 and noting the fact that panel data (like cross sectional data) are often associated with low R^2, we note that the estimated models have good statistical properties and sign expectations are virtually met, indicating that on the whole, they are reliable estimates and valid inferences can be made. The results suggest, as expected, that economic prosperity reduces aid flows through export-related instruments. Again, because export-related PSD aid flows are mainly in the form of subsidies, they are not favoured by right-wing governments even though they are in the OOF category. Similarly, as expected, an expansionary fiscal stance, by diverting aid from OOF to ODA, reduces aid flows through export-related instruments. The negative coefficients for **t** in the two equations suggest a downward trend in its use, probably as a result of the increasing awareness among donors that tied aid is not desirable and may not suggest ineffectiveness of the instrument, especially in view of the statistical insignificance of **t** in the second equation.

It is worth noting that while donors seem eager to promote their own exports to the LDCs, reciprocal treatment for the exports of the LDCs does not appear to be happening. Yet, an enabling international environment can exist only if the LDCs are linked to world markets for both import and export transactions (Schulpen and Gibbon 2001: 10-1). Obviously, as the saying goes, it is not possible to clap with one hand, and donors need to open their markets to LDCs' exports. This can be done through a number of measures including the provision of assistance for upgrading the primary exports of recipient countries (Gibbon 2000: 61) channelled particularly along buyer-driven global commodity chains, and the elimination of discriminatory tariff and non-tariff barriers against the LDCs, etc. (Schulpen 2000: 97).

3.2.4 The catalytic effects of official PSD financial flows

We investigate in this section whether official financial flows supporting PSD encourage private capital flows, as is hoped by official donors, or they are led by private flows. It is assumed that official donors would prefer to have private capital flows re-enforce official development financing, as this would accelerate economic growth, which in time would eliminate the need for development assistance. However, in real life, there are four possible outcomes. First, official financing stimulates private capital flows so that these together produce greater effect, the so-called 'additionality' phenomenon. Second, official financing crowds-out or becomes a substitute for private capital flows, causing private financing to flee as official financing flows in. Third, the two types of financing are independent, so that one does not affect the other. Fourth, private capital flows lead official flows so that they add up, but in this case (as with the first case) the 'additionality' phenomenon is present, but with a reversed lead-lag structure. Of these possible outcomes, the second is the least preferred by both donors and recipients. This being the case, it is needs to be known which of these phenomena are faced by donors so that appropriate development financing programmes can be reformulated. With this objective in mind, we undertook an empirical examination of the relevant data with a regression analysis. Details of the specified models, including the explanatory and the dependent variables as well as the estimates, are given in Tables 9 and 10.[22]

The explanatory variables include all those reported earlier in Tables 2, 6 and 8 as well as the economy's openness index, direct foreign investment (DFI) relative to GDP (present and lagged values) and ODA equity acquisitions (ODA AQU), present and lagged values. As in Table 6, *a priori*, it is expected that the coefficients of prosperity variables (growth in per capita income and an upturn in the economic cycle) and donor government expenditures would be positive, while that of donor government's ideological inclination (whether right-wing) will be negative. Further, as the economy becomes more open, DFI as well as ODA AQU should be facilitated. The statistical significance of the coefficients of DFI, ODA-equity acquisitions and their lagged values, respectively, in these catalytic effect models would determine which one leads the other.

Based on the statistical properties of the estimated equations and taking note of the fact that panel data (like cross sectional data) are often associated with low R^2, we believe the estimated models have good statistical properties and that the sign expectations are virtually met. Thus, these are reliable estimates and valid inferences can be made. Estimates in Tables 9 and 10 suggest that official flows have no catalytic effects on private capital flows. Neither do the private capital flows have catalytic effects on official PSD aid flows because none of the relevant coefficients are statistically significant. The two types of flows are independent of each other.

Because the long-run objective of the donors is to ensure that private finance flows eventually replace official development finance, the absence of any significant catalytic effects that are associated with official PSD finance flows is worrisome. This suggests

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[22] Though more appropriate statistics for estimating catalytic models are those for the destination countries as opposed to the source-country data utilized here, such data are difficult to come by. However, because source-country data are expected to be destination-country data order-preserving, it is expected that our estimates are still reliable.

