



EVALUATION OF THE  
DANISH NEIGHBOURHOOD PROGRAMME  
WITH A FOCUS ON THE  
ECONOMIC DEVELOPMENT PORTFOLIO

**EVALUATION**

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# Evaluation of the Danish Neighbourhood Programme with a focus on the Economic Development Portfolio

Ministry of Foreign Affairs of Denmark



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Responsibility for the content and presentation of findings and recommendations rests with the authors.

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Annex 2: Armenia Case Country Study

Annex 3: Kosovo Case Country Study

Annex 4: Serbia Case Country Study

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## List of Abbreviations

<i>ARDP</i>	Agricultural Rural Development Plan
<i>DAC</i>	Development Assistance Committee
<i>DFID</i>	Department for International Development (UK)
<i>DKK</i>	Danish Kroner
<i>DNP</i>	Danish Neighbourhood Programme
<i>EBRD</i>	European Bank for Reconstruction and Development
<i>EC</i>	European Commission
<i>EFSE</i>	European Fund for Southeast Europe
<i>ENP</i>	European Neighbourhood Programme
<i>ENR</i>	European Neighbourhood and Russia
<i>FINCA</i>	Foundation for International Community Assistance
<i>FREDA</i>	Fund for Rural Economic Development in Armenia
<i>GDP</i>	Gross Domestic Product
<i>IFAD</i>	International Fund for Agricultural Development
<i>IPA</i>	Instrument for Pre-Accession Assistance
<i>IPARD</i>	Pre-Accession Assistance for Rural Development
<i>KfW</i>	Kreditanstalt für Wiederaufbau
<i>MAFRD</i>	Ministry of Agriculture, Forestry and Rural Development
<i>MAFWM</i>	Ministry of Agriculture, Forestry and Water Management
<i>MERD</i>	Ministry of Economy and Regional Development
<i>MEST</i>	Ministry of Education, Science and Technology
<i>MoES</i>	Ministry of Education and Science
<i>MFA</i>	Ministry of Foreign Affairs
<i>MFI</i>	Micro Finance Institution
<i>MSME</i>	Micro, Small and Medium-Sized Enterprise
<i>LEDIB</i>	Local Economic Development in the Balkans
<i>OADP</i>	Organic Agriculture Development Programme
<i>OECD</i>	Organisation for Economic Cooperation and Development
<i>SDC</i>	Swiss Agency for Development and Cooperation
<i>SME</i>	Small and Medium-Sized Enterprise
<i>SNV</i>	Netherlands Development Organisation
<i>UMLP</i>	Ukraine Micro Lending Programme
<i>UNDP</i>	United Nations Development Programme
<i>USAID</i>	United States Agency for International Development
<i>VET</i>	Vocational Education and Training

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# Executive Summary

## Nature of the Evaluation

The Danish Ministry of Foreign Affairs (MFA) commissioned a consortium comprising Orbicon A/S (Denmark, lead company), GHK Consulting Limited (United Kingdom) and Pinto Consulting GmbH (Germany) to undertake an **independent evaluation of “Support to the Private Sector by the Danish Neighbourhood Programme”**. This summary presents an overview of the methodology, mapping, conclusions and main lessons and recommendations from the evaluation.

The Danish Neighbourhood Programme (DNP) is Denmark’s bilateral programme for European Union’s neighbouring countries to the East and South East. The DNP was initiated in 2004 with a financial envelope of DKK 742 million. In 2008, the second phase of the DNP was initiated. The “Strategy of the **Danish Neighbourhood Programme 2008-2012**” has a **budget of DKK 1 billion** and **targets 15 countries**. The current phase of the DNP has four priority areas including **economic development**, which covers business development aiming at promoting economic growth and job creation.

The **objective of the evaluation** is to assess the **relevance, effectiveness and efficiency of the overall priority area ‘economic development’**, including business development aiming at promoting economic growth and job creation, under the **second phase of the DNP (2008-12)**. Since most interventions are still on-going, the evaluation recognises that a thorough assessment of impact and sustainability is not feasible, primarily because of the insufficient implementation time and data availability.

The evaluation is thus a **learning-focused exercise**, which is designed to serve as input to the ongoing discussion within the Danish MFA on how best to promote private sector-driven economic growth and employment in a future phase of programming. As such, the emphasis is on distilling **key lessons learned and recommendations** regarding the strategies, approaches and methods used by the DNP.

## Methodology

The evaluation has focused on activities undertaken in the most recent years of the DNP (second phase, 2008-12), with in-depth assessments of a sample of selected activities within three pre-selected case countries, namely **Kosovo, Serbia and Armenia**, as well as desk study of DNP interventions in Montenegro, Ukraine, Bosnia-Herzegovina and Albania. The fieldwork involved in-depth discussions with the implementing agents, beneficiaries and stakeholders during March 2011. The evaluation has sought to ensure a fruitful interplay between the in-depth analysis of the sample activities and the analysis at the level of the priority area. It also made use of both qualitative and available quantitative data material.

The evaluation focused on **20 predefined questions**, revised and refined during the inception phase, which were analysed at the overall programme level in general as for each of the three case countries. The questions were focused around the following **four key themes**:

- Relevance of DNP interventions in view of policy frameworks, priorities and needs.
- Effectiveness of DNP interventions in terms of approaches, effects and results.
- Efficiency of DNP management and modalities.
- Sustainability and impacts from DNP interventions.

### Mapping of Danish Neighbourhood Programme Support

A mapping of the ongoing DNP programme interventions and pipeline, with a focus on the economic development priority area funded through the DNP (2008-12), reveals a number of top-line issues:

- The DNP is financing local economic development programmes in **eight of 15 target countries**: Kosovo, Serbia, Russia, Armenia, Montenegro, Albania, Bosnia-Herzegovina and Ukraine.
- About **DKK 666 million** (or 2/3 of the total DNP budget) has been targeted at economic development interventions. In the current phase (2008-12) the overall allocations to support economic development constitute around 40% of the total DNP budget.
- The **budgets (and thus size of programmes) have decreased over time**, from DKK 80 million for the programmes during the first phase of DNP to DKK 48 million for the period 2007-10.
- The degree of **complexity**, as measured by the number of programme (sub) components, has decreased over time.
- The applied **instruments vary** from country to country but have also changed over time: financial services (access to credit) and support to agriculture-related Small and Medium-Sized Enterprise (SMEs) are elements of most, if not all, projects; other instruments (e.g. advocacy, regulatory reform and public-private dialogue and clusters) have either been phased out or modified over time. A key instrument of the DNP, namely Vocational Education and Training (VET), is applied in four countries.
- Support to **agribusiness and agriculture** is a feature of all projects in one form or another. However, the way this is implemented has changed over the time (e.g. the cluster approach, focusing on enterprises within a particular industry in a particular locality, has been replaced by the value chain approach).
- Finally, the programme implementation mode has been changing from use of project implementation units and outsourcing to consultancies towards **delegated partnerships** (involving development partners). This is partly to meet the principles of the Paris/Accra Agenda and partly a reflection of the way in which the DNP is implemented (i.e. managed from the Danish MFA in Copenhagen).

## Conclusions

The analysis and findings from the evaluation leads to the following **conclusions**:

- 1) The evaluation finds that the **relevance of the DNP interventions within the overall priority area of ‘economic development’ is high**. The thematic and targeted focus of the DNP, linking development within agriculture and agribusinesses with VET, labour markets and access to finance, is a **key on-going concern and priority in all neighbourhood countries** visited by the evaluation. The global financial and economic crises have underlined the continuing importance and need to support these core areas (the availability of finance has been squeezed, especially for the agricultural sector, widely considered to be among the most risky financial products by financial institutions; and the economic crisis is affecting the labour markets, especially in relation to the levels of youth unemployment, suggesting a continuing need for a focus on VET-type activities).
- 2) The implemented programmes in the neighbourhood countries during the second phase of the DNP are generally **in line with the relevant Danish strategies**, including the new overall strategy for Denmark’s Development Cooperation ‘Freedom from Poverty – Freedom to Change’ (2010), as well as with the specific strategy for the DNP (2008-12).
- 3) Based on the available information and documentation, the evaluation finds that, at the portfolio level, the applied **intervention logic** is to a large extent justified and appropriate (e.g.: i) the agribusiness component’s focus on supporting the whole chain from quality improvement of products to establishment of local collection centres and linking-up to large local buyers (e.g. supermarket chains) so as to increase production and employment levels; ii) the VET component’s focus on a simultaneous upgrading and improvement of various elements to address an existing mismatch in skills provided by the VET system and the needs of local labour markets (including equipment; teaching materials; teacher qualifications; linkages between schools and local labour markets; and institutional capacity development); and iii) the financial services component’s focus on supporting innovative interventions in support of agribusiness development).
- 4) The evaluation finds that the **immediate programme objectives** of the DNP interventions are either on track (1/3) or partly/possibly becoming on track (2/3) to be achieved. In those cases where the evaluation assesses that the immediate objectives are “possibly on track”, this is an indication that the component activities are in an early stage of implementation and/or the available evidence/documentation is insufficient to draw further conclusions on the effectiveness. The evaluation does not find indications that any of the immediate objectives are off track.
- 5) In terms of **outputs**, the evaluation finds that **effectiveness is mixed** at the overall portfolio level: For four of the immediate objectives, the outputs are/have been produced according to the plans; for two of the immediate objectives, the outputs are/have been produced with some deviations from the plans; and for five immediate objectives the outputs are/have been produced with substantial deviations from the plans. The reasons for the five substantial deviations are different: i) in one case (Fund for Rural Economic Development in Armenia – FREDa) the significant delay in activity implementation is due to initial lack of the required legal/institution-

al framework to initiate activities; ii) in the case of VET in Armenia the delegated partner (United Nations Development Programme – UNDP) has implemented the component activities with substantial deviations from the programme document; iii) in the cases of Kreditanstalt für Wiederaufbau (KfW) in Bosnia-Herzegovina and the European Bank for Reconstruction and Development (EBRD) in Ukraine a major initial delay in implementation is related to the financial crisis; and iv) in the case of VET in Kosovo a significant delay in the implementation plan is due to procurement issues and a joint decision to reduce the number of target schools.

- 6) Shortage on data availability and duration of interventions have resulted in serious limitations in the evaluation's scope to assess **sustainability** of DNP interventions, and then only within the context of the three case countries. The general indications are that there will be benefits and improvements of longer term duration resulting from the ongoing interventions, although the level of sustainability is, in most cases, still unclear.
- 7) There is some early evidence of potential **impact** from the financial components (increased income and credit to rural households). Impacts from other interventions are more difficult to assess at this stage, due to shortage of data and ongoing implementation, although indications are more positive than negative.
- 8) There are some indications of **employment** gains from the DNP interventions, although not to the extent anticipated in the programme documents. The combined financial and economic crises have affected the performance of the agribusiness sector, the primary economic sector targeted by the DNP economic development programmes. The levels of employment, among other, have suffered. Moreover, the DNP interventions focus on production increases through acquisition of new and more modern technical equipment at the farm sites. This, combined with the fact that the vast majority of the farms in the neighbourhood countries are small in size and with little tradition of employing people from outside the family unit, is generating relatively few new jobs in the short to medium term.
- 9) Compared to most other donors, the Danish support provided through the DNP is **relatively sizeable** and considered to be of **strategic importance** by the neighbourhood countries. At a time when other donors appear to be vacating the neighbourhood countries and targeting their resources at other regions (e.g. Department for International Development (UK) – DFID), the DNP support may become even more critical in the short to medium term. Based on the evaluation team's discussions with key stakeholders within and related to the case countries, it appears to be unrealistic to assume that the EU (through the European Neighbourhood Programme) and the neighbourhood countries will be able to complete the ongoing socio-economic transition processes without considerable external support for the foreseeable future.
- 10) In comparison with other donor programmes in the region, the DNP interventions are considered to be at the forefront in terms of **alignment and flexibility**. The case country visits and the available documentation reviewed by the evaluation team, show that the DNP interventions are praised for being well-aligned to national government systems and flexible in terms of implementation modalities.

- 11) It has proven difficult to assess the effectiveness of the DNP interventions in a quantifiable manner due to a consistent lack of **baseline and monitoring data**, in particular at the outcome level. The evaluation has only been able to identify a very limited number of useful data sets and studies (mainly from the financial components, FREDA in Armenia and EFSE in Kosovo) to allow any kind of quantifiable assessment of programme outcomes.
- 12) It has proved difficult to obtain the expected **synergistic gains** between programme components in some of the DNP interventions. In two of the three case countries (Armenia and Kosovo), the expected synergistic gain between programme components was less than desired due to a mix of factors (the overall coordination structures that were anticipated in the programme documents did not materialise and implementation of activities within one component or the other had been significantly delayed). The 'delegated partnership' modality appears to require additional efforts (and incentives) to ensure that synergistic activities happen.
- 13) The presence and active involvement of the **Danish embassy** in Serbia in various aspects of managing DNP activities in Serbia is providing an instructive example of potential efficiency gains from stronger and more formal embassy involvement in DNP activities (e.g. through liaison with national government partners, donor coordination, trouble shooting and increased visibility and knowledge of the DNP support).
- 14) Although the analysis of the DNP economic development portfolio demonstrates that the average size and complexity of the programmes (e.g. components and sub-components) has been decreasing over time, there are indications that the programmes, implemented within the current DNP set-up, are still **too ambitious**, for example in terms of the timing and the expected synergy between components.
- 15) The experience<sup>1</sup> from the case countries shows that support and follow-up from the European Neighbourhood and Russia (ENR) Office staff within the Danish MFA in relation to managing of DNP activities varies considerably across the case countries and is in general considered to be rather limited. Two recurring themes are worth noting. Firstly, too great a 'distance' between the relevant knowledge/experience among ENR Office staff and what is actually needed/going on in the field (in this respect, the stakeholders raise the issue of limited contact and dialogue between ENR Office staff and national government counterparts and implementing partners, including relatively few visits by the ENR Office staff to the neighbourhood countries and the projects in the field). This applies particularly in the case of Armenia, but also to some extent to the other two case countries. Secondly, implementing partners within all three case countries, in particular those partners with less experience from previous cooperation with the Danish MFA, express that they feel the need to 're-invent the wheel' in relation to issues such as reporting, monitoring and budgeting.
- 16) The DNP is becoming an interesting **laboratory** for testing of economic development programme features that could serve as inspiration for planning, formulation and implementation of programmes within African and Asian countries.

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1) Based on interviews with representatives from delegated partners, national ministries, development partners, project implementation units and consultants.

### Lessons and Recommendations

The findings and conclusions from the evaluation, leads to the following lessons learned and recommendations:

**Lesson 1:** The **socio-economic transition processes** within neighbourhood countries are strongly influenced by the requirements of EU Approximation but require more than the current and planned EU support and national budget allocations to become effective in a medium term perspective.

**Recommendation 1:** The **Danish MFA continue its economic development support** to neighbourhood countries in the medium term as a relatively sizeable, flexible, value-adding and complementary ‘gap-filling’ instrument to the EU assistance.

**Lesson 2a:** Support to **value-chain development** and upgrading of the quality of **VET schools** in agriculture is in high demand within neighbourhood countries and provides potential for production and income increases within these countries.

**Lesson 2b:** Experiences from neighbourhood countries suggest that when a **financial and economic crisis** hits, the agriculture sector becomes among the most severe affected (e.g. scarcity of financial services), with adverse effects on production and rural employment, including youth employment.

**Recommendation 2:** The MFA should continue to focus its economic development support within the neighbourhood countries on **agriculture/agribusiness and the linkages to VET, labour markets, including a focus on youth unemployment, and financial services**. There is still a need to support the ongoing socio-economic transition processes in neighbourhood countries in these areas; the recent global financial and economic crises have further aggravated the situation.

**Lesson 3:** Production increases obtained through the acquisition of new and more modern technical equipment at small family farm sites may not lead to significant **employment effects**.

**Recommendation 3:** Design and formulation of future economic development interventions within the neighbourhood countries should take more explicitly into account the **potential trade-off** between the wish to increase production through investing in more effective agricultural production within family farms on the one hand and the intention to generate large rural employment effects on the other hand. By focusing on the entire value chain it could be anticipated that employment will decrease in some part of the value chain due to introduction of more efficient production methods but at the same time lead to increase in other parts of the value chain e.g. in the processing industry.

**Lesson 4:** Programmes planned with a **3-year timeframe** often leave limited time (approximately two years) for actual implementation, which can affect sustainability of activities.

**Recommendation 4:** A programme **timeframe of 4-5 years** should be the default for the DNP in order to allow sufficient time for maximising the prospects of impact and

sustainability. The experience from implementation of DNP activities hitherto shows a tendency for the start-up of country programme activities to be delayed (in some cases up to one year).

**Lesson 5:** When requirements exist for **national co-funding**, there is an indication of stronger commitment and involvement from the neighbourhood countries.

**Recommendation 5:** As part of a more explicit focus on signalling partnership and national programme ownership, it is recommended that an **obligatory element of co-financing** (in-kind and/or financial) from national counterpart institutions be part of future programme designs.

**Lesson 6:** The experience from Serbia shows that **Danish embassies** can play a critical role to the benefit of the DNP interventions in neighbourhood countries, although the evaluation team recognises that there is not necessarily Danish embassy representation in all the countries covered by the programme.

**Recommendation 6:** The potential role to be played by **Danish embassies** in relation to implementation and monitoring of DNP activities within neighbourhood countries should be further explored and more clearly defined in the future. Also, in the cases where it makes sense for strategic, political and logistical reasons, it should be considered whether embassies could also oversee DNP interventions in other neighbourhood countries, geographically covered by the embassy operations.

**Lesson 7:** It is a major challenge for the relatively small ENR Office staff to effectively **monitor and oversee** the current range of programme interventions within the neighbourhood countries.

**Recommendation 7:** From an efficiency perspective, the number of DNP countries, as well as the **ambition/complexity** of the programmes (number of components, activities and expectations regarding development of synergies between them) should be decreased (if ENR Office resources and set-up for monitoring/overseeing of DNP interventions remain at the current levels).

**Lesson 8:** When monitoring and quality assurance procedures are not systematically applied across programme countries, **efficiency and results** from supported interventions may vary considerably.

**Recommendation 8:** The ENR Office's general **monitoring and quality control procedures** be enhanced through: i) more frequent interaction/sparring with programme implementation partners, including additional visits (if resources are available); ii) development of templates for programming/administration manuals and reporting, as well as systems/database for budget administration and tracking of results; iii) ENR Office staff, as a principle, should participate in all Programme Steering Committee meetings. This would be a value adding process which complements the principle of delegated partnership.

**Lesson 9:** Synergistic gains between programmes and programme components and efficient day-to-day management of programme implementation within DNP countries do not come automatically from signing of agreements between the ENR Office and the Implementing Units, regardless of the implementation modality.

**Recommendation 9:** It should be considered to implement additional support mechanisms in order to strengthen the **communication lines and dialogue** between ENR Office staff of the Danish MFA and the Component Managers/Coordinators in charge of managing DNP activities on a day-to-day basis. This could include: i) organising **annual workshops** (2-3 days) for Component Managers/Coordinators and ENR Office staff of the Danish MFA, preferably within the region, focusing on exchange of experiences/challenges and lessons learned/best practices from implementation of DNP activities with the aim of generating efficiency, including more synergies, from programme activities within and across DNP countries; ii) a yearly (e.g. online) **satisfaction survey/assessment** could be carried out among Project Managers/Component Coordinators, perhaps supplemented with National Counterparts.

**Lesson 10:** Implementing partners may not have the same incentive for data collection and monitoring of progress as the Danish MFA. While recognising the need to avoid overburdening implementation partners, there is a need to better ensure that a minimum level of necessary data collection/monitoring/tracing, etc. is actually taking place in order to make it possible to verify the extent to which the DNP funds are leading to expected achievements.

**Recommendation 10:** The **requirements** for reporting, monitoring and documentation of programme outcomes should be followed-up more consistently by ENR Office staff.

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# 1 Introduction

In December 2010, the Danish Ministry of Foreign Affairs (MFA) commissioned a consortium comprising Orbicon A/S (Orbicon, lead firm), GHK Consulting Limited (GHK) and Pinto Consulting GmbH (Pinto) to undertake an evaluation of the “Support to the Private Sector by the Danish Neighbourhood Programme” (the evaluation). The consultancy team carrying out the assignment was fully independent; none of the consultants had been involved previously with the activities being evaluated.

This report presents the findings, conclusions and recommendations of the evaluation.

## 1.1 The Nature of the Assignment

The Danish Neighbourhood Programme (DNP) is Denmark’s bilateral programme for EU’s neighbouring countries (to the east and southeast). The overall objective of the Programme is to promote democratisation in the countries but the aid is targeted at specific focus areas. Based on the experiences of the first phase (2004-07) of the DNP, the second phase (2008-12) focuses on the following overall priority areas:

- Democratisation, respect for human rights including minority rights, good governance (administrative and human rights aspects), civil society development, and free media;
- Promotion of legal reforms and fight against corruption, organised crime, illegal migration and capacity building of the public sector;
- Economic development, including business development aiming at promoting economic growth and job creation;
- Region of origin initiatives, including helping refugees and Internally Displaced Persons to return home.

The Programme was initiated in 2004 and went through a first phase with a financial framework of DKK 742 million. In the **second phase**, the DNP has a budget of **DKK 1 billion** and targets 15 countries in East and South East (see also Chapter 4 ‘Mapping of DNP Interventions’).

The “Strategy of the Danish Neighbourhood Programme 2008-2012” includes an explicit prioritisation of the 15 targeted countries in four groups: “Highest priority’ (two countries), ‘High priority’ (seven countries), ‘Low priority’ (four countries), and ‘Lowest priority’ (two countries).

