

IDEV

Independent Development Evaluation
African Development Bank

From experience to knowledge...
From knowledge to action...
From action to impact

Evaluation Department



Towards Private Sector-Led Growth: Lessons of Experience

Evaluation Synthesis Report

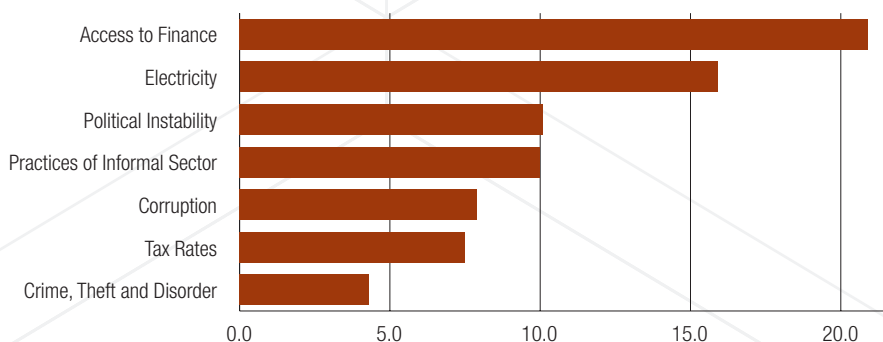
Objective, Scope and Approach

The primary objective of the report is to synthesize the findings and lessons from 33 evaluations of donor support for private sector development (PSD) undertaken over the last five years by bilateral and multilateral institutions. It aims to inform the strategic direction, design, and implementation of future PSD initiatives so as to leverage the sector's role in stimulating economic growth and advancing development effectiveness in Africa. The synthesis specifically 1) garners evaluative knowledge on the relevance, efficiency, effectiveness, sustainability, and management of private sector initiatives; and 2) distils key lessons pertaining to what worked, what did not, and why.

Cognizant of the potentially large scope of the synthesis, the study utilized a literature review to better focus the areas of inquiry and to map out five key topical issues/questions for examination. The evaluations included in the synthesis were selected on the basis of thematic and instrument keywords, geographical scope and a list of organizations. Although initially focused on Africa only, the small number of eligible evaluations led to a widening of the scope to include global, regional and multi-country evaluations of PSD in developing countries more broadly, and a larger number of donors. The synthesis framework was informed by the Evaluation Cooperation Group's Good Practice Standards for Country Strategy and Program Evaluation, while a two-phase approach was employed to analyze the content of the selected evaluations in order to identify key patterns, linkages and trends.

Top Obstacles to Doing Business in Africa

Top obstacles identified to doing business in Africa (percent of Firms)



Source: World Bank Enterprise surveys 2006-2015



AFRICAN DEVELOPMENT BANK GROUP

Main Findings

Constraints to PSD

There was widespread consensus on the key constraints to PSD (although their impact varied by firm size, donor and country context). These are: inadequate access to electricity, lack of access to finance, corruption, tax hikes, political instability, competition from the informal sector, and inadequate worker and management skills. Infrastructure was also flagged (by most bilateral donors) as a key constraint. Donors generally employed in-country consultations, and to a lesser extent formal diagnostic tools, as the mechanism for detecting PSD constraints.

Relevance

There was broad alignment between countries' national PSD strategies and those of donors, although selectivity challenges and unclear underlying rationale (theory of change) coupled with poor diagnostics and beneficiary selection weakened the relevance of PSD interventions. Drawing from the findings, the synthesis highlights as key lessons:

- Donors need to invest more in research to develop alternative theories of change and to establish linkages between donor PSD programs and poverty reduction.

Policy and regulatory reforms are crucial, but are insufficient to stimulate PSD. The capacity of public sector entities that deliver critical services to the private sector should be strengthened.

Effectiveness

The effectiveness of PSD initiatives varied markedly based on the type of intervention (e.g. economy-wide, sector-specific or firm-specific) and the instruments employed (financial vs. non-financial). However, there was broad consensus on the benefits of economy-wide policy reform measures, notably for enhancing the business environment and ensuring the availability of infrastructure. The effectiveness of different financial and non-financial instruments varied, corroborating observations in the literature.

Infrastructure and private participation in infrastructure development, while crucial and effective, were barely mentioned in PSD evaluations.

Key lessons are:

- Designing financing support through intermediaries requires attention to the intermediary's existing strategy, the bundling of other services with financing (for example, paying attention

to governance oversight provided by equity funds), and to the technical assistance needs of the intermediary itself.

- Targeting of specific types of firms, while utilized by many, has had limited results. In the case of SMEs, targeting requires careful diagnostics of the local context and the proposed funding channel to ensure additionality. Programs with a sectoral focus - particularly agriculture/agribusiness - have been more successful.

Efficiency

The efficiency of PSD interventions varied depending on a number of factors including in-country donor presence, institutional capacity, level of investment, and use of public sector institutions. The presence of in-country donors and PSD support via financial intermediaries often resulted in better efficiency.

The efficiency of business environment reforms were negatively impacted by design and implementation flaws linked to: 1) underestimating the complexity and length of reforms; 2) weak risk assessment and inadequate monitoring and evaluation; and 3) client performance and the occurrence of crisis.

The key lesson stemming from the above is that:

- Donors need to develop appropriate institutional capacity, particularly around staff and systems, to effectively deliver PSD interventions.

Sustainability

Sustainability was generally found to be weak, primarily because it was not well built into program design. Emphasis was often placed on financial rather than institutional sustainability. The sustainability of products and services delivered by donors was particularly difficult in situations where subsidies blurred real prices during program implementation. However, financing interventions were generally more sustainable than non-financing support, especially for private equity funds and microfinance institutions.

