



Donor PSD Strategies: State of the Art Synthesis Note



Most donor and development agencies recognize the vital developmental role of promoting and partnering with the private sector, and have developed relevant strategies.



Common PSD approaches include business environment reform, market systems development, trade promotion and SME



Gender and inclusion, as well as the role of the private sector in fragile contexts remain a strong focus.



Green Growth is a growing priority across agencies. Several agencies also increasingly explore how to harness digital technologies for PSD.



Engagement with like-minded businesses as partners is now an established way of delivering development outcomes.



Strengthening the evidence base for PSD and credible results measurement also remain important to many agencies.

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Common
building blocks
of donor PSD
strategies

Donor agencies have come to recognise the vital role of a dynamic private sector for successful economic development and poverty reduction.

Private sector development (PSD) and private sector engagement (PSE) as means to achieve diverse development outcomes form core elements of most donor strategic frameworks (e.g., [FCDO, 2023](#), [LuxDev, 2018](#)). Several agencies have also published separate strategies for PSD or PSE (e.g., [UNDP, 2023](#), [FAO, 2021](#), [USAID, 2018](#)).

PSD frameworks and strategies tend to share several building blocks, including strengthening the **enabling environment for businesses** – especially small

and medium-sized enterprises (SMEs) - to flourish (see the DCED's knowledge page on [Business Environment Reform](#) for a range of resources), supporting **market systems development** (MSD) (see the DCED's knowledge page on [Market Systems](#) and the [BEAM Exchange](#) for a range of resources) and emphasising the importance of promoting **trade** and its integration with international development objectives (e.g., [NL MoFA, 2022](#), [USAID, 2024](#) (draft policy), [EC](#)). Several agencies also highlight **support to SMEs, business start-ups and scale-ups** as having significant potential for growth, innovation and poverty impact (e.g., [Argidius Foundation](#), [LuxDev, 2018](#), [NL MoFA, 2022](#)).

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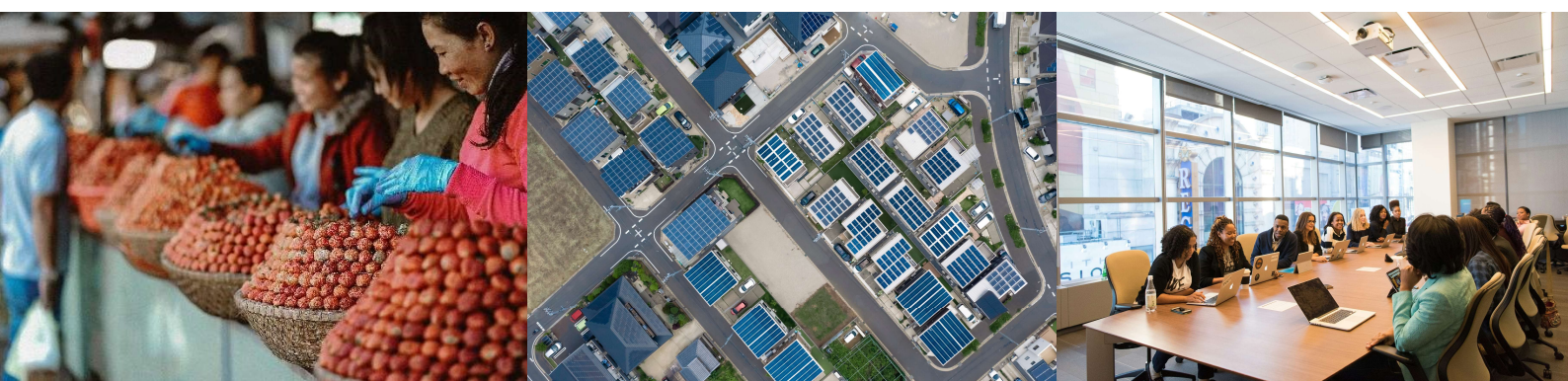
Green Growth as a growing priority

Mirroring wider trends in international development, the **interactions between the private sector and climate change** receive significant attention from many donor agencies. This covers a wide range of entry points, from reducing carbon emissions from energy-intensive sectors, to helping companies adapt to the effects of climate change, and strengthening developing countries' ability to mobilise climate finance from public and private sources (e.g., [FCDO, 2023](#), [IFC](#)). The global imperative to transition away from fossil fuels can also create new opportunities for private sector-led development and job creation, e.g., for clean energy generation, which donors are keen to encourage (e.g., [UNIDO, 2024](#)). Support for **green growth** increasingly goes beyond climate change considerations to include stronger protection for biodiversity and the environment. Recent economic development strategies from [BMZ](#), [USAID](#) and [ITC](#) emphasise the opportunities from building greener economies. The DCED's [Green PSD Navigator](#) provides an overview of a wide range of green growth approaches and tools at policy, support service and company levels. Additional resources can be found on the DCED's [Green Growth](#) knowledge page.

