



**Independent  
Commission  
for Aid Impact**

## **DFID's Private Sector Development Work**

### **Terms of Reference**

#### **1. Introduction**

1.1 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.

1.2 We will conduct a review of the Department for International Development's (DFID's) approach to private sector development. In January 2011, the Private Sector Department was created to 'help catalyse change across DFID to deepen our capability to work with and enable the private sector to improve the prosperity and well-being of poor people'.<sup>1</sup> We will examine the rationale for and coherence of DFID's private sector development approach and portfolio; and will assess the impact, value for money and effectiveness of a range of DFID's private sector development programmes in selected countries.

1.3 These Terms of Reference outline the purpose and nature of the review and the main themes that it will investigate. A detailed methodology will be developed during an inception phase.

#### **2. Background**

##### *The role of donors in private sector development*

2.1 Donors recognise that the private sector is crucial for 'growth, development and employment creation...' in developing countries.<sup>2</sup> Donor engagement with the private sector has, however, varied over time. During the 1980s and 1990s, programmes that targeted deregulation and market reforms were criticised as being interventionist, inefficient and ineffective.<sup>3</sup> As a response, in the late 1990s, private sector development programmes emphasised 'sustainable and pro-poor economic growth by working through markets and small and medium enterprises'.<sup>4</sup>

2.2 The bottom-up approaches pioneered in the late 1990s form the basis of current private sector development programmes. These focus on creating opportunities for the poor to access the market for goods and services but there is little agreement amongst donors on what works best. Some donors have focussed on investment climate reform, such as

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<sup>1</sup> DFID Private Sector Department Operational Plan 2011-15, DFID, 2012,

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/67372/priv-sect-dept-2011.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/67372/priv-sect-dept-2011.pdf).

<sup>2</sup> Donor Support to Private Sector Development in Sub-Saharan Africa, Overseas Development Institute, 2008, <http://www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/1726.pdf>.

<sup>3</sup> Donor Support to Private Sector Development in Sub-Saharan Africa, Overseas Development Institute, 2008, <http://www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/1726.pdf>.

<sup>4</sup> The Private Sector Development Impact Assessment Initiative, USAID, <http://www.value-chains.org/dyn/bds/docs/631/USAID%20PSD%20IA%20Initiative%20Overview%2006.pdf>.

strengthening the rule of law and ensuring property rights; others have engaged in supporting small and medium enterprises and micro-finance initiatives.<sup>5</sup>

#### *DFID's engagement in private sector development*

2.3 From its inception in 1997, until 2008, DFID's private sector development approach fell under its overarching poverty reduction mandate, set out in DFID White Papers of 1997, 2000, 2002 and 2006. In its review of DFID's private sector development work in 2006, the International Development Select Committee (IDC) recommended that DFID set out its first stand-alone private sector development strategy,<sup>6</sup> which DFID published in 2008. It set out a revised approach in 2011.

2.4 DFID's approach, broadly, has focussed on:

- acting as a catalyst and facilitator, rather than intervening in markets;
- working in partnerships with a range of other actors, including the private sector;
- strengthening the business environment for all firms; and
- making markets work better for the poor.

2.5 DFID's programming choices have been targeted at two themes:

- supporting the investment climate and business environment reform in developing countries, for example supporting regulatory reform and property rights; and
- opening up market access to the poor for goods and services and expanding business capacity in developing countries, for example facilitating access to finance for small and medium enterprises in developing countries.

2.6 In 2010, The UK Government decided that DFID should put greater emphasis on working with the private sector to deliver the UK's objectives for economic growth and poverty reduction in developing countries.<sup>7</sup> In 2012, the Prime Minister outlined his view of the enabling conditions for poverty reduction, focussing on 'the golden thread of conditions that enable open economies and open societies to thrive: 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.'<sup>8</sup>

2.7 The Secretary of State for International Development, Rt Hon Justine Greening MP, set out her objectives for DFID's private sector development work in February 2013, stating that 'sustainable public services need a private sector creating the wealth and taxes that will keep them funded. It is a symbiotic relationship...', adding 'that's the challenge I've set out for DFID – to be a driver of economic growth in developing countries.'<sup>9</sup>

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<sup>5</sup> *Donor Support to Private Sector Development in Sub-Saharan Africa*, Overseas Development Institute, 2008, <http://www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/1726.pdf>.

