Evaluating development assistance to the private sector: Uganda in perspective

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This article addresses the challenges faced in evaluating development assistance to the private sector in Uganda. It examines the concept of evaluation and development evaluation, in particular, while briefly addressing development assistance, its genesis, and approaches.

The private sector is generally recognized as an engine of growth through creation of wealth, income and jobs, and mobilization of domestic resources. It may be the recipient of aid, either directly or indirectly, and at times in the form of public private partnerships. However, development evaluation of what works and what does not work faces a number of challenges in assessing the contribution made by development assistance to the private sector. Hence, it is important to examine the criteria used in development evaluation as well as the process used in assessing outcomes of aided private sector projects. Improvements in development evaluation for private sector donor-funded projects will require revisiting best practices in development evaluation, emphasizing efficiency, effectiveness, impact and sustainability. This article is relevant for policy makers, donors and evaluators.

Introduction

Donors have over time realized the central role of the private sector in advancing innovation, creating wealth, income and jobs, mobilizing domestic resources and in turn contributing to poverty reduction. The private sector may be a direct recipient of aid for investments and activities in the form of subsidies and loans to small and medium enterprises (SMEs). It can be a contractor in implementing aided projects and a provider of aid-equivalent development resources. The private sector can be a partner as in public-private partnerships to combine the strengths of different stakeholders.

This is the situation in Uganda, where development partners/donor governments use a variety of instruments to provide direct support to private enterprises (World Bank, 2003). In this undertaking, it has, however, become increasingly difficult to ascertain the value for money and impact of the development assistance. Hitherto, donors have been more concerned with undertaking evaluations of projects than have governments and beneficiaries. Evaluating development assistance however poses some challenges.

Development Evaluation

Over the years, the concept of evaluation has taken on different shifts in its definition. Basically, an evaluation is an assessment, as systematic and objective as possible, of an on-going or completed project, program or policy, its design, implementation and results (OECD, 2008). The aim of an evaluation is to determine the relevance and fulfillment of objectives, developmental efficiency, effectiveness, impact and sustainability. An evaluation should therefore provide information that is credible and useful, enabling the incorporation of lessons learned into the decision-making process of both recipients and donors.

Therefore, an important purpose of evaluation is to bring to the attention of policy-makers success or constraints on development aid resulting from policy shortcomings or from rigidities on the donor or recipient side, inadequate co-ordination, and the effectiveness of other practices, such as procurement. In this case, evaluation promotes dialogue and improves co-operation between participants in the development process through mutual sharing of experiences at all levels.

Consequently, developmental evaluation (DE) is identified as an evaluation approach that can help social innovators develop social change initiatives in complex or uncertain environments (Patton, 2006). Its originators liken its approach to the role of research and development in the private sector product development process because it facilitates real-time, or close to real-time, feedback to program staff, thus facilitating a continuous development loop.

The definitions above of development evaluation contain five evaluation criteria that should be used in assessing development interventions: relevance, efficiency, effectiveness, impact and sustainability.

(i) Relevance underlines the extent to which the objectives of a development intervention are consistent with beneficiaries' requirements, country needs, global priorities and partners' and donors' policies.

(ii) Efficiency looks at a measure of how economically resources/inputs (funds, expertise, and time) are converted to results.

(iii) Effectiveness deals with the extent to which the development intervention's objectives were achieved, or are expected to be achieved, taking into account their relative importance.

(iv) Impact concerns the positive and negative, primary and secondary long-term effects produced by a development intervention, directly or indirectly, intended or unintended.

(v) Sustainability delves into the continuation of benefits from a development intervention after major development assistance has been completed, the probability of long-term benefits and the resilience to risk of the net benefit flows over time.

Evaluation should be impartial and independent in its function from the process concerned with policy making, delivery and management of development assistance. Impartiality contributes to the credibility of evaluation and the avoidance of bias in findings, analyses and conclusions, and reduces the potential for conflict of interest, which could arise if policy makers and managers were solely responsible for evaluating their own activities.