## 1.2 Objectives, Scope and Coverage of the Evaluation

The **objective** of the evaluation is to assess and document the relevance, effectiveness and efficiency of the overall priority area ‘**economic development**’ under the DNP, both at the level of the **priority area** as a whole and the **individual projects**. Considering the duration of the projects, a thorough assessment of impact and sustainability is not fea-

sible, primarily because of the insufficient implementation time, though the evaluation attempts to address both issues, as far as possible.

The evaluation is a learning-focused exercise, which will serve as an input to the ongoing discussion within the Danish MFA on how best to promote private sector driven economic growth and employment. The evaluation distils key lessons learned regarding the strategies, approaches and methods used in the DNP.

The evaluation focuses on activities undertaken during the second phase (2008-12) of the Programme and includes an **in-depth assessment** of a sample of selected activities within **three pre-selected case countries** (Kosovo, Serbia and Armenia). At the same time, the evaluation aims to ensuring a **fruitful interplay** between the in-depth analysis of the sample activities and the analysis at the level of the priority area.

### 1.3 Organisation of the Report

The report is organised as follows:

**Chapter 1** provides an introduction to the evaluation.

**Chapter 2** describes the background and context to the Danish Neighbourhood Programme interventions.

**Chapter 3** details the evaluation approach and methodology.

**Chapter 4** contains a mapping of the support provided through the Danish Neighbourhood Programme.

**Chapter 5** presents the detailed findings of the evaluation related to the Organisation for Economic Cooperation and Development (OECD)/Development Assistance Committee (DAC) standard evaluation criteria of relevance, efficiency, effectiveness, sustainability and impact.

**Chapter 6** presents the conclusions of the evaluation.

**Chapter 7** lists the lessons learned and recommendations resulting from the evaluation.

The report also includes: Annex 1: Terms of Reference.

Additional annexes to the evaluation report can be viewed on the website [www.evaluation.dk](http://www.evaluation.dk):

Annex 2: Case Country Study: Armenia

Annex 3: Case Country Study: Kosovo

Annex 4: Case Country Study: Serbia

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## 2 Background and Context to Danish Neighbourhood Programme Interventions

This chapter outlines the overall strategic framework for the DNP Phase II interventions (Section 2.1), as well as some recent trends in development support to neighbourhood countries (Section 2.2). Finally, Section 2.3 presents a preliminary analysis of external factors which are likely to have influenced the impact of the DNP as far as economic development activities are concerned. The key factors are the current global financial and economic crises.

### 2.1 Danish Strategy and Policy Framework

The DNP is Denmark's bilateral development programme for EU's neighbouring countries to the east and southeast. The assistance provided under the DNP is primarily carried out through relatively large programmes which are planned and implemented together with relevant partners in the Neighbourhood Programme countries, as well as with relevant Danish actors.

Since 2009, the DNP has been implemented as aid assistance in accordance with Danida's Aid Management Guidelines<sup>2</sup>. Prior to that, cooperation was based on government agreements. This has resulted in a shift from generally smaller, project-oriented DNP interventions before 2009, to more strategic and focused programmatic approaches.

The current interventions under the DNP are guided by the "Strategy of the Danish Neighbourhood Programme 2008-2012". The objective of the DNP is 'to contribute to promoting open democratic societies founded on the rule of law and based on stable political and economic development in the EU's neighbouring countries to the east and southeast, and to avoid unnecessary divisions in Europe. At the same time, the aim of the DNP is that it should strengthen Denmark's position and impact, both bilaterally and multilaterally, with regard to the neighbouring areas' (p. 13).

The DNP strategy stresses that stability in the neighbourhood countries is in the short term threatened by the fact that not all within society benefit from economic growth. Therefore, the DNP will contribute to promoting a wide and sustainable economic development, which can promote growth and employment, and hereby reduce widespread social inequalities that still prevail in many neighbourhood countries. The present evaluation should be seen in the context of this concern.

According to the DNP strategy, priority will be given to areas of relevance to the neighbourhood countries where Denmark has comparative advantages and which contribute to putting Denmark on the map and increasing the bilateral political, economic, and commercial cooperation. One of these is the productive sectors and business development, where Denmark has considerable experience and good traditions for developing commercial organisations and promoting small and medium-sized enterprises (SMEs) to benefit growth and employment. Denmark has, in the view of the strategy, special expertise in agriculture and food processing. Finally, Denmark is taking part in EU's Twinning

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2) [www.amg.um.dk](http://www.amg.um.dk)

Programme, which is being implemented as cooperation between the neighbourhood countries and public institutions in EU member states.

Concerning the modalities of the support, the strategy states that the assistance must be focused and flexible. To obtain the highest possible aid effectiveness, visibility and synergy, some countries will be prioritised higher than others while at the same time Denmark must adapt quickly to new opportunities whenever they arise. Local ownership of the development assistance is considered an important precondition in order to create sustainable and thus long-term development. Therefore, the point of departure is the needs and conditions in the recipient countries. The DNP is supposed to comply with the Paris Declaration principles on alignment and harmonisation of the support in order to increase aid effectiveness.

Responsibility for implementing and monitoring the DNP is placed with the Danish MFA. The Danish embassies in the DNP countries are involved when it comes to the signing of the Government-to-Government agreements and to promoting the programme at the local level. However, Danish embassies have no formal responsibility in programme implementation, and the degree and nature of involvement varies from embassy to embassy.

### 2.2 Donor Trends and Developments

Some recent trends and developments in donor assistance of relevance to the neighbourhood countries include:

- A Brookings Institute working paper (Trends and Issues in Development Aid, 2007) indicates that since The Monterey Consensus of 2002, when donors committed to a significant increase in aid generally and to Africa specifically, aid has increased by over 50% (p.7). However, most Overseas Development Aid is for special purpose needs which do not translate into funds for development projects and programmes.
- In terms of the geographical destination of aid, the same study points out that two regions have benefited disproportionately, namely Africa (and Sub Saharan Africa in particular) and the Middle East (2007, p.10). In the time since the study was published, and especially with recent unrest and revolutions in North African and Middle Eastern countries, if anything, this regional trend is being reinforced. The current review of the EU European Neighbourhood Programme (ENP – see below) may mark another important point in this general tendency.
- Following a detailed review (see UK Aid: Changing Lives, Delivering Results, 2011), significant changes have been announced by the UK Department for International Development (DFID) also in relation to the current and future support provided to countries within the Balkans and Caucasus. Most notable, a geographical concentration on 27 countries and a commitment to tackling poverty and insecurity in unstable or conflict affected states will take place.
- The ENP, the framework within which the DNP operates, is itself undergoing a review process which started in 2010 and will end in 2011. The early indications

of the outcome of this review<sup>3</sup> suggest that despite the historic developments in North Africa and the Middle East, the EU will “not forget the eastern neighbours” and the revised ENP will also benefit these countries. However, there appear to be differences of opinion among the EU member states. Broadly speaking, the southern part of the EU appears to want Brussels to boost its policy towards North Africa, even at the expense of engagement in Eastern Europe and the Southern Caucasus, whereas other European countries, including Germany, favour a more balanced approach towards both directions (The ENP under review – what does it mean for the East?, S. Ananicz, eastern Partnership Committee, 2011).

- A recent EU communiqué (Partnership for democracy and shared prosperity with the Southern Mediterranean, 2011) suggests that the EU will respond to the North African and Middle Eastern countries positively, though it remains to be clarified whether this will be at the expense of the eastern neighbours in terms of financial and other commitments.
- Whatever happens, changes to the ENP are certain to occur following the review, such as a deepening of the emphasis on free trade (through the Association Agreements), institution building, political dialogue and stricter observance of the principles of conditionality and differentiation when granting financial aid to EU partners.

One important message for the DNP arises from these trends and developments: it is generally anticipated that the EU will become more active over time in some of the countries covered by the DNP. Primarily in response to this trend, and coinciding with the major turbulence in North Africa and Middle East, several multi/bilateral donors are considering and/or implementing policies to shift their resources to the “southern” neighbourhood at the expense of the “eastern” neighbourhood. This is taking place at the same time as many of the DNP countries are at a cusp of a significant phase of their economic and social transition.

### 2.3 External Factors

It is important to be aware of the “external factors” which might be affecting the outcome and impact of Danida’s private sector engagement within the neighbourhood countries in question. Since 2007, there are primarily two global factors that have impacted the 15 countries in question, thus potentially affecting the outcomes of the DNP interventions:

- *Global financial crisis*: the period 2007 to present is widely considered to be the worst financial crisis since the Great Depression of the 1930s. It was triggered by a liquidity shortfall in the United States banking system and has resulted in the collapse of large financial institutions, the bailout of banks by national governments (resulting in substantial financial commitments incurred by governments) and, as a consequence, significant decline in economic activity in economies around the world.
- *Global economic recession*: the global economy deteriorated rapidly from September 2008 onwards. The financial problems were magnified by the collapse of business

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3) Based on a speech made by Mr. Stefan Füle (European Commissioner for Enlargement and European Neighbourhood Policy) at the Danish MFA International Conference on “The EU’s Eastern Neighbours” (22 March 2011).

and consumer confidence in the face of rising doubts about economic prospects and uncertainty about policy responses. During the period 2008-09 Gross Domestic Product (GDP) levels collapsed in both advanced and transition economies; the global economy experienced its deepest downturn in 50 years. The DNP region was hit very hard due to factors such as dependence on external financing, as well as manufacturing and/or commodity exports. (International Monetary Fund (IMF), World Economic Outlook: Crisis and Recovery, 2009)

The two global trends highlighted above demonstrate that the economic and political realities of the DNP region/countries (and elsewhere) can change rapidly: Analysts find that the global financial and economic crises have hit Central and Eastern Europe harder than any other region of the world (Aslund, C. Implications of the Crisis for Eastern Europe, Development and Transition, 2009). This is illustrated by the increased level of general/youth unemployment, the increased pressure on social protection systems, the reduction in export/investment/remittances, etc. which have directly contributed to constrained private sector development and increased poverty levels.

That said, the latest economic analyses, such as that of the European Bank for Reconstruction and Development (EBRD), suggest that a recovery is underway, albeit one which is highly heterogeneous in nature:

*“During the past year most of the countries in the EBRD region [which covers the DNP countries as well as numerous others] have begun to recover from their worst recessions since the early transition years. The recovery, however, has been more sluggish than in other emerging markets and has been heterogeneous within the EBRD region. The countries of south-eastern Europe, in particular, suffered output declines well into the first half of 2010. By contrast, most other countries have benefited from export-led recoveries to varying degrees; particularly those that are commodity exporters, and central European countries with high export shares to Germany. In a few cases, such as Armenia, Moldova, Poland and Turkey, renewed remittance inflows or capital inflows have contributed to growth in 2010. In contrast, the recovery in most south-eastern European countries is progressing slowly.”* (Transition Report 2010, p.30)

The latest World Bank analysis demonstrates that GDP growth in Europe and Central Asia is projected to be 4.6% in 2010, decreasing to 4.0% in 2011 before firming to 4.2% in 2012. This would still be well below the average of 7.4% recorded during 2003-07. The World Bank's projections indicate that this projected economic performance:

*“... will not be strong enough to make a significant impact on regional unemployment. Both investment and consumer demand will continue to be held back by high unemployment, and household and banking-sector restructuring, even as domestic demand growth plays an increasing role in the recovery.”* (Global Economic Prospects: Navigating Strong Currents, Vol. 2, 2011)

To conclude, there can be little doubt that the combined financial and economic crises have affected the performance of the agribusiness sector, the primary economic sector targeted by the DNP economic development programmes. The levels of export; availability and/or access to credit; business plans for expansion, recruitment, staffing levels, trainee programmes, etc. have all suffered. Some financial services may have suffered lack of demand while others may have experienced an increase in demand. Moreover, many countries have sought to manage the financial crisis via the introduction of national austerity programmes; these will also impact economic performance. More generally, the

move towards reform of the financial regulatory framework, such as the tightened Basel III financial criteria, is likely to have implications for access by the agribusiness sector and the affordability of commercial credit.

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## 3 Evaluation Methodology and Approach

### 3.1 Methodological Issues

The evaluation's methodology is underpinned by Danida's Guidelines for Evaluation (MFA/Danida, 2006) and the OECD/DAC Evaluation Quality Standards<sup>4</sup>.

In terms of the analytical approach, the evaluation has been based on the five OECD/DAC standard evaluation criteria (relevance, efficiency, effectiveness, impact and sustainability). The implemented DNP activities have been guided by an overall strategic framework (Strategy of the Danish Neighbourhood Programme 2008-2012). The evaluation has been using this document as the strategic reference frame for the assessment carried out of the individual programmes implemented within the neighbourhood countries, as well as for drawing of the overall conclusions and lessons at the portfolio level.

In addition, the evaluation has been guided by a set of Key Evaluation Questions (see Annex 1 p. 79). These questions are all linked to the **broader aspects of the DNP interventions**, such as:

- the relevance of the thematic interventions in view of Danish policies and strategies;
- alignment to national structures/procedures;
- coherence with other relevant government/donor-funded programmes;
- use of different implementation modalities/approaches; and
- documented employment and income effects.

### 3.2 Sampling and Coverage

The ToR for the assignment emphasises that the evaluation should *focus on activities undertaken in the most recent years of the Programme (Phase II); and that earlier interventions may be included where relevant in order to understand and assess current activities*. In view of this, the evaluation finds that the three pre-selected case countries (Armenia, Kosovo and Serbia) are well-chosen for this evaluation. In particular, we find that the following key characteristics of the three case countries are of importance:

- **High priority countries:** all three case countries are ranked in the DNP Strategy 2008-12 as being of “high priority” in the second programme phase.
- **Large budget share:** two thirds (DKK 224 of 333 million) of the budget for current economic development projects (see Table 4.1) are allocated to activities within the case countries.
- **Broad geographical coverage:** the case country selection includes countries from both South Caucasus and the Balkans.
- **EU accession status:** while Serbia is expected to become a Candidate Country in the near future, Kosovo is only likely to reach this status in the medium term. However, the prospects of EU membership for the Caucasus are more uncertain and long term.

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4) [www.oecd.org/dac/evaluationnetwork](http://www.oecd.org/dac/evaluationnetwork).

- **Broad thematic coverage:** the variation in the project activities undertaken within the case countries is large and includes promotion of enabling business environments, improving vocational education, improving access to financial services and business development services and value chain approaches. The main themes of the programmes in the non-case countries with current programme implementation are related to the areas of financial services, value-chain and promotion of enabling environments. These are all areas that are well-covered by the programmes in the case countries.
- **Different implementing modalities:** the projects in the three case countries represent an opportunity to explore in-depth different implementation modalities (delegated partnerships, consultants, own (embassy) implementation). The implementation modalities used in the non-case countries, are not different from the ones found in the case countries.
- **Different programme implementation periods:** the second phase DNP projects have run for more than two years in both Kosovo and Armenia (since late 2008), while implementation in Serbia of the latest programme has only started recently (late 2010). Programme implementation within all the non-case countries is within this range; they have all started implementation during 2009-10.
- **Similar activities implemented across different case countries:** for example, the Vocational Education and Training (VET) components in the programmes for, respectively, Armenia and Kosovo are very similar in content and approach. This allows the evaluation to compare experiences from similar type of interventions within different national contexts.
- **The case countries have different length of experience with the DNP:** while both Serbia and Kosovo had programmes formulated and implemented during the first phase of the DNP (2004-07), the current programme in Armenia is the first one under the DNP. This allows the evaluation to study cases with different DNP time experiences.

In order to select a **sub-sample** of activities for in-depth assessment within each of the three case countries, the evaluation applied the following criteria:

- **Thematic activities:** Within the three case countries, activities related to all programme components have been covered explicitly by the evaluation during the fieldwork, including agribusiness/agriculture production activities (Serbia and Kosovo), VET component activities (Armenia and Kosovo), financial service activities (Armenia and Kosovo).
- **Geographical area (region):** Activities implemented in different regions in the same country have been covered.
- **Status/length of implementation:** In order to cover the whole intervention logic chain, activities with different duration of implementation have been covered (potential impact and sustainability issues), as well as more recent activities (more focus on relevance, efficiency and effectiveness aspects).
- **Performance status:** From the key informant interviews carried out during the Inception Period, preliminary perceptions were obtained of which activities were

performing well and less well. Both types of activities were covered explicitly during the fieldwork.

Based on these sub-sampling selecting criteria, the fieldwork programmes were developed for all three case countries (see detailed fieldwork schedules in Annex 2, 3 and 4).

### 3.3 Analytical Strategy

In terms of coverage, the key findings (see Chapter 5) from the case countries are based on a combination of *secondary information sources* (*project data, document review and meetings/interviews with key stakeholders within the case countries as well as from the Danish MFA and the Danish resource base*) with *primary information sources* (*visits to selected project sites within the case countries to ensure sufficient depth and specificity in the analysis and to be able to identify more specific results and point to promising and less promising practices*). Key findings from non-case countries are added whenever possible based on review of the limited available documentation and interviews with Danish MFA staff.

A key challenge for the evaluation has been to ensure sufficient interplay between the analysis and findings related to the individual programmes and the generic conclusions and lessons to be developed for the overall DNP portfolio level within the priority area (economic development). In particular, in cases where samples and sub-samples are not carefully selected from the overall portfolio, this may lead to difficulties in ensuring such interplay in the analysis due to imbalances in information levels from different groups of activities.

As discussed above, the evaluation finds that in this case the case country selection, together with the applied method for sub-sampling of activities within these countries has provided a balanced foundation for the subsequent analysis, with a particular view to formulation of conclusions and lessons at the overall portfolio level. Although the sample and sub-sample is not representative in a strictly statistical sense, it does provide a comprehensive cross-cutting picture of the main type of economic interventions taking place in the second phase of the DNP.

It has been very difficult for the evaluation to provide evidence from the on-going programmes in the non-case countries that could feed into the evidence base and discussions based on the case country visits. The available information on programme implementation in non-case countries has been limited to appraisal reports, inception reports, inception reviews and, in one case (Montenegro), a Mid-Term Review, together with a few key informant interviews carried out. As a natural consequence of this, the basis for the analysis carried out in the following sections is generally more substantive for the case countries than for the non-case countries. The available information from the non-case countries will be utilised to the extent feasible, to provide possible indications of trends/directions of programme developments that could be used for the overall portfolio analysis. The evaluation will outline possible implications for the strength and level of the findings/conclusions that are reached.

### 3.4 Key Challenges and Limitations

The evaluation has carefully searched for and assessed available data that could contribute to assessing the effectiveness of the implemented DNP activities. It must be noted how-

ever, that serious limitations in data availability has limited the possibility to carry out meaningful quantitative data analysis.

A particular challenge related to this evaluation is to bring out generic findings, lessons and recommendations from the three different case country scenarios, as well as from the other DNP countries in the region, given the very different contexts and stages of implementation reached. While the case studies have provided the opportunity to make a first-hand assessment of experiences that, in some cases, are repeated across countries, other findings may not be representative and comparable and the level of evidence/information may be different (see above).

Moreover, travel logistics within the case countries provided some limitations to how much could be covered by the evaluation during the five day visits to each case country. Time had to be balanced between meetings/key informant interviews in the capital cities and travel to project regions (visit to project sites, discussions with project staff, and focus group meetings with project beneficiaries).

## 4 Mapping of DNP Interventions

The purpose of the overall mapping presented in Section 4.1 is to provide an overview of the nature of the past, present and future (i.e. the current pipeline) economic development programmes being funded by the second phase of the DNP (2008-12). This is followed by a more detailed mapping of the DNP Phase II interventions being implemented in the three case countries (Section 4.2) as well as an overview of the Phase II interventions within the non-case countries (Section 4.3).

### 4.1 Overall Mapping of DNP Support

The DNP is financing local economic development programmes in eight of the 15 target countries: Kosovo, Serbia, Russia, Armenia, Montenegro, Albania, Bosnia-Herzegovina and Ukraine. In three out of the eight countries, programmes were formulated and initiated during the first phase of the DNP (before 2008); in seven of the countries, programmes have been formulated and are under implementation within the frame of DNP Phase II; in four of the countries, new programmes have started-up very recently or are about to start. Table 4.1 below maps the key features of these 14 economic development programmes.

**Table 4.1 DNP Economic Development Programme**

Country	Start	End	Budget (DKK million)	Focus	Instruments	Modalities
Kosovo	Feb. 2005	Dec. 2007	50	Rural SMEs	Finance/MFIs	National MFIs/ Consultant
Russia	June 2006	Dec. 2010	110	Furniture Food Processing Tourism	Cluster Policy dialogue Business development services Advocacy Financial services VET	Consultants
Serbia	Aug. 2007	Dec. 2011	75	Textile Construction Agriculture	Advocacy Cluster development Business development services Financial services EU accession	Consultants
Kosovo	July 2008	Dec. 2012	80	Horticulture Agribusiness	Value chain VET Financial services	Delegated partnership Consultants

#### 4 MAPPING OF DNP INTERVENTIONS

Armenia	Dec. 2008	Dec. 2011	29	Agribusiness	Financial services VET	Delegated partnerships
Montenegro	June 2009	May 2012	15	Organic agriculture	Value chain Institutional frame Matching grants	Consultants
Bosnia-Herzegovina	Nov. 2009	2014	24.3	Agriculture Energy saving	Financial services	Delegated partnership
Albania	Sep. 2009	Aug. 2014	30	Apples Aromatic plants Ruminants	Value chain Capacity development	Delegated partnership
Ukraine	Jan. 2010	Nov. 2012	40	Agribusiness	Value chain Financial services	Consultants Delegated partnership
Serbia	Nov. 2010	Nov. 2014	40	Fruits & berries	Value chain	Consultants/ Embassy
Moldova	Jan. 2011	Jan. 2014	27	Promotion of entrepreneurship via grant scheme	Financial services Matching grant	Delegated partnership
Kosovo	Jan. 2012	Jan. 2015	75.5	Private / agriculture sector development	Financial services Matching grant	National implementation via WB credit scheme
Armenia	Dec. 2011	Dec. 2014	20	Rural economic development and employment	Value chain VET Financial services	n/a
Georgia	Dec. 2011	Dec. 2015	50	Private/ agriculture development	Value chain Matching grant	Delegated partnership

Table 4.1 illustrates a number of features regarding Phase II of the DNP economic development programmes:

- First, about **DKK 666 million** (67% out of a total budget of about DKK 1 billion) of DNP support has been targeted at the economic development portfolio. In the current phase (2008-12) the overall allocations to support economic development constitute around 40% of the total DNP budget.
- Second, the **size of the programme budgets** has changed over time. The average programme budget was DKK 80 million for the early projects (Kosovo and Russia) which started prior to the current phase; the average programme budget was DKK 48 million for the period 2007-10; and DKK 43 million for the new/forthcoming programmes. The overall average budget for all economic development programmes is DKK 48 million.

