



Ministry of Foreign Affairs

Sustainable Economic
Development Department (DDE)

Decent Work and Economic Growth

Theory of Change for
Private Sector Development

8 DECENT WORK AND
ECONOMIC GROWTH



December 2022

Rationale for private sector development

Research by the OECD and the World Bank¹, among other sources, shows that **we cannot achieve the SDGs and climate goals if we do not develop and cooperate with the private sector**, with small and medium-sized enterprises (MSMEs)² in particular.

MSMEs are the drivers of economic development around the world, providing long-term jobs and income even for the poorest. Their market power and potential for innovation make MSMEs key partners in achieving economic growth. Tax payments fund public services. Where MSMEs work in markets, sectors and regions where many poor people live and work, they make a direct contribution to reducing poverty and inequality (pro-poor growth).

Context and trends

For the first time in decades, extreme poverty and inequality are on the rise.

In 2020, the COVID-19 pandemic caused unprecedented economic contractions around the world, which revealed fundamental inequalities and structural flaws in economies.

The World Bank recently estimated that the COVID-19 pandemic could set back the pace of development by 10 years and cause a slight rise in extreme poverty and inequality, putting an end to the downward trend. This rise is compounded by the negative impacts that climate change and conflict and instability are having on poverty eradication in many developing countries.

A strong MSME sector is key to turning the tide of rising poverty and inequality

Strong MSMEs can foster a culture of entrepreneurship in which decent jobs are the norm, human rights are respected, people earn a living wage or income and excesses such as child labour or forced labour are a thing of the past.

Participation by women and young people yields better results

Research shows that a more equal balance between men and women, at all levels of the hierarchy, improves growth, innovation and stability within companies³. Moreover, 90% of women's earnings are channelled back into the family. Of the population of Africa as a whole, 35% is aged between 15 and 35. While young people⁴ are vital to stimulating the economic development of this huge continent, the economic opportunities for many of Africa's youth are far from stable.

Digitalisation: an opportunity or a new obstacle?

It is striking that in recent years the service sector has grown faster than other economic sectors. The service sector now comes second only to agriculture as the biggest driver of employment in developing countries. Digitalisation is an important factor in the growth of the service sector, including financial services. Women and young people in particular are seizing digitalisation as a means to overcome their work and income disadvantage⁵. Digitalisation



Mission

We strengthen MSMEs in developing countries and maximise development impact by working with the private sector to leverage change.

Vision

We accelerate the transition to continuous, inclusive and sustainable economic growth in developing countries, through decent work for all, with a special focus on women and young people (SDG8).

can help remove trade barriers and contributes to transparency in value chains, which helps in tracing abuses. However, there are increasing concerns about the digital divide between advanced economies and developing countries: developing countries tend not to reap enough of the benefits that digitalisation brings and, relatively speaking, are more vulnerable to misuse of data.

Sustainability is a matter of urgency

Despite the fact that increased globalisation of value chains has fostered economic growth, inequality between 'the West and the rest' has increased since the 1990s. Companies in the Netherlands and other consumption countries can also adapt the way they do business and switch to more sustainable production methods. In addition, developing countries and the poorest sections of their populations bear a disproportionate share of the impact of climate change and environmental and natural degradation. At the same time, this trend creates opportunities for MSMEs in developing countries. Improved interlinkages between global, regional and local value chains could enhance climate-adaptive solutions, ensuring that products are manufactured more sustainably and

efficiently and CO₂ emissions are reduced. Studies show that the transition to a sustainable economy, including circularity and renewable energy, may present both opportunities and risks to lower and middle income countries^{6,7}. Mapping out the unintended effects of the transition to a sustainable economy is essential for an inclusive and just transition.

¹ World Bank: [The 2030 Sustainable Development Agenda and the World Bank Group](#); OECD: [Promoting Pro-Poor Growth](#).

² In the definition of SMEs we include micro, small and medium-sized enterprises in the formal and informal sectors.

³ McKinsey: [How Advancing Women's Equality Can Add \\$12 Trillion to Global Growth](#).

⁴ ILO: [Global Employment Trends for Youth 2020: Technology and the Future of Jobs](#); IFC jobs study: [Assessing Private Sector Contributions to Job Creation and Poverty Reduction](#).

