DFID's Private Sector Development Work

Independent Commission for Aid Impact

Report 35 – May 2014

Contents

The Independent Commission for Aid Impact (ICAI) is the independent body responsible for scrutinising UK aid. We focus on maximising the effectiveness of the UK aid budget for intended beneficiaries and on delivering value for money for UK taxpayers. We carry out independent reviews of aid programmes and of issues affecting the delivery of UK aid. We publish transparent, impartial and objective reports to provide evidence and clear recommendations to support UK Government decision-making and to strengthen the accountability of the aid programme. Our reports are written to be accessible to a general readership and we use a simple 'traffic light' system to report our judgement on each programme or topic we review.

G	**Green:** The programme performs well overall against ICAI's criteria for effectiveness and value for money. Some improvements are needed.
G A	**Green-Amber:** The programme performs relatively well overall against ICAI's criteria for effectiveness and value for money. Improvements should be made.
A R	**Amber-Red:** The programme performs relatively poorly overall against ICAI's criteria for effectiveness and value for money. Significant improvements should be made.
R	**Red:** The programme performs poorly overall against ICAI's criteria for effectiveness and value for money. Immediate and major changes need to be made.

Executive Summary

DFID sees developing the private sector as an essential means to economic development and poverty reduction. There is clear evidence to support the concept that private sector development (PSD) presents an opportunity for developing countries to exit from aid dependency. DFID's PSD work encompasses macro approaches to trade policy and regulatory reform, mid-level development of market systems and micro support to small enterprises and individuals.

The scale of the challenge is immense. DFID plans to spend £1.8 billion on economic development by 2015-16 – more than doubling the amount spent in 2012-13. This is the first of two reports on PSD. In this, we review the coherence of PSD rather than rate the specific country programmes we visited. In the second report, we will focus on how DFID works with the private sector.

Overall *Assessment: Amber-Red*

DFID's approach is highly ambitious. It has not turned these ambitions into clear guidance for the development of coherent, realistic, well-balanced and joined-up country-level portfolios. The impact of individual programmes is positive (particularly at the micro-level) and DFID has demonstrated its ability to assist the poor through a range of interventions. When considered at a portfolio level, however, it is hard to identify the overall impact and what distinguishes DFID's particular role in this area as an aid agency. Understanding and learning from the private sector is starting to permeate through DFID's organisation but more can be done to leverage and to build on its relationships with the private sector.

Objectives *Assessment: Amber-Red*

DFID has identified PSD as key to meeting its overall objective to reduce poverty. The breadth of DFID's focus and its expectations of what can be achieved through PSD are ambitious. Greater acknowledgement is required of the scale and complexity of the challenge, the elements that are not within DFID's control and the aspects that DFID does not have the experience or expertise to address. There is no clear strategic link between ambitious overall objectives and project portfolios at the country level. DFID should develop realistic objectives that focus on its core strengths.

Delivery *Assessment: Amber-Red*

DFID's ambition for PSD is not supported by practical guidance that can assist its staff to develop a consistent portfolio of programmes at the country level. Theories of change need to reflect the PSD context and business cases need to be flexible to cope with changing market conditions during delivery. In particular, while we applaud DFID for being prepared to take risks and innovate, it needs to understand more clearly the nature of those risks and manage them actively during delivery, alongside delivery partners. The central management structures for PSD are unclear, with roles spread amongst different departments. DFID has built up the PSD cadre but there are still issues with levels of experience.

Impact *Assessment: Amber-Red*

Many of the projects we visited have had positive impacts on poor beneficiaries, although long-term sustainability is not assured. We saw targeted impact for the poorest, particularly in micro-level projects. Work at the mid- and macro-levels has been less focussed with mixed results. It is hard to measure the impact of programmes for systemic change and there is pressure to demonstrate results against measurable targets. In none of the countries we visited did we see a plan for – or assessment of – the cumulative impact of a balanced PSD portfolio on the private sector as a tool for economic growth and poverty reduction.

Learning *Assessment: Green-Amber*

Private sector thinking should be at the heart of DFID's PSD work. We saw encouraging signs that PSD approaches are starting to spread throughout DFID's activities. DFID has demonstrated good learning by doing and by sharing lessons across different countries but could do more to build its relationships with the private sector. This will give it a better understanding of the issues which affect businesses and entrepreneurs. The strengthening of the private sector cadre of advisors will bring more private sector experience into DFID.

Recommendation 1: DFID should clearly define and articulate where it can add most value in PSD relative to other stakeholders. It should be more realistic in its ambitions and the impact it seeks to achieve.

Recommendation 2: DFID should provide clearer guidance to its staff on how to design a coherent and well-balanced PSD country portfolio that matches its goals for an end to extreme poverty through economic development and transformational change.

Recommendation 3: DFID needs better to calibrate and manage the risks associated with PSD and so innovate in a more informed fashion.

Recommendation 4: DFID needs to work harder to understand the barriers and business imperatives faced by the private sector in participating in development. Wherever it operates, DFID needs to be clear how and where its interventions can address these barriers.

1 Introduction

Background to this review

1.1 This review considers DFID's approach to private sector development. Its purpose is to examine the rationale for, viability of and coherence of DFID's PSD approach and portfolio.

1.2 DFID's PSD activities are very diverse, ranging from large-scale regulatory reform initiatives to programmes seeking to develop specific commercial sectors and to projects providing microfinance for small businesses and entrepreneurs. PSD is not just a programming stream in its own right: it is also considered the means to enable the sustainable delivery of other sets of activities, such as health and education.

1.3 This review is an example of ICAI's more thematic approach to reviewing DFID's activities. It is an assessment of DFID's overall approach to PSD and encompasses an overview of a number of DFID projects – in three particular countries at different stages of private sector development – as case studies. Its aim is to draw conclusions about how well DFID is configured to support private sector development to reduce poverty and to discuss where DFID can add most value to PSD in its role as an aid agency. It does not focus on DFID's use of the private sector as a delivery mechanism for other objectives.[1] A further ICAI review of DFID's PSD work will examine in more detail DFID's work directly with the private sector.

DFID sees PSD as a key way to tackle poverty

The opportunity and challenge of PSD

1.4 Worldwide, the private sector contributes significantly to employment and accounts for a large share of economic activity. Around 90% of jobs in developing countries are embedded into the private sector, with the United Nations estimating that it accounts for 84% of GDP in developing countries.[2] The majority of people in developing countries spend their economic lives in the private sector, most of them in the highly vulnerable informal sector.[3]

1.5 DFID's very recent Economic Development Strategic Framework builds on its earlier approach to PSD in emphasising the central role of economic development to reduce poverty. Describing the private sector as 'the engine of growth', DFID argues that no country has been able to eradicate poverty or graduate from aid without economic growth.[4]

1.6 DFID considers economic growth vital for creating productive jobs and increasing the tax revenues that help developing countries fund their own services and gradually reduce aid dependency.[5] DFID sees the Economic Development Strategic Framework as 'part of a broader shift to delivering longer-term, transformational and sustainable institutional change – as well as shorter-term, more immediate results which benefit poor people now'. PSD is a part of this process.[6] It is difficult, however, to measure the direct impact on the very poorest in society of interventions which contribute to an enabling environment in which the private sector can flourish.

1.7 As well as the sheer scale of the ambition, the challenge for DFID, as for other donors, is that PSD requires different things of an aid agency. PSD interventions frequently seek to facilitate rather than enact change. They also require DFID to work in partnership with the private sector. Doing this successfully will require changes in people, processes and culture. This review seeks to consider how well DFID is adapting to this new way of working.

[1] We considered this in our *Evaluation of DFID's Bilateral Aid to Pakistan*, ICAI, October 2012, http://icai.independent.gov.uk/wp-content/uploads/2011/11/ICAI-Pakistan-Report_P11.pdf.

[2] *Private Sector Development: the key to economic growth.* DDE Working Paper, Netherlands Ministry of Foreign Affairs, 2007; A. Heston, R. Summers and B. Aten, Penn World Table Version 7.1, Centre for International Comparisons of Production, Income and Prices at the University of Pennsylvania, July 2012, https://pwt.sas.upenn.edu/php_site/pwt71/pwt71_form.php.

[3] Formal company structures are often rare and people's employment and livelihood derive from small-scale activities at an individual or household level, such as farming.

[4] *Economic development for shared prosperity and poverty reduction: a strategic framework*, DFID, January 2014, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/276859/Econ-development-strategic-framework_.pdf.

[5] *Economic development for a shared prosperity and poverty reduction: a strategic framework*, DFID, January 2014, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/276859/Econ-development-strategic-framework_.pdf.

[6] *Economic development for a shared prosperity and poverty reduction: a strategic framework*, DFID, January 2014, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/276859/Econ-development-strategic-framework_.pdf.

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PSD programming has evolved over time

1.8 Over the past three decades, there has been an evolution in donors' activities to develop the private sector as part of their provision of development assistance. During the 1980s and 1990s, many programmes targeted deregulation and market reform. Later in the 1990s and subsequently, PSD programmes emphasised sustainable and pro-poor economic growth by working through markets and small and medium enterprises (SME).[7]

1.9 From the late 1990s, PSD programming has focussed on creating opportunities for the poor to access the market for goods and services: the so-called 'making markets work for the poor' (M4P) approach. Today, donors engage in a variety of interventions, including securing reform in the investment climate, strengthening the rule of law, enforcing property rights, supporting SMEs and promoting microfinance initiatives.[8]

PSD activities can intervene at different levels

1.10 There is no universally-agreed definition of different types of PSD programmes. The North-South Institute, however, provided a useful categorisation of PSD interventions which we loosely adopt in this review.[9] It divided PSD programming into three different categories:

- **macro-level programmes** aim to create a fertile environment for the private sector to grow. These will typically consider the high-level financial, legal, regulatory or trading conditions in which the private sector operates;
- **mid-level programmes**[10] target interventions to 'make markets work', aimed at addressing market failures and enhancing competitiveness. These include transferring technological innovations and providing finance. Mid-level programmes will often look to strengthen particular value chains and improve the participation of the poor in markets; and
- **micro-level programmes** work directly with businesses and individuals, providing direct support and investment in areas such as infrastructure, technology and accreditation (to businesses) and health, education and training (to individuals).

How does DFID currently implement PSD?

The International Development Committee's (IDC's) 2006 report has guided DFID's current approach to PSD

1.11 PSD work has been part of DFID's mandate since its establishment in 1997. Until 2008, DFID's PSD approach fell under its overarching poverty reduction mandate, set out in DFID White Papers of 1997,[11] 2000[12] and 2006.[13] In the IDC's review of DFID's private sector development work in 2006, it recommended that DFID set out a clear and coherent private sector development strategy, embodying a long-term vision.[14]

1.12 The IDC report praised DFID for developing 'an array of innovative PSD policies and...showing intellectual leadership in pursuing investment climate improvements simultaneously with supporting market development strategies'.[15] It noted, however, that PSD needed to be integrated more effectively across DFID's different policy areas and recommended that DFID increase its number of PSD advisors with business experience. It warned of the risk posed by over-innovation: 'existing policies should be carefully assessed for scalability and sustainability before new policies

[7] *The Private Sector Development Impact Assessment Initiative*, United States Agency for International Development (USAID), 2007 http://www.value-chains.org/dyn/bds/docs/631/USAID%20PSD%20IA%20Initiative%20Overview%2006.pdf.

[8] *Donor support to private sector development in sub-Saharan Africa: Understanding the Japanese OVOP programme*, Overseas Development Institute (ODI), April 2008, http://www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/1726.pdf.

[9] S. Kindornay and F. Reilly-King, *Investing in the Business of Development, Bilateral Donor Approaches to Engaging the Private Sector*, The North-South Institute and Canadian Council for International Co-operation, respectively, 2013, http://www.nsi-ins.ca/wp-content/uploads/2013/01/2012-The-Business-of-Development.pdf.

[10] Also referred to as meso-level programmes.

[11] *Eliminating World Poverty: A Challenge for the 21st Century*, White Paper on International Development, 1997, http://webarchive.nationalarchives.gov.uk/20050404190659/http:/www.dfid.gov.uk/Pubs/files/whitepaper1997.pdf.

[12] *Eliminating World Poverty: Making Globalisation Work for the Poor*, White Paper on International Development, 2000, http://webarchive.nationalarchives.gov.uk/+/http:/www.dfid.gov.uk/Documents/publications/whitepaper2000.pdf.

[13] *Eliminating world poverty: making governance work for the poor*, White Paper on International Development, 2006, http://www.official-documents.gov.uk/document/cm68/6876/6876.pdf.

[14] *Private Sector Development: Fourth Report of Session 2005-06*, House of Commons, IDC, July 2006, Vol. 1, http://www.publications.parliament.uk/pa/cm200506/cmselect/cmintdev/921/921i.pdf.

[15] *Private Sector Development: Fourth Report of Session 2005-06*, House of Commons, IDC, July 2006, Vol. 1, http://www.publications.parliament.uk/pa/cm200506/cmselect/cmintdev/921/921i.pdf.

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are launched.'[16] Our review covers DFID's work in PSD since the IDC's 2006 report and considers many similar issues but, given the passage of time, it does not include a specific assessment of DFID's response to the recommendations made in that report.

DFID's approach to PSD continues to evolve

1.13 DFID's 2008 strategy on private sector development, *Prosperity for All: Making Markets Work*,[17] was written in response to the IDC's report and has formed the core PSD strategy document for DFID since its publication.

1.14 In 2011, DFID stated that its work would include engaging with firms directly and indirectly so that they generate more jobs, opportunities, income and services for poor people.[18] The 2011 document also emphasised the importance of embedding private sector culture and expertise across DFID. As part of this process, the Private Sector Department was created within DFID in January 2011 to help to raise the level, extent and effectiveness of DFID's engagement with the private sector and to design and implement a portfolio of PSD programmes. Its focus is to 'help increase awareness and capability across DFID's country offices and other departments on how to work with the private sector to build prosperity and get rid of extreme poverty'.[19] This Private Sector Department is discussed further in Annex A5.

1.15 It is these two documents, published respectively in 2008 and 2011, which this review has used as the benchmark with which to assess DFID, since these were the policy and strategy documents operative when the programmes studied by this review were developed. We have also considered the recently published Economic Development Strategic Framework in our assessment (see paragraph 1.19), which builds on these previous documents.

PSD is a substantial but imprecisely quantified component of DFID's work

1.16 DFID states that currently 'around a fifth of spend and substantial staff resources [are] focussed on this [economic development] area'.[20] DFID plans a significant increase in expenditure on PSD-related work in the context of its new Economic Development Strategic Framework. DFID is forecasting that, by 2015-16, it will spend £1.8 billion a year on economic development activities, more than doubling the amount spent in 2012-13.[21] More detail on the Economic Development Strategic Framework is contained in Annex A7.

1.17 We found it impossible to identify how much DFID actually spends on PSD. DFID is unable precisely to quantify its spending on PSD because it is not captured as a discrete category of expenditure in DFID's financial system (ARIES). We acknowledge that the need for an improved financial information system is already recognised by DFID. It therefore has to use spending on its wealth creation pillar as a proxy for its PSD work, although this is not a perfect measure.[22] The wealth creation budget was £614 million in 2012-13, up from an estimated £498 million in 2007-08; it is due to increase.[23]

1.18 Figure 1 on page 5 shows DFID's largest areas of wealth creation expenditure by department and by office in 2012-13. It demonstrates that, while the majority of PSD expenditure is undertaken as part of country-level programmes (£341 million), a significant amount of PSD expenditure is managed

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[16] *Private Sector Development: Fourth Report of Session 2005-06*, House of Commons, IDC, July 2006, Volume 1, page 77, http://www.publications.parliament.uk/pa/cm200506/cmselect/cmintdev/921/921i.pdf.

[17] *Private Sector Development Strategy, Prosperity for all: making markets work*, DFID, 2008, http://www.enterprise-development.org/page/download?id=1727.

[18] *The Engine of Development: the private sector and prosperity for poor people*, DFID, 2011, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/67490/Private-sector-approach-paper-May2011.pdf.

[19] *DFID Operational Plan 2011-2015, Private Sector Department*, DFID, May 2011, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/67532/priv-sect-dept-1.pdf.

[20] *Economic development for a shared prosperity and poverty reduction: a strategic framework*, DFID, January 2014, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/276859/Econ-development-strategic-framework_.pdf.

[21] *Economic development for a shared prosperity and poverty reduction: a strategic framework*, DFID, January 2014, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/276859/Econ-development-strategic-framework_.pdf.

[22] *Bilateral Aid Review: Technical Report,* DFID, March 2011, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/214110/FINAL_BAR_20TECHNICAL_20REPORT.pdf. This report established five pillars of activity, of which wealth creation was one with the others being direct delivery of the Millennium Development Goals (MDGs): governance and security; climate change; and humanitarian assistance.

[23] *Annual Report and Accounts 2012-13*, DFID, June 2013, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/208445/annual-report-accounts2013-13.pdf and *Economic development for shared prosperity and poverty reduction: a strategic framework*, DFID, January 2014, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/276859/Econ-development-strategic-framework_.pdf.

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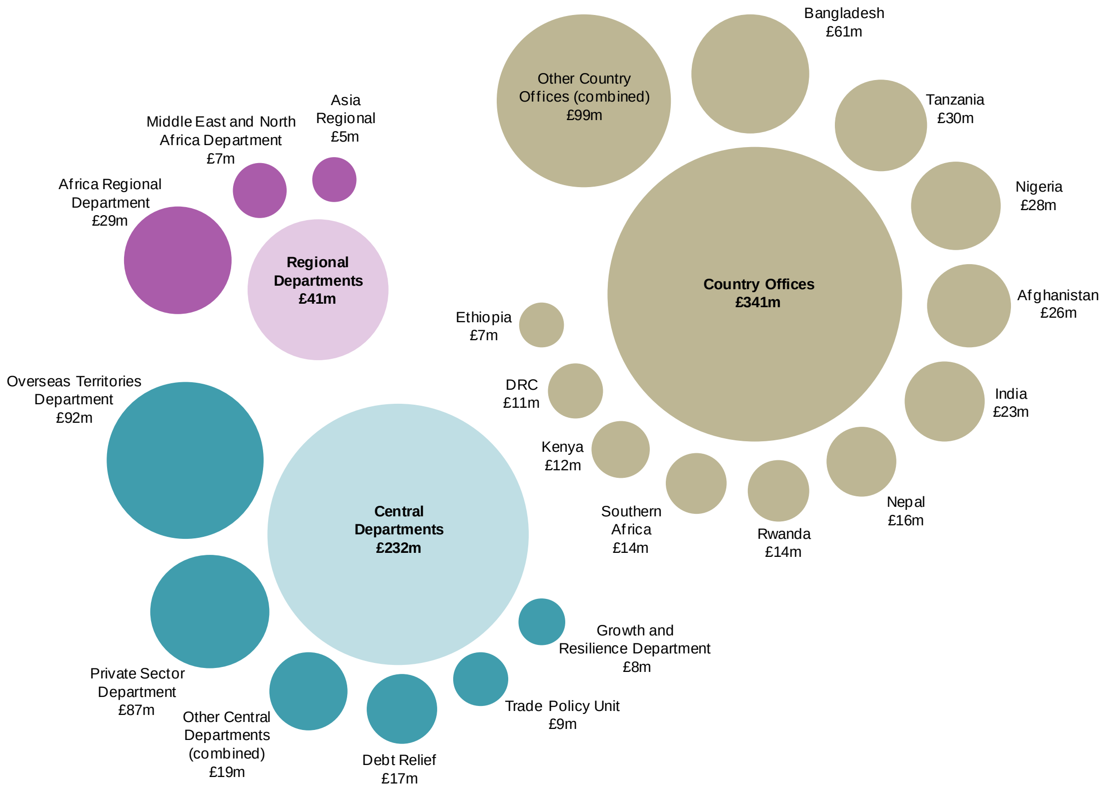
by central departments (£232 million) and some (£41 million) at a regional level. We see this as an indication that DFID is succeeding in introducing PSD as a delivery mechanism across DFID, rather than simply as a programming stream.

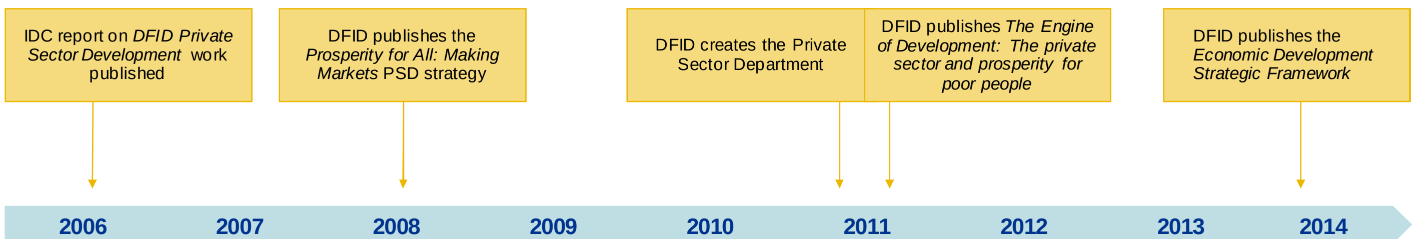
Figure 1: DFID's Wealth Creation expenditure by department 2012-13[24]



DFID's new Economic Development Strategic Framework will be key to PSD work in the future

1.19 In January 2014, DFID published its Economic Development Strategic Framework. Reiterating the 2008 emphasis on placing growth at the core of DFID's work, this strategy is designed to give new impetus to DFID's role of promoting economic development as a key mechanism for delivering growth and poverty reduction in the developing world. It sees private sector investment and growth as central to success.[25] Figure 2 shows a timeline of selected key events relating to DFID's approach and strategy on PSD since 2006.

Figure 2: Timeline of selected DFID events since 2006



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[24] Data provided by DFID.
[25] *Economic development for a shared prosperity and poverty reduction: a strategic framework*, DFID, January 2014, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/276859/Econ-development-strategic-framework_.pdf.

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Methodology and focus of this review

This is a thematic review

1.20 Most of our previous reviews have focussed on particular DFID programmes or on country-wide activities. This review, by contrast, examines an entire programmatic theme, one which employs many different modes of operation in many different countries, in line with the recommendations of the Triennial Review of ICAI published in December 2013.[26] In our work, we have reviewed various elements of DFID's PSD approach. Whilst we comment on these individual components to some extent and use them to give a bottom-up analysis of DFID's PSD work, the core of our work has been to provide a top-down assessment of the coherence of these elements within DFID's overall approach to PSD. Is DFID's PSD work helping to fulfil its stated ambition to make the private sector the 'engine of development'?