- Third, the **degree of complexity**, as measured by the number of programme components, has decreased over time. Whereas the first programmes in Russia and Serbia involved numerous interventions (components and sub-components), over time, the newer economic development programmes have tended to focus on a couple of components and sub-components.
- Fourth, the **applied instruments** vary from country to country but have also changed over time: financial services (access to credit) and support to (agri-related) SMEs is an element of most if not all programmes; other instruments (e.g. advocacy, regulatory reform and public-private dialogue, clusters have been phased out or modified over time. Public-private dialogue has been replaced with advocacy and delivery of support services.
- Fifth, support to **agribusiness and agriculture** is a feature of all programmes in one form or another. However, the way this is done has changed over the time: the cluster approach, focusing on enterprises within a particular industry in a particular locality, has been replaced by the value chain approach, focusing on constraints hampering backward and forward linkages within the production of a particular product or group of products. The support consists of business development services, management and entrepreneurship training, access to market information and similar interventions.
- Last, the **implementation mode** is changing towards delegated partnership. This is to a large extent a reflection of the radical change in the institutional set-up of the DNP since 2009, where it became included as aid assistance in accordance with Danida's Aid Management Guidelines (see also Section 2.1). The other main implementation modality, especially in the early programmes, was outsourcing to consultancy companies. The latter is used in conjunction with implementation through Project Implementation/Component Management Units (PIUs/CMUs).

### 4.2 Detailed Mapping of DNP Support to Case Countries

The main features of the programme interventions within the three case countries (Armenia, Kosovo and Serbia) are presented in the following sub-sections.

#### **Armenia**

In recent years, Armenia has seen impressive economic growth and corresponding falls in poverty levels. However, the rural areas have significantly higher levels of poverty and lower incomes, and suffer from over reliance on remittances and low productively agriculture, with under-employment and stagnant living standards as a consequence. The lack of high-productive employment opportunities outside agriculture is a key constraint limiting rural growth prospects and, as a corollary, poverty reduction. The policy environment for rural enterprises is generally favourable; however, more investment is needed to accelerate rural growth and employment generation, especially for SMEs outside Yerevan.

Despite Armenia's hitherto impressive performance in terms of growth and poverty reduction, unemployment continues to be a major problem in particular for young people. The recent financial and economic crises have accentuated this problem. The unemployment challenge also has important gender dimensions. Traditionally, women are

mainly employed in the health sector, and in the social security and educational sectors. They have, therefore, benefited to a lesser extent from the growth in employment in the SME sector. The majority of the unemployed youth are graduates from general secondary education or vocational education.

Professional educational programmes in Armenia aim to prepare specialists with relevant qualifications. Many colleges face the challenge that the skills offered within growth sectors do not necessarily lead to employment; the colleges have not adjusted their programmes to the dramatic changes in the labour market and wider economy; have established limited contacts with local enterprises; the relevance of the professional qualifications provided in the colleges can be questioned; and most have either no or little equipment for professional and practical training.

*Nature of Intervention(s):*

- **Title:** 'Pro-Poor Rural Development through Business and Skills Development'.
- **Period:** December 2008-December 2011.
- **Development objective:** Rural employment generation through accelerated economic development by private sector development and improved skills.
- **Immediate objectives:** Two immediate objectives have been formulated:
  - i) Stimulated sustained growth of rural economic activity and employment through improved access to appropriate and innovative financial services to rural SMEs.
  - ii) Increased employability of VET college graduates with a specialisation relevant for economic growth sectors with strong impact on employment in rural areas and regional cities.
- **Scope:** Two components are implemented:
  - i) Rural private sector development: supports rural SMEs in sustainably expanding production, productivity, incomes and employment; support is offered in the form of equity and quasi-equity investments in selected rural SMEs with growth and developmental potential. This assistance is complemented by non-investment support such as training, marketing studies, technology transfer facilitation, etc. Support is to focus on non-investments aspects not exceeding DKK 10 million and is to be channelled through the International Fund for Agricultural Development (IFAD)/Government of Armenia established Fund for Rural Economic Development in Armenia (FREDA) which provides equity and capacity development support to rural SMEs. IFAD is to assume responsibility for funds, monitoring and implementation and will also provide the initial capital for the equity and quasi-equity investment;
  - ii) Improving employability of graduates of vocational colleges: addresses the mismatch in skills provided by the VET system and the needs of local labour markets. It is expected to increase the employability of young people in general and young women in particular. The focus is on educational programmes relevant to economic sectors with a potential for economic growth and job creation in rural areas. The focus is on promoting practical, professional training in 12 VET colleges.

- **Implementing modality:** delegated partnerships; VET by United Nations Development Programme (UNDP); and financial services FREDA by IFAD.
- **Key stakeholders:** The Ministry of Education and Science (MOES), the National Centre for VET Development and 12 VET colleges in the case of the VET component; and the Ministry of Finance in the case of FREDA.
- **Budget/inputs:** Overall budget of DKK 29 million; i) rural private sector development (DKK 10 million); ii) VET (DKK 16 million); and iii) Other (DKK 3 million).
- **Geographical coverage:** Implemented in colleges covering all Marzes (Provinces) in the country.
- **Expected outputs:**
  - i) The rural private sector development component is expected to deliver four outputs to enhance the effectiveness of FREDA: First, assist in pre-investments support aimed at identifying prudent and high-yielding investment opportunities and assisting potential SMEs in accessing FREDA's investment capital and technical assistance. Second, enable improved investment decision-making by providing necessary technical expertise for undertaking high quality due diligence, facilitating technology transfers and supporting improved/restructured management. Third, assist in improving post-investment opportunities for enhancing the multiplier effects by, for example, documenting the impact of the investment and disseminating key lessons learnt to a wider audience. Fourth, enhance management of FREDA by proving finance for the hiring of one in-house research and consultancy expert, as well as supporting the initial training of FREDA's staff; assist in developing the monitoring and evaluation system;
  - ii) The VET component is expected to deliver six outputs: First, development of five standards and modular curriculum of professions relevant for economic growth sectors with strong impact on employment in rural areas and regional cities (i.e. food processing, construction and tourism/hospitality). Second, establish systematic links between the local labour market and VET colleges to allow students practical exposure in private companies and to provide guidance to students on employment opportunities including opportunities for self-employment (target: a plan for extra budgetary activities to be developed in 12 colleges; a system for systematic career guidance to be piloted in the 12 colleges with specific attention to employment of young women in growth sectors). Third, colleges will be equipped to conduct practical training within the relevant for economic growth sectors in accordance with the new standards and modular curriculum of professions (target: all colleges receive a package of equipment for practical and professional training for one or two of the five developed standards). Fourth, teaching materials will be made available for the practical and professional teaching in the modular curriculum of professions developed for relevant for economic growth sectors (target: establish a revolving fund for 15,000 books for professional training in the selected standards; translation of existing text books and development of others teaching materials for the fund). Fifth, further development of administrators and teachers' qualifications to implement the modular course plans (target: 300 administrators and teachers involved in training of the developed standards have been trained in

the new standard; and 300 teachers able to apply the professional didactics and use of the provided equipment in a student centred learning as foreseen in the standards developed). Sixth, capacity development of the VET Division in the MoES; this is undergoing restructuring and the result of the functional analysis will form the basis for the capacity development. Capacity will be developed in the National Centre for VET Development for financial management and procurement, and a model for continuous teacher training will be developed.

### **Kosovo**

Kosovo traditionally had a relatively strong and well-functioning agricultural and food processing sector, which was able to capture a significant part of the domestic market, as well as exporting substantial volumes. The economic and political crises in the 1990s and the war in 1999 reduced agricultural and food-processing production to a fraction of the previous level, though there are indications that the sector is very slowly emerging from more than a decade of crisis and stagnation. In particular, the horticultural sector has shown promising signs of nascent recovery, partly aided by external development agencies such as the United States Agency for International Development (USAID) and the Swiss Agency for Development and Cooperation (SDC). However, production and productivity levels are still far below potential and pre-conflict level. This is partly due to 'coordination failure' in which agents (or links) in a potential value chain lack both information and incentives needed to make the necessary investments due to uncertainty about whether other agents will make complementary investments required to established a competitive and profitable business.

In relation to VET, there is a need to provide the graduates with skills and competencies that are relevant for exploiting existing and future employment opportunities. Currently, vocational schools are seen as an option mainly for those who cannot access the gymnasium. This is partly due to the vocational schools having limited resources for anything other than theoretical learning. In addition, teachers are generally not well-qualified to undertake practical training, even assuming the equipment and facilities were in place. Graduates leaving the vocational schools have limited practical skills, contributing to the high unemployment levels.

A key constraint for both existing and start-up agribusinesses is access to affordable financial services. Currently commercial banks tend to shy away from lending to agribusinesses due to the perceived risks (e.g. reduced enforceability of collateral, long-term investments, uncertain markets, etc.). Some Micro Finance Institutions (MFIs) do have agribusinesses clients but reach is constrained by a lack of liquidity. The relatively high interest rates charged by MFIs and the limited size and maturity of their loans further deter substantial up-take by agribusinesses. On the other hand, commercial banks have reasonable liquidity and lower interest rates, but are reluctant to enter the market due to the perceived risks and capacity constraints.

#### *Nature of Intervention(s):*

- **Title:** 'Employment Promotion through Business and Skills Development'.
- **Period:** July 2008-December 2012.
- **Development objective:** Promoting sustainable employment generation through the improvement of the agribusiness environment and increased employment opportunities for vocational school graduates.

- **Immediate objectives:** Three immediate objectives have been formulated:
  - i) A dynamic horticultural sector is supported which contributes to increased commercial income and employment and in rural areas.
  - ii) Increased employment rates of youth in general and girls and ethnic minorities in particular graduating from upper secondary agricultural education.
  - iii) Increased access to financial services of micro and small and medium-sized enterprises, especially in the agribusiness sector.
- **Scope:** The programme has three components:
  - i) Promoting labour intensive growth for agribusinesses: the objective is to restore the productive potential of agribusinesses in Kosovo by promoting value chains, in particular horticultural and related agribusinesses, as this sector has significant potential for sustainable, labour intensive growth.
  - ii) Improving employability of vocational school graduates: the objective is to increase the employment rates of young people in upper secondary schools in general and girls and ethnic minorities in particular.
  - iii) Improving existing and new agribusinesses' access to financial services: supports financial institutions, including commercial banks and MFIs, with loans for on-lending and capacity development support. The financial institutions are expected to be either active in the agribusiness sector or have a firm commitment to expand into the sector; the capacity development support assists expansion of their rural outreach.
- **Implementing modality:** a co-financing agreement and delegated partnership with SDC for the horticulture value chains (which is implemented by InterCooperation); a co-financing agreement and delegated partnership with the European Fund for Southeast Europe (EFSE), which handles the loan funds and the capacity development assistance; and a CMU within the Ministry of Education, Science and Technology (MEST) for the VET component.
- **Key stakeholders:** Ministry of Finance (EFSE component), Ministry of Agriculture, Forestry, and Rural Development (MAFRD – Horticulture component), MEST (VET component), Pristina – Faculty of Agriculture, Association of Kosovo Agribusiness, VET schools and farmers.
- **Budget/inputs:** a total budget of DKK 80 million: i) horticulture value chains (DKK 29.8 million); ii) vocational educational training (DKK 28.5 million); iii) access to financial services (EFSE) (DKK 13.5 million); iv) contingencies (DKK 6.3 million); and other (DKK 1.9 million).
- **Geographical coverage:** national and 12 VET schools (subsequently reduced to four).
- **Expected outputs:**

The horticulture component is expected to deliver four outputs: i) improved production, processing and marketing of horticultural products consistent with market needs; ii) promotion of affordable business development and extension services

for all value chain actors; iii) assistance to the government in promoting an overall enabling environment for the horticultural agribusinesses; and iv) piloting of a young entrepreneurs' support scheme.

The VET component is expected to deliver six outputs: i) support to agricultural departments in 8-10 vocational schools to conduct practical training and provide relevant training equipment; ii) upper secondary vocational schools supported with teaching materials; iii) developed teacher qualifications consistent with the curriculum (esp. concerning agricultural subjects); iv) improved linkages between schools and local labour markets; v) strengthened decentralised school governance; and vi) capacity development at MEST.

The EFSE component is expected to deliver five outputs: i) increased availability of loanable funds of banks for agribusiness and other rural activities; ii) increased availability of long-term funds and equity for the transformation of MFIs into deposit-taking institutions and for on-lending to agribusinesses and other rural activities; iii) increased capacity of MFIs to expand the scope and scale of their financial services through transformation into deposit-taking institutions; iv) increased capacity of banks to provide financial services to agribusiness and other rural activities; and v) increased capacity of MFIs to provide a full range of financial services to agribusinesses and related rural businesses.

### Serbia

The Government of Serbia has clear priorities for the content and direction of reforms; the overall political priority is accession to the EU. Serbia signed the Stabilisation and Association Agreement with the EU in May 2008 and it was subsequently ratified by the European Commission (EC) in June 2010. The successful implementation of this agreement is one of the pre-conditions for gaining Candidate Country status, which will grant Serbia access to Instrument for Pre-Accession Assistance (IPA) III-V, and particularly, to Pre-Accession Assistance for Rural Development (IPARD) funds. IPARD funds support Candidate Countries to modernise their agricultural system, as well as develop their rural areas so they can attract people to live and work there. In this context, the EC is funding three sector studies, including one on the fruits and vegetables sector, for the preparation of the future agricultural and rural development programmes.

One of the major challenges facing the Government of Serbia is the high level of unemployment, especially in rural areas, where more than 50% of total population live. The south of Serbia is well-known for its developed production of fruit and berries, whose export, especially of frozen raspberries, contributes significantly to the national economy. The aim of the DNP interventions is to increase producers' income and employment in the entire value chain, thus contributing to reducing poverty and migration. The impacts are expected to include increased export of high quality fresh and processed fruit and berries, which should result in an increase in jobs, income and improvement in the trade balance. The programme is also expected to support Serbia's EU accession process in general.

#### *Nature of Intervention(s):*

- **Title:** 'Private Sector Programme: Support to the Fruits and Berries Sector, South Serbia'.
- **Period:** November 2010-November 2014.

- **Development objective:** Socially balanced economic development and employment creation within four districts in the south of Serbia.
- **Immediate objectives:** Through support to relevant value chains within the selected fruit and berries sector it is the aim to contribute to: i) preparations for EU accession; ii) strengthening of a sustainable growth of the private sector in the districts; iii) increased export; iv) income generation; iv) job creation, in particularly among youth and women; and v) reduced migration from the districts.
- **Scope:** The programme has two interrelated components:
  - i) Capacity building of extension service, training, improvement of cooperation between producers, including the enhancement of cooperation throughout the entire value chain from producers to consumers and exporters: technical support to introduce new certified and approved varieties of selected fruit and berries and modern production, harvesting and processing methods, including a sub-component for strengthening the quality control, risk analysis, safety monitoring, and certification of the selected sorts of fruit and berries.
  - ii) Grant scheme for investment in primary production and processing: focuses on investment in new production methods and improvement of quality and competition. Contributions to the environment, gender, youth, migration and poverty reduction are important considerations in the section process.
- **Implementing modality:** a full-time International Senior Horticulture Consultant will be responsible for day-to-day management and implementation.
- **Key stakeholders:** The main partners are the Ministry of Agriculture, Forestry and Water Management (MAFWM); the Ministry of Economy and Regional Development (MERD) and its institutions; the extension service; and the rural network. The partners in the selected region are all the municipalities in the Jablanica, Nisava, Pcinja and Toplica Districts; local state extension service and consulting companies; Regional Rural Development Offices; Agricultural School in Aleksinac and others; Regional Chamber of Economy; processors and exporters of fruit and berries; fruit and berry producers; and farm organisations.
- **Budget/inputs:** A total budget of DKK 40 million: i) for capacity building (DKK 11.5 million); for investment in production (DKK 17.2 million); and iii) the remainder for staff, contingency and audit. It is expected that the Programme will be supplemented with DKK 29.1 million from public Serbian sources. Additional public support is foreseen from other public programmes: support to standardization and certification (MAFWM) and support for development of cooperatives and clusters (MERD). The grant scheme is also expected to mobilise up to DKK 37.3 million in private co-financing. In total, a financial envelope of DKK 112 million is anticipated.
- **Geographical coverage:** four districts in the South Serbia (28 municipalities): Jablanica District (Leskovac, Bojnik, Lebane, Medve a Vlasotince, and Crna Trava); Nišava District (Aleksinac, Svrlijig, Merošina, Ražanj, Doljevac, Gadžin Han, Medijana, Niška Banja, Palilula, Pantelej and Crveni Krst); P inja District (Vladi in Han, Surdulica, Bosilegrad, Trgovište, Vranje, Bujanovac and Preševo); and Toplica District (Prokuplje, Blace, Kuršumlija and Žitoradja).

- **Expected outputs/outcomes:** improvement of productivity and competitiveness of fruit and berries production in the south of Serbia.

Capacity Building: i) improvement of productivity and quality, as well as growing of new varieties of fruit and berries (new production method and mother plantations for production of certified material of fruit and berries, harvest process, transport of produce, sorting process, cold storage, quality control process and transport to international markets of fresh and processed fruit and berries introduced); ii) dissemination activities regarding new knowledge of processing, new technologies and production principles, training seminars, workshops, on-the-spot-visits and meetings, written and electronic publications produced, all information available on internet; iii) special extension service in business planning, Best Agricultural Practise (BAP), risk analysis, safety monitoring, organic production, quality control and certification in accordance with EU regulations and practices of the entire value chain of fruit and berries production and distribution; and iv) testing laboratories for quality control and food safety (pesticides, harmful organism, mycotoxins, mechanical impurities, toxic elements) fulfilling EU requirements.

Grant Scheme: i) investment in replanting, rejuvenation and establishment of new plantation, investments in new machinery and equipment for the fruit and berries sector (anti-hail systems, irrigation and water management systems, drip irrigation systems, special tractors, field sprayers, etc.); and ii) investment in cold storages and any other technology and machinery (sorting machines, box pallets, etc.) for processing of selected fruits and berries. The following targets are expected to be met: i) minimum 160 projects will be supported with DKK 40.5 million of public support representing a total investment of DKK 75 million; ii) minimum 3,000 persons (farmers, processors, employees, advisors, etc.) trained<sup>5</sup>; iii) 5% increase in Net Value Added of the supported farms/holdings/enterprises; iv) 10% increase in the volume of exports of enterprises investing with this objective; v) 250-500 jobs established or maintained, of which at least 50% women; vi) 5% increase in labour productivity (Gross Value Added per Full Time Equivalent); and vii) 75% of supported beneficiaries and trained farmers, processors and others state in surveys that their EU competences have increased due to the programme.

### 4.3 Mapping of DNP Support to Non-Case Countries

The main features of the programme interventions within the non-case countries (Albania, Bosnia-Herzegovina, Montenegro and Ukraine) are briefly presented in the following sub-sections.

#### **Albania**

##### *Nature of Intervention(s):*

- **Title:** 'Value Chains for Sustainable Livelihoods' (the name has later on been changed to the local name 'ProMali').
- **Period:** September 2009-13.
- **Development objective:** Sustainable livelihoods in mountainous northern and eastern Albania.

5) Figure revised (from 15,000) during inception review.

- **Immediate objective:** Sustained increase in income from selected value chains in mountainous areas in northern and eastern Albania.
- **Scope:** The programme includes only one component which focuses on support to three value chains, namely medical and aromatic plants, tree fruits (apples) and small ruminants. Based on value chain analyses, the programme will support primary actors in the value chains to improve their access to inputs/technologies, markets, capital and knowledge and skills. A small part of the programme will focus on capacity building of Albanian experts and organisations to design evidence-based policies to support value chains.
- **Outputs:** i) three competitive value chains with adequate support and coordination mechanisms; and ii) the capacity of the Ministry of Agriculture, Food and Consumer Protection is enhanced to define and implement evidence based value chain policies and strategies.
- **Implementing modality:** delegated partnership; Netherland's Development Cooperation (SNV) will be the implementing partner.
- **Budget/inputs:** The total budget is DKK 37.3 million, of which the Danish MFA co-finances 80% (DKK 30 million) and SNV co-finances 20% (DKK 7.3 million).

