

Management response and follow-up note

Evaluation of Danida Business-to-Business Programme 2006-2011

This note contains the executive summary from the final report of the Evaluation of Danida Business-to-Business Programme (B2B) and Danida's response and follow-up actions to the evaluation. The management response is presented after the conclusions and recommendations from the report.

The evaluation was commissioned and managed by the Evaluation Department in the Ministry of Foreign Affairs and conducted by consultants from a consortium of Devfin Advisers AB (Sweden) and Nordic Consulting Group A/S (Denmark). The Evaluation was conducted from November 2013 – August 2014.

1. Executive Summary of the Evaluation Report

The Business-to-Business programme 2006-2011

This Evaluation concerns Danida's Business-to-Business programme (B2B), which was implemented from 2006 to 2011. B2B replaced the Private Sector Development Programme (PSD) that was implemented from 1993 to 2006. B2B was in mid-2011 replaced by the Danida Business Partnership facility (DBP), which is still ongoing (August 2014). The B2B programme provided grant support to Danish companies and their partners in eligible countries of up to DKK 5 million in three phases: *Contact phase* allowing companies to investigate and find a partner through a matchmaking grant covering travel costs; *Pilot phase* providing support to costs associated with initial collaborations such as feasibility studies and the formation of business models; and *Project phase* for deepening the partnership often in joint ventures.

The *overall objective* of the B2B Programme was to contribute to poverty reduction by promoting economic growth and social development in developing countries. The *immediate objective* was to promote the establishment of long-term, sustainable and commercially viable partnerships between companies in Danida's programme countries, including Egypt and South Africa, and Danish companies, with the aim of strengthening local business development.

The B2B Portfolio includes 445 partnerships involving about 420 Danish enterprises (contact phase excluded). The portfolio comprises 205 collaborations, which only went through a Pilot phase, and 240 collaborations, which included Project phase support (in most cases preceded by the Pilot phase). It is estimated that about 1,300 contact phase engagements were conducted. The distribution of Danish companies' engagement among the 19 eligible B2B countries varied from no collaborations in Mali and Benin to over 60 in Vietnam. In China and Indonesia the B2B programme was only open for environmental projects. The B2B portfolio comprises a very wide distribution of business sectors. However, some sectors dominate such as Agro-industries & Food, Information & Communication

Technologies (ICT); and Environmental Technologies. The total approved financial allocation for the B2B programme from 2006 to 2011 for the 19 countries was DKK 1,088 million (Pilot and Project phases).

The Business and Contracts Department (in 2011 renamed the Department for Green Growth – DGG) in Danida was responsible for policy, coordination and guidelines for the B2B, whereas the implementation and administration of the various partnerships were delegated to the Danish Embassies with assigned B2B coordinators in the focus countries. While B2B was a centralised programme with a design laid out in the Programme guidelines, the Embassies had flexibility in relation to sector focus of the programme, the interpretation of the guidelines, marketing of the programme, etc. The Confederation of Danish Industries (DI) and the Danish Federation of Small and Medium Sized Enterprises (HVR) have both played essential roles in the B2B especially in the promotion of the B2B Programme to their members and by providing assistance for applications and implementation. Other organizations and consultants have likewise played an important role in promoting the programme to Danish companies.

Evaluation purpose and methodology

The Evaluation of the B2B Programme has the dual purpose of assessing and documenting the B2B Programme as well as providing lessons for future implementation of Danida Business Partnerships. The basic evaluation questions to be answered – as stated in the Terms of Reference (ToR) – are: 1) To what extent and how has the B2B programme contributed to poverty reduction by creating growth and employment in Danida partner countries; and 2) What lessons can be learned for improved design, implementation monitoring and management of future Danish support to strengthen local business development through partnerships with Danish businesses? The Evaluation assesses the support provided with regard to its relevance, efficiency, effectiveness, impact and sustainability. Furthermore, the Evaluation identifies the most important factors in the programme context and in relation to the characteristics of beneficiary companies that affect the programme achievements, and assess their importance.