1.21 In selecting elements of DFID's work to scrutinise in detail, we have sought to focus on those things which would be illustrative of its wider PSD efforts. For this review, we carried out five main streams of work as follows:

- mapping of DFID's expenditure across the various departments with responsibility for PSD activities and within country offices, insofar as the limitations of DFID's financial systems allowed;
- literature reviews, exploring the development of PSD at DFID over time and investigating how far DFID's PSD work builds on best practice;
- a series of interviews to validate our findings with senior DFID staff, third parties, PSD subject matter experts and others;
- examining how successful DFID has been in embedding private sector culture within the department; and
- visits to three countries at different stages of private sector development (Bangladesh, Ethiopia and Tanzania) to assess the cumulative impact of PSD activities, review key programmes, visit delivery locations and meet intended beneficiaries and programme staff.

Country visits supported our thematic work

1.22 We visited Bangladesh, Ethiopia and Tanzania as part of our review. In selecting the countries to visit, we took into account a number of factors, including:

- prioritising countries where DFID's PSD portfolio is diverse in terms of programme type and management structures;
- prioritising countries where there has been or is significant PSD expenditure;
- selecting countries which, collectively, have demonstrated the development of DFID's PSD efforts over time; and
- prioritising countries that increase ICAI's coverage of DFID operating locations.

1.23 Figure 3 on page 7 highlights DFID's PSD expenditure in the three countries we visited (using wealth creation expenditure as a proxy), in comparison with PSD expenditure in other country offices.[27]

1.24 At the country level, we examined the degree to which DFID's overarching PSD strategy supported the host country's development goals and specific projects. These projects were selected to give a range of macro-, mid- and micro-level approaches and to provide insights into the development of DFID's PSD programming over time. Collectively, they represent approximately £328 million of expenditure.[28] A summary of these projects is provided in Figure 4 on page 7.

[26] *Triennial Review of the Independent Commission for Aid Impact (ICAI)*, Cabinet Office, 2013, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/266693/ICAI-triennial-review-public-report-dec13.pdf.

[27] DFID's work with the private sector will be considered in more detail in the second PSD review, to form part of ICAI's Year 4 work plan.

[28] See the Annex for a summary of our case study programmes.

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Figure 3: DFID Wealth Creation expenditure by country office, 2007-08 to 2012-13[29]

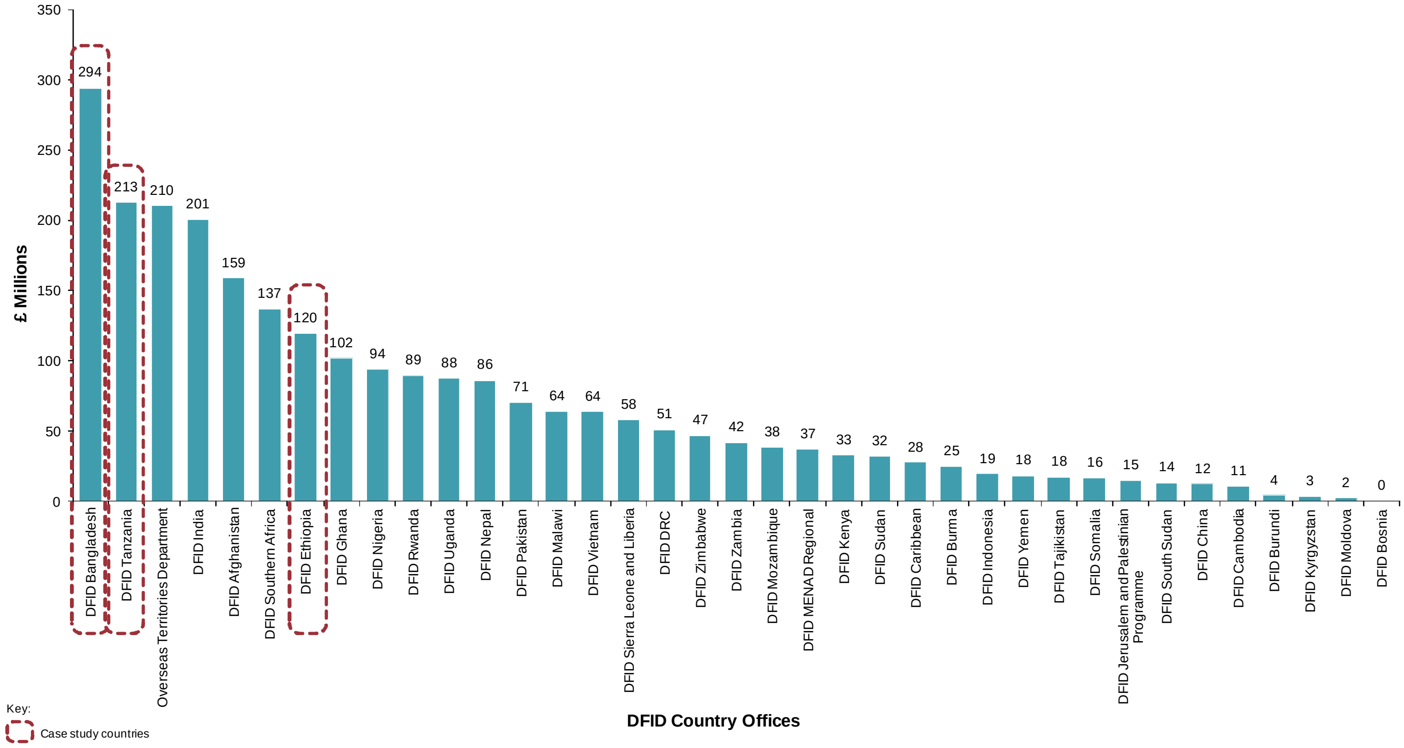
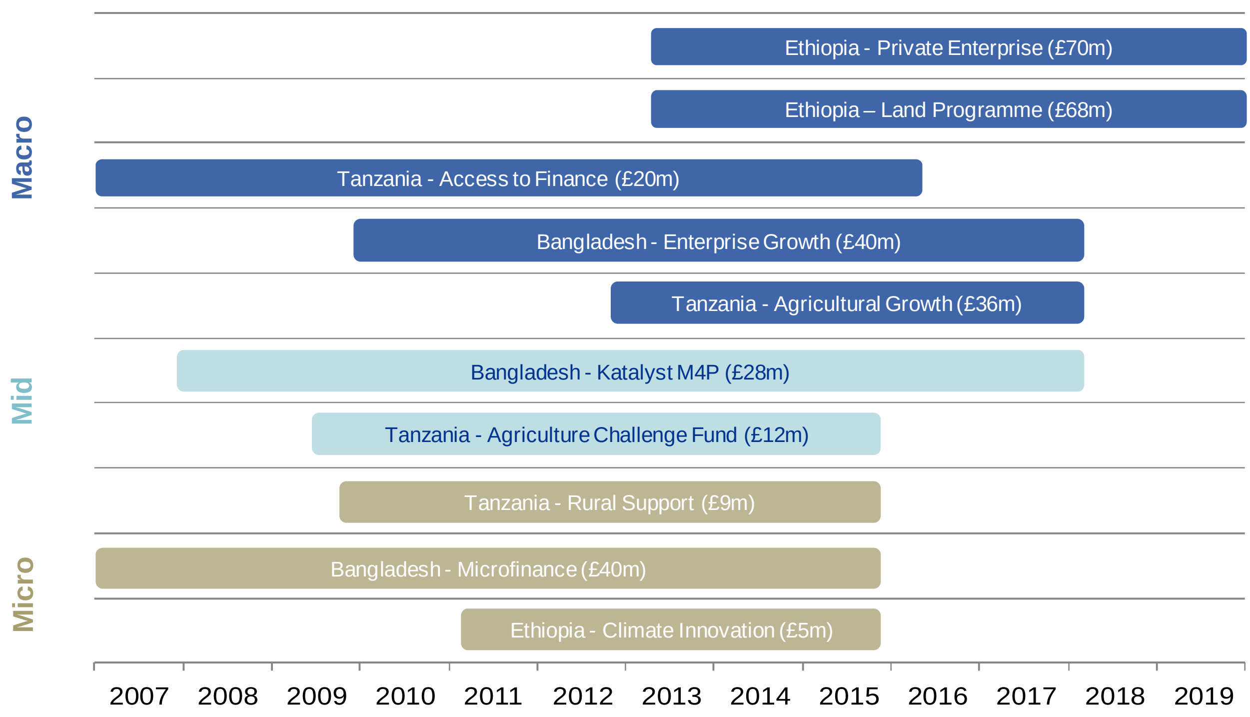


Figure 4: Historic and projected DFID expenditure of selected case study programmes, 2007-19



[29] DFID wealth creation expenditure data provided by DFID.

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1.25 Figure 5 provides short descriptions of the projects we reviewed.

Figure 5: Case study programmes

Bangladesh

Katalyst M4P: a long-established M4P programme, focussing on 'catalysing' change in agricultural value chains.

Regulatory and Investment Systems for Enterprise Growth (RISE): an investment climate reform programme, partly implemented by the International Finance Corporation (IFC). We will refer to this as the **Enterprise Growth** programme.

Promoting Financial Services for Poverty Reduction (PROSPER): a programme providing microfinance support to the ultra-poor in selected rural areas of the country. We will refer to this as the **Microfinance** programme.

Ethiopia

Climate Innovation Centres (CIC): a project which provides start-up capital to small businesses in the field of climate adaptation and green growth. We will refer to this as the **Climate Innovation** project.

Private Enterprise Programme Ethiopia (PEPE): is a wide-ranging programme that is improving access to finance for the poor and SMEs and providing support to companies in identified priority sectors. We will refer to this as the **Private Enterprise** programme.

Land Investment for Transformation (LIFT): a newly -established land development programme targeting 14 million parcels of land throughout the country. We will refer to this as the **Land Programme**.

Tanzania

Southern Agricultural Growth Corridor of Tanzania (SAGCOT): a programme which seeks to develop a growth corridor from Dar-es-Salaam south-west to the borders with Malawi, Zambia and Lake Tanganyika. We will refer to this as the **Agricultural Growth** programme.

Coastal-Rural Support Programme (CRSP): a project which provides extension services and skills development for agricultural communities in southern Tanzania.[30] We will refer to this overall DFID project as the **Rural Support** programme.

Financial Sector Deepening Trust (FSDT): a project which aims to improve access to finance amongst the country's poor. We will refer to this overall DFID project as the **Access to Finance** programme.

Tanzania Agribusiness Window (TZAW): the Tanzanian unit of the Africa Enterprise Challenge Fund (AECF), targeting mid-size businesses in the agriculture sector. We will refer to this overall DFID project as the **Agriculture Challenge Fund** programme.

Our work also focussed on the PSD cadre in DFID

1.26 One element of our work was to examine the effectiveness of DFID's efforts to acquire and develop private sector skills. We also considered what contribution these skills make to DFID's PSD approach now and how they might affect DFID's programming choices in the future.

1.27 To this end, we circulated a questionnaire to the entire private sector cadre of advisors, of whom approximately one third are in the UK. We also conducted in-depth interviews with 23% of the cadre. We wanted to understand the longevity and depth of individuals' experience of the private sector and their ability to apply this to their role in DFID. We received feedback from almost 50% of the cadre.

[30] Agricultural extension services are typically provided by government agencies to assist local farmers in increasing productivity and food security (for example, providing training in new farming techniques); see: http://www.fao.org/docrep/w5830e/w5830e03.htm.

2 Findings

Objectives *Assessment: Amber - Red*

2.1 DFID has identified PSD as key to meeting its overall objectives to reduce poverty. In its different PSD documents and in the new Economic Development Strategic Framework, great emphasis has been placed on the benefits that PSD can bring.[31] The breadth of DFID's focus and its expectations of what can be achieved through PSD are ambitious and it will not realise them on its own.

2.2 In 2011, DFID stated its ambition for its PSD work as being to 'transform the business environment',[32] in order 'to help private enterprise work its miracles as the engine of development'. Further, DFID undertakes 'to back approaches that have systemic impact'.

2.3 The combination of ambitious, high-level objectives and a failure to define its role in the wider context means that DFID has not articulated what success would look like. DFID has not translated its aspirations into a focussed set of objectives that reflect its core competencies and the realities in which it operates. It often remains uncertain as to what extent its portfolio of PSD projects contributes towards its high-level objectives.

2.4 Paragraph 1.10 above outlines the different types of PSD interventions that are available to DFID to achieve its aims. Given the focus on systemic change and transformation of the business environment, we believe that a successful PSD approach in a country would include:

- a clear analysis of the fundamental challenges in the business environment which hinder the private sector;
- an assessment of which areas DFID sees itself as best able to address and where this focus coheres with the work of the host government and other donors;
- a risk assessment to determine the impact of different interventions on the intended beneficiaries, including any negative impacts;
- the selection of a suite of programmes explicitly designed to address these focal issues; and
- the use of these programmes in a joined-up and interacting fashion.

2.5 An example of what this might look like is set out in Figure 6 on page 15. At present, however, we believe that DFID's objectives in PSD are excessively ambitious and fail to reflect what is possible, given the complexity of the challenge.

DFID has been consistent in its view on the role of the private sector in development

2.6 DFID's vision for the role of the private sector in development has been consistent over time: a strong private sector drives economic growth. It wants 'private sector thinking to become as much part of DFID's DNA as [its] work with charities and governments'.[33]

2.7 DFID stated in 2008 that the aim of its PSD strategy is 'to make markets function better and with greater fairness'.[34] It wants to create a business environment which is conducive to investment and the growth of competitive firms.[35] DFID also has wider objectives for PSD, including a role in the achievement of broader social and environmental aims.[36]

2.8 DFID reinforced its message on the importance of PSD in its recent Economic Development Strategic Framework, published in January 2014.[37] In it, DFID states that the UK Government's vision is to eradicate poverty and transform economies by helping poorer countries to achieve a secure, self-

[31] These strategic statements are considered in greater detail in the Appendix section on the new Economic Development Strategic Framework.

[32] *The Engine of Development: The private sector and prosperity for poor people*, DFID, 2011, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/67490/Private-sector-approach-paper-May2011.pdf.

[33] *The Engine of Development: The private sector and prosperity for poor people*, DFID, 2011, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/67490/Private-sector-approach-paper-May2011.pdf.

[34] *Private Sector Development Strategy, Prosperity for all: making markets work*, DFID, 2008, http://www.enterprise-development.org/page/download?id=1727.

[35] *The Engine of Development: The private sector and prosperity for poor people*, DFID, 2011, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/67490/Private-sector-approach-paper-May2011.pdf.

[36] *Private Sector Development Strategy. Prosperity for all: making markets work*, DFID, 2008, http://www.enterprise-development.org/page/download?id=1727.

[37] *Economic development for a shared prosperity and poverty reduction: a strategic framework*, DFID, January 2014, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/276859/Econ-development-strategic-framework_.pdf.

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financed and timely exit from poverty through economic development.

2.9 DFID, therefore, sees sustainable and inclusive economic growth as the main driver through which countries can move away from a dependence on aid.[38] To that extent, its PSD work is a means to an end rather than an end in itself.

DFID is ambitious in its goals for PSD but should be more realistic about the scale of the challenge

DFID cannot succeed in PSD on its own

2.10 DFID sets out a very broad and ambitious spectrum of activity for its PSD work. It lists the following as example areas, each of which is large and complex and poses significant challenges in a developing country:[39]

- reducing barriers, costs and risks of doing business;
- expanding markets and trade; and
- pioneering and stimulating investment.

2.11 Similarly, one of the aims of DFID's new Economic Development Strategic Framework is to 'improve international rules for shared prosperity'.[40] This overlaps with World Trade Organization (WTO) aims and encompasses issues which have proved complex and difficult over many decades and over which DFID's influence is relatively small.

2.12 The success of PSD projects is often outside DFID's control. For example, a review of the Business Environment Strengthening for Tanzania project, which ran in Tanzania from 2004 to 2010, concluded that the project's failure stemmed from its 'breadth of ambition and the institutional problems of how a single project can address issues that cover and cut across the purviews of many government ministries and agencies'.[41]

2.13 Similarly, the success of the Land Programme in Ethiopia, despite having had careful underlying analysis, depends on significant factors beyond DFID's control. In particular, it will be necessary to develop an approach to land titling which will work in very politically and socially diverse areas of the country.

2.14 DFID cannot achieve its ambitious objectives alone; indeed, DFID's 2008 PSD strategy notes that systemic change is 'beyond [the] scope of a single firm or agency'. DFID, therefore, needs to identify the contributions that it is best able to make in the local context and to understand better how to influence or take better account of those factors it cannot control.

Although DFID is a significant donor, its resources are limited

2.15 DFID has committed to targeting £1.8 billion a year of its budget on economic development by 2015-16.[42] Although DFID is a large donor, these amounts are very small relative to the size of the private sector that it is looking to stimulate. Similarly, DFID is only one of a large number of actors in the PSD space. DFID's ambition to transform economies so that they benefit the poor and share prosperity broadly has to recognise the limitations of its financial and other resources.

DFID needs to decide on its strategic focus

It is unclear how DFID's commitment to PSD relates to its shift to operating in fragile and conflict-affected areas

2.16 DFID has committed to using 30% of UK official development assistance (ODA) 'to support fragile and conflict-affected states and tackle the drivers of instability'.[43] This represents a further challenge for DFID, since the complexity of PSD is magnified enormously in fragile and conflict-affected states (FCAS), as our recent review of DFID's growth and

[38] *The Engine of Development: The private sector and prosperity for poor people*, DFID, 2011, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/67490/Private-sector-approach-paper-May2011.pdf.

[39] *The Engine of Development: The private sector and prosperity for poor people*, DFID, 2011, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/67490/Private-sector-approach-paper-May2011.pdf.

[40] *Economic development for a shared prosperity and poverty reduction: a strategic framework*, DFID, January 2014, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/276859/Econ-development-strategic-framework_.pdf.

[41] *Joint Irish Aid and DFID's country programme evaluation Tanzania 2004/05 to 2009/10*, ITAD with Fiscus Ltd. and Verulam Associates Ltd., January 2001, http://www.oecd.org/countries/tanzania/48156699.pdf.

[42] *Economic development for a shared prosperity and poverty reduction: a strategic framework*, DFID, January 2014, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/276859/Econ-development-strategic-framework_.pdf.

[43] *Securing Britain in an Age of Uncertainty: The Strategic Defence and Security Review*, HM Government, October 2010, http://www.direct.gov.uk/prod_consum_dg/groups/dg_digitalassets/@dg/@en/documents/digitalasset/dg_191634.pdf.

livelihoods work in Afghanistan has shown.[44] In FCAS, the private sector is beset by many challenges, including 'destroyed infrastructure ... capital flight ... fragmented markets ... displaced population ... [and] government that is fragile and risk averse'.[45]

2.17 The donor community has recognised only recently the need to focus on PSD as an early priority in FCAS.[46] There is a growing recognition that the absence of a private sector causes an unhealthy reliance on donor funding, which is not sustainable.[47] USAID points out that 'conflict-affected environments often experience large inflows of aid assistance early on in the post-conflict phase, which drop sharply as soon as the conflict has drifted from public and political attention. Too often, there are no systems or strategies in place to build on these initial subsidies to create lasting economic growth.[48] To counter this, as was argued in the 2011 World Development Report, 'we need to put greater emphasis on early projects to create jobs, especially through the private sector'.[49]

2.18 There is, therefore, relatively little experience or evidence that DFID can build on in developing effective PSD programmes in FCAS. This applies even for the most basic of PSD-related tasks, such as job creation. The impact of such programmes remains unproven: the Overseas Development Institute (ODI) recently noted that 'despite the centrality of employment creation as an instrument to promote stability in the fragile states policy discourse, no robust qualitative or quantitative evidence was found to illustrate this relationship'.[50]

2.19 Given these significant challenges, it is not clear to us whether DFID has reconciled its commitment to FCAS with its plans to increase the annual expenditure devoted to economic development activities by 2015-16 to £1.8 billion. If it wishes to do both, then considerable effort will need to be applied to developing effective strategies and approaches. In 2012-13, DFID spent an estimated £251 million in fragile states on wealth creation activities.[51]

What role can DFID most usefully play in PSD?

2.20 DFID has, in the past, identified its strengths which enable it to work effectively in PSD. These included its substantial resources, its decentralised and devolved structure and its large research and development capacity.[52] DFID is regarded by its peer agencies as a leader in PSD: our interviews showed that other donors regard DFID very favourably and look to it for new ideas and practices in the PSD field. It is recognised, for example, as a leader in M4P interventions; at business environment reform; in extending financial services (such as microfinance schemes) to the poor; and at taking more risk.

2.21 DFID is, however, a development agency – not a private sector player. We believe that it is important, therefore, that DFID should align its priorities in the context of wider efforts and identify those areas of PSD where it can have the greatest impact for the poor. This does not mean that DFID should abandon its search for new and innovative approaches to delivering assistance to the poor. DFID should not, however, be attempting to address, singlehandedly, all the constraints to economic growth. DFID's status and influence permit it to do things to the economic development process which the private sector cannot do alone. It has good access to beneficiaries, convening

[44] *DFID's Bilateral Support to Growth and Livelihoods in Afghanistan,* ICAI, March 2014, http://icai.independent.gov.uk/wp-content/uploads/2014/03/ICAI-Report-DFID%E2%80%99s-Bilateral-Support-to-Growth-and-Livelihoods-in-Afghanistan.pdf. As part of our review into DFID's growth programmes in Afghanistan, we reviewed projects aimed at promoting economic growth and strengthening the private sector.

[45] L. Curtis et al., *Private Sector Development in Conflict-Affected Environments: Key Resources for Practitioners*. The Donor Committee for Enterprise Development (DCED), 2010, http://www.enterprise-development.org/page/download?id=1627.

[46] *World Development Report 2011: Conflict, Security and Development,* World Bank, 2011, http://siteresources.worldbank.org/INTWDRS/Resources/WDR2011_Full_Text.pdf

[47] Bosnia and East Timor are examples.

[48] *Accelerating the Transition from Conflict to Sustainable Growth: Value Chain Development in Conflict-Affected Environments,* USAID, 2008, http://www.enterprise-development.org/page/download?id=1278.

[49] *World Development Report 2011: Conflict, Security and Development,* World Bank, 2011, page xiii. http://siteresources.worldbank.org/INTWDRS/Resources/WDR2011_Full_Text.pdf

[50] R. Holmes et al., *What is the evidence on the impact of employment creation on stability and poverty reduction in fragile states: A systematic review,* ODI, 2013, page 26, http://r4d.dfid.gov.uk/pdf/outputs/systematicreviews/What_is_the_evidence_on_the_impact_of_employment_creation_on_stability_and_poverty_reduction_in_fragile_states.pdf.