### **Bosnia-Herzegovina**

#### *Nature of Intervention(s):*

- **Title:** 'Danish support to Credit Programme in Support of Micro, Small and Medium-Sized Enterprises'.
- **Period:** November 2009-14.
- **Development objective:** A sustained increase in investments, which will increase viable and productive employment.
- **Immediate objective:** A sustained increase in micro credit organisation lending to production oriented activities, including farming and energy saving activities, and with equal access for men and women.
- **Scope:** The programme includes only one component with Danish credit funds for on-lending through MFIs for the financing of production oriented activities, including farming and energy saving activities, with equal access for men and women.
- **Outputs:** 630 loans from the first rotation of the Danish credit funds. This number will increase when the credit funds start to revolve.
- **Implementing modality:** delegated partnership; KfW will be the implementing partner.
- **Budget/inputs:** Overall budget of DKK 24.3 million, whereof DKK 23.5 million are credit funds.

**Montenegro***Nature of Intervention(s):*

- **Title:** 'Organic Agriculture Development Programme (OADP)'.
- **Period:** January 2009-December 2011.
- **Development objective:** Sustainable economic growth and job creation in Montenegro enhanced through increased agricultural production of organic products.
- **Immediate objective:** Two immediate objectives have been formulated: i) institutional capacity within the Montenegrin organic agricultural sector enhanced; and ii) the competitiveness of the Montenegrin organic agricultural sector strengthened.
- **Scope:** The programme has two components: i) an institutional development component; and ii) a competitiveness component.
- **Outputs:** The outputs of the programme will be training of different stakeholders, especially training and extension service for organic producers, capacity building in the advisory service especially towards producers benefiting from the investment grant facility, support to develop and establishment of organic associations, grant to investment in organic production, processing, packaging and labelling, grant to establishment of an experimental greenhouse for practical research in organic production in the Biotechnical Institute, analyses of sustainable production potential of organic produce and development of marketing and promotion strategy with practical activities.
- **Implementing modality:** an International Senior Expert will be responsible for the day-to-day management, development, and implementation of the Programme.
- **Budget/inputs:** Overall budget of DKK 15 million.

**Ukraine***Nature of Intervention(s):*

- **Title:** 'Rural Private Sector Development Programme (RPSDP)'.
- **Period:** January 2010-December 2012.
- **Development objective:** Increased livelihoods through creation of Micro, Small and Medium-sized Enterprises (MSME) based employment in rural areas of Ukraine.
- **Immediate objective:** Two immediate objectives have been formulated: i) increased productivity and profitability in the agricultural and processing sector in Lviv Oblast; and ii) improved access to financial services of MSMEs in the rural and agricultural sectors.
- **Scope:** The RPSDP is organised in two components addressing different constraints faced by MSMEs in Ukraine. Component 1 addresses the (i) low productivity and efficiency in dairy products, fruit and vegetable production; (ii) inefficient supply chains and a weak infrastructure to ensure product quality such as

transport, storage, handling, packaging and other facilities and services; (iii) limited knowledge of agribusiness and marketing planning systems; (iv) weak marketing infrastructure, which could be improved to create and expand market access and improve production quality; and (vi) the slow introduction of new production and processing technologies, including product development, quality control, labelling and packaging design. Component 2 addresses the challenges of access of rural and agricultural MSMEs of Ukraine to finance and aims to help commercial banks in Ukraine to further diversify their lending base of rural and agricultural MSMEs.

- **Implementing modality:** the agribusiness development component is implemented through a consulting firm and the rural financial services component through a delegated partnership with EBRD.
- **Budget/inputs:** overall budget of DKK 40 million; whereof DKK 24.7 million is budgeted for Component 1 and DKK 12 million for Component 2.

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## 5 Evaluation Findings

### 5.1 Relevance of DNP Interventions in view of Policy Frameworks, Priorities and Needs

#### **Coherence with the overall Danida strategies and the Strategy of the Danish Neighbourhood Programme 2008-12**

The evaluation finds that at the overall portfolio level the implemented programmes in the neighbourhood countries during the second phase of the DNP are **in line with the new overall strategy** for Denmark's Development Cooperation 'Freedom from Poverty – Freedom to Change' (2010), as well as with the **specific strategy for the DNP 2008-12**.

The new strategy for Denmark's Development Cooperation particularly emphasises the growth and employment dimensions in relation to the Danish development assistance. Denmark should support partner countries in: *"...meeting standards and quality requirements to enable them to compete according to international market conditions"* (p.18). A special Danish focus will be to promote employment for the large youth cohorts through provision of technical and vocational training: *"...to satisfy the private sector's need for a skilled labour force and to increase young people's opportunities for employment"* (p.19-20). This is seen as vital for the productivity and competitiveness of businesses.

The strategy also emphasises that Denmark will work with: *"...all elements of the production chain, from "the farm to fork"...to create value added in all links of the chain between the producer and the consumer"*. The strategy recognises that in many partner countries: *"... the potential for poverty-oriented economic growth is greatest within the agriculture and agro-industries" so that "Poor farmers must be linked together with processing businesses and have access to new knowledge and technology, credit and service businesses in order to commercialise their production and increase their income"*. In this way, *"Microfinance will be an important instrument in reaching poor small-scale farmers and smaller businesspeople including women and young people"* (p.20).

In the strategy for the DNP 2008-12, it is stated that country interventions will be selected on the basis of: *"...a political and developmental assessment and with regard to Denmark's political and economic interests..."*. The DNP Strategy also refers to the experience from the first phase of the DNP, which showed that Denmark has a number of core competences of relevance to the neighbourhood countries. This includes productive sectors and business development, where the first phase showed that Denmark has considerable experience, and good traditions for developing commercial organisations and promoting SMEs to benefit growth and employment. In particular, it was noted that Denmark has special expertise in certain sectors such as agriculture and food processing. The first DNP phase also showed that, based on previous experience, Danish support can assist the neighbourhood countries with reforms and capacity building of the public sector, among others, as part of the countries' rapprochement to the EU and preparation for EU membership.

All the economic-oriented programmes funded so far in this second phase of DNP, have an explicit focus on support to **agriculture and agribusiness**, with clear linkages to rural employment creation. In most programmes, these employment linkages are established through targeted efforts to increase productivity and competitiveness (Serbia, Ukraine,

Montenegro, Bosnia-Herzegovina and Albania). This dual ambition to strengthen the competitiveness of agriculture and agro-business while, at the same time, create more jobs, may be seen as challenging. It is often the case that improved competitiveness may also cause loss of jobs, at least in the short to medium term.

In the cases of Armenia and Kosovo, an important element in the employment linkages is parallel support provided to the **VET sector**, which seeks to address quality aspects of the labour supply through improvement in qualifications in subjects of relevance to agriculture/agribusiness. In this way, these programmes aim to address the problem of a mismatch between demand for, and supply of, skilled labour in rural areas through the VET system.

In terms of **access to finance**, all programmes include either a specific component or an element which focus particularly on facilitating access to finance through provision of credit/loans or matching grants to SMEs and rural enterprises. This is based on the assumption that lack of access to capital (and new technologies) stifles efforts to raise productivity and employment generation, especially in rural areas.

Likewise, a number of the programmes are targeting the need for **reforms and capacity building within public sector institutions**, either directly (as in the case of the ongoing programmes in Montenegro and Albania, as well as the new fruits and berries programme in Serbia) or indirectly through broader component interventions (e.g. the VET components in Armenia and Kosovo provide capacity building to ministries, and also most of the financial service components include capacity building activities).

In a few cases however, the evaluation noted challenges in the programme designs in terms of fully fulfilling the specific DNP strategic aim that the *“Interventions under the Neighbourhood Programme will be tailored, to the greatest extent possible, so that they complement and support the significant donor assistance carried out by the EU Commission through the EU’s Neighbourhood Policy and the EU’s Pre-Accession”* (DNP Strategy, p.13). This is for example the case in relation to:

- The ongoing programme in Armenia: It can be discussed, from a Danish perspective, how relevant it is to support export-related growth in the SME sector, in a situation where the country cannot export to the EU and there is no indication that this is going to be the case within the near future. In this case, it could be argued that at the point in time when the programme was being prepared to support Armenia, it would have been more in line with the aim of the DNP Strategy to focus programme interventions on supporting development of the institutional framework that would be a requirement for eventually qualifying Armenian exporters for accessing the EU markets.

Based on the field visit to Armenia, the evaluation found that the SMEs supported through DNP funds, were in general not able to develop the full potential from the support provided, since they were already ‘big players’ within the (sub) region with little potential for further expanding their export to neighbouring countries. Therefore, what really mattered to them was to get access to the EU market, this would require that development of the required institutional linkages would take place.

- The ongoing discussions of the new programme phase in Kosovo: The Danish MFA Review (March 2011, p.21) recommended, in relation to the new programme phase, that *“Promising developments within the ongoing programme should*

*be considered included in a new programme. This implies that discussions should be taken up with SDC to agree on a continuation of the support to the horticulture sector, and also that discussions should be taken up with EFSE to continue support to the private financial sector” and that “Private sector development initiatives should not be left solely with government institutions”<sup>6</sup>. However, as a concern, meetings with MAFRD as well as with other development partners indicated that although a decision by Danida to support horticulture activities through SDC will not be objected, it is not considered fully supportive to the main priorities of the MAFRD, which are to strengthen the ministry’s internal coordination and capacity development for effective implementation of the Agricultural Rural Development Plan (ARDP) and to become eligible for EU IPARD funding.*

### **Alignment to national policies and strategies**

It is the overall assessment by the evaluation that the programmes currently implemented during DNP Phase II are well aligned to relevant national policies and strategies. Most recent national strategy and policy documents from the neighbourhood countries focus on the needs for promoting agricultural and rural development (emphasising the need to modernise agriculture, improve food safety and undertake rural development), as well as on reforming and modernising the educational sector, including VET development. Access to rural financial services is also an area identified as critical for strengthening the rural economy, as well as the need to stimulate commercial banks and other financial institutions such as MFIs to promote especially SME development in rural areas.

In both Serbia and Kosovo there is a tendency for reduction of protection for agriculture, for example through the elimination of export subsidies and changes in the structure of internal support to domestic agricultural production. In addition, it is anticipated that import protection for products originating from EU countries will be gradually reduced. These tendencies, together with increasing competition in the international market, lack of access to affordable credit for investment in new production methods and drive for quality improvements, emphasise an urgent need for both technical and financial support to ensure future competitiveness and employment throughout the value chains.

Denmark is considered by other development partners to be at the forefront in terms of aligning to national governmental systems and structures within the neighbourhood countries. This is a finding that came clearly through during the case country visits, as well as from available documentation from the non-case countries. Examples of alignment include the ongoing programme in Kosovo, where procurement within the VET component is done through a national procurement agency, as the only donor programme in the country<sup>7</sup>. In Kosovo, the first draft of the new programme phase was also initially based on full alignment to the MAFRD priorities, policies and strategies. In Serbia, the newly developed fruit and berries programme is fully aligned to the policies and strategies of the Ministry of Agriculture in Serbia, including the IPARD structures which are being put in place. In Ukraine, the programme component on support to rural financial services is embedded in ongoing activities coordinated and implemented by EBRD and, therefore, fully harmonised and aligned with government and major donor interventions in the financial sector. In the case of Montenegro, investment grants will be channelled through the Proto-Paying Agency established by the MAFWM. The Proto-Paying Agency will continue after programme completion to provide investment grants

6) It is the perception of the evaluation that within Danida the general understanding is that private sector support should not alone be a task for government structures.

7) The experience from this is however not particularly positive, and may have been too premature.

within the agricultural sector in general with national (and World Bank loan) and later also EU funds.

### **Relevance in view of interventions supported by other Development Partners**

Notwithstanding the challenges in a few cases to make the DNP interventions fully relevant to the assistance provided through the EU system (see above), the relevance of the DNP supported interventions, in view of interventions of other Development Partners, is considered to be high. From the case country visits, the evaluation found that Denmark is considered to be at the forefront among its Development Partners (donors) in terms of joint programming through delegated partnerships. Out of the seven programmes that are currently being implemented within DNP Phase II, five of them use the delegated partnership modality for implementation.

In addition, the evaluation noted that in relation to the newly formulated and recently implemented fruit and berries programme in Serbia, particular efforts and attention are being paid to coordinating and liaising activities closely with a USAID-funded agriculture support programme. This resulted in the signing of a Memorandum of Understanding (MoU) and organising of joint training activities for farmers between the two programmes during the inception phase.

Finally, round table donor discussions and individual meetings with donors in Armenia, Kosovo and Serbia all pointed towards a high relevance of the DNP supported interventions, in relation to what other donors were doing, or planning to do, in support of agriculture and agribusiness development.

### **Perceived relevance by the intended beneficiaries**

Based on the experience from the three case country visits, the evaluation developed a strong and consistent perception that the relevance of the DNP supported interventions are rated very high by the direct intended beneficiaries. This includes students (including graduates), teachers and management from visited VET colleges/schools in both Armenia and Kosovo, which were extremely positive about the new modular curricula, equipment and the training being received; rural SME entrepreneurs in Armenia and Serbia, that had previously applied for and failed to obtain funding from other sources; and farmers that had been supported technically and partly financially by the DNP and were now able to deliver better quality products to (new) markets and sell more at better prices. All the ministries involved with the ongoing DNP supported activities perceived the support to be highly relevant to their respective development policies and priorities.

## **5.2 Effectiveness of DNP Interventions**

As explained in the methodology section, the evaluation has had difficulties with documenting the effectiveness of programme implementation due to a notable lack of systematic collection and reporting of data and indicators, in particular at the outcome level. In addition, delays in implementation of various programme activities have, in many cases, left programme progress behind schedule (see also Section 5.3). As a consequence of this, the evaluation has had little option but to perform an 'on trend' assessment of the programme effectiveness, based on the available documentation and, for the case countries, a number of stakeholder interviews and site visits.

### Overall assessment of achievements at portfolio level

With the above limitations in mind, it is the overall assessment by the evaluation that the immediate programme objectives are either on track or partly/possibly on track to be achieved (see Table 5.1): out of 11 component objectives, four are assessed to be 'on track' to be achieved while seven are assessed to be 'partly on track/possibly on track'. In those cases where the evaluation assesses that the immediate objectives are 'possibly on track', this is an indication that the component activities are in an early stage of implementation and/or the available evidence/documentation is insufficient to draw further conclusions on the effectiveness. Finally it should be noted that the evaluation does not find indications that any of the immediate objectives should be off track.

**Table 5.1 Assessment of the level of achievement of DNP interventions immediate objectives<sup>8</sup>**

	Component 1	Component 2	Component 3
Albania	Value Chain Development – 2*		
Armenia	Financial Services – 1	VET – 2	
Bosnia-Herzegovina	Financial Services – 2*		
Kosovo	Horticulture – 1	VET – 2	Financial Services – 2*
Montenegro	Institutional Development – 1	Competitiveness – 1	
Ukraine	Competitiveness – 2*	Financial Services – 2*	

1: Immediate objectives are basically on track;

2: Immediate objectives are partly on track / \*most possibly on track (early stage and/or with limited evidence and documentation available);

3: Immediate objectives are off track.

In terms of **outputs**, the evaluation finds that effectiveness are mixed at the overall portfolio level (see Table 5.2): for four of the immediate objectives, the outputs are/have been produced according to the plans; for two of the immediate objectives, the outputs are/have been produced with some deviations from the plans; and for five immediate objectives the outputs are/have been produced with substantial deviations from the plans.

**Table 5.2 Assessment of the level of achievement of DNP interventions outputs**

	Component 1	Component 2	Component 3
Albania	Value Chain Development – 2		
Armenia	Financial Services – 3	VET – 3	
Bosnia-Herzegovina	Financial Services – 3		
Kosovo	Horticulture – 2	VET – 3	Financial Services – 1
Montenegro	Institutional Development – 1	Competitiveness – 1	
Ukraine	Competitiveness – 1	Financial Services – 3	

8) The new Fruit and Berries Programme in Serbia is not included, since activities have only recently been initiated.

- 1: *Outputs produced according to the plans;*
- 2: *Outputs produced with some deviations from the plans;*
- 3: *Outputs produced with substantial deviations from the plans.*

The reasons for the five substantial deviations are different: i) in the case FREDA (Armenia) the significant delay in activity implementation is due to initial lack of the required legal/institutional framework to initiate activities; ii) in the case of VET (Armenia) the delegated partner (UNDP) has implemented the component activities with substantial deviations from the programme document; iii) in the cases of KfW (Bosnia-Herzegovina) and EBRD (Ukraine) a major initial delay in implementation is related to the financial crisis; and iv) in the case of VET (Kosovo) a significant delay in the implementation plan is due to a joint decision to reduce the number of target schools and procurement issues.

More details on the effectiveness of the individual programmes and components are presented below.

### **Achievements from agriculture and agribusinesses support**

It is the view of the evaluation that the objective of Kosovo Programme Component 1 (a 'dynamic horticultural sector which contributes to increased commercial income and employment in rural areas') overall is on track to be achieved. Visits to the field and meetings with farmers, processors and buyers of the end-products (supermarket chains and exporters) confirmed, however, to the evaluation that the activities implemented within this component have contributed to developing of a new entrepreneurial spirit within the horticulture sector which reportedly is leading to increased and better quality production, higher sales prices and, ultimately, higher income. This overall conclusion is supported both by the Springfield Review (2009), the Danish MFA Review (2011), as well as by an Impact Assessment (Horticulture Promotion Kosovo (HPK) in Kosovo – 2011), albeit with data constraints. It must be noted, however, that the component output on piloting of a young entrepreneurs' support scheme, had not yet been implemented at the time of the fieldwork, but preparations were reportedly underway.

The Danish MFA Review (October 2010) on the OADP in **Montenegro** concluded that after 15 months of implementation the OADP is "...*progressing more or less as planned and without major delays...*" (p.3) in terms of activities and outputs. As an example of the good progress, the number of farmers registered to be in conversion or already certified as organic farming increased by 88% from end-2009 to September 2010 (from 34 to 64), as compared to an original target of 50% increase for the whole year. The Review Team were of the opinion that the programme's immediate objectives were likely to be met. Among the main achievements observed were: development of field manuals for organic vegetable and fruit production; training of extension staff (training of trainers); first batch of farmers' training, applying the Farmers Field School approach in three areas and focusing on different crops; study tours for participating farmers; a fully functional grant facility and five approved applications; procurement and installation of an organic experimental greenhouse; a baseline survey; a draft value chain analysis; and operational manuals.

In terms of **Ukraine**, the Inception Review (May 2010) concluded in relation to Component 1 (Value Chain) of the Rural Private Sector Development Programme that the start had been "solid". A Facilitating Office is in place physically, as well as in terms of human resources. The office is located in an environment – a new trading complex – conducive for its activities. Experienced people have been hired for the four full time positions

(Programme Coordinator; Financial Expert, Value Chain Experts in milk and fruits & vegetables and Secretary/Translator). During the inception phase, the Facilitation Office managed to establish a comprehensive network to relevant stakeholders.

In **Albania**, the First ProMali Interim Monitoring Report (Independent) for the period April-September 2010 (October 2010) noted that in terms of effectiveness the ProMali Team was generally performing to a good level of output in terms of ensuring stakeholder participation. Training, service delivery and other contracted activities were deemed to be good at this stage with activities by and large implemented in line with the approved log-frame. The first phase of ProMali, which has centred principally on procurement or investment in equipment and its installation, awareness raising through training, demonstration and study tours, appeared to be on track. A number of due diligence and institutional assessments were also conducted in this phase and all appeared to be to a high quality.

With respect to the second output on Evidence Based Policy, focused on the Government, the effectiveness of ProMali has been disappointing, according to the Monitoring Report. Reportedly, this is partly a reflection of the changes in the Government, as well as time constraints placed on the post of the advisor within ProMali (he shares his time with other duties within SNV itself).

Finally, the Monitoring Report stresses that overall *“...measuring effectiveness is somewhat premature at this first monitoring stage given that the agricultural season is close to conclusion and that the activities have been focused more on investment and procurement. As the equipment and know-how will start to be used for the next season (i.e. 2011) effectiveness will become more measurable”*.

### **Achievements from VET support**

The programme support provided to VET in, respectively Kosovo and Armenia, provides an interesting opportunity to compare experiences from quite similar original programme component designs across two neighbourhood countries. The two components are designed to assist MoES/MEST in enhancing the employability of graduates from upper secondary vocational schools.

The two VET components were basically expected to deliver the same type of outputs, with the exception of a curriculum development, which is only part of the programme component in Armenia. The budget frames for the two programme components are also quite similar; the Kosovo budget is slightly higher, mainly because more funding is allocated for equipment.

In terms of **implementation modalities** and the **institutional set-up**, there are some differences in the two countries. While the VET component in Armenia is implemented through a delegated partnership with UNDP, the VET component in Kosovo is being implemented through a CMU. The National Agency responsible for the VET component implementation is in both countries the Ministry of Education and Science<sup>9</sup>. However, while the MEST in Kosovo is in charge also of the Agricultural VET Schools in the country, this is not the case with the MoES in Armenia, where the Agricultural VET Colleges fall under the Ministry of Agriculture. As will be explained later, these two different contextual factors have a significant impact on the directions the implementation of the two VET components have taken.

9) Ministry of Education, Science and Technology in Kosovo.

In terms of achievements, the evaluation finds that the **VET Component in Armenia** is likely to achieve, and in some cases even surpass, the intended outputs. For example, more colleges will be involved than originally anticipated (16 rather than 12). This is basically due to the fact that some of the schools had already been partly reconstructed by previous Norwegian funding (through UNDP) and EU/Government funding. In addition, 600 VET teachers have been trained compared with the planned 300; 20 packages of technical laboratory equipment have been delivered to the VET colleges instead of 12 as originally planned; 570 (and a further 170 in 2011) trainees participating in vocational training compared with none planned; and seven VET policy level papers are introduced instead of planned two.

