MINISTRY OF FOREIGN AFFAIRS OF DENMARK
Danida

BUSINESS
GROWTH AND DEVELOPMENT

ACTION PROGRAMME FOR DANISH SUPPORT TO PRIVATE SECTOR DEVELOPMENT IN THE DEVELOPING COUNTRIES
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# CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreword</td>
<td>4</td>
</tr>
<tr>
<td>1. Introduction</td>
<td>6</td>
</tr>
<tr>
<td>2. Integration of the poor countries in the global economy</td>
<td>10</td>
</tr>
<tr>
<td>3. The private sector creates growth, employment and development</td>
<td>14</td>
</tr>
<tr>
<td>4. Business sector programmes</td>
<td>19</td>
</tr>
<tr>
<td>in selected programme countries</td>
<td></td>
</tr>
<tr>
<td>More efficient public regulation</td>
<td>19</td>
</tr>
<tr>
<td>Sustainable labour market</td>
<td>21</td>
</tr>
<tr>
<td>Developing a competitive business sector</td>
<td>21</td>
</tr>
<tr>
<td>Better access to financing, including micro financing</td>
<td>22</td>
</tr>
<tr>
<td>Further perspectives</td>
<td>24</td>
</tr>
<tr>
<td>5. The private sector dimension in other sector programmes</td>
<td>25</td>
</tr>
<tr>
<td>6. Involvement of Danish trade and industry</td>
<td>29</td>
</tr>
<tr>
<td><strong>THE ROLE OF DANISH TRADE AND INDUSTRY</strong></td>
<td></td>
</tr>
<tr>
<td><strong>FRAMEWORK CONDITIONS FOR THE BUSINESS SECTOR</strong></td>
<td></td>
</tr>
<tr>
<td><strong>SECTOR PROGRAMMES</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Further perspectives</strong></td>
<td></td>
</tr>
</tbody>
</table>

2
CONCRETE PRIVATE SECTOR INSTRUMENTS

7. Incorporation of private sector instruments

8. Company partnerships – The PSD Programme

9. Review of Mixed Credits

10. Corporate ethical, social and environmental responsibility

11. Target and indicator form

Annex 1
Vigorous private sector development is a decisive precondition for growth. The main challenge for Danish support to private sector development in the developing countries is to make a contribution to socially and environmentally balanced economic growth in order to fight poverty in the poorest countries in the world. Danish assistance is granted as help to self-help. Conditions for operating private companies must be improved, giving poor men and women the opportunity for employment and better conditions for their lives.

Each developing country faces its own challenges. Efficient assistance to private sector development should take a starting point in the obstacles or “bottlenecks” facing the individual country, as well as its own potential for overcoming them. The national poverty reduction strategies should give higher priority to private sector development than they do today. Concrete policies should be formulated for private sector development and more funds should be allocated for this purpose in each country’s national budget.

In our programme countries, Denmark is an important donor within the sectors we have selected, and this position should be used to make a difference for development within the private sector also. The government’s target is to increase the number of private sector programmes in bilateral development assistance. Simultaneously, private sector development is to be promoted in well-suited sector programmes, such as programmes for agriculture, fisheries, energy and transport.

The Danish private sector instruments – programmes aiming at benefiting from the competences of the Danish business sector in development assistance – are well developed, but could be further strengthened. The action programme outlines this, and it lays down as a main principle that private sector instruments and sector programmes should be
integrated, i.e. work for each other within an overall strategic frame for Danish support to private sector development in the individual programme country.

More flexibility should also be created in the application of the individual private sector instruments such as Mixed Credits, the Private Sector Development Programme and the Industrialisation Fund for Developing Countries. Finally, the government is planning to strengthen the new programme for Public Private Partnerships, which is aimed at supporting the social responsibility of Danish trade and industry in the developing countries.

Increased growth is not created by unique efforts, but over time and by means of coherent policies at local, regional and international level. The strategy for private sector development should be viewed in close connection with the new strategy for trade, growth and development. At the international level, Denmark will work for rule-based, transparent and liberal trade regimes that comply with the interests of the developing countries. And through support at country level, in the Danish programme countries we will seek to promote the possibilities of the developing countries’ utilising increased market access. But the one effort cannot be successful without the other. Trade and private sector development are two sides of the same coin.

Ulla Tørnæs
Minister for Development Cooperation
INTRODUCTION

There are more than a billion people in the world living on less than DKK 6 a day (1 US Dollar). They lack hope for a better economic future. It looks very difficult, not least in Africa.

High economic growth that benefits the poor is a decisive precondition for eradicating global poverty. Economic growth in China and India has lifted millions out of poverty. There is need for similar economic growth in Africa of at least 7 per cent if the Millennium Development Goal of halving poverty is to be realised. Experience from Asia has shown that such growth must be based on vigorous private sector development.

The main challenge for Danish support to private sector development in the developing countries is to contribute to socially and economically balanced economic growth in order to fight poverty in the poorest countries in the world. The aim is, therefore, to improve the preconditions for operating private business in the developing countries and thus open up the possibility for these measures being able to function as the motor of economic growth that benefits the most impoverished population groups.

The core of the Danish efforts is contributing to an enabling business climate in the developing countries that can increase the innovative capacity of the private sector and maintain a high level of domestic and foreign investments in sustainable development.

The Danish assistance is given as help to self-help. Development assistance will contribute to creating good frames for private initiative, which can provide poor men and women with an opportunity for employment and improved living conditions.

Denmark will support private sector development in the poor countries at all levels. Internationally, by supporting a result in the Doha round that meets the requirements of the developing countries. Nationally, in the individual countries in general policy, including the poverty reduc-
tion strategies. At sector level and in concrete company initiatives.

Each individual developing country faces its own challenges. The point of departure for efficient development assistance should always be to identify the obstacles that are crucial for the individual country and the potentials that the country has. In many developing countries there is a need to overcome a long series of problems for private sector development: lack of credit possibilities and infrastructure, low educational level, a badly-functioning labour market, inefficient bureaucratic procedures etc. To these may be added a number of factors of a cultural, social, economic, political or legal nature preventing the exploitation of women’s full potential in economic activities. The World Bank’s so-called “doing business” indicators will be used to identify concrete obstacles to a positive business environment in the individual programme countries.

With a starting point in the needs and poverty reduction strategies of the individual countries, identification is to be made of areas where it is possible to utilise Danish experience. Denmark plays an active part in the cooperation concerning donor cooperation and will focus the support on areas in which Denmark has a comparative advantage, and which supplement – and not overlap – what other donors do.