The ToR for the Evaluation specifies 20 evaluation questions under the headings of the OECD/DAC evaluation criteria. These questions were transformed into 9 broad evaluation questions and a number of judgement criteria – ensuring that the intended scope of the Evaluation was maintained. An Evaluation Matrix was prepared combining evaluation questions, judgement criteria, indicators, and means and source of verification. In parallel and to ensure compatibility with the Evaluation Matrix, a diagram for the Theory of Change was developed with the point of departure in the ToR's Annex 1: "Tentative B2B Programme Theory of Change". A number of evaluation tools have been applied: i) a review of the relevant academic literature; ii) a Portfolio Analysis of the B2B programme, covering all Pilot and Project phase partnerships; iii) Case Studies in Uganda and Bangladesh through field visits covering all Pilots and Projects (about 35 in each country); iv) a Desk Review of a Random Sample of 20% of the total B2B portfolio; v) an E-survey sent to all partner companies engaged in the B2B 2006-2011; vi) a Focus Group Discussion with Danish enterprises engaged in selected 'success stories'; and vii) interviews with stakeholders including Danida's DGG, the Embassies, DI and HVR. The evaluation tools were used in such way to ensure triangulation of collected information and the reliability of the evidence provided to the largest possible extent.

Theory of Change

The Theory of Change was reconstructed based on the B2B Programme's objectives, and presented the intended/warranted results of the B2B development interventions at the conceptual stage. However, given the level of investments in each of the B2B Programme countries, the macro-level impact on poverty reduction and in promoting economic growth and social development has been minimal and

was thus left out of the analysis. The thrust of the Theory of Change as regards long-term outcomes and impacts is therefore on the local level.

The Evaluation concludes that B2B partnerships succeeded in transferring new technology and knowledge as a result of substantial interaction between partners during the pilot and project phases. In many cases this led to improved performance of the local company in terms of turnover and productivity, but only to a limited increase in employment. As the B2B supported local companies did not adequately generate employment and income, the process to raise the level of welfare significantly in the local communities was not stimulated to any great extent – except in a few cases.

Correspondingly, the contribution to poverty reduction in the local communities has not been as significant as warranted. Despite the significant amount of transfer of knowhow and technology to the local companies, it appears that the diffusion of technological achievements has only taken place to a limited extent. A higher rate of diffusion of technology, management systems, CSR interventions, etc. would have added to the Programme's overall impact.

Answering the Evaluation questions

Relevance – consistency with partner countries' needs and Danida policies

The B2B has been partly consistent with the private sector development requirements in the partner countries and with Danida's private sector policies. B2B is relevant as a mechanism for transfer of knowhow in broad terms and in creating partnerships with Danish enterprises in selected countries. The B2B is only marginally relevant as a mechanism for stimulating economic growth and addressing poverty except in a few specific cases. As a means of addressing broader constraints in the business environment in the partner countries, the B2B is generally not a relevant instrument. B2B was in its design not relevant for countries in French-speaking West Africa due to its inability to attract Danish firms to engage, which may also be the case for DBP.

Efficiency of creating partnerships and delivery of services

B2B was an efficient programme in stimulating Danish companies to seek partnerships in some of the eligible countries and for the creation of partnerships, but less so in creating sustained and commercially viable partnerships beyond the B2B support period, as only about 30% of the partnerships continued after the B2B support ceased. The reason for a high level of efficiency in the earlier stages is a combination of liberal subsidies and a pro-active promotion of the programme by DGG, the Embassies, HVR and DI, as well as consultants in most countries. The lower efficiency in creating sustained partnerships can mainly be ascribed to the high grant element in the Project phase in combination with a weak due diligence of proposals by the Embassies. Determinants for how and where Danish companies engaged were factors such as the quality of the business environment, the overall flows of FDI and where Danish firms already are engaged in business. Contextual factors such as company size, international experience and financial robustness had a certain degree of relevance for the results, although results were also related to dimensions such as trust between the partners and the level of motivation.

