



# EVALUATION BRIEF

## *Commercial effects of Danish development assistance*

Brief prepared by Thomas J. Thomsen, TJT Consult.

### 1. INTRODUCTION

This brief aims to stimulate discussions on how to best achieve commercial effects of Danish development assistance when such effects are part of its primary focus. Danish development assistance has a number of main objectives, primarily poverty reduction and human rights. But in recent years the expectations have emerged that, in some cases, the Danish private sector should also benefit commercially from the development assistance. Denmark follows an international trend by prescribing a stronger private sector role in development assistance, both as partner in delivering development results and receiver of the business opportunities involved. The distinction between these roles is not always explicit. This brief focuses on the latter, when Danish firms are intended to benefit commercially from development assistance.

The growing emphasis on the business effects of Danish development assistance raises some basic questions: To what extent and under what circumstances does Danish aid generate commercial effect? What describes the effects and firms that benefit? How may goals for commercial effects best be achieved?

This brief does not intend to fully answer these questions, but instead to foster a discussion around these, drawing on current available evidence.

The brief is organised as follows. To help focus discussions, Section 2 suggests a distinction between four main types of initiatives with commercial aims in Danish development assistance (henceforth, "aid initiatives"). Section 3 comments on goals, expectations, and strategies for commercial effects across the initiatives. Section 4 comments on the limited documentation available to assess commercial effects in Danish development assistance. Sections 5-8 sum up findings on commercial effects for each main type of aid initiative. Finally, Section 9 presents the overall indicative findings and issues.

### 2. COMMERCIAL EFFECTS OF AID ON THE AGENDA

Danish development assistance initiatives with commercial effects on the agenda is a mixed group. Table 1 presents a rough distinction between four main types of aid initiatives, based on similarity in goals, partners, and strategies: classic country programs, transition programs, thematic mechanisms, and business instruments. They all focus their primary objectives on development. In addition, they focus on business effects for Danish firms, but this focus varies in importance. They also vary slightly in the markets,

**TABLE 1: TYPES OF DANISH DEVELOPMENT ASSISTANCE MECHANISMS WITH COMMERCIAL AIMS**

Type of aid initiative	Commercial result	Markets and partners
<b>Classic Country programs</b> Kenya, Tanzania, Bangladesh	Desired side-effect	Country- and sector-confined markets Mainly public partners
<b>Transition programs</b> Vietnam, Indonesia, Thailand, Ghana, Mozambique	Primary goal as step in Denmark's transition to a commercial relationship	Country- and sector- confined markets Mainly public partners
<b>Thematic mechanisms</b> Climate Investment Fund (now under IFU), Strategic Sector Cooperation, Danida's Market Development Partnerships <sup>1</sup>	Primary goal	Globally dispersed, thematically defined markets Public and private partners
<b>Business instruments</b> Danida Bus Explorer, Danida Business Finance (now under IFU), Danida Business Partnership (phased out), IFU	Main goal	Globally dispersed, thematically defined markets Private partners

<sup>1</sup> Danida in fact lists Danida's Market Development Partnerships as a business instrument.

partners, and strategies for achieving the commercial goals.

### 3. GOALS, EXPECTATIONS, AND STRATEGIES

Despite Table 1's suggestion of a neat division in types of aid initiatives with commercial aims, programme documents and guidelines are not always explicit about exact goals, expectations, and strategies for the commercial results. Further, the Danish aid-system does not have an overall framework to guide the definition and implementation of goals and strategies for initiatives with commercial goals for Danish firms.

In some cases, commercial effects appear as desired side-benefits of the development assistance, in others as core objectives. They may rank as equal or secondary to the development goal, but this is not always specified.

Further, the documents rarely specify the commercial result expected. This could take many different forms, for instance; number of Danish jobs or firms established; change in exports; and firm-level changes in turnover, market-share, or profits. The results may materialize in Denmark or abroad. They may be immediate or dynamic. Many program documents and guidelines lack or have only rudimentary results frameworks and systems for monitoring. This is a challenge as a principle issue for the public funded development assistance is that results can be defined at societal level (jobs, exports, etc.) or organisational level (profit, turnover, etc.).

