

Evaluation Report Title:

Facility for New Market Development (FNMD) to Strengthen the Private Sector in the Occupied Palestinian Territories, Final Evaluation

Response to Evaluation Report (overarching narrative)

The FNMD final evaluation provides a sound analysis of the project's relevance, effectiveness, impact, sustainability and value for money (VFM). Also, it provides helpful recommendations that will feed into the design of any future private sector development programme.

The evaluation acknowledges that the project's relevance "appears outstanding in view of the specific situation and opportunities of the Palestinian private sector" (p30). The evaluation recognises that FNMD met its targets and exceeded its outcome indicators, which "constitutes a high degree of effectiveness" (p40). On the project's impact, the evaluation confirms that the project has "created jobs, and improved entrepreneurial decision makings, which led to investments for greater competitiveness" (p52). The evaluation acknowledges that the economic and soft benefits gained by the firms such as stronger entrepreneurial acumen and greater preparedness to take risks "are sustainable and will continue" (p54). The evaluation also shows that the project represents value for money. For example, the average percentage of the project budget spent on administration is acceptable (30.1% and 27.2% in the first and second phases respectively), falling within the range of 27-33% for other ongoing DFID funded challenge funds (p42-43). We welcome this, along with the recognition that FNMD took care to "achieve adequate gender balance" (p51), and to ensure that supported firms "do not negatively impact the environment" (p50).

DFID agrees with the recommendation of implementing another matching grant. Currently we are designing a new programme which will include a matching grant component to improve firms' innovation and competitiveness while contributing to private sector growth. We accept the argument of the evaluation of increasing grant shares above 50%, but not specifically for cases where international consultants need to be involved. The criteria to determine which percentage to be used will continue to depend on the level of risk the business is taking. We partially agree with the evaluation's analysis on including a capacity building component for project staff. It is primarily the responsibility of the contractor to train its staff. Nevertheless, in special cases where local skills to manage the project prove to be hard to obtain, DFID can consider covering some staff training in return for a lower consultancy rate for the same staff.

We acknowledge the need to always look to introduce new sub-sectors in private sector in the Occupied Palestinian Territories (OPTs), however we disagree with the analysis of the evaluation that this is principally the role of the donors. In any future programme we will enable businesses including Business Service Providers to look for new suitable sub-sectors through matching grants and will facilitate the acquisition of the necessary knowledge.

We disagree with the evaluation that any future programme should support the emergence of an independent group of economic experts to advise the government. There are other donors who expressed their interest in supporting the Palestinian Authority's (PA) Ministry of National Economy (MoNE) to form an advisory council of experts on private sector development. The MoNE is also getting capacity building support from four different donors on various aspects of its work. Consequently, we believe that DFID's resources should complement these efforts and be effectively deployed to support the unlocking some of the root causes (including behavioural causes) of market underperformance in some sectors and sub-sectors.

Finally, we welcome the analysis of the evaluation that M&E systems should be economical and less taxing to the project implementer and clients. We will consider the evaluation's suggestions to enhance M&E systems during the design of any next phase of support to the Palestinian private sector

DFID's Management Response to the evaluation recommendations is set out in the table below. We wish to thank the evaluation team for their hard work and collaborative approach, and for providing such a useful report. As noted, this report will be a key input as DFID seeks to develop a new market development programme for the next five years.

Evaluation Report Title: Facility for New Market Development (FNMD) to Strengthen the Private Sector in the Occupied Palestinian Territories, Final Evaluation

