

Evaluation of the private-public partnership instrument “Business Partnership Facility” (BPF)

Executive Summary - September 30, 2019

In 2019, the Directorate for Development Cooperation and Humanitarian Affairs of the Ministry of Foreign and European Affairs commissioned an independent evaluation of the private-public partnership instrument, the “Business Partnership Facility”. The evaluation was conducted by EY, which rendered a judgment on: (i) the BPF instrument itself (notably its relevance and reason for being); (ii) implementation mechanisms (including the project selection and management process); and (iii) the implementation of co-financed projects (including their measurable results and impacts at this stage). The Ministry publishes here a summary of the main results of this exercise. The observations, assessments and recommendations expressed in this document represent the views of the evaluators and do not necessarily reflect those of the Ministry.



THE GOVERNMENT
OF THE GRAND DUCHY OF LUXEMBOURG
Ministry of Foreign and European Affairs

Directorate for Development Cooperation
and Humanitarian Affairs



1. Introduction

The public-private partnership instrument, the “*Business Partnership Facility*” (BPF) provides co-financing¹ to private companies based in Luxembourg and in the EU to encourage them to implement projects in developing countries.

During the period of 2016-2018, 17 projects were co-financed, covering nine countries² out of a total of 54 applications received as part of the annual calls for projects. €2.7 million was committed, e.g. 90% of the 3-year envelope of €3 million. The BPF has been ramped up with 9 projects selected in 2018 (€1.4 million committed co-financing) against 4 projects respectively in 2016 and 2017 (around €650,000 per year). Most of the projects supported are in Africa (14 projects out of 17), mainly in Senegal (5 projects) and in Burkina Faso (4 projects), which both are partner countries of Luxembourg’s Cooperation. All the sectors eligible for the BPF funding are represented with a clear preponderance of the eco-innovation and circular economy sectors (48% of co-financing committed, for an amount of €1.3M paid to seven beneficiary companies).

2. Conclusions by evaluation criteria

2.1. Relevance

The BPF is a relevant instrument for developing countries, both in its objectives and its rationale

Strengthening commercial synergies and transferring know-how between private operators in the North and actors in the South are recognised means for contributing to sustainable development and inclusive growth in developing countries. In practice, projects financed by the BPF fit well into a sustainable development framework and are for the most part consistent with local or national development strategies. Arriving at an opportune moment to strengthen the ties of Luxembourg’s Cooperation with the private sector, the BPF is also a relevant instrument for implementing the Sustainable Development Goals (SDGs).

The needs to which the financed projects are responding are deeply-rooted, but the projects may target relatively minor aspects or issues that would be less likely to be raised by local partners

Even if the needs are firmly present, the projects often target secondary aspects or respond to needs expressed less spontaneously by the local actor, thus creating a need that might not have naturally emerged. However, this also helps to spur innovations that would probably not have happened without the BPF. Nevertheless, the methods of formulation and implementation do not always allow projects to align perfectly with local expectations. Depending on the case, they are built around an ecosystem of “partner” actors with no specific backing or beneficiary clearly identified on the spot. Despite improvements made between 2016 and 2018, the organisational arrangements lack clarity because of the numerous actors, an unclear vision on each other’s commitments and the lack of contractual arrangement that determine mutual responsibilities.

The selection process is liked by companies, but there is a lack of evidence to judge the desirability of projects in local contexts

Calls for projects guarantee a selection process that is seen as clear and transparent and overall appreciated by project leaders. The annual timeframe is adapted to the financial packages implemented and the number of applications. The eligibility and selection criteria enable the selection of the most promising projects, even if some are difficult to assess because they are too high-level (impacts on the economic development of the country/region) and others could be improved (criterion on the impact in a sector or a market). The flexible and proportional application of the criteria was observed, which highlights the flexibility of the process. However, the use of tools like scoring would make the process even more easy to understand and transparent. The resources and expertise present in the Selection

¹ Co-financing up to a maximum of € 200,000, representing a maximum of 50% of the project amount, in the form of a non-repayable direct grant.

² The nine countries involved in the projects are: Burkina Faso, Cabo Verde, Senegal, Niger, Ethiopia, Nepal, Côte d'Ivoire, Myanmar, and Kosovo.

Committee cover the main aspects of the selection. However, few external opinions are sought, especially on the merits of the projects in terms of their respond to the local context.

The BPF is also relevant for private operators in the global North, but the preference given to Luxembourg's partner countries is not always adapted to market opportunities

The intervention areas of the BPF are relatively broad and are well aligned with the strategic priorities of the Luxembourgish Government to diversify the economy and with Luxembourg's strategy for economic promotion. As such, the BPF often has supported the most opportunistic commercial growth strategies for beneficiary companies. These companies have used the co-financing to enter a country for the first time, or obtain additional references, without a clear intention of establishing a long-term presence in the country.