These gaps present obvious challenges for implementing for results, monitoring of achievements, and accountability for aid. But they also provide a flexibility to tailor products and pursue opportunities based on market dynamics not possible to know and adapt to in advance.

The aid initiatives draw on a variety of strategies to generate the business results. Table 2 lists the most typical aid-to-business strategies. Often an aid initiative combines several of these aid-to-business strategies into what could be seen as its intervention logic. In addition, one issue tends to transcend all commercially-focused aid initiatives, namely to focus on Danish "strongholds", defined invariably as green growth, climate, environment, water and sanitation, and health.

It is important to note that aid-to-business strategies vary in their effects. Exactly how depends on the concrete case. For instance, it is reasonable to expect the effects of purchases by an aid program or investment incentives to be more limited in its scale and duration than, say, improved sector framework conditions, that enable a general and sustained lift in market's business opportunities. Some strategies may benefit only firms working on agreements with the development aid initiative while others may benefit Danish firms in the target market at large. Some strategies deliver the effects directly to the firms while others provide them indirectly.

Some strategies are not necessarily better than others are, but in each case it is relevant to consider what mix of strategies provides the optimal balance of effects. Program documents tend not to consider the strategies' comparative advantages or mix.

### 4. EVIDENCE ON COMMERCIAL EFFECTS

Only a few evaluations exist on commercial effects of Danish development assistance. Those available, deal mainly with certain types of initiatives and countries. Two studies focus on the aid's overall effects on Danish economy. One uses generic assumptions and counting methods to arrive at job figures linked to Danish aid, but does not address

**TABLE 2: AID-TO-BUSINESS STRATEGIES**

	Scale of effects	Short or long-term effect	Direct or indirect linkage	Specific or general beneficiaries
<b>Direct purchase.</b> An aid programme buys services or products from Danish providers.	Minor	ST	Direct	Specific
<b>Demonstration.</b> An aid programme uses Danish products/ solutions and through practical use exhibits their value and convince other buyers in the market to buy.	?	LT	Indirect	Specific
<b>Value dissemination.</b> Partners' collaboration with Danida and Danish firms and institutions displays special Danish work-forms, attitudes to society, and priorities reflected in Danish solutions and products; these values appeal to state and private actors who then increase demands for Danish services/products.	?	LT	Indirect	General
<b>Branding.</b> The Danish aid supports sectors or service/ product-areas in which Danish firms have strong brands for knowhow and solutions and works actively to communicate the brand to generate business for Danish firms.	?	LT	Indirect	General
<b>Investment incentives and risk-reduction.</b> An aid-funded mechanism gives grants for investment project-preparation, feasibility studies, business visits and/or loan guarantees; this improves the incentives and/or reduce risks for Danish firms to enter or expand their business in the developing country markets included.	Minor	ST/LT	Direct	General/ specific
<b>Improve sector frameworks.</b> An aid programme helps strengthen a country's framework conditions (policy, regulations, institutions, etc.) for sectors of specific interest to Danish firms towards sustainable and responsible management, a level playing field, and good sector-governance, improving demands and platforms for Danish firms to do business in that market.	Major	LT	Indirect	Specific/ general
<b>Improve general (national) frameworks.</b> An aid programme helps strengthen a country's overall business and governance frameworks through programmes on private sector development and good governance; Danish firms operate on a more level playing field with reduce risks of corruption and costs of doing business in that market.	Major	LT	Indirect	General

commercial effects in depth (Dalberg, 2013). A more substantive econometric study calculates the marginal export effect of 1 krone of aid to 0.05 krone for Danish partner countries and 1.50 krone for “neighborhood countries” (Hansen and Rand, 2014). Yet, both studies consider periods when the size and composition of Danish development assistance were much different from now. The most substantial information comes from two evaluations focused on transition programs<sup>2</sup> and three evaluations focused on thematic instruments<sup>3</sup>. These provide the main evidence for this brief, but the documentation is biased and has gaps: it focuses mainly on Southeast-Asia, mostly leaving out African and low-income countries, and has limited information on firm types, nature of commercial effects, and aid-to-business strategies.

