

Annex 1: Terms of Reference

Background

This study, commissioned by the Evaluation, Learning and Quality (ELQ) Department, will focus on development agencies' approaches to improving the business environment in developing countries. The business environment can be defined as a complex of policy, legal, institutional, and regulatory conditions that govern business activities.¹ The type of support for enhancing the enabling environment for private sector development is also categorized as policy or capacity development support.

The core strategic document for support to Private Sector Development (PSD) is the Danish Development and Humanitarian Strategy World 2030. According to 'the World 2030' Denmark will prioritise the promotion of market-based economic growth and freedom and raising employment levels with the particular purpose of strengthening the development of the private sector in the developing countries. This includes contributing to favourable framework conditions for the private sector, so that it may increase its contribution to the Sustainable Development Goals in the developing countries and globally.

The key areas are:

- **Framework conditions** for sustainable growth including: Business climate, value chains, climate change investments, labour markets, labour market institutions e.g. public sector provision of vocational training, and business advocacy. Framework conditions also comprise a **healthy labour force**, including through access to i.a. health services, including combating HIV/AIDS, Decent work (SDG8) and the civil society organisations' support of and engagement in technical **vocational training, education and skills development and labour market programmes**.
- **Free and fair-trade** including trade policy and regional economic integration.
- **Promotion of investments and market solutions** including public private partnerships; support to entrepreneurs, start-ups and SMEs; international partnerships; infrastructure financing and internationalising of Danish business.
- **Governance** including well-functioning judicial system and respect for the human rights, effective, responsible and inclusive civic institutions, anti-corruption policies, building of infrastructure and gender equality. Building of institutions, private land and property rights and economic freedom as well as domestic resource mobilisation including financing for development and addressing illegal capital flows.

There are currently a host of Danish Private Sector Development (PSD) programmes, which may contribute to improving the business environment ranging from bilateral programmes in 12 countries² and 8 global initiatives including: Aid for Trade (A4T), Danish Business Explorer (DBE), Danish Business Finance (DBF), Danish Market Development Programme (DMDP), Investment Fund for Developing Countries (IFU), Programme for Global Green Growth Goals (P4G), Strategic Partnership Agreement (SPa)-labour, and Sector Strategic Cooperation (SSC). Denmark is also supporting PSD through core or earmarked support to multilateral agencies such as the World Bank, the EU and ILO.

¹ [DCED, 2008.](#)

² There are three large bilateral programmes in Uganda, Tanzania and Ethiopia with allocations to sustainable growth and employment related activities of more than DKK 500 million. This is followed by a set of six medium sized bilateral programmes of over DKK 200 million and then a further six countries where the allocation is under DKK 200 million. See also whole portfolio analysis in Annex 1.

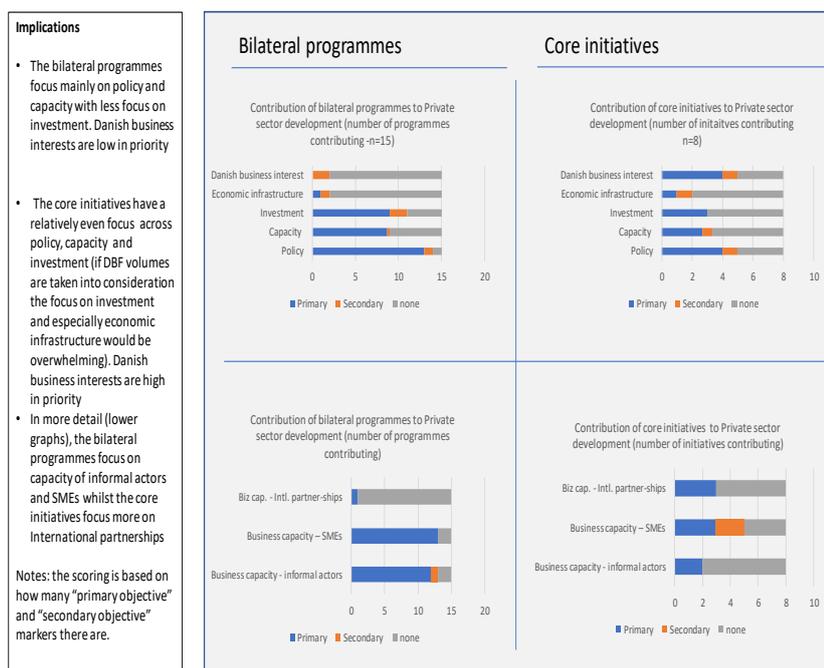
In addition a number of Danish governance programmes may contribute to improving the enabling environment for doing business.