<sup>6</sup> *Private Sector Development*, House of Commons International Development Select Committee, 2006, <http://www.publications.parliament.uk/pa/cm200506/cmselect/cmintdev/921/921i.pdf>.

<sup>7</sup> *The Economic Impact and Effectiveness of Development Aid*, Economic Affairs Committee, House of Lords, 2012, <http://www.publications.parliament.uk/pa/ld201012/ldselect/ldeconaf/278/27810.htm>.

<sup>8</sup> *David Cameron: Combating Poverty At Its Roots*, The Wall Street Journal, November 2012, <http://online.wsj.com/article/SB10001424052970204712904578090571423009066.html>. See also the UK's 2013 G8 Presidency priorities and private sector development: <https://www.gov.uk/government/speeches/prime-minister-david-camersons-speech-to-the-world-economic-forum-in-davos>.

<sup>9</sup> *Justine Greening: Development in Transition*, DFID, February 2013, <https://www.gov.uk/government/speeches/justine-greening-development-in-transition>.

## *The work of DFID's Private Sector Department*

2.8 DFID established its Private Sector Department in January 2011. DFID stated in its press release that 'the new department intends to prompt and help catalyse change across DFID to deepen our capability to work with and enable private enterprise to improve the prosperity and well-being of poor people'.<sup>10</sup>

2.9 DFID's approach paper focusses on how it will promote private sector development and engage with this sector across DFID's portfolio, including in the provision of service delivery in developing countries. The paper states that 'economic growth is the primary driver of poverty reduction...[and] by catalysing more private investment and deepening private sector links into communities we can multiply the reach of the private sector and increase the opportunities for poor people'.<sup>11</sup>

2.10 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'.<sup>12</sup>

2.11 DFID will work towards these results through:

- 'improving property rights and the investment climate; and
- engaging private enterprise directly in shaping and implementing development programmes and policy'.<sup>13</sup>

2.12 DFID's current private sector approach recognises that it is still learning how best to engage with the private sector. DFID will seek to 'embed the private sector in its DNA', so that working 'with the private sector is the same as working with charities and NGOs', with skills and resources from the private sector brought in-house. DFID's vision is to move toward a model whereby working with the private sector in developing countries is not only focussed on improving the business climate and market access,<sup>14</sup> but also on utilising the private sector as a means to deliver better value for money service delivery to achieve development outcomes.<sup>15</sup>

2.13 DFID's activities to support these desired outcomes are wide ranging. DFID's systems cannot currently track private sector development activity. Some, but not all, of DFID's private sector development activities are captured under its Wealth Creation work (£3.6 billion over 2011-12 – 2014-15).<sup>16</sup> The Private Sector Department is charged with:<sup>17</sup>

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<sup>10</sup> *New DFID Private Sector Development Department*, DFID, 2011, <https://www.gov.uk/government/news/new-dfid-private-sector-department>.

<sup>11</sup> *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](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/67490/Private-sector-approach-paper-May2011.pdf).

<sup>12</sup> *DFID Private Sector Department Operational Plan 2011-15*, DFID, 2012, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/67372/priv-sect-dept-2011.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/67372/priv-sect-dept-2011.pdf).

<sup>13</sup> *DFID Private Sector Department Operational Plan 2011-15*, DFID, 2012, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/67372/priv-sect-dept-2011.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/67372/priv-sect-dept-2011.pdf).

<sup>14</sup> *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](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/67490/Private-sector-approach-paper-May2011.pdf).

<sup>15</sup> For examples see paragraphs 2.36-2.41 in *Evaluation of DFID's Bilateral Aid in Pakistan*, Independent Commission for Aid Impact, 2012, [http://icai.independent.gov.uk/wp-content/uploads/2011/11/ICAI-Pakistan-Report\\_P11.pdf](http://icai.independent.gov.uk/wp-content/uploads/2011/11/ICAI-Pakistan-Report_P11.pdf).

<sup>16</sup> *DFID Private Sector Development Introductory internal briefing*, DFID, December 2012.

<sup>17</sup> *DFID Private Sector Department Operational Plan 2011-15*, DFID, 2012, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/67372/priv-sect-dept-2011.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/67372/priv-sect-dept-2011.pdf).