Table 9
Testing for the catalytic effect of ODA-type acquisition of equity (Line I.A.2.2) in relation to GDP on direct foreign investment

Dependent variables	Trend	Per capita income (log) (t-1)	Upturn in economic cycle (t-1)	Government expenditure/GDP ratio (t-1)	Openness of economy	DFI/GDP ratio in: period t	DFI/GDP ratio in: period t-1	ODA AQU period t-1	No of obs	Adj. R^2
ODA-type acquisition of equity (Line I.A.2.2) in relation to:										
(1) GDP (ODA AQU)	0.00001 (1.6)	-0.00027 (-1.4)	0.00050 (2.0)	0.000001 (1.2)	na	0.00274 (1.5)	na	na	99	0.569
(2) GDP (ODA AQU)	0.00001 (1.6)	-0.00027 (-1.3)	0.00049 (1.9)	0.000001 (1.0)	na	na	0.0008 (0.6)	na	99	0.560
DFI in relation to:										
(3) GDP	-0.0000 (-0.0)	0.0017 (0.2)	0.0003 (0.02)	na	0.00003 (0.5)	na	na	8.109 (1.1)	97	0.453

Notes: The dependent variables are as indicated in the first column;

See also Table 2 notes (a), (b), and (c);

Catalytic role of PSD type of aid means it should also bring in to the recipient countries additional private capital as the involvement of the donor should signal to their investors that they are encouraged to invest in the host country. If it is effective in accomplishing this, we expect either current or especially past value of ODA AQU to have a positive causal effect on the current value of DFI (in the 3rd equation above). But if, instead, it is the current or especially the past value of DFI that has a positive effect on ODA AQU in the first or especially second equation above, it means the ODA AQU simply follows the initiative of private investors rather than lead or signal to them.

Table 10
Testing catalytic effect of OOF-type acquisition of equity (Line II.A.2.1) in relation to GDP on direct foreign investment

Dependent variables	Trend	Per capita income (log) (t-1)	Upturn in economic cycle (t-1)	Government expenditure/GDP ratio (t-1)	Openness of economy	DFI/GDP ratio in: period t	DFI/GDP ratio in: period t-1	ODA AQU period t-1	No of obs	Adj. R^2
OOF-type joint venture acquisition of equity (Line II.A.2.1) in relation to:										
(1) GDP (ODA AQU)	0.00002 (2.1)	-0.0013 (-2.2)	0.00029 (0.4)	-0.00002 (-3.2)	na	0.00427 (0.4)	na	na	88	0.763
(2) GDP (ODA AQU)	0.00003 (2.5)	-0.0015 (-2.5)	0.00035 (0.5)	-0.00002 (-3.4)	na	na	-0.00105 (-0.2)	na	86	0.765
DFI in relation to:										
(3) GDP	0.0001 (0.5)	-0.0051 (-0.5)	0.0121 (1.1)	na	0.00012 (1.5)	na	na	-0.2564 (-0.2)	85	0.362

Notes: As given in Table 9.

that it is necessary for donors to introduce measures that would further enhance catalysis and additionality in their financial supports. A measure that readily comes to mind is the re-direction of donor efforts to sectors with low patronage by foreign private investors such as micro-enterprises so as to reduce the potential crowding-out effects of official flows. This—combined with deliberate measures that would give greater returns or/and ensure some improved scheme for guarantee against risk within donors' current co-financing and loan syndication arrangements—could enhance catalysis and additionality in their financial supports.

3.2.5 Official and private investment flows—regional and income-based spread

Though official investment flows, in aggregate value terms, do not lead private investments, it is possible that official and private flows may have some common features in terms of their distribution across world regions or/and income grouping of recipient countries. This may suggest the existence of catalytic or additionality effects and may give a ray of hope to official donors. For instance, if the focus of official donors is the poorest of the poor and private investors also direct their funds to these target countries, this may serve to coordinate the entire PSD efforts of both agents for maximum effects. The same arguments apply to regional distribution of PSD financial flows.