Danish policy will be organised so as to make it easier for private business people in developing countries to run a business and exploit new market openings. The assistance is to contribute to promoting transparency and development-friendly rules for the business sector, and to help individual businesses to overcome obstacles and barriers so that they can get started on efficient production.

Support to private sector development should be viewed in close connection with the Danish strategy for assistance to trade and development. The government will work actively for the developing countries being given better opportunities for participating in world trade on an equal footing. However, the benefits from trade reforms do not arise automatically. Targeted assistance is needed so that the developing countries can be placed in a better position to make use of existing and new market openings.

On the global level Denmark will work for improving the possibilities of the developing countries to receive a positive yield from the globalisation process. Denmark will consistently work actively on the part of the poorest developing countries. In the final analysis this will also provide Danish firms with market opportunities.
Without doubt, the challenge is greatest in Africa. In spite of more or less similar points of departure, Africa lags far behind in relation to Asia. In Africa tariff walls and other obstacles to trade have long protected weak industry. The educational level of the workforce, infrastructure, foreign investments etc. are all weaker than what can be seen in the great majority of Asian countries. Trade and industry in the African countries need special support before launching on global competition. Most Asian countries have a much superior starting point for getting going with private sector development and therefore better opportunities for benefiting from the Danish support. It will be possible to achieve a greater and swifter effect here. The composition of development assistance to private sector development in the individual country will be marked by this difference.

There are many examples from the developing countries showing that women are skilled entrepreneurs and CEOs. In accordance with the strategy for gender equality in Danish development cooperation, in implementing the action plan there will focus on equal rights, equal access to resources and equal opportunity for influence by men and women. There will be emphasis on eliminating obstacles to women's equal participation in private sector activities and on implementing special efforts aimed at increasing women's participation in private sector activities.

Participation by Danish enterprises in development cooperation contributes to good development assistance, inter alia by ensuring the transfer of business experience, leadership competence, technology etc. to local partners. At the same time participation contributes to strengthening the Danish enterprises in their internationalisation.

The most recent action plan for Danish support to private sector development in the developing countries dates back to September 2001. With the present, new action plan the government will take a starting point in the experience of the Danish embassies in the area of private sector development since 2001 and implement a number of measures to further target Danish efforts in the field. The measures lie within the following areas:

- International and national framework conditions for private sector development (chapters 2 and 3).
- The work on private sector programmes (chapter 4).
- The private sector dimension in other sector programmes (chapter 5).
- Incorporation and further development of private sector instruments, not least in relation to the sector programmes (chapters 7-10).
The initiatives contained in the action plan can be summarised as follows:

• Denmark will work deliberately for private sector developing receiving high priority in the national poverty strategies.

• A new private sector programme is to be launched in Kenya, and similar programmes are under consideration in the other programme countries.

• Adapted to local conditions, the four business sector programmes will support a number of private sector support services, including management training and alignment of vocational education programmes to the needs of the companies.

• Private sector development is to be incorporated in Danish sector programmes.

• Strengthened and more efficient support for micro financing – which gives the poor the opportunity to increase their income – in both private sector programmes and other sector programmes.

• Development of a strategic approach to private sector efforts at country level by incorporating the sector programmes and private sector instruments and, in addition, a common feasibility study concept for PSD (Private Sector Development Programme), the Industrialisation Fund for Developing Countries (IFU) and Mixed Credits.

• The Private Sector Development Programme will be revised in accordance with the result of an analysis of the programme. The objective is to strengthen the development effect in the programme.

• Administrative simplification and alignment of the requirements concerning Mixed Credits, which includes removing the requirement for a 50 per cent Danish content of supplies.

• A private capital fund for socially responsible investment in the developing countries is to receive support.

• Better monitoring of progress in private sector development in the programme countries.
The Danish government has recently drawn up an ambitious strategy for Trade, Growth and Development, in which it is stated that Denmark will strengthen its efforts to further the integration of the developing countries in the global market economy. Increased liberalisation of world trade based on transparent rules will have positive effects on all countries. In the international trade talks, Denmark will work for concessions to the developing countries and in particular the poorest in sub-Saharan Africa. Also in the context of the European Union Denmark will work for increased market access and the abolition of trade distorting aid schemes, including within the area of agriculture. The government has identified a large number of specific negotiating positions in relation to the WTO’s development agenda with a view to improving market access for the developing countries.

However, it is also clear that not all countries will be able to immediately benefit from a new liberalisation of world trade. Many poor countries will need transition schemes. In the present Doha round of talks in the World Trade Organisation (WTO), Denmark supports the adoption of special transition schemes for the most impoverished developing countries. The developing countries should have a period of some years to align their economic structures with stepped-up competition in a global world market. For example, Denmark will support further development of WTO’s provisions concerning “special and differentiated treatment” of the developing countries, and the announcement by the European

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**FRAMEWORK CONDITIONS FOR THE BUSINESS SECTOR**

2. **INTEGRATION OF THE POOR COUNTRIES IN THE GLOBAL ECONOMY**

Trade is the key to growth. Also for the world’s most impoverished countries. For international trade to genuinely become an engine of growth, the developing countries must be integrated in the global market.
Commission that most of the developing countries will be completely able to avoid undertaking new WTO commitments in connection with the outcome of the Doha talks.

The EU is the most important trade partner of the African countries. The EU must incorporate trade policy in development assistance. In addition to increased market access, liberalisation should include support to regional integration and technical assistance in order to live up to the quality requirements in connection with the import of products to the EU. Approximately Euro 700 million is spent annually over the EU’s community assistance on trade related development assistance to the developing countries. In relation to the EU’s “Anything but arms” initiative vis-à-vis the least developed countries, Denmark is working for it to be expanded to cover a larger group of the poorest countries, and that the initiative’s rules on point of origin are improved to the advantage of the developing countries in question. There is also work in progress to ensure reasonable, long transition schemes for the groups of developing countries involved, when they may have to undertake reciprocal commitments as a result of increased access to the EU market under the terms of the Economic Partnership agreements under negotiation at present.

Denmark actively supports the enhanced influence of the developing countries in the international trade talks, both under the WTO and in negotiations on the EU’s cooperation agreements. Technical capacity building will contribute to enabling the countries to take care of their own interests in the technically very complicated negotiations. On the initiative of Denmark, the Nordic countries have taken steps to establish close dialogue with African countries under “The Nordic Africa Initiative”, NAI, in order to help to achieve a positive result for Africa in the WTO’s Doha round. In January 2005 the Nordic countries convened a ministerial conference with 19 African countries in Dar es Salaam, Tanzania. The dialogue under the NAI led to considerably better understanding between the partners, and follow-up to this is intended to become an important part of the preparation of the continued negotiations concerning the “Doha development agenda”.

