

**„How can economic growth work for development of developing countries“
Seminar on Financing of Sustainable Development Projects
and Role of Non-governmental Organisations and Business Actors**

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**„How can economic growth work for development of developing countries“
Seminar on Financing of Sustainable Development Projects
and Role of Non-governmental Organisations and Business Actors**

► Tiráž

Název:

**„How can economic growth work
for development of developing countries“**

**Seminar on Financing of Sustainable Development Projects
and Role of Non-governmental Organisations and Business Actors**

Vydavatel:

Vydala Univerzita Hradec Králové, Filozofická fakulta, katedra politologie

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EDFI	European Finance Development Institutions
NGOs	Non-Governmental Organizations
FoRS	Czech Forum for Development Co-operation
CONCORD	European NGO Confederation for Relief and Development.
IFIs	International Finance Institutions

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Introduction

This background documentation was created as a result of the seminar „*How can economic growth work for development of developing countries*“ - Seminar on Financing of Sustainable Development Projects and Role of Non-governmental Organizations and Business Actors. The aim of the seminar is to sum up the speeches of both keynote speakers and also the discussions that followed.

The seminar was held in order to discuss following questions:

- What are actual ways of financing of sustainable economic development activities in developing countries?
- Who are the actors in implementing these projects and how to ensure their ownership?
- How to increase the chances of these projects to be successful and sustainable?
- What is the role of NGOs in the projects focusing on sustainable economic development – how are the projects created in reality and what is the opportunity for NGOs to get involved?
- How can the Czech NGOs and companies cooperate in the projects of sustainable economic development?

The seminar was targeting at the directors, project and program managers of NGOs, representatives of academia and business sector working in the field of international development cooperation and development education.

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The Organizers

The seminar was held by **FoRS – Czech Forum for Development Co-operation** in the co-operation with **Platform of business in international development cooperation**. The seminar was organized within the project RESAREAS – The Cooperation Network for Research of the Non-European Areas financed by the ESF and Czech Republic.

FoRS – Czech Forum for Development Cooperation

FoRS - Czech Forum for Development Cooperation - is a platform of Czech non-governmental organizations (NGOs) and other non-profit entities that are involved in development cooperation, development education and humanitarian assistance.

FoRS was founded by fifteen NGOs in September 2002 and was registered as an association of legal entities in October 2002. In early 2010 it represented 37 member states and 10 observer organizations - among them are non-profit organizations, foundations, international organizations, academic institutions and others. FoRS organizations share a common interest in promoting the greater relevance and effectiveness of Czech and international development cooperation and increase its positive impact for people in developing and transition countries. The main task of FoRS is to represent the common interests of members and to strengthen the relations and cooperation between state institutions in the Czech Republic and EU and non-governmental organizations in the field of development cooperation.

In 2003 FoRS became one of the founding members of **CONCORD** - European NGO Confederation for Relief and Development. CONCORD is an umbrella association of national platforms and networks of NGOs from EU countries, which together represent over 1,600 NGOs. CONCORD

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is the official partner of the European Union institutions and through the FoRS defend the interests of NGOs from the Czech Republic. Currently FoRS participate in activities in several thematic working groups within CONCORD. CONCORD more about membership and FoRS read here. <http://www.concordeurope.org/>

Platform of business in international development cooperation

Every year there are billions of development projects aimed at the eradication of poverty and promoting sustainable development. There are many Czech companies with the great experience with the implementation of development projects. However, only a few Czech companies that have managed to establish themselves in development projects funded by the EU and other major donors. The cause could be the lack of information, contacts and know-how in the field of international development co-operation, assistance and coordination of state and business organizations. Three institutions (the Confederation of Industry of the Czech Republic, Association of Engineering and Technology, Association of the Czech Railway Industry) have established one non-profit organization to support the entrepreneurial activities in developing countries – Platform of Business in international development co-operation.

The aim of the platform is:

- To increase the successful participation of Czech companies in projects of development aid and cooperation
- To encourage long-term investment in developing countries in a convenient position for the Czech supplier of technology and services
- To promote the development cooperation programs of public and private sector

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Platform is looking for active members who are interested in participating in development projects or in working in expert teams in the National Platform of the Council for Development Cooperation. The platform offers a space for sharing information, experience and contacts.

