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## **Comparative Appraisal of Multilateral and Bilateral Approaches to Financing Private Sector Development in Developing Countries**

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### **Abstract**

This paper identifies the rationale behind the emergence of private sector development (PSD) as a special area of development assistance. It describes PSD policies' main elements and instruments and provides an overview of the differences and similarities between the PSD activities of bilateral and multilateral development agencies. In so doing it asks whether agencies' apparent reliance on the same analytical source extends to the use of the same type of instruments. It also examines how far the latter are consistent with donors' broader development objectives and development assistance norms. It then asks what do the findings reached in this regard imply for aid coherence, coordination and inter-donor competition. Next, the paper provides an overview of discussions around the effectiveness of the numerous PSD instruments. It concludes with a provisional summing-up of the extent to which bilaterals and multilaterals differ, and of why this might be the case

Keywords: private sector development, development cooperation, bilateral aid, multilateral aid

JEL classification: F34, F35, O14, O19

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## 1 Introduction

In the minds of a large majority of development thinkers and agencies, there is no longer any doubt that the private sector is the real ‘engine of growth’, the motor that will lead to economic progress and thereby to poverty reduction. On the other hand, the lack of conceptualization and, certainly, operationalization of the poverty reduction objective is a major problem for the development cooperation policies of the donors. This is of particular importance when looking at those interventions and programmes which seem at best to be tackling only one dimension of poverty reduction, such as those falling under the rubric of private sector development (PSD).

According to the DAC (1994: 4), this is less of a problem than it might seem. For this organization, private sector development is itself related to poverty reduction in a multifaceted way. First, it contributes to growth, and creates employment and income leading ‘to a more equitable diffusion of the benefits of growth to more people’. Furthermore, in the case of micro-enterprises ‘these factors are [...] enhanced by virtue of their particularly direct impact on poverty reduction and on the integration of women and other marginalized segments of society into economic life’. Second, PSD contributes to the political aspects of poverty reduction because it promotes participatory development and good governance, by engaging ‘people more actively in the productive and decision-making processes that affect their lives’. The development of the private sector is even seen as contributing to a more pluralistic civil society ‘that can lead to more accountable political systems and rising labour standards’. Finally, certain aspects of PSD, in particular privatization, address the social dimension of poverty reduction. They do so because they imply more efficient use of resources and thus create possibilities to divert funds from loss-making public enterprises to such laudable causes as education and health. These consequences do not follow automatically though. Rather, whether they follow or not, is dependent on good governance and good policies.

Similar claims for multifaceted links between PSD and poverty reduction are made by the World Bank (2002). It is debatable whether these arguments for multiple but largely indirect links compensate for the absence of both a clearer definition of poverty reduction itself, and of a stronger demonstration of a direct link between PSD and the latter.<sup>1</sup> Notwithstanding this, the statements reported above show that donors now consider it not only worthwhile but also necessary to assist developing countries’ private sectors so as to encourage their growth and improve their performance. Of course, most development agencies (from bilateral donors to regional development banks) have always had some focus on the private sector, but it was only in the 1990s and in the context of a broader development consensus of a new kind that something termed ‘private sector development’ became the catchword.

This paper identifies the rationale behind these developments, describes the main elements and instruments of the PSD policies, and provides an overview of the differences and similarities between the PSD activities of bilateral and multilateral development agencies. In so doing, it asks whether agencies’ reliance on the same analytical source extends to the use of the same type of instruments. The paper also

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<sup>1</sup> Many (particularly bilateral) donors formulate the link between PSD and poverty reduction in terms of the notion of ‘pro-poor growth’. This formulation tends to simply beg the question in a slightly different form.

examines how far the latter are consistent with donors' broader development objectives and development assistance norms. It then asks what the findings reached in this regard imply for aid coherence, coordination and inter-donor competition. Next, the paper provides an overview of discussions around the effectiveness of the numerous PSD instruments. It concludes with a provisional summary of the extent to which bilaterals and multilaterals differ, and why this might be the case.

## **2 The content of PSD**

The increasing focus of bilateral and multilateral organizations on the private sector was a logical outcome of the reorientation in development thinking that began in the 1980s. The first stage of this reorientation was a shift from the belief of the state being the prime mover of economic development to the neoliberal resurgence of the early 1980s when the state was regarded with 'major disillusionment' (Killick 1989: 9) and privatization and structural adjustment were seen as the solution to a broad range of problems. A more nuanced view emerged during the 1990s, when a synthesis of public and private initiative became recognized as the way forward. Together with the end of the cold war, therefore, came an end of the 'ideological cleavage' in development thinking and the emergence of the present-day consensus on the role of the private sector in development and on PSD as a policy objective.

This consensus acknowledges complementary roles for the state and the private sector, in which the latter generates economic growth and the former ensures that the private sector is able to fulfil its role while at the same time making sure that growth contributes to poverty reduction, does not lead to environmental degradation and pays attention to gender equality. The paradigmatic status of this view dates from the 1991 World Bank *World Development Report* which argued that while the role of private firms and markets was to produce and distribute goods and services in an efficient manner, government was needed in order to provide a legal and regulatory framework (including strengthened property rights), macroeconomic stability, investments in infrastructure and essential services for the poor. A decade later, *World Development Report 2003* (World Bank 2002: i, 183) still takes this point of departure, albeit with an increased emphasis on the importance of non-market institutions. These institutions, which may be government or non-government, are now also considered necessary for supplying environmental and social assets.

What is perhaps most striking about the consensus is that it still pays much more attention to (re-)defining the role of the government than it does to the nature of the private sector and the effects of its development. Agencies depart from the notion that, in the long run, the private sector will deliver equitable growth spontaneously—provided that an enabling environment is present. In practice, therefore, policy discussion of suitable interventions has been confined to how the government can be directed to create this enabling environment. At the same time, many practical PSD interventions by donors are aimed directly at the private sector, but in ways that lack detailed policy justification.

Intellectually, the consensus can be interpreted as distinguishing two basic levels of PSD, the second of which is sub-divided into three sub-levels. Each comprises a different group of parameters in which specific private sectors operate, whose regulation may act as a

stimulus to or constraint on PSD. To this extent, designing and coordinating policies addressed to all four levels can be considered a prerequisite for the coherence of donor activity in this field.<sup>2</sup> At the first, *international* level, these parameters include effective participation in international trade. This entails participation in the WTO. However, in regard to the WTO, incoherence is still the order of the day, since donor countries' enthusiasm for the recipients to conform to WTO agreements is not usually matched by an equal willingness for opening up from their own side. At the second, *national* level, a distinction can be made between *macro*-level parameters such as macroeconomic policy, physical infrastructure, human capital formation and good governance; a *meso*-level includes the presence of institutions such as employers' organizations, labour unions, and training institutions; and a *micro*- or firm-level includes access to capital/credit, technology, labour, and market information.

Specific types of intervention may be identified within each of these levels of PSD, ranging from advocacy on behalf of developing countries in international fora to direct support to private firms. Table 1 provides a summary of the content of these levels, and of some related actual and proposed instruments. Corresponding to the distinctions between these levels, some of the latter are directed at the international community, some to assisting governments in developing countries, some to assisting governments together with other 'partners' in society, and some at individual enterprises in developing countries. Those directed at the international community include action to reduce tied aid and increase donor coordination. Generally, interventions tend to become more specific, and more in the form of targeted technical and financial support,<sup>3</sup> the further one moves down from the international to the micro-level.

Probably because the parameters recognized in the consensus are so many, and the resources of individual donors are few, most concentrate interventions at only one or two levels. The choices this involves tend to reflect the different degrees of attention paid in broader policy discourses to the behaviours of developing country governments and the international community, respectively. While it is arguably more rational for donors to assume that these are of equal importance, selection of instruments is in practice influenced by the belief that 'external factors [are] invariably less significant than internal policies and practices' (DAC 1999: 3). Therefore the instruments chosen are those addressing national macro-, meso- and micro-levels.

There may also be a problem with some of the assumptions governing how specific instruments are devised to address issues at these levels. Many of these reflect a highly normative conception of what a 'national enabling environment' should look like, reflecting an idealized model of such environments in the north. The result is a form of 'one size fits all' thinking that fails to take its point of departure in the realities of the south. Only within this somewhat narrow framework is it possible to identify meaningful differences between donors on issues addressed and instruments chosen. Nonetheless, some important differences are present, which are examined in the following section.

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<sup>2</sup> Coherence refers to 'the consistency of policy objectives and instruments applied by OECD governments, individually and collectively, in the light of their combined effects on developing countries' (DAC Informal Network on Poverty Reduction 2000).

<sup>3</sup> Instruments in the field of international negotiation can also be in the form of targeted technical support, as in the case of programmes to enhance developing countries' trade negotiation capacity.

Table 1  
Levels, elements and proposed interventions for private sector development

	Elements	Proposed intervention
<b>International</b>	<ul style="list-style-type: none"> <li>• Free and rule-governed international trade</li> <li>• Access to international markets</li> <li>• Debt reduction</li> <li>• Donor policies and practices (including coordination)</li> </ul>	<ul style="list-style-type: none"> <li>• Lobby and advocacy on behalf of poor countries in multilateral fora such as World Bank, WTO, IMF; with the EU and member states to open up the European market; with the MAI; with donor countries to promote coherence in foreign policies (particularly in relation to aid policies);</li> <li>• Increase trade with southern countries (e.g., through tariff reductions, exemption schemes, or providing (technical) assistance and knowledge on northern markets to southern exporters);</li> <li>• Set up bilateral investment treaties with poor countries regulating foreign direct investments;</li> <li>• Set up a coherent PSD policy within the overall development policy by donors;</li> <li>• Increasing coordination between donors and reducing tied aid.</li> </ul>
<b>Macro</b>	<p><b>Macroeconomic policies</b></p> <ul style="list-style-type: none"> <li>• Trade policy</li> <li>• Privatization</li> <li>• Exchange rate, monetary, labour market and fiscal policies</li> <li>• Inflation reduction</li> <li>• Financial institutions (capital market)</li> <li>• Balance of payments regulation</li> </ul> <p><b>Physical infrastructure and human capital</b></p> <ul style="list-style-type: none"> <li>• Education and skill training</li> <li>• Health</li> <li>• Roads, railways, telecommunication, etc.</li> <li>• Social security and pension schemes</li> </ul> <p><b>Good governance</b></p> <ul style="list-style-type: none"> <li>• Fight against corruption</li> <li>• Transparency</li> <li>• Legal system</li> <li>• Competition policy</li> <li>• Corporate governance</li> </ul>	<ul style="list-style-type: none"> <li>• Strengthen economic and industrial policy of developing countries through technical assistance, training and exposure;</li> <li>• Support economic reform programmes while paying attention to sequencing and timing;</li> <li>• Support debt relief measures and provide bilateral debt relief assistance;</li> <li>• Improve (physical) infrastructure (roads, railways, telephones, harbours);</li> <li>• Provide technical and financial assistance to improve the human capital situation in poor countries (including such issues as skill training, education, health);</li> <li>• Provide technical assistance in the fields of labour laws and pension funds;</li> <li>• Provide assistance in the field of policymaking, transparency of governments, the fight against corruption;</li> <li>• Increased coordination between donors.</li> </ul>
<b>Meso</b>	<p><b>Institutional infrastructure</b></p> <ul style="list-style-type: none"> <li>• Chamber of commerce</li> <li>• Employers organization</li> <li>• Labour unions</li> <li>• Intermediary financial institutions</li> <li>• R&amp;D institutions</li> <li>• Training institutions</li> </ul>	<ul style="list-style-type: none"> <li>• Strengthen the institutional framework through increased cooperation between northern labour unions, employers; organizations and chambers of commerce and their southern counterparts through funding, training, exposure;</li> <li>• Provide training to sensitize social partners (labour and employers organizations, civil society and the government) to work together;</li> <li>• Institutional development through training, exposure;</li> <li>• Increased coordination between donors.</li> </ul>

Table 1 continues

Table 1 (con't)  
Levels, elements and proposed interventions for PSD

<b>Micro</b>	<ul style="list-style-type: none"> <li>• Access to technology, expertise and capital</li> <li>• Manpower</li> <li>• Management and entrepreneurship</li> <li>• Market access and information</li> </ul>	<ul style="list-style-type: none"> <li>• Support to enterprises through, for instance, transfer of technology, training and competence building (e.g., in the fields of marketing or export), financing, supervision;</li> <li>• Support for improving access to financing by micro credit schemes of governments and NGOs, providing risk capital, loan schemes, guarantee schemes and local investment funds to the private sector;</li> <li>• Support for local market improvements, storage systems and marketing knowledge;</li> <li>• Provide assistance to increase agricultural production as a base for economic growth;</li> <li>• Increase local or regional procurement and the use of local or regional consultants within aid (including emergency aid) interventions;</li> <li>• Increased coordination between donors.</li> </ul>
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Source: Adapted from Schulpen and Gibbon (2001: table 1.1 and table 1).

### 3 Bilateral and multilateral agencies: policies, programmes, instruments and funding

Having described PSD thinking in general terms, this section sets out to provide a presentation of the policies and instruments of both bilateral and multilateral donors. Not all donors can or will be covered here. Thus, whereas for the discussion on bilateral donors reference is made particularly to those donors that have formulated explicit PSD policies, discussion on multilateral donors is restricted to what are probably the major players (in the PSD field) as far as developing countries are concerned. These include the World Bank Group (e.g., IFC, MIGA, IBRD/IDA) and the main 'south'-oriented regional development banks (IADB, AfDB, AsDB and IsDB). Many (smaller) or less 'south'-oriented players are omitted, or referred to only in passing. It is expected, however, that including more (multilateral) organizations would only lead to 'variations on the same theme'.

#### 3.1 Bilateral donors

At the end of the 1990s and the beginning of the new century, several bilateral donors brought out policy papers dealing directly with PSD. In 1999, for instance, Norway presented its strategy for the support of the private sector in developing countries (NORAD 1999), and during the next year Australia (AusAID 2000) and the Netherlands (DGIS 2000) produced PSD policies. Although Belgium still has no explicit PSD strategy, recent policy statements clearly emphasize the development of the private sector as part of development cooperation. In the meantime, Finland is preparing a PSD policy. The group of bilateral donors with an active policy and specific programmes in the field of PSD is growing and now comprises Australia, Canada, Denmark, Germany, New Zealand, Norway, the Netherlands, the United States, and the United Kingdom. Other DAC donors have not yet begun formulating an explicit PSD policy but all have

to a greater (e.g., Sweden, France, Belgium) or lesser (e.g., Spain, Portugal, Italy, Ireland) extent programmes aimed at the private sector.