The B2B was efficient in delivering matchmaking and stimulating initial partnerships and transfer of knowhow due to active work by the Embassies, Danida, HVR and DI, combined with the liberal subsidies. Embassies were in most cases service-oriented and flexible. The overall resource utilisation has not been efficient in the view of the Evaluation primarily due to 'over-financing' of business alliances. The accounting for results was largely a failure due to an overly ambitious results-management system in design where the application and appraisal absorbed most of the resources by the companies and Embassies, while the monitoring of projects had considerable weaknesses, especially in reporting on overall programme performance and results.

The partnerships have dealt with Corporate Social Responsibility (CSR) quite differently. Some partners defined *internal* CSR as improving the working environment for the employees, which is an obligation according to most countries' labour laws. Other partnerships have provided socio-economic benefits to their employees that are in addition to improved working environment. As regards the *external* CSR, some partnerships did not consider external CSR; other partnerships mainly focussed their CSR activities on the external environment resulting in better protection of natural resource; and some have conceived interventions that constitute a strategic element of their business vision and concept. For some Danish partners the main aim was the *business* perspective, whereas others also appreciated and accepted the *development* perspective of the B2B programme and took great care to comply with this through CSR interventions.

Additionality has mainly been created in the following ways: 1) creation of partnerships, most of which would not have been established without the B2B support; 2) engagement in countries which generally were characterised by weak business environment and low competitiveness; 3) transfer of appropriate technology which generally increased the local companies' performance; and 4) emphasis on CSR, which in a number of cases provided socio-economic benefits that would not have been attained if the focus had been strictly on the short-term business perspective.

Effectiveness in transferring knowhow, generating employment and improving employment conditions

Knowhow transfer in a broad sense is one of the strengths of the B2B due to the engagement of over 400 Danish enterprises delivering hands-on and practical business knowhow. This transfer has led to some good results in company development and upgrading of skills in the local companies and hence their performance. There are some outstanding cases of market and technology development with spin-off effects beyond the companies. Technology transfer was mainly apparent in the Project phase, but not lacking in the Pilot only phase. For large Danish companies, companies with international experience and financial robust companies there was a higher share of successful technology transfer, but the correlation was overall not strong.

The B2B monitoring system did not provide reliable information on employment. Based on the portfolio analysis undertaken as part of the evaluation, it is assessed that some 9,000 – 10,000 jobs have been created (subject to a measure of uncertainty) as well as a substantial number of indirect jobs upstream and downstream and as temporary employment. Overall, there has been an upgrading of the quality of occupational health and safety and working conditions in many local companies. Improvement of the external environment has been achieved through introduction of 'clean technology' and improved management systems of resource utilization and pollution control. The impact on the wider population has been limited, except for some successful projects with significant spread effects of new sources of income, especially in the agriculture sector.

Impact on local and Danish companies and contribution to poverty reduction

There is no impact of B2B on the national enabling environment, but in some countries and in some sectors, B2B has had a positive impact in the sense of systemic effects on addressing market constraints especially in agro-businesses. Overall, there is a good impact in strengthening some of the local companies in technology, management practices and international market knowhow. The commercial impact on the Danish partner firms in terms of increased turnover and/or profit is limited, and there are even cases of negative commercial outfall of the B2B engagements. Overall, a major benefit of the B2B programme is broad learning in Danish SMEs in terms of operating on new markets and in new cultures. Danish companies generally report satisfaction of having participated in the B2B, even when the financial return was negative.

In macro terms the contribution to economic growth, employment and poverty reduction is negligible. Through knowhow transfers and through a selected number of successful projects there are pockets of

impact on regional economies, rural communities and in selected sectors. These projects are not necessarily due to sustained partnerships, but successful local company development. The success stories identified by the Evaluation in terms of poverty impact are mainly in agro-businesses due to the fact that the majority of poor people in rural areas to a large extent derive their livelihood from such ventures.

Sustainability – continuation of attained benefits after project completion

The Evaluation estimates that one of twelve Danish companies that engaged in the programme at the Contact phase, one of four in the Pilot phase, and about four out of ten in the Project phase will continue in a sustained partnership beyond the B2B. The commercial viability of the latter varies, but there a good number of successful partnerships based on joint ventures or other forms of business relationships. The knowhow transfer which has taken place with or without lasting partnerships is likely to have a high degree of sustainability due to the nature of this transfer in direct training by and exposure to Danish partner firms in the same industry.