In this section, we examine the relevant data to see if there is any similarity in the regional spread of official (bilateral/multilateral) and private investment flows, as well as in their distribution across income-based groups of the LDCs. Table 11, presenting the volume and percentage distribution of investment finance according to the income categories of the recipient countries, shows that the focus of bilateral official investors is

Table 11
Distribution of official and private finance according to recipient income categories, totals for the 1995-2000 period

	Equity investment (bilateral)			IFC financing (multilat.)	FDI (bilateral)	Total private (bilateral)
	ODA	OOF	Total			
	Value (in US$ billions)					
Developing countries, total	0.66	-0.01	0.64	3.38	433.87	662.00
Upper-middle income countries, total	0.02	-0.14	-0.13	1.57	194.62	308.27
High-income countries, total	0.00	0.00	0.00	-0.02	1.12	5.43
Least developed countries, total	0.08	0.02	0.10	0.31	4.64	6.90
Other low-income countries, total	0.27	0.03	0.30	0.63	50.67	59.29
Low middle-income countries, total	0.12	0.07	0.19	0.72	58.71	83.65
Part II-countries, total	0.07	0.06	0.13	0.40	181.99	316.31
Developing and Part II-countries combined	0.73	0.04	0.77	3.77	615.87	978.30
	Share (in %)					
Developing countries, total	90.2	-36.6	83.5	89.5	70.4	67.7
Upper-middle income countries, total	2.2	-348.2	-16.4	41.5	31.6	31.5
High-income countries, total	0.1	6.3	0.4	-0.5	0.2	0.6
Least developed countries, total	11.2	36.9	12.6	8.1	0.8	0.7
Other low-income countries, total	36.4	85.6	39.1	16.6	8.2	6.1
Low middle-income countries, total	17.0	172.1	25.3	19.1	9.5	8.6
Part II countries, total	9.8	136.6	16.5	10.5	29.6	32.3
Developing and Part II-countries combined	100.0	100.0	100.0	100.0	100.0	100.0

Source: DAC's International Development Statistics (online).

Table 12
The regional/geographical distribution of destinations of official and private finance
(Totals over the 1995-2000 period)

	Equity investment (bilateral)			IFC financing (multilat.)	FDI (bilateral)	Total private (bilateral)
	ODA	OOF	Total			
	Value (in US$ billions)					
Developing and Part II-countries, total	0.73	0.04	0.77	3.77	615.87	978.30
Far East Asia, total	0.12	0.05	0.17	0.86	145.40	251.03
South and Central Asia, total	0.14	0.04	0.18	0.48	10.50	16.77
Europe, total	0.02	0.02	0.04	0.26	12.71	42.85
Africa, north of Sahara, total	0.01	-0.02	-0.01	-0.05	6.50	-0.62
Africa, south of Sahara, total	0.11	0.03	0.13	0.17	19.27	21.91
North America, total	0.12	-0.15	-0.03	1.45	314.00	474.65
Middle East, total	0.01	0.01	0.02	0.20	11.15	27.07
Oceania, total	-4.44	-0.62	-5.06	7.09	42.06	-591.42
	Share (in %)					
Developing and Part II-countries, total	100.0	100.0	100.0	100.0	100.0	100.0
Far East Asia, total	15.9	131.4	22.0	22.7	23.6	25.7
South and Central Asia, total	19.4	106.8	24.0	12.6	1.7	1.7
Europe, total	2.7	38.3	4.6	6.9	2.1	4.4
Africa, north of Sahara, total	1.5	-40.3	-0.7	-1.2	1.1	-0.1
Africa, south of Sahara, total	14.9	63.4	17.4	4.6	3.1	2.2
North America, total	16.6	-373.6	-4.1	38.4	51.0	48.5
Middle East, total	1.5	14.3	2.1	5.3	1.8	2.8
Oceania, total	-3.8	-1.2	-3.0	0.8	0.03	-0.2

Notes: Part II countries are those in transition.

Source: DAC's International Development Statistics (online).

on the low- to middle-income countries. About 39 per cent and 25 per cent of total bilateral official investments go to 'other low-income' and 'low-income' categories of poor countries, respectively. However, the IFC (representing multilateral official investors) and private investors behave alike, focusing on the 'upper middle-income' group with about 42 per cent of IFC investment financing and about 32 per cent of private investments going to this income group.