As already suggested, most of the issues addressed by these policies are government-related in the sense that they refer to tasks and responsibilities that governments have to perform and implement to prepare for a private sector-led development path (i.e., they address the role of the government in creating an enabling environment). Furthermore, in a majority of the cases, they refer to the national rather than the international enabling environment. This national enabling environment in practically all cases covers elements described earlier under macro-level, but also quite often meso-level, elements. Finally, all donors clearly distinguish the enabling environment level from more direct interventions at the micro-level. Of course, not all donors distinguish explicitly all four PSD levels or even implicitly acknowledge all levels within their PSD policies. Table 2 shows the levels and central elements distinguished by a selection of bilateral donors.

As far as specific programmes and instruments are concerned, one way of providing a clearer picture of donor interventions in the field of PSD is to distinguish between financial and non-financial (or technical) aid<sup>4</sup> (Pietilä 2000: 2; also see Jimoh 2002). Donors provide technical assistance at the macro-, meso- and micro-levels, in the form of export training, investment advice, provision of experts in managerial roles, etc. Most bilateral donors are involved in such types of assistance. The same holds for financial aid instruments such as grants and loans for macro-level activities (e.g., infrastructure), equity financing, risk capital, guarantees, mixed credits, lines of credit and micro-loan programmes. Annex 2 provides examples of such instruments for bilateral donors. A glance at these indicates (potentially) high levels of duplication, indicating that coordination might pose a major challenge (see below).

Table 2  
Donor policies and PSD: some examples on central issues

International	PSD levels	
	Macro/meso	Micro
Australia	<ul style="list-style-type: none"> <li>• Macroeconomic policy</li> <li>• Trade, investment and finance sector policies</li> <li>• Legal and regulatory system</li> <li>• Effective public administration</li> <li>• Development of civil society</li> <li>• Physical and social infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>• Access to financial market</li> <li>• Access to business services</li> </ul>
Canada	<ul style="list-style-type: none"> <li>• Labour market policies</li> <li>• Public sector reform</li> <li>• Financial sector reform</li> <li>• Trade, investment, and exchange rate reform</li> <li>• Legal and regulatory framework</li> <li>• Physical and social infrastructure</li> <li>• Competitive internal market linked to global economy</li> </ul>	<ul style="list-style-type: none"> <li>• Access to financial and non-financial services (particularly for micro-enterprises and SMEs)</li> <li>• Linkages with Canadian business</li> </ul>

Table 2 continues

<sup>4</sup> Non-financial aid includes micro-interventions grouped under business development services.



Table 2 (con't)  
Donor policies and PSD: some examples on central issues

International	PSD levels	
	Macro/meso	Micro
<b>Norway</b>		
<ul style="list-style-type: none"> <li>• Access to international markets</li> <li>• Regulations of international trade</li> <li>• Debt relief</li> <li>• ODA levels</li> </ul>	<ul style="list-style-type: none"> <li>• Macroeconomic policy</li> <li>• Good governance</li> <li>• Physical and institutional infrastructure (including the legal framework)</li> </ul>	<p>Covers factors at enterprise level, e.g.,</p> <ul style="list-style-type: none"> <li>• Access to technology</li> <li>• Access to expertise</li> <li>• Access to capital</li> <li>• Workforce</li> <li>• Skills</li> </ul>
<b>The Netherlands</b>		
<ul style="list-style-type: none"> <li>• Trade</li> <li>• Investment</li> <li>• Debt relief</li> <li>• Primary products</li> <li>• Coherence of policy</li> </ul>	<ul style="list-style-type: none"> <li>• Macroeconomic policy</li> <li>• Political stability, good governance and legal system</li> <li>• Market development</li> <li>• Physical and social infrastructure</li> <li>• Protection of men and environment</li> </ul>	<p>A large number of (bilateral and multilateral) programmes are captured here. These are divided in three fields:</p> <ul style="list-style-type: none"> <li>• Knowledge (e.g., training in management, investments)</li> <li>• Profitability (e.g., financial support for investments, exports)</li> <li>• Risks (e.g., guarantee schemes)</li> </ul>

Notes:

- The table only covers the major elements mentioned by the concerned DAC donors in their PSD policies and is thus not all-inclusive. Moreover, the table does not cover all elements regarded as important for the development of the private sector in developing countries. Norway represents a special case here. The table only shows a selection of those policies it states as central. A more thorough discussion and analysis of these elements is presented in a background paper for Norway's PSD policy.
- The macro- and meso-level, together forming the national enabling environment, are taken together here, as most donors do not make a distinction between these two levels.
- Macroeconomic policy in general includes such issues as balanced public budgets, satisfactory external balances and acceptable rates of inflation and interest.
- Social infrastructure generally covers health and education, whereas physical infrastructure relates to roads, railways, energy, etc. Institutional infrastructure (as in the case of Norway) refers to 'functioning organizations able to strengthen the dialogue between the business community and the authorities as well as between the social partners' (e.g., labour unions, employer organizations and chambers of commerce).

Sources: AusAID (2000); CIDA (1999); DGIS (2000); EC (1998); NORAD (1999).

### 3.2 Multilateral donors

The major multilateral players providing PSD assistance in developing countries comprise international organizations (primarily the World Bank Group) and regional and quasi-regional organizations with developing countries members (primarily the various development banks). Members of the UN family of organizations such as UNCTAD, UNIDO and UNDP also acknowledge the importance of the role of the private sector in their sector-specific strategies, and provide technical assistance and 'matchmaking' services around PSD issues. While they act as intermediaries in providing financial assistance, they do not normally provide this directly from their own resources.

These multilateral organizations began directing assistance to or opening windows for PSD at rather different times. The World Bank Group has operated one exclusively private sector window since the 1950s, namely the International Finance Corporation (IFC), and another since the 1980s (the Multilateral Investment Guarantee Agency [MIGA]), while at least one of the regional development banks (the Inter-American, IADB) opened a private sector division (the Inter-American Investment Corporation [IIC]) in the 1980s. Other development banks opened windows or divisions much later—the Islamic Development Bank (IsDB) with its Business Development Department in 1995 and the African Development Bank (AfDB) in 1996.<sup>5</sup> Some other development banks still have no dedicated private sector windows, although all lend a part of their funds to private enterprises. This group includes the Caribbean Development Bank (CDB), the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB). A similar picture exists with regard to explicit policy discourses around PSD. The World Bank's first PSD policy was unveiled in 1987,<sup>6</sup> while the AsDB, AfDB and IsDB all have published formal statements only between 1997 and 2000. The IADB, CBD, EBRD and EIB still have no such formal policy statements at all.

Here, the policies, programmes and instruments of five multilateral donors are considered in detail, while the others mentioned above are considered in passing. The five comprise the World Bank and four regional or quasi-regional development banks (African, Asian, Inter-American and Islamic). At the time of writing, only three of these organizations (the World Bank, the Asian and the African Development Banks) had what might be called fully articulated PSD policies or strategies (that of the IsDB consists of only a few sentences).

The PSD policies of the three organizations with explicit policies resemble each others' programmes, and those of the bilateral agencies, to a very great extent (see Table 3). All fall within the broad boundaries of the 'PSD consensus' described earlier. At the same time, there are some minor differences in emphasis with respect to the way the common policies are articulated in detail, and the World Bank and the AsDB can be said to have developed their policies further than the AfDB, in that their policies address areas not covered by earlier generations of PSD strategy.

Assisting the development of an *enabling (business) environment* is seen in each case in terms of a combination of legal and judicial reforms (particularly the elaboration and enforcement of property rights), continuing internal (competition-related) and external (trade policy-related) market reform, and taxation system reform. The emphasis of the AsDB in relation to this issue is somewhat distinct. On the one hand, it highlights labour market as well as other reforms, while on the other it registers an exception to more comprehensive proposals for market opening. In its view, governments should retain the freedom to close the capital account in order to favour longer- over shorter-term investment flows. In the World Bank's latest (2002) PSD strategy, the centrality of the 'enabling environment' is strongly underlined by the prioritization of 'investment environment assessments' for each recipient country. These assessments are intended to

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<sup>5</sup> Although the Islamic Development Bank's Business Development Department was created in 1995, lending to the private sector only started to be recorded as a distinct activity in 2000-01, with the setting up of the Islamic Corporation for the Development of the Private Sector (ICDPS).

<sup>6</sup> The World Bank's PSD policy has been revised at least twice, in 1995 and 2002.

be instruments for ‘mainstreaming’ PSD into country assistance strategies, and a precondition for decisions on the allocation of direct support to private enterprises between countries.

*Reform or privatization of state-owned enterprises (SOEs)* is again a common component. In relation to this issue, the policy of the AsDB and the latest policy of the World Bank are somewhat more nuanced than earlier generations of donor privatization policies. The AsDB mentions support for types of enterprise reform falling short of privatization, while the World Bank’s latest statement refers critically to earlier generations of ‘shock treatment’ privatization and places more emphasis on securing a supportive market environment than on the volume or pace of privatization.

*Direct assistance to private sector firms* is another policy shared by this group of donors. The development banks and the IFC and MIGA wings of the World Bank emphasize loans, syndications and guarantees for, and equity partnerships in, private enterprises of all sizes. Similar sets of limitations and conditions for loans and other forms of financial assistance are mentioned in each case: direct lending is said to be on strictly non-concessionary terms<sup>7</sup> (but see below) and maximum levels of equity holding range between 25 per cent and 40 per cent. Direct lending (and technical support) by the World Bank proper to private firms is said to be aimed primarily at small and medium enterprises (SMEs).

*Assistance to the financial sector* is generally formulated in terms of a combination of technical assistance and direct lending to financial institutions. Technical assistance is discussed mainly in relation to issues of regulation, supervision and financial market development. On-lending by development banks to financial institutions is described as being targeted both at national banks and at institutions specifically serving SMEs and micro-enterprises.

Promoting *private participation in infrastructure* provision also features in all the policies considered, with support to ‘build-operate-transfer’ projects being the most frequently mentioned instrument. The AsDB’s policy strongly emphasizes the importance of private participation being accompanied by the development of an adequate regulatory framework.

Table 3  
Components of multilateral donors’ PSD policies

	World Bank	Asian Development Bank	African Development Bank
1 Enabling business environment	x	x	x
2 Enterprise reform/privatization	x	x	x
3 Assistance to private sector firms	x	x	x
4 Assisting the financial sector	x	x	x
5 Private participation in infrastructure	x	x	x
6 Corporate governance	x	x	
7 Compliance of actions with development and/or poverty reduction goals	x	x	

Sources: World Bank (2002); AsDB (2000); AfDB (1997).

<sup>7</sup> The policy of the ICDPS states that its lending principles are based upon Shara’i Law, with the implication that its loans are interest free.

More recent policy development is reflected in two new emphases, found so far only in the prescriptions of the AsDB and the World Bank. First, these embody proposals to assist reform of *corporate governance*. This can be read as an incorporation of some of the arguments developed by IMF and World Bank economists in relation to the Asian crisis of 1997-98. According to these arguments (e.g., Iskander *et al.* 1999; Claessens 1998; World Bank 1998), important causes of the crisis included weak minority shareholder rights, lack of transparency in corporate financial reporting, interlocking ownership between the corporate and financial sectors, and dependence of the corporate sector on bank debt rather than equity financing.<sup>8</sup> Policy proposals concern mainly the first two of these issues.

Second, the PSD policies of the AsDB and World Bank are also relatively distinct in their reference to the necessity of explicit *compliance-based links between PSD programme design and broader aid objectives*. The AsDB states that direct lending to the private sector will be henceforth conditional on projects having demonstrable 'development' implications, and proposes 'scorecards' for monitoring these implications. The World Bank proposes somewhat more detailed conditions for support to private participation in infrastructure projects, namely that they should include mechanisms to ensure poor people's access to services (as well as environmental sustainability). Whereas these two organizations' emphasis on corporate governance issues can be considered an extension of more familiar themes within the PSD policy discourse, proposing 'compliance' mechanisms represents a qualitatively new departure. Prior to this point, the link between PSD programmes, development and poverty reduction had been made by donors only in theoretical, rather than direct, terms.

While most multilateral donors that have PSD policies cover a wide range of issues in them, in practice all those examined here other than the World Bank, concentrate essentially on direct financial support to the private sector rather than more general lending for PSD (including to governments). In the development bank realm, the substantive presence of specific programmes aimed at improving the business environment, enterprise reform/privatization and modifying corporate governance is low. Where they are present, they generally take the form of technical-assistance programmes concerned with training/capacity building, commissioning transaction designs and undertaking feasibility studies.

Programmes or (much more commonly) programme components around business environment, enterprise reform and corporate governance issues are very common in World Bank lending, however. According to the latest World Bank (2002: 26) strategy document, around 100 PSD conditionalities of these kinds were included in new adjustment loans *each year* between 1996 and 1999 (see Table 4). The main trend in their internal distribution was away from public enterprise reform/privatization (presumably reflecting a reduction in possible targets for this) and towards private participation in infrastructure and 'corporate governance', particularly in the wake of the Asian crisis.

Independently of its adjustment lending, the World Bank has also run a substantial number of technical assistance programmes related to business environment reform,

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<sup>8</sup> Basically these 'causes' can be read as a summary of the unique features of the Asian corporate governance model in relation to an idealized account of the Anglo-Saxon one. For a critical discussion, see Dore (2000).

privatization, private participation in infrastructure, etc. On the last of these, the most important such programme is the ‘public-private infrastructure advisory facility’, which funded 75 activities between 1998 and 2000 at a cost of US\$ 15 million, US\$ 8 million of which went to IDA countries (World Bank 2001c: 21).

Although the World Bank’s reporting terminology is somewhat confusing, it nonetheless appears that—even in the World Bank Group—lending to the private sector (mainly through IFC) overtook adjustment loan-based and technical assistance-related PSD lending combined during the 1990s. By 2000, IFC alone accounted for 56 per cent of total PSD-related lending (*ibid.*).<sup>9</sup> The central element of any survey of multilaterals’ PSD programmes should, therefore, be that of their direct lending to the private sector. The principal multilateral programmes falling under this heading are listed in Table 5.

In addition, Table 6 provides an overview of bilateral (ODA and OOF) equity investments and total IFC funding, and compares these with total foreign direct investments and total private capital flows. This table shows that total bilateral equity investment (taken here as a form of direct financial support for PSD) is only a fraction of total IFC financing and that IFC funding and bilateral equity investment taken together is even a smaller fraction of total FDI. Perhaps more importantly, the table shows that LDCs score badly when compared to higher income countries. This holds for bilateral equity investment as well as the already mentioned IFC funding and FDI. It also holds for total private flows. Over the period 1995-2000, the least developed countries only receive 1 per cent of total (bilateral) private flows to developing countries and FDI, moving up to 9 per cent of all IFC funding and 15 per cent of all bilateral (ODA plus OOF) equity investments.<sup>10</sup>

Table 4  
Distribution of PSD conditionalities in World Bank adjustment operations, 1996-99

	1996	1997	1998	1999	Total
Business environment	26	15	13	23	77
Corporate restructuring	2	2	32	15	51
Legal and judicial reform	9	13	5	11	38
Privatization	32	36	29	18	115
Public enterprise reform	17	9	2	3	31
Private participation in infrastructure	13	25	19	30	87
Total	99	100	100	100	

Source: World Bank (2001a: 26).