Contextual factors and outcome

The Evaluation has tested a number of contextual factors related to country, company characteristics (size, age, international experience and financial robustness) and type of collaboration in order to assess how well these correlate with success in creating sustained partnerships, technology transfer, commercial performance of the local and Danish companies and broader development impact. Even though there is no apparent strong correlation between contextual factors and results, the Evaluation indicates some clear trends:

- Large Danish companies perform better in all result categories where the other size categories have a mixed/even performance;
- Medium sized local partners perform slightly better in most categories but size of local company is not a determining factor;
- The more established Danish companies show slightly better results in most categories
- Age of the local company has a clear positive impact on results – the more established the local company the better results;
- Previous international experience is a more important factor for local companies than for Danish companies;
- The more financial robust Danish and local companies perform slightly better
- Market extension projects and buy/sell relationships are slightly more successful in most categories;
- ICT projects show the poorest results in most categories.

The Evaluation has looked into which contextual factors have had the strongest influence on results. The general picture is that project phase partnerships have had better impact along the five results areas than pilot collaboration. While the pilot collaborations in general show fewer positive results than the project collaboration, most of the contextual factors do not play as significant a role in the pilots as in the projects. In some cases, the pilots follow the same line (though less significant) as the projects and in other cases the picture is very blurred. Three of the contextual factors do, however, seem to also play a role in the pilot collaborations which are all related to the Danish company, namely: size, financial robustness and previous international experience. Hence, these three contextual factors could be some of the most influential on results of the collaborations in general. However, these correlations are not

strong enough to warrant a pre-selection of companies based on such parameters. For example, also Danish micro enterprises (with less than five employees) performed well in several respects.

Danish companies engaged in B2B follow to a large extent the global flows of FDI and in particular Danish FDI and trade. Significant from a development perspective (and possibly also as a means of promoting Danish SME globalisation), is the positive deviations, i.e. when B2B were able to attract Danish firms to engage in countries with low overall FDI inflow and trade, countries which generally are characterized by weak business environments, low competitiveness and so on.

Lessons learned

The B2B has demonstrated that it is possible and feasible to transfer knowhow and technology to the local companies – more so in some of the programme countries than in others depending on the contextual factors. While this transfer has resulted in significant improvement of local company performance, the B2B did not succeed to any large extent in delivering the wider development effects to the local communities at large. To achieve the wider societal impact, additional measures will need to be taken in the programme design and implementation.

Conclusions and recommendations

The B2B Programme facilitated transfer of knowledge and technology to the local companies through well-functioning partnerships, resulting in improved performance as regards company management, productivity, turnover, environmental management, and working environment. Generation of employment in the local companies – as well as upstream and downstream employment – was less than planned for. While the majority of B2B supported local companies achieved satisfactory results, the spill over effects to their surrounding local communities did not materialise to any significant extent – except in a very few cases – in consequence of less employment generated and limited diffusion of technology and knowhow. The socio-economic benefits to the local communities were thus less than anticipated and correspondingly the contribution to poverty reduction was less than warranted. The B2B projects performed equally well in constrained as in conducive business environments. This points to the potential for effective development impact of a programme such B2B if it strongly promoted towards countries where the collaborations make a difference, rather than towards countries where the market forces anyway create substantial FDI flows. With a view to improving the current DBP facility and a potential future facility the Evaluation team recommends:

Overall recommendation:

1. *The strategic framework for the business partnerships should be broadened to: maximise employment generation and diffusion of technology and knowhow in order to enhance the dissemination of development effects; and incorporate potential positive and negative systemic impacts in the project design.*

Conclusions and recommendations for the immediate-term related to the DBP facility