⁵ World Bank: [World Development Report 2021: Data for Better Lives](#); UNCTAD: [Technology and Innovation Report 2021](#).

⁶ European Commission: [Circular economy in the Africa-EU cooperation](#)

⁷ Irena: [Renewable energy and Jobs: Annual review 2022](#)

⁸ Include: [Green Jobs for Young People in Africa: Work in Progress](#)

Strategy

With regard to **the goal**, our efforts will be concentrated even more on low income countries⁹, and within them on sectors with high potential for direct or indirect poverty reduction. Our interventions will be unequivocally aimed at promoting employment and increased incomes for young people and women. Our aim is twofold: to reduce inequality between countries and between our specific target groups and other population groups.

With regard to **results**, our holistic approach to MSMEs will ensure coherence in our range of activities. This means that we will not aim to strengthen large companies in developing countries, except where they can be partners in increasing demand for more sustainable MSME products and services. This also implies that we will not target households and individual employees directly. Rather, we will focus on enhancing and applying pressure on their employers (for instance through trade unions), using a broad range of interventions targeting the MSME sector.

With regard to **strategy**, our primary focus will be on improving the enabling environment required for MSMEs to do business. We will use our funding, influence and partnerships, reflecting the Dutch government's specific added value, to leverage **systemic change**.

We define a system as a dynamic network of actors, interests, norms and practices that supports a specific economic outcome. We ourselves are part of this dynamic network. For systemic change, the incentives in the system should be changed to such an extent that it will be more effective in achieving the SDG8 targets.

The three strategic approaches/portfolios are distinctively tailored to the systems we seek to strengthen.

Portfolio 1 Strengthening the business climate in focus countries

Portfolio 1 seeks to contribute to systemic change in our focus countries¹⁰. We will focus on those sectors where we can have the greatest impact on reducing poverty and inequality and where the Netherlands has most to offer (for instance agriculture).

Depending on the local needs, we will work with interest groups representing farmers and employers, including trade unions and chambers of commerce. The Netherlands is often praised for its “polder model”, and we will take advantage of this. We will only engage to improve policy and regulation through social dialogue and providing expert support when requested in areas where the Netherlands can add value (for instance, agriculture, water management and circular economy).

We will partner with financial institutions to promote financial inclusion for women and young people. Working with vocational education organisations, we will better align supply and demand in the labour market, again with the emphasis on women and young people. In 14 “combination countries” we have identified one or more “combination tracks” to focus our combined efforts on trade, investment, and private sector development. To achieve system improvements at country level, we strive for a combined focus on ecosystem improvement and strengthening (local) MSMEs, by piloting a programmatic approach to sustainable economic development (PADEO) From 2022 onwards, this approach will be rolled out in other countries and aligned with the new programme for Vocational and Higher Education (BHO) of the Social Development Department (DSO) and the Food Systems Approach of the Inclusive Green Growth department (IGG). This too will contribute to scale and mass.

Portfolio 2 Trade for development

By working at an international level to improve market and trade systems, we create conditions for economic activity to cross borders more easily. We also encourage transitions to more sustainable production and trade practices through economic and social reforms (market transformation) in developing countries. To improve trade conditions and enhance the sustainability of production and trade we need to influence policy in Brussels, Geneva, Washington and within the African Union. Additionally, we need to use our influence with businesses and on the demand side by targeting funding at innovation, technical assistance and capital.

We also work on systemic policy objectives through public-private partnerships and by promoting development cooperation policy coherence in international trade agreements and in Responsible Business Conduct policy (including due diligence legislation) at European and/or international levels.

We will also look into whether the Netherlands can add value in strengthening the international trade finance environment.

Furthermore, the European Union's Team Europe approach provides opportunities to scale up the Netherlands' added value to achieve greater local impact, for instance through public-private partnerships and our innovative approach to strengthening the agricultural sector.

Portfolio 3 Financial sector development

The international community sees the Netherlands as a significant and innovative actor in the financial sector, with the Dutch development bank FMO as a leading development financial institution (DFI).