<sup>9</sup> The World Bank’s 2002 strategy document reports only shares of total assistance and sizes of changes in magnitudes rather than actual magnitudes themselves. The Bank’s (2001c) OED report is only slightly less cryptic. A central problem in quantifying adjustment operation-based PSD lending is that such operations were almost always embodied in broader programmes. The 2001 Review states that around 250 credits made by the World Bank between 1994-99 had one or more PSD component. The total value of these credits was US\$ 11.4 billion.

<sup>10</sup> There is no discrepancy between the data presented here and that in Table 5, and the latter’s subsequent discussion. The earlier discussion refers to FDI stock rather than recent FDI flows and to IFC funding over a much longer period. A comparison between the two sets of data suggests some recent marginal improvements in LDC’s shares of both sources of funds.

Table 5  
Multilateral donors' programmes for lending to the private sector

Donor	Programme/ window	Type of assistance	Cumulative value		Main sectors	% to LDCs
			US\$ bn	Years		
WB	IFC	Loans, equity, quasi-equity, risk management, syndications, securitizations	51.6	1956-00	Financial services 2.6% Utilities 8.5%	4.1
	MIGA	Guarantees	9.0	1988-02	na	na
	IBRD/IDA	On-lending to private credit providers	7.7	1990-02	na	na
	Contribution to CGAP	Grants to micro-finance institutions	0.008	year	na	na
AsDB		Loans, equity, guarantees, export credit finance	18.0	1983-00	Financial services 63.0% Infrastructure 32.6%	na <sup>(a)</sup>
		Credit lines for on-lending to SMEs (but overwhelmingly via public sector)	4.4	1983-00		
AfDB		Loans, equity, guarantees, syndications, on-lending to SMEs	0.58 <sup>(b)</sup>	of which 0.24 in 2001	Financial services 77.3% Infrastructure 22.6% (2001)	22.6 (2001)
IADB		Loans, equity, guarantees, syndications, re-insurance	3.6	1995-00 <sup>(c)</sup>	Infrastructure 100%	0
	IIC	Loans, equity	0.76	1993-02	Financial sector 51.9% Manufacturing 12.9%	0
	MIF	Equity, small enterprise development, micro-finance	0.8	1994-01		0
IsDB	ICDPS	Term finance, equity	<0.1	2000-	Manufacturing 40% Private healthcare 30%	10
CDB	Rural enterprise development	Loans, equity	<0.1	2000 only	Tourism 100%	0
		Micro-enterprise and marketing support	<0.1	1995-00		0
EIB	Includes private sector finance in general lending	Term finance, equity guarantees	Unstated portion of total portfolio of 159.4	1996-01	Infrastructure 56% Manufacturing 8%	1.2% in APC countries (includes some LDCs) (1996-2001)
	European Investment Fund	Venture capital and guarantees for 'SMEs'	5.3	2001	na	na
EBRD	'Mainly private sector investment', but no specific window	Term finance, equity guarantees	20.2	1991-01	na	0 (dedicated to Central and Eastern Europe and CIS)

Sources: World Bank (2001a, 2001c); IFC (2000); MIGA (2001); AsDB (2000, 2001a, 2001b); AfDB (2001); IADB (2001); IIC (2001); MIF (2001); CDB (2001); EBRD (2002); EIB (2002).

Notes to Table 5

- (a) During 1983-1990, 60 per cent of AsDB's lending to private sector support operations went to only six countries (Bangladesh, PR China, India, Indonesia, Pakistan and Philippines), of which only Bangladesh is a LDC. Twenty of its 43 regional member countries received no private sector lending (AsDB 2001a).
- (b) At the same time, public sector operations still dominate AfDB operations with 81 per cent of total approvals in 2001. Many of these have a clear link with PSD elements, making total PSD-related funding of the AfDB substantially higher than US\$ 241 million for 2001, certainly when also activities of the African Development Bank Fund and the Nigeria Trust Fund are also taken into account.
- (c) Including to projects under public sector ownership.

Table 6  
Bilateral and IFC 'direct financial support' in comparison with FDI, 1995-2000  
(in million US\$)

Country groups	ODA equity investment (bilateral)	OOOF equity investment (bilateral)	Total (ODA + OOF) equity investment (bilateral)	IFC financing (multilateral)	Foreign direct investments (bilateral)	Total private capital flows (bilateral)
Developing countries total	657.7	-14.9	642.8	3,375.2	433,874.7	661,995.5
Least developed countries	81.8	15.1	96.9	305.0	4,642.2	6,904.0
Other low -income countries	265.7	35.0	300.7	627.0	50,669.4	59,290.4
Low-middle income countries	124.3	70.3	194.6	718.9	58,705.6	83,651.5
Upper middle-income countries	16.2	-142.2	-126.0	1,565.4	194,621.3	308,268.3
High income countries	0.4	2.6	3.0	-18.0	1,115.1	5,429.5
Part II countries	71.3	55.8	127.1	397.5	181,933.4	316,308.4
Grand total	729.0	40.9	769.8	3,772.7	615,868.2	978,303.9

Source: DAC International Development Statistics (online)

Notes: Figures are totals for the period 1995-2000;  
Part II countries are countries in transition.

These tables suggest a number of provisional observations. The first is that, in terms of volume of financial commitments to destinations normally counted as developing countries, the World Bank Group accounts for the overwhelming bulk of all private sector-directed lending. What is probably the largest single multilateral or quasi-multilateral lender to the private sector, the European Development Bank, lends over 85 per cent within the EU itself. Second, funding goes largely to only two sectors: infrastructure and financial services. Third, levels of lending to LDCs are extremely low. Because some development banks have no or only one or two LDCs amongst their members, it is better to try to estimate an overall proportion of multilateral and quasi-multilateral lending going to private sectors in LDCs than to discuss the performance of particular banks (with the exception of those whose remit is global) in this respect. The authors' estimate is that LDCs probably account for between 1.5 per cent and 2.0 per cent of this total lending. As for multilaterals with global remits, IFC allocates 4.1 per cent of lending to LDCs. These figures seem very low, although it should be noted that

LDCs' share of total world inward private FDI stock in 1999 was much lower still—only 0.6 per cent (UNCTAD 2000: Annex Table B3). Fourth, on-lending to private credit institutions for SME, and micro-enterprise finance is usually hived off to separate units whereas (except in the case of the World Bank Group) term loans, equity investments and guarantees are covered by generic, presumably 'core' administrations. Fifth, micro-finance and lending to SMEs, however broadly defined, comprise only a tiny part of direct lending for PSD. At the same time, regional development banks appear to dedicate far higher proportions of their resources to this than does the World Bank Group, where the contribution is negligible.

### 3.3 Bilateral funding for PSD

Levels of bilateral PSD funding are difficult to determine, if only because some donors have a tendency to hide PSD-related programmes under different headings and 'sectors'. Some of these programmes are, at first sight, neither recognizable, nor described, as PSD programmes. A possible way for determining the magnitude of PSD funding in relationship to total development aid is to look at the latter's distribution according to purposes of aid, as reported to the DAC. Annex 1 matches the purposes as distinguished by the DAC with the different levels of PSD described earlier. In theory, of course, basically all purposes could be linked to one or more PSD levels. This could even be said of purposes such as emergency aid, whereas the private sector provides goods and services. This would mean that basically all aid is directed at PSD, which naturally is not the case.<sup>11</sup>

One could also count in those purposes that are either directly linked to the economy (i.e., economic infrastructure and services, and production sectors) and add commodity aid and general-purpose aid (mainly because it includes structural adjustment assistance via the World Bank/IMF plus other general programme and commodity assistance). On this basis, Table 7 shows that Japan (as can be expected because of its emphasis on infrastructure projects) is the biggest bilateral donor with more than 60 per cent of bilateral aid commitments in 1998 going to PSD. Using the same criteria, most donors can be said to be spending 20 to 30 per cent of their bilateral aid on activities related to PSD. Even a donor like Ireland, which hardly claims to be active in the field of PSD, still spends more than 16 per cent.<sup>12</sup>

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<sup>11</sup> Interesting in this regard is, for instance, the remark by New Zealand (DAC 1995) with regard to social policy and infrastructure development as elements of PSD: 'There is some doubt whether this category is appropriate to classify under "private sector development" given that the primary purpose of social policy and infrastructural development is for the "public good"'.

<sup>12</sup> One of the few bilateral donors for whom data on PSD related expenditure are readily available is New Zealand. Over 1995, NZODA calculated that 18 per cent of its total bilateral budget was to be considered as PSD assistance and this would even increase to 32 per cent if one would assume 'that 100 per cent of the private education and training awards result in increased skills for private sector activity' (DAC 1995: 81). It would, of course, be possible to add all expenditures for specific PSD programmes together but this would still leave out expenditures for other elements that are not grouped under a specific programme. In its 1999 annual report, AfD (France), for instance, notes total commitments of slightly more than € 217 million under the heading for private sector development (including PROPARCO, ARIA and Equity guarantees funds). However, this excludes commitments for micro-finance and for specific banking and financial subsidiaries under AfD, to name just a few PSD related elements (AfD 2000).



Table 7  
Funding to 'PSD' following DAC classification of purposes  
(in % of bilateral ODA commitments for 1998)

Donor	Bilateral PSD (in %)	Donor	Bilateral PSD (in %)	Donor	Bilateral PSD (in%)
Australia	25.0	Germany	26.4	Norway	15.3
Austria	7.0	Ireland	16.6	Portugal	16.9
Belgium	21.5	Italy	15.6	Spain	20.8
Canada	22.9	Japan	62.1	Sweden	17.6
Denmark	15.7	Luxembourg	17.6	Switzerland	27.2
Finland	21.6	Netherlands	16.4	United Kingdom	28.8
France	20.9	New Zealand	11.7	United States	29.7
				TOTAL	35.6

Source: Own calculations on the basis of DAC (2000)

### 3.4 An overview of funding

The uncertainty with regard to determining levels of funding for PSD is further strengthened by the fact that not all interventions categorized under PSD necessarily fall under budgets for development cooperation (and thus ODA). Table 7, for instance, does not cover official aid (OA) figures for PSD-related activities, nor ODA contributions to multilateral organizations which in turn use such funds (also) for PSD programmes. Moreover, PSD programmes are also supported through non-ODA funds, particularly by multilateral organizations such as the IFC and the regional development banks (but also by bilateral donors). For calculating total funding for PSD, therefore, the so-called other official flows (OOF) should also be taken into account. Data on the distribution of such funds for PSD by multilateral organizations are not readily available, however.

The only thing left to do, then, is to turn to each agency individually. Although this is not accurate, financial data from each separate multilateral donor can provide additional insight in the funding pattern. Table 5 already provided some aggregate figures for the multilateral donors considered here. The table clearly showed IFC to be the major funding agency for PSD-related activities. In fiscal year 2001 alone, for instance, the IFC signed and processed a total of 194 projects in 70 countries, 18 regional projects and 5 worldwide projects with a total commitment of US\$ 3.9 billion.<sup>13</sup> In the same year, another 245 country, regional and worldwide projects were approved for financing to the tune of US\$ 5.4 billion. MIGA, another World Bank Group member whose main objective is to promote 'the flow of investment to and among developing countries', implemented in FY 2001 a total of 59 technical assistance or advisory service projects in 38 countries under the banner of investment marketing services.<sup>14</sup> The same year, MIGA also provided investment guarantees for an amount of nearly US\$ 2 billion for 45 projects in 27 countries for such diverse activities as equity investment by the Habib Bank AG Zurich in its Pakistan branches and a shareholder loan from Dole Food

<sup>13</sup> The majority of funds were committed as loans (40.4 per cent), followed by syndications (30.6 per cent), guarantees (11.7 per cent), equity (9.9 per cent), quasi-equity (6.7 per cent) and risk mitigation products (0.6 per cent).

<sup>14</sup> These projects were often implemented in collaboration with the World Bank—IFC Foreign Investment Advisory Service (FISA) (see below).

Company, Inc. to the Ecuadorian company Bananapuerto Puerto Bananero S.A. (MIGA 2002).

Although the above perhaps does not provide a definitive answer to the question of funding of PSD by bilateral and multilateral organizations (whether falling under ODA, OA and/or OOF), the broad picture is clear. The increased attention to private sector development that can be seen in the policy discourse, can also be detected in substantial funding. As such, PSD is increasingly important in ‘word and deed’.

#### **4 Issues arising from bilateral and multilateral donors’ programmes**

While bilateral and multilateral donors share very similar analyses of the significance and preferred focus of PSD, they do not necessarily emphasize the same issues and interventions. In this section we take a closer look at the similarities and differences between the two channels of development cooperation. Four issues considered to be central to the discussion of PSD are raised here (also see Schulpen and Gibbon 2002): (i) justifications for public intervention in supporting developing country private enterprise as such; (ii) justifications for programme and country selection; (iii) inter-donor competition and coordination; and (iv) internal and external coherence.<sup>15</sup> These issues relate not only to bilateral donors but also to multilateral ones, in some cases in more acute forms.

##### **4.1 Justifications for public intervention**

A central issue for public support to private firms and markets in developing countries is whether such support ‘crowds out’ private provision. Related arguments concern the opportunity cost of using public assistance in this way, and possible linkages between such support and political patronage on the one hand and the imposition of political conditions on private investment on the other.<sup>16</sup>

In relation to the middle-income countries that provide many of the leading destinations for the interventions described here, the ‘crowding out’ argument probably has some merit. On the other hand, even in these countries the leading sector subject to support (infrastructure) is one where private capital is universally reluctant to invest without public support, due to long project gestation times, high risk and typically low rates of

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<sup>15</sup> A fifth issue worth mentioning is that of tied aid. For a more general discussion on aid tying, see elsewhere in this publication and for a discussion on aid tying in relation to bilateral PSD support, see Schulpen and Gibbon (2001). All bilateral donors stress the necessity of involving their own private sector justifying this not only in altruistic terms (providing investment, technology, know-how and employment) but also sometimes explicitly instrumental ways—providing the opportunity to support their own (foreign and domestic) economic interests vis-à-vis those of other countries (and other donor countries in particular). For multilateral organizations, not having a private sector of their ‘own’, these issues are not relevant, although some also emphasize the close interaction between improving flows of developed country private finance and opening (capital) accounts in recipient countries.

