

Financing Private Sector Development: What works, what does not, and why?

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1. Background/Introduction

A robust private sector is widely recognized as an engine of sustainable and inclusive economic growth. This explains the growing number of institutions that finance private sector development activities. A growing private sector also creates new stakeholders in the economy, bringing about a more pluralistic civil society that can lead to more accountable political systems. The combination of greater competition, market forces and the profit motive can lead to better use of Africa's human and material resources.

In Africa the sector generates 70 percent of the continent's output, 70 percent of its investment and 90 percent of its jobs, while being largely composed of informal micro- and small enterprises, with limited capacity to contribute to accelerated development. Africa's private sector helps curb poverty through employment creation, income generation, providing essential consumer goods and services, and investing in infrastructure. However, to achieve economic outcomes that lift greater numbers of people out of poverty requires a much more dynamic and vibrant private sector in which micro, small, and medium size enterprises thrive alongside large firms and labor intensive activities can also flourish. Not surprisingly, private sector development is one of the priority areas the AfDB has chosen to focus on in its efforts to reduce poverty and support sustainable growth in Africa.

In light of the potential role that the private sector can play the achievement of the ambitious targets of the Sustainable Development Goals (SDGs), the African Development Bank Group (AfDB) and the Norwegian Agency for Development Cooperation (Norad) commissioned a synthesis of 33 evaluations of donor support for private sector development (PSD) during 2011-2015—to learn from the wealth of evidence contained in these evaluations. The synthesis – *Towards Private Sector Led Growth: Lessons of Experience* – was carried out using an analytical framework based on the Multilateral Development Banks Evaluation Coordination Group's Good Practice Standards for Evaluation of Thematic and Country Programs. It thus focused on the relevance and impact, effectiveness, efficiency and sustainability of various donor programs. The synthesis further sought to inform the strategic direction, design and implementation of future PSD initiatives by drawing lessons on what works, what does not work, and why.

Central to the findings of the synthesis, were the following which, affirm the extant literature on private sector development:

- **Constraints** – there was broad agreement on the main constraints to PSD, although impact of the constraint varied by firm size, country context, and donor;
- **Relevance** – while donor strategies are broadly aligned with national PSD strategies, selectivity challenges and unclear underlying rationale (theory of change) in addition to poor diagnostics and beneficiary selection detracted from the relevance;
- **Effectiveness** – varied depending on the nature of intervention and the instruments employed. The benefits of economy-wide policy reform measures, especially for enhancing the business environment and ensuring the availability of infrastructure, were however unquestioned;

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- **Efficiency** – varied depending on intervening factors (e.g. donor presence, institutional capacity, level of investment, and use of public sector institutions);
- **Sustainability** – was generally weak, primarily because it was not systematically built into program design. Emphasis was placed more on financial rather than institutional sustainability;
- **Design and Delivery** – was complex due to the choice of constraints, diversity of instruments, and the multiplicity of implementing agencies, leading to implementation, coordination and sequencing challenges; and,
- **Coordination** – primarily limited to information exchange, utilization of standardized financial and private sector intercessors, and participating in global and regional multi-donor programs;

Looking forward, and given that the bulk of African states are fragile and/or post-conflict, enhancing private sector development will boost the state's revenue through taxation and enhance its credibility vis-à-vis its citizens. Institutional challenges flagged (i.e., access to finance, power and markets, poor infrastructure, and a lack of transparency in the regulatory environment) by the Report, mirror those documented in the literature, and a call to action for all stakeholder passionate about PSD in Africa.

Taking a cue from the above, and drawing on lessons learnt from two earlier dialogue forums – organized in Oslo, Norway and Nairobi, Kenya the AfDB's **Independent Development Evaluation (IDEV)**, and Norad's **Evaluation Department (NoradDev)** are co-organizing this dialogue forum on the theme – **Financing Private Sector Development: What works, what does not work—and Why? Lessons from Independent Evaluations** – to share evaluative knowledge to enhance the relevance, effectiveness, and impact of future private sector development activities. The event will further offer an opportunity to exchange views and ideas on the synthesis evaluation and other related studies, while providing the space to learn from, and better plan for, anticipated developments—legal and regulatory, infrastructural, fiscal, entrepreneurial, and that pertaining to corporate governance—to inform and guide future directions.

2. Objectives

The two-day dialogue forum is designed as a knowledge-sharing and peer-learning event for the AfDB, Norad, bilateral and multilateral development agencies, as well as development practitioners and other stakeholders involved in private sector development. It will provide an opportunity for participants to discuss what works/what does not/and why, in providing support for private sector development.

Specific objectives are to:

- Raise awareness about the existence of evaluations on PSD support;
- Share evaluation results with others in a bid to contribute to learning and a rethink of PSD support and how it can be made more effective;
- Provide insights that inform policy/decision makers and development partners; while offering clear and evidence-based conclusions and recommendations in terms of a) policy directions enabling African countries to strategically and beneficially partner with private sector actors and development partners; and b) capacity development imperatives; and
- Foster networking, peer-learning, and experience sharing.

3. Structure

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The event will feature keynote speakers, presentations, and panel discussions, with ample time for discussions amongst the speakers, presenters, panelists and the audience on critical issues shaping private sector development in Africa.

4. Target Audience

Audience will include private sector actors, government, management and staff of multilateral, regional/sub-regional development banks, bilateral donors, RMC (regional member country) institutions, academia, civil society, research institutions/think-tanks, and the media.

5. Expected Outcomes

The expected outcomes of the event include, but are not limited to, the following:

- 1) Increase knowledge on what works and does not work in designing, planning and implementing PSD interventions articular;
- 2) Better grasp the challenges, trends, opportunities and a way forward for a mutually beneficial approach to how best to promote private sector growth in Africa;
- 3) Deepen engagement with key stakeholders, and seize upon opportunities to create new learning;
- 4) Identify ways to leverage private sector development to leap-frog Africa's development agenda;
- 5) Tease-out key messages and possible positions for African policy makers and development practitioners on private sector growth and employment creation.

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