

# Private Sector Development

## Synthesis Note



Private Sector Development (PSD) seeks to promote inclusive and resilient economic opportunities in developing countries at scale.



Environmental sustainability and gender and inclusion are important cross-cutting considerations in PSD programming.



Three main types of PSD approaches are in use: Creating enabling conditions for growth; addressing constraints within markets; and engaging individual innovative businesses.



In many contexts, PSD programmes are designed to address the needs of specific target groups, e.g., youth, small enterprises, and forcibly displaced populations.

## /01

### PSD definition and rationale

Many people appreciate the recognition and self-respect that come from earning a living; they would prefer that, to depending on hand-outs. The opportunity to earn a living will most likely be created by the private sector; how can we stimulate that private sector to create more, better and resilient economic opportunities for those in need? The DCED came together to address this question, framed by [SDG 8](#), using approaches known as Private Sector Development (PSD).



Private Sector Development is defined as the range of strategies in international development cooperation that aim to establish markets that function vibrantly and fairly, providing inclusive and resilient economic opportunities at scale.

## /02

### PSD in practice – three types of approaches

Within the DCED, there are groups that follow distinct approaches to PSD, as outlined below. The DCED is a forum for exchange and debate within, and between, these groups, to learn from practical experience.

- 1) **Create enabling conditions for growth:** In this view, the priority is to create an enabling environment for businesses, typically by reducing the burden of excessive regulatory compliance, so that businesses can generate economic growth, jobs and income. Examples include [Business Environment Reform](#) and Public Private Dialogue; supporters may not

favour active intervention to benefit specific businesses or sectors, preferring to 'cut red tape' and 'level the playing field'.

- 2) **Address constraints within markets:** In this view, development professionals first analyse and understand the local context, to identify the binding constraints; they then design interventions to address those binding constraints. Examples include [Market Systems Development](#), [Industrial Policy](#), [Entrepreneurship Ecosystems Development](#), [Local Economic Development](#) and [Value Chain Development](#).
- 3) **Engage business, let business take the lead:** In this view, the priority is to collaborate with individual businesses – because they know the market best, can co-finance initiatives, and have ideas and implementation capacity of their own. As such, [Private Sector Engagement](#), is now a well-established way of working among donor agencies (see also our [Synthesis on Donor PSD Strategies](#)). Many Private Sector Engagement strategies focus on direct support to [inclusive business approaches, through dialogue, advice or cost-sharing](#). Other strategies focus on making finance available to these businesses, from financial institutions or impact investors. Different dimensions of Access to Finance are covered by platforms other than the DCED, such as [CGAP](#)).



For the logic of how these three approaches are expected to lead to inclusive economic outcomes, and the evidence supporting that logic, visit the [DCED Evidence Framework](#).

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Specific contexts  
and target  
groups

There is widespread consensus among practitioners that all PSD approaches should incorporate [gender and inclusion](#) as well as [environmental sustainability](#) considerations across the project cycle, at the minimum to do no harm. Many PSD programmes are also designed with a specific focus to economically empower women, or to make a positive impact on the environment, climate change mitigation or adaptation. Indeed, people's ability to cope with and adapt to climate shocks has become essential to sustainable livelihoods in many regions of the world.

Other target groups that often deserve their own focus include [youth](#) and [small enterprises](#). With about three quarters of people in extreme poverty living in [fragile and conflict-affected areas](#), PSD is also a means to deliver essential goods, services, and income to vulnerable populations in these contexts – including [forcibly displaced people](#) – and to help lay the basis for long-term stability and growth.



For links to more resources on this topic see the [DCED's PSD Knowledge Portal](#). This material has been prepared for discussion purposes only. As such, the material should not be regarded as incorporating legal or investment advice, or providing any recommendation regarding its suitability for your purposes. Conclusions expressed in this report do not necessarily reflect the views of the DCED or its members. Photo credits: USAID East Africa Trade and Investment Hub; Ed Hedley; Pexels/ Pixabay; J PAL; Beyond Access South Africa.