<sup>16</sup> See, for example, the criticisms of the US’s Overseas Private Investment Corporation by the Institute for Business Research and the Competitive Enterprise Institute, two Washington-based right-of-centre think tanks, available at: [www.progress.org/banneker/cwopic.htm](http://www.progress.org/banneker/cwopic.htm) .

return. Furthermore, many infrastructure projects concern public goods, in the sense that the majority of benefits accrue to users, rather than owners. With regard to LDCs, the core argument here simply appears to be wrong. FDI into these countries tends to be very low and directed mainly at ‘enclave’ projects with low multiplier effects, while local private investors and investment institutions are typically thin on the ground, highly risk adverse and expensive to use (e.g., spreads between deposit and lending rates tend to be very high, possibly justifying an element of subsidy). Moreover, there is a series of direct obstacles to local borrowing. For example, weak property rights and commercial dispute settlement procedures militate against collateralization of assets. In these circumstances, it can be more convincingly argued that selective public support is a pre-condition of larger-scale private sector activity outside of extractive sectors.

Counter-arguments of the latter kind provide the basis for claims which suggest that, rather than ‘crowding out’ private investment, public support reins in additional investment. This argument is advanced by some of the regional development banks themselves (e.g., AsDB 2000: 15-6; AfDB n.d.). The AsDB (op. cit.) claims, for example, that every dollar it lends catalyses US\$8 finance from other sources. More recently, efforts have been made to distinguish and provide definitions of different forms of such ‘additionality’ (catalytic effect, value-added effect and ‘template’-cum-demonstration effect).<sup>17</sup> However, a common problem of such claims is their counter-factual: it is virtually impossible to know whether ‘catalysed’ finance would have been activated in one form or another without co-financing and loan syndication arrangements.

### **4.3 Programme and country selection**

Despite the plethora of interventions mentioned in Annex 2, in practice there are only a few instruments that make up most bilateral PSD programmes (see for some examples Schulpen and Gibbon 2002). In general, bilateral donors focus on macro- and micro-levels. At the former level, programmes cover almost everything from bilateral policy dialogue to technical aid for specific interventions such as privatization, all with the aim of creating a conducive environment for the private sector. A few donors (e.g., Germany) include in these macro programmes elements such as support to chambers of commerce, labour unions and employers’ organizations (or, in general, instruments aimed at strengthening aspects of the institutional infrastructure). Second, they concern elements at the micro-level, with instruments ranging from direct financial support to MSEs to management training, from sending out (senior) experts to individual enterprises, to assisting self-help groups, and from export promotion programmes (to and from developing countries) to the promotion of joint ventures and the provision of investment guarantees. The Dutch FMO, the Danish IFU, the Canadian PSDI fund, the Belgian technology and know-how transfer programmes, the Finnish Export Credit Ltd, and the Norwegian NORFUND and GIEK are all examples of this emphasis on direct micro-level support. Moreover, these programmes incorporate bilateral donors’ own private sectors (see below).

While the multilaterals share with bilaterals very similar analyses of the significance and preferred direction of PSD, the overall shape of their programmes is much simpler.

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<sup>17</sup> Cf. papers presented at a recent IFC/IIC Workshop on Additionality, available at: [www.iadb.org/iic/english/additionality/index.htm](http://www.iadb.org/iic/english/additionality/index.htm) .

As noted above, these tend to comprise only two broad groups of components, namely conditionality-based adjustment lending and direct lending to the private sector (including, in the regional development bank case, on-lending for SME and micro-finance development).

Conditionality-based adjustment lending for PSD is typically not undertaken at all by bilateral donors, although the latter do fund it through World Bank operations. Arguably, since the conditions set by the World Bank are supposed to be based on a close analysis of the recipient countries' economic environments, in its lending to the private sector the World Bank Group should be in a particularly good position to base its choices between countries on the relative favourability of their business environments. Bilateral donors, who at least until recently have tended not to conduct independent evaluations of the recipient's economic and business environments, do not have the advantage of this kind of direct knowledge when allocating private sector support. Yet, there seems to be no association between the World Bank's assessments of recipient countries' economic and business environments and the destination of the World Bank Group's direct lending to the private sector. Nine countries account for well over half of IFC's cumulative commitments, for example. These are, in rank order, Brazil, Argentina, Mexico, Turkey, Thailand, India, Indonesia, Pakistan and the Philippines. Brazil, Argentina and Mexico (in the same rank order) also happen to be the leading recipients of Inter-American Development Bank support to the private sector, while India, Indonesia, Pakistan and the Philippines make up four of the six largest Asian Development Bank PSD recipient countries.

Most of these countries have been subject to international criticism with respect to macroeconomic policy and IMF stabilization programmes especially during the 1980s and early 1990s (see, for example, Berry 1998). Nonetheless, multilateral donors have directed the bulk of their PSD lending to them, presumably on commercial grounds, regardless of how 'enabling' their environments were considered. It is clear that these destinations were considered attractive both by private investors and by multilateral agencies on the grounds of potential short-term profitability deriving from the size of their markets alone. Since all the multilaterals (with the exception of the IsDB) have recently affirmed the strictly commercial nature of their lending, this discrepancy seems likely to increase rather than to decrease. Similar arguments can be advanced in relation to bilateral donors' country selections for PSD support, which usually seem to be based on traditional aid partners or commercial interests or both.

#### **4.4 Internal and external coherence**

The fact that multilaterals' motives in selecting partner countries and projects for direct lending to the private sector are mainly commercial, directly raises the question of 'internal' coherence between these interventions and objectives such as long-term economic growth, poverty reduction and environmental sustainability. Not all private investment leads to long-term growth. And while economic growth—where it is attained—is a precondition of long-term poverty alleviation, not all growth leads to

poverty reduction and, historically, much of it has been environmentally harmful. Even where growth is pro-poor, the links may be highly indirect rather than direct.<sup>18</sup>

As noted earlier, two of the five multilateral donors considered here have adopted (albeit very recently) ‘compliance’ mechanisms requiring at least some private sector operations to have tangible development and even ‘pro-poor’ consequences. In regard to the latter, privatization operations can now be required to have safety-net elements,<sup>19</sup> while utility schemes can be required to demonstrate an extension of services to poor customers, and so on. But the setting of such requirements appears to be confined to financing for former SOEs and/or enterprises supplying ‘public goods’ and a majority of multilaterals do not apply them at all. Some even utilize guidelines for lending that directly appear to encourage low-wage employment. For example, the IADB’s (2002) operational policy on industrial development gives explicit preference to ‘projects based on [...] efficient [plants] that can compete at least with the lowest cost level in the region’.

It is, therefore, not surprising that, where multilaterals’ policies discuss explicitly the relation between PSD and poverty reduction, *direct links* are typically referred to only in relation to SMEs and micro-enterprises. As shown in Table 5, many multilateral donors have run or supported programmes of this kind, usually on concessionary terms. In most cases, however, the amounts committed as part of explicit PSD initiatives (i.e., through private intermediaries) have been small.<sup>20</sup> Moreover the current tendency, at least in the World Bank, appears to be to lend only on non-concessionary terms or to replace on-lending for SMEs and micro-finance by technical assistance to capacity building of institutions specializing’ in these purposes (World Bank 2001a: 13, 2002: 40).<sup>21</sup>

Identical issues of internal coherence exist in the case of the bilateral donors. As already noted, most of the bilateral donors who have developed a clear PSD policy have also

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<sup>18</sup> Cf. Eurodad’s (2002) reaction to the World Bank PSD strategy. Eurodad states that ‘there is no clarification in the document on what the WBG means by the “market”, nor is there any specification of how the “poor” would benefit from the strategy’. More specifically, the PSD strategy is criticized for focusing ‘exclusively on the needs of private firms’ thereby ‘neglecting to address the main concerns of the poor’. As such, Eurodad questions the automatic link between PSD and poverty reduction which forms the point of departure in the World Bank strategy (and in the strategies of practically all other donors).

<sup>19</sup> An important question here, however, is whether safety-nets should precede or accompany privatization. This seems to have been one of the issues giving rise to tensions within the World Bank around the writing of *World Development Report 2000*. Those arguing for ‘precede’ did so on the grounds that evidence suggests that safety-nets are effective only when they are constructed in advance; those arguing the other position took the view that construction before could lead to prevarication with privatization itself (Wade 2002).

<sup>20</sup> Of course, if definitions of SMEs are loosened, the amounts become much bigger. The Inter-American Investment Corporation (2001) claims that 87.1 per cent of all its disbursements have been to SMEs, but an analysis of these indicates an average commitment of US\$ 6.7 million. Another Inter-American Development Bank affiliate, the Multilateral Investment Fund, actually defines ‘small enterprises’ as ones with ‘sales of US\$ 3-5 million and fewer than 100 employees’ ([www.iadb/mif.org](http://www.iadb/mif.org)).

<sup>21</sup> The World Bank (2002: 41, 51) also proposes to end direct financial support for business advisory support services to SMEs, in favour of technical assistance for the development of ‘market-based SME support systems...’. The Inter-American Development Bank already ended such support in the 1990s. But an evaluation from 2000 (IADB 2000) noted ‘a potential conflict between fee-based sustainability and the mission to serve smaller and less-established firms’.

tried, formally at least, to align their PSD activities with the objective of poverty reduction. CIDA, for instance, distinguishes (besides interventions regarding the informal sector) three levels of PSD intervention with links to poverty reduction. The first is the macro-policy level, with interventions here aimed at affecting the policy environment to ‘address the root causes of poverty of the country as a whole’. The specific policy areas mentioned include trade policy, financial and public sector reform, the removal of systematic constraints that prohibit the ownership of assets by women and reallocation of public expenditures towards basic infrastructure services. The second level is the focused programmes that benefit the poor disproportionately but do not have specified groups of the poor as direct beneficiaries. This description is given to interventions such as capacity building with micro-finance organizations or agricultural research and training. Finally, there are programmes directly targeted at poor groups but which are not part of interventions aimed at the informal sector. These include, for instance, training of micro-entrepreneurs (CIDA 1995a, 1995b).

Germany uses a similar distinction between the levels of PSD policy interventions and poverty reduction (DAC 1998), while the United States depicts poverty reduction as a consequence of interventions to create an open and democratic environment in which the private sector is given the space to develop. Other donors, who have not (yet) developed an integrated PSD policy, nevertheless also consider their activities in this field, in accordance with the views expressed within the DAC, as part of the fight against poverty. An overall impression is that the PSD interaction—poverty reduction connection—is asserted more often than demonstrated, however. Even where a connection is reasonably clear intellectually, mechanisms for assuring compliance in practice are generally absent. While the importance of support for general macroeconomic policies which promote poverty reduction is clear, it is still worthwhile asking whether donor policy coherence does not demand a stronger and more direct link between other aspects of PSD policy and poverty reduction.

A second type of (in)coherence (*external*) refers to the question of whether PSD-related activities are consistent with broader donor country policy concerns with a bearing on developing countries and not simply those seen as the objects of development cooperation. Tables 2 and 3 showed that only some bilateral and no multilateral donors explicitly acknowledge the international level in their PSD policies. At the same time, the overview of programmes and interventions presented in Annex 2 shows that most donors are aware that it is insufficient to look only at internal obstacles to and preconditions for PSD. This still leaves open the issue of whether donor insistence that recipient countries open up their markets, integrate with the world market and increase exports goes hand in hand with striving towards eliminating their own domestic subsidies and non-tariff barriers to trade. As the DAC (1994) puts it:

OECD Member countries’ [own] policies, particularly in the sphere of trade, investment and financial flows, must be coherent with policies espoused by donor agencies vis-à-vis private sector development in the developing world, such as the need for recipient countries to facilitate foreign direct investment, liberalize capital movements and financial markets and promote export-led development.<sup>22</sup>

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<sup>22</sup> See Schulpen and Gibbon (2002) for a short description of the rather mixed performance of bilateral donors in the field of external coherence.

Where issues of coherence have been acknowledged at all by donors, these have been somewhat perversely in terms of recognizing a lack of ‘PSD consciousness’ in their own organizations. In most instances, this recognition translates into a call for ‘mainstreaming’ PSD and more staff training in the field of PSD. Norway (NORAD 1999), for instance, acknowledges that ‘the [PSD] approach [...] will require increased competence and capacity within this area in the aid administration both at home and at the embassies’. Although perhaps misidentifying the central problem, it is clear that a lack of understanding of PSD issues and perspectives amongst core agency staff also has negative effects. It is no better to only state that ‘private sector considerations must be taken into account in designing and appraising all ODA activities’ (NZODA 1998: 21) than it is only to say that poverty considerations should be mainstreamed into PSD activity. Both require systematic thought and planning. A possible way forward in both cases is to expand the development of criteria and guidelines in the direction started by AsDB and the World Bank, so that a selection of instruments occurs which is based on what is needed and not simply on what is available. More important still, both require institutional change (e.g., staff motivation and incentives, institutional culture, organizational change) and capacity strengthening (e.g., human resource development and skills, resources and knowledge, instruments, planning and management). Up to now, little evidence can be found of donors taking the need for mainstreaming very seriously, whether of poverty reduction into PSD, or PSD into broader development work.

#### **4.5 Competition and coordination**

Except at the level of major overlaps in formal policy pronouncements, it seems clear that there is little in the way of coordination between multilateral or bilateral donors in general, within multilaterals or bilaterals as distinct groups of donors, or even amongst different divisions or windows of the same multilateral agency, with respect to PSD. At least, there is little evidence of any clear division of labour, which might reflect such coordination. Amongst multilaterals, while regional development banks have some micro- and SME finance focus (reflected in specialized units like IADB’s MIF and AfDB’s AMINA) that is lacking in the World bank, the bulk of private sector lending in both cases is made up of equity loans, guarantees and technical assistance to specific enterprises. As noted, there is also a strong overlap in terms of destinations by sector and country. Lack of coordination between multilaterals has almost certainly increased in recent years, for up to the mid-1990s an implicit division of labour was detectable between the regional development banks, which then lent overwhelmingly to the public sector, and the World Bank Group’s IFC and MIGA wings, who were lending to private business. With the new increased emphasis on PSD by the regional development banks, this division of labour has evaporated.