Quite pertinent too is the recognition that both donors and recipients should be involved in the evaluation process. Since evaluation findings are relevant to both parties. Evaluation terms of reference should address issues of concern to each partner, and the evaluation should reflect their views of the effectiveness and impact of the activities concerned. Participation and impartiality thus enhance the quality of evaluation, which in turn has significant implications for long-term sustainability since recipients are solely responsible after the donor has left.

Development assistance

Moving beyond the definitional rigors of development evaluation, the processes that prompted its development need to be scrutinized. Not surprisingly, these changes have created major challenges for those involved in evaluating development assistance. The past 15 years have seen a series of major shifts in development thinking and practice, involving new ways in which development assistance is directed towards the developing world and the new relationship between donors and recipients.

Development assistance is now seen as a co-operative partnership exercise between donors and recipients. Developing countries are responsible for their own development and development assistance can only be subsidiary and complementary to the efforts of the recipient. Development assistance supports activities for which developing countries have final responsibility and ownership as reflected in national visions, development plans and strategies mutually agreed upon.

Prior to the 1990s, the 'project model' dominated development thinking and practice and provided the context for the theories and methods of development evaluation (World Bank, 2007). Development assistance was generally delivered in the form of projects, a

Fig. 1: A dysfunctional packaging machine is replaced by a dozen manual packers at a food processing company in Kampala, Uganda.

tightly bounded set of activities that typically took three years to complete. The focus in these projects was on project staff producing 'deliverables' (DANIDA, 2005). How these deliverables were to be delivered was set out in a 'logical framework' which defined the presumed links between the inputs, outputs and overall outcomes, as well as the assumptions underlying these links.

However, there has been a transitional phase in many countries, where separate projects are aligned with sector objectives. Increasingly, donor assistance takes the form of pooled support of both financial and technical assistance (Van den Berg, 2005). The argument is that development assistance is only one of many ways in which the developed and the underdeveloped world relate to one another, and that trade and private sector are in quantifiable terms much more important strands in this relationship (OECD, 2005).

Private sector

The key role played by the private sector in spurring economic development, often referred to as the "engine of growth" (World Bank, 2003), is common knowledge. The private sector is seen as a panacea for creating jobs, providing incomes, goods and services, advancing innovation, and generating public revenues essential for economic, social and environmental welfare. This is why development evaluation is strongly directed towards appraising and assessing the private sector. Moreover, as public resources for development assistance are scarce, the private sector is increasingly being looked at as an important additional source of external finance and domestic resource mobilization (Karlan, and Zinman, 2009).

Private sector development (PSD) has thus been receiving increased attention from policy-makers in the developing world and from the development community alike. The creation of an enabling business environment through reforms has been acknowledged as an important pre-requisite for unleashing a private sector response that leads to dynamic growth.

In Uganda, the private sector has been the leading source of growth in investments, in line with the country's policy of private sector led growth. Out of USD 4.8 billion worth of fixed investments in 2011/12, the private sector contributed

USD 3.6 billion (76 percent) (Uganda National Development Plan II, 2015/16-2019/2020). However, the private sector is performing rather poorly owing to several important facets of the business environment, including getting the relevant permits to start a business, the lack of reliable power supply, registering property, dealing with construction permits and trading across borders. The World Bank's Doing Business Indicators for 2014 ranks Uganda ranking 132nd out of 189 countries. The commercial lending rate for Uganda is 21.4 percent (June 2014), the highest in the region, compared to Kenya (15.1 percent), Rwanda (16.7 percent) and Tanzania (15 percent). Limited access to credit has been consistently identified as one of the major challenges to doing business in Uganda. It is against this background that we examine challenges in development evaluation in relation to the private sector in Uganda.

Challenges in evaluating private sector development assistance in Uganda

Evaluating support to private sector development helps understand what works and what does not work, and ensures accountability on the use of public resources. Evaluation tended to focus on whether or not these 'deliverables' had been delivered and whether the assumptions had held.