In terms of capacity development, the National Centre for VET has been provided effective ‘hands-on’ training, that has improved capacity within the institution in terms of, for example, financial management, work planning, etc<sup>10</sup>.

On the other hand, a VET tracing system has not yet been implemented as foreseen in the programme document and a planned revolving fund for 15,000 books/teaching materials for professional training in the selected standards has not been and is unlikely to be established.

In addition, the evaluation also found that the original agricultural and rural development focus of the VET component will not be as strong as anticipated by the original programme document due to inappropriateness in the programme approach (see Section 5.3).

In relation to the **Kosovo VET Component**, two of the four schools supported, included one visited by the evaluation, have now adequate facilities for theoretical and practical training after having undergone refurbishment and facilities for practical training (e.g. greenhouses and orchards), have been established. In terms of the two other schools, the situation is more difficult. The construction in one of the schools (Gjilan) was stalled due to delayed tendering of the construction contract. It is estimated to take six months, after the contract has been signed before the new school will be a reality, leaving less time for establishing the practical training before the programme comes to an end. The last school (Pejë) has not yet been provided land for practical training, however, MEST and the CMU is negotiating with the Pejë Institute of Agriculture to use their land for the training.

‘Virtual firms’ have been installed at the schools in Ferizaj and Vushtrri. Procurement of additional equipment for practical training such as tractors, farming implements and agricultural tools has been negatively affected by procurement difficulties.

Due to delay in **provision of teaching materials**, it has been possible to take the “Kosovo Curriculum Framework Guidelines” published recently by MEST into consideration. The teaching material is supposed to be ready for printing early enough to be available for the next academic year. Purchase of complementary teaching material is scheduled to be initiated once development of the new curriculum and learning material has been finalised.

Most of the planned **practical teacher training** is dependent on the provision of teaching materials (see above). The delay in the preparation of the teaching materials has, there-

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10) According to interviews with key stakeholders.

fore, had a knock-on effect on the achievement of this output. However, some training has taken place, for example in use of laboratory equipment, greenhouse techniques, compost making and in use of the recently installed 'virtual firms' (eight teachers have participated in a study tour to Albania in the use of this device).

In terms of activities related to **establishing of a database** with local agribusinesses and food processing enterprises to be used for work placement in four vocational schools, this activity has partially been outsourced to a consultancy company. Achievements so far include a manual on how to establish a Labour Market Information System, establishment of labour market linkage offices ('Student Service Centres') at all four schools, development of a database for registration of relevant private businesses and labour market information. Each of the four schools will, on a part-time basis and for a fee, engage experts for career guidance, student enrolment and placement and entrepreneurship development. Presently two of the schools are piloting a scheme for attachment of students in industry. The present pilot activities only involve 35 students.

Strengthening of the **administrative autonomy of secondary schools** is an important element of the ongoing decentralisation process in Kosovo and forms part of the programme component. No direct training of school management and boards has, however, taken place yet. Likewise, in terms of capacity development of MEST, no activities (beside a study tour) have taken place yet, partly because this is also being covered by other donors.

Finally, the planned establishing of a VET tracing system had not yet been established at the time of the field visit.

### **Achievements from financial services support**

In **Armenia**, it is the assessment by the evaluation that the FREDa component is likely to achieve the intended immediate outcome and outputs despite significant delays (see Section 5.3). Although the late start impinged on the intended effects, rapid progress has been made since FREDa was established, with the results that three investment projects have been funded; two others have been approved; and a further two are awaiting Investment Committee approval. A further 10 investment projects are in the pipeline.

The Danish funding for FREDa is mainly allocated for pre-investment support (feasibility) and for investment support (ISO certification, software for financial management and administration etc.). It is estimated that the Danish funding 'package' could cover approximately 15 company projects. This target is expected to be attained in 2011. Despite the initial delay, FREDa's investment activities appear to be based on prudent procedures, careful analysis, established methods, etc. FREDa undertakes sector research, provides technical assistance to beneficiaries, commissions specialist training/expertise and helps with expo participation with DNP support.

In **Kosovo**, the EFSE component (Programme Component 3) aims to support commercial banks and MFIs with loans for on-lending and capacity development support for financial institutions that are either active in the agribusiness sector or have a firm commitment to expand into the sector; the capacity development element is designed to expand their rural outreach. The expected outputs include increasing the capacity of banks to provide financial services to agribusiness and other rural activities and increasing capacity of MFIs to provide a full range of financial services to agribusinesses and related rural businesses.

Overall, the evaluation assesses that the component is likely to achieve the intended outcomes and outputs. However, in the absence of relevant data<sup>11</sup> it is not possible to be definitive at the outcome level: EFSE reporting is not specific to the Danish MFA contribution and only allows for a broad ‘rural’ category to be considered, so its activities may or may not involve lending activity to *agribusiness* related activities, as per the programme document intention. Overall, the best that can be said is that it is *likely* to achieve the intended immediate outcomes and outputs since more lending is being directed at the rural sector. However, it is not possible to say whether such funding is reaching the programme’s intended beneficiaries (agribusinesses and related rural businesses).

In **Ukraine**, the Programme Component 2 on rural financial services has only started up recently. The approach of this component is that the Ukraine Micro Lending Programme (UMLP) will provide capacity support to a number of banks to enable them to administer and provide loans to small enterprises including agricultural businesses. When the banks’ capacity is in place, EBRD may support the banks with favourable credit lines. Due to the deep financial crisis, this component did not start up in 2010 as originally anticipated; UMLP’s efforts since the onset of the financial crisis has primarily been to assist the suffering banks in consolidating their portfolios. However, as the financial crisis seems to be slowing down and banks are starting to provide loans again, EBRD has started up slowly in the beginning of this year.

In **Bosnia & Herzegovina**, the progress of programme implementation has been limited. The first year of implementation (2010) was spent by KfW to identify eligible MFIs to support the programme implementation. A Danish MFA Review was carried out in spring 2011 and provided a status report on the implementation, as well as further guidance on how to proceed.

### 5.3 Efficiency of DNP Management and Modalities

The discussion of ‘efficiency’ in this section primarily refers to the management and modalities of the priority area ‘Economic development’ under the DNP. In the sub-section on programme set-up and implementation modalities it has only been possible for the evaluation to undertake a thorough assessment for the programme components implemented within the case countries which may not fully reflect the actual situation within the non-case countries. For the other sub-sections it has been possible to address issues from the wider DNP portfolio.

#### **Programme set-up and implementing modalities**

The majority of the stakeholder groups consulted by the evaluation team in relation to the three case country visits (including delegated partners, national ministries, development partners, project implementation units, consultants and review teams<sup>12</sup>) expressed serious concern of what they considered to be too weak and distanced involvement/follow-up by staff from the European Neighbourhood and Russia (ENR) Office within the Danish MFA during planning/implementation of DNP activities.

Firstly, the stakeholders find a too great ‘distance’ between the relevant knowledge/experience among ENR Office staff and what is actually needed/going on in the field. In this

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11) An impact survey is foreseen.

12) E.g. Review Report, Armenia, July 2010 (p.19): “The ENR office of MFA has not adequately observed what changes in scope has taken place in its monitoring process.”

respect, the stakeholders raised the issue of limited contact and dialogue between ENR Office staff and national government counterparts and implementing partners, including relatively few visits by the ENR Office staff to the neighbourhood countries and project sites. This applied particularly in the case of Armenia, but also to some extent to the other two case countries.

Secondly, implementing partners within all three case countries, in particular those partners with less experience from previous cooperation with Denmark, expressed that they have felt the need to ‘re-invent the wheel’ in relation to issues such as reporting, monitoring and budgeting.

In the following, experiences from programme management for three different types of implementation modalities (delegated partnerships, CMU and Danish embassy involvement) are further discussed.

#### *Delegated Partnership*

Five of the seven programmes implemented under the DNP phase two are applying a delegated partnership modality for implementation. The evaluation findings from the case countries show clear signs of cost-effectiveness, although there also appear to be managerial challenges related to the use of this modality:

- i) In case of the **Kosovo Horticulture Component**, a key benefit of the delegated partnership modality is that it was possible to reap the benefits of SDC/InterCooperation activities, expertise, know-how, institutional infrastructure and networks dating back to 2001.
- ii) The delegated partnership modality in the **Kosovo EFSE Component**, involving use of the EFSE mechanism, does appear to be cost-effective. EFSE has the infrastructure, know-how and expertise in place and has ready access to the key financial market players, both commercial banks and MFIs. At the same time, although EFSE funds are finding their way to the rural areas of Kosovo, it is not entirely clear whether the funds are getting to the intended target groups, such as farmers and agribusinesses as anticipated by the programme document. It is not part of EFSE’s mandate to trace the funding down to this level of detail.
- iii) It is the view of the evaluation that the delegated partnership with UNDP on the implementation of the **Armenia VET Component** has been cost-effective, based on the fact that UNDP has both a strong local presence and extensive experience in VET matters in Armenia. In fact, the Danish support to VET was to a large extent a continuation of a previous Norwegian support to VET, also channelled through UNDP. UNDP, therefore, already had established the “infrastructure” for further VET support, including important institutional linkages.

However, the efficiency of the applied modality could have been greater if more frequent and better communication between the Danish MFA and UNDP had taken place. This could most possibly have avoided that UNDP at the time of the visit by the evaluation were still referring to an old draft version of a component description as their main guiding document for component implementation and that support to 16 pilot VET colleges were approved yet only one was agricultural in nature; this automatically changed the nature of the programme.

Although it could be argued that UNDP has responsibility for not following the joint agreement and the AMG's of the Danish MFA, the evaluation finds that a more effective follow-up and quality control function by the ENR Office within the Danish MFA during the first period of programme implementation in Armenia would have been desirable and created efficiency gains<sup>13</sup>. It is likely that the fact that four different ENR Office staff have been in charge of this programme/component have contributed to the observed inefficiencies. There is some evidence of turn-around in certain aspects of the component, albeit late in day, such as the first Programme Steering Committee meeting being held in June 2010, with another planned for 2011; and a stronger emphasis on agriculture in 2011.

- iv) The delegated partnership modality applied for the **Armenia FREDA Component** (with IFAD) also seems to be a cost-effective solution, since IFAD has extensive experience with financial services, including in Armenia, where it is running several projects. IFAD has both the necessary financial expertise and the infrastructure in the country. Therefore, given the size for the Danish MFA investment (DKK 10 million), this is considered a cost-effective modality. At the same time, the FREDA instrument is a pilot initiative for IFAD; such initiatives typically entail additional costs and risks but it is not possible to assess these in this evaluation.

### *Component Management Unit*

In the **Kosovo VET Component**, a CMU is deemed by the evaluation not to have been a cost effective solution, in part because of ongoing procurement problems which have been experienced by the programme and which have delayed on the output and outcome achievements. As stated in the Danish MFA Review Report (May 2011), the CMU within MEST for the VET component is an atypical 'hybrid' between a fully autonomous Project Implementation Unit and a fully integrated Advisory Unit within a ministry<sup>14</sup>.

A number of issues appear to have reduced the effectiveness of the CMU: i) it is not located within the MEST VET Department but rather in a physically removed MEST Regional Centre; ii) the CMU decision to pay 50% of the salaries of a procurement officer and a finance officer, both of whom work for MEST and; iii) the CMU as modality has not been able to solve long-standing procurement issues. While recognising that public procurement in Kosovo is in general not easy, the hybrid modality has not improved the process.

Back in 2009, the Auditor General's report for the programme activities in 2008-09 had already highlighted the major procurement problems and made recommendations for solving them (see 'Audit Report on the Financial Statements of the Danida Programme' for 31 December 2008 and 2009). The CMU prepared a Process Action Plan for these issues that has been discussed at more than one Programme Steering Committee meeting. The CMU modality and discussions at the Steering Committee level have proved unable to solve these problems. At the time of the fieldwork, it was not yet clear whether the compromise process brokered by the Danish MFA (involving the Public Procurement Agency) would work in time to ensure full and effective implementation of the VET component, even if the deadline would be extended by 12 months as suggested by the Review Mission.

### *Danish embassy involvement*

There are implications for efficiency based on the experience of the programme management of the **Fruit and Berries** and the **Local Economic Development in the Balkans**

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13) This same view is also reflected in the Danish MFA Review Report, July 2010.

14) MFA Review, 2011, p.16.

(LEDIB) programmes in **Serbia**. The main implications concern the role of the Danish embassy in relation to the DNP. Typically, the Danish embassies in the DNP countries are involved only when it comes to the signing of the Government-to-Government agreements and to promoting programme interventions at the local level. However, based on the Serbia fieldwork, it was found that: i) the Danish embassy is closely involved in the implementation of both programmes; ii) the embassy had been instrumental to the development of the initial Fruit and Berries Programme concept; iii) the embassy performs an informal but crucial role in relation to trouble-shooting and smooth implementation of projects on the ground (e.g. through its liaison role with the Government of Serbia, facilitating tax issues (e.g. VAT for vehicle purchase), registration and other administrative barriers; iv) the embassy plays an important quality control role; v) the embassy presence and involvement means that the visibility and knowledge of the DNP is significantly higher than in other countries visited (i.e. Armenia and Kosovo); and vi) permanent local presence enables the Danish embassy to play a full role in relation to donor liaison and coordination. In short, the experience from Serbia shows that efficiency of the implementation of the DNP interventions may increase when there is Danish embassy involvement.

Furthermore, the experience from Serbia also shows that, where there are two ongoing DNP programmes in the same country/region/district/town, if their offices can be co-located, for example in the same building, there are likely to be efficiency gains, such as enhanced cooperation, transfer of knowledge, sharing of contacts, etc. The efficiency appears to be greater when the two programmes are working with a number of the same stakeholders and beneficiary groups and their implementation modalities are similar.

### **Approaches and intervention logic**

This section includes an assessment of the approaches and intervention logic for the programmes implemented within the case countries, mainly based on the visits by the evaluation to these countries. Likewise, information related to the programmes implemented in non-case countries has been extracted from the available documentation.

Based on the available information and documentation, the evaluation finds that, at the portfolio level, the applied approaches and intervention logic are to a large extent justified and appropriate. More detailed findings from the country programmes are presented below.

#### *Kosovo*

**Horticulture:** The evaluation finds that the interventions by this component are based on a justified logic: it focuses on restoring the productive potential of agribusinesses in Kosovo by promoting value chains, in particular horticultural and related agribusinesses, through labour intensive growth for agribusinesses. In particular, the components explicit focus on supporting the whole chain from improving the quality of the products, to establishing of local collection centres and linking-up to large local buyers (e.g. supermarket chains) appear to be appropriate to sustainably increase production levels. The evaluation also finds that the approach, grounded on the activities which SDC and its implementing partner, InterCooperation, which has been developing since 2001, is appropriate and justified; it basically represents an evolution of what SDC has been doing hitherto.

**VET:** The evaluation finds that although the intervention logic of this component is in principle appropriate, it is at the same time very ambitious: The intention was a simulta-

neous upgrading and improvement of various elements related to upper secondary vocational schools, including: equipment; teaching materials; teacher qualifications; linkages between schools and local labour markets; decentralised school governance; and capacity development at MEST. The big challenge in relation to the components intervention logic is that each element is to some extent dependent on the timely delivery of other inputs to work properly. There is a significant risk, therefore, that delays in implementation of some activities would cause general delays and inefficiencies at the overall component level.

**EFSE:** Also the EFSE approach and intervention logic is deemed appropriate and justified. EFSE is an investment mechanism established in 2005 and is considered to be both innovative and effective by other financial instruments of a similar nature. Therefore, EFSE is in a very good position to assist in meeting the financing the needs of agribusinesses and related rural businesses, as well as low income private households through the provision of sub-loans.

### *Armenia*

**VET:** The evaluation finds that the logic of the VET component interventions has been appropriate: the focus was on addressing an existing mismatch in skills provided by the VET system and the needs of local labour markets through developing of facilities and programmes for educations of relevance to economic sectors with a potential for economic growth and job creation in rural areas. This was ultimately expected to lead to improved employability of graduates of vocational colleges in general and young women in particular.

On the other hand, the overall programme approach suggested in the VET component description has shown not to be entirely appropriate and justified to the Armenian context. For example, while signing the programme with the Ministry of Finance was appropriate for the FREDa component, although the VET component is implemented by MoES, responsible for VET policy, the emphasis of the VET component is actually weighted towards the Ministry of Agriculture and its seven agricultural colleges<sup>15</sup>.

**FREDa:** Overall, the FREDa component approach and intervention logic are appropriate and justified. The component is directed to the development of the rural economy and thus to a reduction in poverty levels. The companies that are targeted need financing to be able to grow, employ more people and have an impact on income and poverty levels. However, some caution may be required. Provision of technical and financial assistance will undoubtedly strengthen the supported firms but may also lead to further market dominance, which may result in disadvantages for the firms without access to FREDa equity/quasi-equity or technical assistance. In such cases, FREDa may achieve its aims (i.e. generate greater profitability, growth, exports, employment, etc.) at the cost of long term market development, with a knock-on effect on competition, prices, etc.

### *Serbia*

The approach, as well as the intervention logic is appropriate and justified for both components. The initial programme idea was developed by the Danish embassy in Serbia in cooperation with MAFWM. Thereafter, the Danish MFA employed a thorough process of programme design; the concept was initiated with close involvement of the Govern-

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15) Recently, a decision has been made by the Government of Armenia that all seven colleges currently under the responsibility of the Ministry of Agriculture will be transferred to MoES in 2012, which is a positive development in creating a more streamlined VET institutional system.

ment of Serbia and three missions took place involving detailed assessment and consultation.

The programme supports Serbia's reform process vis-a-vis the EU in agriculture in the fruit and berries sector and the general requirement to align its legislation with the EU *acquis communautaire* (the accumulated legislation, legal acts, and court decisions which constitute the body of EU law). The capacity building component activities are designed to increase competitiveness, promote employment and economic development. The grant scheme will be focused on individual producers and be based on IPARD standards. The grant scheme criteria will also take into consideration the investment needs based on factors such as gender, youth, migration, environment and poverty reduction. With the establishment of the Directorate for Agrarian Payments, which is a forerunner of a Payment Agency, Serbia is putting in place the necessary administrative structures for effective implementation of IPARD measures; a process that the Fruit and Berries Programme is directly contributing to. Even though the programme is focused on the value chain for a few promising fruit and berries produced in southern Serbia, the overall programme fits into the concept of rural and regional development, which is an overarching national priority.

The approach of the Fruit and Berries Programme builds further on what has already been achieved by the DNP in southern Serbia (i.e. the LEDIB Programme).

#### *Non-case countries*

In the case of Albania, the Inception Review (February 2010) found that: *"It is difficult to extract the "intervention logic" from the inception report, i.e. the connection between the diagnostic studies of the value chains, the intended focus of the support and the specific, planned activities"* (p.11). Recommendations in the inception review have led to changes.

In the case of Bosnia-Herzegovina, the Appraisal Report (October 2009) concluded that: *"The proposed programme is relevant and the design appears to be consistent and feasible. That should ensure a sound basis for achieving the expected outputs and outcomes"* (p.3).

In relation to Montenegro, the Mid-Term Review (October 2010) concluded that: *"... all stakeholders met during the review expressed satisfaction with the programme's strategy, its implementation, and its achievements so far. The Review Team is of the opinion that the programme's immediate objectives are likely to be met"* (p.3).

In relation to Ukraine, the Inception Review (May 2010) concluded that: *"Overall, the Review Team finds that there is too much focus on supporting the production level, and that the proposed interventions should have a much clearer linkage perspective"* (p.5).

#### **Deviations from plans**

At the overall portfolio level, the evaluation finds that delays in programme implementation during the second phase of DNP have been considerable and have contributed to inefficiencies. Four out of the seven programmes currently being implemented in the second phase of the DNP, have been negatively affected by significant delays in implementation. Other programmes have been facing less significant delays. Below the particular deviations, as well as the reasons for these, are further detailed.

- The **Kosovo VET Component** has been affected by significant delays, mainly due to procurement difficulties. This has negatively affected the VET component im-

plementation, as well as other programme components, such as Output 4 of the Horticultural component. Without a 12 month extension in the timetable, full implementation would be compromised. At this point in time, it is still not clear whether the new approach negotiated, namely commissioning the Public Procurement Agency to facilitate the procurement process, will unblock the process, even with a possible extension in the timetable. However, MEST and the CMU are optimistic that this will indeed be the case.

- The **Armenia FREDA Component** was affected by an 18 month delay in getting the financial instrument up and running. However, due to notable progress made since then, FREDA is expected to achieve its objectives as planned. The significant delays in the implementation of the FREDA component mean that the anticipated synergistic effects of components 1 (VET) and 2 (FREDA) have also been negatively affected.
- In the **Rural Private Sector Development Programme (Ukraine)**, the second programme component on “rural financial services” was delayed by approximately one year and has just slowly been started-up by EBRD. The reason for this delay was the deep financial crisis that required UMLP to concentrate its efforts in assisting the affected banks in consolidating their portfolios. It, therefore, could not provide capacity support as anticipated to banks to enable them to administer and provide loans to small enterprises including agricultural businesses. The EBRD will only provide support to the commercial banks when their capacity is in place.
- The ‘**Danish Support to Credit Programme and in Support of Micro, Small and Medium Enterprises**’ in Bosnia & Herzegovina has had a slow start with KfW spending the whole of 2010 to identify two eligible MFIs for implementation support.