Recommendations	Accepted or Rejected	If “Accepted”, Action plan for Implementation or if “Rejected”, Reason for Rejection
<p>1. It is recommended to implement another matching grant scheme of a size similar to that of FNMD. Continuing its focus on market expansion and innovation, the rationale for a new scheme should be that of creating more space for private sector growth.</p>	<p>Accepted</p>	<p>We agree with this recommendation. DFID is currently designing a market development project with the EU which will include a matching grant component focused on improving competitiveness and innovation. The overall goal of the project will be to drive private sector growth in the OPTs.</p>
<p>2. A future scheme should have the ambition to reach higher levels of service provision. More emphasis would have to be laid on strategic counselling. In principle, the 50%:50% sharing of costs should be kept.</p>	<p>Accepted</p>	<p>We agree that access to strategic business services is critical to the development of the private sector in the OPTs. The problem in the OPTs, however, is that most Business Service Providers (BSPs) do not have the capacity to provide strategic counselling, and most businesses either do not know what they need in terms of appropriate services or they do not value quality service provision. This failure between the demand and supply of business service provision will be addressed in any future market development project. The 50%:50% matching ration will be kept for businesses which present plans to enter new markets or develop new products. And we plan to have different ratios available according to the level of risk taking (see below).</p>
<p>3. It could be considered to introduce a complementary window that could apply a lower grant element, directed at simple, operational support services. That scheme would have a clear market development</p>	<p>Partially Accepted</p>	<p>We agree that a lower percentage should be introduced for lower risks interventions, but this will not be through a separate window. The different percentages will be applied by the same matching grant mechanism and team depending on risk criteria and as part of the overall market development project.</p>

objective.		
4. Higher than 50% grant shares (say, 70%) could be extended for proposals with a clear “pioneer” character, including cases where international consultants need to be involved when expertise is not available locally.	Partially Accepted	We accept the argument of increasing grant shares above 50%, but not specifically for cases where international consultants need to be involved. The criteria to determine which percentage to be used will continue to depend on the level of risk the business is taking. For example a proposal by a company to develop a new product to take to a new market could be considered high risk and might qualify for 70% matching grant. The details of this programme and criteria are currently under design and will be informed by the evaluation analysis and recommendations.
5. As FNMD, a future scheme should offer counselling before actual service delivery. Counselling needs to be documented, so that its value added can be assessed.	Accepted	We acknowledge the important role of the Business Development Advisors in offering counselling during the FNMD project. We agree that this counselling services need to be documented and quantified in any future scheme. We will consider this recommendation during the design of the upcoming project.
6. In order to enhance monitoring and evaluation, suggestions for an effective, yet economical system were elaborated and annexed to the report.	Accepted	We recognise the importance of monitoring and evaluation (M&E) of all our programmes and we accept that M&E systems should be economical and less time consuming to the project implementer and clients. We will consider the evaluation’s suggestions to enhance the M&E system during the design of the next phase of our support to the Palestinian private sector
7. A new scheme should include elements of capacity building both for the scheme’s staff and for local service providers, the latter should be incentivised.	Partially Accepted	We believe it is the contractor’s responsibility to provide trained staff to manage the project and that the project should not carry the financial burden of training staff while paying international rates for the contractor’s staff. Nevertheless, should local skills to manage the project prove to be hard to obtain, DFID can negotiate covering some of the staff training in return for a lower consultancy rate for the same staff.

		<p>This would apply only to local staff and not to international consultants.</p> <p>We agree that local service providers should be incentivised and trained, however, we believe that local business providers should perform and behave like businesses and not like donor recipients. Any new market development project will look into ways BSPs can be incentivised to act and perform like businesses without creating more dependency.</p>
8. Knowledge management should become an integral element of the exit route of a new scheme. A depository for knowledge and experience gained needs to be found.	Accepted	We agree. Knowledge accumulated from the current FNMD was all captured and stored to pass on to the future programme. Any new project will agree with the Ministry of National Economy on the best mechanism to sustain and disseminate the knowledge for the benefit of the public.
9. A new matching grant scheme should be underpinned with a private sector support package that is directed at decision makers of the public and private sector, at the levels of business representative organisations, institutions as well as government. Donor coordination should be improved, in particular with regard to subsidies, which may distort the developing BDS market.	Partially Accepted	<p>We agree that more effective public private dialogue is required, and donor coordination should be further improved especially on the issue of subsidy and potential market distortion. DFID is a member of the Donor's Private Sector Working Group that coordinates donor's efforts in support to the Palestinian private sector and we constantly raise this issue in meetings.</p> <p>There are several other donors supporting capacity building for the public sector and business representative organisations. We believe that the level of support is adequate and does not require intervention from DFID. We will nevertheless continue to work very closely with those donors to ensure complementarity and alignment.</p>
10. In view of the specific situation in Palestine an approach should be added that can transfer knowledge to sectors with strong development	Partially Accepted	There are several strong donors supporting the sectors with the strongest development potential. Given the small size of the market segments in the OPTs and the need for all sectors to contribute to growth, DFID will seek to continue its FNMD approach of providing non