11
To sum up, in the field of trade and development Denmark will:

- Work for the industrialised countries/the European Union showing the greatest possible degree of accommodation vis-à-vis the developing countries in the international trade talks;
- Support the developing countries’ capacity in the WTO talks;
- Support the adoption of special transition schemes for the poorest countries;
- Work for increased market access and the swiftest possible phasing out of trade-distorting subsidy schemes in the EU.

Experience has shown that in general the private sector develops best in an open, market-oriented economy. Many African countries that previously relied on a state-controlled self-sufficiency economy, have changed their policy. But there is more to be done to promote trade-friendly liberal regimes. Also in the developing countries. It is important that the trade policies of the developing countries include the significance of regional trade and regional economic integration.

Enterprises in many of the poorest countries will need a transition phase before they are exposed to open competition, but this transition phase may not become a pretext for doing nothing. It must be utilised for deliberately building up the competitiveness of the enterprises. The benefits from liberalisation do not appear unaided.

It is necessary to support the business sector’s utilisation of the possibilities at country level. The action programme examines this in more detail in the next sections.
In Ghana, as part of the private sector programme, Denmark has supported the formulation of a national trade policy, which was launched in February 2005. The trade policy reflects how great an influence international trade has on Ghana’s development and how Ghana can best exploit the possibilities in the trade rules. The trade policy has likewise the clear objective of working for greater sub-regional integration, so that trade with other ECOWAS countries can be increased.
3. THE PRIVATE SECTOR CREATES GROWTH, EMPLOYMENT AND DEVELOPMENT

Economic growth is a necessary but not sufficient condition for tackling poverty. A great need for growth in Africa. Without stronger economic growth the Millennium Development Goal of halving poverty in Africa will not be realised.

The aim of Danish support to private sector development is to promote economic growth in order to reduce poverty. The challenge consists in improving the conditions for the business sector in the developing countries so that it becomes easier to run a business and create jobs.

Figure 1 below gives an impression of the importance of economic growth for fighting poverty.

Figure 1: Fighting poverty
– close connection with economic growth (source: World Bank, 2005)
As can be seen from the figure, during the 1980s and 1990s, China experienced average annual economic growth of approximately 8 per cent. By means of this growth China almost halved the part of the country’s population living on less than DKK 6 per day. In comparison, during the same period sub-Saharan Africa experienced negative economic growth, leading to a rise in the part of population living on less than DKK 6 a day.

The same picture is to be found when the connection between economic growth and employment is examined. Economic growth has a positive connection with employment, and this connection is not least strong in the developing countries, where employment is typically the best route out of poverty. The private sector is of quite decisive importance in connection with the creation of employment. According to the World Bank, the private sector in the developing countries is estimated to contain about 90 per cent of all jobs. Moreover, through its contribution to the welfare of the country and the tax revenues it provides, the private sector plays a crucial role in financing social development, including improved education and health services.

It is today generally accepted that economic growth is a necessity for tackling poverty. Sustainable economic growth is crucial for helping the poor in Africa, and the engine can only be the private sector.

The point of departure for Danish development cooperation is the achievement of the Millennium Development Goals through support to the implementation of the poor countries’ poverty reduction strategies. It is internationally acknowledged that the Millennium Development Goals first and foremost focus on social development and to a considerable extent ignore the need for economic growth. For this reason, most of the national poverty reduction strategies have also primarily been oriented towards improving social development. The strategies have thus focused on better access to social services such as primary education and health services. The strategies have not systematically included an overall picture of the concrete policies necessary for strengthening economic growth in the individual country. This applies to high degree to the role of the private sector in the development process and the conditions that must be fulfilled for the private sector to contribute as much as possible to the creation of permanent economic growth.

Denmark will, naturally, work to strengthen this angle in the future dialogue concerning implementation and updating of the poverty reduc-
tion strategies, but will also work for the private sector to a wider extent obtaining the capacity and possibility for participation in the formulation process. Danida will support capacity building in the organisations of the private sector and the labour market, and will help to solve the difficult that the private sector encounters. When decisions are being made on budget support at macro or sector level, it will be taken into the overall consideration whether allowance has been made for the possibilities of satisfactory private sector development in the budget and in the policy on which it based.

However, the way in which the growth is composed is not unimportant. In order to achieve the greatest possible poverty reduction, the growth must be broadly distributed and, among other things, ensure increased employment. The key to growth lies in the development of the private sector. About three-quarters of the poor of Africa live in rural districts and live off farming. Therefore, their potential for overcoming poverty is closely linked to the development of the agricultural sector. For the same reason, the sector naturally has a prominent role in the countries’ national development and poverty strategies but, as previously mentioned, often without sufficient concretisation of the policy that is to create growth within the sector. Government controlled agriculture has failed in many developing countries. There is a need to provide private initiatives with better opportunities, and this is what makes liberalisation of trade in agriculture so vital. Enterprises and manufacturers’ associations must be involved in both sales of goods and support to manufacturers (consultancy, supplies etc.).

Small and medium-sized enterprises employ a very large part of the labour force outside of agriculture, and quite naturally stand at the centre of poverty-reducing growth. The OECD has also demonstrated that large enterprises can correspondingly make a contribution to employment and poverty reduction if the country’s private sector strategy is sensibly organised.

It is often difficult for weak groups to establish themselves in the private sector. This applies not least to women, who constitute a very large part of the labour force especially within agriculture. If women get the opportunity to utilise their efforts better, for example by obtaining loans and rights to land, or by establishing their own business, they have great potential for contributing to growth. It is, moreover, well-documented that targeted efforts to increase women’s earnings benefit the whole family.

Conditions must be improved for the private sector to make it easier
to operate a business in Africa in particular, and not least for small and medium-sized enterprises. It is up to the individual country to pursue a healthy and responsible economic policy, but development assistance plays an important supportive role in the poorest countries. A broad range of efforts is necessary.

General political and macro-economic stability is an important prerequisite for increased economic growth. Political uncertainty deters both domestic and international investors and forces them to pursue financial strategies that are based on short-term maximisation and quick profits (e.g. short-term trade profit margins and speculation profits) or risk minimisation (e.g. through investments in real estate) rather than an optimal, long-term growth strategy based on production. A lack of macro-economic stability tends to lead to inflation, a high real interest rate, and generally high financial costs.