[51] Data provided by DFID.

[52] *Private Sector Development Strategy: Prosperity for all: making markets work*, DFID, 2008, http://www.enterprise-development.org/page/download?id=1727.

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power, development know-how (about what works in these contexts) and a potentially greater appetite for initial market entry risk.

2.22 It was apparent from our interviews that many outside DFID have views on what roles DFID might usefully perform in PSD. What is less clear is whether DFID has the skills and capacities to play the role that others may wish.

2.23 An example of a potential role for DFID emerged from our interviews in Tanzania. At the time of our visit, in November 2013, DFID had announced four new trial partnerships with businesses and not-for-profit organisations to provide business and social enterprises with loans and equity capital. DFID is proposing to co-invest with Unilever, subject to satisfactory completion of due diligence processes, in a new tea plantation in the Southern Highlands of Tanzania and to finance three projects through a 'patient capital' vehicle focussing on agricultural opportunities (AgDevCo).[53]

2.24 Patient capital is long-term capital investment, which has longer time horizons for the return of capital.[54] For example, one of DFID's proposed investments in Tanzania through AgDevCo is to provide up to a £6.7 million investment in Kilombero Plantations Limited, a rice producer that works with over 5,000 smallholder farmers in the remote Southern Highlands of Tanzania. The proposed investment will focus on expanding the plantation's reach to poor farmers, while increasing irrigation capacity, leading to more efficient production and yields. DFID's ability to provide long-term capital to commercial ventures has the potential to be a significant positive financing mechanism. Indeed, we spoke to people who suggested that financing from DFID can enable investments which would not have been possible through commercial funding structures.

2.25 The possibility of DFID developing its capacity to distribute returnable capital has also been proposed by the IDC.[55] There are several issues which DFID should continue work to address when considering the future provision of capital in the manner described above, including:

- how does DFID address the eligibility of loan finance as official development assistance under the rules of the Development Assistance Committee of the OECD (DAC)? Specifically, DFID should consider how loans on concessional terms (which are ODA eligible) and repayments of loans (which count as ODA negative flows) impact on its commitments for ODA spending. Such consideration is a further reflection of the complexity associated with PSD programming;[56]
- does DFID have the correct skills to evaluate and manage a loan portfolio when the bulk of its activity is in traditional grant-making activities? We observe elsewhere in this report that, whilst DFID has done much to expand the PSD cadre, it will need to ensure it has the right skills and resources to effectively manage an investment portfolio; and
- how can DFID ensure that the provision of lower-cost loans does not adversely affect the development of a commercial banking system or otherwise distort markets in an anti-competitive way in host countries? DFID will need to weigh the advantages and disadvantages of each investment on an individual basis and its impact on the local market.

2.26 DFID also needs to consider that its most appropriate role may not always be one of a funder: DFID may have other skills and aptitudes it can deploy. In Ethiopia, for example, there was wide-spread agreement that DFID has a unique position of trust with the Government. We

[53] *UK promotes business links in east Africa to end poverty,* DFID, 2013, https://www.gov.uk/government/news/uk-promotes-business-links-in-east-africa-to-end-poverty.

[54] See, for example: http://acumen.org/investments/investment-model/.

[55] *The Future of UK Development Co-operation: Phase 1: Development Finance*, IDC, 13 February 2014, http://www.publications.parliament.uk/pa/cm201314/cmselect/cmintdev/334/33403.htm.

[56] 'Repayments of the principal of ODA loans count as negative flows and are deducted to arrive at net ODA'. If the investment is successful and the loan repaid in full, the net flow over the period of the loan is zero. In the case of equity investments, provided they are deemed ODA eligible, the upfront investment counts as ODA. Upon sale of the asset, the reflow will count as negative ODA. The net impact will depend on whether the reflow is valued higher or lower than the original investment.' *Is it ODA?* OECD, 2008, http://www.oecd.org/investment/stats/34086975.pdf.

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considered that there was untapped potential to use that trust to effect greater change. For example, a number of those we interviewed commented that, whilst the Government was adept at responding to problems raised by well-placed individual companies, it was less good at systematising change. DFID might use its position as most-trusted advisor to push harder for implementation of actions to address specific issues for all companies.

Designing a well-balanced and coherent portfolio of PSD projects is key

The link between high-level objectives and a coherent portfolio at the country and project levels is weak

2.27 In 2011, DFID stated its aims for PSD as being 'to make markets function better and with greater fairness…[to] enable poor people to find their own way out of poverty'.[57] Across our case study countries, we found that, while there were good examples, there was scope for more consistent and systematic assessment of how these aims reflect local challenges and which programming types would best achieve a coherent and well-balanced portfolio of projects. Similarly, we did not observe a clear 'theory of change' at the portfolio level that expressed how the private sector needed to be re-configured to enable it most optimally to contribute to economic growth, stability and poverty reduction.

2.28 Although the development of individual country PSD programmes has, on the whole, been sound, we found that the logic of how individual projects fit together as components of a wider PSD scheme is missing. There is not, at present, a clear line of sight from the planning process through to a coherent portfolio of programmes, articulating how each programme contributes to the country objectives and specific challenges and to DFID's overall PSD goals.

2.29 We saw some systematic analysis in the countries we visited. In Ethiopia, for example, we found that DFID's portfolio has been carefully designed in the light of an analysis of the underlying causes of economic issues and DFID's strengths.[58] DFID aims to catalyse Ethiopian private sector development by tackling binding constraints to growth but, while the rationale for and evidence of each programme is articulated in the business case, the overall strategy and coherence of the programmes and how the micro- and mid-levels contribute to the macro-level is not defined in one place. Similarly, despite significant work at a detailed level for the Agricultural Growth programme in Tanzania, a higher-level analysis of the importance of land issues to successful delivery of PSD programmes was missing.

2.30 We note that country offices are given guidance on how DFID centrally can help them prepare their submissions for future funding. We also note that DFID has recently introduced a Country Poverty Reduction Diagnostic,[59] which may provide staff with the means to build a clear understanding of the context in which they design and deliver PSD projects. We considered, nevertheless, that the systems and guidance to inform decision-making on the ground were inadequate.

It is not clear whether the projects DFID has chosen are the most appropriate

2.31 The new Economic Development Strategic Framework may provide the systems and guidance to allow DFID to build a coherent PSD programme with an appropriate match between types of intervention and sources of funding. Currently, however, the result of the gap in portfolio-level guidance is that it is unclear whether the projects being undertaken are the most appropriate. Although individual business cases contain an explanation for the choice of approach taken at the project level, DFID does not systematically explain why it has chosen to pursue some projects at the expense of other possible portfolio choices. There is currently an absence of a 'theory of change' that clarifies how DFID's activities cohere as a

[57] *Private Sector Development Strategy: Prosperity for all: making markets work*, DFID, 2008, http://www.enterprise-development.org/page/download?id=1727.

[58] R. Hausmann, D. Rodrik and A. Velasco, *Growth Diagnostics,* John F. Kennedy School of Government, Harvard University, 2005, http://www.hks.harvard.edu/fs/drodrik/Research%20papers/barcelonafinalmarch2005.pdf.

[59] This tool is being used by DFID country offices to develop strategies for its next funding allocation round (2015-16 to 2017-18) that tackle the most important constraints to poverty reduction and actively support countries' transition from grant aid.

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consistent endeavour in the way implied in its PSD strategy and related statements.

2.32 In our analysis of projects, we saw some good project design linked to the aim of economic empowerment. We noted, for example, that the Access to Finance programme in Tanzania has a clear central mandate to increase access for the poor to financial services and that it is innovative and flexible in the activities it delivers under this mandate. It was not clear to us during our field visit, however, how these activities fit together to form a coherent, overall package. It was also not clear whether DFID has assessed how best to balance the type of interventions through which it seeks to deliver its PSD programmes at different levels.

DFID needs to find an appropriate balance between short-term gains and long-term transformation

2.33 DFID's difficulties are compounded by the need to demonstrate the impact of its work on reducing poverty. Transformational and systemic changes are long-term objectives. The link between a more conducive investment climate and improved lives for intended beneficiaries – the poor – is indirect and complicated. Ultimate beneficiaries are often not the direct target of interventions. This is particularly true for macro-level programmes, which include reform programmes designed to make changes to the regulatory environment for business in the expectation that this fosters growth that will ultimately benefit the poor.

2.34 In Bangladesh, for example, it is difficult to find evidence of direct impact on poor households from macro-regulatory or investment-climate-type interventions supported by the Enterprise Growth programme. During our visit to Bangladesh, we were told that these changes would also benefit the businesses of poor people. This is a plausible hypothesis, although we did not see specific data to support it. Such programmes do, however, have the potential to effect wider systemic change. The Agricultural Growth programme in Tanzania, for example – if effective – will transform the prospects for a large part of the country and its population.

2.35 On the other hand, programmes at the micro-level typically work directly with poor people and their economic activities. The benefits to these people are readily apparent but programmes of this type are not capable of delivering systemic change. This was true, for example, of the Access to Finance programme discussed in paragraphs 2.90 and 2.91.

2.36 We saw some evidence of an appropriate balance being built into a single programme. The Microfinance programme in Bangladesh works at the macro-level on the regulatory environment and at the micro-level on access to finance. Approximately half of the funds target poor beneficiaries through financial intermediaries and approximately one third is spent on 'enabling' work to improve regulation and capacity building.

2.37 DFID field staff, therefore, are having to balance the need to deliver tangible, immediate impact with the wider objectives of longer-term transformational change. It is likely that the lack of clear guidance for implementation (discussed in the Delivery section) and the complexity and novelty of much PSD programming is leading to other compromises.

2.38 Relevant objectives need to be determined for individual projects that collectively contribute to the overall transformation DFID is seeking to effect. That contribution is clearest for macro-level projects. In Ethiopia, for example, the business case for the Land Programme sets out a clear assessment showing how secure land titling will lead to greater investment by farmers in their land and so provide them with larger incomes. We observed this logic borne out when we visited a group of farmers outside Bahir Dar. At the other end of the spectrum, the issues of sustainability and scalability (discussed in the Impact section) mean that micro-level projects often have only a small impact on overall portfolio objectives.

2.39 Figure 6 on page 15 gives an illustration of what a well-balanced, joined-up and coherent portfolio might look like. It would require focussing efforts on fewer areas where DFID can really make a difference.

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Figure 6: Achieving portfolio coherence

We strongly advocate in this report that DFID needs to be more focussed on what it can achieve - given the complexity of PSD - and that it needs to develop portfolios at the country level which take a strategic approach to address identified key issues. How might this be achieved in practice?

A starting point would be a requirement for each country office to analyse the principal obstacles to stimulating economic and inclusive growth, which would address the constraints on the poor in that country. This could then be combined with how PSD could assist by identifying, in particular, the gaps which DFID (as an aid agency) could fill or stimulate in a way to most benefit the poor and the role it could perform better than other players.

By way of example, in Tanzania, it was clear from many discussions that a key obstacle to the development of the private sector is the issue of land use and tenure. DFID accepts that this is an issue and we saw projects which are seeking to tackle aspects of this but we did not consider that DFID had identified how to approach this at the micro-, mid- and macro-levels in such a way that the various projects actually joined up and had a combined effect.

A more coherent and focussed approach might bring together improvements to farming techniques and access to finance at the micro-level, building on the Rural Support programme. This could include building on access to the sesame and tea boards to scale up farming market entry and allowing farmers to sell, freely, a greater amount of their produce. At the macro-level, DFID could work at land registration in the way already proposed.

As we have observed elsewhere, effecting change requires efforts from many stakeholders – donors, host government, companies and others. In addition to its own specific work, DFID could also act as a 'convenor' to align its activities with those of others to achieve greater impact on the priority issues. It could use what it learns from its activities to act as a trusted advisor to its partners.

This would involve a strategy that includes micro-, mid- and macro-interventions, amounting to a coherent approach to the issue of land use and economic growth. Many of the elements are there but a systemic approach is missing, raising doubts over sustainability and scalability.

DFID should align its PSD programmes with others

There is good evidence that DFID's programmes fit with national government priorities

2.40 It was clear in all the countries we visited that programmes have been selected with a clear understanding of the development priorities of the national governments. Each country team was able to explain to us, with varying degrees of clarity, how individual programmes align with the development needs of the host country.

2.41 In Bangladesh, for example, the PSD team were able to map their main programmes to the key development priorities identified by the World Bank and others. Likewise, in Ethiopia, the new PSD programmes have been explicitly designed to work within the Ethiopian Government's Growth and Transformation Plan, which sets out a role for the private sector in priority sectors earmarked for increased production, such as sugar, textiles and leather. On the other hand, it was not well articulated how these programmes will support and complement each other or how they will operate in relation to other donor efforts.

DFID has good linkages with other donors

2.42 We saw evidence of good linkages with other donors and development agencies being used in order to deliver the PSD agenda. DFID is regarded by other agencies as a leader in the PSD area and is seen as being prepared to take risks which other organisations would avoid.

2.43 DFID works with other donors at a number of levels. In many cases, the entirety or key elements of DFID programmes are delivered by multilateral agencies and other partners. The key for DFID is to select partners with the appropriate PSD expertise. IFC, for example, which has considerable experience of and a high reputation in the PSD field, delivers the investment climate reform component of the Enterprise Growth programme in Bangladesh.

2.44 In other cases, DFID programmes build on earlier work by other donors. In Ethiopia, for instance, the Land Programme builds on work undertaken by the World Bank, Finland and USAID and the priority sectors grant matching aspect of the Private Enterprise programme takes over a World Bank programme.

2.45 DFID also works with other development partners in wider donor co-ordination processes. Our interviews with other donors in all three of the countries we visited showed clearly that DFID is an

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active partner and works well with other donors to ensure that different activities are co-ordinated.

DFID needs to work more closely with the private sector

2.46 We found little evidence of close and systematic collaboration with business at a higher level, even though there is a Business Engagement Hub within DFID's Private Sector Department. The small number of corporate representatives whom we interviewed did not feel that DFID was user-friendly: 'We want to work with DFID', one said, 'but there's no obvious entry-point. DFID is very difficult to work with'.[60] Given that one of DFID's strategic aims under the new Economic Development Strategic Framework is to work more closely with the private sector, this deficiency needs urgent attention.

2.47 International businesses and larger local firms will become increasingly significant in development. It will be important for DFID to find ways to work with them more effectively and intensively and to leverage their expertise.[61]

Delivery *Assessment: Amber-Red* A R

2.48 DFID's ambitious aims of 'transforming the business environment'[62] are not well supported by internal systems and structures which allow it to deliver the right projects in the right places. Great emphasis is placed on the business case for individual projects but less thought is given to managing their risks or supervising their implementation. DFID lacks a coherent architecture for its programmes in each country that brings them together in pursuit of a clear joined-up objective for pro-poor reform of the private sector in line with its ambitions. DFID has worked hard to recruit a cadre of PSD advisors but it needs to reflect how best to use it to support delivery of the programme.

2.49 Because this is a thematic review, our discussion of the delivery of DFID's PSD work concentrates more at the corporate level than at the project level. While we use evidence from our project case studies to illustrate our findings, we are alert to the risk of generalising from country- and market-specific projects.

There is insufficient guidance on how to deliver PSD programmes

2.50 DFID's ambitious aims for PSD are not supported by detailed guidance on how it is to be implemented in practice. DFID's 2011 document neither defines delivery mechanisms nor provides advice on appropriate means of delivery. Only one page of this 33-page document discusses the implementation of PSD.[63] Even this is restricted to a high level: it lacks specific direction and contains only examples of potential interventions. The document simply provides the following factors for implementation:

- working in partnership;
- getting more private sector DNA into DFID;
- the importance of evidence;
- value for money; and
- measuring impact of DFID work with the private sector.

2.51 Moreover, we have not seen other internal documentation which provides clearer, more detailed guidance. We would expect to see well-articulated and effective theories of change to help staff to decide on the right projects in the right places.

2.52 The Economic Development Strategic Framework sets out DFID's broad goals for PSD but, again, does not give adequate guidance on how to turn the strategy for PSD into practice at an operational level. It identifies five pillars where DFID will increase its work:

- improving international rules for shared prosperity;
- supporting the enabling environment for private sector growth;

[60] Interviews with business representatives.

[61] How this might be achieved will be explored in more detail in a further PSD review, to form part of ICAI's Year 4 work plan.

[62] *The Engine of Development: The private sector and prosperity for poor people*, DFID, 2011, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/67490/Private-sector-approach-paper-May2011.pdf.

[63] *The Engine of Development: The private sector and prosperity for poor people*, DFID, 2011, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/67490/Private-sector-approach-paper-May2011.pdf.

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- catalysing capital flows and trade in frontier markets;
- engaging with businesses to help their investments contribute to development; and
- ensuring growth is inclusive and benefits girls and women.[64]

2.53 These five pillars are so broad that between them they cover a vast array of conceivable PSD interventions. This highlights a persistent problem of DFID's approach to PSD: high-level objectives are not translated into a focussed approach, based on DFID's core competencies. In Ethiopia, for example, we found that while there is a clear rationale for the Private Enterprise programme and its planned outcomes and appropriate identification of important constraints, the programme requires much further thought to ensure that the right interventions are being outlined and that they are implemented in a way which maximises the opportunity for results. Whilst we accept that this programme is in its early stages, we nevertheless believe that there remain too many unanswered questions, relating for example to political economy factors, than one would expect to see in a project to which several tens of millions of pounds have been allocated. Similarly, in Tanzania, a component of the Agricultural Growth programme, the SAGCOT centre, has started slowly and has had challenges with its ambitious targets to transform and 'rapidly develop the region's agricultural potential'.[65] Here and elsewhere, much greater clarity is required about how to implement PSD in order to make informed programme choices.

2.54 DFID staff told us that the establishment of the Private Sector Department in 2011 brought with it an explicit aim to 'let 1,000 flowers bloom', thereby allowing innovation and experimentation in the design and implementation of PSD. Whilst innovation is to be encouraged, it is our view that it should not be at the expense of structured processes. Figure 6 on page 15 explains how we believe that innovation can be harnessed into a more coherent and strategic approach.

2.55 Clearer guidance is needed to assist staff in developing and managing their portfolio. Such guidance needs to cover a range of issues, for example:

- project management skills, including how to be an informed consumer of results data;
- advice on appropriate tools and techniques, recognising that a number of PSD approaches are relatively new and untested;
- support in managing implementing partners; and
- training in portfolio management.

Effective delivery requires the right processes

2.56 In many of our reviews, we have commented on the processes DFID uses to plan and manage programmes and projects. In particular, in our review on *How DFID Learns*, we found that theories of change are over-simplified and often do not recognise the complex environments in which DFID operates.[66] We have, therefore, focussed in this review on aspects specific to the delivery of DFID's PSD work in the way it deploys its processes.

Theories of change need to reflect the PSD context

2.57 Theories of change in PSD work may appear to be straightforward but, in fact, contain huge complexity. They should express, for example, how the private sector needs to be configured to enable it to contribute to economic growth, stability and poverty reduction. As market conditions alter, so the theory of change needs to be adapted.

2.58 Since the Rural Support programme in Tanzania started, for example, several important elements in the business environment have changed. Natural gas has been discovered close to the project site, leading to various market changes, such as new infrastructure and property speculation.[67] Although it is possible to change a project's original theory of change (as part of an annual review), this does not

[64] *Economic development for a shared prosperity and poverty reduction: a strategic framework*, DFID, January 2014, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/276859/Econ-development-strategic-framework_.pdf.
[65] *SAGCOT Centre*, SAGCOT, 2014, http://www.sagcot.com/.
[66] *How DFID Learns*, ICAI, April 2014, http://icai.independent.gov.uk/wp-content/uploads/2014/04/How-DFID-Learns-FINAL.pdf.
[67] See, for example, http://allafrica.com/stories/201401170101.html.

appear to happen often. Sound performance management requires a more active, systematic and timely (at least quarterly) approach to consider whether the original theory of change for the programme is still and/or will remain valid, in the light of changing market conditions.

Business cases need to be flexible to cope with changes during delivery

2.59 DFID's business case process is not well suited to the PSD context. The extended and bureaucratic business case process does not fit well with the dynamic nature of markets. Moreover, the business case implies a degree of precision around scenarios, risks and goals which is not realistic in complex markets and requires making forecasts for the entire programme up to five years ahead. The Land Programme business case in Ethiopia, for example, states that the programme will 'enable 1.36 million smallholder farmers to increase their income by at least 20.5%...[and the] percentage of households involved in land-related disputes reduced from 21.1% to 15%'.[68] Given the challenges of the technical aspects of this programme, it makes little sense for the business case to require such detailed figures from those designing the programme. What is important is that the goals which are set are sufficiently realistic and flexible to adapt to changing environments.

2.60 We note that the business case process is under review and changes are being implemented to make it more efficient and flexible. If this review is to be successful, it needs to ensure that realistic goals are set out in business cases and that mitigation actions for risks to the achievement of these are properly identified and managed.

Risk management is key to effective delivery

2.61 PSD approaches often involve risk and project managers having to make big assumptions on, for example, the potential for sudden market shocks. DFID's delivery partners told us that they welcome its willingness to take risks. This must be accompanied by an acceptance that some projects will fail. Given the dynamic nature of market systems, however, DFID is taking risks it does not properly understand and is not equipped to manage. For example, the Land Programme in Ethiopia envisages a roll-out across the country without detailing the political and other risks that may prevent this from happening. Likewise, the Agriculture Challenge Fund in Tanzania does not properly assess the adverse impacts that might result from funding decisions.

2.62 The business case may make unrealistic assumptions, for example about the wider environment, without formulating a plan for mitigating the associated risks. The Agriculture Challenge Fund in Tanzania, for instance, includes the following assumptions in its theory of change:[69]

- companies do not face other binding constraints to achieve commercial and development results;
- the Government of Tanzania is receptive to the evidence presented and implements policies that improve the investment climate and incentivise businesses to innovate; and
- the banking sector has the appetite to lend to agriculture.

2.63 To list such significant assumptions in a theory of change, yet with no process for managing factors which are so material for the success of the programme, is problematic. We applaud DFID for being prepared to take risks and we would not want our observations to make it more risk averse. There is, however, a clear need for DFID to understand more clearly what risks are being taken in each set of circumstances and how to manage them.

The effectiveness of project management is mixed

2.64 While we noted in our case studies that DFID's implementing partners are broadly appropriate for the projects they are delivering, we considered that DFID staff could pay more attention to managing risks or results during implementation. During our fieldwork, implementing partners told us that DFID staff rely on delivery partners for an understanding

[68] DFID Ethiopia. LIFT business case and intervention summary, 2013.