## 5. CLASSIC COUNTRY PROGRAMS’ COMMERCIAL SIDE-EFFECTS

Some country strategies and program documents suggest a role for the Danish private sector, but it is not always explicit if the main intent is for the firms to engage as development actors or to benefit from the business derived. Most likely the intentions are both. Meanwhile, any commercial effects tend to be presented as side-benefits from the development assistance, not a main goal. No evaluations or reviews are available that address the commercial effects of classical country programs (which all are younger than five years)<sup>4</sup>. However, we can speculate that the markets for generating commercial effects will be confined to within the country and its sectors. We can also observe the strategies linking development assistance to the commercial effects tend not to be sector-comprehensive, but are based typically on support to individual projects or partners.

## 6. BUILDING PLATFORMS FOR A COMMERCIAL RELATIONSHIP

All Danish transition-programs aim to strengthen business opportunities for Danish firms as part of shaping a platform for Denmark’s shift from development assistance to a commercial

relationship with the country. While not specified, commercial results seem almost equal in importance to development results. The programs tend to use several strategies, but with emphasis on stronghold-sectors, sector framework strengthening and direct purchases from Danish suppliers. The markets for commercial benefits in these cases are limited to the target countries and stronghold-sectors within them.

A number of Danish evaluations focus on transition programs in Vietnam, Malaysia, Thailand, and Indonesia. A main finding is that Danish aid has been key to attract and establish Danish firms in markets for sectors like agriculture, fisheries, alternative energy and water, but few firms stayed in the post-aid period<sup>5</sup>. Danish firms were slow to invest in Danish stronghold-sectors for green growth in spite of Vietnam’s high demand here. Another evaluation found limited effects of business instruments and support to energy and environment on Danish’ businesses engagement in Malaysia, Thailand, Indonesia<sup>4</sup>. Further, the scale of commercial effects was limited, and the business went mostly to small, direct suppliers to programs (often consultancy).

The evaluations point to four main challenges: 1) transition-processes were not well planned and managed; exits were abrupt and resources and staff at embassies to ensure handover and maintain contacts to authorities and local partners for Danish firms to use were not maintained. 2) sector framework improvements achieved by Danish development assistance and key to Danish business opportunities were not sustained. 3) Highly regulated pricing and protection of state-owned enterprises made it difficult for foreign companies to compete. 4) Danish firms had problems competing in spite strong brands; local markets did not place enough value on Danish firms’ advanced technology and high-quality solutions, but rather favored lower quality and low-priced solutions from the region.

## 7. THEMATIC SUPPORT MECHANISMS

In recent years, Danida has established mechanisms that provide financial project support targeting a global development theme, combined with involvement of the private sector. While not specified in all cases, commercial goals seem to be implicit. The strategies vary, but all focus on Danish stronghold-sectors combined either with sector framework support and/or investment project incentives. They target a global market, dispersed across sectors, and any commercial effects will be similarly dispersed.

An evaluation exists only of the Climate Investment Fund which found little evidence of commercial effects “at scale”, nor of a strong Danish presence in the markets for climate products/services<sup>5</sup>. The challenges cited are a missing strategic approach to engage Danish-based research, civil society, and commercial capacity in the support. It found cooperation with the Danish business community “opportunistic”, funding-decisions were not strategic, and there was weak oversight of a wide portfolio. The evaluation argues there are obvious opportunities to promote Danish core competencies, but export promotion itself will not ensure more use of Danish commercial solutions.

A review of Strategic Sector Cooperation<sup>6</sup> finds it is too early to detect commercial results, but best promises exist where Danish firms already operate. It mentions challenges of roles and responsibilities, and coordination for the multi-actor setup to deliver results. It also mentions needs to boost results monitoring.