- overseeing and centrally managing a portfolio of projects;
- working with DFID's country offices on private sector development programmes through its cadre of private sector development specialists (61 private sector advisers up from just 30 a few years ago; 25 in the UK and 36 overseas);
- working in close partnership with other DFID departments (such as the Growth and Resilience Department);
- coordinating with DFID's networks of advisers and their Heads of Profession; and
- engaging with the private sector and other external partners on private sector development in developing countries.

2.14 DFID's private sector development programmes include, but are not limited to:<sup>18</sup>

- supporting the business enabling environment and investment climate in developing countries – good governance programmes dealing with government regulatory reform, investment rules, tax legislation and collection reform, anti-corruption policies and business law;
- enabling poor people to participate in and benefit from the development of private sector markets, supporting small and medium enterprises:
  - making markets work for the poor (M4P) programmes – an approach to bringing finance, government and local businesses together to improve market access for the poor to goods and services;
  - challenge funds – competitive funding to commercially viable businesses in agriculture and other sectors; and
  - access to finance for people and small and medium enterprises – supporting local community banks through initial funding, microfinance initiatives, small loans and supporting mobile banking;
- supporting and improving service delivery:
  - private sector service delivery of basic healthcare, water and sanitation services and education; and
  - utilising innovative technologies to improve access to finance, consumer rights and service delivery;
- supporting large-scale macro-economic projects:
  - energy, transport and major infrastructure projects;
  - trade – linking local markets to global trade flows, promoting policies that benefit developing countries in global trade regimes; and
  - public-private partnerships – mobilising private and public funding to achieve results across a range of sectors in service delivery and large infrastructure projects – linking payment to performance for private sector delivery partners.

2.15 Private sector development is a cross-cutting theme across DFID. Beyond the Private Sector Department, there are several other departments within DFID that deal with private sector development in their programmes. These include the Growth & Resilience Department, Climate & Environment Department, Conflict, Humanitarian & Security Department, Human Development Department, International Financial Institutions Department, Europe Department, Research & Evidence Division, Trade Policy Unit, regional divisions and country offices.<sup>19</sup> A key aim of this review will be to establish the degree to which private sector development work in these different departments is coordinated effectively.

<sup>18</sup> *The Engine of Development: the Private Sector and Prosperity for Poor People*, DFID, May 2011 [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/67490/Private-sector-approach-paper-May2011.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/67490/Private-sector-approach-paper-May2011.pdf).

<sup>19</sup> *DFID Private Sector Development Introductory internal briefing*, DFID, December 2012.

2.16 DFID also supports a range of organisations and initiatives that focus on private sector development but over which it does not have day-to-day control. These organisations include the following:

- the International Finance Corporation (IFC), a member of the World Bank Group, is the largest global development institution focussed exclusively on the private sector in developing countries. The UK holds a 5.1% shareholding;<sup>20</sup>
- the Private Sector Infrastructure Development Group (PIDG) is a multi-donor organisation created in 2002, with a membership of: Austria, Germany, the World Bank, the IFC, Ireland, the Netherlands, Sweden, Switzerland and the UK. PIDG's objective is to encourage private infrastructure investment in developing countries that contributes to economic growth and poverty reduction;
- the Commonwealth Development Corporation (CDC) is the UK's development finance instrument supporting business and market development across Africa and South Asia. DFID is the sole shareholder of the CDC but has no involvement in CDC's day-to-day decision making. CDC has received no new government capital for over 15 years. Any capital used to make new investments is taken from realising profits from existing investments;<sup>21</sup> and
- there are other organisations and funds such as the Extractive Industries Transparency Initiative (EITI).

### 3. Purpose of this review

3.1 To examine the rationale for and coherence of DFID's private sector development approach and portfolio; and to assess the impact, value for money and effectiveness of a range of programmes in selected countries.