EDFI (Association of European Development Finance Institutions) – Mr. Jan Rixen

The EDFI organization was presented by Mr. Jan Rixen, the general director of EDFI (Association of European Development Finance Institutions), which is formed by 15 bilateral financial institutions active in developing countries. This chapter summarizes the speech of Mr. Rixen that was mainly focused on this institution.

Development Finance Institutions¹

Development Finance Institutions (DFIs) typically invest in either public or private-sector projects, or sometimes both. EDFI members only invest in the private sector. Whereas commercial banks provide finance for businesses to invest in relatively low-risk projects, development banks play a hugely important role in servicing the investment needs of developing countries and emerging markets.

The financial support DFIs bring to relatively high-risk projects help to mobilize the involvement of private capital, bringing in such diverse actors as commercial banks, investment funds or private businesses and companies. In addition, development banks often act in co-operation with governments and other organizations in providing funds for technical assistance, feasibility studies, and management

¹ Activities of European Development Finance Institutions. EDFI. [Http://www.edfi.be](http://www.edfi.be) [online]. 2010 [cit. 2013-04-25]. Available from: <http://www.edfi.be/activities.html>

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consultancy, compliance with environmental regulations and good business practices in relation to staff and the wider community.

Development Finance Institutions are specialized development banks that are usually majority owned by national governments. DFIs come in two types:

- 1) bilateral
- 2) multilateral

The multilateral DFIs, also known as International Finance Institutions (IFIs), usually have greater financing capacity and provide a forum for close co-operation between governments. Both types of institutions retain strong operational independence.

DFIs provide funds, either as equity participation, loans or guarantees, to foreign or domestic investors. These investors will initiate or develop projects in countries in which the traditional commercial banks are reticent to invest without some form of official involvement. DFIs are equally fundamental in the SME sector (small and medium enterprise) where credit lines to commercial banks or micro loans, traditionally viewed as high-risk, form the bulk of investment activity.

DFIs source their capital from governments or benefit from government guarantees, which ensures their credit-worthiness. DFIs can thus raise large amounts of funds on the international capital markets and provide loans or use equity on market terms, frequently on a par with commercial banks. DFIs do not compete with commercial banks. If commercial banks are willing to finance a project the additionality criteria of the DFIs will oblige the DFIs to withdraw. Their efficiency and expertise make them self-sustaining and even profitable, and consequently form an extremely valuable bridge as public-private partnerships. The investment activities

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of DFIs focusing on economic performance and return on investment to ensure sustainability of the projects, not only mark a departure from the past in a bid to reduce dependence on development aid but encourage the entrepreneurial spirit of millions of individuals and companies worldwide on both sides of the economic divide.

Member organizations

EDFI is a group of 15 bilateral institutions, operating in Developing Countries and Emerging Markets, mandated by their governments to foster growth in sustainable businesses, help reduce poverty and improve people's lives and contribute to achieving the Millennium Development Goals. The EDFI is promoting economically, environmentally and socially sustainable development through financing and investing in profitable Private Sector enterprises. EDFI is formed by 15 institutions with their headquarters across Europe. The oldest member was created in 1948. In the following table you can see the list of all members:

Institution	Country	Established
CDC	UK	1948
DEG	Germany	1962
IFU	Denmark	1967
FMO	Netherlands	1970
SBI	Belgium	1971
PROPARCO	France	1977
SWEDFUND	Sweden	1979
FINNFUND	Finland	1980
COFIDES	Spain	1990
SIMEST	Italy	1991

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NORFUND	Norway	1997
BIO	Belgium	2001
SIFEM	Switzerland	2005
OeEB	Austria	2007
SOFID	Portugal	2007

Table 1: A network of 15 Memebers accross Europe

There are three main pillars how to enhance development in developing countries. **First pillar is providing aid.** This way of financing the development activities is done by donations, public sector and civil society (NGOs), humanitarian and development assistance and government to government support.

The **second pillar refers to Development Bank (public sector arm)** and is done by loan, grant and guarantee financing and public sector, mostly large scale.

DFI's and private sector arms of development banks can be gathered into the **Third pillar.** There are many forms of financing, for example equity, loans and guarantee, political risk insurance and activities of private sector. **The EDFI members represent a "third pillar" alongside traditional aid instruments and development banks dedicated to the public sector.** The development finance institutions play a complementary role in International Development Policy.

Governments have channeled only a small fraction of Official Development Assistance (ODA) to the EDFIs but the capital is re-invested and used again and again. You can see the shares of the three pillars mentioned above.