The Netherlands strives for a more sustainable and inclusive financial sector in developing countries. Our activities include fintech innovations, developing financial services targeted at female entrepreneurs and developing and applying good Environmental, Social and Governance (ESG) policies.

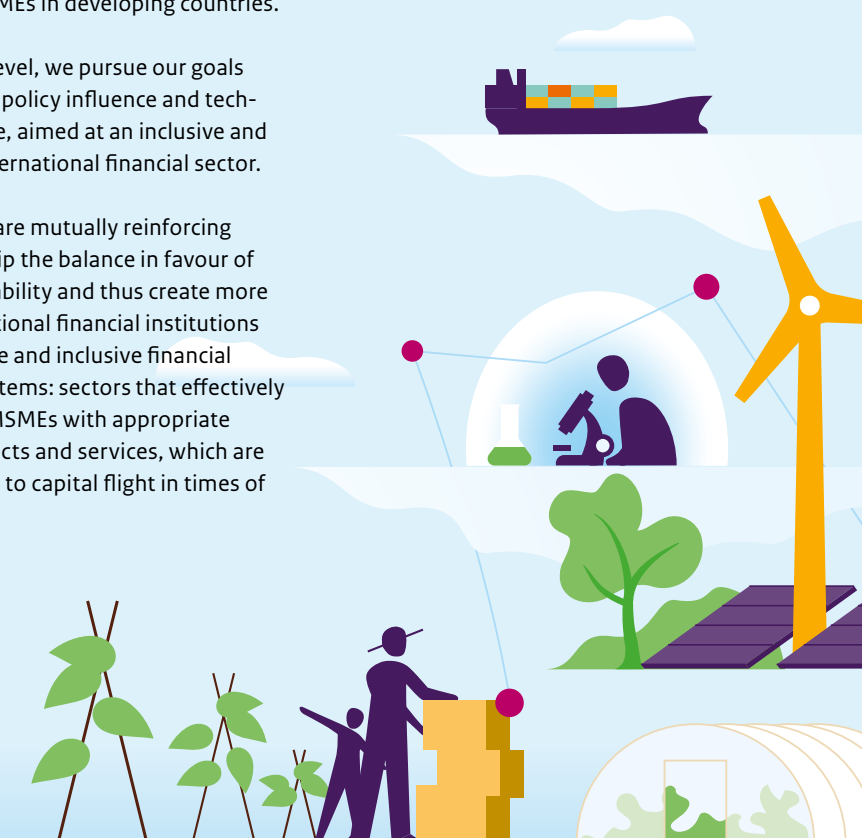
Our approach may be direct or systemic. Direct actions include programmes to provide appropriate financial products and services to MSMEs in developing countries.

At a systemic level, we pursue our goals through active policy influence and technical assistance, aimed at an inclusive and sustainable international financial sector.

These actions are mutually reinforcing. These efforts tip the balance in favour of commercial viability and thus create more robust international financial institutions and sustainable and inclusive financial sectors/ecosystems: sectors that effectively provide local MSMEs with appropriate financial products and services, which are less vulnerable to capital flight in times of crisis.

⁹ Complementary to this engagement we also work on an integrated approach for foreign trade and development cooperation in 14 middle income countries (“combination countries”). See chapter 3 “Dutch solutions for global challenges” in the 2022 policy note “Do what we do best: A strategy for Foreign Trade and Development Cooperation”.

¹⁰ See list of countries in annex of 2022 policy note “Do what we do best: A strategy for Foreign Trade and Development Cooperation”.



Approach

Our approach within all three portfolios is similar. We are working on – and are recognised for – system innovation and upscaling with partners with a proven track record. We acknowledge that innovation is a high-risk, high-impact activity. We combine patient capital with willingness to take risks. Our approach is iterative, through continuous learning, sound analyses and, when necessary, adapting our targets and our intervention strategy. Knowledge partners are important in this approach. When something is not working, we stop and exit carefully and responsibly. When something does work, we build on these results in an evidence-based manner and with a focus on learning. For instance, we take the initiative to scale up through a financial partnership with international funding institutions or by helping to create the right trade conditions.

Where possible we work in partnership with companies (Dutch, multinational or local) so that we can use their market power (especially that of large companies) and their capacity for innovation (particularly that of smaller businesses, including social enterprises). They create leverage that helps us achieve our goals. We work with businesses through (pre-competitive) public-private partnerships, calls for proposals and knowledge sharing.