[69] *ARD contribution to the Africa Enterprise Challenge Fund General Window: Agribusiness Africa Window*, DFID, 2011, http://iati.dfid.gov.uk/iati_documents/3717514.docx; *Annex A: Extension of DFID Tz support to Africa Enterprise Challenge Fund*, DFID, internal unpublished document.

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of market conditions and information about results being achieved. It appeared to us, across a number of our case study programmes that, for example, the interaction of DFID staff with implementing partners revolved too much around a few formal reporting points rather than being a flexible and dynamic relationship. This makes it hard for DFID to respond effectively to changes in market situations and even to understand how results data were calculated. Moreover, it makes it hard for DFID to provide informed guidance to implementing partners, rather than the other way around. This finding is broadly in line with the findings from our report, *DFID's Use of Contractors to Deliver Aid Programmes*.[70]

2.65 As a result, it is difficult for DFID staff to gain a rich and current understanding of the progress being achieved by their programmes. As DFID aspires to a catalytic role in changing circumstances in this area of development, there is a more direct need for DFID staff to understand the progress of the PSD programmes for which they are responsible.

Intended beneficiaries should be more closely involved

2.66 We have found in our previous reviews that the involvement of intended beneficiaries in the planning and implementation of interventions is important to ensure that DFID's priorities and programmes are appropriately targeted and meet the concerns of those whom DFID is trying to help.[71] This makes it easier, for example, for DFID to ensure that it is addressing the needs of women and girls.

2.67 During our field visits, we saw some evidence that funding recipients or intended beneficiaries had been involved in project design and delivery. For example, it was clear that local farmers had been involved in scoping the Land Programme in Ethiopia. They confirmed the key constraints to land investment and development and the impact it had on rural farmers, which form important elements in DFID's log-frame and business case for the programme. This example demonstrates the sort of engagement with beneficiaries that ought to be replicated in all programme design.

Effective delivery also requires the right people

Management structures are unclear

2.68 Central management structures for PSD within DFID are unclear, with roles spread amongst different departments. The Private Sector Department is in charge of some but not all PSD work. Significant elements of it (for example, business environment reform and M4P activities) remain in the Growth and Resilience Department. A number of important PSD programmes also sit outside the Private Sector Department: the Africa Enterprise Challenge Fund (of which the Agriculture Challenge Fund in Tanzania is one component), for example, is run by the Africa Regional Department.

2.69 To some extent, these management arrangements are understandable, given the stated aim of DFID to spread private sector thinking across all areas of its work. That country-focussed departments manage some key PSD programmes demonstrates that PSD approaches are becoming embedded into DFID but the result reflects confusion. DFID, however, recognises that the management arrangements remain unfinished business and, since 1 April, has created a new directorate for Economic Development which brings together central departments focussed on economic development. This is supported by a Cabinet which is responsible for, amongst other things, corporate and financial functions. The Directorate also has a link with the Head of Profession for PSD advisers. DFID is currently recruiting a Director General for Economic Development.[72]

[70] *DFID's Use of Contractors to Deliver Aid Programmes*, ICAI, May 2013, http://icai.independent.gov.uk/wp-content/uploads/2010/11/ICAI-REPORT-DFIDs-Use-of-Contractors-to-Deliver-Aid-Programmes.pdf.

[71] See, for example, *DFID's Support to Agricultural Research*, ICAI, October 2013, http://icai.independent.gov.uk/wp-content/uploads/2013/12/ICAI-Agricultural-Research-report-FINAL.pdf; and *DFID's Contributions to the Reduction of Child Mortality in Kenya*, ICAI, March 2014, http://icai.independent.gov.uk/wp-content/uploads/2014/03/ICAI-Child-Mortality-FINAL-120714.pdf.

[72] *Economic development for a shared prosperity and poverty reduction: a strategic framework*, DFID, January 2014, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/276859/Econ-development-strategic-framework_.pdf.

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Capacity to deliver has increased but is it enough?

2.70 One of the key ways in which DFID has sought to increase its private sector expertise is by creating a cadre of appropriately qualified PSD advisors. A strategy for strengthening and deepening DFID's private sector DNA was established in 2011. A task plan, *Building the Architecture*, developed in 2012-13, built on this initial strategy 'to provide a set of actions which work across DFID to ensure that DFID staff have the right skills, guidance, communication and measurement tools better to engage with and on the private sector in programme development and delivery'.[73]

2.71 As of December 2013, there were 80 advisors, up from approximately 30 in 2011. The challenge has been to hire individuals with significant levels of private sector experience and a full range of the necessary skills. Our survey of the PSD cadre revealed that it is young. More than 50% have three or fewer years' of experience working on private sector issues for DFID. Although most have some direct experience through having worked for a private sector entity, few had first-hand experience of leadership in the private sector or responsibility for profit and loss. Fewer than 10% of the cadre have more than ten years' experience in the private sector.

2.72 Recognising the value of private sector experience, DFID has encouraged a programme of secondments. This programme was intended to be two-way, with people being seconded by the private sector into DFID and DFID staff being seconded out to the private sector over the long term. In practice, only a couple of DFID staff members have been seconded out and only a few have come in from the private sector. While these few were considered to be useful by the DFID PSD cadre, the scheme has not transformed DFID's PSD capacity.

2.73 Although DFID has recruited a substantial PSD cadre, it still does not have the appropriate type of skill sets and experience to advise on current and future challenges. DFID is seeking to strengthen the skill base further through recruitment and training. In our view, it would be prudent for DFID to take into account the skills and experience that it can realistically deploy when designing and delivering specific PSD programmes, not least because of significant difference in salary levels between DFID and the private sector.

2.74 We noted that DFID works with the private sector as a delivery partner of some aid programmes, which we have looked at in previous ICAI reviews, for example in Pakistan.[74] Through the Business Engagement Hub and elsewhere, DFID seeks to work closely with the private sector. We will be examining this in greater deal in the second PSD review, which will form part of ICAI's Year 4 work plan.

Impact *Assessment: Amber-Red* A R

2.75 It is clear from our case study visits that some of the more mature PSD programmes being supported by DFID are making a real difference to poor people, although long-term sustainability is not assured. DFID deserves credit for this.

2.76 Whilst we observed clear positive impacts to beneficiaries from a number of the individual projects we visited, what was not clear was the cumulative impact of each country portfolio on transforming the private sector as a tool for economic growth and poverty reduction. It was difficult to understand how different projects fit together to form a coherent package in support of DFID's overall ambition to bring about long-term change and create a private sector that will help to end extreme poverty.

2.77 In this section, we consider the impact of the case study projects we reviewed, drawing on our discussions with DFID staff, implementing partners and intended beneficiaries. We then consider the impact of DFID's overall portfolio and the challenges in measuring systemic change.

[73] *DFIDs Private Sector DNA Task Plan: Building the Architecture: How DFID can strengthen and deepen our ability to work with private enterprise to reduce poverty*, DFID, 2012, internal unpublished document; *DFID Strategy for strengthening and deepening DFIDs private sector DNA*, DFID, 2011, internal unpublished document.

[74] *Evaluation of DFID's Bilateral Aid to Pakistan*, ICAI, October 2013, http://icai.independent.gov.uk/wp-content/uploads/2013/12/ICAI-Pakistan-Report_P1.pdf.

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Greatest impact is achieved with an appropriate mix of micro-, mid- and macro-level interventions

2.78 Donor PSD interventions are aimed at strengthening the private sector to catalyse economic growth. DFID sees long-term economic transformation as key to job growth, wealth creation and poverty reduction. Linking the business and regulatory environment, private sector market systems and the poor to achieve impact on poverty reduction is a complex challenge.

2.79 DFID's mission is unambiguous: it 'leads the UK's work to end extreme poverty'.[75] In this context, the focus on the private sector and economic development is double-edged. On the one hand, it appears that it is only by sustained economic development, delivered by the private sector, that countries are able to become wealthier over time. The World Bank's analysis is clear: 'sustained long-term poverty reduction depends on stimulating economic growth which, in turn, depends on trade policy reform. No economy has ever developed without integrating with the world economy'.[76]

2.80 The poverty-alleviating impact of economic growth can also be seen by the impact of stalling in economic development. The World Bank has estimated that the global financial crisis between 2007 and 2010 pushed 64 million people back into poverty.[77]

2.81 How economic growth relates to poverty reduction is less clear, however. CAFOD argues that 'some oil, gas and mining operations may bring considerable foreign direct investment (FDI) but create relatively few local jobs'.[78] On the other hand, mechanisms which link large companies with smaller ones can contribute significantly to broad-based development in a number of ways; for example economic (growth and productivity), social (poverty reduction, employment creation and human rights) and environmental (pollution and environmental destruction).

2.82 Moreover, the private sector and markets are predicated on the idea of competition, which presupposes that there will sometimes be losers. As more efficient markets develop, for example, inefficient suppliers will be forced out of business, unless they are able to respond to new competition. A focus on PSD may, from time to time, result in certain groups of the poor being worse off as a result of its interventions.[79]

2.83 It is for these reasons that DFID needs to use a blend of PSD interventions to promote both change and reform, yet simultaneously limit the most significant adverse short-term impacts of that reform. Indeed, the development of mid-level programming on M4P reflects the need to balance the development of effective market systems whilst ensuring that poor people are not excluded as a result.

PSD interventions can reach the poorest of the poor

2.84 Some of the PSD interventions we observed have made a real positive difference to the poor. They leverage the private sector to reach the most vulnerable. The challenge is whether this can happen at scale.

Micro-level interventions are achieving pro-poor impact

2.85 Micro-level PSD interventions, such as microfinance, have a direct impact on the poor and often are able to reach the poorest of the poor. We noted, for example, that DFID Bangladesh maintains a very clear focus on addressing the needs of the poor, including the 'ultra–poor'. In rural northern Bangladesh, we saw evidence that DFID's Microfinance programme delivers access to finance for the poor, with a focus on women and families in areas affected by *Monga* (a seasonal

[75] DFID website homepage, https://www.gov.uk/government/organisations/department-for-international-development.

[76] *Trade Policy for Development*, Knowledge in Development Note: Trade for Development, World Bank, 2009, http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/0,,contentMDK:22452885~pagePK:64165401~piPK:64165026~theSitePK:469382~isCURL:Y,00.html.

[77] R. Zoellick, Pursuing More Growth, Less Poverty and Hunger in an Uncertain World, Op-ed World Bank, 2010, http://www.worldbank.org/en/news/opinion/2010/09/21/op-ed-pursuing-more-growth-less-poverty-and-hunger-in-an-uncertain-world.

[78] *Everyone's Business: Towards a mature understanding of the role the private sector in development*, CAFOD Discussion Paper, 2011, http://www.cidse.org/content/publications/business-a-human-rights/everyones_business.html.

[79] We highlighted this issue in *DFID's Trade Development Work in Southern Africa*, ICAI, December 2013, http://icai.independent.gov.uk/wp-content/uploads/2013/12/DFIDs-Trade-Development-Work-in-Southern-Africa-Report.pdf.

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famine).[80] In addition to providing micro-loans, DFID's programmes focus on training women to build new businesses which, in turn, provide jobs. In one example, in a village outside Rangpur, Bangladesh, we observed that the leader of a group of women had built a local business now employing over a dozen local women weaving carpets and selling them at a local market. She had started with a 2,000 Bangladeshi Taka - or £15 - loan almost six years ago.[81]

2.86 This Microfinance programme is providing microfinance and related services to nearly half a million poor people across northern and parts of southern Bangladesh. Its Flexible Microcredit component disbursement increased to Bangladeshi Taka 2.2 billion in 2012 compared to Bangladeshi Taka 1.8 billion at the time of the mid-term review in 2011 year, a 19% increase.[82] The observations we made during our visit and interviews with beneficiaries support these figures. The project also provides basic healthcare services, alongside its microfinance interventions, such as infant care and maternal health services.

2.87 DFID's impact on poor smallholder farmers was evident across our three case study countries. We visited villages in the Mtwara area of Tanzania and interviewed farmers who explained how projects funded by DFID had improved their farming skills, raised productivity, expanded regional trade and increased their incomes.

2.88 DFID's Rural Support programme supports smallholder farmers in the southern region of Tanzania through skills training, loans and access to markets. To date, the programme has trained almost 54,000 farmers in new techniques and facilitated a number of producer/buyer dialogues to improve market linkages for farmers, thereby enabling them to achieve higher prices for their goods.[83]

Some PSD programmes may not be sustainable in the long term and may not be suitable for scaling up

Micro-level programmes also present sustainability challenges

2.89 DFID views its PSD interventions as a tool for sustainable pro-poor economic growth. DFID's new Economic Development Strategic Framework emphasises sustained poverty reduction through job creation, higher incomes and access to markets for the poor in an effort to drive long-term transformative economic growth.[84] We observed that DFID's PSD interventions, particularly at the micro-level, can help poor people. The challenge DFID faces, however, is whether these programmes can achieve long-term sustainable impact and whether they can do so at scale.

2.90 We visited a microfinance programme in Tanzania operated by a Bangladeshi NGO, BRAC, with funding from DFID's Access to Finance project. The beneficiaries we met expressed clearly how their loans of up to US$600 allowed them to fund their businesses and respond to new opportunities. Many of the women, however, had been taking loans of this size for more than six years and had not graduated to larger businesses, indicating that this activity, whilst being able to demonstrate clear beneficiary impact, may not be transformational in the long term.

2.91 During our visits to DFID's microfinance programmes in northern Bangladesh and in Tanzania, we noted that sustaining microfinance support directly to beneficiaries is a costly endeavour. Providing microfinance services to the very poor in rural areas, in particular, is expensive due to relatively small loan sizes and a wide geographic area. Some DFID programmes may provide subsidies to ensure the provision of financial services in areas where delivery through markets is not yet viable. This raises concerns around the sustainability of long-term microfinance

[80] *Monga* refers to a seasonal food shortage in Bangladesh that affects people particularly in the flood, drought and erosion-prone area in the North of Bangladesh. It is a yearly cyclical phenomenon that affects the country twice a year, which results in unemployment, food insecurity and rural urban migration. See http://www.irinnews.org/report/80898/bangladesh-initiatives-to-tackle-monga.

[81] 1 GBP = 130.45 BDT. Calculated average exchange rate: http://www.oanda.com/currency/average.

[82] *PROSPER Annual Review*, *Promoting Financial Services for Poverty Reduction in Bangladesh*, 2012, DFID, http://iati.dfid.gov.uk/iati_documents/3794149.docx.

[83] Smallholder farmers manage over 80% of the world's estimated 500 million small farms and provide over 80% of the food consumed in a large part of the developing world, contributing significantly to poverty reduction and food security. See *Smallholders, food security and the environment*, International Fund for Agricultural Development, 2013, http://www.unep.org/pdf/SmallholderReport_WEB.pdf.

[84] *Economic development for shared prosperity and poverty reduction: a strategic framework*, DFID, January 2014, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/276859/Econ-development-strategic-framework_.pdf.

support, for example in relation to the Microfinance programme in Bangladesh. The programme has received a one-year extension to allow the country office to understand how it can design a second phase. Any second phase will need to consider carefully how the programme can be made sustainable in the longer term, given the cost of providing the loans to a rural population and of providing additional services, such as animal welfare advice.

2.92 DFID's PSD interventions at the micro-level are performing. The very poorest of the poor are often the main beneficiaries. Challenges remain, however, in scaling micro-level initiatives to achieve wider, sustained impact for the poor.

2.93 These concerns around sustainability and scalability cast doubt over the ability of these programmes to make a meaningful contribution to DFID's ambitious high-level aims.

Mid-level and M4P approaches show signs of impact and sustainability

2.94 DFID's PSD interventions at the mid-level often operate in market sectors and directly with businesses and the private sector in developing countries, thus linking market systems to the poor. For example, Access to Finance has been pivotal in Tanzania in developing tools to understand and address problems faced by the poor in accessing financial services. Many people we interviewed spoke very positively about how important this work was in targeting financial services to the poor and most vulnerable.

2.95 Since 1999, Access to Finance has increased the number of Tanzanians able to access financial services by nearly a million and has increased the volume of credit by 548 billion Tanzanian Shillings or £219 million.[85] We observed good work by this programme at various levels. In interviews, representatives of the Bank of Tanzania stated how valuable Access to Finance was in policy development. We also spoke to representatives of two leading financial institutions, both of whom spoke highly of the support they had received through the programmes in making the transformation from being simple microfinance lenders to fully regulated banks. This had enabled them to have an impact on the macro-level business environment through working with government on regulatory reform.

2.96 We visited an agricultural project run by Katalyst M4P, one of DFID's longest operating M4P programmes, now in its third phase in Bangladesh. We met beneficiaries of the programme, implementing partners and businesses. In five years, Katalyst M4P has supported 230 types of services for small firms through 20,300 service providers in Bangladesh. One of Katalyst M4P's projects is to develop value chains in maize and cash crops and subsistence farming. At the ground level, Katalyst M4P links smallholder farmers to seed vendors to enable them to grow maize and other crops. It also links groups of farmers who grow maize with local markets, providing them with information on how to sell their crops and purchase materials and supplies for continued farming. We spoke to farmers outside Bogra in northern Bangladesh, who told us that, since the start of the Katalyst M4P programme in their area, they had been able to increase production and use land more efficiently.

2.97 More impressive was the sustainability of this market system approach for poverty reduction. Many farmers to whom we spoke had substantially increased their yield and profits, year-on-year, with some having graduated from farming into other income-generating activities, such as livestock and transportation. One farmer told us that he had accumulated sufficient capital to purchase a boat. He now runs a ferry business, charging a fee of 20 Bangladeshi Taka (£0.15) for ferrying local villagers across Karatoya River in Bangladesh.[86]

2.98 Katalyst M4P's agricultural interventions work effectively with the private sector at the top level and we commend DFID for its success here. Katalyst M4P identified that poor rural farmers had a problem with the quality of seeds, which were expensive and came in larger packets. Through evidence-based research, Katalyst M4P

[85] 1 GBP = 2,722.73 TZS.Calculated average exchange rate: http://www.oanda.com/currency/average.

[86] 1 GBP = 129.7830 BDT. Calculated average exchange rate: http://www.oanda.com/currency/average.

collaborated with a major Bangladeshi seed company to develop 'mini-packets' of seeds, specifically for poor farmers to buy at local markets. Through Katalyst M4P's work, Lal Teer Ltd. developed an innovative, sustainable and profitable way to sell the seeds directly to extremely poor farmers through existing distribution channels. When we met the management of Lal Teer Ltd., we noted that their profits and market share in Bangladesh had increased since Katalyst M4P's work and that nearly 340,000 farmers are estimated to have directly benefited.

2.99 DFID's PSD intervention work at the mid-level in market systems is recognised as innovative and successful by other donors. We observed that DFID's interventions have achieved impact for the poor in discrete markets where DFID was able to intervene and link the poor to business. While we commend DFID's work in changing value chains in markets to achieve pro-poor economic growth, questions sometimes remain as to whether these types of mid-level programmes can lead to sustained systemic change across economies in developing countries. This is demonstrated by a recent review of Katalyst M4P itself, which has been running since 2001. The final review of the project's second phase praised the work done to date but concluded that it has yet to bring about the types of systemic changes that are a major rationale for using the M4P approach.[87]

2.100 Similarly, the Agriculture Challenge Fund programme in Tanzania works with individual companies. Whilst this is good for those companies, we could not see that the available funding will have an impact on the wider problems in Tanzania of finance for medium-sized businesses.

Macro-level programmes are aimed at delivering long-term transformative change

2.101 Macro-level projects, designed to improve the business environment, are most obviously aligned with DFID's desire to see systemic change. Tackling the business environment can lead to transformative and long-term impact on the private sector in developing countries. Macro-level programmes aim to target interventions where one change in a business regulation can have a transformative impact across an entire economy, thus achieving systemic change. Figure 7 discusses the difficulties in defining systemic change in PSD interventions.

Figure 7: Defining systemic change

DFID aspires to achieve systemic change. In its 2011 strategy paper, it states that it will 'back approaches that have systemic impact'.[88] The term systemic impact is, however, not defined in that document. Similarly, the new Economic Development Strategic Framework asserts that 'Economic development is nested in the 'system of poverty reduction' framework'.[89] DFID, however, has yet to articulate fully how change in that system may be defined or measured (or achieved).

The most explicit, semi-official definition is to be found in the *Operational Guide for the Making Markets Work for the Poor Approach*. This defines systemic change as 'change in the underlying causes of market system performance – typically in the rules and supporting functions – that can bring about more effective, sustainable and inclusive functioning of the market system'.[90] This definition does not allow for a clear distinction between what is and what is not systemic change; we understand that we will recognise it when we see it. It might not be possible to define the term in a way that is both measurable and objectively verifiable, since it is so multi-faceted. Furthermore, if systemic change does occur, then it is likely to be very hard to define and, from a results perspective, difficult to establish what contribution DFID made to this.

2.102 Macro-level programmes, such as Agricultural Growth in Tanzania and Enterprise Growth in Bangladesh, attempt to achieve systemic change through regulatory and business environment

[87] *Katalyst Annual Review*, DFID, 2012, http://webcache.googleusercontent.com/search?q=cache:Ca9iOQwfbVAJ:projects.dfid.gov.uk/IatiDocument/3544627.doc+&cd=1&hl=en&ct=clnk.

[88] *The Engine of Development: The private sector and prosperity for poor people*, DFID, 2011, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/67490/Private-sector-approach-paper-May2011.pdf.

[89] *Economic development for shared prosperity and poverty reduction: a strategic framework*, DFID, January 2014, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/276859/Econ-development-strategic-framework_.pdf.

[90] *Operational Guide for Making Markets Work for the Poor Approach,* DFID and Swiss Agency for Development and Cooperation, 2008, http://www.m4phub.org/userfiles/resources/2812011145034600-Operational_Guide_for_the_M4P_Approach.pdf.

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reform. This can include tax reform, land rights and rule of law reform, infrastructure development to stimulate foreign direct investment and the promotion of interventions by the private sector into key sectors that will offer the greatest potential for economic growth, for example, agribusiness in Tanzania.

2.103 We observed in Bangladesh that the Enterprise Growth programme aims to reduce compliance costs and remove barriers to doing business for the private sector, such as moving regulators towards using new digital platforms for business registration services and tax payments. The programme claims that these interventions have saved businesses US$25 million in compliance costs in 2012-2013. Alternative dispute resolution mechanisms released US$54 million in private and public resources by resolving commercial and tax disputes in Bangladesh.[91] In a meeting with the Dhaka Chamber of Commerce, it was explained to us how engagement with small businesses was used as a mechanism to identify the real constraints facing the private sector.