The same is true with respect to traditional divisions of labour within single multilateral donors themselves. Two or three generations of internal reorganization within the World Bank Group still leaves a confusing picture concerning the provision of private sector advisory services, for example. In the late 1990s, a joint IFC-World Bank foreign investment advisory service (FIAS) was created, although both wings continued to provide advisory services separately (the IFC through its Corporate Financial Services Division [CFSD]). This was followed by a further reorganization in 2000, when a private sector advisory service was created by a merger of FIAS, CFSD and part of the World Bank PSD Department. Within the World Bank Group, such services are still

being provided separately by MIGA's Investment Marketing Services Division, however. The recent World Bank (2002: 70) strategy document acknowledges another dimension of this problem: 'IDA, IFC and MIGA have sometimes all been independently engaged on the same projects (using similar or different) forms of financing...'.<sup>23</sup>

Such problems of 'internal coordination' are not restricted to the World Bank Group, however. One of the main criticisms of the micro-level PSD interventions of the Netherlands expressed by Dutch enterprises over the years has been that there was no single window these companies could turn to. They were correct: although all micro-level PSD programmes with a connection to Dutch enterprises and supported by ODA fall under the responsibility of one department within the Ministry for Development Cooperation, the implementation of these programmes is in the hands of different agencies, often working independently of each other and of the Ministry. Particularly because donors regard PSD as an increasingly important element for development (cooperation) and new types of interventions are appearing, there is a need for streamlining interventions.

While steps have been taken to improve the inter-donor coordination around lending for SME finance, none have been reported with regard to lending to larger enterprises. As long as there has been a discussion on the merits of tied aid (i.e., since the 1970s), injunctions to avoid competition between bilateral donors in the field of export credits have been made repeatedly. Not only have these fallen on deaf ears, but inter-bilateral competition appears now to extend also to other elements of PSD, from trade and investment instruments at micro-level (whether or not connected to the donor country's own private sector), through the increasing range of technical, financial and/or training facilities made available, to policy advice. Furthermore, there still appears to be no mechanisms at all within the World Bank Group for coordinating the activities of MIGA with its other wings. Similar problems are recognized by the AsDB (2000) in its PSD work. A discussion of the 'lessons learned' states that AsDB's 'public and private sector windows should have worked more closely together to increase benefits to its member countries and optimize development benefits...'.<sup>23</sup>

As a result, developing countries can feel constrained to enter into relationships with export (or import) promotion commissions from different donor countries, while their government ministries and agencies draw on similar programmes from a variety of sources, and it becomes easy for them to lose sight of all the private sector-strengthening donor interventions and of all the PSD assistance coming their way. This shows that, even if the similarity between PSD interventions does not lead to greater competition between donors, there is a growing need for coordination, mutual learning and (perhaps) cooperation between donors.

Where some donor coordination on PSD does exist, it appears to be mainly found at three levels. At the policy level, there have been some important developments mainly, through the coordination role of the DAC, that have led to mutually agreed (but very broad) policy guidelines (DAC 1994, 1995, 1997). Second, there is a degree of coordination around a handful of highly specialized PSD-related projects, such as the 'Eco Trade Manual', covering environmental regulations and standards in OECD

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<sup>23</sup> This is not only important from a coordination point of view but certainly also to ensure greater internal coherence.



markets. This is funded by CBI (Netherlands), NORAD (Norway), Danida (Denmark) and Sida (Sweden) (DAC 1997: 18). Third, there is localized cooperation in a few recipient countries around specific programmes, such as the ‘Business Environment Strengthening of Tanzania’ programme supported by DFID, Sida, DGIS and Danida. Within some agencies at least, resistance exists even to such incremental changes.<sup>24</sup>

The poverty reduction strategy process, engaged in by a number of recipient countries that have applied for debt relief under the Highly Indebted Poor Country (HIPC) Initiative, may lead to greater coordination in practice. This process is supposed to involve the recipient country’s private sector as ‘stakeholders’ and to formulate a centralized list of poverty reduction-relevant private sector projects that donors can choose to support. Since this is a relatively new development, it is too early to see if it is making much of a difference.

## **5 PSD in practice**

Norway’s PSD policy ends with a short reference to evaluation where it is stated that ‘an important basis for future evaluation of Norwegian support for private sector development has been laid through the preparation of this strategy’ (NORAD 1999). Formally, the statement is correct. Before being able to evaluate interventions in the light of their contribution to PSD, one needs, as the statement continues, ‘precise specification of objectives and expected results’. Unfortunately, in relation to PSD, such ‘precise specifications’ are either missing or are of a such recent nature that few policy-based evaluations are yet available. Simultaneously, the large diversity of what goes under the name of donor PSD interventions presents a further difficulty. First, it is not always clear whether all these interventions have been actually and directly implemented with a view to strengthening the private sector in developing countries. The fact, for instance, that many parts of PSD programmes are aimed at economic development in general or at individual enterprises, rather than the development of the private sector as such, is a case in point here. In such cases, the relation between intervention and the intended consequences with regard to the private sector is at best indirect and, thus, by definition difficult to assess. Finally, although it is true that development aid is in general an activity that is subject to frequent evaluation, many such studies that touch upon PSD-related issues are of a project type and not easy to generalize conclusions from.

Nevertheless, an attempt by Schulpen and Gibbon (2001) to draw generalized conclusions from a number of such PSD-related evaluation studies of bilateral donors identified some provisional findings. On the basis of 15 evaluation studies from six bilateral donors, the assessment concluded, among other things, that bilateral donors’ PSD-related interventions frequently lacked a clear set of objectives, reflected in a general lack of guidelines and selection criteria. Moreover, the selection of intermediaries chosen to implement programmes often suffered from problems

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<sup>24</sup> While being involved in PSD missions, one of the present authors has been informed by donor agency staff that they consider inter-donor coordination problematic. This is because it involves them in agreeing to common management practices, accounting methods, and so on, and because it is more difficult to show quick results when a lot of time has to be invested in ‘learning about each others’ expectations’.

concerning their ability to conform to donor ‘best practice’ and ‘ownership’ of broader aid objectives, while the selection of target firms, and even of countries of operation, sometimes suffered from a lack of transparency. In general, the evaluation studies showed an excessive focus on simple hardware or training package-related transfers, and a lack of focus on institution building (a point strengthened by the tendency for PSD interventions to have a strong tied-aid component). Finally, most PSD-related interventions seemed to lack a point of departure in the real capacities, modes of operation and internal relations found in private sectors in recipient countries, both in their firms and institutions. Instead, interventions were usually based on models of business development derived from developed countries. Finally, given the highly specialized nature of the mind-frame and perspective necessary for successful work with the private sector, and their fundamental difference from those necessary for other types of development agency activity, these evaluation studies posed the question whether bilateral donor agencies were a suitable home for PSD activities as such.

Unfortunately, evaluations of multilaterals’ PSD operations are also rather thin on the ground. Overview evaluations or assessments are available only for the World Bank and the AsDB. Furthermore, that of the AsDB mostly comprises a discussion of its lending’s financial performance. Unpublished evaluations by the AfDB and IADB, referred to in these organizations’ annual reports for 2001, also appear to be largely financial in focus. It should be noted that *all* the multilateral evaluations referred to were conducted internally, rather than by external consultants.

As in the case of bilateral donors’ PSD interventions, the main issues concerning aid (in-)effectiveness raised by recent evaluations of World Bank programmes (World Bank 2001a, 2002) include the consistency of interventions with broader aid objectives (as well as some of the specific objectives of PSD support itself); consistency with donors’ ‘best practice’ in specific areas; and relevance to the particular circumstances of recipient countries. Certain observations in the AsDB’s published evaluation can also be considered under these headings.

Inadequate consideration of institutional issues, and on this basis of the distributional consequences of PSD interventions, is mentioned several times in the World Bank’s evaluation from 2001. Privatization-related PSD programmes are acknowledged to have had benefits of improved efficiency, particularly through reductions in fiscal burdens following sale or liquidation of loss-making SOEs. But, as a result of ‘underestimation [of] both the importance and complexity of the institutional underpinnings of PSD...’ (World Bank 2001a: 2) and of ‘the time required to develop effective regulative capacity’ (op. cit.: 23), these benefits proved either one-off and/or ‘not widely shared by society’ (op. cit.: 2). This had been exacerbated by the continuing absence of a conceptual framework for understanding ‘pro-poor’ enterprise reform (op. cit.: 22).

An identified related issue concerns a lack of internalization of more specific PSD-centred aims in certain PSD programmes or operations. Whereas PSD programmes aim to promote greater competition and more transparent regulation, certain privatization and ‘public participation in infrastructure’ operations have not reflected these principles (op. cit.: 21) The same observation is made in the AsDB (2000: 46) report. The relation between specific PSD interventions and promotion of competition is raised on a more general plane by the apparent admission by the World Bank (2002: 54) that IFC credit *in general* embodies an element of subsidy, despite the supposed prevalence of market-based lending principles.

Proposals to overcome these problems revolve around the introduction of ‘performance-based investment’ and/or ‘output-based aid’ (op. cit.: 65), whereby donor lending to certain private sector activities is back- rather than front-loaded. That is, finance is released when ‘development outcomes’ have become visible. In this context, subsidies would be made explicit, reserved for interventions with explicit pro-poor content, and released only when agreed targets have been met. By implication, the subsidy element would be withdrawn from all other PSD lending. Little detail has so far been provided of what performance standards might look like, how private partners might finance installation or start-up costs alone, or the methodology for determining and removing subsidies on other PSD lending.

Since multilateral donors do not operate tied aid programmes administered through intermediaries, problems arising from the latter’s failure to absorb donor ‘best practice’ do not emerge as an issue in their evaluations, as they do in those of bilaterals. On the other hand, diluted forms of the same problem of ‘ownership’ are identified, arising from the dispersal of private sector operations *within* multilateral agencies. According to the World Bank’s 2001 evaluation (World Bank 2001a: 2) only 91 of its (up to this point) 250 credits with PSD components were actually managed by the Bank’s PSD Department. A large proportion of the balance seems to have represented components relating to the financial sector, which although a major subject of PSD policy was not officially part of PSD ‘work’. As a result, ‘the record of assistance for financial sector reform [has] not been strong...’ (op. cit.: 8, 10).

As in the case of bilateral donors, a considerable volume of criticism in evaluation reports is devoted to a lack of relevance of interventions to the particular circumstances of recipient countries. Most commentary under this heading is again directed at a lack of focus on (national) institutional issues. However whereas for bilaterals, recipient country institutional issues were held to be neglected in favour of ‘supply-driven’ hardware and training packages, in the case of the World Bank they were neglected in favour of pursuing more visible and tangible structural reforms such as the privatization of specific enterprises and enactment of specific laws (ibid.). The prioritization of such structural reforms is questioned on the basis of its derivation from ‘a tendency to apply the same solution to all countries’, thereby ignoring differences in institutional underpinnings (op. cit.: 14). In low-income countries as a group, patient development of institutions should have preceded ‘promotion [of reforms of] corporate governance, insolvency/bankruptcy reform [or even] property rights...’ (op. cit.: 8).

In the World Bank’s new PSD strategy, the lesson derived from these criticisms appears to be that—where they are detected—‘flawed investment climates’ require rectification before established forms of PSD support, including direct lending to private enterprise, can be effective. It is not very clear whether this position represents an acknowledgement of the ‘one size fits all’ criticism or a restatement of a ‘one size fit all’ view in a different form. For it is apparently still planned to identify ‘flaws’ in investment climates on the basis of local departures from an (Anglo-Saxon) ideal type.

Over and above these concerns, both the World Bank and the AsDB evaluations share the concern of some bilateral evaluations with inadequate monitoring. Lack of effective financial reporting is identified as an issue in both cases. In that of the AsDB (2001a: 5), it appears that the only financial reporting undertaken prior to 2000 was of too aggregate a nature to distinguish the performance of private from public sector lending. In the case of the World Bank (2002) there are also calls to initiate monitoring both of

non-financial but still economic measures of performance (e.g., productivity changes following investments) as well as non-economic dimensions. For private participation in infrastructure projects, the latter include changes in access to services for low-income groups and levels of charges/subsidies levied on/provided to low-income groups.

## **6 Conclusions**

A comparison between bilateral and multilateral donors with regard to their PSD policies, programmes, instruments and funding raises several issues. First of all, similarities in policy are very substantial. Donors, whether bi- or multilateral, all depart from the same logic—a logic in which a ‘one size fits all’ model of an ‘enabling environment’ for PSD plays a central role. At the same time, there are differences in emphasis and ‘new’ issues—ranging from the obligations of western countries to open up their own markets to demands for better ‘corporate governance’ in developing ones—emerge over time (although more strongly via multilaterals).

Second, both groups of donors show a strong preference for instruments and programmes at national macro- and micro-level, although the instruments of the multilateral donors are much simpler and basically comprise adjustment lending, direct lending to the private sector and support to micro/SME finance. All in all, however, there is a wide overlap in programmes and instruments.

Third, there also is a major overlap in beneficiary countries, while the selection of these countries is not necessarily based on an assessment of their ‘enabling environment’ and can be often questioned from a poverty or development perspective.

Fourth, both an insistence on involving their own private sectors in PSD and the fact that they all implement very comparable programmes place bilateral donors in competition with each other. However, multilateral donors also implement many programmes with similar content, which, sixth, highlights the lack of coordination between donors generally. There is little current evidence of information-sharing or even of knowledge of each other’s portfolio. Although this lack of coordination (and the fact that donors tend to formulate similar programmes) could be regarded as positive as it provides developing countries with a large reservoir of funding, it also militates against their ability to obtain an overview and generates a lack of coherence. This, in turn, makes ownership of PSD by developing countries more difficult. This ‘free market’ of PSD funding should be questioned. Hopefully, the poverty reduction strategy route offers a path out of this maze, but probably this will be taken only by countries applying for HIPC relief, and even in their case the extent to which this is true remains to be seen.

To sum up, most differences between multilateral and bilateral donors follow from differences in their organizational objectives (bank lending as such versus broader forms of assistance) and their ‘ownership’ (international rather than national). It does not follow from major differences in analytical sophistication or greater reflection on experience.