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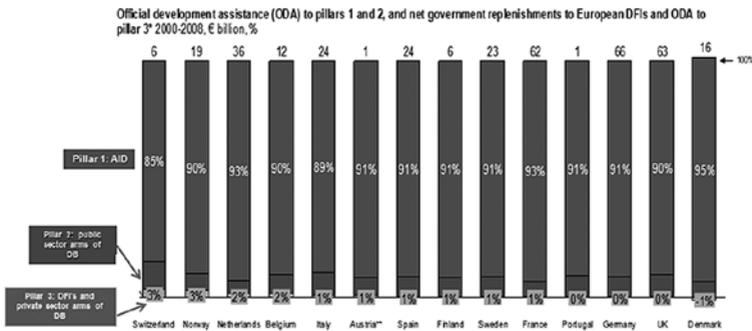


Table 2 Long term finance for private sector enterprises

Investments in private sector generates development

What is the role of these institutions united in EDFI? We can define three main roles, that is:

- Going where other investors don't go – additional role
- Paving the way for others to follow – catalytic (Show that it is a wise business, it is good also for other business to go. Better when there are some failure than no business. The role is to be there during the difficult first phase)
- Breaking the dependency cycle – sustainable (Ensuring the projects will succeed, provide capacity building trainings)

The activities have many development effects, that can be divided mainly in direct and indirect.

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The direct activities are:

- Direct employment
- Profits
- Government revenue
- Net currency effects
- Capacity building (transfer of knowhow)
- Improved ESG factors for employees

The indirect activities are:

- Indirect employment
- Local and regional economic growth
- Growth of supply chain
- Demonstration effects, increased competition
- Improved local infrastructure
- Other ESG effects in broader community

All these direct and indirect effects have a broader impact that is equitable and sustainable global development across the MDGs.

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EDFIs in figures

In 2012 there were 4.705 projects implemented (€26 bln) – from them 714 projects were new implemented this year (€4.7 bln).

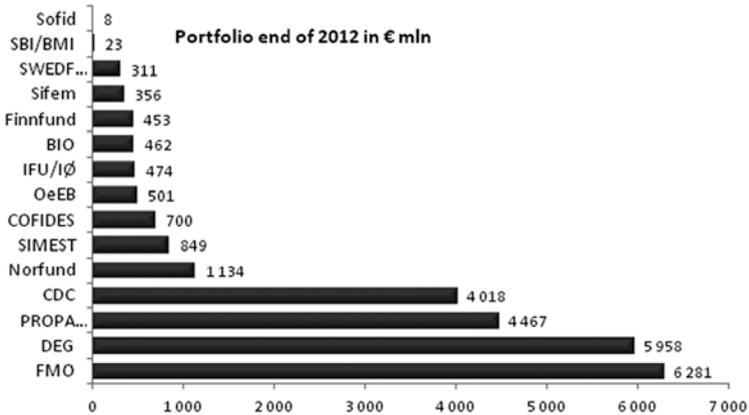


Table 3 EDFI Activity in figures in 2012

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The projects were implemented mainly in Africa, Caribbean and Pacific and Asia and China. Now the number of projects implemented in China is decreasing because of the huge economic growth in term of GDP. The number of projects in North Africa is increasing (there is a huge need of creation the employment which is the key indicator for stability) – but the political instability make this more difficult. Here you can see the graphic illustrating the portfolio of our members:

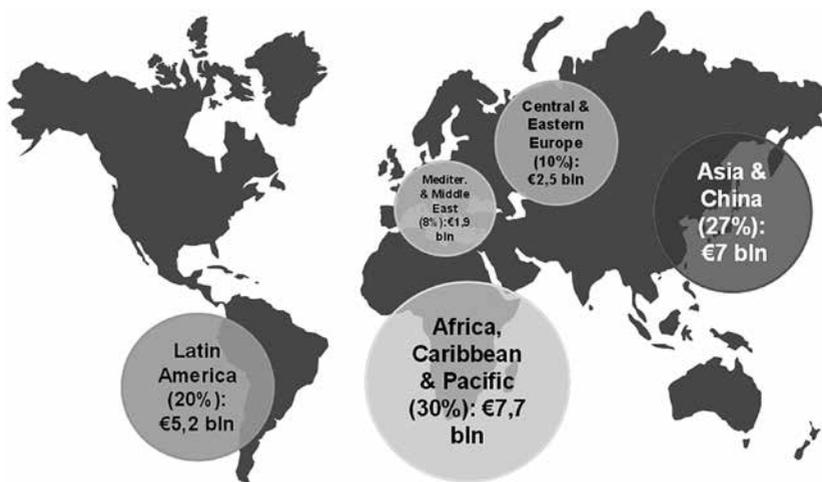
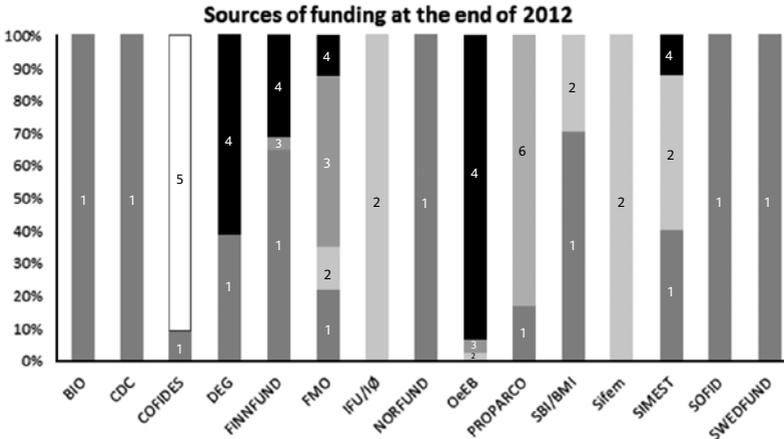


Table 4 EDFI Regional Activity in 2012

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What are the funding sources of the EDFIs? It varies depending on the institution. You can see the main sources of funding of the member institutions at the end of 2012:



1 Equity 2 Governm. Loans/state budget 3 Market (foreign) 4 Market (domestic) 5 Other sources 6 State trust fund

Table 5 Funding of the operations

The EDFI member institutions provide very wide range of financial instruments, for example:

- Ordinary shares
- Preferences shares
- Leasing
- Loan guarantees
- Participating loans
- Subordinated loans
- Secured loans

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In which sectors do the EDFI members invest?

Financial sector - Local banks can provide loans and microfinance loans through their network and therefore, can reach smaller projects.

Industry, manufacturing - Large energy projects (now there is a huge pressure to invest in green energy projects)

Infrastructure

Agribusiness – It is a very important sector. The investments are made in order to increase food security. There is cooperation with NGOs especially in this sector. The impact of these investments is huge because it can create many jobs and decrease unemployment. One problem is land grabbing.

Other

On the following table you can see the EDFI consolidated portfolio according to the sectors:

Portfolio end of 2012, with distribution to sector beneficiary		
	<i>Total</i>	<i>In %</i>
Financial sector	8.451.192	33%
Infrastructure	6.773.400	26%
Agribusiness	5.777.112	6%
Industry/Manufacturing	1.603.611	22%
Other	3.388.234	13%
Total	25.993.54	100%

Table 6: EDFI Consolidated Portfolio

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On the following table you can see the EDFI Consolidated portfolio according to the sector and type of financing:

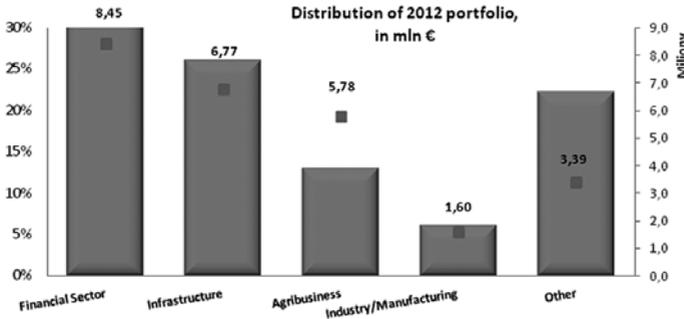


Table 7 EDFI Consolidated Portfolio

There are many questions to be addressed; here are some of the most important and interesting:

1. What are actual ways of financing of sustainable economic development activities in developing countries?

Here you can see the graphic where you can see the average transaction size in mln. EUR

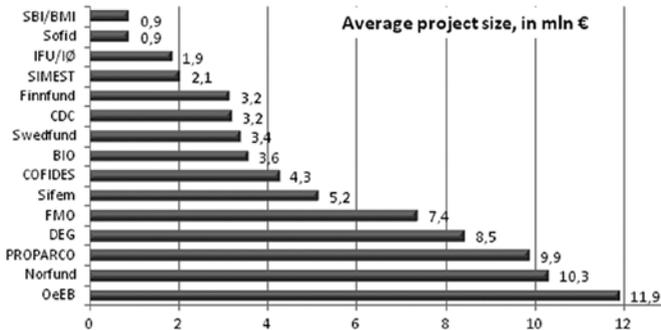


Table 8 Average transaction size in mln EUR

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2. What are actual ways of financing of sustainable economic development activities in developing countries?