The planet’s boundaries are also our boundaries. Our guiding principle is ‘Do no harm’, meaning that climate and

environmental risks are adequately mitigated in conjunction with social risks. Where possible, we utilise our instruments to make a positive contribution to climate adaptation and mitigation. We make optimal use of all possible circular and climate-neutral opportunities to accelerate the achievement of SDG8, and thereby contribute to sustainable economic development and a just and inclusive transition.

The *Youth at Heart* Principles underpin our efforts. We will learn how young people in developing countries can participate in our work in a meaningful way, since this is the only way for us to achieve sustainable results for future generations.

We are conscious of the path-dependency of our work. This is logical, since that is where our added value lies and where we have already made substantial investments. At the same time, we do run the risk of limiting our efforts for systemic change, since we ourselves are part of the system. This is the reason why we wish to contribute to the economy of the future. Our development agenda emphasises economic renewal and our role in bringing this about, including themes such as the *Future of Work*, circularity and digitalisation. These themes will have a central role in our knowledge and learning agenda and will be visible in new and ongoing financial and other partnerships and activities.

Results

The impact we seek is a structural reduction of poverty and inequality, for women and young people in particular, by strengthening MSMEs. We aim to achieve this by working towards two long-term objectives:

- 1

A favourable business climate for private sector development that supports a strong MSME sector

SDGs 8.4; 8.5; 8.10; 8A
- 2

Strong MSMEs that ensure more and better jobs and sustainable economic development

SDGs 8.2; 8.3; 8.5; 8.7; 8.8

These goals are mutually reinforcing: without an enabling environment, MSMEs cannot make an effective contribution to the envisioned development goals. And without strong, active, vocal MSMEs, the engine of a healthy and inclusive economy is lacking.

Each portfolio contributes to both long-term objectives. When it comes to both strengthening MSMEs and improving enabling environments, we will achieve results that contribute **directly** to our objectives. These are our ‘immediate outcomes’: results we achieve together with our implementing partners in the short term and within our sphere of influence.

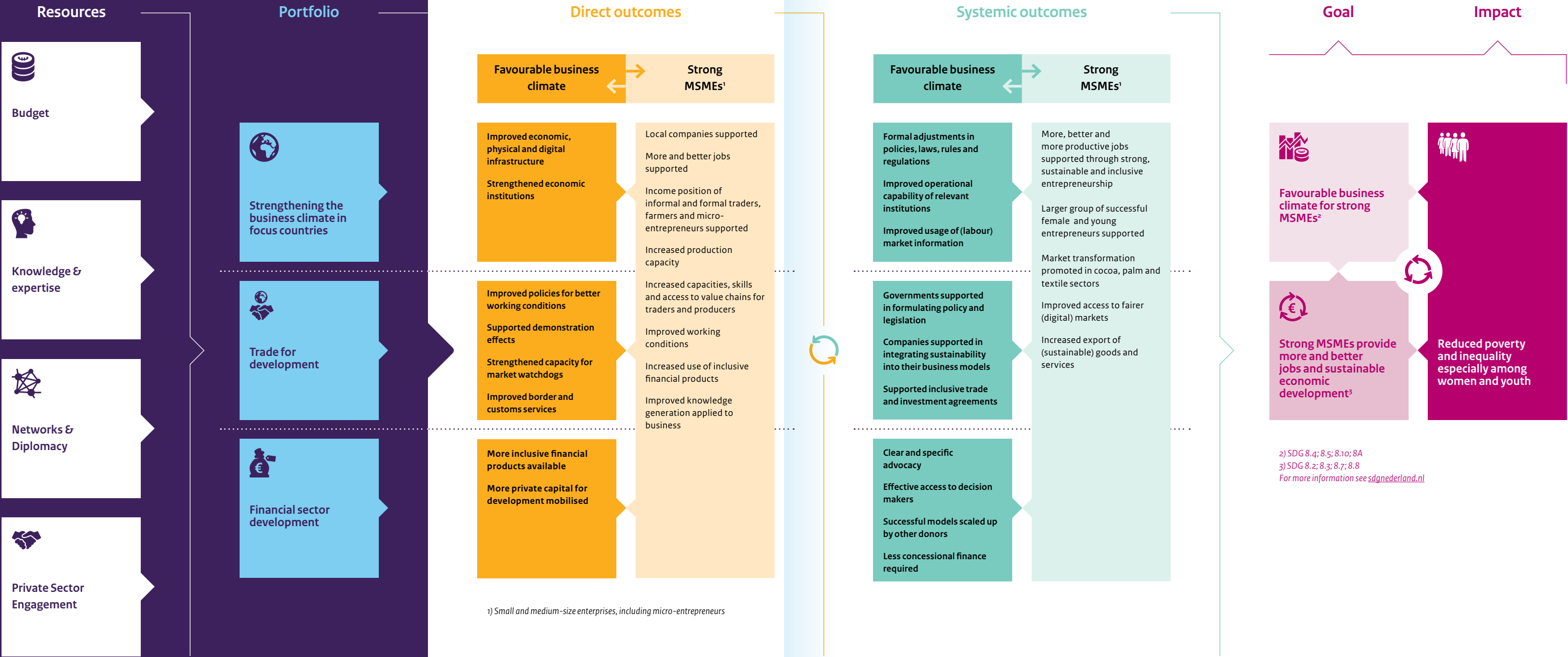
In addition, we contribute to stronger MSMEs and help improve the enabling environment by pursuing **systemic change**. These are our ‘systemic outcomes’: results that tend to take longer to achieve, that are more complex and require more collaboration with other donors, multilateral organisations, governments and implementing partners.