Similarly, Table 12 which provides the same data as Table 11, but broken down by regions of the recipient countries, shows that the focus of bilateral official investment flows is different from that of the IFC and private investors. While the majority of bilateral official investments (46 per cent) goes to Asia and is allocated almost evenly between the Far East and South/Central Asia, the focus of IFC and private investors is on Latin America. About 38 per cent of IFC financing, about 51 per cent of FDI and about 49 per cent of total private investments go to this region. These figures suggest that private investors, in terms of their regional and income grouping of poor countries, do not follow the directions set by bilateral official donors for channelling their PSD investments.

3.2.6 Desirable PSD finance delivery and instrument mix

From the discussion on PSD finance delivery channels in section 2 and on PSD finance delivery instruments in this section, it can be inferred that some channels are more

suitable than others for the delivery of some instruments. In particular, the review suggests that the government-government-recipient business flow (channel i) is suitable only in connection with certain subsets of the various programmes, such as partnership programmes (e.g. provision of business intelligence, advisory services and facilitation of business contacts/visits), mixed credits, enabling environment (e.g. provision of subsidized training, business development services, guarantee for breach of trust, etc.) and commercialization and privatization support (e.g. writing-off bad debts in banks or firms in general being privatized, advisory services during commercialization, etc.). Likewise, the review suggests that investment support programmes are best delivered through the donor government-donor business-recipient business flow (channel iii). Also, partnership support is best delivered via channels (iii) and (iv) (donor government-donor institutions-donor business-recipient business flow). For details of these, and other instruments and channels, see Appendix Table A2. It is worth noting that if PSD assistance is defined broadly to include those that have indirect benefits to the recipient firms, then, channel (i) is well suited for the delivery of all instruments, except investment and partnership supports.

3.3 Private sector development, poverty alleviation and gender-based programmes

It is also worth noting that the current donor objectives with respect to poverty alleviation, minority-focused and gender-related programmes can be achieved simultaneously with PSD aid instruments. For instance, PSD aid directed at small-scale businesses, rural economic activities (including agriculture), and women-owned businesses, would at the same time achieve the multiple goals of poverty eradication, private sector development, promotion of gender equality and empowerment of minority groups (Schulpen 2000: 96-8).

4 Summary and concluding remarks

The study has examined aid practices currently utilized by official bilateral donors, with a particular focus on their major instruments and channels for private sector development aid delivery. It was observed that the major donor instruments for PSD are investment support, enabling environment support, privatization and commercialization, and business partnership programmes. Major participants in the alternative channels are NGOs, governments of poor countries, firms in recipient countries and donors' own firms. After a review of the merits, demerits and effectiveness of these channels and instruments, the study concludes that there is still a pertinent role for poor country governments in the delivery of PSD aid, especially when the provision of public services (or social goods) is involved and free-rider problems major. Also, as a result of the decentralized nature of the private sector, the paper acknowledges the need for the coordination of donor efforts. In PSD aid delivery, this would require either the involvement of recipient governments or/and the creation of a multilateral institution specializing in the task. With respect to instruments, the paper identifies a number of factors that have limited the effectiveness of PSD aid. These include the gap between donor design and local conditions, and insufficient dialogue between donors and intended beneficiaries of aid. However, these limitations notwithstanding, the study finds evidence that suggests that these channels and instruments are effective and preferred by donors over the traditional approaches to aid delivery. Furthermore, the

paper finds that official investment-related aid flows are yet to have a catalytic effect on private direct foreign capital flows.

Based on these findings, the study recommends that donors consider new approaches to their investment and partnership programmes so as to encourage technology and knowledge transfer. These alternative approaches include (i) the upgrading and diffusion of existing engineering and technical capabilities in poor countries rather than a wholesome importation of donor technology; (ii) propagating the technology of relatively more advanced poor countries to the more severely disadvantaged countries, which would require donors to favour south-south business partnerships rather than north-south partnerships (Sverrisson 2000: 24-9).

