

## Private Sector Development Synthesis Note

### Donor Strategies & the Private Sector: State of the Art

August 2018 (links updated July 2021)

*This Note summarises information in particular from DCED [Agency pages](#) and Member Updates at the [2018 Annual Meeting](#). A [more detailed \(7-page\) document](#) was published in 2017.*



Most recently-published donor strategies feature economic growth as one of (typically) five pillars within their broader development strategies. Examples include 'Sustainable growth' (Denmark), 'Growth that works for everyone' (Canada), and 'Promoting global prosperity' (UK). So Private Sector Development (PSD) remains central to donor agendas; the [Netherlands](#) is allocating €300m p.a. to it, and 15% of total [Sida](#) support goes to PSD.

#### **The most widespread trend: Towards strategic Private Sector Engagement**

PSD is premised on the logic that those in poverty are looking for economic opportunities; those opportunities will mostly be generated by a growing private sector. Therefore, donors encourage PSD, so that the poor can help themselves through market participation as employees or entrepreneurs (see for example [SECO](#)).

In this, the donor relationship with the private sector and other governments tends to be contractual and time-bound, catalysing sustainable, pro-poor changes in markets. Donors minimise the risks to which they are exposed in PSD, by carefully controlling the conditions for their financing.

Recently, however, calculations have indicated that development aid budgets will not be sufficient to achieve the Sustainable Development Goals (SDGs). The received wisdom is that this implies a need to mobilise substantial additional contributions from the private sector. It also promises access to the 'knowledge, innovative ideas, capabilities and resources' of the private sector (e.g. [DFAT 2018](#)).

If the private sector is expected to provide the bulk of development financing, the relationship becomes more equal, long-term and strategic. Donors must relinquish some control, and take more significant risks in doing so. This trend has led to the emergence of a whole new practice of 'Private Sector Engagement' (PSE)<sup>1</sup>, which is practically a universal trend among DCED's donor members.

What does PSE actually cover? The OECD has proposed a very broad definition of PSE as 'an activity that aims to engage the private sector for development results, and involves the active participation of the private sector' ([OECD, 2016](#)). In practice, PSE strategies tend to focus on working with international business ([ECDPM, 2012](#)). However, and as the DCED's Working Group notes, 'developing an operational framework ... necessarily implies a need to narrow down the most relevant PSE categories ... and to draw pragmatic boundaries' ([DCED PSE WG, 2017](#)). PSE may also require donors to acquire new staff skills and cultures, administrative systems, and even legal frameworks ([DCED, 2018](#)).

A related theme is that of 'blended finance', defined variously as blended in source, blended in format (grant/loan/equity/guarantee etc.) or blended in purpose. Terms like 'impact investing' and 'innovative

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<sup>1</sup> Related to [Private Sector Collaboration \(PSC\)](#) in Sweden, [Engagement with the Private Sector](#) in Switzerland, etc.

finance' are also used to convey several, related ideas. Possible ambiguities do not preclude major commitments, for example by Global Affairs Canada ([CAD1.5bn](#)) and the EC ([EUR3.35bn](#)). In addition, many donors have partnership programmes that make significant funds available to business (e.g. Austria (max. €0.5m), Australia (max. AUD 0.5m) and Denmark (USD1m average)).

The DCED has a [Working Group on PSE](#), a popular [knowledge page on PSE](#), and a review of [Donors' programming innovations and organisational change towards strategic PSE](#) (2017). It has also considered related topics, such as [how to measure results in impact investing](#). Current work focuses on how to build capacity for PSE in member agencies, and minimising market distortions when engaging with business.

### **Support to market systems development is gaining traction**

Market systems development (MSD) aims to change the way entire market systems work – not just specific companies. It focuses on stimulating sustainable change in the behaviour of market players – public and private – so that they are better able and motivated to provide economic opportunities for the poor ([M4P Operational Guide, 2015](#)). DFID, Sida and SDC are among the early adopters of this approach. More recently, many other donors have funded major programmes or developed internal guidance (e.g. [ADA](#)). The DCED's [knowledge page on MSD](#) brings together key documents. Additional resources are available on the [BEAM Exchange](#) website, which is now supervised by the DCED's [Market Systems Development Working Group](#).



### **PSD meets humanitarian aid, migration and opportunities for refugees**

International migration has become a major concern for many donors; for example, 'the focus of development cooperation will shift to unstable regions... to tackle root causes of poverty, migration, terrorism and climate change' ([Netherlands MoFA, 2018](#)). Austria, Germany, Sweden and others note a similar trend. Debates continue about what works best to slow migration (e.g. [Gamso et al, 2018](#)) or even whether it does at all (e.g. [CGD, 2018](#)); and how to work most effectively in unstable regions, for example in situations where due diligence is challenging. The DCED's knowledge offer includes resources on [Increasing opportunities for refugees](#), as well as guidance on [how to work in conflict-affected countries](#).



### **Vulnerable groups remain important**

Many agencies propose an increasing focus on gender-related work, with Canada's Feminist International Assistance Policy (FIAP) leading the way in articulating the opportunity ([GAC, 2017](#)). Several agencies also explicitly target young people (e.g. Denmark, MasterCard Foundation). The DCED has knowledge pages on [Women's Economic Empowerment](#) and [Youth Employment](#).

### **Interest in aggregating and communicating results is increasing**

Communicating the rationale for development aid ('in the national interest'), and in particular, communicating the results, have become increasingly important, for example in the UK, Netherlands and Finland. Relating results to the SDGs, and totalling impact across portfolios, are particularly urgent technical challenges. Measurement of jobs created remains a top objective, but difficult to report with rigour. The DCED's [Standard for Results Measurement](#) continues to be popular, as does the knowledge page on [Employment Creation](#).

*Any question or comment? Please contact [Admin@Enterprise-Development.org](mailto:Admin@Enterprise-Development.org)*

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