The three diagrams on page 10, 11 and 12 illustrate the direct and systemic results we achieve within the three portfolios and how each contributes to strengthening MSMEs and to improving the enabling environment (favourable business climate for MSMEs).



Theory of Change
Decent Work and
Economic Growth

Private Sector Development



MISSION

We strengthen MSMEs in developing countries and maximise development impact by working with the private sector to leverage change.

VISION

We accelerate the transition to continuous, inclusive and sustainable economic growth in developing countries, through decent work for all, with a special focus on women and young people (SDG8).

Principles

- Local demand and context are key
- Pro-poor
- Gender sensitivity
- Conflict sensitivity
- No harm to planet
- Effort to increase resilience
- Towards a new economy (future of work, digital, circular)
- Youth participation

Approach

- Systemic change
- Dutch added value
- Innovation and scale-up
- Evidence-based and learning capacity (iterative)
- Building on successes
- Focus on partnerships
- Integration and synergy
- Policy coherence

Assumptions

- Poverty and inequality cannot be structurally eradicated without economic growth in developing countries.
- Strengthening the business climate will structurally strengthen the competitiveness, innovation capacity and productivity of MSMEs – provided that it is systemic.
- MSMEs in developing countries, including the informal sector, help create jobs and raise incomes for the poorest.
- Strengthening MSMEs is the most effective intervention to promote economic development, provided that action is directed towards the right sectors and towards creating opportunities for young people and women.
- Direct strengthening of MSMEs can lead to an improved business climate and thereby economic development ('trickle-up').
- By pursuing the goal of systemic change, we can raise the quality and impact of our efforts and make them more sustainable.
- International trade and financial systems both offer opportunities and constraints for local MSMEs, and can be influenced through international agreements and proofs of concept.