### 4. Relationship to other reviews

4.1 The 2010 Bilateral Aid Review offered limited commentary, on a country-by-country basis, on DFID's private sector development initiatives. The Multilateral Aid Review, however, touched on private sector development through its commentary on PIDG and IFC, where both organisations rated highly on value for money and effectiveness.<sup>22</sup>

4.2 The most significant public review to date on DFID's private sector development initiatives is the IDC review published in 2006.<sup>23</sup> The report made a large number of conclusions and recommendations and examined other issues such as youth employment, taxation, resource extraction and property rights in developing countries. At the time, the IDC stated that it had reservations about whether DFID had the organisational and operational capacity to deliver private sector development programmes effectively and efficiently. It noted that private sector development initiatives had proliferated without appropriate long-term planning. The Committee recommended that DFID take a step back and consider its long-term strategy on private sector development, to avoid adverse effects on existing policies and programmes.

4.3 The Committee concluded that DFID's focus on investment climate and business regulations was not sufficient in targeting employment and livelihoods issues. It recommended an adjustment in DFID's private sector development programming, to focus

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<sup>20</sup> *Multilateral Aid Review: Assessment of International Finance Corporation*, 2011, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/224873/IFC.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/224873/IFC.pdf).

<sup>21</sup> *CDC Corporate Structure*, CDC Group, <http://www.cdcgroup.com/corporate-structure.aspx>.

<sup>22</sup> *Multilateral Aid Review*, DFID, 2011, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/67583/multilateral\\_aid\\_review.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/67583/multilateral_aid_review.pdf).

<sup>23</sup> *Private Sector Development*, House of Commons International Development Select Committee, 2006, <http://www.publications.parliament.uk/pa/cm200506/cmselect/cmintdev/921/921i.pdf>.

more on youth employment and on conflict-affected and fragile states. The IDC emphasised the need for an individual private sector development strategy for each of DFID's priority countries.

4.4 The IDC report concluded also that DFID lacked the required capacity and set of skills and expertise to undertake effective private sector development. It encouraged DFID to engage with the private sector in developing its private sector development policy. The IDC recommended that DFID should obtain greater in-house expertise from business and the private sector to enhance its work in the future. In its response, DFID broadly accepted the IDC's recommendations. We will examine key recommendations made by the IDC in its report and the response by DFID to date.

4.5 The National Audit Office has not conducted a review focussing specifically on DFID's private sector development programmes. In its *Investing in the Business of Development* report, published in January 2013, the North-South Institute recently reviewed the private sector development initiatives of Development Assistance Committee donors of the Organisation for Economic Co-operation and Development. The report offers a mapping and initial assessment of donors' strategies for private sector development and economic growth. It identifies emerging themes in donors' policies around growth and the private sector, by comparing and contrasting approaches, areas of focus and budget size. It examines how donors see the role of the state, the private sector and other stakeholders. It commends both the UK and Sweden on having a separate strategy for private sector development.

4.6 The North-South Institute's report, however, offers a number of challenging critiques of donors' activities to date, including whether donors' activities are, in practice, inclusive, equitable and pro-poor driven. It also challenges technocratic assumptions around partnerships as a 'win-win' method of private sector development (i.e. public-private partnerships) and the role of government in driving private sector growth, through effective taxation and regulation regimes.<sup>24</sup>

## 5. Analytical approach

5.1 We recognise that DFID's private sector development work exists across a broad set of programmes, initiatives and partnerships. This review will examine what DFID identifies as its private sector development work and its intended impact. We will examine the coherence of DFID's private sector development work across its portfolio and will focus in more detail on a selection of case study programmes.<sup>25</sup> We will not examine private sector development entities that DFID has a shareholding in but does not actively manage (such as PIDG and CDC, which are the subject of other current and recent reviews). We will examine expenditure in country where DFID co-funds and delivers private sector development programmes through multilateral institutions (such as multi-donor trust funds managed by the IFC).

5.2 Our review will focus on examining DFID's private sector development approach and programming since the IDC review in 2006. We will consider DFID's work undertaken by its Private Sector Department, other DFID departments (see paragraph 2.15) and DFID's country offices. This review will include a number of elements, specifically:

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<sup>24</sup> *Investing in the Business of Development*, North-South Institute, 2013, <http://www.nsi-ins.ca/wp-content/uploads/2013/01/2012-The-Business-of-Development.pdf>.