Assessment of PSD interventions at the portfolio level is challenging

Systemic change is difficult to measure

2.104 DFID's 2011 PSD strategy paper asserts that 'we will back approaches that have systemic impact'.[92] Systemic change can happen at many levels in a multitude of different ways; thus a standardised indicator set – or a standardised measurement methodology – are probably not attainable. Indeed, the concept of systemic change, generally, is not defined in ways that can be measured; it seems doubtful that any agency, in any case, can change market systems in a fundamental way. DFID does not define which programmes or types of programmes aim to achieve systemic change at the country level. In our observations, mid- and macro-level programmes often aim to produce systemic change in a market, a value chain or an economy as a whole.

2.105 We did, however, see good evidence of on-the-ground programmes wrestling with this challenge. Katalyst M4P in Bangladesh has for some years, for example, defined ways in which to anticipate how its work will affect the wider market systems. It is increasingly exploring the wider system in which it operates.

2.106 It is also difficult to attribute results directly to DFID interventions (as discussed in Figure 7 on page 24), particularly at the macro-level. Although specific changes (for example a tax law change or a microfinance regulatory change) could be attributed directly to a DFID programme, it is difficult to measure the ultimate impact of such changes on the end beneficiaries. DFID's culture of measurable targets drives PSD interventions to achieve results on an individual and ultimate end-beneficiary basis when it may not be technically feasible, especially at the macro- or business-environment-reform level.

Current tools to measure PSD interventions are poor

2.107 DFID's challenge in defining and measuring the cumulative impact of its programmes at the portfolio level is compounded by a lack of appropriate tools and processes. PSD is different from more traditional development approaches with respect to how impact is measured and reported.

2.108 More traditional development programmes often subsidise the direct delivery of social services to the poor; the theory of change is relatively short, fast and measureable. As mentioned previously, however, PSD takes a catalytic and indirect approach as a means of poverty reduction. This means that the theory of change involves more steps, more market players and a longer duration than more traditional approaches. Impact measurement, therefore, involves more variables,

[91] According to documentation we reviewed for the programme, approximately US$25 million of additional compliance cost savings for private businesses were generated in 2012-13. These cost savings are measured by calculating the costs (both time and direct/indirect financial outlays) before and after a change is made to a regulation or the way in which private businesses comply with regulation processes. The following formula is used in calculating: Total direct compliance cost savings = Direct compliance cost per transaction ((official fees + other financial costs) + Labour cost (staff time x staff wage)) x Number of transactions of the procedure a year. The programme claims US$54 million of private and public funds were released by solving commercial and tax disputes through alternative dispute resolution facilities in this financial year. The Bangladesh International Arbitration Centre facilitated arbitration of two commercial disputes and helped release US$32 million of private funds. With Bangladesh Investment Climate Fund support, 39 customs tax disputes (at a total value of US$22 million) were solved in three tax mediation facilities.

[92] *The Engine of Development: The private sector and prosperity for poor people*, DFID, 2011, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/67490/Private-sector-approach-paper-May2011.pdf.

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steps and time elapsing between inputs and impacts.

2.109 Other factors may change during implementation and render baseline data irrelevant. Private sector partners, including beneficiaries, are often self-selecting,[93] which can lead to sample bias and contamination of control groups.[94] It is, therefore, a challenge for DFID to demonstrate the value that it adds in PSD.

DFID should consider the unintended impact of its PSD interventions

2.110 Since DFID is intervening in markets in which it does not have complete control of the outcomes, there are also potential questions relating to displacement and other unintended consequences; where some businesses prosper in a limited market, others may be forced to contract. If the market changes that DFID seeks, in fact, do occur, there may often be losers as well as winners and some of those losers may well be the poor.

2.111 We interviewed representatives of Meat King, a beneficiary of the Agriculture Challenge Fund in Tanzania, which intends to use its funding to build a processing plant. The intended beneficial impacts of this investment are clear. Whilst the business plan and investment appraisal both identified a significant supply shortage, however, we believe more analysis should be done of the impact of grants on competitors before and after approval. Similarly, in Ethiopia, the microfinance lending component of the Private Enterprise programme enables small traders to fund various business activities. Does their greater ability to access finance put out of business other traders not participating in the programme?

2.112 Such counterfactuals are self-evidently hard to evaluate. DFID, however, should be cautious in its market interventions and consider how these may impact other private sector entities in the market, in order to avoid creating an unfair advantage or adversely affecting existing market conditions.

Pressure to measure against targets

2.113 Staff in all three countries we visited confirmed that, in reality, DFID focusses on targets that are more short-term 'quick wins' than longer-term systemic change; the public nature of the results framework increases pressure on DFID offices to define targets which can be clearly-defined and can be attained in a relatively short time-frame, rather than those which would be most appropriate to demonstrate the achievement of systemic change. As we acknowledge, achieving systemic change is very hard, but it is where the potential exists to deliver sustainable impact. DFID does not appear to have a process for managing the balance between these two ends of the opportunity spectrum.

2.114 Reporting against targets encourages the appearance of precision, even though the margin for error when measuring impacts in more complex programmes may be large. The numbers are presented to the nearest person, even though their calculation is often based on a number of assumptions and approximate multipliers making such claimed precision meaningless. In Tanzania, we were told that 148,467 poor people had had their incomes raised by DFID projects in 2012-13, although the calculations behind these precise numbers and the definition of poverty are not available in public documents.

2.115 Furthermore, we were told that the Agricultural Growth programme would raise the incomes of nearly 40,000 rural men and women in Tanzania. Financing, however, had only recently been agreed and the logic through which these incomes would be raised was necessarily speculative. The number, therefore, could only be very approximate. Similarly, the Rural Support programme is projected to contribute to an increase in incomes for 44,000 rural people, based on a highly complex and diverse portfolio of activities. The margin for error is, therefore, very large – yet unacknowledged.

[93] Examples of this which we observed included those firms applying for funding under the Agriculture Challenge Fund in Tanzania, the Climate Innovation programme in Ethiopia, those seeking microfinance loans under the Private Enterprise programme in Ethiopia and the Microfinance programme in Bangladesh.

[94] The goal of any impact assessment is to establish whether the intervention had a positive impact on the beneficiaries who participated in comparison with those who did not. The challenge is that those who elect to participate in PSD programmes often self-select and, therefore, are not necessarily representative of the wider population. The performance of those who participate, therefore, cannot always be directly compared with that of those who did not.

2.116 At present, the target culture arguably provides incentives to report large numbers for impact wherever possible. It may also provide incentives to focus on reporting results at the output rather than at the outcome or impact levels, where DFID could potentially seek ways in which to measure its PSD portfolio's impact on economic growth and systemic change, albeit that this is a challenge.

'Buying results' through scaled interventions

2.117 DFID's target culture means that country offices need to consider quantitative factors in the impact and results measurements of its programming. PSD programmes are not unique in their requirement to deliver quantifiable results for the poor. Micro-level programmes, as discussed previously, deliver results; however, their sustained impact can be questionable. Whereas mid- and macro-level programmes tackle larger market systems and business environment issues, they can also impact a large number of beneficiaries, although it is harder to measure and attribute the results directly to DFID.

2.118 DFID offices, for example, are expected to report against quantified targets for a few key indicators. For DFID Tanzania, these targets include 'number of rural men and women whose incomes are raised' and 'number of additional people with access to financial services'.[95]

2.119 These targets are the key deliverables in the Operational Plan, which is the strategy against which country offices are expected to deliver. While they do not capture the totality of what PSD programmes are trying to achieve they are, nonetheless, taken seriously. We were told, for example, that funding in Tanzania was re-allocated for this reason: the Rural Support programme was extended by one year, with funding increased from £6.4 million to £9 million, so that more farmers could be reached and more people could have increased income.[96] Although this represented the scaling-up of a successful programme, we were concerned in conversation that the decision was mainly driven by the need to meet office targets rather than by the findings of a rigorous external evaluation process. It was not clear, therefore, that this choice of programming represented the best use of resources.

2.120 Buying results through micro-level interventions is not necessarily a negative consequence of DFID's targets but it does inhibit DFID offices from thinking more strategically in terms of impact measurement and achieving impact across its portfolio and country-level strategies.

Lack of portfolio-level impact

2.121 We are satisfied from the case studies we have examined that many of DFID's PSD programmes are achieving a positive impact on the poor with the resources and tools it has at its disposal. DFID's goal to achieve long-term transformational change and pro-poor impact in the private sector in developing countries is admirable.

2.122 It is not clear from our review, however, that the sum of the impacts of DFID's PSD interventions has resulted in a cumulative impact against this strategic objective that DFID has set itself. DFID is but one organisation in-country, targeting significant systemic change in economies to achieve pro-poor economic growth. This is difficult to assess in terms of impact and the ultimate viability of such a goal is questionable. DFID should seek a way to assess the cumulative impact of its portfolio of micro-, mid- and macro-level programmes on a country and global level. This would ensure that goals are matched and that individual interventions meet DFID's overall strategic impact on pro-poor economic growth where it works.

Learning *Assessment: Green-Amber* G A

2.123 We examined the extent to which private sector culture and thinking has permeated DFID, in line with DFID's aim to make private sector attitudes part of the mainstream. DFID's approach to learning is based on an understanding of best practices, both internally and among other donors. DFID's approach, however, largely excludes from its learning community the private sector itself, non-government organisations, implementing partners and beneficiaries.

[95] Meeting with DFID Tanzania, November 2013.
[96] Meeting with DFID Tanzania, November 2013.

2 Findings

2.124 We saw some good examples of DFID applying learning from projects to improve the design and delivery of new projects. We concluded that DFID needs to understand better how to operate with and alongside other entities, in particular the private sector, as well as to understand the roles which it is best qualified to play within these relationships.

Private sector thinking should be at the heart of DFID's work

2.125 Openness to private sector culture and attitudes and a willingness to learn should be at the heart of DFID's work if it is to make a success of its PSD programming. As the proportion of its budget dedicated to PSD work grows significantly over the next three years, private sector thinking needs to become part of the mainstream.

2.126 We saw encouraging signs that this was beginning to occur. We noted, for example, the following:

- there is now a substantial cohort of PSD advisors. While their experience of working in the private sector may be limited, over half of the cadre is embedded overseas where they can have a direct impact on programming;
- our survey of the PSD cadre revealed that approximately one third of the respondents believe that private sector approaches are successfully being brought into the mainstream across DFID, with another third scoring this as moderately successful;
- increasing messaging that it is 'OK to fail'. This goes against the grain of a risk-averse Whitehall culture but allows the freedom to experiment and learn from mistakes, which is an important part of private sector culture. The Agriculture Challenge Fund programme states explicitly, for example, that it is expected that 30% of projects will fail. An ability to respond quickly and decisively to failure is also important; and
- other donors in countries we visited praised DFID's willingness to move quickly and take risks; for example, in supporting an effort to promote safety reforms in the garment industry in Bangladesh.

2.127 Other initiatives have not been so effective. We noted that work on measurement and reporting through the development of a Private Sector Scorecard has not been taken forward, pending decisions on how to implement the recently published Economic Development Strategic Framework. We observed that staff training for the PSD cadre has recently concentrated on specific themes at the operational level, such as anti-corruption and counter-fraud issues. These themes are important but the learning and development programme does not currently cover broader issues, such as DFID's strategic advantage in the PSD field or how to identify overlap with the work of others.

2.128 In all our case study countries, we observed instances of private sector mechanisms being used effectively in the wider delivery of programmes. Examples include the following:

- in Ethiopia, the Humanitarian team has shifted to buying foodstuffs to use as part of its emergency response from local farmers' co-operatives. In addition to providing a market for many local farmers, DFID estimates that this has yielded a cost efficiency of US$4 million in its procurement provision;
- in Tanzania, the Basic Services team is working with the private sector on the provision of key services, such as health, education and water. A private sector provider is also used for a key family planning project and the DFID team is currently seeking to increase the involvement of the private sector in the provision of malaria bed nets; and
- in Bangladesh, the Extreme Poverty team will explore opportunities to support beneficiaries in establishing informal micro-enterprises and facilitate better linkages among individual initiatives, local government support and the broader business environment in its urban poverty programme for the ultra-poor.

2 Findings

Learning by doing

We found some evidence of learning being incorporated into the design of new projects

2.129 We found some evidence of DFID learning by doing as it implements programmes. For example, in Ethiopia, we found that the Private Enterprise programme was building in monitoring and evaluation processes from inception. In Bangladesh, we observed clear efforts in the Katalyst M4P programme to share and improve the evidence base on which its future activities are predicated.

2.130 This is not necessarily easy in a PSD context. Programmes may be implemented in ways that cannot easily be evaluated; for example, because there are multiple activities implemented across multiple territories, launched in an opportunistic but unsystematic way (as in the Rural Support programme in Tanzania). In such cases, small changes to the way that a programme is implemented can make it much more feasible to evaluate reliably and credibly. Implementers are, however, very rarely expert in evaluation design and the occasion of a formal evaluation is usually too late in the process to allow for any meaningful adjustment to implementation strategy. This is consistent with the findings of our review of *How DFID Learns,* which found that continuous monitoring is not fully developed.[97] DFID is experimenting, therefore, with the creation of independent evaluation units, for example in the Private Enterprise programme in Ethiopia, which is advising from the start how to implement the programme in ways that will make it easier to evaluate.

2.131 In the countries we visited, we found that DFID primarily draws from its own experience across its programmes. This is consistent with the findings of the Evidence Survey quoted in our review of *How DFID Learns,* which found that DFID remains too much in the mode of trying to manage or change others rather than listening to or supporting them.[98] In this case this may be, in part, because many of these programmes are new or innovative. In some of the programmes we reviewed (for example the Private Enterprise programme in Ethiopia), iterative learning had been built into the design process. In this programme a review after one year was intended to provide key lessons to inform the longer-term design. We saw some signs that the use of evidence from non-DFID sources is improving over time. We noted, however, that DFID's wider evidence base may not incorporate learning effectively in terms of programme implementation as opposed to design.

2.132 At an operational level, for example, it was not clear how lessons from specific programmes were being used to inform others. In Tanzania, the Rural Support programme works at the community level on issues such as improving farming techniques and access to market. Lessons from these activities could be highly relevant in informing both the Agricultural Growth programme and the Agriculture Challenge Fund. We observed no evidence that this was happening.

2.133 We found that broader political economic analysis and assessment of the impact of the intervention on other parts of the economy is not considered in detail. Coherence with either DFID's own or government priorities – although referred to – appears to be something of a box-ticking process. This is consistent with the findings of our review of *How DFID Learns,* which expressed concern that theories of change are too simplified and do not reflect the complex realities in which DFID works.[99] This has implications for the ability of programme managers to adjust their projects in line with new or changing information. To enable it to become more of a learning and innovative organisation, DFID might benefit from designing more interventions explicitly as pilots, with the potential to expand. We noted that DFID is planning to do this with the Land Programme in Ethiopia, which will be implemented in a phased approach.[100]

97 *How DFID Learns*, ICAI, April 2014, http://icai.independent.gov.uk/wp-content/uploads/2014/04/How-DFID-Learns-FINAL.pdf.

98 *How DFID Learns*, ICAI, April 2014, paragraph 2.101, http://icai.independent.gov.uk/wp-content/uploads/2014/04/How-DFID-Learns-FINAL.pdf.

99 *How DFID Learns*, ICAI, April 2014, paragraph 2.94, http://icai.independent.gov.uk/wp-content/uploads/2014/04/How-DFID-Learns-FINAL.pdf.

100 The Land Programme programme is designed to include a phased trajectory that will allow lesson learning with 3 million parcels being certified in the first two and a half years before scaling up, if justified, by the experience and evidence

2 Findings

2.134 We saw some examples in our fieldwork of DFID country offices learning from other country offices and we commend this practice. For example, we met a member of staff from DFID's Pakistan office who was in Tanzania as part of a review team for a PSD project there. In Ethiopia, we noted that the Climate Innovation project is learning from an equivalent programme in Kenya while the Land Programme is learning from a similar land programme in Rwanda.

The PSD cadre benefits from and supports some good learning processes

2.135 There are some good elements of a learning strategy in place to support the PSD cadre. The cadre benefits from a number of processes, including the provision across all cadres of Technical Quality Assessors.[101] Although these individuals are intended to provide compliance rather than mentoring, feedback from the cadre positioned them as playing a useful mentoring role.

2.136 Likewise, the 'cadre time' introduced in 2011, under which members of expert cadres provide 10% of their time to support sections of DFID other than their own, has been welcomed by advisors as both enabling and supportive. We heard of examples of PSD advisors providing support to the Sudan office to develop a programme there and in the Climate & Environment Department.

2.137 The Private Sector Department has a Business Partner programme in place to link country offices to the centre, providing two-way benefits, whereby those at the centre are more closely linked to colleagues with the experience of operating in the field and those in the field have a key point of contact for what is new and important at the centre. These different instruments, together with the annual Continuing Professional Development conference, are regarded by the cadre as being useful and supportive learning mechanisms. Annex A6 provides further information.[102]

DFID needs to broaden its learning community

2.138 We are concerned that, whilst DFID has good elements of an internal learning strategy in place, it is not using all the available opportunities to learn. DFID is regarded as a leader and innovator amongst other bilateral and multilateral donors. In Bangladesh and Ethiopia, we found evidence of learning from other donors at both the initial programme design stage and in an ongoing way through donor forums.

2.139 Structures and systems for learning from external sources are, however, less clear. As a result, DFID loses the opportunity to learn from many who participate in and really understand what is going on in the markets. Given that PSD is a relatively new and different area for DFID, this could be given higher priority.[103] In our view, DFID could achieve more if it recognised the need to stretch its learning outside the comfort zone of its existing circle.

DFID should actively aim to learn more from the private sector

2.140 We found that DFID did not put enough effort into learning from the expertise and experience of the private sector. In our view, this is essential in an area of development assistance which seeks to develop the private sector as a way of lifting people out of poverty.

2.141 There are opportunities for DFID to learn from areas where the private sector has particular competence and expertise. These include managing risks in conflict-affected environments or in complex supply chains; dealing with climate risks; building complex multi-stakeholder

produced. Although this approach will partially reduce economies of scale achievable, such economies will still be significant if the programme is ramped up and the trade-off is justified, given the uncertainties faced at the outset.

[101] Technical Quality Assurers (TQAs) ensure staff are maintaining and improving their technical skills. They also advise on and review continuing professional development objectives and provide input to the performance management assessment and technical competency assessments.

[102] As with most of DFID's professional cadres, the PSD cadre holds an annual 'continuing professional development' conference to share learning between members of the cadre and bring in external experts.

[103] This newness and difference was explicitly mentioned by the UK Secretary of State during her speech to the London Stock Exchange on 27 January 2014: 'I've spelled out today how DFID is on a dramatic journey. We are changing our people, our training, our programmes, our resourcing, our partners. We're making DFID pro-entrepreneur, pro-business because that's how we ultimately defeat poverty. And it is challenging. In many ways it would have been a lot easier to just do more of the same. But sanitation, health and education… while vital… only gets these developing countries half way.'
See https://www.gov.uk/government/speeches/smart-aid-why-its-all-about-jobs.

partnerships; and working with others in the private sector for increased influence and leverage. Learning from the private sector will be vital if DFID wishes to increase its ability to leverage private sector finance.

2.142 DFID is proposing to move into increasingly innovative areas, implying greater demands on the processes, capacities and culture of the organisation and underlining the importance of learning to maximise the prospects of success. We noted, for example, that DFID is planning to increase its use of returnable capital instruments in its PSD work.[104] This is an area in which the private sector has significantly more expertise than donor agencies.

2.143 DFID has existing relationships with a number of multinational companies but it is not clear to what extent DFID uses these relationships actively to learn how these companies do business effectively in DFID's priority countries: corporate representatives whom we interviewed told us that DFID is difficult to work with. DFID may have to accept that it is likely to be the junior partner when working with multinational corporations on implementing PSD and it may find this uncomfortable.

DFID's learning community should include implementing partners and civil society

2.144 As we pointed out most recently in our reviews on *How DFID Learns*[105] and *DFID support for Civil Society Organisation through Programme Partnership Arrangements*,[106] DFID can learn across a broad range of external sources, including from beneficiaries, all staff, delivery partners and civil society. Civil society organisations that work directly with and in the private sector have experience from many relevant issues, including building private sector capacity in developing countries; multi-stakeholder collaboration; delivering in difficult environments and to hard-to-reach groups; developing standards; and leveraging funding and influence.

2.145 In our discussions with DFID, however, it did not refer to the potential for learning from civil society organisations. Moreover, civil society (as represented by the UKAid Network, UKAN) told us that 'there is insufficient sharing of learning between DFID and NGOs'. They recommend 'investment in the processes and spaces for dialogue, evidence gathering, learning and knowledge sharing to advance the state of practice in this sphere of development work'.[107] During our visit to Tanzania, for example, it was not clear from our discussions with DFID staff how the large PSD team is listening to or learning from business, other agencies or academia. This is consistent with the findings of our 2013 Programme Partnership Arrangements review, which found that DFID has only recently started to make full use of the learning available from civil society. It appears, however, that the quality of the insights offered by NGOs in PSD is variable and DFID needs to be aware of this in selecting civil society partners for PSD programmes.

DFID's learning community should include others in Whitehall

2.146 We saw little evidence that learning on PSD was taking place across Whitehall, despite this being one of DFID's stated intentions, as set out in the 2008 PSD strategy and further highlighted in the new Economic Development Strategic Framework.[108] This opportunity was hardly referred to, neither in the interviews which we carried out with DFID's PSD cadre, country offices and senior civil servants working on PSD issues in DFID nor in the survey which we undertook of PSD advisors. We would have expected a close relationship with

[104] Historically, most government development agencies have been donors, whose monies have been distributed as grant funding. DFID and others are now exploring the greater use of 'returnable capital' instruments. This includes DFID increasing the use of investment instruments to stimulate private investment that benefits poor people or investing in relevant corporate entities as equity investors. The use of such instruments is complicated for donors for a number of reasons. For example, what mechanisms can realistically be put into place to recover loans and equity if the recipient is reluctant to comply with an original agreement? See https://www.gov.uk/government/news/greening-uk-will-focus-on-frontier-economic-development.

[105] *How DFID Learns*, ICAI, April 2014, http://icai.independent.gov.uk/wp-content/uploads/2014/04/How-DFID-Learns-FINAL.pdf.