The Taskforce for job creations and skills development, established by the Danish Minister for Development Cooperation in May 2020, has worked intensively with analyzing challenges related to job creation and skills development in Africa. The taskforce identified seven key challenges related to job creation and skills development. Among the challenges is that framework conditions for job creation and vocational education and training are inadequate. The Taskforce further concluded that growth and development of companies are crucial for job creation. The lack of jobs, including for skilled workers, is to a large extent due to the fact that it is difficult to establish and run a company. Particular challenges include the very high tariffs, non-tariff trade barriers and the high costs of transportation that constrain international and regional trade.

There have been a large number of evaluations in recent years of how Denmark may have contributed to enhancing access to finance among others ‘Financing, including blended finance operations and additionality (OECD/DAC EvalNet. 2019 to 2021), Evaluation of Danida Sustainable Infrastructure Finance (2021), Guarantees and Incentives in Development Aid (2020) and the Evaluation of the Investment Fund for Developing Countries 2004-2017 (IFU) (2019). Just to name a few.

In 2020 a study³ was carried out to map Danish support to sustainable growth and employment. This study showed that the bilateral programmes focus strongly on enhancing framework conditions and building capacity of Small and Medium Enterprises (SMEs) while DBF, SSC, A4T and SPa-Labour all have a strong focus on supporting the enabling environment but aiming at different target groups.

Figure 1 Allocations for against private sector development categories⁴



Note: A4T, DBE, DBF, DMDP, IFU, P4G, SPa-labour, and SSC are categorized as core initiatives.

³ PEM consult ‘Cross cutting study on Danish support to sustainable growth and employment in developing countries’ February 2020.

⁴ Figure from PEM consult ‘Cross cutting study on Danish support to sustainable growth and employment in developing countries’ February 2020.

There is however limited evidence of the outcome and impact of the PSD programmes (turn-over, jobs/decent jobs, broader societal effects etc) and the broader Danish portfolio with regard to improving the business environment. There has been country evaluations of Ghana, Mozambique, Bolivia, Nepal and Niger recently and evaluations of support to agricultural growth and employment programme (AGEP) Bangladesh in 2019 and Evaluation of the Private Agricultural Sector Support (PASS) Tanzania in 2020 and evaluation of Danida Support to Value Chain Development (2016) which also touched upon the subject. There has however not been a multi-country evaluation specifically of the subject in recent years.

Objective of the study

The objective of the study is to capture the main trends in how Danida and other development agencies support the improvement of the business environment in developing countries. It should- where relevant- highlight good practices, approaches and examples. The study should help ELQ prepare the Terms of Reference (ToRs) for an in-depth complex evaluation of the subject in the autumn 2021.

Output

A technical report (in English, max. 30 pages plus annexes), eventually to be published as an 'Evaluation Study Report' by the Evaluation, Learning and Quality department

Technical support for preparation of the TORs for an evaluation.

Scope of Work and approach

The study will primarily provide updated information and learning regarding effectiveness and impacts of providing support for improving the business environment.

It will primarily be based on a literature review of existing evaluations, evaluation studies or other relevant publications dealing with the subject. All modalities within bilateral as well as multilateral aid will be considered.

In addition, a number of key actors will be consulted within Danida and three other development organisations (tentatively the World Bank, GIZ, ILO and UK FCDO).

The study will start by identifying the relevant literature, including evaluations, studies, reviews, etc., on trends and lessons. A first overview of the identified literature and any observations will be prepared within the first 2 weeks of the study.

Based on an initial review of the literature, a mapping will be done of the main approaches, providing a matrix to further focusing the analysis that will give attention to trends, demands and opportunities within provision of support for improving the business environment.

A proposed preliminary outline of the study will be prepared in connection with the mapping, as basis for defining the exact focus/content.

A proposed preliminary timeline for the study will be presented within the first two weeks of the study for discussion.

Key Questions

Key guiding questions for the study will include, but not necessarily be limited, to the following questions which may be fine-tuned and restructured based on the mapping and outline to be agreed:

Lessons learned and key questions:

- What are the main trends in the Danish support to improving the business environment in priority countries the last 10 years (including the mix between working directly with the

government (national versus sub-national level, fragile versus more stable situations), working on advocacy and research through challenge funds, governance programme support versus PSD programmes and the nexus between them, the mix between multilateral and bilateral support and the mix between policy support and business capacity development and access to finance? How does it compare with the trend in the support of other development partners?