A recent attempt to evaluate Uganda's Poverty Reduction Strategy adopts a different strategy (Kakande, 2006). One of the core problems addressed in this evaluation is the multidimensional nature of poverty. The evaluation focuses on a group of 31 indicators of output and impact as well as another set of indicators to assess inputs and value for money. The result of the exercise shows that significant challenges remain in evaluating the relevance and fulfillment of objectives, development efficiency, effectiveness, impact and sustainability, especially in the private sector (Holvoet and Renard, 2007).

Perhaps the most difficult challenge is determining where the boundaries of the analysis should be drawn, given the complex intermingling of financial and technical inputs within a changing policy framework (Jacobs, 2005; Lister, 2006). The recurring problems is how far evaluators should restrict their activities to the actions and impacts of development agencies.

An obvious problem is that it is often difficult to distinguish between the impacts of these forms of development interventions in the private sector. An independent evaluation of the Uganda Integrated Program, Phase II (UIP II) – Agro-Processing and Private Sector Development in Uganda – implemented by UNIDO, with a total budget of about US$ 7.5 million (UNIDO, 2009), established that it is difficult to assess the direct impact or long-term effects of the UIP II on private sector development. Some of the initiatives are pursued because they are deemed essential, even if Uganda does not appear ready yet to absorb the results (for example, the switchover from analog to digital, the introduction of legal aid and alternative sanctions), with little or no far reaching effectiveness and impact.

Regarding the relevance criterion, several challenges are observed. It is difficult to evaluate the relevance of the funded projects given the huge pressure from international organizations and their agencies towards potential beneficiaries that their engagement through direct agreement is pre-arranged, with development assistance having become their main source of funding and continued presence.

Some even perceive this as their 'right' and seek to use even diplomatic channels to impose themselves, while on the contrary, opting for the direct agreement as the modality of implementation and the choice of the agency should be the right of the beneficiaries, based on their estimation of the suitability of the international organization/agencies and proven track record on performance.

There has been a 'supply-side' tendency in some areas for donors or project consultants to import development concepts wholesale from abroad, such as "Agribusiness" initiatives and Business Improvement Clinics, and then seek to make them fit the Ugandan legal, administrative or business system. Many of these interventions address aspects that are assumed to be critical for effective development yet are difficult to define and measure, and are not relevant to project objectives.

In the case of effectiveness, development evaluation has faced many challenges. The scope of a development evaluation can differ widely depending on the nature of the evaluator, the types of effects that might occur, as well as the choices that are made about the aspects to be assessed in detail. These choices can be determined by decision makers and/or researchers and may include the priorities of other stakeholder groups such as target groups against the intervention's objectives. In Uganda, a 2009 evaluation of UNDP development programs for the private sector in Uganda, found out that the expected outcomes did not adequately reflect the entire range of project results. Clarity of project objectives, indicators and overall contributions to goals was diminished. More so, baseline information crucial for an evaluation of results was lacking for most programs.

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Sometimes, the objective itself was unrealistic (for example, 'democratization' as the outcome from grant support for microfinance institutions). Many times even a two-year timescale is too short to assess performance for some types of intervention, especially those that train farmers in financial management by saving and credit society organizations (SACCOs). This is the case with starting cottage industries and industrial parks, most of which have not had sufficient time to fulfill objectives. In such situations, it is difficult to evaluate the effectiveness of development assistance on a two-year timescale whose effectiveness would likely to be felt after 10 years.

Development evaluation also faces challenges relating to appraising efficiency, that is, a measure of how economically resources/inputs are converted to results (outputs and outcomes). Efficiency is the relationship between resources and results: the input-output ratio. As such, it is a relative not an absolute concept, and requires a reference point to be meaningful. Efficiency is almost impossible to evaluate for the whole private sector, in the absence of comprehensive data on spending (based on actual disbursements, not budget or contract values), and aggregate

performance indicators for the period. This is a major hurdle in the private sector where data is perennially and deliberately absent.