Portfolio 1: Strengthening the business climate in focus countries			
Results matrix	LONG-TERM OBJECTIVES		
	Strong MSMEs	Favourable business climate	
OUTCOMES	Direct	Results <ol style="list-style-type: none"> Local companies supported with business plans, business development, revenue growth, new or improved access to value chains and increased exports More and better jobs supported in the formal and informal sectors, increased income for informal traders, farmers and micro-entrepreneurs, especially young people and women Assumptions <ul style="list-style-type: none"> Direct strengthening of MSMEs can lead to an improved business climate and thereby economic development ('trickle-up'). A focus on young people and women helps reduce inequality. 	Results <ol style="list-style-type: none"> Economic, physical and digital infrastructural improvements Strengthened capacity and membership of economic institutions (e.g. trade unions, cooperatives, etc.) Assumptions <ul style="list-style-type: none"> Better (access to) infrastructure ensures structural improvements in the enabling environment for successful entrepreneurship, creating more and better jobs. Effective economic interest groups contribute to economic growth, inclusion, poverty reduction and more just social policy. The commitments, knowledge and skills of Dutch and other companies contribute to improving the enabling environment to strengthen MSMEs in focus countries.
	Systemic	Results (SDGs 8.1, 8.2, 8.3, 8.5, 8.6) <ol style="list-style-type: none"> Larger group of successful female and young entrepreneurs supported More, better and more productive jobs supported through strong, sustainable and inclusive entrepreneurship Assumptions <ul style="list-style-type: none"> MSMEs in developing countries, including the informal sector, help create jobs and raise incomes for the poorest. Strengthening MSMEs is the most effective intervention to promote economic development, provided that action is directed towards the right sectors and towards creating opportunities for young people and women. 	Outcomes (SDG 8.1, 8.3, 8.8, 8B) <ol style="list-style-type: none"> Formal adjustments in policies, laws, rules and regulations Improved operational capability of relevant institutions Improved usage of (labour) market information Assumptions <ul style="list-style-type: none"> Strengthening the business climate will structurally strengthen the competitiveness, innovation capacity and productivity of MSMEs – provided that it is done systematically.

Portfolio 2: Trade for development			
Results matrix	LONG-TERM OBJECTIVES		
	Strong MSMEs	Favourable business climate	
OUTCOMES	Direct	Results <ol style="list-style-type: none"> Traders and producers supported in the formal and informal sectors through increased capacity, (digital) skills and improved access to regional or international value chains, More and better jobs supported in the formal and informal sectors, improved income positions for informal traders, farmers and micro-entrepreneurs, especially young people and women in developing countries Assumptions <ul style="list-style-type: none"> Trade offers opportunities for diversification and enhances the competitiveness of MSMEs. Higher wages and improved labour conditions help reduce abuses such as child labour and deforestation, and positively impact the health and wellbeing of workers and their families. 	Results <ol style="list-style-type: none"> Governments supported in formulating policy and legislation for better and safer labour conditions, raising minimum wages and eradicating child labour Companies (denk ik?) supported by demonstrating the opportunities and benefits of fair and sustainable trade Strengthened capacity of market watchdogs contributing to adopting and improving policy and legislation, and to reporting and publicising abuses Improved (digital) customs and border services to facilitate (regional) trade Assumptions <ul style="list-style-type: none"> Supporting stronger policy and legislation by governments helps improve the enabling environment for companies (through both binding mandates and support), which in turn helps reduce abuses such as low wages, child labour and deforestation. Supporting market watchdogs by advocating for the interests of workers, farmers, informal traders and vulnerable groups, and giving these groups a voice in political processes, leads to legislation that better meets their needs. Improved digital and other customs and border services makes trade faster, cheaper, more secure and more inclusive, bringing benefits to informal traders and other vulnerable groups.
	Systemic	Results <ol style="list-style-type: none"> Market transformation promoted in cocoa, palm and textile sectors, leading to more sustainable production by MSMEs, thereby reducing abuses in these sectors (deforestation, child labour, unacceptably low wages, poor labour conditions) Informal traders and vulnerable groups supported through improved access to fairer (digital) markets Exports of goods and services increased and more sustainable, Creation of more, better and more productive jobs supported through strong, sustainable and inclusive entrepreneurship Assumptions <ul style="list-style-type: none"> MSMEs in developing countries, including the informal sector, help create jobs and incomes for the poorest. Strengthening MSMEs is the most effective intervention in to promote economic development, provided that action is directed towards the right sectors and towards creating opportunities for young people and women. A stronger MSME sector has an exemplary function, leading to a change among a critical mass of market players generating a snowball effect whereby an increasing number of market players can participate and benefit from increased opportunities. This generates a self-reinforcing mechanism. 	Outcomes (SDG 8.1, 8.3, 8.8, 8B) <ol style="list-style-type: none"> Governments supported in formulating policy and legislation for better and safer labour conditions, raising minimum wages and eradicating child labour Companies supported with integrating sustainability into their business models, improving (safer) labour conditions, raising minimum wages and preventing child labour in their supply chains (Digital) international trade and investment agreements made, implemented and made more inclusive Assumptions <ul style="list-style-type: none"> Strengthening the business climate will structurally strengthen the competitiveness, innovation capacity and productivity of MSMEs – provided that it is done systematically.