Even in countries where the private sector seems to function quite well, interest rates can be so high that even medium-length loans are unacceptably expensive for the enterprises. This is the case in, for example, Kenya. If all investments have to be financed from the enterprise’s own savings, the level of investment falls considerably.

Access to markets is, likewise, decisive for the development possibilities of the private sector. Getting access to the closest local market can be a problem for the very small enterprises in rural districts especially. When the products have to be carried for several hours to a market that is often glutted with the same product (e.g. tomatoes during the season), the yield from the efforts is rather low. In Bangladesh cell phones have helped to make the market more transparent. There are limits to trade between different parts of the country in many countries.

In the case of more formal markets, a lack of knowledge of quality requirements and forms of transaction often presents an obstacle. For some products, export to regional markets would be a natural step towards participation in the global economy. It is, therefore, important that all obstacles to the development of regional markets are removed. Export to the markets with purchasing power in, for example, Europe, North America, the Middle East and Japan often requires a considerable degree of organisation. The individual farmer cannot by himself sell all the mangoes he produces to a Danish supermarket. The requirements of the markets with purchasing power concerning certification, quality and sanitary standards often constitute a serious obstacle for the exporters of
the developing countries. The issue of market access must, therefore, be concretely assessed, and assistance for promoting it must be based on analyses of “bottlenecks” at all levels – internationally, regionally and nationally.

The world market price of coffee beans has fallen drastically over the past many years in spite of steadily increasing consumption. Today coffee to the tune of more than USD 70 billion is consumed, which is seven times more than at the beginning of the 1990s. This has not befallen the coffee farmers, however, as their earnings during the same period have been halved due to the historically low prices of raw materials. On average, the coffee farmers receive only 1 per cent of the price of processed coffee. One of the countries suffering most from the development on the coffee market is Uganda, Africa’s biggest supplier of coffee beans. Unprocessed coffee is exported from the country at a low price to be processed in western countries, among others. If it instead were processed in Uganda, some of the lost earning could be regained.

CCL Products (Uganda) Ltd. is a joint venture with a minimum of 30 per cent Ugandan ownership, which will exploit Uganda’s favourable location at the centre of Africa to construct and operate an instant coffee factory. An Indian firm will supply the necessary operating experience while a financially strong English coffee merchant is to take care of exporting the finished coffee product. There are at present only four producers of instant coffee in Africa, none of which are in Uganda.

The possibility of supporting the project under the Mixed Credits Scheme is being examined. Simultaneously, the embassies in Uganda and Kenya, together with local partners, will conduct a survey of the difficulties facing local production.
Work with the business sector programmes is to be continued and developed. The objective is to reduce the number of key bottlenecks for private sector development. Greatest impact is achieved if efforts take place at the same time at different levels.

Denmark will expand its cooperation with the programme countries to promote private sector development.

Business development support has already been implemented in Tanzania, Vietnam and Ghana, and this cooperation will be consolidated and developed in the coming years. Support to business development in Kenya will be launched in the course of next year to further strengthen this. The possibility of initiating further business sector programmes will be assessed.

Experience up to now from support to Tanzania, Ghana and Vietnam indicates that the best results are achieved when the business sector receives broad support on the basis of programmatic thinking.

The specific focus areas for Danish development assistance take a starting point in an analysis of the needs and priorities of the individual countries (as expressed, for example, in the countries’ development and poverty reduction strategies), Danish positions of strength and development efforts by other partners. In this way Denmark seeks to ensure that its support produces the best possible outcomes.

Cooperation is carried out with both public authorities and with private organisations and actors.

**More efficient public regulation**

Support to public authorities will reduce the number of bottlenecks by supporting the establishment of modern private sector legislation, more efficient customs processing, more efficient company registration, quicker
case handling for commercial disputes, and more transparent corporate taxation. A more efficient and less bureaucratic set of rules and regulations in these areas will also provide a better possibility for obtaining formalised rights and duties for the many, often very dynamic, enterprises and business people in the informal sector. The tax base in the individual country can also be improved by these means.

The extensive corruption existing in many developing countries is a serious obstacle to new investments. Both domestic and foreign investors will often be reluctant to invest in countries where corruption is considered to be particularly widespread or problematic.

Transparency International’s corruption index is precisely based on international corporations’ impression of corruption in the individual countries, and just like the other poor developing countries, the Danish programme countries are generally in the lower half of the index. Corruption often occurs when private enterprises pay civil servants or politicians to obtain the necessary permits, dispensations or services. The introduction of rules that are clear and transparent reduces the opportunities or necessity of making use of corruption to run a business. Work with the Danish action plan for combating corruption from 2003 is hence a good point of departure.

As described below under micro financing, legal securing of the property rights of the poor to the land they own is decisive for their possibility of obtaining financing for productive investments. Denmark thus stresses support to a well-functioning land register with legally valid registration of owners, visible transfer of property rights etc. It is particularly important to secure women’s rights to inherit and own land, as there is often gender discrimination in these important areas. Measures to strengthen women’s rights to land will be incorporated into the general bilateral and multilateral development assistance in accordance with the strategy for gender equality in Danish development cooperation.

At the same time the business sector organisations will receive support to build up their capacity to promote members’ interests and contribute constructively to the formulation of an efficient poverty reduction strategy. In the case of trade unions, this could, for example, include the members’ opportunities of getting proper vocational education. This again will improve the dialogue concerning reforms between the authorities and the business sector and strengthen the possibility of creating more solid frames for the contribution of the informal sector to the economy.
**Sustainable labour market**
An efficient labour market contributes to socially and environmentally sustainable private sector development. Therefore, support will be granted to the social partners, i.e. the Ministry of Labour and employee and employer organisations, to build up the necessary capacity for constructive dialogue to gradually improve safety conditions and working environment in the enterprises, solve labour disputes, and ensure reasonable wage and working conditions. This contributes to compliance with international standards as, for example, laid down in the ILO’s conventions on labour rights. The labour market partners are also key actors in the fight against HIV/AIDS and in building up vocational education programmes that are based on the needs of the enterprises and training a workforce with useful qualifications. Danish support is provided for this work in both areas.

**Developing a competitive business sector**
Just as an international football team cannot be formed by building a fine, well-functioning stadium, neither is a competitive business sector automatically developed by improving the framework conditions alone.