Similarly, the analysis suggests that donors should endeavour to promote LDC exports with the same commitment as they promote their own exports to LDCs. This is the only way of creating a truly enabling international environment (Schulpen and Gibbon 2001: 10-1; Schulpen 2000: 97). Also, if donors were to give greater emphasis to promoting and enhancing inter-business linkages among businesses in the recipient countries, a significant dividend could be reaped from their enabling environment programmes (Grierson 2000: 42).

Appendix: List of acronyms

DAC	Development Assistance Committee
ERT	Export-related transactions
FDI	Foreign direct private investments
IFC	International Finance Corporation
IRT	Investment-related transaction that do not quality for ODA status
LDCs	Less developed countries
MOOF	Multilateral official flows
NGOs	Non-governmental organization
ODA	Official development aid
ODAEA	ODA bilateral equity acquisition
OOF	Other official flows
PSD	Private sector development
TOD	Total bilateral official disbursements
TOI	Total official investment

Appendix Table A1
Instruments for investment and partnership support programmes of selected donors

Instruments	Instruments (specific)	Donors (programmes popular names)	Description
PART A – INSTRUMENTS FOR INVESTMENT SUPPORT PROGRAMMES			
Financial	Venture or risk capital	Canada (CPB), Germany (DEG), Norway (NORFUND), Denmark (IFU)	Providing equity capital directly to commercial projects
Financial	Loans	France, the USA, Belgium, the Netherlands (IBTA), Denmark (IFU), Canada (CPB), Sweden (SwedFund)	For recipient 'countries' enterprises often via support to local financial institutions
Financial	Grants	Australia, Belgium, Denmark, Germany, Japan, New Zealand, Portugal, Sweden and the Netherlands	Feasibility studies train, advice and visits
Financial	Guarantees	Germany, Finland, Fancy (ARIA), Sweden, Switzerland, United States and the Netherlands (RHI, Popm and IBO)	Insurance against mistral or Trade risk wish focuses on political risks
Non-financial	Information provision advice	Denmark, Canada and the Netherlands	Provision of information on market conditions, regulations, contact addresses, etc.
PART B – INSTRUMENTS FOR PARTNERSHIP SUPPORT PROGRAMMES			
Financial	Loans	Canada (CRPSM and Egypt PSD), Denmark (PSD Program and IFU); the Netherlands (IBTA)	For a donor country's own private enterprises and for joint ownership with local firms
Financial	Grants	Canada (PSOP), Denmark (PSD Program, IFU), the Netherlands (PSOM), New Zealand (PIIDs and DAF), Sweden (Swedfund)	Feasibility studies training advice and visits
Financial	Guarantees	Canada (PSOP), Denmark (investment guarantee), the Netherlands (RHI, POPM and IBO)	Insurance against investment or trade risk, with focus on political risks
Non-financial	Provision of information, training and human development	Denmark, Canada, the Netherlands and Germany	Provision of information on market conditions, regulations, contact addresses and through training of staff of participating firms especially those of local partners

Appendix Table A2
PSD aid delivery channel-instrument mix

Channels from donor government to:	Investment support	Partnership support	Mixed credit support	Enabling environment support	Commercialization and privatization
Government-recipient business, flow (i)		Y	Y	Y	Y
Government-local institutions-recipient business, flow (ii)				Y	Y
Donor business-recipient business, flow (iii)	X	X	X	Y	
Donor institutions-donor business-recipient business, flow (iv)	Z	X		Y	
Donor institutions-local institutions-recipient business, flow (v)	Z			Y	
Multilateral institutions, flow (vi)	Z	Z	Z	Z	Z

Notes: X = most suitable for the indicated instruments;

Y = suitable for only some sub-sets of the indicated instruments e.g. advocacy and training are subsets of enabling environment; assistance in form of provision of business intelligence, advisory services and business visits in partnership support; writing-off of old but bad debts of banks being privatized;

Z = suitable for the indicated instruments;

If PSD assistance is defined to include indirect benefits to the recipient firms, then all ‘Y’ ratings for enabling environment support and for commercialization and privatization in channel (i) turn to ‘X’ rating.

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