Large projects are often financed directly by the DFI. Smaller projects are mostly financed through financial intermediaries. 56% of the consolidated portfolio of €26 bln end of 2012 is channeled through financial intermediaries.

3. What are actual ways of financing of sustainable economic development activities in developing countries?

Smaller projects are mostly financed through financial intermediaries.

4. Who are the actors implementing these projects?

There are the actors making direct investments:

- Local and foreign private enterprises with proven track record of sponsors providing a minimum 40% of resources (skin in the game)

There are also many financial intermediaries:

- Local and regional commercial banks
- Investment fund managers with proven track records
- Microfinance institutions (value of microfinances maybe not so high but the number of them is very high)
- Special credit institutions (housing finance, leasing companies)

EDFI members have very strict requirements of social, environmental and governance standards which investee company agrees to implement and comply with.

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5. How to increase the chances of these projects to be successful and sustainable?

The EDFI members increase the success of their projects through many ways:

- Thorough **screening** of sponsors (high probability of failure with wrong sponsors)
- Thorough **appraisal** involving technical, environmental and social experts as advisors prior to investment approval
 - Do not finance projects which are not supposed to be profitable.
- Ensure **enforceable** legal agreements (Shareholders' agreement, loan agreement)
- Thorough **monitoring**, make sure that periodical reports are received (if not probably something is wrong)
- Regular visits client

6. How can the Czech NGOs and companies cooperate in the projects of sustainable economic development?

The role of NGOs is very limited. The private businesses have much greater impact than the NGOs but the regular discussion among NGOs and private sector is needed to implement sustainable projects. The examples of couple of very specific projects where the cooperation between business and NGOs is obvious:

- Palm oil (2012) - CDC, FMO and WWF
- Water Risk (2011) - DEG and WWF – WWF sitting in wise board

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Case study: Swedfund invests in I&P Capital to support growth of African SMEs

For ten years I&P Capital has successfully invested in small and medium-sized companies (SMEs). By partnering with I&P Swedfund will contribute to the development of SMEs in Western Africa and the Indian Ocean region.

I&P Capital (III) is targeting investments in SMEs across different sectors with financing of between MEUR 1 and 10. Investments will be spread across West Africa, mainly Ghana and Cote d'Ivoire, and the Indian Ocean countries, such as Madagascar and Comoros. I&P Capital (III) will invest across different sectors, but emphasize investments in tourism and hospitality, financial services, agribusiness, information technology and telecommunications sectors – sectors with huge potential for development impact.

I&P Capital (III) is expected to have significant development impact by:

- encouraging economic and private sector development in local communities by providing much needed equity capital and management advice for SMEs which will promote job creation;
- implementing best-practice corporate governance and social and environmental standards at the fund and investee level; and
- supporting regional integration by expanding investee companies into neighboring countries to build 'regional champions'.

More info here: <http://www.swedfund.se/en/?artikel=swedfund-invests-in-ip-capital-to-support-growth-of-african-smes>

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Norfund makes its first investment in Zimbabwe

Norfund signed an agreement on March 11 to invest just under \$ 5 million (30 million NOK) in equity in NMBZ Holdings in Zimbabwe. The investment in NMBZ Holdings, will primarily go to capitalizing its largest subsidiary, Bank NMB Bank in Zimbabwe. This represents a 9 percent stake in NMBZ Holdings, and is the first Norwegian direct investment in the country following the difficult economic and political situation that has characterized Zimbabwe over the past 10-15 years. Norfund will also invest USD 1.4 million in subordinated debt in NMB Bank, which will facilitate additional liquidity to the bank as the bank will on-lend this capital to the market that is starved for liquidity.

The Zimbabwe economy has improved significantly since the dollarization of the economy, but is still in dire need of foreign direct investment. The private sector must be rebuilt to create jobs and development, and local banks have a very important role in the financing of this. Norfund is very pleased to contribute to growth in the business and strengthen the financial sector in a country with great opportunities.