Portfolio 3: Financial sector development			
Results matrix	LONG-TERM OBJECTIVES		
OUTCOMES	Direct	Strong MSMEs	Favourable business climate
		Results <ol style="list-style-type: none"> Increased use of inclusive products Improved knowledge generation applied to business Increased production capacity Support for more and better jobs Assumptions <ul style="list-style-type: none"> Direct strengthening of MSMEs can lead to an improved business climate and thereby economic development ('trickle-up'). 	Results <ol style="list-style-type: none"> Extended availability of inclusive products More private capital for development mobilised Assumptions <ul style="list-style-type: none"> An increase in mobilised private finance contributes to a better enabling environment for sustainable and inclusive economic development.
OUTCOMES	Systemic	Strong MSMEs	Favourable business climate
		Results <ol style="list-style-type: none"> More, better and more productive jobs supported, even for marginalised groups, through strong, sustainable and inclusive entrepreneurship Assumptions <ul style="list-style-type: none"> MSMEs in developing countries, including the informal sector, help create jobs and incomes for the poorest. Strengthening MSMEs is the most effective intervention in to promote economic development, provided that action is directed towards the right sectors and towards creating opportunities for young people and women. 	Outcomes <ol style="list-style-type: none"> Clear and specific advocacy Effective access to decision-makers Successful models that are scaled up by other donors (catalyst/demonstration effect) The inclusive offer of the financial sector, especially for women and young people, requires increasingly less concessional financing to attract commercial financing., Strengthened financial sector Assumptions <ul style="list-style-type: none"> International trade and financial systems both offer opportunities and constraints for local MSMEs, and can be influenced through international agreements and proofs of concept. By pursuing the goal of systemic change, we can raise the quality and impact of our efforts and make them more sustainable. There is a clear link between DDE's direct results and demonstration effects or other forms of traction relating to advocacy in the framework of systemic improvement. There is a clear link between an increased supply of inclusive finance and reducing poverty and inequality.

Risks and mitigation

The situation in various countries is so precarious and unstable that our approach sometimes requires us to take calculated risks with regard to policy implementation. In such cases, we invest not only in traditional programmes but also in innovative programmes that can have a greater and/or more rapid impact. Effective monitoring of implementation is required in these cases. Risk-taking requires patience as well as tolerance of the possibility of failure. We can raise the effectiveness of interventions by working in partnership, learning and exchanging experiences with other actors such as governments and international organisations. If failure is inevitable, we ensure a careful exit.



Internal risks include:

- Insufficient capacity.
- Not enough focus on systemic change. Systemic change requires stamina, perseverance and sometimes a certain amount of luck. Disappointing results can cause a drop in internal morale and efforts and weaken external support for our work. Patience and continuity are essential.
- Lack of continuity in thematic and regional focus, due to policy changes at the start of a new four-year cabinet cycle.
- Failure to achieve the ultimate goal, by not explicitly taking vulnerable groups into consideration.
- Inability to define what constitutes success, sometimes because results and successes cannot be effectively measured, and therefore a lack of focus.

External risks include:

- Political instability, geopolitics, trade wars, fragility in countries, etc.
- Repressive local government policy / shrinking space for implementing partners.
- Lack of implementation capacity/compliance and follow-up.
- Absence of local political will.
- Excessive focus on official rules in countries where, in fact, unwritten rules are more important.

Mitigation

The Netherlands and its partners take joint responsibility for managing and mitigating risks. For implementation risks, we will likely have to take measures to safeguard proper project and fund management. Risk management is underpinned by the following principles:

- The principles of the Paris Declaration on Aid Effectiveness must be observed when considering changes to the support modalities.
- We work with our embassies and permanent missions to monitor programme risks and consult with partners on mitigation measures.
- The results framework must be a good mix of short- and long-term results that align closely with this Theory of Change.
- Risk identification and analysis, risk management and monitoring will be incorporated into all programmes and the PADEO pilots.
- The knowledge and learning agenda sets clear learning objectives as a basis for effective evaluation.
- When performance is declining and/or risks increasing, we may request approval from the management team to transfer some or all of the funding to other implementing partners, in accordance with the objectives outlined in this Theory of Change.