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**Annex 1**  
**DAC purposes and their relationship with elements and possible interventions**  
**in the field of private sector development**

Purpose	Brief description	Direct link to PSD level(s) and element(s)
<b>Social infrastructure and services</b>		
Education	General teaching and instruction at all levels, construction to improve or adapt educational establishments, education sector policy and research	Macro: physical and human capital
Health	Health policy, assistance to medical services, health administration, medical insurance programmes, basic health care provision, training of personnel, health campaigns	Macro: physical and human capital
Population policies/programmes + reproductive health	All activities in the field of reproductive health, family planning and research into population problems	Macro: physical and human capital
Water supply and sanitation	All activities for water supply and use, sanitation and water resources development	Macro: physical and human capital
Government and civil society	Aid to strengthen the administrative apparatus and government planning, activities promoting good governance and strengthening civil society	Macro: good governance
Other: employment	Aid to employment (planning and policy, labour laws, labour unions, institution capacity building and advice, employment creation and income generation programmes, combating child labour)	Macro: macroeconomic policies Meso: institutional infrastructure
Other: housing	Aid to housing sector policy, planning and programme aid, low-cost housing and slum clearance	na
Other: other social services	Social legislation and administration, police and customs, narcotics control, statistical capacity building	Macro: macroeconomic policies Macro: good governance
<b>Economic infrastructure and services</b>		
Transport and storage	Aid to roads, rail, water and air transport and storage	Macro: physical and human capital
Communications	Aid to communications (post and telecommunications, radio, television, print media)	Macro: physical and human capital
Energy generation and supply	Aid to production and distribution of energy	Macro: physical and human capital
Banking and financial services	Aid to finance and banking in both formal and informal services	Macro: physical and human capital
Business and other services	Aid to business development and activities aimed at improving the business climate, privatization	General enabling environment Macro: macroeconomic policies
<b>Production sectors</b>		
Agriculture, forestry and fishing	Aid to all primary production, agricultural sector policy, development and inputs, agricultural credit, forestry policy and fisheries policy, research	Macro: macroeconomic policies Micro

Annex 1 continues



Annex 1 (con't)

DAC purposes and their relationship with elements and possible interventions in the field of private sector development

Purpose	Brief description	Direct link to PSD level(s) and element(s)
<b>Production sectors (con't)</b>		
Industry, mining and construction	Industrial, mining and construction sector policy, small business and craft development, all types of manufacturing	Macro: macroeconomic policies Micro
Trade and tourism	Trade and export promotion, trade and tourism policy	International
Multisector/cross-cutting	Aid to projects which straddle several sectors. Includes aid to conservation, protection and amelioration of physical environment without sector allocation and aid for the advancement of women in development without sector allocation	na
<b>Commodity aid and general programme service</b>		
Structural adjustment assistance with WB/IMF	Non-sector allocable programme aid whose provision is explicitly linked to agreed policy packages (particularly those implementing recommendations from WB/IMF)	Macro: macroeconomic policies
Developmental food aid	Supplies and transport of food, cash for food, and intermediate products (e.g., fertilizers, seeds) as part of food aid programme	na
Other general programme and commodity assistance	Import, budget and balance-of-payments support	Macro: macroeconomic policies
Action relating to debt	All actions relating to debt (forgiveness, swaps, buy-backs, rescheduling, refinancing)	International
Emergency assistance	Emergency and distress relief in cash or in kind, emergency food aid, humanitarian aid including aid to refugees and aid to disaster preparedness	na
Administrative costs of donors	Ibid	na
Support to NGOs	Official funds paid over to (inter)national NGOs for use at the latter's discretion	na
Unallocated/unspecified	Ibid	na

Source: Adapted from DAC (2000: 43-6).

Note: na = not applicable

## Annex 2

### Examples of bilateral donor's PSD programmes

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#### Country and programmes

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#### AUSTRALIA

##### General

- Supporting effective governance (technical assistance, policy analysis, training and scholarships for institutional strengthening, privatization, tax and trade reforms, and effective legal systems);
- Strengthening social services and infrastructure (financial and technical aid for education, health and infrastructure);
- Facilitating enterprise development (aimed at SMEs, micro-finance, business development services).

##### Policy dialogue and studies

##### Technical assistance and seminars

- WB SPF: WB South Pacific Facility;
- PIPS: Pacific Island Private Sector programme.

##### Vocational and technical training

- TGS: Training Grants Scheme (short-term training);
- PIPS: Pacific Island Private Sector programme;
- TIPS: Trade and Investment Promotion Section of the Department of Foreign Affairs and Trade (business skills courses);
- SPTC: South Pacific Trade Commission (technical training).

##### Technical assistance, training, access to finance

- AESOP: Australian Executive Service Overseas Programme (volunteer programme);
  - SPPF: IFC South Pacific Project Facility (advisory services project preparation).
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#### BELGIUM

##### PSCP: Private Sector Cooperation Programme

Objective: to promote relations between small- and medium-sized enterprises, micro-enterprises as well as partnership arrangements between enterprises through training, financial and technical support. More specifically, the programme aims at:

- Technology and know-how transfer via, or in partnership with, Belgian SMEs;
  - The promotion of the emergence of a new generation of heads of enterprises in developing countries;
  - The creation of joint ventures;
  - Support for small-scale economic initiatives, particularly in countries emerging from conflict situations;
  - Support structures for micro-enterprises belonging to the social economy sector.
- 

#### CANADA

##### Regional and country strategies

##### Africa

- MDF: Mahgreb Development Fund (transfer of technology);
  - RSF CEA: Regional Support Fund Central and Eastern Africa;
  - CAPSSA: Canadian Association for the Private Sector in Southern Africa (joint ventures/licensing arrangements);
  - DCS: Development Programme of Canadian-Senegalese joint ventures (research investment opportunities, advice + information, studies and project support through CIDA INC funds);
  - Egypt PSD (capacity building public sector, promotion of enabling environment, direct incentives to private sector, privatization, transfer of technology, collaboration Canadian and Egyptian private sector);
  - CABBSA: Canadian Association for Black Business in South Africa;
  - Cameroon entrepreneurial support (to 'enterprise incubators and SMEs, institutional reinforcement of consultancy firms and financial institutions)
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Annex 2 continues

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Country and programmes

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CANADA (con't)

Asia

- Technology transfer, joint ventures, industrial cooperation at policy and project levels + aid at institution/organization level and educational institutions level, mostly through partnerships between Canadian and Asian organizations and institutions);
- Direct support to micro-enterprise development (examples: Grameen Bank and regional industrial development programmes);
- PSDI Fund: Private Sector Development Initiatives Fund (formation of joint ventures and other forms of collaborative arrangements);
- ETC: Enterprise Thailand Canada (transfer of technology and expertise through joint ventures);
- EMC: Enterprise Malaysia Canada (see ETC);
- CAC: Canada-ASEAN Centre (human resource development and institutional cooperation, business cooperation in support of investment and trade, regional public affairs to raise awareness of Canada in ASEAN countries)

Latin America and the Caribbean

- Jamaica: export promotion to Canada, training and credit to SMEs, agricultural credits to cooperative banks, practical technical and entrepreneurial training;
- South America: lines of credits (particularly to public sector institutions), counterpart funds (to finance community-based, productive sector initiatives), private sector development fund (to encourage linkages between Colombian and Canadian firms);
- CRPSM: Costa Rica Productive Sector Modernization programme (including linkages with Canadian firms);
- RISPCA: Regional Initiatives Support Programme in Central America (aimed at improving effectiveness of governmental and private sector institutions to manage process of economic modernization).

Canadian Partnership Branch (CPB)

- Supports efforts of Canadian firms, (international) NGOs, universities, professional associations and municipalities. Broad range of programmes across whole range from direct support of PSD through business-to-business joint ventures, investment and technology transfer, support to micro-enterprises, creation of enabling environment;
- Direct business-to-business support through INC (Industrial Cooperation) (assistance to Canadian firms in investment (joint ventures), professional services, and/or specialized activities);
- Micro-enterprises support through Canadian and international NGOs (e.g., Women's World Banking);
- Enabling environment support through strengthening pluralistic civil society favouring a vigorous private sector (e.g., regulatory framework for capital markets, judicial information systems to improve business dispute resolution system).

Multilateral branch

- Support to international finance institutions in strengthening capacity of governments to adopt and sustain sound economic policies through policy dialogue, training, education and research programmes, lending for infrastructure and sector loans for SMEs;
- Encouraging regional development banks (RDBs) to use technical aid for sector studies for formulating and implementing policy reforms, institutional development and public sector restructuring, including privatization;
- Support to direct lending facilities of the RDBs (particularly the Asian Development Bank).

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DENMARK

- IFU: Industrial Fund for Developing Countries (provides share capital in joint ventures with Danish companies and companies in developing countries, pre-investment studies, loans);
- Investment guarantee system (in connection with Danish' companies investments in developing countries covers against loss associated with political risks);

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Annex 2 continues

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## Country and programmes

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### DENMARK (con't)

- PSD programme (assistance to institutional development of private sector environment, commercialization and privatization of government-owned enterprises, and business-to-business cooperation between companies in Denmark and in the recipient country. Aid granted within these components varies according to situation in country. Includes also various types of preparatory action, training and education). The main thrust of the PSD programme is the business-to-business programme, which includes grants for initial investigations, initial visits, external consultants in drafting project proposal. The PSD programme is restricted to six developing countries: Egypt, Ghana, India, Uganda, Vietnam and Zimbabwe;
- TechChange (linked to the PSD programme, offers paid travel and accommodation to representatives from selected enterprises in the six PSD countries and allows for small exhibition areas at Danish trade fairs);
- South African business-to-business programme aims to reinforce and develop the business opportunities and employment of the target group by supporting the establishment of collaborations between Danish and South African 'black-owned' enterprises; covers expenses for preliminary studies, training and technology transfers from the Danish partner, and provides guarantees for investment loans to a limited extent;
- Mixed credits (in support of the supply of Danish goods and services for development projects);
- DIPO: Danish Import Promotion Office for Products from Developing Countries promotes contacts between exporters from developing countries and Danish importers; arranges, among other things, visits and seminars;
- Danced's Partnership Programme support, comparable to the PSD programme, to enterprises in Thailand and Malaysia for the development of business ideas in the environmental field, where Danish environmental know-how or technology can be transferred to Southeast Asia.

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### FINLAND

#### Technical cooperation training and trade promotion

- PRODEC: Programme for Development Cooperation (professional career training in entrepreneurship and international trade for business executives, specialists, entrepreneurs, trainers and government officials);
- FINIPO: Finnish Import Promotion Office for Products from Developing Countries (market research, information on Finnish business environment, import regulations and General System of Preference scheme and trade policies);
- FTP: Forestry Training Programme (forestry sector training including enterprise management and marketing).

#### Officially-supported export credits

- Finnish Export Credit Ltd

#### Support to project preparation

- TTT-scheme (allocations for pre-investment and training activities).

#### Lines of credit

- Use of a local development finance institution as a conduit for channelling financial assistance to private enterprises in a certain sector. Only one is a Special Fund Facility in Zambia.

#### Co-financing to multi-donor programmes

- Finland contributes to such programmes as the World Bank coordinated African Regional Programme for Enterprise Development (RPED), and various other capacity and management building programmes and activities of the World Bank, IFC and other collaborating agencies for the African region.

#### Support to SMEs and NGOs

- Financial arrangements, technology transfer and training within bilateral integrated rural development and infrastructure projects and programmes. These integrated programmes often include revolving loan funds for productive and income-generating purposes as well as activities to improve management and operational skills. Assistance will also be geared at formation of associations of business, employees and farmers, and improvements in general conditions (legislation, training) in developing countries.

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Annex 2 continues

FRANCE

Policy measures aimed at strengthening institutional partners;

Developing networks of private enterprises through forging links with and between chambers of commerce, employers' associations. Can include technical assistance through personnel of volunteer workers (VSNE), cooperation at local level and mechanisms, which allow French regional authorities to provide support to firms operating in Africa (guarantee funds, venture capital companies, etc.);

Action aimed at small and micro-enterprises

- AIPB credits (Aid for Basic Productive Initiatives) through CFD: Caisse Française de Développement (loans to support creation and development of such enterprises);
- Local loan schemes (operated by CFD and Ministry of Cooperation).

Instruments used by CFD to provide funding to the private sector

- PROPARCO (subsidiary of CFD, finance company, loans to assist in the creation of new firms, restructuring of existing firms and asset purchases in the event of privatization);
- CFD: providing loans where PROPARCO cannot provide;
- ARIA: Assurance du Risque des Investissements en Afrique (venture capital insurance);
- FGAO: Fonds de Garantie d'Afrique de l'Ouest (credit guarantees for banks that finance medium and long-term investment in private sector firms);
- Joint venture funds (feasibility studies, audits, joint ventures, training programmes).

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GERMANY

Private-public partnership

Basically this is the name under which most of Germany's bilateral PSD programme related to German companies is known. It covers a range of different interventions which all depart from the fact that the costs are shared by the German government and the (German) private sector together. Financially supported activities falling under the PPP are:

- Technical, sector and project studies (institutions involved KfW, GTZ and DEG);
- Pilot projects (DEG and GTZ);
- Investment projects (DEG);
- Technical training in developing countries or Germany (GTZ, DEG and CDG);
- Experts (SES and CIM);
- Joint ventures (SEQUA).

Below is an overview of PSD programmes from the 1995 DAC survey. At that time, the concept of PPP was not operational.

- Technical cooperation/advisory services and training;
- Policy dialogue (state level);
- Policy advice agreement (state level);
- Advisory services to governments and administrations (state level);
- Advisory services for institutions working in trades and crafts, SMEs, export, technology, investment in joint ventures, chambers of commerce and business credit guarantee fund associations, twinning;
- Arrangements, financial institutions, savings banks and cooperatives, development of vocational commercial training, management centres (intermediary/APEX institutions level);
- Institution building (intermediary/APEX institutions level);
- Federal Ministry for Research and Technology: technology transfer (intermediary/APEX institutions level);
- Twinning arrangements with the federal states (chambers of commerce) (intermediary/APEX institution level);
- Promotion of companies (company level);
- SES: Senior expert service (company level).

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Annex 2 continues

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## Country and programmes

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### GERMANY (con't)

#### Financial cooperation/funding

- Financial cooperation funds for physical and social infrastructure, mixed financing, commodity aid and/or structural adjustment programmes (state level);
- Financial cooperation for banks (credit lines for the private sector) (intermediary/APEX institutions level);
- DEG: German finance company for investment in developing countries (funds-in-trust) (intermediary/APEX institutions level).

#### Foreign trade promotion

- Investment guarantee agreement (state level);
- Double taxation agreement (state level);
- General customs preferences for developing countries GATT (state level);
- Joint economic missions (state level);
- German Chambers of Commerce abroad, BfAI (Federal Agency for Foreign Trade Information), Associations or specific regions (company level);
- Export guarantees, business services at the embassies (company level);
- 'The promotion of German exports to developing countries' (company level).

#### Multilateral development cooperation

- World Bank, IMF, MIGA, IDA, IFC (state level);
- Regional development banks (state level);
- ILO, UNDP, UNIDO (intermediary/APEX institutions level);
- European Commission (intermediary/APEX institutions level);
- Centre for Industrial Development (company level);
- UNIDO-IPS (companies level);
- IFC (companies level).

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### ITALY

- Small and medium-sized enterprises rehabilitation programmes;
- Technical and financial assistance (partly through local financial systems);
- Participation in the privatization process;
- Joint ventures;
- Concessional loans to Italian companies as part of their quota or risk capital;
- Development cooperation scheme for the promotion of local enterprises;
- International partnership, such as trading, marketing and co-production agreements, franchising and production licensing agreements backed by managerial and technical assistance by Italian SMEs;
- Policy dialogues with recipient countries;
- Special (country level) reports.