Programme criteria requirements: Small companies – less than the DBP requirement of five employees – have the potential to contribute to significant development effects. They are also more vulnerable than large companies and may thus require a more tight screening process. The multiple partner approach, as introduced for DBP and being applied, could be a means of establishing more robust partnerships and may at the same time increase the diversity of the project design. The reduction of the grant level to 50% for the DBP project implementation phase will imply a higher degree of financial commitment compared to the 90% for B2B projects and also reduce the risk of not well-founded partnerships being approved. Mutual trust between the Danish and local partners appears to be a fundamental factor for well-functioning partnerships. The timeframe provided for the DBP identification and preparation phases appears to be too short to allow that mutual trust can evolve substantially. The Evaluation team recommends:

2. *Future business alliances should not exclude companies due to size. Small companies with less than five employees could be engaged through the DBP multiple partner arrangement;*
3. *The grant level for the implementation phase should remain at 50%, but could be modified at a later stage to provide incentives for specific countries and sectors with higher subsidy levels;*
4. *The duration of identification and preparatory phases should be about one year each to enable adequate time for mutual trust to evolve.*

Project design requirements: The scope of the conceptualisation and design of projects have substantial bearing on the partnerships' wider outcomes and impacts. Positive systemic impacts could be attained by addressing problems related to value chains, logistic systems, technology deficiencies, etc. The focus of most previous B2B projects has been on the local company in a narrow sense. A wider apprehension of the external context could potentially stimulate positive impacts for the local company as well as for the local community through a wider dissemination of development effects. Market distortions have a risk of creating substantial negative development effects and should accordingly be avoided. Appropriately integrated external CSR interventions in the business case have the potential to contribute to the wider development effects in the local community and should accordingly be encouraged. The Evaluation team recommends:

5. *Measures to enhance positive systemic impacts should be considered in connection with the conceptualisation of the business case and design of the project;*
6. *Specific attention should be paid to how technological advancements could be diffused to the business community – in a way that doesn't erode the companies' competitive gains, for example through sharing of information in business associations, universities and NGOs;*
7. *The risk of market distortion should be made explicit in applications and measures taken to minimise resulting negative effects;*
8. *Increased attention should be paid to how external CSR could benefit the business case and contribute to local level development effects.*

Promotion and marketing of the DBP: The consequence of reducing the support to 50% for DBP project phase has in the short-term implied that the number of applications has dropped significantly. There would thus be a need to promote and market the DBP programme in order to ensure the warranted level of outcomes and utilise the funding set aside for the DBP programme. Marketing plays a strong role of engaging Danish companies, and as projects perform equally well in constrained and conducive environments, the marketing should emphasise where DBP makes a difference, i.e. where there is limited FDI. The Evaluation team recommends:

9. *DGG should launch a promotion campaign for engaging Danish companies in the DBP Programme, with a particular emphasis on countries with low overall inflow of FDI, which will increase the Programme's additionality and effectiveness.*

Matchmaking and applications: The embassies have been quite resourceful in facilitating the matchmaking and setting-up of the partnerships, but have had lesser resources to assist with the conceptualisation and application processes. Only a few of the Danish companies had the capacity to apply for the partnership support without any advisory assistance and others were heavily dependent on such assistance throughout the whole process. DI, HVR and consultants have provided such assistance. Especially small companies with limited or no international experience are in need of such assistance. The key challenges for the partners are to build a business case that is feasible and design the project by taking the contextual factors into account and to decide on the most appropriate form of engagement. Networks for information and knowledge sharing between new and experienced partners – that help overcome unexpected problems – have been established with the assistance of the embassies in some

countries. The Evaluation team recommends:

10. *Danida (DGG and the embassies) should continue to encourage new partners to seek advice for preparation of applications and facilitate access to consultancy service providers (e.g. business associations or consultants with demonstrated experience) in order to enhance the realism of the business case and the quality of the project design;*
11. *Danida (DGG and the embassies) should consolidate/ formalise knowledge sharing networks and introduce a 'mentor' arrangement in which one experienced company could guide new partnerships.*

Appraisal and approval: Currently, the embassies have the appraisal and approval responsibility – most often it is the same programme officer conducting both functions. With hindsight, a number of the B2B partnerships should preferably not have been approved. A more in depth appraisal would have singled out those business cases and projects of inadequate quality, which would either need more preparation, or which simply could not fly. An independent appraisal function would both augment the embassies' resources and at the same time provide a critical analysis of the business case and the project design, i.e. the commercial and market aspects. The Evaluation team recommends:

12. *An independent appraisal function for partnership application should be established and operated by a professional and commercially oriented organisation – ideally with presence in the country.*

Implementation: Most B2B partnerships that reached the project stage were implemented with limited oversight from the embassies. The majority of projects were implemented without major problems, whereas some encountered serious problems. The anticipation was that once established the partners could manage on their own. The embassies' resource allocation for monitoring project implementation was limited both in terms of time, mobility and technical insight to the multitude of business sectors. A support function that could assist the embassies in reviewing complicated cases on request could thus be a solution. Regrettably, the management information system did not function well, as some information was incorrectly recorded and other information was hard to get by. The DBP operates with two key performance indicators: 1) new and maintained jobs for the local and Danish partners; and 2) CSR promotion in the local partner company. As development effects are centred on employment and CSR, these two performance indicators will remain essential. Especially employment and the wider effects of employment generation are essential to monitor. The financial management of the B2B programme appeared to be satisfactory from the partners' viewpoint, although some complaints were heard. However, compared to the B2B financial management, the very rigorous DBP accounting and auditing requirements are subject to serious complaints from partners. DGG states that the outsourcing of financial audits to one audit firm has resulted in lower costs and more efficient auditing. The Evaluation team recommends:

13. *The embassies resources are complemented on an ad-hoc basis for review of critical business cases by a professional and commercial oriented organisation – ideally with presence in the country;*
14. *A review of employment data in completed and ongoing DBP projects to assess the quality of data recording and the magnitude of employment generated – and change of procedures if need be;*
15. *Review of the accounting and audit procedures with a view to simplifying these.*

Conclusions and recommendations for the medium-term in relation to next generation of Danida partnerships

The introduction of the 50% grant level and the rigorous screening process combined in DBP, have in all probability enhanced the quality and robustness of the partnerships. However, these measures have also implied that the number of partnerships has been significantly reduced – and consequently also the scale of the development effects in the DBP partner countries. This gives rise to considerations on the

future strategic framework for Danida's support to strategic business alliances and how best to promote private sector and business development. Anticipating that the DBP will at least last for five years until 2016 – and possibly longer as the Growth and Employment Strategy may be extended beyond 2015 – it would be pertinent to consider how the DBP could be replaced. In Section 10.4, some other options were presented: a) creation of a middle facility that could bridge the gap between Danida's business alliance programme and commercial funding; b) introduction of new forms of engagement, which among others could include support to fully owned subsidiaries of Danish companies; and c) as earlier mentioned a stratified grant level dependent on country and priority sectors. The Evaluation team recommends:

16. *A mid-term review of the overall performance of the DBP facility including the country reviews that have been conducted since 2011;*
17. *Elaboration of the strategic framework for the next generation facility for Danish strategic business alliances including considerations on harmonisation of the partnership facility with those of other EU member states.*

2. Danida's general comments to the evaluation

The Ministry of Foreign Affairs (MFA) appreciates the work the Evaluation Team has performed in their efforts to document the results of the B2B programme and to formulate the Team's conclusions and recommendations. It is recognized that this has been a complex assignment spanning 6 years of interventions by more than 400 partnerships in 19 countries with different cultures and at different economic development stages. The many constructive recommendations are appreciated and the Ministry agrees with most. On the basis of the Evaluation the MFA has decided to restructure Danish support to business partnerships.

The MFA notes that the Evaluation concludes that B2B partnerships have succeeded in transferring new technologies and knowledge within the partnership as a result of substantial interaction during the pilot and project phases. The MFA recognizes that wider diffusion of technological achievements appears only to have taken place to a limited extent although this effect has been difficult to measure and to document.

The Evaluation points out, that given the size of investments in each of the B2B countries, the macro-level impact on poverty reduction and in promoting economic growth and social development has been minimal.