Definitions, approach and principles

Building Back Better	Where there is an obvious link to green and inclusive development, we set out a few major, attractive activities for each portfolio with which we can have a big impact. At country level our work is underpinned by the principle of taking the local political economy and local ownership as our points of departure.
Coherence and synergy	We achieve greater impact by joining forces and enhancing coherence between themes in private sector development. This requires us to take an in-depth approach, seek synergies between different policy officers’ activity portfolios and linking policy influence and funding efforts more closely.
Conflict sensitivity	We consciously integrate conflict sensitivity into our programmes and are alert to the root causes of conflict, instability and migration. Private sector development opens up perspectives for entrepreneurship and employment in fragile settings. It contributes to greater social cohesion within and between countries and, by extension, to stability.
Digitalisation	Digital technologies contribute to the productivity and resilience of MSMEs in developing countries. The application of context-specific digital solutions provides opportunities to make great leaps forward.
An evidence-based approach and learning capacity	Private sector development interventions do not automatically make a direct contribution to reducing poverty and inequality. This is why we consciously take an evidence-based approach: evaluations and research give insights into the relationships between economic development, employment, poverty and inequality. By explicitly examining the impact of our interventions and learning from our partners we can focus our efforts more effectively on reducing poverty and inequality, based on what actually works.
Gender sensitivity	Investing in equal opportunities for women is a theme that cuts across all our private sector development interventions. We improve the position of women as entrepreneurs or employees by developing good working conditions, facilitating female entrepreneurship and creating a private sector that respects women’s rights.
Informal sector	DDE’s inclusive approach also extends to the informal economy, which is the largest source of work and income in developing countries. Young people and women are over-represented in this sector and form the most vulnerable groups.
Innovations	New products, services, business models and partnership models can help to drastically reduce the investments and time needed to make an impact on a large scale. For this reason we actively seek to introduce innovations, such as digital technologies and circular principles, so that we can accelerate and increase the impact of our activities.
MSME	Any entity engaged in an economic activity, irrespective of its legal form, which employs fewer than 250 persons. This includes, in particular, self-employed persons in the formal and informal sector. The English term used by the European Commission is ‘micro-, small and medium-sized enterprises (MSMEs)’ ¹¹ .

11 <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2003:124:0036:0041:en:PDF>

Netherlands’ added value	Based on specific Dutch expertise not provided by other donors or parties, related to our approach, network or position in developing countries and/or our role as a government.
Private sector	An organising principle of economic activities in which private ownership is a major factor, in which markets and competition are drivers of production and where private initiatives and risk-taking set activities in motion. The private sector principle can be applied to all economic activities: agriculture, industry and services.
Private sector engagement (PSE)	Activities aimed at involving the private sector in achieving development outcomes. This can take various forms: from informal cooperation to formal partnerships. PSE assumes that the parties involved can reap the benefits of complementarity. We work towards PSE by approaching multinational corporations, banks and other financial institutions on an equal basis to make a contribution to sustainable development.
Pro-poor growth	Promoting pro-poor growth is about increasing the contribution of economic growth to poverty reduction. This is pursued through policies enabling a pace and pattern of growth that enhances the ability of poor women and men to participate in, contribute to and benefit from growth. ¹²
Financial resilience of MSMEs	Direct funding of MSMEs and efforts to develop the financial sector and strengthen the financial infrastructure are structured to make businesses and (over time) economies more resilient to economic shocks.
Systemic change	A system is defined as a dynamic network of actors, interests, norms and practices which supports a specific economic outcome. We ourselves are part of this dynamic network. By pursuing long-term objectives and scale, we raise the quality and enhance the impact of our efforts and make them more sustainable. Systemic change means that the incentives in the system should be changed to such an extent that it will be more effective in achieving the SDG8 targets.

12 <https://www.oecd.org/greengrowth/green-development/43514554.pdf>

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