[106] *DFID's Support for Civil Society Organisation through Programme Partnership Arrangements*, DFID, May 2013, http://icai.independent.gov.uk/wp-content/uploads/2010/11/ICAI-REPORT-DFIDs-Support-for-CSOs-through-PPAs.pdf.

[107] Written submission from UKAN to the ICAI review team.

[108] *Economic development for shared prosperity and poverty reduction: a strategic framework*, DFID, January 2014, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/276859/Econ-development-strategic-framework_.pdf.

the Department for Business, Innovation and Skills, in particular, since it has significant expertise at building enterprise and growth in the UK context. We did have encouraging meetings with the High Commissioners in Dhaka and Dar-es-Salaam. Relationships with the Foreign and Commonwealth Office (FCO), Cabinet Office and HM Treasury did not, however, feature in our interviews with the PSD cadre or in survey responses, despite there being relevant issues in common, such as the EU Accounting and Transparency Directives and the UK Action Plan on Business and Human Rights (for which DFID was involved in the Steering Committee). Given our belief that DFID needs to define more clearly its role in PSD and where that coheres with the role of others, it is important that DFID is clearer about where its work relates to that of other government departments.

2.147 In contrast, we observed a close working relationship between DFID and UK Trade & Investment,[109] including aid-funded missions with businesses to countries such as Kenya. Our visit to Tanzania followed closely on the visit of the Secretary of State for International Development, who launched a High Level Prosperity Partnership with the aim of creating closer commercial links between the UK and Tanzania. It is hoped that the partnership will double the number of UK companies doing business in Tanzania, particularly in the renewable energy and agriculture sectors, by 2015.[110]

DFID should be more open with its learning community

2.148 Civil society organisations and the private sector were united in telling us that DFID is not transparent about what PSD work it is doing, where and why. This is combined with a sense that DFID does not value the attributes which CSOs bring to PSD.

2.149 We found it impossible to identify how much DFID actually spends on PSD, even with the department's co-operation – largely because DFID faces the same challenge. As a result, DFID cannot provide adequate detail about its PSD work under the wealth creation pillar. We acknowledge that the need for a better financial information system is already recognised by DFID.

2.150 A specific objective of the *Building the Architecture* task plan of 2012-13 (see paragraph 2.70) was to ensure that DFID is accessible to private enterprise.[111] DFID undertook to make its website easier for businesses to navigate, including an easily searchable overview of PSD programmes, case studies and contacts. This has yet to be done.

[109] A UK Government department working with businesses based in the United Kingdom to ensure their success in international markets and encourage the best overseas companies to look to the UK as their global partner of choice.

[110] *Tanzania and the UK forge new partnership on trade and investment*, DFID, November 2013, https://www.gov.uk/government/news/tanzania-and-uk-forge-new-partnership-on-trade-and-investment.

[111] *DFIDs Private Sector DNA Task Plan: Building the Architecture: How DFID can strengthen and deepen our ability to work with private enterprise to reduce poverty*, DFID, 2012, internal unpublished document.

3 Conclusions and Recommendations

Conclusions

3.1 DFID has been coherent and consistent in its view that developing the private sector is central to economic development and to poverty reduction. DFID sees its PSD work as a way of helping countries graduate from a dependency on aid.

3.2 DFID's ambition, however, is immense. Though a significant donor in PSD, DFID is a very small player in the wider processes needed to develop the private sector. Moreover, much of what it seeks to achieve, such as transformational change through regulatory reform and the loosening of international trade rules, lies not only outside its control but also outside its core competencies as an aid agency.

3.3 DFID needs to identify and focus on its core strengths and the areas of PSD work where it can add most value in its role as an aid agency. DFID may need to adopt the role of a more modest partner, market convenor and intelligent customer. Its strengths may lie, for example, in ensuring that the interests of the very poorest are taken into account as economic development occurs. It may be able to offer technical assistance to help developing countries adopt appropriate PSD strategies or to provide funding mechanisms which might not be possible under commercial structures. It may be well placed to identify who needs to do what in PSD and to use its influence as a leading donor to encourage others – whether national governments, aid agencies or the private sector – to implement appropriate and effective private sector development activities.

3.4 DFID needs to recognise that the private sector is not a developmental panacea. References to 'the miracles'[112] that companies are able to perform risks underplaying the role that donors like DFID and country governments have in ensuring that economic development provides benefits to the poorest in society.

3.5 Many PSD approaches are relatively novel and are necessarily specific to each context and market. They are not guaranteed, therefore, to deliver results. DFID's partners greatly welcome its willingness to take on the risks involved in PSD. Given the dynamic nature of market systems, however, DFID is taking risks it does not fully understand and is not equipped to manage (as discussed in paragraph 2.61) As well as having implications for the positive change DFID seeks to make, a failure properly to understand risk may lead to adverse unintended consequences.

3.6 Given the scale of the challenge in PSD and its complexity, it is important that DFID and others are prepared to take risks. We are not suggesting that DFID should become more risk-averse. It remains important, however, that DFID is able to calibrate the risks it takes and mitigate and minimise them where possible.

3.7 We found that DFID's strategic documents lack clear guidance on how to put its ambitions for PSD into practice. The new Economic Development Strategic Framework potentially provides the framework within which DFID might develop more specific and detailed guidance but, at present, there is little advice available for staff on how to translate high-level objectives into country portfolios which adequately reflect DFID's priorities and strengths.

3.8 Some DFID staff are taking the initiative to analyse the context in which they seek to deliver PSD programmes and to build a clear and rational case for the programming choices made. The systems have not, however, supported that, although the new Country Poverty Reduction Diagnostic tool may partially address this gap. As a result, DFID cannot demonstrate that it has a well-balanced and coherent package of PSD programmes at the country level and globally which, together, contribute to meeting its overall objective of creating a private sector that supports poverty reduction.

3.9 DFID also lacks robust processes for project management. Existing processes (such as the business case) do not properly support effective and timely decision-making. They currently place too much emphasis on the initial project design and relatively little on supervision and learning

[112] *The Engine of Development: The private sector and prosperity for poor people*, DFID, 2011, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/67490/Private-sector-approach-paper-May2011.pdf.

3 Conclusions and Recommendations

during implementation. We are pleased that DFID is already taking steps to address these issues.

3.10 The impact of the portfolio of programmes which we have observed is modest when measured against DFID's overarching aims. This is more reflective of the extreme ambition embedded within DFID's high-level objectives, however, than a failure of the programmes to deliver a real and significant impact for the people they work with. We observed positive impact on beneficiaries from a number of the individual projects we visited. What was unclear, however, was the cumulative impact of each country portfolio on transforming the private sector in those countries as a tool for economic growth and poverty reduction. It was difficult to identify - and therefore assess - whether and how different projects formed a coherent package to bring about long-term change.

3.11 We saw examples of DFID's PSD programmes delivering tangible benefits in the field: the reported results of some of the more mature programmes are impressive. At the micro-level, we saw evidence that PSD programmes, such as microfinance initiatives, were making a real difference to the poor. The challenge for micro-level programmes in particular, however, is whether they can achieve long-term sustainable impact and whether they can do so at scale. It is not clear whether the benefits of micro-level interventions will endure beyond the life of the programmes or that the interventions will result in a cumulative impact on the strategic objective to achieve long-term transformational change and pro-poor growth of the private sector.

3.12 DFID is regarded by other donors as an expert in some types of mid-level PSD programmes. Its work in market systems is regarded by its peers as innovative and successful and it has demonstrated a good ability at delivering M4P programmes within specific market systems. Many mid-level PSD programmes seek to balance the development of effective market systems with efforts to ensure that poor people are not excluded from or adversely impacted by change. There are doubts, however, whether mid-level programmes, such as M4P, can lead to sustained transformational change across economies in developing countries rather than in specific market systems.

3.13 Macro-level programmes are most closely aligned with DFID's desire to effect systemic change but they are also the type of programme whose success tends to depend on factors outside DFID's control. We saw evidence that macro-level interventions are making a difference but it is not always easy to attribute change directly to a DFID programme or to measure the ultimate impact of such changes on the end beneficiaries.

3.14 DFID is strengthening its private sector capabilities. Ways of PSD working are being taken up in other parts of the organisation. The connectivity between different PSD modalities remains a work in progress but we have observed encouraging signs that a private sector focus is permeating across DFID's work.

3.15 DFID should co-ordinate its activities to leverage PSD expertise across other parts of government. DFID can do more to learn from the private sector. Working more closely with the private sector will help DFID to understand and address the business imperatives facing entrepreneurs and businesses and the approaches that they take in addressing these. It is the private sector itself, however, not DFID, which will ultimately be the driving force behind the economic growth that DFID expects will lift people out of poverty and assist countries to graduate from aid programmes.

Recommendations

Recommendation 1: DFID should clearly define and articulate where it can add most value in PSD relative to other stakeholders. It should be more realistic in its ambitions and the impact it seeks to achieve.

3.16 PSD strategy documents published by DFID have been consistent in aspiring to eradicate poverty and transform economies through the development of the private sector. DFID should translate these aspirations into realistic objectives that recognise DFID's role as one of many agencies seeking to contribute to economic development. It must be able to articulate what success looks like (at different levels of intervention).

3 Conclusions and Recommendations

3.17 DFID should identify those areas of PSD where it has the relevant experience and expertise to maximise its impact. It should consolidate its approach around these core strengths and look to build on its successes. While we support its search for innovative solutions and readiness to accept certain risks, we echo the IDC's 2006 observation that these should not come at the expense of proven and effective interventions.[113]

3.18 For example, if DFID wishes to pursue the use of 'patient capital' and other similar funding mechanisms, it needs to ensure that its activities fill a genuine gap between grant-making and fully-commercial funding by banks, venture capitalists and others. Failure to do this could potentially result in DFID distorting the financial sector in countries where it operates. Equally, it should recognise that its most appropriate role may not be that of funder: the alternative would be for DFID to maximise its influence as a trusted advisor to effect change.

Recommendation 2: **DFID should provide clearer guidance to its staff on how to design a coherent and well-balanced PSD country portfolio that matches its goals for an end to extreme poverty through economic development and transformational change.**

3.19 DFID's ambitious and high-level objectives need to be supported by clear guidance on how they should be achieved. This will require DFID to develop country-level strategies for PSD that align with its global priorities to place the private sector and economic development as the main motors to achieve its key aims, including improving the lives of girls and women in the world's poorest countries and focussing its work, particularly on fragile and conflict-affected states.

3.20 DFID should provide staff with a framework through which to develop a coherent and well-balanced portfolio of projects at the micro-, mid- and macro-levels. Its thinking should be clearly articulated through a dynamic and responsive theory of change. Again, this should be consolidated around DFID's core strengths. It should encourage staff to focus on the cumulative impact of its programmes at the portfolio level.

3.21 As our review acknowledges, some guidance is provided to staff - but we do not consider this sufficient given the scale of the ambition at which DFID aims. Moreover, providing guidance in the form of documents is not sufficient. More detailed and intensive training needs to be provided in key areas, supported by mentoring, including support on topics such as: political economy analysis and conflict assessment, where relevant, portfolio management and project management.

3.22 Country-level portfolios should match DFID's aims for transformational change. Targets must take into consideration the inherent difficulties in measuring impact at a systemic level. They must consider the long-term nature of many interventions and recognise the relatively small role that a donor such as DFID can play.

Recommendation 3: **DFID needs better to calibrate and manage the risks associated with PSD and so innovate in a more informed fashion.**

3.23 The market-based nature of PSD means that all interventions carry risk. The business case is elaborate in an effort to minimise this risk but cannot be totally effective, as it is only prepared once before the funding decision is taken. Because PSD is working with market conditions, the choice of intervention is usually very context-specific and often experimental, with uncertain and sometimes unintended consequences. Supervision and monitoring are, therefore, particularly important and DFID systems need to support staff in doing this effectively. Many risks relate to the implementation phase.

3.24 Indeed, DFID already supports portfolios that carry risk, implicitly or explicitly. Challenge funds, for example, are generally based on the concept that the achievements of the successes will more than justify the failures; not every award will succeed. Large government administrations, however, are not comfortable with such risks, in general; staff need to be better equipped to assess and manage them. This is a core business skill.

[113] *Private Sector Development: Fourth Report of Session 2005-06*, House of Commons, IDC, July 2006, Vol. 1, http://www.publications.parliament.uk/pa/cm200506/cmselect/cmintdev/921/921i.pdf.

3 Conclusions and Recommendations

Recommendation 4: **DFID needs to work harder to understand the barriers and business imperatives faced by the private sector in participating in development. Wherever it operates, DFID needs to be clear how and where its interventions can address these barriers**.

3.25 DFID needs to accept that it is companies themselves which drive development of the private sector and that donors are adjuncts to that process; not the reverse. DFID needs to proceed, therefore, with programme and project design on the basis of what companies need to succeed and in the light of what companies are already doing.

3.26 DFID staff learn comparatively well from colleagues and other offices. They do not, however, learn systematically from the private sector, either in-country or globally. DFID should seek to build close relationships with the private sector and continue in its efforts to bring private sector thinking into its core operations.

3.27 Closer ties with the private sector will enable DFID staff to consider constraints to private sector growth from the perspective of the entrepreneurs and businesses which operate in it. There is a considerable need for genuine insight into business imperatives and greater understanding of the challenges facing company managers. DFID should continue to build its understanding of these challenges and identify interventions which will have the greatest impact on stimulating private sector growth and shared prosperity.

3.28 Closer collaboration with and clearer understanding of the private sector will also allow DFID to develop theories of change for projects that can respond to specific market dynamics. This insight should enable DFID to be more flexible in real time but also to be much better informed by the context than is currently the case.

Annex

This Annex provides more detailed background information to the review. It comprises of the following:

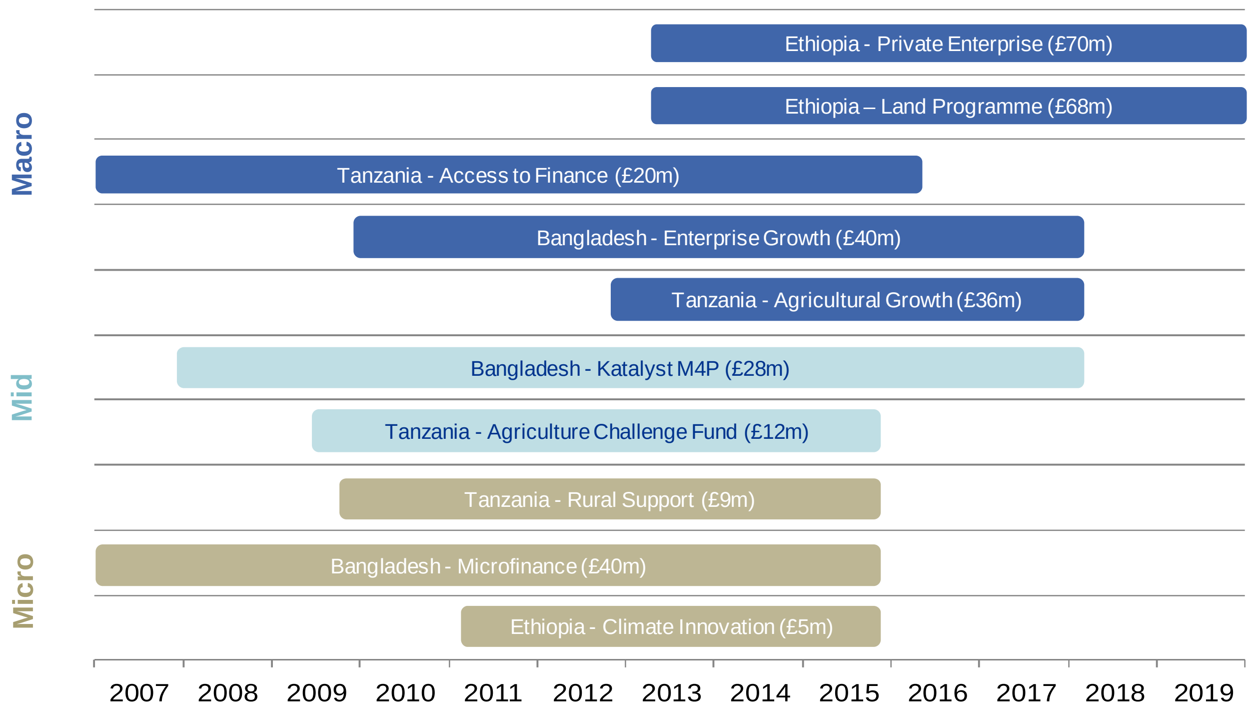
- Overview of case study programmes (Annex A1);
- Case study country - Bangladesh (Annex A2);
- Case study country - Ethiopia (Annex A3);
- Case study country - Tanzania (Annex A4);
- DFID’s Private Sector Department (Annex A5);
- Mainstreaming the private sector in DFID (Annex A6);
- DFID’s Economic Development Strategic Framework (Annex A7); and
- List of consultations (Annex A8).

Annex

Annex A1: Overview of case study programmes

1. In each of our case study countries, we examined the coherence of DFID's in-country PSD portfolio. We conducted a desk-based review of business cases, annual reviews and evaluations of DFID's PSD portfolio and examined the choice of programmes, log-frames and design of the portfolio of programmes, the impact achieved to date and financial data. We also performed a broader and in-depth review of three case study projects in Bangladesh and Ethiopia and four in Tanzania. In selecting our case studies, we were guided by the following considerations:
   - type of intervention: to examine, in each country, projects which cover the range of micro-, mid- and macro-level activities;
   - size of expenditure: while not ruling out the review of small-scale projects if they seemed to be of particular interest, to ensure that the selected projects, together, encompassed a meaningful proportion of the country PSD expenditure;
   - ability to give insight into the history of PSD: to explore how DFID's PSD work has changed and evolved over time by reference to projects that would provide this sort of perspective. We did not rule out studying a newly established project but, in such cases, sought to examine how this new project built on previous activities; and
   - donor collaboration: a high proportion of DFID's PSD work is either conducted in collaboration with other donors or delivered through third parties, such as the World Bank/IFC. It was important, therefore, that the review includes a scrutiny of programmes delivered in such ways.
2. The case study programmes formed the basis of our programmatic findings and helped form our judgements on DFID's PSD portfolio as a whole. For the selected in-country case study projects, we visited implementing partners, DFID programme staff, contractors, government officials and held consultations with direct beneficiaries and recipients of these programmes. Figure A1 contains information on our case study programme.

Figure A1: Historic and projected DFID expenditure of selected case study programmes, 2007-19



Annex

Annex A2: Case study country – Bangladesh

Context

3. The private sector in Bangladesh faces many challenges, including weak governance and corruption, lengthy and ineffectual law enforcement and a constant threat of environmental disaster from flooding and tropical cyclones. The economy, however, is quite resilient, as recent economic growth has been externally, not locally, derived. This has placed an increased importance on remittances and on exports, which are driven by the ready-made garment (RMG) industry.

4. Economic growth has been generated by a vibrant private sector, facilitated by sound macro-economic management. On average, the economy has grown by 5% or more since the 1990s, accelerating to over 6% in the last five years due, in part, to maintenance of macro-economic stability. Gross Domestic Product (GDP) per capita has grown over approximately two and a half times over the last 30 years – from US$320 in 1980 to nearly US$800 in 2012. Over 80% of GDP is now generated by industry and services, a significant increase since 1980.[114] Bangladesh is also less dependent on aid, which counts for less than 1% of GDP.[115]

5. Economic growth has mainly come from an abundant source of largely unskilled and cheap labour. The RMG sector has taken advantage of this situation and it now employs around 4 million workers (mainly female) and accounts for 80% of manufactured exports.[116] The recent international attention on Bangladesh's RMG sector in the wake of safety disasters, such as the Rana Plaza factory collapse, is proving to be a challenge to the Government rather than an opportunity to reform the RMG sector.[117]

6. Access to finance is a success story. Due, in part, to the spread of microfinance, financial inclusion rates are high, meaning that significantly more of the poor in Bangladesh (35%) have bank accounts compared to the South Asia region as a whole (26%).[118]

7. Poverty levels have fallen to under 45% as a result of steady growth, industrialisation and greater access to finance, which has led to improvements in a range of social indicators, such as adult literacy, child malnutrition and infant mortality. The agriculture sector accounts for only about 18% of GDP, the lowest out of our three case study countries.[119] A number of factors, nevertheless, point to continuing vulnerability. Many Bangladeshis still live under the poverty line – an estimated 77% of the population live on under US$2 a day – and there is marked income and social inequality. Resilience to environmental shocks cannot be guaranteed.[120]

8. The role of the Government of Bangladesh in the economy has been limited to prudent macro-economic management. Long-running political rivalries have paralysed government decision-making in recent years. Bangladesh is in need of infrastructure upgrades and advances in its public service delivery systems. A challenge for the Government is how to increase FDI into the economy, particularly in large-scale infrastructure projects. Bangladesh remains, however, a difficult place for the private sector to flourish. According to the World Bank's annual *Doing Business* index, Bangladesh ranks 130 out of 189 countries in terms of ease of doing business.[121]

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114 *Bangladesh: Towards Accelerated, Inclusive and Sustainable Growth – Opportunities and Challenges*, World Bank, June 2012, Report No. 67991, http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2012/11/15/000333037_20121115012318/Rendered/PDF/NonAsciiFileName0.pdf.

115 *Net ODA received as a percentage of gross national income (GNI)*, World Bank, 2012, http://data.worldbank.org/indicator/DT.ODA.ODAT.GN.ZS.

116 *Bangladesh: Towards Accelerated, Inclusive and Sustainable Growth – Opportunities and Challenges*, World Bank, June 2012, Report No. 67991, http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2012/11/15/000333037_20121115012318/Rendered/PDF/NonAsciiFileName0.pdf.

117 *After Rana Plaza, A report into the readymade garment industry in Bangladesh*, Bangladesh All Party Parliamentary Group, 2013, http://www.annemain.com/pdf/APPG_Bangladesh_Garment_Industry_Report.pdf.

118 *Of Changes and Transformations*, Bangladesh Bank, 2013.

119 *Agriculture, value added as a percentage of GDP*, World Bank, 2012, http://data.worldbank.org/indicator/NV.AGR.TOTL.ZS.

120 Poverty headcount ratio at US$2 a day (% of population), World Bank Data, 2010, http://data.worldbank.org/indicator/SI.POV.2DAY.