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### JAPAN

#### Direct approach to private sector promotion

- Technical cooperation between governments through JICA ([Japan International Cooperation Agency] facilities and equipment for vocational training, experts and receiving trainees);
- Private sector technical cooperation (training of workers, dispatching of experts to private enterprises in developing countries. AOTS [Association of Overseas Technical Scholarship provides training and JODC [Japan Overseas Development Corporation] takes care of experts;
- Two-step loans (loans to the private sector via financial institutions in developing countries);
- Promotion of exports from developing countries (via JETRO [Japan External Trade Organization] through trade missions, advice on product quality, technology transfer and research and information provision);

#### Indirect approach to private sector promotion

- Establishment of appropriate economic and social infrastructure (mainly through loans for infrastructure, but also annual dialogue).

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Annex 2 continues

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## Country and programmes

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### JAPAN (con't)

- Government technical cooperation (transfer of know-how on capacity building and institution building, i.e. taxation, finance, industrial standardization, intellectual property through dialogue and experts);
  - Promotion of imports from developing countries (in Japan) (through import missions, exhibitions, trade seminars, information via JETRO);
  - Promotion of investment in developing countries (trade insurance and soft loans by Export-Import Bank of Japan, and promotion of investment in joint ventures by JAIDO [Japan International Development Organization], and information via JETRO).
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### THE NETHERLANDS

#### Bilateral channel

##### General

- Support to micro- and small-scale enterprises;
- Support to structural adjustment programmes which are aimed at the creation of the macroeconomic and monetary conditions, and the legal and regulatory framework for PSD;
- Support to the creation and safeguarding of the conditions for the effective operation of free markets (including privatization as a means to further the efficiency of the national economy).

##### Provision of rural infrastructure

- Reinforcement of the educational system;
- Institutional development activities;
- Matchmaking and information services for Dutch companies.

##### More specific

- FMO: Netherlands Development Finance Company (loans and equity for small- and medium-scale private enterprises either directly or through local banks and other financial institutions);
- KB: Small-scale enterprise funding programme under FMO (financial assistance in local currency to small enterprises);
- SC: Seed capital programme under FMO (financial participation in starting enterprises, particularly in Africa);
- IFOM: Investeringsfaciliteit Opkomende Markten (loans to joint ventures by Dutch companies);
- IBTA: Investment promotion and technical assistance (via FMO, grants or concessional loans for management advice and technical assistance to promote investment and business performance);
- NMCP/PUM: Netherlands Management Consultancy Programme/Programma Uitzending Managers (sending out experienced advisors in the technical and management fields to small- and medium-sized companies);
- RHI: Regeling Herverzekering Investerings (insurance for specific political risks for investments by Dutch companies);
- POPM: Garantierегeling Particuliere Ontwikkelings Participatie Maatschappijen (guarantees for commercial risks with investments by Dutch development participation companies);
- CBI: Centre for the promotion of Imports from Developing Countries (through market information, trade fairs, support to exporters);
- PESP: Programma Economische Samenwerkingsprojecten (financing of feasibility studies for trade and investment relations);
- PSO: Programma Samenwerking Oost-Europa and PSOM—Programma Samenwerking Opkomende Markten (supporting trade and/or investments by Dutch companies by setting up local firms through financial assistance);
- NIMF: Netherlands's Investerings Matching Fonds (comparable to IFOM);
- ORET/Miliev: Ontwikkelingsrelevante Export Transacties/Milieu en Economische Verzelfstandiging (financial support for non-commercially viable local investments requiring Dutch goods and services with the aim of strengthening the local infrastructure);

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Annex 2 continues

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## Country and programmes

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### THE NETHERLANDS (con't)

- NCM: Nederlandse Credietverzekerings Maatschappij (insurance against commercial and political risks in the case of exports or investments);
- GOM: Garantiefaciliteit Opkomende Markten (insurance scheme for transactions following from the ORET/Miliev programme).

#### Multilateral channels

- World Bank and regional banks;
  - IFC, MIGA, FIAS;
  - UNIDO, ILO;
  - AMSCO, APDF, RPED;
  - EIB;
  - Micro credit (WWB and CGAP).
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### NEW ZEALAND

- Policy dialogue with developing countries;
  - Encouragement of local firms to compete for all contracts for (bilateral) aid;
  - Technical assistance for export, trade and foreign investment promotion in consultation with SPTC;
  - Agricultural extension services;
  - Technical assistance to improve quarantine procedures and facilities;
  - Market development studies;
  - Assistance to rural credit schemes and cooperatives (often via NGOs);
  - Advice for state sector reform (e.g., privatization, corporatization, economic restructuring, taxation regimes, management State-owned enterprises);
  - Technical assistance and in-country training in small business development;
  - PIIDS: Pacific Islands Industrial Development Scheme (grants towards feasibility studies, capital set-up costs for activities in partnership with New Zealand enterprises promoting New Zealand investment);
  - DAFs: Development assistance facilities (responsibility for identifying and formulating proposals lies with the proposing (New Zealand) companies and individuals, used for (pre-) feasibility studies, project appraisal and design, training, pre-investment studies);
  - Private sector assistance through (i) through assistance to the individual entrepreneur in the form of capital grants or loans, technical advice, and business training; (ii) strengthening institutions and organizations which serve the entrepreneurs e.g., human resource development, operating funds; (iii) economic policy and public sector reform; and/or (iv) social policy and infrastructural development;
  - VASS: Voluntary agencies support scheme (support to PSD through NGOs).
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### NORWAY

#### Multilateral channel

- Participation in international negotiations;
- Active participation in the governing bodies of individual organizations to influence the organizations' general policies and strategies;
- Participation in and support for special programmes and coordinating mechanisms;
- Assistance to developing countries to enable them to participate actively in relevant international organizations themselves;
- Financial support to activities of multilateral organizations in individual countries;

#### Bilateral channel

- Dialogue concerning priorities and policy;
  - Direct support to individual projects and programmes within infrastructure, capacity building and support for small- and medium-sized enterprises, including micro-finance and business counselling
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Annex 2 continues



Country and programmes
NORWAY (con't)
<ul style="list-style-type: none"> <li>– NORFUND (direct supply of capital for investments through joint ventures between enterprises in Norway and enterprises in developing countries);</li> <li>– GIEK: Norwegian Guarantee Institute for Export Credits (guarantee scheme for exports to and investments in developing countries by Norwegian companies).</li> </ul>
NGO channel
<ul style="list-style-type: none"> <li>– Income generating projects;</li> <li>– Support to micro-finance schemes.</li> </ul>
PORTUGAL
FCE: Fund for Economic Cooperation;
Support to Portuguese direct investment and trade-related projects aimed at development through
<ul style="list-style-type: none"> <li>– Grants for feasibility studies, technical assistance and professional training;</li> <li>– Interest subsidies for loans to finance development-related investments or projects;</li> <li>– Grants for important and strategic projects;</li> <li>– Encouragement of joint ventures;</li> </ul>
OICT: Organization for Investments, Commerce and Tourism (technical assistance in the fields of commerce and investments with the aim of promoting economic relations between Portuguese and African enterprises);
COSEC: Companhia de Seguros de Créditos (insurance scheme for export credits and investments).
SWEDEN
SwedeCorp (aid authority formed to promote a favourable business environment and sustainable profitable enterprises in developing countries and Eastern Europe) provides aid within three main areas:
Competence development in trade and industry
<ul style="list-style-type: none"> <li>– Training, institutional support, industrial environment protection with emphasis on involvement of Swedish private companies and institutions).</li> </ul>
Business development
<ul style="list-style-type: none"> <li>– Information, advice, market research, business contracts, import guarantee schemes, promotion of joint ventures and alliances for exporters and Swedish importers).</li> </ul>
Provision of risk capital
<ul style="list-style-type: none"> <li>– Loans and equity investments through investment banks, venture capital funds, leasing companies and other specialized local financial institutions in order to promote investments and improve financial strength of small- and medium-scale companies in developing countries, equity participation mostly in cooperation with Swedfund International AB, technical assistance for development of financial markets, support to privatization projects, investment seminars.</li> </ul>
Interventions at macro-level
<ul style="list-style-type: none"> <li>– (Co)financing of structural and sectoral adjustment programmes;</li> <li>– (Co)financing of debt reduction programmes;</li> <li>– Support of international networks, coordination and policy dialogue mechanisms;</li> <li>– Commercial policy measures for PSD, e.g. double taxation treaties, investment protection treaties, investment insurance or guarantees;</li> <li>– Policy dialogue at international and local levels.</li> </ul>
Interventions at meso-level
<ul style="list-style-type: none"> <li>– Promotion of institutions actively involved in private sector promotion, e.g. in fields such as finance, banking, professional training, advisory and consultancy services in technical and managerial aspects;</li> <li>– Promotion of international, regional and national sector specific networks.</li> </ul>

Annex 2 continues

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Country and programmes

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SWITZERLAND

Interventions at micro-level;

Support to small-scale enterprise promotion programmes;

Support to and promotion of self-help groups and associations at entrepreneurial level;

Promotion of collaboration between enterprises south-south/north-south (investment promotion, facilitating business linkages, joint ventures);

Promotion of technology transfer and local technology development;

Export promotion from developing countries.

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UNITED KINGDOM

Correcting policy fundamentals

- Programme aid in support of structural adjustment supported by technical cooperation (aimed at macroeconomic stabilization, adopting realistic exchange rates, sound public finance, price liberalization and liberalizing investment).

Helping markets work more efficiently

- Technical cooperation and consultancy mainly in context of structural adjustment programmes (aimed at financial sector reform, company law reform, new rules for capital markets, removing legal and regulatory barriers to entry and labour mobility).

Helping design promotional and confidence-building measures

- Technical cooperation and policy dialogue (in/for investment promotion, establishing investment assistance and promotion services).

Support for CDC (Commonwealth Development Corporation) investment and lending activities

- Investments in profit-making enterprises.

Help for small and micro-enterprises

- Financial, technical and training services (often via NGOs).

Direct help, outside normal government-to-government channels, for selected enterprises

- Technical cooperation grants (often with a cost-sharing or cost-recovery element) for the formal private sector or (preferably) organizations representing them, in the form of training in technical, administrative, financial and management skills and of product development and marketing.
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UNITED STATES

Priority

- Financial and technical support for policy reform and structural adjustment policies in close cooperation with the World Bank and the IMF.

Individual and sectoral topics

Financial markets development

- Trade and investment promotion (with focus on long-term private enterprise ties).

Privatization, and private provision of social services: (through contacts with)

- CFP: Centre for Privatization;
  - IPG: International Privatization Group providing technical and advisory services with focus on design, preparation and implementation of privatization transactions);
  - Micro-enterprise development (also through NGOs);
  - CEG: Center for Economic Growth (technical support to USAID missions, management of USAID's loan and guarantee programme, developing programmes in areas of economics, agriculture, business development, micro-enterprise development, and financial markets development).
  - OPIC: Overseas Private Investment Corporation (political risks insurance, loans, guarantees, equity, etc. to US business to invest and compete in emerging markets and developing countries
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Sources: DAC (1995: 31-110, 1997a and 1997b); Van den Bosch (1998); DGIS (2000); NORAD (1999); BMZ (Folder over PPP); NZODA (1991), CIDA (1999), Sida (1997), AusAID (2000); Danida (1999).

## Annex 3

### Examples of multilateral donor's PSD support

#### Types of support

<b>World Bank Group</b>	<p>IBRD/IDA project lending</p> <ul style="list-style-type: none"><li>– 260 active Bank projects (in March 2001) with substantial PSD components. 60 projects classified as PSD projects. The rest are categorized under other sectoral or thematic heads.</li></ul>
	<p>Interventions fall into four categories</p> <ul style="list-style-type: none"><li>(i) Improvements in the investment climate aim to enhance deregulation and competition by ensuring a legal and regulatory framework that encourages competitive provision of goods and services, property rights and corporate governance, and development of institutions related to PSD;</li><li>(ii) Privatization and concession-type arrangements include management contracts, leases, concessions, build-operate-and-transfer (BOTs) operations and outright divestiture;</li><li>(iii) Direct assistance to enterprises includes lines of credit to financial institutions which then on-lend to private companies, provision of technical assistance such as business advisory services, matching grants facilities, project financing facilities for infrastructure projects and guarantees;</li><li>(iv) Social funds typically support small projects in infrastructure, social services, training and micro-credit. They support the PSD agenda by developing alternative, non-governmental delivery mechanisms.</li></ul>
	<p>IBRD/IDA adjustment lending</p> <ul style="list-style-type: none"><li>– Adjustment lending programmes support the implementation of a number of key measures to strengthen the investment climate. These measures focus on competition policies and strengthening competitiveness through (i) regulatory reform; (ii) improving logistics and reducing transaction costs; (iii) strengthening inter-firm linkages and government-business consultations, and (iv) supporting global integration through institutional and policy reforms for greater export orientation, corporate governance and foreign direct investment.</li></ul>
	<p>International Finance Corporation (IFC)</p> <ul style="list-style-type: none"><li>– IFC's traditional and largest activity is to finance private sector projects in developing countries. IFC provides loans, equity finance and quasi-equity. It also offers financial risk management products and intermediary finance;</li><li>– IFC investments go to a variety of sectors. About two-thirds were concentrated in three sectors: financial sector, which includes financial services and collective investment vehicles, infrastructure and manufacturing. IFC's latest strategy signalled a change in its strategic focus. It calls for a move towards areas with high multiplier effects, i.e., whose impact goes well beyond the capital investment. It calls for increased intervention in frontier countries (high risk/low-income countries with very limited access to foreign capital and/or undeveloped domestic financial markets) and in frontier regions or sectors within other countries. Five sectors of emphasis were identified: domestic financial institutions, infrastructure, information technology and communications, SMEs and the social sectors (health and education).</li></ul>
	<p>Multilateral Investment Guarantee Agency (MIGA)</p> <ul style="list-style-type: none"><li>– MIGA provides investment guarantees against certain non-commercial risks (i.e., political risk insurance) to eligible foreign investors for qualified investments in developing member countries. MIGA's coverage is against the following risks: Transfer restriction; expropriation; breach of contract; and war and civil disturbance.</li></ul>
	<p>Non-financial activities</p> <ul style="list-style-type: none"><li>– The World Bank Group is involved in a wide range of non-lending activities related to PSD issues. The most important of such activities being advisory services (to governments, private sector institutions and firms), economic and sector work, research and training. Arbitration, standard setting and ratings have emerged as an important area in recent years.</li></ul>
	<p>The Consultative Group to Assist the Poorest (CGAP)</p> <ul style="list-style-type: none"><li>– World Bank in association with a number of bilateral donors is a founding member of CGAP. CGAP is a consortium of 29 bilateral and multilateral donor agencies who support micro-finance. Its mission is to improve the capacity of micro-finance institutions to deliver flexible, high-quality financial services to the very poor on a sustainable basis;</li><li>– CGAP serves micro-finance institutions, donors and the micro-finance industry through the development of technical tools and services, the delivery of training, strategic advice and technical assistance, and action research on innovations.</li></ul>