The BPF supports financed projects in developing countries that are eligible for official development assistance, as defined by the OECD's Development Assistance Committee. There is a preference given to countries where Luxembourg is already present³. This preference can lead companies that are looking to implement a project to select a country based on LuxDev's priority countries to obtain more easily co-financing or support on the spot. However, this orientation is not necessarily the best in terms of the companies' business strategy or the business climate and expected business opportunities. The relatively weak positioning of the local offices of LuxDev and the weak synergies with the interventions of the Indicative Cooperation Programmes do not necessarily justify this choice.

2.2. Effectiveness

Several achievements have been identified thanks to the contribution of the BPF, despite the varying degree of progress from one project to another

When compared to the strategic ambitions developed during its design, the BPF has achieved its objective to select and co-finance 15 projects by the end of 2018. The BPF has enabled the implementation of projects whose targeted achievements form a heterogeneous set of outcomes. They include seven projects aimed at deploying information systems and digital tools; four projects in the agricultural sector, which are relatively broad and generally integrate an R&D and training dimension; two projects aiming at the establishment of service infrastructures; and two projects to install solar energy equipment.

For many projects, it is too early to measure the results. The most recent projects, which were selected in 2018, are at a stage of implementation in which it is too early to observe concrete achievements. In addition, of the 8 projects co-financed in 2016 and 2017, half of them have surpassed or are likely to surpass their original deadlines. There are common difficulties causing these delays: lack of involvement from the local counterpart, institutional or strategic changes of the local partner or client, procedural delays and administrative burdens that were not sufficiently anticipated, and an unstable geopolitical and security situation (as in Burkina Faso).

Some obstacles do not allow for a reliable and systematic assessment of the achievement of project objectives

The objectives of the projects sometimes lack precision, notably for the projects selected in 2016 and 2017. Furthermore, the expected results may seem improperly measured and overestimated in terms of the results achieved or are likely to be achieved. Although not part of the criteria for selection and evaluation of proposals, the theory of change⁴ is absent in almost half of the detailed proposals for eligible projects.

2.3. Efficiency

Recognised for its flexibility, the BPF's institutional set-up is endowed with assets

³ I.e.: (i) Africa: Burkina Faso, Cabo Verde, Ethiopia, Mali, Niger and Senegal; (ii) Asia: Laos, Mongolia, Myanmar, Vietnam; (iii) Central America: El Salvador, Nicaragua; (iv) Europe: Kosovo.

⁴ This includes the development of intervention logic, the definition of expected results, the determination of indicators and the associated sources of verification. It is promoted by the standards of the Donor Committee for Enterprise Development (DCED).

The institutional set up of the BPF mobilises the intervention of relevant actors at different stages of the process, notably the MAEE (working capital fund), LuxDev (managing authority), the Chamber of Commerce⁵ and the Ministry of the Economy, whom meet as part of the Selection Committee. In addition to this Committee, the management and monitoring system of the BPF is based on meetings between the MAEE and LuxDev portfolio review held three times a year, which is found to be of relevance.

If the possibility of mobilising a pre-financing package is assessed at the stage of pre-selection, the payment in full (or partial) then takes on certain risks

The financial mechanism of the BPF allows the applicant companies to use upon request a maximum of 10% of the amount of co-financing desired to refine the concept note or validate partnerships in the preparatory phase of their detailed offer. This option has been utilised by a large number of companies (three quarters), whom unanimously expressed their support for this option. On the other hand, the full (or partial) payment is a financing mechanism that presents certain risks such as a possible windfall effect and provides a disincentive during the execution phase of the project. For comparison, other European countries (Germany, Sweden, Denmark) rely on a payment by tranches. The recent introduction of conditionalities⁶ (full or partial payment) of co-financing is a positive development of the BPF to ensure better appropriation of the project.

Incomplete implementation processes and monitoring arrangements still not very homogeneous

The BPF implementation process does not provide for financial control nor does it sufficiently promote synergies between BPF projects and the activities of LuxDev. Regarding the monitoring tools, progress is still possible with regard to the standardisation of the reporting model, the systematic addition of results measurement frameworks with indicators, or the formalisation and monitoring of European companies' partnerships. The reporting made by the beneficiaries is based on what they self-report, with little or no direct observation made by LuxDev to understand what the project is advancing.