This is why Denmark grants support to activities and institutions that can offer efficient services to the individual enterprise. This applies, for example, to managerial training, technical training of the employees, production planning, drawing up corporate plans, and the introduction and application of IT. Many developing countries have a very vigorous business sector where new entrepreneurs constantly appear, often in the informal sector. These entrepreneurs need training and support.

Experience has shown that public suppliers in the programme countries are often not very good at supplying the services that the enterprises need. This is why Denmark will support the development of private suppliers of services.

A new element is the support granted to corporate funds through which suppliers of services to the enterprises can obtain support for developing products that can be sold to other enterprises on commercial terms. The reasoning is that the private sector segment, “suppliers of services” is very little developed in the programme countries, inter alia because for many years the public sector has supplied heavily subsidised services (but of poor quality) to the enterprises.
However, the public sector must play an important role in certain areas. This applies, for instance, in connection with international trade negotiations, negotiations concerning quality standard, and subsequent securing that these standards are fulfilled by the exporting enterprises. A key challenge in the coming years will be to make sure that the enterprises in the developing countries manage to fulfil the quality and health requirements of the rich markets. Business sector support will aim at strengthening the necessary capacity and infrastructure for the certification of export products. Simultaneously, Danish enterprises can help local partners with the necessary knowledge and technology.

Good education and health among the working section of the population are not just important in themselves but of key importance for creating permanent economic growth. The economic consequences of the HIV/AIDS epidemic in the south of Africa is an example of this. Efforts through the sector programmes for health and education as well as the Danish HIV/AIDS activities thus contribute to private sector development in the programme countries.

Finally, as in the industrialised countries, the public authorities must implement and enforce environmental legislation, including environmental legislation that ensures the greatest possible sustainability in private sector development. Environmental considerations must also be incorporated in the individual programmes and activities for private sector development so that they form part of business dispositions, decisions concerning establishing businesses, developing a line of industry etc.

**Better access to financing, including micro financing**

In the developing countries many small enterprises have poor access to financing, in particular of long-term investments in increased production. Banks are often very reluctant to grant loans to micro, small and medium-sized enterprises where there is great potential for growth. This reluctance is especially due to the fact that the banks regard these customers as high risk. The customers can very seldom provide collateral, inter alia because there is no smoothly functioning land registration system with legally valid deeds. In addition, there are many difficulties involved in achieving formal company registration so that the value of the enterprise can be utilised as security for the loan. Moreover, the banks have no experience of small customers, and therefore the risk is overrated. Many of the small customers who experience difficulty in getting loans are women.
Danish and other international experience has shown that small, poor customers and enterprises have great potential for saving and for taking loans for productive investments as well as for repaying these loans. Experience from the poorest countries shows that the banks very often do not have sufficient liquidity for making loans. Thus, it is rarely necessary to place credit lines at disposal but rather for developing schemes that reduce the risk that the banks assess they face.

Denmark will increase the support to private banks’ developing loan and financing products, including micro financing, for micro, small and medium-sized enterprises, and for the development of the capacity of the banks to administer these. This will give the banks greater knowledge of this customer segment. In this connection, there will be special emphasis on increasing access to financing products for micro enterprises with female owners.

At the same time Denmark will expand and rationalise guarantee schemes so that the risk involved in granting loans to micro, small and medium-sized enterprises is shared with the banks. This will increase the volume of loans to these customers and further their investments in production and workplaces.

There will be further investigation of the possibility of establishing as guarantee scheme as such for the banks in all the Danish programme countries and other relevant countries, with a view to increasing and rationalising the access of the poor to financing, economic growth and poverty reduction.

Support to micro financing will, moreover, be granted in connection with support to other sectors, in particular agriculture. This support will be developed and rationalised in the coming years.

In chapter 10 a new initiative is presented in the area of financing for socially accountable investments, which to a certain extent may also be expected to be applied to investments in small and medium-sized enterprises in some of the Danish programme countries.
Further perspectives
A new programme is to be launched in Kenya in 2005. When more reliable experience from these four private sector programmes is available, an assessment will be made of whether to launch more business sector programmes.

Danish support to private sector development is based on the following principles:

- The interventions are based on national policies and strategies for the development of the business sector.

- The support is planned in close cooperation with the authorities, private actors and other donors. Danish support cannot cover all relevant areas.

- Support is granted to both public and private organisations in a manner that causes as little distortion of competition as possible.

- The focus is on support to small and medium-sized enterprises with the greatest potential for growth and poverty reduction, but larger enterprises will also be of interest because they can function as engines for the small enterprises.

- Denmark will continue to support managerial training programmes and other direct support to the enterprises through support for IFC, the International Finance Corporation programmes.

- The experience of Danish organisations and enterprises in the selected countries could contribute to the formulation of business sector programmes.
5.
THE PRIVATE SECTOR DIMENSION IN OTHER SECTOR PROGRAMMES

The private sector dimension in other sector programmes shall be strengthened so that the private sector plays a greater role in development assistance.

Denmark will increase its support to the involvement of the private sector in development assistance in other sectors. This will take place on three levels:

- **Policy level.** Development of frames that expand private sector development in the sector.
- **Sector level.** Capacity development in public institutions supporting private business and in trade and labour market organisations as dialogue partners for the government.
- **Enterprise level.** Development of the capacity of private actors such as entrepreneurs, training institutions, repair businesses as well as suppliers of e.g. school textbooks, medicine, hospital equipment or consultant services.

The private sector is to be involved as an active partner in Danida’s support to other programmes.

A well-functioning transport network, stable power supply, water and sanitation as well as access to good communications are key preconditions for private sector development. High transport costs and unreliable energy supplies constitute significant extra costs for the firms and impair their competitiveness. At the same time private actors in many
countries play an important role in the construction, maintenance and running of the infrastructure.

Support to developing and maintaining infrastructure has traditionally played an important role in Danish development assistance. The energy and transport sectors in particular have received considerable assistance over the years. In the countries where Denmark is active in the area of infrastructure, we shall further develop an efficient partnership between public and private actors in this area:

- Develop the use of private consultants and entrepreneurs for construction and maintenance work in the roads sector with support for necessary education and training of the staff of new and existing firms.
- Promote the involvement of the private sector in management and financing of roads funds for maintenance of roads.
- Support to new forms of cooperation between public and private actors. Where market conditions for private operators can be established, they will be supported. Review of the Mixed Credits Scheme has paved the way for Danida, cooperating with The Export Credit Fund, The Industrialisation Fund for the developing countries or other financing institutions being able to take part in the financing of infrastructure works on the basis of anticipated income (project financing).
- Support to alignment of legislation, development of contract types and capacity building of the role of developer in the case of public authorities and private actors, as a key precondition for efficient public private partnership.
- In step with the developing countries building up adequate capacity to deal with the developer role and manage tendering, Danish financing of infrastructure will take place by means of budget support and the Mixed Credits scheme.