More info here: <http://www.norfund.no/norfund-news/norfund-makes-first-investment-in-zimbabwe-article891-322.html>

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Discussion:

- **How can we cooperate?**

There should not be development cooperation but cooperation development – it is mainly about the exchange, especially exchange of knowledge.

- **Are your members mainly large international companies or also small companies from developing countries**

There are very large international companies – energy but about 56% are small and medium size companies. Commercial banks channel the financing for SMEs.

- **What is the role of aid agencies?**

There are three main roles:

- First role - they are often shareholders, they set the development mandate
- Second role - they are the ones who are giving the money (but it is a very limited slice for EDFI)
- Third role - they keep the NGOs alive. It is important for small community projects.
- The cooperation between NGOs and private sector is obvious in some projects – if the companies for example need to ensure that the entrepreneurs from developing countries will observe the environmental standards – they can cooperate with NGOs – the NGOs can make some training for the entrepreneur.

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- **Are you receiving money from EU**

No, but they are now discussing something new with EC (because Piebalgs is very keen on sustainable energy projects) – but there is a high political risk, especially in big energy projects – so the companies had asked the EC to provide some sort of funding. These investments are very problematic in the market where you don't have the private business (for example Sudan).

- **How can you get the guarantee that the projects will be profitable**

We have done the analysis by external consultants that are experts in the field. We don't rely on the studies done by local promoters.

Ex-Change – Mr.Roland Waeyaert

This second chapter summarizes the presentation of Mr. Roland Waeyaert, the director of organization Ex-Change.

Ex-Change is the Flemish posting-platform for experts, which aims to meet the demand for expertise from (socio-) economic organizations in the South by direct exchange of knowledge and experience between the North and South, with the aim of contributing to the development in the region from where the demand for support comes.

The aim is the promotion of **entrepreneurship** as a **sustainable and powerful** tool **against poverty** in developing economies. The strategy of Ex-change is to bring entrepreneurs from the North **in direct contact** with **entrepreneurs** from **developing economies** to share **knowledge** and **to build partnerships** in a global economy

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The working method of Ex-change is:

1. Collection of the qualitative requests from SME/organization from the South (there are many standards which they consider by choosing the applications – for example sustainability is a key indicator, min. 10 employees, min.2years of experience etc.)
2. Searching for expertise in the North
3. Matching the applicant and the expert.
4. Practical organization
5. Work Trip: 2 to 3 weeks, volunteer, all expenses paid by Ex-Change and applicant
6. Commitment to the long-term follow-up

Where does Ex-change implement their projects? They implement the projects in many countries through the world. You can see the countries where the most projects are being implemented on the following graphic:

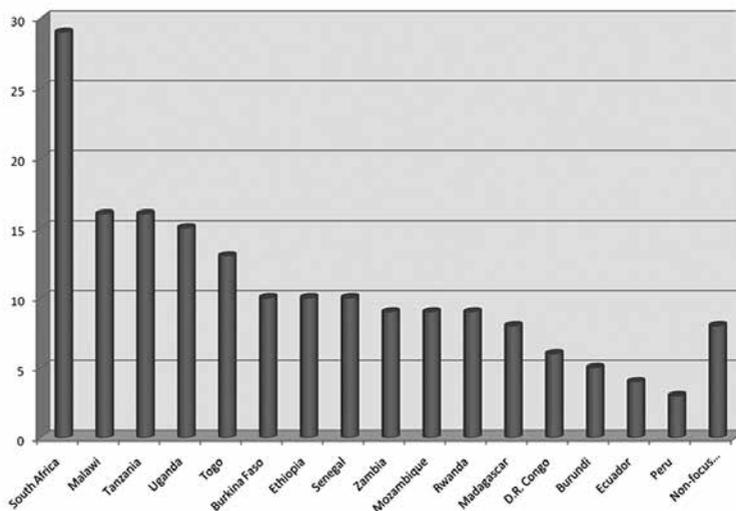


Table 9 Projects and Countries

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In which sector does Ex-change implement their projects? You can see the sectors where the most projects are being implemented on the following graphic:

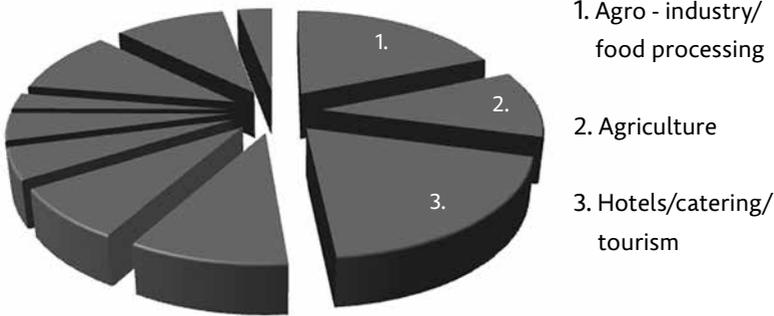


Table 10 The Sectors

In 2013 there are 225 projects being implemented. You can see the increasing number of the projects on the following graphic:

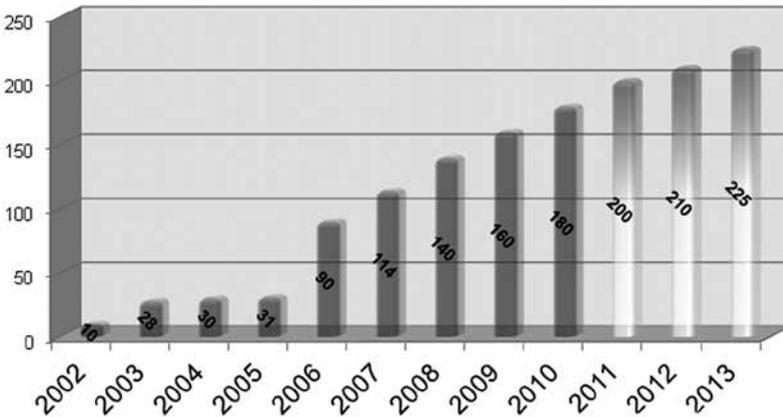
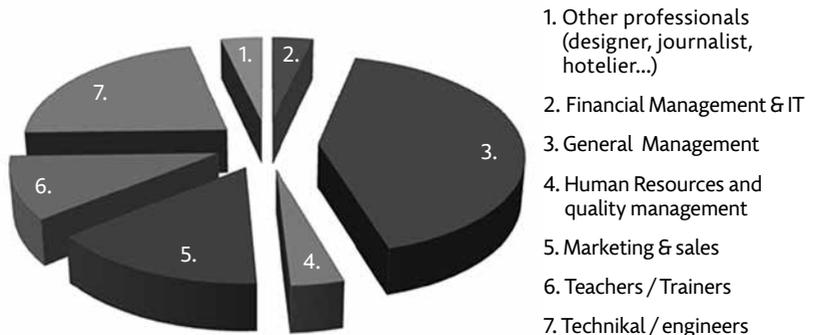


Table 11 Ex-Change projects 2002 - 2013

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Who are the volunteers of Ex-change? They are in average 51 years, have at least 10 years experience, are open-minded, inquisitive, flexible, available. Very important is the support from a company the expert comes from. There are now more than 750 candidates coming from different companies. You can see their main background on the following picture.



There are many examples of successful projects that Ex-change had realized.

- **South Africa** – HASSAH Arts & crafts (**result:** marketing plan for the company)
- **Peru** – feasibility study for automatic sorting of coffee beans and improvement of the production proces (**result:** increase of production by a factor of 9 to 12)
- **Ecuador** - business/financial plan needed for a business for certified wood production (**result:** concrete action plan as a basis for the required credits with financial institutions)
- **Uganda** – capacity build up of broadcasters of Vision Voice, new radio in Uganda (result: <http://www.newvision.co.ug/V/>)

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- **Burkina Faso** - capacity build up of the technicians for maintenance and repair of the fleet and fine tuning a system for monitoring the workshop and warehouse for Transport CV (**result:** Mission completed, and furthermore contacts with a Flemish company for the purchase of spare parts.)
- **Uganda** - advice about the processes, procedures, standards and the general management of the slaughterhouse of Jopo Farm (**result:** an improved food schedule for the animals and an improved construction of the corrals. The expert made contact with Flemish companies for the slaughterhouse equipment .)
- **Peru** - quality improvement and reduction of turnaround time and production costs, partial automation of the production process of „productos Alimentarios Misky“ (**result:** expert Theo Speeleveld, together with the applicant, made a detailed step by step plan that is gradually being implemented.)
- **Uganda** - job technical training for the new lodge under construction with furniture in natural materials - and carpentry and training center (**result:** the expert taught basic principles in the field of materials and tools. Several dozen carpenters received training in the process.)
- **Malawi** - technical training to improve quality in the whole chain for **Nali Hot Sauces** makes spicy sauces and wants to increase their activities quantitatively and improve qualitatively. (**result:** http://en.wikipedia.org/wiki/Nali_Sauce.)
- **Burundi** – market study and business plan with the final aim of exporting to neighboring countries and Europe for Fruito is a company that makes juice from pineapple, passion fruit and mango (**result:** the expert made recommendations on packaging, hygiene, raw materials, quality, marketing and a business plan. Back in Flanders, he contacted a company for filling machines and freezers.)