In terms of the last three programmes, no major delays have been noted by the evaluation:

- The new **Fruit and Berries Programme in Serbia** has only started recently but the inception phase, which is currently in the process of being completed, has been implemented according to plan.
- In terms of the **OADP in Montenegro**, the Mid-Term Review (October 2010) concluded that “In terms of activities and outputs, the Organic Agriculture Development Programme (OADP) is progressing more or less as planned and without major delays”.
- An Inception Review of the Albanian programme ‘**Value Chains for Sustainable Livelihoods in mountainous Albania**’ concluded that the programme that was initiated in September 2009 was “...well underway...” (p.11).

Some programmes have also gone through significant **changes in the programme design**, as compared to the original programme document. This is particular the case for the programmes implemented in Kosovo and Armenia:

The **Kosovo Horticulture Component** has made a major deviation from the original strategies and plans through the decision to establish the so-called Facilitating Entity, as a supplement to the component. This was not a unilateral decision by SDC, but was

agreed following a detailed report and Project Steering Committee meeting which included participation of the Danish MFA and MAFRD representatives; the programme aims and indicators etc. remained unaffected. The rationale for establishing the Facilitating Entity arises from the Springfield Review's (2009) critical assessment of the project design, which they found to be too production and farmer oriented and with too limited outreach potential. An important further consideration was the desire to anchor the programme activities with a Kosovar institution with a view to enhancing national ownership. The Danish MFA Review (2011), although broadly supportive of the development, stresses that the rationale of the Facilitating Entity is "*not fully clear*" and points to the risk of possible "*overlapping of activities*" and even "*rivalry*" between InterCooperation and the Facilitating Entity.

In the case of the **Kosovo VET Component**, the number of equipped schools was downgraded from 8-10 to four due to higher than expected reconstruction costs and the desire of MoES to concentrate funds (in contrast to situation to the Armenian VET Component, where it was decided to increase the number of schools from 12 to 16 because the component interventions build further on previous projects). Three of the schools are agricultural vocational schools and one is mixed. Although this can be interpreted as a sign of responsiveness to a government request to concentrate resources at fewer schools it does represent a departure from the original strategies and plans.

In the case of the **Armenia VET Component**, the delegated partner (UNDP) redefined the VET component to become a "UNDP VET Project". The component objective was also modified "*to upgrade facilities and furnish the selected 12 pilot VET schools with new equipment; and provide the labour market with a skilful workforce to be trained based on updated qualification standards, modular programs and textbooks according to modern and innovative educational technologies*". The VET component was then redesigned by UNDP to be composed of three elements:

- Development of labour market oriented content and context of vocational education and training system.
- Upgrading of facilities for 12 pilot VET colleges.
- Mitigation of financial crisis consequences through provision of vocational re-training for registered unemployed (this component was added in the middle of 2009).

The actual implementation of the Armenia VET Component has also deviated from the programme document. Examples include the following: i) out of 16 colleges supported only one college is agricultural in nature (the other 15 are mixed); ii) three colleges are located in Yerevan even though the programme document targeted regional towns and rural areas specifically; iii) five developed Competency-Based Qualification Standards (CBQSs) were selected on the basis of MoES recommendations and not as originally anticipated through influence from the VET component. Their contributions to agribusinesses/tourism/hospitality are therefore not as strong as anticipated.

A main reason for the deviations in the implementation plan appears to be that the communication and follow-up between UNDP and the ENR Office within the Danish MFA have been inconsistent, which may be related to the fact that there have been so far four different staff from the ENR Office responsible for this Programme during the course of implementation.

In other programmes, deviations from original programme designs appear to have been minor:

- In the new **Fruit and Berries Programme in Serbia** the Inception Report was still in the process of being completed at the time of the fieldwork and will probably not involve major deviations from the original programme document.
- The Inception Review (May 2010) of the **Rural Private Sector Development Programme in Ukraine** concluded that *“The three outputs defined in the programme document and also used in the Inception Report are expected to remain in place and so are the sub-outputs...”*.
- In terms of the **Danish Support to Credit Programme and in Support of Micro, Small and Medium Enterprises in Bosnia & Herzegovina** a review planned for spring 2011 is expected to provide a status report on the implementation, as well as further guidance. No major deviations to the original programme document have been suggested/implemented yet.
- Progress Report No. 2 of the **OADP in Montenegro** concluded that *“Programme implementation has by and large been according to the plan”*.

It has not been impossible for the evaluation to establish a meaningful overview of an overall number of beneficiaries reached through the DNP Phase II portfolio. This is mainly due to two reasons: i) a general lack of monitoring data, in particular at the outcome level, related to DNP interventions and ii) many of the DNP Phase II activities have only recently taken off.

### **Duplication and synergies**

#### *Duplication*

The assessment of possible duplication of efforts has only been possible to carry out in relation to the case countries. Within these countries the evaluation finds that **duplication of efforts to a large extent has been avoided by the DNP interventions**. It seems that this can be explained at least to some extent by the use of the delegated partnership modality, which automatically ensures non-duplication with at least one other donor working within the same field.

EU, World Bank and USAID are major players in practically all of the neighbourhood countries where DNP activities are being implemented. While the EU works through the government system and structures, USAID is mostly operating on its own, often through parallel structures to those of the government. Since USAID has major interventions within agriculture and agribusiness within a number of the neighbourhood countries, overlapping/duplication with USAID activities is often a challenge, including for the DNP.

In the case of the **VET Component in Armenia**, the evaluation found that the risk for duplication to a large extent has been mitigated by selecting UNDP as delegated partner. UNDP is a key institution in Armenia in terms of VET support and is closely linked to MoES. In relation to the 16 pilot colleges, UNDP and MoES have taken the lead in ensuring that donor funding (including from EC) is not being duplicated.

In the case of the **FREDA Component (Armenia)** a critical issue is related to any possible ‘deadweight’ effect (this would be the case if the financially supported enterprises

would have been able to find investments without FREDA involvement). However, all those enterprises supported by FREDA had tried to obtain financing from other sources previously, such as commercial banks and EBRD, but had not succeeded. This suggests that the deadweight effect is not likely to be excessive. Moreover, discussions held with EBRD suggested that there is a process of ‘graduating’/becoming ‘bankable’; once enterprises have built-up some experience with FREDA on ‘smaller’ investments they may progress to larger financial products, such as financial services available through the EBRD.

In the case of **Serbia**, USAID is the main donor assisting the fruit and berries sector. The USAID ‘Agribusiness Project’ in Serbia provides technical assistance and grants, paying particular but not exclusive attention to the poor region of Southeast Serbia. It assists producer organisations and service delivery providers in six agribusiness sub-sectors: berries, tree fruit, herbs, spices and mushrooms, dairy and livestock. The project also runs a grants programme supporting youth and women entrepreneurship in rural areas. It is, therefore, positive that the new Fruit and Berries Programme Document stresses the importance of cooperation and coordination with the Agribusiness Project so as to avoid duplication. The early indications are that this requirement is being taken on-board by the programme implementers who have already held detailed discussions with USAID. A MoU, setting out the nature of the cooperation, has been negotiated and is awaiting signature. On-the-ground activities, such as joint organisation of training activities for producers, are already happening in advance of the MoU being signed. This bodes well for the future implementation of the programme in terms of avoiding potential duplications. The example from Serbia may be used as a ‘best practice’ case for DNP-USAID cooperation in the neighbourhood countries.

Likewise, it seems that the new programme for Kosovo, which is currently being formulated, may include a delegated partnership with the World Bank (for support to the ARDP in Kosovo). A delegated partnership with the World Bank is, if not exactly innovative, then at least not usual within the DNP. Useful lessons may be extracted here for potential use by other Danish programmes, also within other continents.

One area where potential duplication of efforts exists and may actually increase is the proliferation of agricultural grants in Kosovo. Among others, the following are active in providing grants of various sorts for agriculture/agribusiness in Kosovo: MFA/DNP, MAFRD, USAID, World Bank and EC. MAFRD seeks to coordinate and streamline the process and it argues that there is no duplication and that actually more funds are needed. However, discussions in the field suggest that there is a degree of duplication and/or overlapping, resulting in wasted resources and possible deadweight effects.

### *Synergy*

At the overall portfolio level, the evaluation finds that synergies between programme components and outputs appear to be very difficult to obtain. In particular, in those cases where the delegated partnership modality is applied, and for different programme components in the same programme (e.g. Kosovo and Armenia), it appears that there has been little or no contact between the implementing partners. In the case of both Armenia and Kosovo, the evaluation found that it was only after visits of Review Teams that the component synergy aspects were taken more seriously into consideration by the component implementers. However, by this point of time, the programmes are typically half way through implementation and some potential synergetic gains may then have been lost.

Another challenge to obtaining of synergies across programme components is related to the timing aspect. As discussed previously in this report, in some of the programmes, activities within one or more components have been seriously delayed. In some cases this has negatively affected the possibility to obtain the expected synergies between activities, for example in the Kosovo VET Component, where procurement problems are significantly affecting implementation of activities also within the horticulture component (the Youth Entrepreneurship Grant scheme). Likewise, the significant delay of the **Armenia** FREDA Component would anyway have affected the potential for synergies with the VET component, disregarding for the moment the fact that the two delegated partners were not fully aware of being part of a larger, linked DNP intervention in the country.

In addition, in the case of Armenia where the links were obviously too weak between the two programme components, the ENR Office within the Danish MFA could have insisted more on the programme document requirements for synergy. According to UNDP they only became aware of the existence of a second programme component (FREDA)<sup>16</sup>, and the possibility/intention to generate synergies across the two components, during the Danish MFA Review Mission that took place one year and a half after the component activities were initiated. A linking unit was never established between the two components and both component implementers appeared surprised that this was an important issue for the Danish MFA. The potential and scope for synergistic activities between the VET component and the FREDA component has now been recognised by both the FREDA staff and supported enterprises. It is therefore likely that some of the anticipated synergies may well be reaped before the Programme ends, but this is highly unlikely to be at the level anticipated by the programme document.

In **Serbia**, the evaluation had the opportunity to make observations on the potential synergies to be obtained between the ongoing LEDIB Programme and the new Fruit and Berries Programme. There are indications that synergies are already being reaped: both programmes are located in the same floor of the same building; regular discussions and collaboration take place; the programmes share the accountant/bookkeeper; existing contacts and networks are being maximised, etc. Overall, synergies exist and are expected to be exploited further.

In the case of **Ukraine**, the Danish MFA Appraisal Team (May 2009) raised a special concern about the synergy between the three components that were proposed in the draft programme document. The Appraisal Team found that the three components were designed as three “stand-alone” projects each with a separate objective and governance structure. The Appraisal Team, therefore, found it “questionable” whether synergies would materialise. Consequently, the appraisal team recommended: “...to simplify the programme, and to improve the coherence between the activities”<sup>17</sup> (p.9). The Inception Review (May 2010) concluded that “It is recommended that the synergy between the outputs and sub-outputs are more clearly analysed”, indicating that potentially limited synergetic gains would be obtained from implementing of the activities as per the programme document.

In relation to the programme in **Albania**, the Inception Report noted that the proposed Output 2: ‘Evidence-based policies and rural development activities’ would be largely covered by an EU-funded GTZ-implemented rural development initiative. Instead, it was suggested in the Inception Report, after consultation with the Ministry of Agricul-

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16) According to FREDA they also only became aware of a second programme component (VET, UNDP) during the Review Mission.

17) The number of programme components was subsequently reduced from three to two.

ture, Food and Consumer Protection MAFCP, that Output 2 should focus on assisting Albania in the EU pre-accession with special reference to the three ProMali value chains. The re-oriented Output 2 would then be intended to assist the Ministry to meet the EU rural development goals and be seen as an integrated part of the GTZ-implemented EU pre-accession rural development project. The Inception Review (February 2010) found, however, that this would “...considerably dilute the rationale of this part of the programme and diminish the intended synergy between the two outputs of the programme.” This illustrates an interesting trade-off between a decision to align to government structures (by redesigning a programme output) or maintaining the original programme design and synergy potentials between programme outputs (and also the risk for duplication/overlapping with other donor interventions).

### **Lessons learned from previous phases**

During the case country visits, it was discussed with key programme stakeholders to what extent the ongoing programmes were building on lessons and experiences from previous phases<sup>18</sup>. The experiences seemed to be mixed:

#### *Kosovo*

**Horticulture:** The horticulture component builds upon the previous phases of SDC/ InterCooperation support in Kosovo, which date back to 2001. In this sense, the component has learned significantly from the experience and expertise that has accumulated over time.

**VET:** There is no evidence that lessons learned from related activities have been taken into consideration in the design of new activities. However, there does seem to be a positive response to the recommendations contained in the Danish MFA Review (2011) for greater component synergies, more emphasis on monitoring data, etc.

**EFSE:** The Danish MFA stresses that the experience from the 2005-08 Danish-funded microcredit programme in Kosovo was taken into consideration in the design of this programme. At the same time, EFSE noted in discussions with the evaluation that EFSE has been in operation since December 2005 and DNP funds primarily enlarge the pool of finance available for lending to rural Kosovo without notable adjustments to its activities and approaches. It is noted that the ongoing formulation of the new DNP phase in Kosovo has been initiated 1-2 years before the end of the present programme and before several of the planned activities in the present programme have really started to take off. In this context, it is difficult to establish lessons learnt from the present programme which could fit into the formulation process of the new programme.

#### *Armenia*

**VET:** Some lessons learned from related activities have been taken into consideration in the design of new VET activities. UNDP supported the implementation of VET activities prior to the DNP Programme being implemented and provided inputs and suggestions to the finalisation of the programme document. In this sense, staff experienced with VET matters in Armenia has been utilised by the component, which maximises the chances of lessons being learned. There is an indication that the VET activities planned by UNDP for 2011-12 do indeed incorporate the recommendations of the Danish MFA

18) To this should be added the institutional memory of the DNP and the Technical Advisory Service of Danida, as well as the fact that the consultants who are designing the programmes and projects usually have a good knowledge of successes and failures of the past.

Review (2011) of the programme. For example, the importance of an agricultural focus to activities is being taken on board in the 2011-12 active labour market activities.

**FREDA:** There is no indication that lessons learned from related activities have been taken into consideration in the design of new activities since this is a new pilot initiative on the part of IFAD and the Government of Armenia. The delayed start of operations has also not helped in this respect. However, should FREDA succeed as a financial instrument, it is anticipated that the lessons learned will result in FREDA type instruments being replicated in other countries by IFAD.

### *Serbia*

Lessons learned from related activities/programmes have been taken into consideration in the design of new activities. The experience of the LEDIB Programme, which is perceived as being very complex (many components and sub-components, not to mention that half of the project was directed at Bosnia-Herzegovina, a concept that failed to take-off) has influenced the new programme design. The Fruit and Berries Programme is viewed as being a simple, integrated concept with a clear focus, namely value chains. There is regular contact between the two projects and a good deal of cross-fertilisation has happened.

## 5.4 Sustainability and Impacts from DNP Interventions

Due to the previously mentioned limitations in terms of data availability and duration of the interventions, the sustainability and, in particular, impact aspects have been particularly challenging to the evaluation to assess. This section outlines some of the main sustainability and impact issues that the evaluation have come across during the case country studies (focusing on Armenia and Kosovo, since the Fruit and Berries Programme in Serbia is not yet sufficiently advanced to assess these aspects). Due to a combination of limited documentation and implementation of activities in non-case countries, it has not been possible for the evaluation to provide a meaningful assessment of sustainability and impact aspects in these countries.

### **Prospects of impact and longer-term duration of benefits**

The field visits carried out by the evaluation to **Kosovo Horticulture Component** provided indications that the benefits and improvements resulting from these activities could be expected to be of longer term duration: beneficiaries in the value chain appear to be increasingly independent and building upon the initial supported investments (e.g. greenhouses, incubators, collection centres, etc.); and contracts are also being signed with local storage operators, food processors and supermarkets. The discussions with beneficiaries during the field visits reveal that this is leading to an increase in profitability, employment and income, a process which is accentuated by the global rises in the price of agricultural produce (though this process could equally go into reverse).

The value-chain activities supported through the horticulture component are evidently also resulting in a degree of import substitution and/or export; some international firms have demonstrated willingness to buy Kosovo farming products (fruits and vegetables) and the requirements of these firms in terms of the standard of the exported products are contributing to improving quality over time and other positive knock-on effects for the Kosovo horticultural value chains. On the other hand, field level discussions also suggested that there may be a degree of over-dependence for export activities on few firms

with family linkages to Kosovo, such as Kelmendi GmbH. A ‘representative’ of the firm acknowledges that Kelmendi GmbH could source fruit and vegetables more cheaply and reliably from competitor countries such as Bulgaria. The firm may choose to take this option at any point in time, which could then have negative consequences for the Kosovo producers, in terms of sustaining the current processes of improving the quality and quantity of certain products.

According to SDC, the newly introduced Facilitating Entity (the think-tank Riinvest) is considered an important element of achieving sustainability as far as the horticultural component is concerned (this is a recommendation arising from the Springfield Review of the horticultural activities). “Riinvest” was selected to undertake a so-called Participative Market Chain Approach which involves: i) a survey of all horticultural value chains ii) identification of market opportunities; and iii) implementation of a process to capitalise on the identified market opportunities. SDC support for the Facilitating Entity is initially foreseen until 2012 but could be extended by a further three years if it shows promising results (SDC, Information Note on the Establishment of a new “Facilitating Entity”, undated).

The evaluation finds that concerns must be raised about the perspective and sustainability of this initiative, including whether Riinvest will develop the full range of in-house expertise necessary to perform the expected role and function as the Facilitating Entity. It is noted that the role and functioning of this institution is not linked to the interventions by other Development Partners within the agriculture sector, including the MAFRD.

There are some general indications (Springfield Review, 2009; and Impact Assessment, 2011) that the component and its interventions will have some employment and income impact in general terms, though the data also suggest that more could have been achieved. The Springfield Review (2009) found the following:

- The project generates substantial additional income per farmer reached (average of Euro 6,610 per farmer per season).
- Total “outreach” in rural Kosovo is low; 1-2% of semi-commercial farming households.
- Room for scaling up within existing value chains is low, except for the larger value chains such as tomato and pepper.
- Employment creation is low, with a total of 289 Full Time Equivalent; horticultural promotion does not generally lead to substantial job creation unless the component manages to ‘reach a substantially higher outreach’.
- Better impact monitoring would have contributed to more impact being captured.

The situation has reportedly improved since the above report was produced; however, the evidence for this is not yet available.

It was the impression by the evaluation that SDC and InterCooperation have taken the results and recommendations of the Springfield Review seriously and it is likely that the outcomes will have become more positive since the review was carried out in 2009. For example, the HPK Impact Survey 2010 indicates that direct project beneficiaries have a higher income than non-project beneficiaries; 65% of the direct beneficiaries are imple-

menting improved practices, exports are increasing, etc. (Annual Report, 2010), all of which impinge positively on income and employment.

There are prospects that the executing organisation, InterCooperation (subcontracted by SDC), will continue after the Programme has ended. Discussions with InterCooperation management and staff suggest that the organisation will continue its development activities in Kosovo for the foreseeable future, though part of the staff will soon be contracted to a separate project (USAID, 'New Opportunities for Agriculture (NOA)' Programme worth USD 16 million). This could have negative implications for the final stage of implementation of the DNP funded activities if some or all of the highly experienced InterCooperation staff will be transferred to the NOA project. On the other hand, the contracting of key staff from InterCooperation to the USAID project also provides an opportunity for transfer and continuation of valuable experiences and good practice from the horticulture component to the NOA Programme. Finally, as previously discussed, it is unclear whether the Facilitating Entity (based on Riinvest) will continue its activities when SDC/component funding comes to an end, though SDC has made allowance for a possible further three years of funding if it develops as anticipated.

In terms of the **Kosovo VET Component**, fieldwork discussions with local authorities, school staff, graduates and students suggest that they do recognise the potential of the activities being implemented and that they anticipate these to be of a durable nature. The component has so far facilitated production of curricula and textbooks, trained teachers and financed greenhouses and orchards, all elements that will have an effect after the programme has come to an end. It is, however, too soon to affirm whether some of the other expected benefits will be of longer term duration: in terms of the refurbished facilities, equipped laboratories, and Student Service Centres, these may have a longer term positive impact, if finalised and managed properly. The very significant procurement delays across-the-board, combined with the ongoing uncertainties about the wider decentralisation process in Kosovo, mean that it is premature to make a judgement on this matter. Furthermore, since a meaningful VET tracing system is yet to be established, it is far from clear what the benefits may be for the students graduating from the four vocational schools, let alone whether these benefits and improvements will be of a longer term nature.

It is currently not possible to assess whether the interventions will have the intended effects as far as students' life chances are concerned, including employment and income prospects. There is no baseline analysis for the four schools; there is a lack of official statistics (though this might be improved with the Population Census scheduled for 2011); there is a post hoc, embryonic tracing system being implemented, albeit one which is still at the early stage of development and appears to be a response to the recommendations of the Danish MFA Review (March 2011). Methodological problems appear to exist with this embryonic tracing system: only some of the students have been approached, self-employment and employment are combined into one category, there is no indication of the type of education/employment/economic sector, etc. graduates go on to, etc.

There are no prospects for the executing organisation (CMU) to continue after the programme has ended. All CMU staff is employed by the project and activities will terminate at project end. Since the CMU is geographically separate from the MEST VET Department, albeit located in a MEST Regional Center, it is not clear whether CMU staff have build-up knowledge and capacities of the MEST VET Department to the fullest extent possible.

In terms of the **Kosovo EFSE Component**, there are indications that benefits and improvements resulting from the EFSE are expected to be of longer term duration. EFSE was created and structured in 2005, long before the partnership with DNP was established, and the programme contributes only 2.5% of its funds. Overall, EFSE appears to be innovative, successful and sustainable. EFSE has not changed its remit in any appreciable way as a result of the DNP component and it already appears to be financially sustainable.