- PSD has for years been hailed as a main ingredient in driving inclusive economic development, thereby playing a pivotal role in achieving the SDGs (and the MDGs before them). However, Danida experience shows that the (direct or indirect) developmental benefits of PSD are not always clear. Are there any good examples from (ongoing or completed) Danida projects or other programmes that points to clear and verifiable results and best practices when it comes to poverty reduction? Are there examples which may can be studied in more details in an evaluation?
- A reliable and enforceable set of rules is a key ingredient in a good business environment. However, corrupt practices along multiple value chains and productive sectors are major constraints to a more formal rule-based business environment. Is there lessons learned with regard to identifying and responding to political economic drivers in PSD? Has Danida or other development partners for example been able to identify and work with companies or business associations with strong interest in ‘horizontal’ rule of law enforcement⁵? Are there examples which may can be studied in more details in an evaluation?
- Many private sector development (PSD) programmes aim to achieve economic as well as environmental and social goals (Triple Bottom Line or the three Ps – Profit, Planet and People). This includes mitigation of, and adaptation to, climate change, reduction of pollutants, reversal of biodiversity loss and water scarcity as well as socially responsible means of production, processing and sourcing, focusing on the economic and social rights of workers and smallholders in the global value chains. Meeting these needs can also be an opportunity for businesses in the developing world. Are there any good examples of Danida or other donors having contributed to improving the environment for achieving the triple goal of the three Ps? Examples which may be studied in more details in a future evaluation?
- Are there any best practices from Denmark or other donors with regard to efforts to promote a green *and* just transition, for instance as part of the COVID-19 recovery programmes? For instance, can we learn from successful investments in capacity/skills development (e.g. re-training and re-skilling) of fossil fuel workers? The same goes for the link between climate change adaptation and private sector development when it comes to agriculture. Are there best practices to learn from, either in terms of investments in climate-smart agriculture and new, more climate-friendly farming skills etc?
- The private sector can be central to assisting refugees and addressing economic drivers of migration. Strategies include (1) supporting new economic opportunities and adaptation to climate change at refugees’ places of origin; (2) enhancing existing income generation activities of refugees and create new jobs in host countries and communities; and (3) provide resources and capacity to boost humanitarian assistance. Are there any examples of Danida or other donors having contributed to improving the environment for businesses to engage with these groups? Examples which may be studied in more details in a future evaluation?

Resources and time table

⁵ See among others [Productive Sectors - ACE \(soas.ac.uk\)](https://soas.ac.uk/producing-productive-sectors-ace/)

The study will be conducted by:

- An international researcher
- A peer reviewer/resource person

Resources set aside for the assignment will be 310 man hours.

The study will be initiated 1st February 2021 and is expected to be finalized by 1st April 2021.

References

Policy documents

The World 2030

Government strategy for Economic Diplomacy, 2018

Strategy for Aid for Trade, 2018

MFA Strategy for IFU, 2017

Green Growth guidance note, 2015

Guiding principles for Danish Business Finance, 2018

Strategic Sector Cooperation Guidelines, 2018

Principles for engaging with the private sector in development cooperation

Note on market-based partnerships for sustainable development.

Evaluations

Financing, including blended finance operations and additionality. Under OECD/DAC EvalNet. 2019 to 2021, Evaluation of Danida Sustainable Infrastructure Finance (2021), Guarantees and Incentives in Development Aid (2020), Domestic Pension Funds in Africa: Can they Finance the SDGs?, Joint Nordic Assessment of the Nordic Development Fund (NDF) (2019) Evaluation of the Investment Fund for Developing Countries 2004-2017 (IFU) (2019), India and China in Multilateral Economic Governance, Graduation and Development Finance in the Era of the SDGs (2019): A Case Study of Ghana (2018), Private Capital for Sustainable Development: Concepts, Issues, and Options for Engaging in Impact Investing and Innovative Finance (2016). Evaluation of the Danish country programmes and partnerships with Ghana, Mozambique, Bolivia, Nepal and Niger conducted in the period or Evaluation of agricultural growth and employment programme (AGEP) Bangladesh (2019) and Evaluation of the Private Agricultural Sector Support (PASS) Tanzania (2020) and Evaluation of Danida Support to Value Chain Development (2016). Private Capital for Sustainable Development: Concepts, Issues, and Options for Engaging in Impact Investing and Innovative Finance (2016), Real Time Evaluation: Danish Market Development Partnerships (DMDP)

To be further elaborated based on the literature search in the first stage of the study.

Evaluation, Learning and Quality Department

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