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- **Senegal** – consultations for 16 companies in the *Agence de Développement et d'encadrement des Petites et Moyennes Entreprises* (ADEPME) in order to obtain access to the European market.) (**result:** increased production, sales and quality.)
- Burkina Faso - assistance with quality improvement and training of the team of **Société Africaine de Charcuterie et Salaisons** in meat processing. (**result:** the expert made recommendations on internal organization, quality improvement and preservation. Back in Flanders, he made contacts with a company for machines for meat processing.)
- **Togo a Burkina Faso** : improvement of the products, staff training, management of various companies in Togo and Burkina Faso that had requested expertise in running a bakery. (**result:** A Flemish multinational in bread improvers has agreed to support the experts with knowledge and to train the applicants if required.)
- **Malawi** - Business plan for the development of a chain of retail stores ,Nationwide' - wholesalers in the major cities of Malawi that is now focussing on retail (**result:** the expert gave practical tips on shelving & display and anti-theft. He made a step by step plan with the applicant and gave information about HACCP and cold chain. Contacts were made with a Flemish supermarket for the export of retail products.)

Discussion:

How does Ex-change find the experts, is there some network?

We have about 15 representatives in our focused countries (they know the country well, they spread the information about Ex-change, they can gain the information about the entrepreneurs and their business – they can find some potential applicants with high potential)

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What is a structure of funding of the members of the Ex-change?

- Local Flemish government
- Private sectors
- The average costs of the project is 5000 EUR
- There are 4 people working in Exchange that are not volunteers
- There are also country coordinators and sector coordinators but they are all volunteers

How do you attracts the volunteers, do you have some network?

Volunteering has more tradition in western Europe than in central Europe. The volunteers become very addicted (usually they want to go to another projects next year). These projects offer a good opportunity for the companies in Belgium also (there is an example - producer of exotic fruits chose an expert that was also from fruit industry and was looking for a supplier – they started to cooperate – it is an example of very sustainable business)

Can a volunteer from the south apply?

Yes, he/she can and we are very glad (it reduces the ticket costs and imply smaller ecological footprint). The problem could happen in the countries where there are also consultancy companies – by offering this service for free, it could harm these consultants that are the entrepreneurs also – but Ex-change operate mainly in the countries where there are no consultancy services available). There are sometimes available only consultancy services from the companies like KPMG, Ernst and Young etc. and these services are not financial available for the local entrepreneurs

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What can this activity bring to NGOs from Czech Republic? What is the linkage between NGOs and private sector?

Knowledge is increasing by sharing it. There is a huge need of enabling environment, there is still a corruption and therefore the NGOs can cooperate with business sector and act to improve the environment)

How do you measure the long-term sustainability?

EDFI - We use the tool called GP (developed by German colleagues) – it is used also for monitoring

Ex-Change - we use three levels of evaluation

- Application – there are the indicators (mentioned above)
- Zero measuring – the measuring before the project and the measuring after the project
- External evaluation (each three years)

Many projects are some kind of follow-up projects (if the entrepreneur succeed, he /she want to expand and need a new export strategy – apply again)

How many projects are successful?

Approximately 90% of projects are successful. The example of a failure – in Malawi the expert worked hard for 7 days on the production strategy for the company alone, then he presented to the entrepreneur but they implemented only the part of the strategy – why? Because he should have worked with the entrepreneur from the beginning, that could highly increase the ownership of the strategy)

► **How can economic growth work for development of developing countries**

How expensive is your money? What are the conditions you provide to your customers – do you realize some profit?

EDFI – yes, all our members are profitable. They have to be sustainable otherwise they won't get money from the government). We charge market rate. The interest rate considers the project risk and the country risk and the currency

Sources:

EDFI. [Http://www.edfi.be](http://www.edfi.be) [online]. 2013 [cit. 2013-06-10]. Available from: <http://www.edfi.be/activities.html>

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