However, it is impossible to assess the long-term impact of EFSE funds on farmers and agricultural enterprises since it is not clear how much, if any funding, has been directed to them through EFSE reporting, which simply has a broad “rural” category<sup>19</sup>.

In 2009 EFSE commissioned a “Development Impact Study” to analyse the development impact of agricultural lending of EFSE’s partner institutions on end-borrowers. Its focus was on farmers, agro-processors and agro-traders, as well as EFSE’s role in promoting agricultural lending among its partner institutions through a survey of 480 end-borrowers from six EFSE partner institutions (banks and MFIs) in Albania, Kosovo and Moldova. Overall, the Development Impact Study concluded that EFSE had a positive impact on the rural and agricultural orientation of its partner institutions through dialogue and technical assistance and that the absence of EFSE would probably have meant less credit for agriculture for MFIs, especially since MFIs in the region often cannot mobilise savings. This situation may also be the case in Kosovo. The main findings from this study were:

- Access to agricultural credit has improved in the three countries: 45% of end-borrowers observed that access to credit has improved since January 2006.
- Access to agricultural credit triggered investments: 90% of end-borrowers confirmed that they could not have invested without the credit.
- Access to agricultural credit has had a significant impact on enterprise profits: 60-70% of end-borrowers perceived that their profit has increased thanks to the investment.
- Access to agricultural credit has increased the end-borrowers’ well-being: more than one third of the respondents claimed that their capacity to pay for their children’s education and health services has improved, together with the quality and quantity of food consumption.

However, there are at the same time clear indications that a ‘sustainable expansion of the rural and agricultural portfolio of banks and MFIs, including a sustainable increase in agricultural credit training and lending capacity’ is unlikely to be achieved within the programme period. It came out from discussions with commercial banks and MFIs that both have recently scaled back their lending to agricultural activities as a considered re-

19) The EFSE component is designed in such a manner that DNP funds are pooled with other funds and that it is not possible to distinguish either how the DNP contribution is used or what its impact, if any, has been (except in a very limited manner, namely a rural orientation). Therefore, it is not self-evident that farmers/agribusinesses/agriculture are benefiting from the DNP funds. Since the commercial banks apparently do not have any liquidity problems (based on discussions with ProCredit), it is hard to discern a development impact from their use of DNP funds. In terms of the MFIs, their development approach means that they are likely to have a greater focus on agricultural investment/development.

sponse to the fact that their portfolio at risk has increased and agricultural lending is seen to be the riskiest lending of all. In order to manage the current levels of perceived risk, access to finance in this sector is therefore actually being restricted. The portfolio at risk increased from ca. 2% (December 2008) to 8% (September 2010) in the case of MFIs. Discussions with one of the partner MFIs (Foundation for International Community Assistance – FINCA) suggest that this figure has increased further since, forcing them to manage their exposure by reducing lending to agriculture, which continues to be considered the riskiest of financial products.

In terms of the **Armenia VET Component**, there are indications that the DNP supported activities are having an effect on the student enrolment rates. The enrolment rates in VET colleges visited had increased by 20-25% in 2010 compared with 2009. According to the College Principals, this is a result mainly due to the support provided through the DNP. Although it should be stressed that the enrolment rate does not necessarily say anything about the quality of the courses, the cross-validation of information provided through interviews in the colleges with Teachers and Students, suggest a significant qualitative change between the 'before' and 'after' scenario in the colleges visited.

The available evidence suggests that the new colleges and VET courses, including the short-term vocational training for the unemployed, are resulting in better opportunities that lead to increased employment for the graduates. For example, discussions at the VET colleges visited suggest that ca. 70% of the graduates progress either to further education or employment in Vanadzor and ca. 50% in Hrazdan; this is reportedly a significantly higher rate than previous to the component interventions (although comparative baseline data is lacking). This is seen as a result of closer connection and matching between demand (firms) and supply (trained students) leading to direct recruitment of graduates and involvement in course development (e.g. during the visit to one college, the graduation fashion show was being held. Local firms were participating in the evaluation panel, resulting in recruitment benefits for the firms in question as well as the graduating students). The creation of VET Councils and College Boards has resulted in new forms of public-private partnerships, including work placements and traineeships, at the local level (not all of this can be attributed to the DNP interventions)).

In order to capture and document these types of impacts from the VET component support, the programme document stresses the importance of establishing a VET tracing system. However, it is only following the MFA Review Mission Report (2010) that consideration began to be given to this issue. Discussions with UNDP suggest that part of the reason is that the EC is planning to pilot a similar initiative and that a system will be in place by the end of the Programme. However, the fact remains that this important element has not been implemented at a point when it would normally begin to be used by MoES and the VET colleges (graduations have started) for policy-making purposes. Therefore, it is not possible to conclude about the indicated increases in employability of graduates with confidence.

There are indications that the benefits and improvements resulting from the component are likely to be of longer term duration: the 16 pilot VET colleges are widely and consistently seen as 'successes' by the Government of Armenia, the college staff, the college students and the local employers, many of which are recruiting directly from the pilot colleges. Discussions with MoES suggest that the Government of Armenia plans to reduce the existing number of colleges (82) and, through a process of consolidation, mainstream the pilot activities to those colleges that will then remain under its management

(although harnessing the necessary funding will be an issue for MoES). The two colleges visited during the fieldwork also appear to be fully committed to the new, modular and practically-oriented approach to teaching and to maintaining the new facilities, equipment, etc. The training of the teachers, the increased student enrolment rate and the focus on income generation highlighted by the college directors, all increase the prospects of sustainability as far as the new curricula, facilities and equipment are concerned.

The VET Department within MoES will also continue its activities: the organisation has been reorganised and capacity building has been delivered; the National Centre for VET Development has also had capacity building delivered, quality standards have been established and the annual plan and budget reviewed.

The indications, based on discussions with entrepreneurs and **FREDA (Armenia)**, suggest that both FREDA and the firms that have been invested in have the potential to become sustainable. FREDA expects to cover its operational costs by the end of 2011 (one year in advance of the project date); all FREDA funds are expected to be disbursed by 2011; the FREDA Board/IFAD are already discussing the potential for mobilising an addition USD 5-7 million in seed capital; and finally IFAD is already planning to convert FREDA into a Joint Stock Company, so as to make the pilot initiative into a sustainable financial instrument. FREDA keeps 20% of its income as a reserve fund for future losses, thus decreasing risks and ensuring that it can continue its activities into the future.

In terms of the companies that **FREDA (Armenia)** invests in, it is seeking a 15% return by targeting well-established companies with a proven track-record. By investing over a five-year term, FREDA emphasizes longer-term growth and development of its investments. The investment process is supplemented with various technical, managerial and operational forms of assistance (e.g. ISO certification, financial management, accountancy, reporting, standards, governance, etc.), funded through DNP support, which are designed to enhance growth, profitability and thus sustainability of the firms. FREDA is expecting to generate an increase in the employment levels (about 25% from the current levels), in the level of salaries (about 30%), increases in export growth, in the raw products being supplied by primary producers (about three times), and thus also in the incomes of the primary producers. The anticipated growth in employment and income of directly affected rural households (farmers, supplying the agro-produce for the procurement) reflects the strategies and implementation plans prepared jointly with FREDA, such as requiring modern accounting, budgeting and audit procedures to be established.

The selection criteria applied by FREDA, prior to selecting the investments, include the requirement for an impact on the overall and local economy. Estimates of the indirect developmental impact to be a ratio to value on the investments made of at least 1.3 (i.e. every DKK of investment makes an indirect return of DKK 1.3 for the overall value chain such as for households, farmers, employees). In this way FREDA contributes to employment creation, increases the usage of agro-produce, increases the incomes of farmer households, etc. For the country as a whole, it contributes to an improvement in the trade balance due to the recorded increase in exports, increase in local produce substituting imports; and the overall investment contributes to the development of the agribusiness and the rural districts in Armenia, thus resulting in a reduction in poverty levels.

Effects throughout the value chains (e.g. decreased costs, improved quality, steady supplies, etc.) leads FREDA to expect a substantial indirect impact by the end of 2011, based on the current interventions. In addition, the 10 projects currently in FREDA's

investment pipeline, allows FREDa to select the ones with the highest developmental impact, including from the following types of businesses: preserved fruits, cannery, fish breeding, dried fruit production, pork production and fish breeding. These businesses are all in sectors and areas that are perceived to play a substantial role in Armenia's rural development.

### **Possible wider effects from programme interventions**

In the case of the **Kosovo Horticulture Component**, the evaluation finds it difficult to judge possible wider effects from the interventions. Although, the involvement of the recently established Facilitating Entity (Riinvest) is expected by SDC to lead to value added and possible new opportunities in relation to further improvement in the relevant value chains in Kosovo, it is far from clear that the chosen institution, Riinvest, a well-known economic research institute, is the right institution to build the Facilitating Entity around (while accepting that there were probably not many suitable local options). The Entity is basically meant to represent the horticultural sector in the future but it is unclear whether Riinvest has the necessary know-how, credibility, trust and general linkage to the horticultural sector, including to other Development Partners, at present. It is hard to judge whether it will or will not fully achieve the wider and longer term effects that are anticipated.

In terms of the **Kosovo VET Component**, the evaluation finds that there are possible wider effects from the programme. Despite the delays and connected difficulties. Discussions with the Municipal Education Director in Vushtrrii clearly indicated to the evaluation that they are looking for the opportunity to replicate the experience of the DNP supported vocational school into other schools within their geographical boundary. According to MEST VET Department, the teaching materials being developed will be used in all other schools. The facilities being established in the four schools are already being used for the benefit of other local schools. There is potential for dual use of facilities for income generation (e.g. equipment, laboratories, greenhouses and orchards) and adult evening classes. Finally, the MEST VET Department stresses that there is great potential to replicate the process in more of the other 52 vocational schools in Kosovo.

The evaluation also finds potential for wider effects from the **Kosovo EFSE Component**. There is significant scope for replication of this particular financial mechanism for the benefit of developing/transition economies. On the technical assistance side, most has been spend on capacity building for MFIs such (as also reflected in the Danish MFA Review, 2011), which is likely to result in positive wider effects; for example, the DNP technical assistance has contributed to the drafting of a new MFI law.

In terms of the **Armenia VET Component**, the evaluation also finds potential wider effects from the interventions. As a direct consequence of a successful short-term VET training organised for the recently made redundant (a follow-up survey among participants showed that about 60% of the participants regained employment immediately after the training) it was decided by the Government to amend the Armenian Law on Employment. The Law was amended in December 2010 and came into force on 5 February 2011, allowing the National Employment Agency to provide training for young, land-owning unemployed. The VET component will cooperate with the National Employment Agency to organise practical activities in enterprises for ca. 170 young people from the rural areas. Other outputs of the VET component, such as VET policy papers consistent with other EU VET initiatives, are also expected to influence Armenian policy development in the future.

In the case of the **Armenia FREDA Component**, the evaluation also finds that there are likely to be possible wider effects: a new legislative basis exists in Armenia for the establishment of similar financial instruments; the pilot initiative appears to be very successful, which offers significant replication scope in Armenia and elsewhere; the fact that FREDA is already looking to obtain additional seed capital and indeed convert itself into a Joint Stock Company offers potential for wider effects. Finally, by strengthening companies and enabling them to become bankable/creditworthy, FREDA indirectly assists the firms to access and qualify for mainstream funding from other financial institutions (EBRD, local banks etc.).

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## 6 Conclusions

The analysis and findings from the evaluation leads to the following **conclusions**:

- 1) The evaluation finds that the relevance of the DNP interventions within the overall priority area of ‘economic development’ is high. The thematic and targeted focus of the DNP, linking development within agriculture and agribusinesses with VET, labour markets and access to finance, is a key on-going concern and priority in all neighbourhood countries visited by the evaluation team. The global financial and economic crises have underlined the continuing importance and need to support these core areas (the availability of finance has been squeezed, especially for the agricultural sector, widely considered to be among the most risky financial products by financial institutions; and the economic crisis is affecting the labour markets, especially in relation to the levels of youth unemployment, suggesting a continuing need for a focus on VET-type activities).
- 2) The implemented programmes in the neighbourhood countries during the second phase of the DNP are generally in line with the relevant Danish strategies, including the new overall strategy for Denmark’s Development Cooperation ‘Freedom from Poverty – Freedom to Change’ (2010), as well as with the specific strategy for the DNP (2008-12).
- 3) Based on the available information and documentation, the evaluation finds that, at the portfolio level, the applied intervention logic is to a large extent justified and appropriate e.g. i) the agribusiness component’s focus on supporting the whole chain from quality improvement of products to establishment of local collection centres and linking-up to large local buyers (e.g. supermarket chains) so as to increase production and employment levels ii) the VET component’s focus on a simultaneous upgrading and improvement of various elements to address an existing mismatch in skills provided by the VET system and the needs of local labour markets (including equipment; teaching materials; teacher qualifications; linkages between schools and local labour markets; and institutional capacity development) and iii) the financial services component’s focus on supporting innovative interventions in support of agribusiness development.
- 4) The evaluation finds that the immediate programme objectives of the DNP interventions are either on track (1/3) or partly/possibly becoming on track (2/3) to be achieved. In those cases where the evaluation assesses that the immediate objectives are “possibly on track”, this is an indication that the component activities are in an early stage of implementation and/or the available evidence/documentation is insufficient to draw further conclusions on the effectiveness. The evaluation does not find indications that any of the immediate objectives are off track.
- 5) In terms of outputs, the evaluation finds that effectiveness is mixed at the overall portfolio level: For four of the immediate objectives, the outputs are/have been produced according to the plans; for two of the immediate objectives, the outputs are/have been produced with some deviations from the plans; and for five immediate objectives the outputs are/have been produced with substantial deviations from the plans. The reasons for the five substantial deviations vary: i) in one case (FREDA, Armenia) the significant delay in activity implementation is due to initial

lack of the required legal/institutional framework to initiate activities; ii) in one case (VET, Armenia) the delegated partner (UNDP) has implemented the component activities with substantial deviations from the programme document; iii) in two cases (KfW, Bosnia-Herzegovina and EBRD, Ukraine) a major initial delay in implementation is related to the financial crisis and; iv) in one case (VET, Kosovo) a significant delay in the implementation plan is due to procurement issues.

- 6) Shortage on data availability and duration of interventions have resulted in serious limitations in the evaluation's scope to assess sustainability of DNP interventions, and then only within the context of the three case countries. The general indications are that there will be benefits and improvements of longer term duration resulting from the ongoing interventions, although the level of sustainability is, in most cases, still unclear.
- 7) There is some early evidence of potential impact from the financial components (increased income and credit to rural households). Impacts from other interventions are more difficult to assess at this stage, due to shortage of data and ongoing implementation, although indications are more positive than negative.
- 8) There are some indications of employment gains from the DNP interventions, although not to the extent anticipated in the programme documents. The combined financial and economic crises have affected the performance of the agribusiness sector, the primary economic sector targeted by the DNP economic development programmes. The levels of employment, among other, have suffered. Moreover, the DNP interventions focus on production increases through acquisition of new and more modern technical equipment at the farm sites. This, combined with the fact that the vast majority of the farms in the neighbourhood countries are small in size and with little tradition of employing people from outside the family unit, is generating relatively few new jobs in the short to medium term.
- 9) Compared to most other donors, the Danish support provided through the DNP is relatively sizeable and considered to be of strategic importance by the neighbourhood countries. At a time when other donors appear to be vacating the neighbourhood countries and targeting their resources at other regions (e.g. DFID), the DNP support may become even more critical in the short to medium term. Based on the evaluation team's discussions with key stakeholders within and related to the case countries, it appears to be unrealistic to assume that the EU (through the European Neighbourhood Programme) and the neighbourhood countries will be able to complete the ongoing socio-economic transition processes without considerable external support for the foreseeable future.
- 10) In comparison with other donor programmes in the region, the DNP interventions are considered to be at the forefront in terms of alignment and flexibility. The case country visits and the available documentation reviewed by the evaluation team, show that the DNP interventions are praised for being well-aligned to national government systems and flexible in terms of implementation modalities.
- 11) It has proven difficult to assess the effectiveness of the DNP interventions in a quantifiable manner due to a consistent lack of baseline and monitoring data, in particular at the outcome level. The evaluation has only been able to identify a very limited number of useful data sets and studies (mainly from the financial compo-

nents, FREDa in Armenia and EFSE in Kosovo) to allow any kind of quantifiable assessment of programme outcomes.

- 12) It has proved difficult to obtain the expected synergistic gains between programme components in some of the DNP interventions. In two of the three case countries (Armenia and Kosovo), the expected synergistic gain between programme components was not less than desired due to a mix of factors (the overall coordination structures that were anticipated in the programme documents did not materialise and implementation of activities within one component or the other had been significantly delayed). The 'delegated partnership' modality appears to require additional efforts (and incentives) to ensure that synergistic activities happen.
- 13) The presence and active involvement of the Danish embassy in Serbia in various aspects of managing DNP activities in Serbia is providing an instructive example of potential efficiency gains from stronger and more formal embassy involvement in DNP activities (e.g. through liaison with national government partners, donor coordination, trouble shooting and increased visibility and knowledge of the DNP support).
- 14) Although the analysis of the DNP economic development portfolio demonstrates that the average size and complexity of the programmes (e.g. components and sub-components) has been decreasing over time, there are indications that the programmes, implemented within the current DNP set-up, are still too ambitious, for example in terms of the timing and the expected synergy between components.
- 15) The experience<sup>20</sup> from the case countries shows that support and follow-up from the ENR Office staff within the Danish MFA in relation to managing of DNP activities varies considerably across the case countries and is in general considered to be rather limited. Two recurring themes are worth noting. Firstly, too great a 'distance' between the relevant knowledge/experience among ENR Office staff and what is actually needed/going on in the field (in this respect, the stakeholders raise the issue of limited contact and dialogue between ENR Office staff and national government counterparts and implementing partners, including relatively few visits by the ENR Office staff to the neighbourhood countries and the projects in the field). This applies particularly in the case of Armenia, but also to some extent to the other two case countries. Secondly, implementing partners within all three case countries, in particular those partners with less experience from previous cooperation with the Danish MFA, express that they feel the need to 're-invent the wheel' in relation to issues such as reporting, monitoring and budgeting.
- 16) The DNP is becoming an interesting laboratory for testing of economic development programme features that could serve as inspiration for planning, formulation and implementation of programmes within African and Asian countries.

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20) Based on interviews with representatives from delegated partners, national ministries, development partners, project implementation units and consultants.

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## 7 Lessons and Recommendations

The findings and conclusions from the evaluation, leads to the following lessons learned and recommendations:

**Lesson 1:** The **socio-economic transition processes** within neighbourhood countries are strongly influenced by the requirements of EU Approximation but require more than the current and planned EU support and national budget allocations to become effective in a medium term perspective.

**Recommendation 1:** The **Danish MFA continue its economic development** support to neighbourhood countries in the medium term as a relatively sizeable, flexible, value-adding and complementary ‘gap-filling’ instrument to the EU assistance.

**Lesson 2a:** Support to **value-chain development** and upgrading of the quality of **VET schools** in agriculture is in high demand within neighbourhood countries and provides potential for production and income increases within these countries.

**Lesson 2b:** Experiences from neighbourhood countries suggest that when a **financial and economic crisis** hits, the agriculture sector becomes among the most severe affected (e.g. scarcity of financial services), with adverse effects on production and rural employment, including youth employment.

**Recommendation 2:** The MFA should continue to focus its economic development support within the neighbourhood countries on **agriculture/agribusiness and the linkages to VET, labour markets, including a focus on youth unemployment and financial services**. There is still a need to support the ongoing socio-economic transition processes in neighbourhood countries in these areas; the recent global financial and economic crises have further aggravated the situation.

**Lesson 3:** Production increases obtained through the acquisition of new and more modern technical equipment at small family farm sites may not lead to significant **employment effects**.

**Recommendation 3:** Design and formulation of future economic development interventions within the neighbourhood countries should take more explicitly into account the **potential trade-off** between the wish to increase production through investing in more effective agricultural production within family farms on the one hand and the intention to generate large rural employment effects on the other hand. By focusing on the entire value chain it could be anticipated that employment will decrease in some part of the value chain due to introduction of more efficient production methods but at the same time lead to increase in other parts of the value chain e.g. in the processing industry.

**Lesson 4:** Programmes planned with a **3-year timeframe** often leave limited time (approximately two years) for actual implementation, which can affect sustainability of activities.

**Recommendation 4:** A programme **timeframe of 4-5 years** should be the default for the DNP in order to allow sufficient time for maximising the prospects of impact and sustainability. The experience from implementation of DNP activities hitherto shows a tendency for the start-up of country programme activities to be delayed (in some cases up to one year).

**Lesson 5:** When requirements exist for **national co-funding**, there is an indication of stronger commitment and involvement from the neighbourhood countries.

**Recommendation 5:** As part of a more explicit focus on signalling partnership and national programme ownership, it is recommended that an **obligatory element of co-financing** (in-kind and/or financial) from national counterpart institutions be part of future programme designs.

**Lesson 6:** The experience from Serbia shows that **Danish embassies** can play a critical role to the benefit of the DNP interventions in neighbourhood countries, although the evaluation team recognises that there is not necessarily Danish embassy representation in all the countries covered by the programme.

**Recommendation 6:** The potential role to be played by **Danish embassies** in relation to implementation and monitoring of DNP activities within neighbourhood countries should be further explored and more clearly defined in the future. Also, in the cases where it makes sense for strategic, political and logistical reasons, it should be considered whether embassies could also oversee DNP interventions in other neighbourhood countries, geographically covered by the embassy operations.