<sup>25</sup> In our Year 4 work programme, we intend to examine the role of business in development, building on this review's work on DFID's private sector development activities.

i) The scope of DFID's private sector development policy and approach at three levels:

- the macro level: 'enabling environment' e.g. trade policy, regulatory reform;
- the mid level: market systems e.g. 'Making Markets Work for the Poor (M4P), value chain analysis; and
- the micro level: 'investing in people and businesses' e.g. working directly to support SMEs.

ii) The modes of DFID's engagement in private sector development and programming choices. As part of our work, we will undertake a portfolio review of DFID's programme of activities; we will seek to draw out case studies based on the following criteria:

- historic: how has DFID's private sector development programming developed over time?
- geographic: where and why has DFID developed private sector development interventions?
- type of intervention: which approaches have been selected in different situations and why?

iii) How DFID has measured and evaluated private sector development programme outcomes and learned from its historic private sector development programmes and strategies.

5.3 We will also assess the potential for DFID to 'embed private sector development work into its DNA'.<sup>26</sup> For example: does DFID have staff with the right skills and experience? How well does the work on private sector development integrate with and influence DFID's programmes under other strategic priorities and departments?

## **6. Indicative evaluation questions**

6.1 A detailed methodology will be developed during the inception phase, setting out the evaluation questions and the methods to be used for answering them. Likely evaluation questions will include:

### **6.2 Objectives**

- 6.2.1 Is the private sector development portfolio linked to wider development objectives, including economic growth and poverty reduction?
- 6.2.2 Does DFID have the appropriate focus for and strategic approach to private sector development?
- 6.2.3 Does DFID have guidance in place to inform programming choices and activity selection including avoidance of potential unintended consequences?
- 6.2.4 To what extent does DFID assess potential synergies and conflicts with the private sector development programmes of other donors and aid providers?
- 6.2.5 Are private sector development programmes grounded in contextual analysis, including input from intended beneficiaries, the private sector, civil society and governments to achieve desired impact for intended beneficiaries?

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<sup>26</sup> *The Engine of Development: the Private Sector and Prosperity for Poor People*, DFID, May 2011, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/67490/Private-sector-approach-paper-May2011.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/67490/Private-sector-approach-paper-May2011.pdf).

### **6.3 Delivery**

- 6.3.1 How appropriate are the principles, standards, channels and instruments DFID has used to implement its private sector development approach?
- 6.3.2 Does DFID have adequate approaches to the governance and financial management of its activities? Are adequate steps being taken to avoid corruption?
- 6.3.3 Does programme roll-out involve and take into account the needs of the potential and intended beneficiaries?
- 6.3.4 Does DFID work with others to maximise the impact of its private sector development activities?

### **6.4 Impact**

- 6.4.1 Are the intended beneficiaries appropriate? Is the programme delivering clear, significant and timely benefits for the intended beneficiaries?
- 6.4.2 Are the programmes delivering or likely to deliver the desired results in support of their objectives?
- 6.4.3 Are DFID's programmes encouraging replication and extension by others, with likely durable impact over time?

### **6.5 Learning**

- 6.5.1 Is DFID's approach based on a good understanding of best practice?
- 6.5.2 Does DFID have appropriate arrangements in place for monitoring inputs, processes, outputs, results and impact at the micro, mid and macro levels?
- 6.5.3 Is there evidence of innovation in DFID programmes and sharing of learning both internally and with external partners? Does this include learning from previous experience?

## **7. Methodology**

7.1 The methodology will comprise the following elements:

- a review of literature and evidence from the private sector development programmes, strategies and engagement with relevant bilateral and multilateral donors;
- a review of DFID documentation, including strategies, policies, guidelines and reporting;
- a portfolio review of and data collection on DFID private sector development expenditure since 2007-08;
- interviews with key personnel in DFID in London and in selected field offices (interviewees will include both current and, where relevant, past staff);
- field visits to selected DFID offices to review the coherence of DFID's approach to private sector development in-country; and
- project case studies in-country to examine the management, delivery and monitoring arrangements for the interventions and their impact on intended beneficiaries. If appropriate, this will include qualitative data collection and systematic beneficiary interviews.

## **8. Timing and deliverables**

8.1 The review will be undertaken by a small team from ICAI's consortium and overseen by the Commissioners. The Lead Commissioner for this review is Graham Ward. It will commence in June 2013, with a final report available during the first quarter of 2014.