

# Private Sector Development

Keywords are hyperlinked to DCED resources.

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 and better opportunities? The DCED came together to address this question, now framed by SDG 8, using approaches known as Private Sector Development (PSD).

**A definition:** Private Sector Development is defined as the range of strategies that aim to establish markets that function vibrantly and fairly, providing economic opportunities of quality to poor people at scale.



Within the DCED, there are groups that prefer distinct approaches to PSD. The DCED is a forum for exchange and debate within, and between, these groups, to learn from practical experience. They subscribe to the following 'world views':

**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 regulatory compliance, so that businesses can generate economic growth and opportunities for the poor. Examples include Business Environment Reform and Public Private Dialogue<sup>1</sup>; adherents of this view may not favour active intervention, 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

<sup>1</sup> Other topics arguably included in PSD are not covered by the DCED, as they are covered by other platforms (e.g. Access to Finance, covered by CGAP and others).

those binding constraints. Examples include Market Systems Development, Industrial Policy, 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. The main example of this 'world view' is currently known as Private Sector Engagement<sup>2</sup>. Many Private Sector Engagement strategies focus on direct support to inclusive business approaches, through dialogue, advice or cost-sharing. Other strategies focus on expanding finance available to these businesses from financial institutions or impact investors, often referred to as 'innovative finance'.



For the logic of these three approaches, and the evidence supporting that logic, visit the **DCED Evidence Framework**.



**Target groups:** There are some target groups that are so important that they deserve specific focus; these include women, youth, small enterprises and refugees. And there are also some contexts that deserve their own focus, including for example green growth and conflict-affected areas.



<sup>2</sup> Within DCED's definition, which is more focused than the OECD's (although PSE remains a way of working with and through the private sector, that is applicable to other sectors as well as to PSD).