Mixed Credits will to a wide extent be used for infrastructure projects and will play a big role in the future, both in the individual sector programmes and in synergy with the present sector programmes within economic infrastructure. This also applies in connection with phasing out these programmes, where Mixed Credits can have an important role in consolidation of the results achieved.
Synergy between loan and grant

Case: Road project in Tanzania
Objective: To improve the infrastructure in the country, thus strengthening economic growth and reducing poverty
Allocation: DKK 247 million

Danida’s transport sector programme in Tanzania encompasses support at all levels, from major roads over regional and secondary roads to village roads, as well as support to institutional development, including to TANROADS. The present programme expires in 2005, and a new programme for 2006-2010 is in preparation. The major road component in the new programme will focus on support to periodic maintenance in recognition of the fact that the functioning network must be stabilised before investments are made in expansions and upgrading. The Mixed Credits project creates synergy with the existing grant-financed sector programme.

Up to now the infrastructure projects have primarily been implemented by the public sector, but there are signs that the developing countries are interested in these types of projects being implemented partly in partnership with private actors – the so-called Public Private Partnerships – and partly as real project financing with the participation of financing institutions. The review of the Mixed Credits scheme should pave the way for Danida, in cooperation with, for example, The Export Credit Fund, IFU or international financing institutions being able to participate in the financing of infrastructure works on the basis of anticipated income (project financing). This could attract private enterprises and private capital, which is crucial for the necessary economic growth in the developing countries.

Agriculture is the largest private sector in most of the developing countries and therefore plays a decisive role for reducing poverty. In the majority of developing countries it has been recognised that the state cannot efficiently administer all aspects of agriculture. This means that the private sector is playing a steadily larger role. Trade in agricultural products, which has been in state-controlled companies in many countries,
is to an increasing extent being undertaken by private firms. Production societies are playing a growing role in marketing products and advising members. Access to micro financing is increasingly important for the producers. In connection with the formulation of a new agricultural sector programme, a large part of the support will consequently be directed towards the private sector. Assistance for the fulfilment and certification of qualitative and hygienic requirements can be of great significance. Simultaneously, the state will, of course, continue to play an important role in the necessary public regulation of market-based agriculture.

In cooperation with authorities and private organisations and enterprises as well as other donors, Denmark will contribute to supporting the possibilities of the private farmers, both men and women for:

- Access to improved technology;
- Training and education through agriculture’s own private organisations;
- Access to fertiliser and other means of production in a sustainable manner through private producers and suppliers where this is most efficient;
- Better access to financing, including micro financing;
- Access to markets, including transport, product development, marketing and quality control.

In the areas of education and health, the private sector has more to contribute, for example to the financing and implementation of vocational education programmes, the building and maintenance of schools or production of teaching materials as well as to the production and distribution of cheap and effective medicine.
Involving the resources of the Danish business sector is important for the implementation of Danish development assistance in the private sector.

The Danish business sector has considerable knowledge and experience in the field of development assistance. Many years’ experience from work with Danida, international development assistance organisations and others has created a solid basis for contributing to the development process. Danish firms are generally internationally oriented and have shown a growing interest in engaging themselves in developing countries.

In Denmark there is a long and good tradition of involving the Danish business sector in the cooperation with the developing countries. As the first so-called trade instrument, the Industrialisation Fund for Developing Countries, IFU, was established as a non-profit institution under the Ministry of Foreign Affairs of Denmark in 1967. Then followed the establishment of DIPO, the import promoting scheme under the Danish Chamber of Commerce in 1977. In 1993 both the Private Sector Development Programme and the Mixed Credits Scheme were established. In 2001 the Partnership Facility Programme, PFP, was introduced to further cooperation between Danish firms in the environmental branch and similar firms in Thailand and Malaysia. The most recent addition is the programme for Public Private Partnerships, which was initiated in 2004.

In line with the Danish enterprises, trade and labour-market organisations as well as public and private institutions with experience from private sector development are involved on a regular basis in the implementation of Danish development assistance.
With the stepped-up focus on the significance of the private sector for economic growth in the developing countries, the participation of the private sector in development cooperation is more important than ever. This participation has taken several forms.

The private sector is, for example, a natural partner for the Ministry of Foreign Affairs of Denmark when private sector development programmes are being drawn up and when contracts concerning consultancy and supplies for implementing bilateral development assistance programmes are to be entered. The same naturally applies to projects under the Mixed Credits Scheme. It is, however, a prerequisite that these services are procured at competitive prices so that the recipient country benefits fully from Danish development assistance.

The efforts to rationalise international development assistance have led to extensive untying of all assistance. With its application of the EU directive of 1 January 2004 concerning procurement of goods, services and construction work to development assistance and assistance to eastern Europe, Denmark participates actively in this development. This line has been laid down inter alia because Denmark’s strength lies in transfer of knowledge and technology. Danish enterprises gain access to a larger market by participating in international tendering in connection with the development assistance programmes of international organisations or other EU member states. Denmark will continue to work towards this access being made easier in practice through national codes of practice and conditions in line with the rules implemented in Denmark with the tendering directive.

Quality and professional strength are decisive parameters when equipment and consultancy equipment are to be purchased for Danish development assistance programmes. Up to now Danish enterprises have proved that they are able to manage in the keener competition. In connection with mixed credits, the recipient country undertakes the purchases. This form of procurement is expected to become more usual in connection with the increased harmonisation of development assistance. Denmark has put a considerable amount of work into efforts to ensure that the partners can live up to international requirements.

Danish enterprises can also play an important role in partnerships involving building up production, consultancy or trade activity in developing countries. This can take place through co-ownership as such, but it can also take the form of sub-contractor agreements, licensed production,
technology transfer etc. Internationalisation, trade liberalisation and the new international division of labour make these partnerships interesting opportunities for enterprises in both Denmark and the developing countries. Finding that niche on the global market is one of the challenges of our times for enterprises. Danish enterprises often contribute far more than the capital they place at disposal or the services that are agreed. If the Danish enterprises engage in the partnership, through daily cooperation with the Danish partner and this firm’s staff, the local enterprise can gain knowledge, experience, methods of working as well as discipline, technology and resources that far exceed Danida’s financing.