Design and Delivery

Donor PSD program design was complex, mainly due to the choice of constraints to be addressed, the diversity of instruments, and the multiplicity of implementing agencies and partnerships. This led to challenges with implementation, coordination, and sequencing. Country PSD programs employed a mix of interventions (national policy and regulatory work, support to key sectors, and firm level support) to address constraints to PSD.

Donors generally favored “gap-filling” to pursuing additionality, catalytic impact, or minimizing distortions emanating from subsidies, even though it is not a successful strategy. In the case of providing financing support through intermediaries, the choice of intercessors – acknowledging their capacity and development focus - was a vital determinant of success.

The synthesis identified a number of lessons pertaining to design and delivery:

- PSD initiatives require a country-specific diagnostic of challenges, needs and absorptive capacity of the private and public sectors, informed by in-depth consultations with a host of stakeholders to accurately address the needs of the private sector and beneficiaries.
- Given the modest volume of donor PSD support compared to the significant needs of the private sector, additionality and catalytic effects must be central to PSD program design. Thus, the focus should shift from “gap filling” to transforming market structure or behavior.
- The choice of implementing institutions and capacity development in these institutions is a key issue to be addressed during PSD program development.
- The impact and sustainability of results of non-financing (knowledge support) interventions is greatly shaped by the choice of intermediary (public or private), the attention given to capacity building in the intermediary, and the demand for services once subsidies are phased out.

Coordination

While the importance of providing support in a coordinated manner is recognized by donors, there is little evidence of donor coordination at country level beyond the exchange of information, utilization of standardized financial and private sector intercessors, and participating in global and regional multi-donor programs.

The key lesson:

- Donor cooperation beyond information exchanges is vital to boost the effectiveness and efficiency of PSD programs and ensure additionality and complementarity.

Monitoring & Evaluation

Numerous major weaknesses were flagged in the area of M&E: 1) a difficulty in assessing the impact of programs designed to influence

and change private sector behaviors; 2) a focus on outputs rather than outcomes; 3) a lack of baseline data; and 4) challenges of donor attribution. Despite some recent improvements, including enhancements to monitoring, it was too early for the evaluations to assess these changes.

The key lesson:

- A robust M&E system that is focused on outcomes and that is an integral part of the life cycle of PSD interventions (i.e., design, implementation, completion and post completion) is critical to demonstrating its anticipated impact on poverty reduction.

Gender Mainstreaming

In spite of the emphasis given to gender mainstreaming by donors in recent years, coverage of gender-specific issues in the evaluations was surprisingly limited.

Main takeaways

Donor PSD support is a complex endeavor involving a number of sectors; a broad range of support instruments; a large number of private, financial sector and public sector actors that can be supported; and differing time horizons of various support activities. It is unlikely that a single theory of change could be defined. In addition, while there are many claims with respect to the impacts of PSD interventions on job creation and poverty reduction, these have not been demonstrated by sound evidence.

The main takeaways from the synthesis report are:

1. A need to transcend “gap-filling” and move toward an integrated approach that privileges additionality and catalytic impact.
2. Invest in research to unpack and understand the poverty impact of the macro, sector, and firm level support contained in PSD programs.
3. Ensure proper capacity assessment of donors, intermediaries, and governments so they effectively deliver on expected outcomes in a sustainable manner.
4. Include capacity development components for intermediaries in all donor support packages so as to enhance institutional capacity, while creating an enabling environment for success.
5. Design, implement and invest in a rigorous and integrated monitoring and evaluation system that focuses on outcomes.

About IDEV

Independent Development Evaluation (IDEV) of the African Development Bank carries out independent evaluations of Bank operations, policies and strategies, working across projects, sectors, themes, regions, and countries. By conducting independent evaluations and proactively sharing best practice, IDEV ensures that the Bank and its stakeholders learn from past experience and plan and deliver development activities to the highest possible standards.

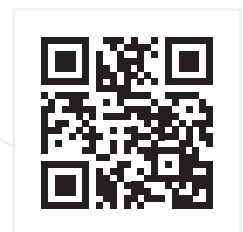
About NoradDev

The **Evaluation Department**, located in Norad, is mandated to initiate and carry out independent evaluations of any activity financed by the Norwegian aid budget. The Evaluation Department is governed under a separate mandate for evaluating the Norwegian Development Aid Administration and reports directly to the Secretaries General of the Norwegian Ministry of Foreign Affairs and the Ministry of Climate and Development.

About this Evaluation

This evaluation synthesis report is a joint work between the evaluation departments of the Norwegian Agency for Development Cooperation (Norad) and the African Development Bank (AfDB). It serves to mine and synthesize the evaluative evidence from 33 evaluations undertaken by multilateral and bilateral institutions on support to the private sector and/or various segments in the private sector. The evaluation synthesis aims to inform the strategic direction, design and implementation of future private sector development initiatives by drawing lessons on what works, what does not work, and why.

Evaluation Task Manager: Joseph Mouanda, Principal Evaluation Officer, IDEV 1
Publication coordinated by Kobena T. Hanson, Knowledge Management Consultant, IDEV 3
Complete report available online at idev.afdb.org



IDEV

Independent Development Evaluation
African Development Bank

African Development Bank Group

Avenue Joseph Anoma, 01 BP 1387, Abidjan 01, Côte d'Ivoire
Phone: +225 20 26 20 41 • Fax: +225 20 21 31 00
Email: idevhelpdesk@afdb.org

Evaluation Department



Norwegian Agency for Development Cooperation
Pb 8034 Dep. 0030 Oslo, Norway
Tel.: +47 23980000