potential.		sector specific support and allow the market forces to drive innovation and competitiveness. Should evidence from any new market development project proves otherwise, the project design will have the flexibility to adjust accordingly.
11. A broader range of sub-sectors developing among SMEs in smaller economies should be periodically scanned globally against their suitability for Palestine.	Not Accepted	While we agree on the need to always look out for new sub-sectors to introduce to Palestine, we do not believe that it is the role of the donor to do this. DFID's future project will enable businesses and BSPs to scan new suitable sub-sectors through matching grants and will facilitate acquiring the necessary knowledge.
12. Market research of pre-competitive character should be carried out in potential export countries. Such research would make it much cheaper for Palestinian enterprises to follow-up with individual research.	Partially Accepted	Again we agree on the principle but we believe that we should incentives actors in the market system rather than doing it for them. On the other hand, DFID would be open to cooperate with research centres and universities to carry out such research.
13. Collaboration between universities and the private sector should be strengthened. A mechanism of translating SME requirements into topics for university research and, vice versa, research knowledge into practical application for SMEs, is required. Advantages of closer cooperation lie in the economical use of public knowledge sources for application by the private sector.	Accepted	We recognise the importance of collaboration between universities and the private sector. And we agree with the analysis of the evaluation. The World Bank currently has a programme to address this issue. We will consider any gaps that any future DFID programme can fill during the design of the next phase of our potential support to the Palestinian private sector.
14. It is recommended to install a business support web-site for Palestine, containing information and inter-active tools which SMEs can use. The outstanding Business-Link web-sites in the	Accepted	DFID had planned to establish such a portal within the FNMD project but plans were halted due to similar plans by Palestine Trade Centre (Paltrade) to establish this portal which is now operational (see link www.ptfp.ps). Alternatively, FNMD assisted the Ministry of National

UK could serve as an example.		Economy to lay the foundations for a complementary branding portal to introduce importers to most of the “made in Palestine” products and services.
15. Encouraging the formation of an association of Palestinian consulting firms would ensure that members meet standards. The introduction of a quality seal could be initiated.	Not Accepted	While we agree on the need to ensure that consulting firms meet the highest standards in service, we do not believe there is enough evidence that forming an association would solve the problem of standards and quality. FNMD has conducted a detailed study to identify the root causes of sub-quality business services in the OPTs. Four sub-sectors were researched: Exports, Human Resources and Training, Certification and Business Planning to increase access to finance. Different recommendations were provided for each of the four sub-sectors based on a detailed analysis of the constraints that face each one. These recommendations, which include quality standards and certification, will feed into the design of the upcoming market development project.
16. Still in support of a new matching grant project, supporting the campaign for import substitution could trigger more applications for support from interested enterprises.	Accepted	We recognise the importance of supporting firms aiming at import substitution. While any future project will not specifically implement import substitution activities, companies and associations will be able to apply for matching grants to develop new products to replace imports in the local market.
17. Maybe it would be possible for a new project to support the emergence of an independent group of competent economic experts providing neutral advice to the government and the private sector alike. Simple regular investment climate surveys that keep the “finger on the pulse” of the private sector could be one of the tools informing such a group.	Not Accepted	The Ministry of National Economy (MoNE) is proposing to form an advisory council of experts on private sector development. Several donors have expressed interest in supporting this. The MoNE is also getting capacity building support from four different donors on various aspects of its work. Consequently, DFID’s resources would be more effectively deployed to support stimulating the market players to work more effectively by unlocking some of the root causes (including behavioural causes) to the market underperformance in some sectors and sub-sectors.

<p>18. A last recommendation refers to the comparatively low density of the SME population in Palestine, which suggests that there is room for more start-ups. Start-up support must be provided responsibly and mindful of risks. Nevertheless, a renewed effort appears timely.</p>	<p>Accepted</p>	<p>Although start-ups did not qualify for matching grants within FNMD, a small component was pioneered to provide support to innovative start ups in Gaza and it was successful. The design for the upcoming project will include eligibility for start-ups to access funding.</p>
---	-----------------	--