Annex 3 continues

<b>Asian Development Bank (AsDB)</b>	<p>AsDB products for private sector projects:</p> <p>Loans</p> <ul style="list-style-type: none"> <li>– AsDB uses hard currency loans (without government guarantee) to support private enterprises and financial institutions.</li> </ul> <p>Equity</p> <ul style="list-style-type: none"> <li>– AsDB uses equity investments to directly support private enterprises, private equity funds, and financial institutions;</li> <li>– Complementary financing schemes (CFS);</li> <li>– CFS loans are available for private sector projects in which AsDB is a direct participant. ADB acts as 'lender of record' and provides loan administration services. CFS loans are funded by commercial lenders, such as banks and insurance companies.</li> </ul> <p>Partial credit guarantees (PCGs)</p> <ul style="list-style-type: none"> <li>– The PCG provides comprehensive cover for a specific portion of the commercial debt provided by co-financiers. PCGs are generally used for projects needing long-term funds. PCGs suit specific developing member countries; those considered to be creditworthy, though they have restricted access to financial markets.</li> </ul> <p>Political risk guarantees (PRG)</p> <ul style="list-style-type: none"> <li>– The PRG programme of the AsDB is designed to facilitate commercial cofinancing by providing lenders to an AsDB-assisted project with cover against specifically defined political risks.</li> </ul> <p>Export credit agency (ECA) co-financing</p> <ul style="list-style-type: none"> <li>– Support from ECAs can provide a significant extra source of cover to commercial cofinanciers. The mandate of most ECAs is to fill a 'gap' and cover the risks that the commercial market will not. To tap this very important source of cover, AsDB acts as coordinator between all parties: the project sponsor or arranging bank, and the participating ECAs and international financial institutions.</li> </ul> <p>AsDB is a donor agency member of CGAP.</p>
<b>African Development Bank Group (AfDB)</b>	<p>The AfDB Group consists of three institutions: the African Development Bank, the African Development Fund and the Nigeria Trust Fund.</p> <p>The focus of the AfDB Group private sector assistance is in areas which portend long-term development prospects for the private sector in Africa, such as advisory services, infrastructure financing, privatization and small and medium size enterprises.</p> <p>Type of bank investments</p> <ul style="list-style-type: none"> <li>– Loans: The Bank offers term loans;</li> <li>– Equity and quasi-equity: Bank equity investments may take a variety of forms, including common shares and preferred stock, with or without participating features;</li> <li>– Guarantees: The Bank extends its guarantee to cover the payment of principal and of interest for loans extended by others. The beneficiary of the Bank's guarantees, i.e. the funding source, may be local or foreign financial institutions, commercial firms and individual investors;</li> <li>– Lines of credit: The Bank offers lines of credit to private financial institutions for on-lending to small and medium enterprises (SMEs). Details of sub-loans are submitted to the Bank for review before approval by the financial institution to ascertain that the loan complies with Bank policies. The credit risks of the subloans are borne by the financial institutions;</li> <li>– Loan syndications: Syndications may involve the Bank acting as arranger of financing or involve arrangements whereby banks and other financial institutions are offered participation in a Bank loan with the banks, taking the same project risk as the Bank on a pro-rata basis;</li> <li>– Underwriting. The Bank can act as an underwriter of a portion of the securities issued by private sector entities and by country or regional investment funds.</li> </ul> <p><b>The Nigeria Trust Fund</b></p> <p>The Nigeria Trust Fund was established by the government of Nigeria in 1976. The purpose of the NTF is to assist in the development efforts of the poorer ADB members. The NTF is under AfDB management and, as at 31 December 1996, had a total resource base of US\$ 432 million. It lends at a 4 per cent interest rate, with a 25-year repayment period, including a five year grace period.</p> <p>AfDB is a donor agency member of CGAP.</p>

Types of support	
<b>Inter-American Development Bank (IDB)</b>	<p>Structured and corporate finance lending</p> <ul style="list-style-type: none"> <li>– Project finance basis: Loans can be made on a project finance basis. This structure is particularly useful for new or 'greenfield' operations, where a special purpose company is generally established to build, own, operate and act as borrower for the project with limited recourse to sponsors during the project completion and/or operation stage;</li> <li>– Corporate finance basis: Loans are also structured on a corporate finance basis, most typically required for expansions and modernization of the existing productive capacity of a corporation, and often for privatized public utility companies.</li> </ul> <p>Political risk and credit guarantees</p> <ul style="list-style-type: none"> <li>– In addition to loans, the IDB also provides credit and political risk guarantees to private sector lenders seeking coverage for their loans to projects.</li> </ul> <p>Capital markets initiatives</p> <ul style="list-style-type: none"> <li>– Debt financing and/or guarantees to regional or national investment funds to mobilize venture capital equity resources and/or debt capital that are otherwise not commonly available to private sector projects or other long-term capital investments. These funds may be invested in projects that develop infrastructure or expand the long-term capacity of other productive sectors;</li> <li>– Debt financing and/or guarantees for funds, leasing companies or other financial intermediaries. This support is designed to enhance the efficiency of financial intermediaries, to generate additional sources of long-term local currency funding;</li> <li>– Start-up debt financing and/or guarantees for local companies that guarantee locally-issued private sector debt. The IDB seeks to enhance the local company's ability to mobilize funds for private sector projects and capital-intensive productive sectors, to further develop the secondary markets of those debt obligations;</li> <li>– Guarantees for local institutions, such as investment banks, commercial banks and leasing companies, to allow them to securitize assets and to develop a medium-term corporate debenture market that will facilitate the channelling of long-term, local currency financing;</li> <li>– Co-lending arrangements with local financial institutions and institutional investors that have a developmental impact on the domestic capital market's long-term financing capabilities. Since the IDB does not provide risk capital, it does not participate in the equity of investment funds or individual companies.</li> </ul> <p>Inter-American Investment Corporation (IIC)</p> <ul style="list-style-type: none"> <li>– The IIC's developmental financing programme targets small- and medium-sized private companies in Latin America and the Caribbean that have limited access to long-term financing, through loans and equity investments.</li> </ul> <p>The Multilateral Investment Fund (MIF)</p> <ul style="list-style-type: none"> <li>– Market functioning;</li> <li>– Regulatory framework; facilitation of trade and investment; labour market modernization;</li> <li>– Financial and capital markets;</li> <li>– Market transparency measures; regulatory reform and supervision; capital market development;</li> <li>– Small business development;</li> <li>– Streamlining regulations; innovative business relationship; eco-efficiency; quality management; financing options; information technologies; skills standards and credentialing;</li> <li>– Micro-enterprise;</li> <li>– Innovation partnerships; regulatory and supervisory framework; strengthening micro-finance institutions.</li> </ul> <p>IDB is a donor agency member of CGAP.</p>
<b>Islamic Development Bank (IDB)</b>	<p>The Bank's private sector operations focus primarily on assistance to:</p> <ul style="list-style-type: none"> <li>– Financial intermediaries involved in leasing, Islamic banking, mutual funds and insurance;</li> <li>– Infrastructure projects such as power, water supply, transport and telecommunications sectors; and</li> <li>– Industrial, agro-business and other projects which have significant economic merit.</li> </ul> <p>IDB support is provided directly to private enterprises and financial institutions through lines of instalment sale and leasing, investment in equity securities, co-financing in trade finance, and export credit and investment guarantees.</p>

Annex 3 continues

Types of support	
<b>Caribbean Development Bank</b>	<p>CDB makes or participates in direct loans to private entities and enterprises. CDB makes direct or indirect equity investments. It also supports private enterprises with technical assistants.</p>
<b>EU / EC</b>	<p>Dialogue and reform</p> <p>Permanent discussion between donors and governments on content and timing of measures for further liberalizing' and deregulating the economy, reducing the size of the public sector, and creating enabling environment (e.g., macroeconomic factors [taxation, prices], price controls, dismantling of entry and exit barriers, tax reforms, property rights, etc.).</p> <p>Financial instruments</p> <ul style="list-style-type: none"> <li>– ECIP: European Community Investment Partners (financial backing for joint ventures (particularly SMEs) at various points in project's development through subsidies, participatory loans, equity participations, interest-free advances);</li> <li>– EIB: European Investment Bank (venture capital);</li> <li>– EDF: European Development Fund (opening credit lines to local SME financing institutions);</li> <li>– Import programmes (used to fund imports of intermediate products by ACP export industries);</li> <li>– Counterpart funds (used to finance farm loans, job creation programmes, etc.).</li> </ul> <p>Technical assistance</p> <ul style="list-style-type: none"> <li>– CID: Centre for Industrial Development (technical or economic feasibility studies for industrial projects, seeking out EC partners for ACP-EC joint ventures) (technical assistance, joint ventures, subcontracting, licensing).</li> </ul> <p>General</p> <ul style="list-style-type: none"> <li>– Studies, experts, training, dissemination of information, investor forums, technology transfer.</li> </ul> <p>Instruments for creating contacts between enterprises</p> <ul style="list-style-type: none"> <li>– Europartenariat, Med Partenariat or enterprise meetings;</li> <li>– BCC: Business Cooperation Centre (Mediterranean);</li> <li>– BC-NET: Business Cooperation Network (Latin America and Asia);</li> <li>– COOPECO network (Latin America) (networks for tracing possible partners);</li> <li>– Information;</li> <li>– MED-INVEST (Mediterranean) and ALL-INVEST (Latin America) (information clearing-houses) Also one in Philippines.</li> </ul>
<b>The European Bank for Reconstruction and Development</b>	<p>The EBRD finances projects in the private sector. The Bank also finances infrastructure projects that support the private sector. In addition, it supports privatization, restructures state-owned firms and improves municipal services.</p> <p>Many projects are too small to be funded directly by the EBRD. To give entrepreneurs and small firms greater access to finance, the EBRD supports financial intermediaries, such as local commercial banks, micro-business banks, equity funds and leasing facilities.</p> <p>The Bank supports trade facilitation through guarantees for import and export-related transactions, as well as financing to banks for on-lending to traders.</p> <p>The EBRD also supports several business development programmes. Programmes include the TurnAround Management Programme, business advisory services, Joint Vienna Institute seminars and the MBA loan programme.</p> <p>EBRD is a donor agency member of CGAP.</p>

#### **Annex 4**

#### **Abbreviations**

AsDB	Asian Development Bank
AfDB	African Development Bank
ARIA	Assurance de Risque des Investissements en Afrique (France)
AusAID	Australian Agency for International Development
CABBSA	Canadian Association for Black Business in South Africa.
CAC	Canada-ASEAN Centre
CAPSSA	Canadian Association for the Private Sector in Southern Africa
CBI	Centre for the promotion of Imports from Developing Countries (the Netherlands)
CDB	Caribbean Development Bank
CDC	Commonwealth Development Corporation
CDG	Carl-Duisburg-Gesellschaft e.V. (Germany)
CEG	Center for Economic Growth (United States)
CFP	Center for Privatization (United States)
CGAP	Consultative Group to Assist the Poorest
CID	Centre for Industrial Development (EU)
CIDA	Canadian International Development Agency
CIM	Centrum für Internationale Migration und Entwicklung (Germany)
CRPSM	Costa Rica Productive Sector Modernization programme (Canada)
DAC	Development Assistance Committee
DAFs	Development Assistance Facilities (New Zealand)
DCS	Development programme of Canadian-Senegalese joint ventures
DEG	Deutsche Investitions und Entwicklungsgesellschaft (Germany)
DGIS	Directoraat-Generaal Internationale Samenwerking (the Netherlands)
DIPO	Danish Import Promotion Office for Products from Developing Countries
EC	European Commission
EBRD	European Bank for Reconstruction and Development
ECIP	European Community Investment Partners
EDF	European Development Fund
EIB	European Investment Bank
ETC	Enterprise Thailand Canada
EU	European Union
FISA	Foreign Investment Advisory Service

FMO	Financiering Maatschappij voor Ontwikkelingslanden (the Netherlands)
FY	Fiscal year
GIEK	Guarantee Institute for Export Credits (Norway)
GOM	Garantiefaciliteit Opkomende Markten (the Netherlands)
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit (Germany)
IADB	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development
IBTA	Investment promotion and technical assistance (the Netherlands)
ICDPS	Islamic Corporation for the Development of the Private Sector
IDA	International Development Association
IsDB	Islamic Development Bank
IFC	International Finance Corporation
IFOM	Investeringsfaciliteit Opkomende Markten (the Netherlands)
IFU	Industrial Fund for Developing Countries (Denmark)
IIC	Inter-American Investment Corporation
ILO	International Labour Office
IMF	International Monetary Fund
IPG	International Privatization Group (United States)
KfW	Kredietanstalt für Wiederaufbau (Germany)
LDCs	Least developed countries
MDF	Mahgreb Development Fund (Canada)
MIGA	Multilateral Investment Guarantee Agency
NCM	Nederlandse Credietverzekerings Maatschappij (the Netherlands)
NGO	Non-Governmental Organization
NIMF	Nederlands Investerings Matching Fonds
NMCP	Netherlands Management Consultancy Programme (the Netherlands)
NORAD	Norwegian International Development Agency
NORFUND	Norwegian Risk Capital Fund for Developing Countries
NZODA	New Zealand Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OA	Official assistance
ODA	Official development assistance
OOF	Other official flows
ORET/Miliev	Ontwikkelingsrelevante Export Transacties/Milieu en Economische Verzelfstandiging (the Netherlands)
PESP	Programma Economische Samenwerkingsprojecten (the Netherlands)



PIIDS	Pacific Islands Industrial Development Scheme (New Zealand)
POPM	Garantieregeling Particuliere Ontwikkelings Participatie Maatschappijen (the Netherlands)
PROPARCO	Société de Promotion et de Participation pour la Coopération Economique (France)
PSD	Private sector development
PSDI Fund	Private Sector Development Initiative Fund (Canada)
PSO	Programma Samenwerking Oost-Europa (the Netherlands)
PSOM	Programma Samenwerking Opkomende Markten (the Netherlands)
PUM	Programma Uitzending Managers (the Netherlands)
RHI	Regeling Herverzekering Investerings (the Netherlands)
R&D	Research & Development
RISPCA	Regional Initiatives Support Programme in Central America (Canada)
RSF CEA	Regional Support Fund Central and Eastern Africa (Canada)
SES	Senior Experten Service (Germany)
SEQUA	Stiftung für wirtschaftliche Entwicklung und berufliche Qualifizierung (Germany)
SME	Small- and medium-sized enterprise
SOE	State-owned enterprise
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Programme
VASS	Voluntary Agencies Support Scheme (New Zealand)
WB	World Bank
WTO	World Trade Organization