The Evaluation states that the B2B programme was an efficient programme in stimulating Danish companies to seek partnerships in some of the eligible countries and for the creation of partnerships due to a combination of liberal subsidies and a pro-active promotion of the programme. It is furthermore stated that the programme was less efficient in creating sustained and commercially viable partnerships beyond the B2B support period due to the high grant element in combination with a weak due diligence of proposals. The MFA agrees that the low sustainability of partnerships could to a certain extent be due to the high grant element. In order to ensure commercial sustainability and compliance with programme goals the B2B Programme provided funds for the partner companies to be assisted by consultants throughout the different phases. MFA recognizes, however, that some weak business cases in hindsight should have been detected in the due diligence process.

The Evaluation finds that the effectiveness of knowhow transfer in a broad sense is one of the strengths of the B2B Programme especially for large Danish companies with international experience and financial robustness. The Evaluation estimates that 9,000 to 10,000 jobs have been created directly with the involved local companies, and points to the fact that the B2B monitoring system did not provide sufficiently reliable information to measure employment effects. The MFA recognizes the need for a more effective framework for results measurement, however even with improved measurement, impact on employment has internationally proven difficult to assign to specific program interventions.

The Evaluation provides an overall recommendation together with 16 conclusions and recommendations for the immediate term. The MFA finds that a number of the recommendations are relevant for the formulation and design of future Danida business interventions. Considerations for future interventions will take their point of departure in the recommendations of the Evaluation, but will also build on the Governments development policy priorities for 2015, the Governments strategy for Export Promotion and Economic Diplomacy, and other relevant strategies and policies.

3. Specific comments on recommendations and follow-up actions

Overall recommendation:

Recommendation 1

The strategic framework for the business partnerships should be broadened to: maximise employment generation and diffusion of technology and knowhow in order to enhance the dissemination of development effects; and incorporate potential positive and negative systemic impacts in the project design.

MFA agrees that employment generation and diffusion of technology and knowhow are important development effects. It is, however, increasingly being recognized by donors that employment creation is difficult to attribute to an intervention, and sometimes it is more relevant to aim at other development outcomes in relation to economic growth. This is currently being discussed, and the outcome of these discussions will form part of the strategic framework for a future business partnership facility. MFA agrees that measures to enhance diffusion of technology and knowhow should be explored, for example through new innovative partnerships. MFA agrees that potential positive and negative systemic impacts should be identified and assessed as part of the formulation of private sector interventions.

Recommendations for the immediate term:

Recommendation 2

Future business alliances should not exclude companies due to size. Small companies with less than five employees could be engaged through the DBP multiple partner arrangement;

MFA agrees that small companies have the potential to contribute to significant development effects, although, as indicated by the evaluation, larger and more robust companies generally seem to obtain better results.

Recommendation 3:

The grant level for the implementation phase should remain at 50%, but could be modified at a later stage to provide incentives for specific countries and sectors with higher subsidy levels;

MFA agrees with the Evaluation that the reduction of the grant level to 50 % for the DBP project implementation phase implies a higher degree of financial commitment compared to the 90 % for B2B projects, and also reduces the risk of not well-founded partnerships being approved. MFA also finds that a differentiated subsidy level to provide incentives for specific countries and sectors could be appropriate at a later stage.

Recommendation 4:

The duration of identification and preparatory phases should be about one year each to enable adequate time for mutual trust to evolve.

It is the experience of MFA that most potential partnerships are prepared with the time frame of six months for the identification phase and six months for the preparation phase, and that a more intensive interaction during these two phases may be more productive than spreading the activities over a longer period.

Recommendation 5:

Measures to enhance positive systemic impacts should be considered in connection with the conceptualisation of the business case and design of the project;

This is a very relevant and important recommendation seen in a development perspective. MFA agrees that positive systemic impacts could be attained by addressing problems related to e.g. value chains, and should be considered for future private sector interventions.

Recommendation 6:

Specific attention should be paid to how technological advancements could be diffused to the business community – in a way that doesn't erode the companies' competitive gains, for example through sharing of information in business associations, universities and NGOs;

MFA agrees that the mentioned institutions are good venues for diffusion of technological advancements, but notes that this is not a specific objective of Danida Business Partnerships. The recommendation is, however, valid for future private sector interventions.