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Focus on WEE and inclusion

There is strong recognition of the powerful role PSD can play in tackling **gender inequalities** while at the same time strengthening women's contributions to the economy. At a strategic level, this is enshrined in a growing number of feminist development and foreign policies, e.g., [Canada, 2017](#), [Germany, 2023](#), [Spain, 2021](#) ([UN Women, 2022](#)). The **economic empowerment of women** is at the heart of most donor economic development and PSD frameworks with a wide range of approaches from research into the barriers that prevent marginalised women and girls in developing countries from advancing economically (e.g., [IDRC](#)) to supporting women-led businesses (e.g., [SECO](#)) and addressing the specific barriers women face within the growing digital economy (e.g., [NL MoFA, 2022](#)). The DCED's [Women's Economic Empowerment \(WEE\) Gateway](#) has collated resources and case studies on implementing PSD programmes in a gender-sensitive way. Additional resources can be found on the [DCED's WEE knowledge page](#). To promote broad-based and inclusive growth and



development, donors have also put in place policies and programmes targeting other disadvantaged groups, e.g., youth (e.g., [Mastercard Foundation](#)) and LGBTQI+ individuals (e.g., [USAID, 2023](#)).

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PSE: now a well-established way of working

Private sector engagement has matured into a core element of most donors' policy armoury (e.g., [GAC, 2019](#)) and several agencies have undertaken institutional reforms to facilitate strategic partnerships with the private sector (e.g., USAID's [PSE Modernize](#) programme). Members of the DCED's working group for PSE have developed an [operational framework for PSE](#) (2019), defining it as 1) Engaging with companies on equal terms to enhance the impact of their core business on the SDGs; or 2) Engaging with the financial sector to mobilise private finance for development ([OECD, 2023](#)).

A growing number of legislative instruments are compelling companies to implement **Responsible Business Conduct** (RBC) principles to better protect human rights and the environment in global supply chains. Donor governments are also promoting positive RBC performance as a source of competitive advantage and long-term resilience for businesses ([GAC, 2021](#), [K4D/FCDO, 2023](#)). In addition, development agencies are using various PSE instruments to incentivise better RBC performance or consider RBC performance by companies as part of their due diligence before and during formal partnerships ([DCED, 2022](#)).

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Exploration of digital opportunities

The rapid expansion of **digital technologies and artificial intelligence (AI)** is transforming many sectors and professions around the globe. While there is significant potential for this to create modern, well-paid employment, there are also concerns that the benefits and costs of digitalisation will not be shared equally ([DCED, 2020](#)). Many donors, therefore, are investing equally in efforts to maximise positive impacts from digital technologies for developing countries as well as to tackle the challenges they pose (e.g., [UNIDO, BMZ](#)). Several agencies have also put in place strategies and programmes to ensure disadvantaged groups including women and rural communities have access to digital technologies and the benefits they can generate (e.g., [UNIDO, 2023](#), [World Bank, 2023](#)). Additional resources can be found on the DCED's [Digitalisation and PSD](#) knowledge page.

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Increased focus on PSD in contexts of fragility

Migration, forced displacement, conflict and fragility remain priorities for many donors and PSD's role as a policy response has gained in prominence ([DCED, 2021](#), [DCED, 2018](#)). For example, tackling the 'root causes of poverty, terrorism and illegal migration' is at the heart of Dutch development cooperation alongside addressing climate change and achieving the SDGs ([NL MoFA, 2022](#)). Similarly, Switzerland is working to promote economic stability and decent work opportunities to help reverse the growth in forced displacement and illegal migration ([SECO, SDC](#)). Development agencies also see important roles for the domestic and international private sectors for post-conflict reconstructions, e.g., in Ukraine ([IFC, 2023](#), [EBRD, 2023](#)). Additional resources can be found on the DCED's knowledge pages for [Refugees and PSD](#) and [PSD in Fragile and Conflict-affected Environments](#).

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Continued interest in evidence on results

Several agencies are making systematic investments in strengthening the evidence base for PSD and PSE (e.g., [USAID](#), [Argidius](#), [Gatsby Africa](#)) and to build the capacity of their PSD programmes to credibly measure their results. The [DCED's Standard for Results Measurement](#) provides a framework for more effective monitoring of the results of PSD projects and programmes.

For links to more resources on this topic see the [DCED's Agency PSD Strategies page](#).

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