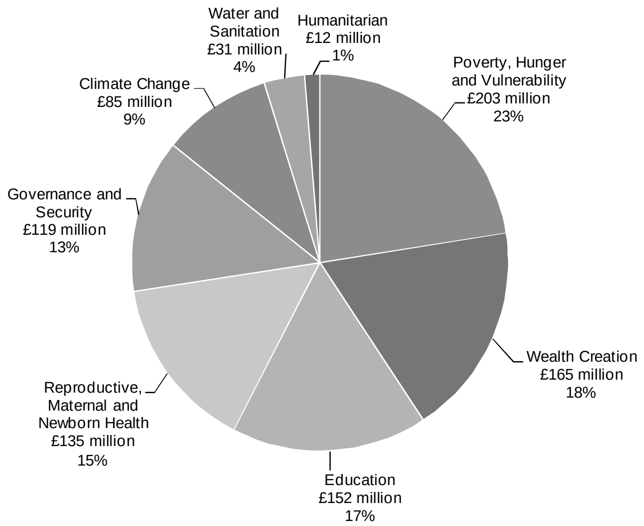
121 *Doing Business Index*, IFC, 2013, http://www.doingbusiness.org/rankings.

Annex

DFID Bangladesh's PSD portfolio

9. DFID Bangladesh manages a large and diverse programme. It is one of DFID's largest country offices, with a budget of £902 million over 2011-15, of which 18% (£165 million) is marked for wealth creation expenditure, see Figure A2. Since 2007, DFID Bangladesh has spent £294 million on wealth creation activities, the largest amount from any DFID office (see Figure 3 on page 7).

Figure A2: DFID Bangladesh: Operational Plan Budget 2011-15[122]



Overview of our case study programmes in Bangladesh

Katalyst M4P (Agriculture for Growth in Bangladesh)

10. Katalyst M4P is a mid-level Making Markets Work for the Poor programme focussing on market systems-based agricultural support. It has been in operation since 2002 and is now entering its third phase. The UK Government is providing up to £12 million over four years (2013-17) to support this third phase.[123] Katalyst M4P aims to identify and develop models by which the private sector can be encouraged to view smallholder farmers as a potential profitable market. The programme works in partnership with the private sector to design and implement sustainable pro-poor interventions to address underlying market constraints for the poor. It aims to change and drive market incentives so that it reaches large numbers of beneficiaries and ensures sustainability, particularly in terms of food security, for a growing population in a country where 48% of the rural poor are dependent on agriculture.[124]

Enterprise Growth

11. Enterprise Growth is a macro-level, IFC-implemented regulatory reform and SME competitiveness programme. The UK Government has contributed £40 million to the Enterprise Growth programme. Half of the funding (£20 million) is used to provide technical assistance to simplify and, where relevant, automate processes that businesses encounter and use, for example, in the areas of business registration, taxation and commercial justice or alternative dispute resolution. A total of £5 million is being provided to the Bangladeshi activities of IFC's South

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[122] *DFID Bangladesh Operational Plan*, DFID, 2013, http://webcache.googleusercontent.com/search?q=cache:avNG3onC94QJ:https://www.gov.uk/government/publications/dfid-bangladesh-operational-plan-2013+&cd=1&hl=en&ct=clnk.
[123] *Annual Review: Katalyst II*, DFID, 2012, http://iati.dfid.gov.uk/iati_documents/3544627.doc.
[124] *Katalyst*, Swisscontact, 2013, http://www.swisscontact.org.bd/inner.php?Title=28.

Asia Enterprise Development Facility, which works to improve competitiveness of SMEs and provides advice to businesses to improve productivity and reduce environmental impact (focussing on the textile, poultry and seed sectors). A third component has provided £15 million for technical assistance to support a US$120 million World Bank loan to create special economic zones, which will provide businesses with additional land and infrastructure in which to operate.[125]

Microfinance

12. The Microfinance programme is a complex £40 million programme operating over seven years (2007-14) that works at the macro-level on regulatory environment and at the micro-level on access to finance. It aims to help to create a sustainable microfinance sector in Bangladesh, offering greater access to and usage of diversified financial services for the extreme poor, micro and small enterprises and smallholder farmers, all of whom were previously excluded from financial services. Approximately half of the funds target poor beneficiaries through financial intermediaries. Approximately one third is spent on ‘enabling’ work to improve regulation and capacity building, of which just under £3 million supports the establishment of the Microcredit Regulatory Authority, whose role is to issue licences, as well as to monitor, supervise and provide capacity building to microfinance institutions; and approximately £9.25 million supports Bangladesh’s Institute of Microfinance for capacity building of microfinance institutions.[126]

[125] *Annual Review: Regulatory and Investment Systems for Enterprise Growth In Bangladesh,* DFID, 2012, http://iati.dfid.gov.uk/iati_documents/3553656.docx.
[126] *Annual Review: Promoting Financial Services for Poverty Reduction in Bangladesh,* 2012, DFID, http://iati.dfid.gov.uk/iati_documents/3794149.docx.

Annex

Annex A3: Case study country – Ethiopia

Context

13. The private sector in Ethiopia faces many challenges, including recent instances of macroeconomic instability, a challenging regulatory environment, low levels of internal and external investment and lack of access to finance. Ethiopia has, however, seen recent economic growth, primarily driven through its Government's firm commitment to poverty reduction and reforms to make the economy more efficient.

14. Ethiopia has recently outperformed many sub-Saharan African countries in terms of both economic and social indicators**.** The country has had an average 10.6% a year GDP growth between 2004 and 2011, compared with 5.2% in sub-Saharan Africa.[127] It has recently met the MDG in child mortality and is on track to achieve the MDGs in education and HIV-AIDS by 2015.

15. Despite recent progress, however, Ethiopia remains one of the world's poorest countries. It has the second largest population in Africa, at 85 million, with 25 million still living in extreme poverty.[128] Ethiopia is exposed to climatic shocks - including drought - and has conflict areas both within the country in the Somali region, as well as at its borders. Approximately 80-85% of the people are employed in agriculture, particularly farming. The sector contributes about 40% of total GDP. Smallholders, the backbone of the sector, cultivate 95% of the cropped area.[129] Whilst Ethiopia is the twelfth fastest growing economy in the world, it remains one of the ten poorest countries and is still dependent on aid. Aid comprises about 11% of Ethiopia's GNI.[130]

16. Economic growth has been driven by strong government influence. The Government of Ethiopia's Growth and Transformation Plan (2010-11 to 2014-15) aims to take steps 'to eradicate poverty and create employment... by sustaining broad-based economic growth in a more co-ordinated and structured manner'. The Government has a proactive public sector which leads the development process and the private sector is orientated to support the government's development goals. This government control of the private sector is fuelled by the desire to manage growth sustainably and in line with a pro-poor vision. This has implied that the Government establishes which key sectors are 'open' for investment and expansion. It has earmarked as key priorities for increased production such products as sugar, horticulture, textiles and leather and cement.

17. Lack of access to finance was identified in a World Bank enterprise survey as the biggest constraint to investment, followed closely by the lack of access to land.[131] Land investment, as in Tanzania, is key to growth and poverty reduction, given Ethiopia's dependence on agriculture.[132]

18. Overall, the business environment in Ethiopia is challenging. According to the World Bank's *Doing Business* index, the business climate has worsened during the period 2008-13, from a ranking of 102 out of 178 countries to a ranking of 127 out of 185 countries.[133] The World Economic Forum's Global Competiveness report puts Ethiopia at 127 out of 148 countries.[134,135] There are, however, significant opportunities for the private sector within Ethiopia, given the country's low wages, booming population and wealth in natural resources. Low levels of corruption, good rule of law and lack of competition create a solid foundation on which the private sector can flourish, despite a difficult regulatory and political environment.

[127] *Ethiopia Economic Update – Laying the Foundation for Achieving Middle Income Status,* World Bank, 2013, http://www.worldbank.org/en/news/press-release/2013/06/18/ethiopia-economic-update-laying-the-foundation-for-achieving-middle-income-status. This report uses GDP growth rates as reported by the Government of Ethiopia. According to the IMF, however, alternative arms-length methodologies suggest that Ethiopian historical annual growth rates could be overestimated by as much as 3 percentage point in recent years. The IMF has indicated that the official methodology improved considerably in 2011-12.

[128] *DFID Ethiopia Country Operational 2011-15*, DFID, 2012, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/67393/ethiopia-2011.pdf.

[129] *Ethiopia Overview*, FAO, http://www.fao.org/ag/AGP/AGPC/doc/counprof/ethiopia/ethiopia.htm.

[130] *Net ODA received as a percentage of GNI*, World Bank, 2011, http://data.worldbank.org/indicator/DT.ODA.ODAT.GN.ZS.

[131] *Enterprise Surveys: Ethiopia*, World Bank, 2011, http://www.enterprisesurveys.org.

[132] *Agriculture, value added as a percentage of GDP*, World Bank, 2012, http://data.worldbank.org/indicator/NV.AGR.TOTL.ZS.

[133] *Doing Business Index*, IFC, 2013, http://www.doingbusiness.org/rankings.

[134] *Global Competitiveness Report 2013-2014*, World Economic Forum, 2013, http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2013-14.pdf.

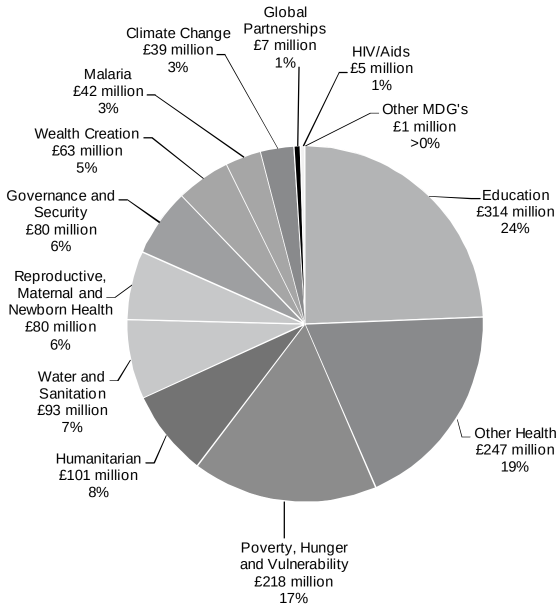
[135] *Business Case and Intervention Summary: Private Enterprise Programme Ethiopia,* DFID, 2012, http://iati.dfid.gov.uk/iati_documents/3982910.doc.

Annex

DFID's PSD portfolio in Ethiopia

19. DFID Ethiopia is the second largest DFID country programme, with an overall budget in 2013-14 of £341 million. Ethiopia is DFID's largest country office in Africa. The budget for DFID Ethiopia's operational plan for the period 2010-11 to 2014-15 totals £1.3 billion, of which £63 million (5%) is earmarked for wealth creation activities, as shown Figure A3.

Figure A3: DFID Ethiopia: Operational Plan Budget, 2011-15[136]



20. DFID's Private Sector portfolio in Ethiopia is currently in its infancy, with planning having started only in 2010. Private Sector expenditure, while comprising only 7% of the overall budget this year (£25 million), is set to grow. We decided to select Ethiopia as a case study for this review because of the high level of funds allocated to DFID's country office and because the Private Sector programme is in its early stages, thus providing a comparative benchmark for the more mature programmes in Bangladesh and Tanzania.

Overview of our case study programmes in Ethiopia

Land Programme

21. To enhance economic growth and increase incomes of the poor, the Land Programme seeks to bring about transformative, systemic change in Ethiopia's land certification and market system by improving sustainable land governance systems and encouraging the development of functioning land markets.[137] Although primarily a macro-level programme, it also includes elements of M4P programming.

22. The programme supports interventions in the following three areas:

- increasing land tenure security;
- facilitating the development of the Ethiopian land market and supporting operations; and
- addressing cross-cutting policy issues.

[136] *DFID Ethiopia Operational Plan 2011-2015*, DFID, 2013, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/208967/Ethiopia.pdf.
[137] LIFT Business Case and Intervention Summary, 2013.

Annex

23. Through this, the Land Programme aims to increase incentives to invest, increase labour mobility and enhance greater efficiency in land use, given that secure land rights will increase land transactions. The intended ultimate beneficiaries of the programme are the rural poor, particularly small-scale farmers, women and the vulnerable.

24. DFID will provide up to £68 million to the Land Programme over six years, between 2013-14 and 2019-20. The intervention will be delivered by the Government of Ethiopia and the implementing technical service provider, HTSPE. Funds will be channelled through HTSPE (60%) and the Government of Ethiopia (12%), with the remainder to be disbursed by DFID.

25. The programme builds on existing first-stage certification, a programme led by the Government of Ethiopia with some donor funding, which supported an initial process of land certification. This, in turn, made renting land more straightforward and assisted the landless – although it failed to denote clear land boundaries. The second stage of land certification aims to improve records and include maps of titled land areas. This will help with taxation and land disputes and will allow farmers to secure loans as collateral. While neither M4P nor land programmes are a new approach to DFID, the combination of the two in one programme is new.

26. The programme may lead to an increased income of approximately 20% for 1.36 million households by its completion in 2019-20.[138]

Private Enterprise

27. Whilst the Land Programme provides a bottom-up strategy on the business environment, direct support is provided through the Private Enterprise programme. This has three focus areas:

    - access to finance (£19 million) by supporting microfinance institutions, banks and equity investors to overcome the barriers to providing credit to growth-orientated businesses;
    - focussed support for specific priority sectors (£44 million), primarily livestock/leather, horticulture and cotton/textiles, to help address a range of market and regulatory challenges and ensure that private sector stakeholders are able to grow and increase employment and remuneration for the poorest. Private Enterprise aims to leverage the creation of 41,400 jobs (with 31,100 jobs attributable to DFID) by 2018-19; and
    - establishment of Flexible Funding, which includes support for a new multi-donor initiative, research and monitoring and evaluation (£7 million).

28. DFID has contracted DAI Europe and consortium partners, including First Consult and ITAD, to deliver the programme. The programme was at an early stage at the time of our visit.

Climate Innovation

29. The Ethiopian Climate Innovation programme will support innovative green growth entrepreneurs and SMEs by providing finance, access to high-end technical facilities and business advisory services. This programme, delivered by a consortium led by the Horn of Africa Regional Environment Centre and Network, was awaiting government approval at the point of our visit, which has now been received. DFID has invested £5 million, together with the Royal Norwegian Embassy as a co-financier of £4.2 million.[139]

[138] LIFT Business Case and Intervention Summary, 2013, internal unpublished document.
[139] *Ethiopia Climate Innovation Center: CIC*, Infodev, 2011, http://infodev.org/infodev-files/ethiopia_cic_business_plan_02.21.12_public.pdf.

Annex

Annex A4: Case study country – Tanzania

Context

30. Tanzania has experienced recent rapid economic growth with an increasingly diverse private sector and is attracting external investment. GDP has grown at 7% in recent years but this has not translated into significant poverty reduction.[140] A total of 85% of Tanzanians who live in poverty reside in rural areas and Tanzania barely produces enough food to feed its current population. The high potential for agriculture has not been realised, in part because only about 25% of the arable land is farmed. Agriculture contributes 28% of GDP in Tanzania.[141] Of this, the majority is made up of smallholdings whose productivity is low. Only 2.3% of total FDI went to agriculture in 2008.

31. Lack of key infrastructure was found to be the most critical constraint to growth. A 2011 assessment by the Tanzanian and US governments found, for example, that rural roads are often impassable for part of the year and electricity supply can be unreliable. As in Ethiopia, the second most critical constraint was lack of access to secure land rights for agriculture production and agribusiness investment. Land is divided into three categories: village land, which is held by the villages and represents approximately 70% of rural land; reserve land, which is held by the central government and represents approximately 28% of rural land; and general land, which is held by the central government and represents the remainder. Land in Tanzania is currently not surveyed, mapped or registered systematically and legal procedures to secure possession of land can take many years. There is also a perception that foreign investors may 'grab' land,[142] even though this would be practically and legally very difficult.

32. Overall, the private sector in Tanzania is relatively small and narrow, with relatively little manufacturing industry which has a high potential for future growth. Corruption is a constraint at many levels. Some progress, however, is evident, for example, in the administration of Dar es Salaam port where corrupt officials have recently been removed from their post. Tanzania is also unique in having signed two transparency agreements with the Group of Eight (G8).

33. Tanzania is still aid-dependent, accounting for over 10% of GNI.[143] There is a strong commitment from the Government of Tanzania to drive poverty reduction through economic growth and job creation. The Government has recently launched an initiative, Big Results Now (BRN), which prioritises deliverables that it can achieve in the coming years, with a particular focus on the private sector and infrastructure development and how the Government can facilitate further growth in these areas. Key performance indicators are being agreed and will be reported on through a publicly available website.[144]

34. The recent discovery of commercial quantities of off-shore gas will also impact on the economy; however, it may take ten years for extraction to start but, meanwhile, the levels of expectation and land speculation are high. A forthcoming pre-election constitutional review provides additional uncertainty.

DFID's PSD portfolio in Tanzania

35. DFID Tanzania's overall programme was £149 million in 2012-13. DFID Tanzania spent £30 million on wealth creation in 2012-13, which is more than any other DFID country office expenditure on wealth creation in that period, except for DFID Bangladesh. The budget for DFID Tanzania's operational plan for the period 2010-11 to 2014-15 totals £680 million, of which £105 million (15%) is earmarked for wealth creation activities, as shown in Figure A4 on page 46.

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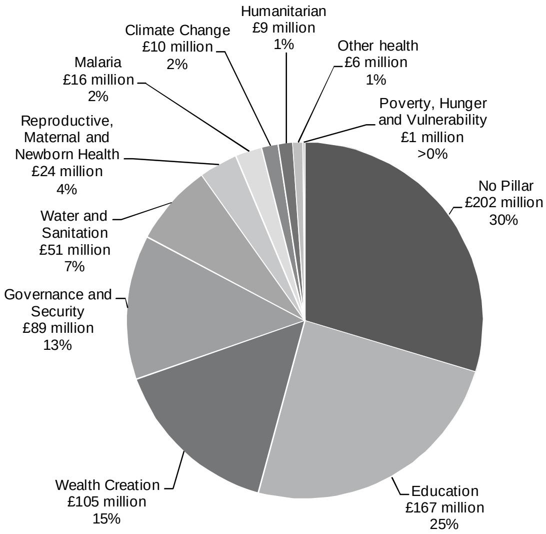
[140] *Tanzania Growth Portfolio Review*, DFID, 2013, internal unpublished document.
[141] *Agriculture, value added as a percentage of GDP*, World Bank, 2012, http://data.worldbank.org/indicator/NV.AGR.TOTL.ZS.
[142] For example, Tim Rice, author of an ActionAid report on biofuels, was quoted in The Guardian as saying: 'The biofuel land grab in Africa is already displacing farmers and food production. The number of people going hungry will increase'. British firms have secured tracts of land in Angola, Ethiopia, Mozambique, Nigeria and Tanzania to grow flowers and vegetables.
[143] *Net ODA as a percentage of GNI,* World Bank, 2011, http://data.worldbank.org/indicator/DT.ODA.ODAT.GN.ZS.
[144] For example, see: http://www.moe.go.tz/index.php?option=com_content&view=article&id=1717&Itemid=635.

Annex

Figure A4: DFID Tanzania: Operational Plan Budget, 2011-15[145]



36. DFID Tanzania has moved away from budget support and towards multi-donor and bilateral programmes in growth and the private sector, with a strong focus on agriculture. There also has been a shift away from programmes with the Government of Tanzania and towards programmes with other partners. These changes mean that DFID staff numbers have increased substantially in recent years.

37. Outside the growth portfolio, there has also been a shift towards increasing involvement of the private sector in the provision of basic services (health, nutrition, water). A Human Development Innovation Challenge Fund has recently been launched to increase private sector involvement and innovation in the provision of health, water and education.

38. Tanzania has received considerable attention from the Secretary of State, including two visits in the past year. The second of these culminated in the announcement of new co-investments for development purposes.

39. DFID Tanzania is currently planning a land programme which would involve local people to measure, plot and digitally register land. A similar programme has reportedly had a profound effect in Rwanda, as it has given farmers security and the confidence to invest. In addition to addressing a key constraint, this project is in line with the G8 commitment to land transparency.

Overview of our case study programmes in Tanzania

Agricultural Growth

40. Agricultural Growth is a macro-level programme focussing on a geographical area in the south of Tanzania, which is home to some nine million people. It aims to catalyse US$2.1 billion in private investment over 20 years, with public sector grants and loans of US$1.3 billion. The aim is to triple the area’s agricultural output and to lift two million people out of poverty. It is personally driven by the President of Tanzania, as a flagship example of the Government’s new public-private partnership approach through its BRN government delivery programme.

[145] *DFID Tanzania Operational Plan* 2011-2015, DFID, 2013, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/209261/Tanzania.pdf. Note: ‘no pillar’ denotes DFID’s General Budget Support operations to the Government of Tanzania.

Annex

41. The SAGCOT Centre was incorporated in 2011 and is the co-ordination arm of the SAGCOT Corridor. The Catalytic Trust Fund is in the planning stage and will include a Social Venture Capital Fund (SVCF) and a Matching Grant Facility. DFID's contribution is expected to raise the incomes of 100,000 rural households by 2015 at a cost of £36 million; it includes funding for the SAGCOT Centre, the SVCF, road construction and value chain development work by the Wood Family Trust, the Gatsby foundation and Technoserve.[146]

Rural Support

42. DFID initially agreed to contribute £6.4 million to this micro-level programme for the period 2010-15; the target was to increase incomes and food security for at least 35,000 rural households by 2015. The funding has recently been increased to £9 million and the duration extended by one year. The programme is being implemented by the Aga Khan Foundation. Rural Support is using this funding to support a large portfolio of activities spread across a large area in south-east Tanzania. It is trying to boost markets in agricultural crops that have previously been small (e.g. sesame) to avoid problems of corruption and market capture by a few well-connected traders.[147]

Access to Finance

43. Access to Finance is a long-established, macro-level programme that supports a large portfolio of activities, including expanding the scale and viability of financial institutions and related transactions, developing financial sector infrastructure and improving the policy, institutional, legal and regulatory framework. All its activities are dedicated to increasing access for the poor to financial services. This is a priority for Tanzania; by 2009, 56% of adults still had no access to any kind of formal financial service. DFID is contributing nearly £20 million, alongside several other donors. The Access to Finance programme is highly respected in Government and elsewhere, particularly as a source of advice and international knowledge about financial services. Indeed, 18% of its budget last year was spent on one survey of financial inclusion in Tanzania, giving it valuable knowledge to leverage with others.[148]

Agriculture Challenge Fund

44. The Agriculture Challenge Fund in Tanzania is part of the Africa Enterprise Challenge Fund, a mid-level programme which provides grants and loans to businesses wishing to implement innovative and commercially viable projects that will benefit the poor. DFID and others contribute US$207 million to the fund, which is hosted by AGRA. According to its own figures, The Africa Enterprise Challenge Fund 688,427 households had benefitted from the programme by the end of 2012.[149]

45. The Agriculture Challenge Fund in Tanzania, established in 2011, is funded by DFID with £12 million; it is financing ten projects agreed at the end of 2011 and a second funding round has recently been completed. The target is to benefit directly 90,000 farming households by Year 5, increasing incomes by an average of £40 per household annually. It is too early to know if these ambitious goals are being achieved.[150]

[146] *SAGCOT business case*, DFID, 2012, http://iati.dfid.gov.uk/iati_documents/3756479.docx.
[147] *CRSP Annual Review 2012*, DFID, 2012.
[148] *FSDT Annual Review*, DFID, 2012, unpublished.
[149] http://www.aecfafrica.org/impacting-development/results/household.
[150] *AECF: Impact Development*, AECF, 2013, http://www.aecfafrica.org/impacting-development.