**Lesson 7:** It is a major challenge for the relatively small ENR Office staff to effectively **monitor and oversee** the current range of programme interventions within the neighbourhood countries.

**Recommendation 7:** From an efficiency perspective, the number of DNP countries, as well as the **ambition/complexity** of the programmes (number of components, activities and expectations regarding development of synergies between them) should be decreased (if ENR Office resources and set-up for monitoring/overseeing of DNP interventions remain at the current levels).

**Lesson 8:** When monitoring and quality assurance procedures are not systematically applied across programme countries, **efficiency and results** from supported interventions may vary considerably.

**Recommendation 8:** The ENR Office's general **monitoring and quality control** procedures be enhanced through: i) more frequent interaction/sparring with programme implementation partners, including additional visits (if resources are available); ii) development of templates for programming/administration manuals and reporting, as well as systems/database for budget administration and tracking of results; iii) ENR Office staff, as a principle, should participate in all Programme Steering Committee meetings. This would be a value adding process which complements the principle of delegated partnership.

**Lesson 9: Synergistic gains** between programmes and programme components and efficient day-to-day management of programme implementation within DNP countries do not come automatically from signing of agreements between the ENR Office and the Implementing Units, regardless of the implementation modality.

**Recommendation 9:** It should be considered to implement additional support mechanisms in order to strengthen the **communication lines and dialogue** between ENR Office staff of the Danish MFA and the Component Managers/Coordinators in charge of managing DNP activities on a day-to-day basis. This could include: i) organising **annual workshops** (2-3 days) for Component Managers/Coordinators and ENR Office staff of the Danish MFA, preferably within the region, focusing on exchange of experiences/challenges and lessons learned/best practices from implementation of DNP activities with the aim of generating efficiency, including more synergies, from programme activities within and across DNP countries; ii) a yearly (e.g. online) **satisfaction survey/assessment** could be carried out among Project Managers/Component Coordinators, perhaps supplemented with National Counterparts.

**Lesson 10: Implementing partners** may not have the same incentive for data collection and monitoring of progress as the Danish MFA. While recognising the need to avoid overburdening implementation partners, there is a need to better ensure that a minimum level of necessary data collection/monitoring/tracing, etc. is actually taking place in order to make it possible to verify the extent to which the DNP funds are leading to expected achievements.

**Recommendation 10:** The **requirements** for reporting, monitoring and documentation of programme outcomes should be followed-up more consistently by ENR Office staff.

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# Annex 1 Terms of Reference

## Terms of Reference for the Evaluation of the Danish Neighbourhood Programme

### Introduction

The Neighbourhood Programme is Denmark's bilateral programme for EU's neighbouring countries to the east and southeast. The principal objective of the programme is to promote open and democratic societies founded on the rule of law and based on a stable political and economic development.

The Programme was initiated in 2004 and went through a first phase from 2004-07 with a financial framework of DKK 742 million. In the second phase (2008-12), the Danish Neighbourhood Programme has a budget of DKK 1 billion and targets 15 countries in Southeast Europe and the Balkans. While the overall objective is to promote democratisation in the countries, the aid is being implemented within specific focus areas. Based on the experiences from the first phase, the second phase focuses on the following overall priority areas<sup>21</sup>:

- Democratisation, respect for human rights including minority rights, good governance (both administrative and human rights aspects), civil society development, and free media;
- Promotion of law reforms and fight against corruption, organized crime, illegal migration and capacity building of the public sector;
- Economic development, including business development aiming at promoting economic growth and job creation;
- Region of origin initiatives, including helping refugees and Internally Displaced Persons (IDPs) to return home<sup>22</sup>.

The strategy includes an explicit prioritization of the 15 countries in four groups: 'Highest priority', 'High priority', 'Low priority', and 'Lowest priority'<sup>23</sup>, and it is stated that the assistance should be 'focused and flexible' and follow the principles of the Paris Declaration as far as possible<sup>24</sup>.

In order to learn from the experiences of the Neighbourhood Programme, it has been decided to carry out an independent evaluation. Due to the broad range of activities supported by the Programme, the evaluation will only cover some of the activities. As the Danish Ministry of Foreign Affairs is interested in learning from experiences with support to private sector development, it has been decided that the evaluation should focus on the support provided to the third overall priority area: 'Economic development, including business development' (see above).

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21) Strategy of the Danish Neighbourhood Programme 2008-2012, p. 16-17.

22) In recent years, this focus area has become less important; no new projects have been launched since 2008.

23) Strategy of the Danish Neighbourhood Programme 2008-2012, p. 12.

24) Strategy of the Danish Neighbourhood Programme 2008-2012, p. 14.

At present, Denmark supports economic and private sector development in Kosovo, Serbia, Montenegro, Russia (the regions of Kaliningrad and Pskov), Albania, Armenia, Bosnia-Herzegovina and Ukraine. In addition, projects are under consideration in Moldova and Georgia. The support provided to the individual countries differs both in focus and in applied modalities. It will be a purpose of the evaluation to try to learn from these different experiences and to consider whether the experiences can be relevant for both countries in and outside the region.

The evaluation will comprise a combination of desk studies, interviews of staff of the Danish Ministry of Foreign Affairs and field visits to selected countries.

## Background

The overall responsibility for implementing and monitoring the Neighbourhood Programme is placed with the Danish Ministry of Foreign Affairs in Copenhagen. Danish embassies in the neighbourhood countries may be involved in relation to the signing of the Government-to-Government agreements, giving inputs to programme design and promoting the programme at local level. The practical implementation of the Neighbourhood Programme is carried out by recipient partners assisted by the programme's technical advisers, Danish and foreign NGOs, consultancy companies, local organisations etc. Furthermore, in particular cases the assistance is carried out by international organisations<sup>25</sup>.

The Neighbourhood Programme shares the aid modalities of 'conventional' bilateral development assistance. However, at the same time, the Programme is expected to contribute to strengthening Denmark's position in the neighbouring countries, both politically and economically, and to provide Denmark with a platform in the bilateral dialogue with the countries concerned<sup>26</sup>. Additionally, in a number of countries the programme can be seen as linked to the broader agenda of supporting rapprochement or pre-accession of the countries to the EU.

In relation to the modalities of the support, the strategy for Phase II states that the assistance must be focused and flexible<sup>27</sup>. It has been decided, that some countries should have higher priority than others, but this prioritization is indicative, and the strategy allows scope for redistribution amongst recipient countries, should special needs or new opportunities arise<sup>28</sup>. Local ownership of the development assistance is considered an important precondition for creation of sustainable long-term development, and the Neighbourhood Programme is supposed to comply with the Paris Declaration principles on alignment and harmonisation of the support in order to increase aid effectiveness.

As the programme targets as many as 15 countries with a budget of just DKK 1 billion over five years, each project within the programme is quite small, and it has not been possible to target entire sectors within the programme countries.

A summary of the 10 present projects under the priority area 'Economic development' can be found in the table below.

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- 25) Strategy of the Danish Neighbourhood Programme 2008-2012, p. 15.
  - 26) Strategy of the Danish Neighbourhood Programme 2008-2012, p. 4.
  - 27) Strategy of the Danish Neighbourhood Programme 2008-2012, p. 14.
  - 28) Strategy of the Danish Neighbourhood Programme 2008-2012, p. 14.

## ANNEX 1 TERMS OF REFERENCE

Country	Start	End	MFA Budget (million DKK)	Focus	Instruments	Modalities	Remarks
Kosovo	Feb. 2005	Dec. 2007	50	Rural SMEs	Finance/MFIs	National MFIs	Monitoring by Dev.Ass.
Russia	June 2006	Dec. 2010	110	Furniture Food Processing Tourism	Cluster Policy dialogue Advocacy BDS Financial services Tripartism TVET	DTI (phased out) Carl Bro RAMBØLL	
Serbia	Aug. 2007	Dec. 2011	75	Textile Construction Agriculture	Local admin. Advocacy Cluster development BDS Financial services EU accession	Grontmij-Carl Bro	Twinning with Danish municipalities Knowledge Centre for Agriculture providing technical expertise
Kosovo	July 2008	June 2013	80	Horticulture Agri-business	Value chain TVET Financial services	SDC/Intercooperation MFA EFSE	
Armenia	Dec. 2008	Dec. 2011	29	Agri-business	Financial services TVET	IFAD UNDP	IFU sub-contracted
Montenegro	June 2009	May 2012	15	Organic agriculture	Value chain Institutional frame Matching grants	MFA	
Bosnia-Herzegovina	Nov. 2009	2014	24.3	Agriculture Energy saving	Financial services	KfW	
Albania	Sep. 2009	Aug. 2014	30	Apples Aromatic plants Ruminants	Value chain Capacity of MAFCP	SNV	Co-funded by SNV (20%)
Ukraine	Jan. 2010	Nov 2012	40	Agri-business	Value chain Financial services	NIRAS EBRD	
Serbia	Nov. 2010	Nov. 2014	40	Fruits & berries	Value chain	MFA	Co-funded with Government of Serbia

As illustrated by the table, the composition of the project portfolio within the priority area 'Economic development' has undergone changes during the course of time. First and foremost, the budgets of newer projects tend to be smaller than those of earlier projects, and the projects have become less complex. While some of the first projects, e.g. the ones in Russia and Serbia, included a considerable number of interventions (and thus components and sub-components), more recent projects typically focus on just one or two areas (with a corresponding reduction in the number of components and sub-components).

The applied support instruments, which vary considerably from country to country, have undergone certain modifications in the course of the programme, reflecting the simplification of the projects. Instruments include: encouragement of public-private dialogue (which may include advocacy), TVET, provision of infrastructures as for instance cold stores, access to finance, business services, and reforms aimed at creating a more conducive business environment. Instruments related to the provision of financial services include loan guarantee schemes, subsidised credit, matching grants, provision of lending capital to MFIs and technical assistance. The approaches have varied from creation of own financial service support mechanisms to implementation through international partners and existing national structures.

Support to agribusiness and agriculture is a feature of a large share of the above projects. While some (generally the early) projects have pursued a so-called cluster approach, focusing on enterprises within a particular industry in a particular locality, others take on a value chain approach. In both cases, the support has often included business development services, management and entrepreneurship training, access to market information and similar instruments.

Lastly, the models of implementation have changed during the course of the programme. A range of projects have been implemented in close partnership with other actors. Others, mainly the earlier projects, have outsourced the implementation to consultancy companies. The latter modality is usually used in conjunction with implementation through project implementation units (PIUs). Finally, in two instances (Kosovo (TVET) and Montenegro), the Danish Ministry of Foreign Affairs has contracted bilateral advisors to assist the implementing government institution.

It should be noted, that a considerable number of other donors, multilateral as well as bilateral, execute significant programmes in the target countries of the Neighbourhood Programme. The most important multilateral players are the EU, the World Bank, the UN system and the Millennium Challenge Corporation.

The European Neighbourhood Policy (ENP) was developed in 2004 with the objective of avoiding emergence of new dividing lines between the enlarged EU and its neighbours and instead strengthening the prosperity, stability and security of all. It can be seen as very similar to the Danish Neighbourhood Programme and covers 16 of EU's neighbour countries, including countries in the Middle East. Central to the ENP are bilateral action plans between the EU and each ENP partner. These set out an agenda of political and economic reforms with short and medium-term priorities of three to five years.

The World Bank is closely cooperating with the European Neighbourhood Programme countries as well as the EC so as to align its country assistance strategies and accompanying programmes to support compliance with the ENP Action Plans. The collaboration is based on a Memorandum of Understanding between the World Bank, the EC, the Eu-

ropean Investment Bank and a number of other finance institutions lending to the ENP countries.

Significant bilateral donors operating in the region in relation to economic development include the US (MCC and USAID) Germany (GTZ and KfW), Sweden (Sida), the Netherlands (SNV) and Switzerland (SDC).

### Objectives

The objective of the evaluation is to assess and document the relevance, effectiveness and efficiency of the overall priority area 'Economic development' under the Danish Neighbourhood Programme, both at the level of the priority area as a whole and the individual projects. Considering the duration of the projects, a thorough assessment of impact and sustainability is not feasible, but the evaluation should make an attempt to address both issues as far as possible.

The evaluation is a learning-focused evaluation, which will serve as an input into the ongoing discussion within the Danish Ministry of Foreign Affairs on how best to promote private sector driven economic growth and employment. It should therefore distil key lessons learned regarding the strategies, approaches and methods used in the Neighbourhood Programme.

### Outputs

The evaluation will lead to three deliverables (outputs):

- An inception report (not exceeding 15 pages, excluding annexes) based on desk study and interviews of staff of Ministry of Foreign Affairs in Copenhagen. The report will present the detailed methodology for the evaluation. It will furthermore analyse the implications of the country selection (see below) based on an initial mapping of the activities focusing on economic development under the Neighbourhood Programme, detail the criteria for establishing any further subsample of activities to be evaluated more in-depth and outline the content of such a sample. As mentioned above, a number of other donors implement support parallel to the Neighbourhood Programme in the target countries and existing studies, evaluations etc. of this support should be collected and considered, so as to be able to draw on this broader experience to the degree relevant. The inception report must indicate the existence, relevance and possible use hereof in the evaluation. Finally, the inception report will suggest if any changes to the evaluation questions are appropriate in light of the mapping, provide a detailed evaluation matrix and present detailed field schedules to facilitate the logistics of field work in advance.
- A Draft Evaluation Report (not exceeding 40 pages, with annexes as per need).
- A Final Evaluation Report (not exceeding 40 pages, excluding annexes) to be delivered not later than three weeks after comments have been received to the Draft Evaluation Report. The Final Evaluation report should contain a short executive summary of 6-8 pages.

All outputs must be delivered in English and comply with Danida Evaluation Guidelines. The Final Evaluation Report should follow Danida's Evaluation Layout Guidelines.

## Scope of work

### Evaluation period

Due to the changes in the Danish Neighbourhood Programme, the evaluation is expected to focus on activities undertaken in the most recent years of the Programme. Earlier interventions may be included where relevant in order to understand and assess current activities.

### Coverage

The evaluation must include analysis and assessment of the overall priority area 'Economic development' at the overall level (strategies and approach, portfolio of activities etc.). However, a more in-depth assessment of a sample of selected activities will be an important part of the evaluation, e.g. in order to ensure sufficient depth and specificity in the analysis and to be able to identify more specific results and point to promising and less promising practices etc. Thus, field visits should be conducted in Kosovo, Serbia and Armenia. These three countries have been chosen based on the following:

- All three countries have high priority in the programme strategy, and their share of the total programme budget for economic development is relatively high.
- The geographical coverage includes both South Caucasus and the Balkans.
- The thematic coverage of the projects undertaken within the countries is large, and includes promotion of enabling business environments, improving vocational education, improving access to financial services and business development services. Both cluster and value chain approaches are covered, and implementation modalities are varied, including partnerships, consultancies and own implementation.
- Projects have been running for more than a year in all three countries.

Ensuring a fruitful interplay between the in-depth analysis of the sample activities and the analysis at the level of the priority area is expected to be an important but potentially challenging aspect of the evaluation. The inception report should reflect upon the coverage of activities, context etc. resulting from this country selection and consider the analytical implications, based on the initial mapping. As part hereof, it must be clarified how the evaluation will apply the evaluation criteria at the overall level and at the level of the individual activity respectively.

### Thematic scope

As mentioned the focus of the evaluation will be on the overall priority area 'Economic development'. Thus, the evaluation must include an assessment of the different strategies, approaches and interventions applied within this priority area and point to the most promising practices.

## Proposed methodology

The assignment will involve a combination of desk studies and field visits to the above mentioned countries. It is required, that the evaluation be based on existing evaluations and analyses of relevance. In the inception phase, the evaluation team should thus create an overview of other programmes in the targeted countries and identify evaluations and analyses of relevance. The inception report should reflect the findings of this work.

Considering the learning objective of the evaluation and the scope discussed above, a theory-based approach to evaluation should form part of the evaluation. This entails an analysis of the intervention logic and specifically the causal chain from input to outputs and outcomes which will contribute to securing an understanding of the reasons why the projects have or have not produced the intended results. This analysis will also form an important part of the foundation for assessing the approaches of the different activities and their relative strengths and weaknesses.

It is expected, that the evaluation combines quantitative and qualitative methods of collecting and analyzing data in such a way, that the usefulness of both types of material is maximized. Triangulation of findings is required.

A systematic quantification of results should be undertaken where possible and relevant. A quantitative analysis of spending and coverage in the programme should be produced. Considering the time frame for the evaluation, the quantitative analysis will be based mainly on secondary data, sources of which include programme monitoring data, national and regional surveys etc. The inception report should detail the quantitative methods to be employed in the analysis and reflect upon the coverage and quality of available data.

Qualitative analysis should be undertaken in order to validate and substantiate quantitative findings, and to assess effects as well as the issues related to the relevance, efficiency, sustainability and impacts that may best be assessed using qualitative tools. The qualitative analysis must be systematic and judicious, and intended methods should be described thoroughly in the reception report. Data can be collected through key-informant interviews at different levels such as the Danish Ministry of Foreign Affairs (the Neighbourhood Programme), representative from other donors, the staff of projects and partner organisations, representatives for the private sector and other stakeholders as well as through interviews with direct and indirect beneficiaries and key informants.

If the analysis as expected entails case studies of specific activities within the selected countries, the selection of these must be made so as to ensure an appropriate coverage and to facilitate generalization of results, as well as to clarify limitations with regards to the coverage of conclusions and recommendations. The inception report must detail and justify the case selection criteria, and limitations related to the representativeness, coverage etc. of the cases must be explicitly considered. It should reflect upon how a rewarding analytical interplay between the cases and the whole portfolio is achieved.

The inception report must describe how the question of attributing observed changes to the programme will be handled. Data may not permit a rigorous attribution analysis with establishment of comparison groups etc. However, the possibility of plausibly attributing observed changes to the programme, e.g. through trend analysis etc., should be explored. If found relevant, the evaluation team should arrange workshops at critical junctures of the evaluation to validate results and share information on the results with key stakeholders.

The evaluation team will further elaborate the methodology to be applied, whilst following Danida's Evaluation Guidelines, including the DAC Evaluation Quality Standards.

The evaluation team will be provided with a CD Rom containing background documentation on the Danish Neighbourhood Programme and the relevant projects.

## Key evaluation questions

The evaluation will use the five OECD/DAC criteria. As mentioned above, the overall focus when applying the criteria should be on the portfolio as a whole, but this will also imply addressing them at the level of individual activities. However, it is recognised that it may be too early to fully assess impact and sustainability, and priority should be giving to an assessment of relevance, efficiency and effectiveness. Issues to be addressed include, but are not necessarily limited to:

### Relevance

It should be assessed whether the portfolio and its activities:

- Are well aligned with the policies of the partner countries
- Fit into the larger socio-economic and political context, including the development efforts of the government and other development partners
- Are coherent with the overall Strategy of the Danish Neighbourhood Programme
- Are perceived to be relevant by the intended beneficiaries.

### Efficiency

In this context, efficiency primarily refers to the management and modalities of the priority area 'Economic development' under the Neighbourhood Programme. It should be assessed:

- Whether the actual implementation has deviated from the strategies and plans stated in the project documents, and if so what the consequences have been
- Whether applied modalities (partnerships, use of consultants etc.) have been cost-effective
- Whether an appropriate number of the beneficiaries have been reached, considering the scope/magnitude of support
- Whether duplication of activities has been avoided
- Whether synergies between the different activities have been exploited
- Whether lessons learned from related activities have been taken into consideration in the design of new activities
- What implications for efficiency the set-up of the programme has had. This assessment will have to be based on possible alternatives as well as wider experiences, best practice examples etc.

### Effectiveness

Findings related to the effectiveness of the Neighbourhood Programme are supposed not only to influence the design of the next generation of economic development initiatives by the programme, but may contribute to the broader discussion within Danish Ministry of Foreign Affairs on how best to promote private sector economic growth and employment. Questions include:

- Was the approach(es) as well as the more specific intervention logic(s) appropriate and justified?

- Have the supported activities had the intended effects/are they likely to achieve the intended effect?
- Has the number of growth-oriented SMEs increased as envisaged within the targeted industries and regions?
- How have the most promising results in terms of socio-economic development been attained?

### **Impact**

While it may be too early for a thorough assessment of the impacts of the programme, the evaluation should explore, whether there are indications, that the programme and its interventions, will have the intended employment and income effect.

### **Sustainability**

Due to the relatively short duration of the individual projects, the issue of economic and institutional sustainability may be difficult to address. However, the evaluation is expected to assess to the degree possible if benefits and improvements resulting from the programme are expected to be of longer term duration, whether there are possible wider effects, whether there are prospects for the executing organisations to continue after the programme has ended, and whether exit strategies have been build into the project designs.

## **Evaluation management and implementation**

The evaluation will be managed by Danida's Evaluation Department (EVAL). EVAL will be responsible for printing and dissemination of the evaluation report.

The responsibility of the evaluation team includes, but is not necessarily limited to, the following:

- Carry out the evaluation as per the ToR. As part hereof the evaluation team is responsible for planning and logistics in relation to country studies and field trips
- Be responsible for the findings, conclusions and recommendations of the evaluation
- Report to EVAL, be in regular contact, coordinate mission timing and key events with EVAL and seek its advice when needed.

*The full text of the ToR can be found on [www.evaluation.dk](http://www.evaluation.dk).*

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## EVALUATION OF THE DANISH NEIGHBOURHOOD PROGRAMME WITH A FOCUS ON THE ECONOMIC DEVELOPMENT PORTFOLIO

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