In 2004 the GoGlobal cooperation was launched in a process of cooperation between the Danish Ministry of Foreign Affairs (the Trade Council of Denmark and Danida), the Export Credit Fund and the Industrialisation Fund for Developing Countries, IFU. GoGlobal comprises a common internet portal for the Danish private sector instruments and integrated consultancy through the Danish embassies for enterprises applying for assistance for exporting or establishment in the developing countries. The network concept in GoGlobal is to make it easier for the business sector to gain a complete overview of the opportunities in the individual countries and to make active use of this. The trade organisations are valuable partners in the further development of this new instrument.
CONCRETE PRIVATE SECTOR INSTRUMENTS

7. INCORPORATION OF PRIVATE SECTOR INSTRUMENTS

Incorporation of different private sector instruments in development assistance can increase the effect of the overall efforts. At country level the embassies will formulate a general approach.

Denmark has a wide selection of private sector instruments in development assistance, also in an international perspective. A recent accumulation of a number of the evaluations that have been conducted of the different private sector instruments – a so-called meta-evaluation – concluded that Denmark’s selection of instruments was appropriate and modern, but that the various instruments had been development by means of formation from existing instruments and for this reason were not sufficiently coordinated.

This action plan will lead to some adjustments of the individual instruments making it easier to coordinate them, but incorporation as such of the same instruments will mainly take place at country level on the basis of the individual country’s needs and strategies. Development on the general policy level and in the sector programmes is thus to form the basis for better coordination of the effort to promote private sector development in the Danish programme countries. Taking a point of departure in the private sector or Private Sector Development Programmes, at country level the Danish embassies will develop an overall strategic approach to the way in which Danida can support private sector development in the recipient countries. The outreach work of the embassies will be strengthened by the chosen strategy, but it will still be possible to utilise Danish enterprises’ knowledge and contacts. The experience of Danish enterprises plays an important role in the development of a strategic approach, and in organising and implementing sector
programmes there will be consideration of where concrete business partnerships can support the reform processes and inspire the Danish sector programmes. The integrated consultancy for businesses established at many embassies as part the GoGlobal cooperation (see chapter 6 above), will strengthen the embassies’ possibilities further in this context.

Although there is considerably more emphasis than previous on framework conditions for the private sector, it is still important to support concrete enterprise initiatives. In many, especially poorer, developing countries, even though different types of liberalisation are implemented, there is no direct access to capital, technology, experience with export etc. Transfer of Danish experience, technology and investments can help local enterprises to overcome initial obstacles and give them a quick start. In other words, the Danish support helps the enterprises to overcome some of the weaknesses that the market in the individual country, even after liberalisation, will normally be characterised by compared with the well-functioning markets in typical industrialised countries.

The concrete business instruments should also be coordinated better in order for them to support and supplement each other. This will take place by means of, inter alia:

- **a.** The establishment of joint preliminary surveys etc for the Private Sector Development Programme, IFU and Mixed Credits. Enterprises will be able to apply for support for feasibility studies, joint appraisals and the like, irrespective of which scheme or schemes that might be used later;

- **b.** When a PSD project is being established there will be systematic consideration of whether the project has the potential of developing into an IFU investment. IFU and the PSD Programme have the same objective and target group, and cooperation between the two has already paved the way for a large number of enterprises to establish themselves in the developing countries. This cooperation will be expanded so that the PSD Programme come to function as a kind of incubator for IFU. To gain the maximum benefit from the potential of the two schemes it will be necessary to consider the possibilities of bringing their geographical spread closer together;
c. Procedures to simplify small projects under Mixed Credits means that it will be easier to utilise credits for purchasing industrial equipment for IFU, PFP (Partnership Facility Programme) and PSD projects;

d. IFU will establish itself on a trial basis at Danish embassies in e.g. Vietnam, Bangladesh or Egypt;

e. The Danish Import Promotion Office, DIPO, will be enabled to provide a more targeted contribution by means of more efficient screening of business offers, upgrading of enterprises and increased marketing in Denmark and other Nordic countries. Coordination with the PSD and TechChange programmes will be increased. At the moment the possibility of completely or partially outsourcing the administration of Danida’s import promotion scheme is being investigated.
8.
COMPANY PARTNERSHIPS
– THE PSD PROGRAMME

The PSD Programme aims at the transfer of growth potential to the developing countries through Danish enterprises’ investments and technology. Key role in identifying and launching new partnerships. An analysis and a broad consultation process has been initiated. The objective is to strengthen the development effect of the programme.

The PSD Programme and the Partnership Facility Programme are to be developed in cooperation with Danish enterprises and trade organisations. This will take place by identifying the potential for (by means of Danish know-how and other Danish resources) making a contribution to building up the capacity of the recipient country. The intention is to stimulate similar business sector activity and to encourage developing countries’ businesses to take part in the global economy. It will also take place by means of support to entries with a view to enterprises cooperating.

Experience has shown that the PSD activities – not surprisingly – are most successful in countries that have established or are in the process of establishing a favourable climate for investment and business. Taking a starting point in the incorporation of private sector instruments (see section 7 above), the Danish embassies will seek to utilise the PSD Programme more directly in the Danish support to the overall private sector development of the individual country.

Partnership is at the core of the PSD Programme, and the requirement concerning local ownership will be maintained. It will be considered whether the partnership thinking can be strengthened by means of other measures and thus contribute to capacity building in the developing countries.
A number of new support instruments have been developed under the PSD Programme, the aim of which is to ensure the integration of the crosscutting issues in the single enterprise projects and thus improve the overall effect of the projects. For example, at present support can be granted to project activities directed at fighting and providing information about HIV/AIDS, strengthening labour rights, and women’s living conditions.

The Danish Ministry of Foreign Affairs has conducted an analysis of the PSD Programme based on a process of broad consultation. The aim was to rationalise the programme and strengthen its development effect. Among other things, the analysis incorporated experience from the Danish programme countries, it included a conference, and resulted in a report concerning the programme and its future.