Annex

Annex A5: DFID’s Private Sector Department

46. DFID’s Private Sector Department is the central department that works with the private sector to create benefits for poor people, with an objective of job creation and economic growth as a way to reduce aid dependency in developing countries. It was created in 2011 to assist DFID to step up its engagement with the private sector in-country and UK businesses, centrally manage PSD programmes, work with DFID country offices on PSD programming, support a cadre of private sector advisors across DFID and manage DFID’s relationships with third-party organisations that it funds which focus on PSD. It is also the recognition of the importance of the private sector in wealth generation and a provider of basic services, such as health and primary education. Over its current operational plan, 2010-11 through 2014-15, it is forecasted to spend £1.210 billion.[151]

47. DFID’s work with the private sector in developing countries is focussed on two results:

- ‘increasing successful private investment in firms, sectors and people, particularly in fragile states; and
- delivering better and more affordable basic services, including financial services, for poor people.’

48. DFID will work towards these results through:

- ‘improving property rights and the investment climate;
- engaging private enterprise directly in shaping and implementing development programmes and policy; and
- working with businesses, including UK businesses, to harness their impact for good in developing countries.’[152]

49. Since 1 April 2014, the Private Sector Department is part of the new Economic Development Directorate. It was previously part of the Directorate General for Policy and Global Programmes. It has four teams dedicated to:

- infrastructure, energy and corporate services;
- investment and finance – leveraging private finance;
- business engagement; and
- policy.

50. The economic development work of DFID Country Offices and HQ teams is supported by a cadre of private sector development advisors who are based in the Private Sector Department, in other central departments and in country offices. There has been a considerable expansion in the size of the PSD professional cadre or expert group, from around 30 in 2011 to 80 in 2014. The Private Sector Department also has responsibility for managing DFID’s relationships in the CDC, the UK’s wholly-owned development finance institution and the Private Infrastructure Development Group, the multi-donor finance organisation that encourages private infrastructure investment in developing countries.

[151] *DFID Operational Plan 2011-2015, Private Sector Department*, DFID, June 2013, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/210397/private-sector-dept.pdf.
[152] *DFID Operational Plan 2011-2015, Private Sector Department*, DFID, June 2013, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/210397/private-sector-dept.pdf.

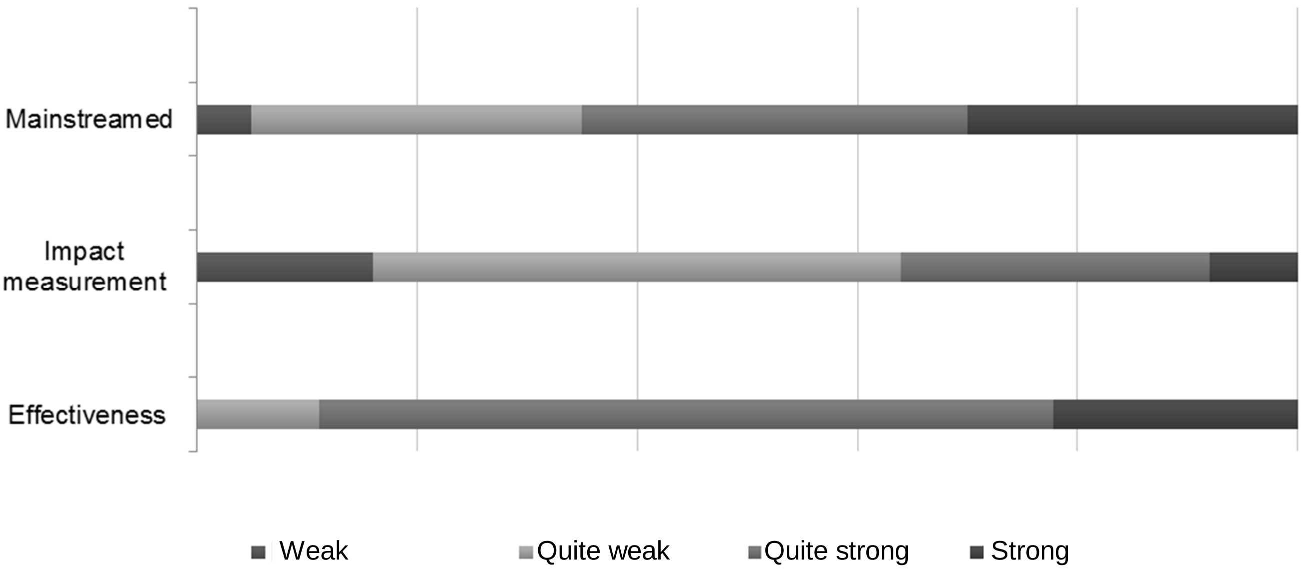
Annex

Annex A6: Mainstreaming the private sector in DFID

How well is PSD embedded into DFID?

51. DFID had a task plan in place to achieve this, named *Building the Architecture* (see paragraph 2.70). We undertook a survey of the PSD cadre, along with key informant interviews of a subset of the cadre, to obtain their views. Together, we received responses from almost 50% of the cadre. The figures below reflect their views on how well DFID is performing in 'embedding the private sector in DFID's DNA'. Figure A6 (a) highlights that approximately one third of the respondents rated DFID as performing strongly in this respect, with another third rating this as quite strong.[153] More concern was expressed by the cadre on the impact measures that DFID has in place. Last year, there was initial work on a scorecard but, as with the DNA strategy, this has been overtaken by the Economic Development Strategic Framework, published in January 2014. Impact measurement was an area identified by respondents where there was more work to be done, particularly as this is a difficult area for PSD. On the effectiveness of the PSD work, just over 20% of the respondents scored this as strong, with more than 50% of the respondents scoring this as quite strong.

Figure A6 (a): Mainstreaming the private sector in DFID's DNA



How well is the PSD cadre of advisors supported?

52. The cadre expressed overall satisfaction with the way the Business Partner programme is working, where PSD advisors based in headquarters are matched with country offices. This model is meant to enable country offices to have a key contact at headquarters to keep them abreast of developments and also enables advisors, based in headquarters, to have a direct country office link and gain experience from on-the-ground challenges. The programme of support provided through the system of TQAs, whereby advisors are mentored by a more senior PSD advisor, was scored by the cadre as quite strong, although this was the only learning and development element that also was scored as weak by some respondents (approximately 5% of those who responded). The learning and development programme attracted mixed feedback across the cadre, with the majority scoring it as quite strong but almost a third scoring it as quite weak. The composition of the DFID PSD cadre is shown in Figure A6 (c).

[153] Respondents gave DFID a score out of ten, with one being very poor and ten being very good. We have grouped scores into 'weak' (lowest quartile), 'quite weak', 'quite strong' and 'strong' (highest quartile).

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Figure A6 (b): How well the PSD cadre is supported

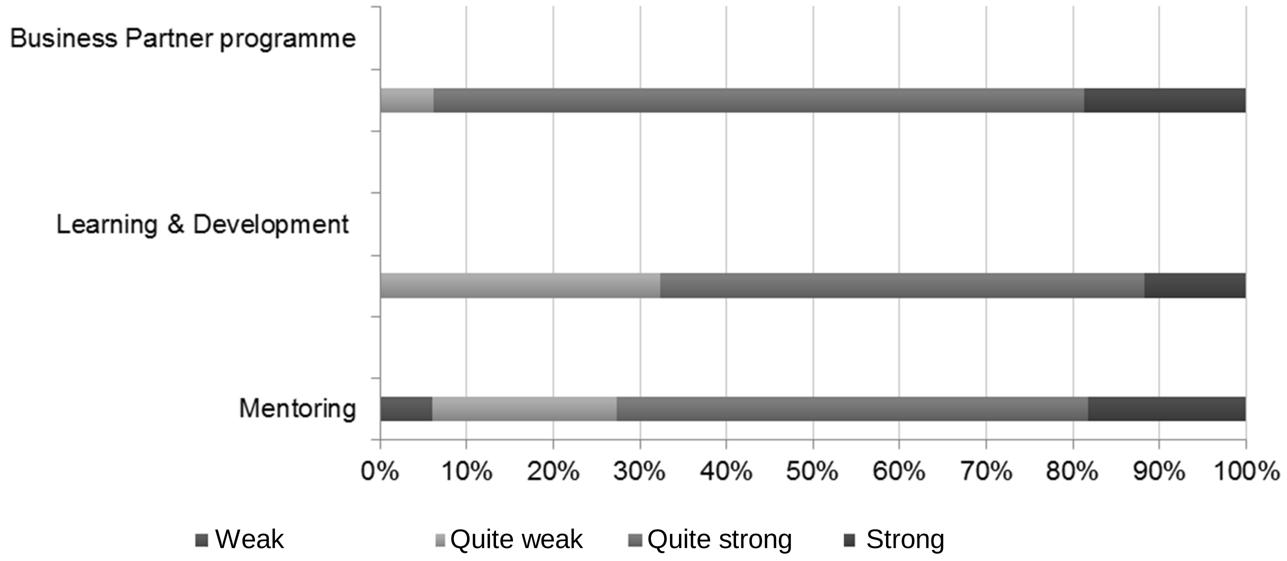
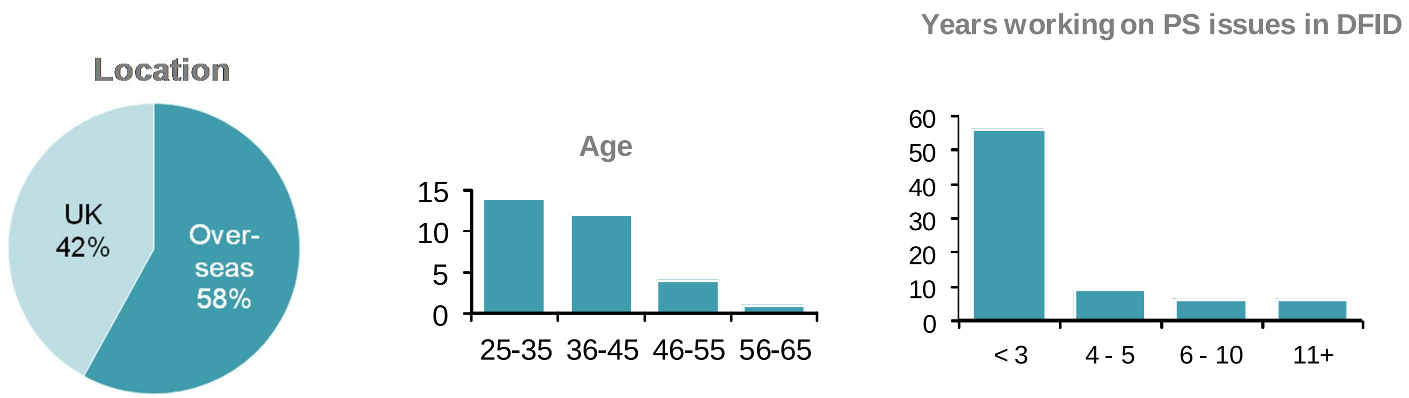


Figure A6 (c): Composition of the DFID PSD cadre[154]



[154] ICAI survey data of PSD cadre.

Annex

Annex A7: DFID's Economic Development Strategic Framework

53. In January 2014, DFID announced an ambitious new economic development strategy. Central to this new strategy is the idea that 'economic growth is the most important means of raising people's incomes and reducing poverty in the developing world – it creates jobs and opportunities for poor people to support their families and build more stable futures'.[155]

54. For some in the development community, this focus on economic development remains controversial as 'some fear that it will reduce funding available for more traditional areas'.[156] This focus, however, reflects the significant and growing evidence that broad-based economic development, rather than traditional donor aid, has driven significant reductions in poverty in the past two decades.

55. Within the over-arching strategy, DFID has identified five pillars on which it intends to focus.[157] These are the following:

    - helping partner countries establish the policy and enabling environments to promote private-sector-led growth;
    - improving international rules for shared prosperity;
    - catalysing capital flows and trade to frontier markets;
    - engaging with businesses to maximise the development footprint from their investment; and
    - ensuring the inclusion of marginalised economies and groups, particularly girls and women.

56. This new strategy is consistent with and flows from DFID's previous strategies on PSD. The 2008 PSD strategy argued that 'poor men and women participate in markets to meet their needs for food, housing and services such as transportation'.[158] The 2011 PSD 'approach' document made a similar point: 'It is the absence of broad-based business activity, not its presence, that condemns much of humanity to suffering'.[159]

57. The Economic Development Strategic Framework can also be seen as fitting within the wider development thesis which has been expressed by the Prime Minister, David Cameron. Since late 2012, he has been speaking about the importance of what he terms 'the golden thread' of conditions that enable poverty reduction: '…the rule of law, the absence of conflict and corruption and the presence of property rights and strong institutions. It is only when people can get a job and a voice that they can take control of their own destiny and build a future free from poverty.'[160] Although these various strategies, statements and policies are coherent, they are hugely ambitious.

58. The new Economic Development Strategic Framework, for example, sets out to improve international rules for shared prosperity, which includes work to support an open international trading system. This takes DFID into the territory of the WTO and issues that have proved complex and difficult to address over many decades. Moreover, these are issues where DFID's influence is relatively small and its efforts need to be cohered closely with other relevant institutions and organisations.

59. In addition, as some commentators have observed, the link between economic development - or the 'golden thread' - and the wider societal benefits claimed for them is not always straight-forward.[161]

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[155] DFID & HM Treasury. *Helping developing countries' economies to grow.* https://www.gov.uk/government/policies/helping-developing-countries-economies-to-grow.
[156] J. Blas, 'UK shifts African aid focus to economic development', *Financial Times* 27 January 2014, http://webcache.googleusercontent.com/search?q=cache:TyF2GM2bl8cJ:www.ft.com/cms/s/0/08d8f86c-8770-11e3-9c5c-00144feab7de.html+&cd=1&hl=en&ct=clnk&gl=uk#axzz2ys2xdbHQ.
[157] *Economic development for a shared prosperity and poverty reduction: a strategic framework*, DFID, January 2014, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/276859/Econ-development-strategic-framework_.pdf.
[158] *Private Sector Development Strategy, Prosperity for all: making markets work*, DFID, 2008, http://www.enterprise-development.org/page/download?id=1727.
[159] *The Engine of Development: The private sector and prosperity for poor people*, DFID, 2011. page 4, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/67490/Private-sector-approach-paper-May2011.pdf.
[160] D. Cameron, 'Combatting Poverty at its Roots', *Wall Street Journal*, 1 November 2012, http://online.wsj.com/news/articles/SB10001424052970204712904578090571423009066.
[161] For example Glennie, J. 'David Cameron must weave a better story than his fairytale 'golden thread', *The Guardian,* 3 Sept 2013, http://www.theguardian.com/global-development/poverty-matters/2013/sep/03/david-cameron-golden-thread-poverty.

Annex

Annex A8: List of consultations

Location	Organisation	Beneficiaries
UK	DFID	
UK	CDC	
UK	Private Infrastructure Development Group	
UK	UKAN	
UK	ActionAid	
UK	CARE International UK	
UK	Save the Children	
UK	CAFOD	
UK	Oxfam GB	
UK	Traidcraft	
UK	Overseas Development Institute	
UK	The Springfield Centre	
UK	Donor Committee on Enterprise Development	
Bangladesh	‘BUILD’ - private sector trade and commercial association	
Bangladesh	Asian Development Bank	
Bangladesh	Bangladesh Bank	
Bangladesh	Bangladesh Economic Zones Authority	
Bangladesh	Bangladesh International Arbitration Centre	
Bangladesh	BRAC	
Bangladesh	British High Commission to Bangladesh	
Bangladesh	BURO Bangladesh	
Bangladesh	High Commission of Canada to Bangladesh	
Bangladesh	CP Livestock Company	
Bangladesh	Delegation of the European Commission to Bangladesh	
Bangladesh	DFID Bangladesh	
Bangladesh	Royal Netherlands Embassy to Bangladesh	
Bangladesh	European Union	
Bangladesh	Ministry of Commerce, Government of Bangladesh	
Bangladesh	International Finance Corporation	
Bangladesh	Institute of Microfinance	
Bangladesh	International Labour Organisation	
Bangladesh	Isahani Seed company	
Bangladesh	Katalyst M4P implementing partner – SwissContact	
Bangladesh	Lal Teer Ltd (seed company)	
Bangladesh	Microfinance Regulatory Authority	
Bangladesh	National Board of Revenue	
Bangladesh	PetroChem	

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Bangladesh	Policy Research Institute	
Bangladesh	PROSPER implementing partner – Maxwell Stamp	
Bangladesh	Swiss Agency for Development and Cooperation	
Bangladesh	World Bank	
Bangladesh	DFID project – PROSPER beneficiaries visit in northern Bangladesh	65
Bangladesh	DFID project – Katalyst M4P beneficiaries visit in northern Bangladesh	60
Ethiopia	Amhara Credit and Saving Institution	
Ethiopia	Bahir Dar ‘kebele’ local government officials	
Ethiopia	Bahir Dar University	
Ethiopia	British Embassy to Ethiopia - UK Trade & Investment	
Ethiopia	Climate Innovation Centre implementing partner – CIC/World Bank	
Ethiopia	Development Bank of Ethiopia	
Ethiopia	DFID Ethiopia	
Ethiopia	DFID project - Climate Innovation Centre	
Ethiopia	DFID project – Climate Innovation Centre – visit with horticulture farmers and green growth entrepreneur beneficiaries	25
Ethiopia	DFID project – Land Investment for Transformation programme beneficiaries – visit with small holder farmers and students at Bahir Dar University	40
Ethiopia	DFID project – PEPE beneficiaries– visit with small holder market in Shiromeda and microfinance beneficiaries, leather factories and textile production facilities	20
Ethiopia	Ethiopia National Chamber of Commerce	
Ethiopia	Ministry of Finance and Economic Development, Government of Ethiopia	
Ethiopia	Ethiopian Bankers’ Association	
Ethiopia	Ministry of Industry, Government of Ethiopia	
Ethiopia	LIFT implementing partner – HTSPE	
Ethiopia	Ministry of Agriculture	
Ethiopia	National Bank of Ethiopia	
Ethiopia	Pittards (leather company)	
Ethiopia	Private Enterprise implementing partner – DAI Europe, First Consult	
Ethiopia	Shultz Global Investors	
Ethiopia	The Horn of Africa Regional Environment Centre and Network	10
Ethiopia	USAID, Ethiopia	
Ethiopia	World Bank	
Tanzania	Agrica (Kilombero Plantations Limited)	
Tanzania	Africado	
Tanzania	AtoZ bednets	
Tanzania	Bank of Tanzania	
Tanzania	BRAC Tanzania	
Tanzania	British High Commission to Tanzania	

Annex

Tanzania	Danish International Development Agency	
Tanzania	Dar es Salaam Stock Exchange	
Tanzania	DFID implementing partner – Aga Khan Foundation (CRSP)	
Tanzania	DFID implementing partner – FSDT programme management	
Tanzania	DFID implementing partner – KPMG (TZAW)	
Tanzania	DFID implementing partner – SAGCOT – Tanzania Gatsby Trust	
Tanzania	DFID implementing partner – SAGCOT – Wood Family Trust	
Tanzania	DFID implementing partner – TechnoServe	
Tanzania	CRSP beneficiaries – meeting with small holder farmers, rice millers, village based agents (agricultural extension trainers) in Mtwara and southern Tanzania	40
Tanzania	Financial Sector Deepening Trust – meeting with the programme management staff, investment committee and trustee	
Tanzania	Financial Sector Deepening Trust beneficiaries - with microfinance beneficiaries	30
Tanzania	CRDB Microfinance	
Tanzania	FINCA Tanzania	
Tanzania	DFID project – FSDT recipient - FINCA	
Tanzania	DFID project – SAGCOT – meetings with recipients of SAGCOT funding	
Tanzania	DFID Tanzania	
Tanzania	East Coast Millers	
Tanzania	Helen Keller International	
Tanzania	Meat King Ltd.	
Tanzania	Ministry of Agriculture, Government of Tanzania	
Tanzania	President’s Delivery Bureau, Government of Tanzania	
Tanzania	SAGCOT Centre	
Tanzania	SeedCo	
Tanzania	SIDA	
Tanzania	Tanzania Donor Partner Group – PSD/Trade sub-working level group	
Tanzania	USAID	
Tanzania	World Bank	
Total Beneficiaries		**290**

Abbreviations

AECF	Africa Enterprise Challenge Fund
BRAC	formerly, Bangladesh Rural Advancement Committee
BRN	Big Results Now
CIC	Climate Innovation Centres
CRSP	Coastal-Rural Support Programme
DCED	Donor Committee for Enterprise Development
DFID	Department for International Development
EU	European Union
FCAS	Fragile and conflict-affected states
FCO	Foreign & Commonwealth Office
FDI	Foreign direct investment
FSDT	Financial Sector Deepening Trust
G8	Group of Eight
GDP	Gross domestic product
GNI	Gross national income
GNP	Gross national product
ICAI	Independent Commission for Aid Impact
IDC	International Development Committee
IFC	International Finance Corporation
LIFT	Land Investment for Transformation
M4P	Making markets work for the poor
MDG	Millennium Development Goals
NGO	non-government organisations
ODA	official development assistance
ODI	Overseas Development Institute
PEPE	Private Enterprise Programme Ethiopia
PROSPER	Promoting Financial Services for Poverty Reduction
PSD	Private sector development
RISE	Regulatory and Investment Systems for Enterprise Growth
RMG	ready-made garment sector
SAGCOT	Southern Agricultural Growth Corridor of Tanzania
SIDA	Swedish International Development Cooperation Agency
SME	small- and medium-size enterprise
SVCF	Social Venture Capital Fund
TQA	technical quality assurer
TZAW	Tanzania Agribusiness Window
UKAN	UK Aid Network
USAID	US Agency for International Development
WTO	World Trade Organization

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