## 8. COMMERCIAL INSTRUMENTS

Some instruments have recently been integrated in IFU (including CIF and DBF), while others were phased out (like B2B). Danida’s business instruments generally aim to support establishment of Danish firms’ business in developing countries through investment incentives and risk-reducing measures. The target markets are dispersed globally.

2 Synergies between Danish Development Cooperation and Commercial Activities in Vietnam (Thomsen, 2015); Vietnam-Denmark: Transformation of a Partnership (EVAL, 2017).

3 Evaluation of Denmark’s Climate Change Funding to Developing Countries (EVAL, 2015); Evaluation of the Danida Environment and Energy Cooperation in South-East Asia (EVAL, 2016); Review of Partnering with Denmark (IMPAKT, 2017).

4 The Evaluation of the Danish Neighbourhood. Programme 2008-2015, however, concludes the support did not promote Danish commercial instruments as this was not a strategic objective.

5 Danida, 2015/04, Evaluation of Denmark’s Climate Change Funding to Developing Countries, Evaluation, Ministry of Foreign Affairs.

6 Impakt, 2017.

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The main substantial evaluation is on the phased-out B2B which found limited impact on firms' business performance or Danish investments in the target countries<sup>7</sup>. Other evaluations show mixed results; some point out firms were happy with the instruments, but others suggest the instruments had little effect on firms' engagements in the markets. Key questions concern the additionality and leverage of funds and scale of effects. An evaluation of IFU is on its way, planned for spring 2019.

## 9. OVERALL INDICATIONS AND ISSUES

Clearly, the documentation is too limited and biased to permit firm conclusions to be drawn regarding commercial side-effects of Danish development assistance. Despite this, the following indications can be made.

*The documentation does not allow a full assessment of Danish aid's commercial effects, but it suggests development assistance has helped attract Danish firms and generated commercial benefits in markets examined.* However, it shows no evidence that Danish development assistance generated commercial effects at scale. Further, the business-effects achieved were not sustained. This suggests that aims on commercial effects are more difficult to achieve than anticipated and will not emerge by default, even when the evidence is from markets expected to offer good business potentials for Danish firms.

*It remains an open question how well commercial effects can be achieved in low-income markets.* Most of the documentation deals with medium-income markets. Yet, the evidence suggests that even medium-income country markets presented challenges for commercial aims of Danish aid.

*Information on commercial effects across firm-types is ad-hoc but suggests direct suppliers to aid programs most clearly benefitting.* These are typically smaller

firms, often consultancies. A hypothesis is that long-term investors, like manufacturers, who rely greatly on sector framework improvements, have been less inclined to engage and benefit.

*Often program documents and guidelines leave goals and indicators on commercial results undefined, raising some principle questions.* It means the evaluations could not assess commercial results against goals and targets. Unclear success criteria can make implementation unfocussed and weaken results (for instance, do we aim for visibility or impact?) It can complicate accountability for results. On the other hand, the open approach also allows the flexibility that may be needed when performance is determined by market-conditions.

*Some prominent aid-to-business strategies have not proven reliable.* The evidence suggests the strong focus on Danish strongholds may not always be effective, at least in markets that do not put a premium on Danish firms' high price/quality-mix. Targeting sector framework improvements may not lead to business if they are not sustained in the post-aid phase. This challenges basic assumptions of Danish aid-to-business strategies and suggests more is to be done to ensure commercial results.

*Weak implementation of aid-to-business strategies may be part of the explanation for low commercial results.* Some evaluations found implementation ad-hoc and not focused. It raises the question if commercial aims are mainly on the table for program approvals and not prioritized sufficiently during implementation to drive results.

*The documentation confirms the important roles of embassies to facilitate commercial effects.* They play key roles in facilitating contacts to authorities and potential local partners and provide critical information on regulation and markets. Their knowledge, networks, and active engagement may be the main key factor

to ensure aid's commercial effects. This is in many ways a highly practical and knowledge-based task.

*Expected commercial effects are often not covered by results frameworks and monitoring efforts.* This may reflect they are viewed as side-benefits not warranting monitoring. Yet, it presents a challenge for accountability and capturing lessons-learned.

## LITERATURE

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