IFU is a non-profit institution, that functions as an important part of Danish development assistance efforts, especially in relation to private sector development. For more than 40 years IFU has been administering investments in Danish companies’ cooperation with local enterprises in the developing countries. A recent evaluation has confirmed that IFU has developed considerable expertise in conducting and administering investments in partnerships between companies from Denmark and the developing countries, and is one of the most efficient institutions of its kind. Today IFU can invest in a wide range of countries, but a substantial part of its portfolio is placed in African countries. The government has strengthened IFU’s focus on the poorest countries, and decided in 2005 to limit the number of countries, that IFU can invest in, to countries with a GDI below 2.428 USD per capita. Simultaneously, cooperation will be strengthened between IFU and the other private sector instruments in development assistance, inter alia to make the fund even more relevant for small and medium-sized enterprises.

The potential for involving organisations such as the World Bank’s private sector organisation and the institutions which, among other things, support African reforms and management training (e.g. FIAS and AMSCO) more systematically in the Danish private sector activities will be investigated and developed.
9.
REVIEW OF MIXED CREDITS

The objective of the review is an administrative simplification and alignment with international standards, which will boost the impact of the scheme and its area of application. Requirement concerning 50 per cent Danish content to be removed.

An administrative simplification and alignment has already been implemented of the rules for mixed credits with the requirements that follow from international globalisation and private sector development. In step with the international trend towards untying development assistance, the review consists not least in the removal of the requirement for minimum 50 per cent Danish content under the tied scheme for mixed credits, so that the guidelines at all times follow the current rules for export credits. Danish enterprises will, moreover, have the possibility of having part of their costs for project development covered in connection with preparing feasibility studies and other project studies.

There will be more focus on promoting the development of small projects by making the requirements of the projects more flexible. This also creates a greater opportunity to achieve synergy with PSD and IFU projects. The relaxation of the requirements means that the requirement for own financing becomes void and that in future local banks with lower creditworthiness than previously can be accepted. Furthermore, the requirement concerning tendering of smaller projects has been relaxed in return for evidence of competitive prices. The requirement concerning local ownership of smaller projects will also be relaxed.

There will thus be better opportunities for financing the acquisition of production equipment in, for instance, programme countries and developing countries with LDC status (the category of least developed countries).
10. CORPORATE ETHICAL, SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

By means of the various private sector instruments, companies can undertake their ethical, social and environmental responsibility. This applies not least to the Programme for Public Private Partnerships, OPP, that is based on the UN’s Global Compact principles for good corporate behaviour. Among other things, Danish companies can receive support for their local partners also promoting fundamental human rights and having consideration for the environment. OPP is to be expanded with private investment initiatives for socially responsible investments in selected developing countries.

One often overlooked but very important effect of Danish enterprises’ partnerships with companies in the developing countries is the transfer of ethical, social and environmental values. Working environment, the rights of women and working conditions, firms’ social responsibility, respect for human rights, fighting corruption, and environmental considerations will in practice often be furthered through the participation of Danish firms in the business sector of the country.

In recent years, both internationally and in Denmark, focus has increased on corporate social responsibility and not least in relation to the UN’s Global Compact principles for good corporate behaviour. The issue plays a prominent role in the Danish business sector and a think tank on social responsibility, The Copenhagen Centre, has been established and has already achieved international recognition. The biggest Danish companies have typically a strategy for the area, for example by having defined environmental and social standards for the company’s activities. In line with this, a growing number of small and medium-sized enterprises who enter into suppliers’ agreements outside Denmark take a stand on social responsibility and, in this connection, labour rights and environmental considerations in particular. At the same time there is a
trend for many enterprises which have established themselves in poorer developing countries to go further than immediate business considerations and to engage in different forms of social development in their immediate environment, for instance educational activities and fighting HIV/AIDS.

There are a number of examples of Danish companies working to improve ethical conditions in the local private sector on a regular basis by means of dialogue and exchange of experience. Not least in relation to the Danish public, the companies have an interest in local partners complying with internationally recognised standards for labour and human rights as well as environmental matters. Corruption is a particular problem in this context, as in development cooperation in general. While Danish companies can be expected to clearly support Danish anti-corruption policy, it would also be appropriate to develop the present tools in the form of guidelines etc. to combat the problems of corruption that the companies typically meet in their daily work. Under all circumstances the experience of the Danish companies can help both the embassies and the local authorities to find solutions to the country’s corruption problems, just as the embassies with their experience from daily cooperation with the authorities will, naturally, be able to assist the companies in this area.

All the private sector instruments support this process, but it applies in particular to the Programme for Public Private Partnerships, OPP. The programme is a follow-up to the World Summit on Sustainable Development in Johannesburg in 2002, which underlined public-private partnerships as an effective supplement to traditional development assistance. OPP contributes to have companies, and also small and medium-sized enterprises, involved socially and environmentally in the developing countries. OPP offers consultancy, local knowledge, networks and economic incentives for the implementation of socially targeted efforts.

As part of the OPP Programme, at present the Danish Ministry of Foreign Affairs together with two investors has investigated the possibility of channelling Danish capital into socially responsible investments in the countries. Up to now a decision has been reached to invest in four countries, but the agreement includes as a matter of principle all Danish programme collaboration countries. The capital for such an initiative will come from the investors while Danida will make a grant for the special administrative costs that will be necessary locally to make direct investments in companies in developing countries.
The objective of target and indicator activity is documentation of the effect and effect improvement of development assistance directed at the private sector.

It should be possible to measure Danish support to private sector development in order to see what we are getting for the money. Annex 1 lists a number of concrete indicators for the fulfilment of this action programme.
Indicators for fulfilment of the action programme for private sector development

• By the end of 2008 at least half of the national poverty reduction strategies in the Danish programme countries contain concrete indicators for promoting the business climate and the private sector – e.g. in the form of improvements in relation to the data set of the World Bank for business climate in developing countries or other similar country-specific indicators.

• New initiative to strengthen Danish support to micro financing, including new guidelines, are launched with effect from 1 January 2007.

• 10 approved private sector projects (PSD, Mixed Credits, OPP etc.) support the objectives in present or phased out sector programmes by the end of 2006. And at least 20 by the end of 2008.

• With effect from 1 January 2007 a review of the PSD Programme has been carried out that strengthens the programme’s development effect.

• Before the end of 2006 cooperation has been initiated concerning a total of 20 partnerships with subsidy from OPP for corporate initiatives and training for social responsibility. By the end of 2008 at least 30 partnerships have been entered.

• Before the end of 2006 a partnership has been established between the Danish Ministry of Foreign Affairs and Danish institutional investors with a view to furthering private investments that contribute to socially and economically sustainable development in a number of Danish programme countries.

• The frames for involving IFU in Danish development efforts in general have been agreed before 1 March 2007.