Observed in two priority countries (Senegal, Burkina Faso), LuxDev's Embassies and decentralised offices, despite their positioning back, provide pragmatic support to businesses upon their request (facilitating contacts, streamlining administrative procedures). Economic missions play an important role in the structuring of projects and the solicitation of the BPF, even if the instrument is little known outside the economic ecosystem. The guidelines of Luxembourg's recent strategy for economic promotion are also likely to support adequately companies in a few markets⁷ outside the priority countries of the Luxembourg's Cooperation. Indeed, it is planned to strengthen the network of the Luxembourg Trade and Investment Office (LTIO) and the Chamber of Commerce abroad. The mobilisation of Honorary Consuls is a lever of support that would also benefit from being utilised better.

2.4. Sustainability and impact

BPF-supported projects are likely to contribute to a restrained and localised scale of development and inclusive growth

The BPF's contribution to poverty reduction cannot be assessed globally given the recent nature of the instrument and the still limited level of progress of projects. In addition, the scale of the projects is too small and localised to measure the macroeconomic impacts in terms of growth and/or poverty reduction. However, a potential contribution of the projects will have to be shown in socio-economic matters (via, for example, job creation, social inclusion, economic development, or the reinforcement of human capital) and sustainable development (contribution to the SDGs, fight against climate change).

The BPF promotes private sector engagement in development efforts and provides spin-off benefits for businesses, including the promotion of expertise and know-how

The BPF encourages companies to identify their impacts for supporting development. It also supports companies' internationalisation through helping beneficiaries enter new markets with some of the pilot projects. The overall impacts are varying for the companies, including highlighting Luxembourgish (or more broadly European) sectoral know-how and expertise and opening up business in another country, ideally a lasting presence. Lastly, the instrument also contributes to a certain extent to the visibility of companies that benefited from the BPF's financing in the Luxembourg economy.

⁵ Only as an observer for the Chamber of Commerce.

⁶ Through the Selection Committee's desire to systematize the use of MoUs or a letter of intent from the local partner

⁷ As in Abu Dhabi, New York, Seoul, Taipei, Tokyo

3. Recommendations

The evaluation proposes recommendations on three levels:

| Concerning the instrument as they are (relevance and rationale) | |
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| 1 | ▶ Continue to ensure that BPF's sectoral areas of intervention are aligned with the government's strategic priorities, notably in line with the desired diversification of the economy. Furthermore, better align the BPF with the Luxembourg's strategy for economic promotion and its various forms. Extend, for example, the sectoral scope of the BPF to Mobility and Space. |
| 2 | ▶ Better communicate on the eligible geographical scope, by highlighting the broader approach (i.e. all DAC countries, so as not to hinder business opportunities in more buoyant local contexts). |
| 3 | ▶ Complete the evaluation criteria by introducing a criterion related to the impact on the sector/market and insist more on the compliance with certain important aspects (Corporate Social Responsibility (CSR), screening Environmental, Social and Governance (ESG)). |
| 4 | ▶ Develop the instrument in order to verify and better ensure that local demand is taken into account; to do this, systematise formalised agreements with local partners before any payment |
| Concerning the BPF's selection and management processes | |
| 5 | ▶ Enrich and strengthen the analysis of eligible applications by using external advice (for example an ESG/CSR expert), and "local" opinions, in order to better assess the adequacy of projects in relation to their environment. |
| 6 | ▶ Strengthen due diligence and risk assessment by pre-selected companies. Require the conduct of market research and economic viability (for projects primarily commercial). |
| 7 | ▶ Make the application evaluation system more systematic by strengthening the formalisation of opinion by project, by setting up a system for monitoring possible reservations, and by introducing a scoring system (75% of common criteria and 25% of specific criteria). |
| 8 | ▶ Strengthen the conditionality of payments by introducing a payment per tranche that would be directly linked to the achievement of specific milestones and the achievement of intermediate results previously defined and measured during project reporting. |
| Concerning project monitoring and support processes | |
| 9 | ▶ Increase awareness of the BPF in certain economic circles (professional associations) and continue the work of raising awareness and exchanging best practices with other European partners. |
| 10 | ▶ Strengthen project monitoring capacity through: (i) support for the project bearers in the systematic definition of a theory of change, (ii) homogenisation of the application format, and (iii) a revision of the reporting requirements (standardisation of the annual report, results to be supported on the basis of indicators to systematically inform, etc.). |
| 11 | ▶ Strengthen financial control. |
| 12 | ▶ Strengthen the monitoring of private sector themes, particularly in countries of Luxembourg's Cooperation network and rely elsewhere on other levers of support (Honorary Consuls, LTIO network, Chamber of Commerce, etc.), while improving where applicable, synergies with the ICPs (in terms of mobilisation of actors and capitalisation with programmes/projects of Luxembourg's Cooperation). |