Recommendation 7:

The risk of market distortion should be made explicit in applications and measures taken to minimise resulting negative effects;

MFA agrees that negative effects of possible significant market distortion should be identified and assessed in order to minimize any such negative effects.

Recommendation 8:

Increased attention should be given to how external CSR could benefit the business case and contribute to local level development effects.

Companies are increasingly oriented towards promoting higher social and environmental standards, including labor rights, and civil society organizations are increasingly recognizing the private sector's central role in poverty reduction and sustainable development. This should be explored in new innovative partnerships.

Recommendation 9:

DGG should launch a promotion campaign for engaging Danish companies in the DBP Programme, with a particular emphasis on countries with low overall inflow of FDI, which will increase the Programme's additionality and effectiveness.

Danida's private sector facilities are being promoted on a regular basis at exhibitions and other events. This includes all Danida priority countries where the economic and political context allows for commercial operations, including Danida priority countries with low overall of FDI. Separate promotion of DBP for a specific country with low overall inflow of FDI could be relevant in connection with other development or commercial related activities concerning such country.

Recommendation 10:

Danida (DGG and the embassies) should continue to encourage new partners to seek advice for preparation of applications and facilitate access to consultancy service providers (e.g. business associations or consultants with demonstrated experience) in order to enhance the realism of the business case and the quality of the project design;

Use of consultants is an integral part of the preparation and implementation of Danida Business Partnerships as it was for the B2B Programme. Consultants have been extensively used by Danish companies and their local partner to assist and give professional advice in connection with preparation of applications and implementation of the partnership.

Recommendation 11:

Danida (DGG and the embassies) should consolidate/ formalise knowledge sharing networks and introduce a 'mentor' arrangement in which one experienced company could guide new partnerships.

MFA finds the idea interesting, but difficult to put into practice. Informal business networks, sometimes organized by the Embassy, will often serve the purpose of knowledge sharing among Danish and local companies, and relevant organisations. Mentor arrangements could possibly also be anchored in Danish organisations.

Recommendation 12:

An independent appraisal function for partnership application should be established and operated by a professional and commercial oriented organisation – ideally with presence in the country.

MFA agrees that an independent appraisal of partnership applications on an ad hoc basis possibly could have contributed to a more professional assessment of the proposed business plans. External appraisal would, however, add to the transactions costs and prolong the preparation period.

Recommendation 13:

The embassies resources are complemented on an ad-hoc basis for review of critical business cases by a professional and commercial oriented organisation – ideally with presence in the country;

MFA agrees that professional reviews of critical business cases are warranted. This option has to a certain extent been utilized by the Embassies.

Recommendation 14:

A review of employment data in completed and ongoing DBP projects to assess the quality of data recording and the magnitude of employment generated – and change of procedures if need be;

MFA agrees. A review of DBP ongoing and completed projects will be carried out in the beginning of 2015 which will include a review of employment data, although attribution as mentioned is a challenge

Recommendation 15:

Review of the accounting and audit procedures with a view to simplifying these.

MFA agrees that the accounting and audit procedures could be simplified. The review of DBP will include an assessment of the accounting and audit procedures.

Recommendation 16:

A mid-term review of the overall performance of the DBP facility including the country reviews that have been conducted since 2011;

MFA agrees that a review of the overall performance of the DBP facility is relevant. Three country reviews have been carried out in 2014, and an overall review of DBP is planned to be carried in the beginning of 2015, when these three reviews have been completed.

Recommendation 17:

Elaboration of the strategic framework for the next generation facility for Danish strategic business alliances – including considerations on harmonisation of the partnership facility with those of other EU member states.

In line with the Government's priorities for development cooperation 2015 to 2018 the MFA will consider the possible formulation of a new strategic framework for responsible private sector development, which would include relevant adjustments to Danida support to business partnerships. The MFA will include the lessons learnt from the Evaluation of the B2B Programme and the results of Danida Business Partnerships. MFA will also look to how likeminded donors involve the private sector in the development of the economy, civil society and businesses to contribute to growth and employment in developing countries.