On the inputs side of the efficiency equation, feedback from different businesses that have received development assistance suggests that one of the hardest challenges in programming is to budget accurately for individual projects, especially knowing that implementation will not commence for a period between one and three years (depending on the donor and the procurement process), meaning that future conditions must also be anticipated.

Some of the donations made to businesses are also extremely small, with 75% of the grants being less than US$100,000, which is inefficient from the viewpoint of transaction costs (as well as impact). In assessing the price of development assistance, it is important to not only factor in the contract value, but also the hidden costs of administration by the donor and staff time and overheads (office, if provided) incurred by the beneficiary. It is not possible to estimate these costs within the confines of a development evaluation, but they are likely to be material, to use an auditing term. Inputs are also about quality, not just cost and timings.

Sustainability is also a major challenge for development evaluation. Not every development assistance to the private sector is expected to continue beyond the project's duration, by being mainstreamed with domestic funding. Some actions last for the lifetime of the project, but their benefits should endure – in new knowledge, skills and systems, better laws, higher standards. This is quite difficult for evaluators to measure.

While development funding is conditional, implicitly or explicitly, on committing the necessary resources to sustain outputs, there is little evidence of an organized approach by individual businesses to live up to these commitments. But what is difficult to measure is the resource commitment to continue or build upon development assistance projects that affect the private sector or facilitate the availability of increased external funding.

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Furthermore, the changing relationship between aid givers and aid receivers complicates the role of the evaluator, and as does the new emphasis on partnership. Previously, evaluations were planned, implemented and produced for donors, but increasingly the evaluation process is seen as involving all the partners. What is being required of evaluators by these various partners is increasingly complex, and evaluators can now find themselves working to a range of audiences and masters.

Older principles of accountability and conditionality are now replaced with an increasing focus on the learning functions of the evaluation process. Evaluations are increasingly viewed as contributing to 'empowerment', which is now a central theme in contemporary development thinking. And in practice, while evaluators have always worked in a political context, the demands being made upon them are increasing in variety and significance.

More challenges remain. An obvious condition for development evaluation is the active involvement of researchers or evaluators in the intervention design and implementation phase in the private sector. This involvement is essential for baseline data collection as well as for quality control of randomization. In practice, however, many impact evaluations are commissioned after an intervention has been implemented and baseline data continues to be a problem. Other challenges include non-existent or poorly defined objectives, for example, intended outcomes are not stated as measurable change over time in target groups; unrealistic and/or conflicting objectives; and, lack of targets or measures of success.

Conclusion

Development assistance is growing as the role of the private sector in development is becoming more dominant and appreciated as more efficient compared to that of private institutions. Thus, good practice in development evaluations emphasizes that programs or interventions should be properly designed. Interventions must ensure that private sector players, for instance, have feasible business plans on which they base their operations, which is usually not the case. There should be clear baselines upon which evaluation is conducted. Development assistance must address specific benefits as well as intervention that are clearly measurable. Proper risk assessment must also be done. Costs and benefits should be quantified at the beginning of the programs. Lastly, end-of-project report should be made available.

Summary of key messages

- The private sector has access to development assistance through various avenues.
- Evaluating development assistance to the private sector ensures accountable and sustainable use of public funds committed.
- The private sector is still so underdeveloped in terms of data organization and access that development evaluation can do so little to be a meaningful undertaking.
- Development evaluation activities and those of funded projects are so intermingled that it is quite difficult to determine the boundaries of analysis.
- Development evaluation finds it difficult to delineate the impacts of development assistance to private sector given the unrealistic timelines of the funded projects.

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Wilberforce holds a PhD in Agricultural Economics from Makerere University. He has a strong background in research with particular interests in rural finance, land tenure and natural resources management; agricultural research for development, food security and rural development and governance in general. He has written, presented, and published several professional papers at the international level.