IDEV

Independent Development Evaluation
African Development Bank

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

Evaluation Department

Norad

Towards Private Sector Led Growth:

Lessons of Experience

Evaluation Synthesis Report

AFRICAN DEVELOPMENT BANK GROUP

October 2016

An IDEV/Norad **Evaluation Synthesis**

IDEV conducts different types of evaluations to achieve its strategic objectives

IDEV

Independent Development Evaluation
African Development Bank

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

Evaluation Department
Norad

Towards Private Sector Led Growth:

Lessons of Experience

Evaluation Synthesis Report

AFRICAN DEVELOPMENT BANK GROUP

October 2016

An IDEV/Norad **Evaluation Synthesis**

ACKNOWLEDGEMENTS

Task manager	**Joseph Mouanda**, Principal Evaluation Officer, IDEV.1
Consultant	**Centennial Group**
Knowledge management officer	**Kobena Hanson**, Consultant, IDEV.3
Other assistance / contribution provided by	**Karen Rot-Munstermann**, Division Manager, IDEV.3 **Foday Turay**, Chief Evaluation Officer, IDEV.1 **Khaled Samir Hussein**, Principal Evaluation Officer, IDEV.2 **Henda Ayari**, Team Assistant, IDEV.1
AfDB Independent Development Evaluation Management	
Division manager, IDEV.1	**Rafika Amira**
Evaluator-General	**Rakesh Nangia**
Norad Evaluation Department Management	
Senior Adviser	**Balbir Singh**
Director	**Per Øyvind Bastøe**

Towards Private Sector Led Growth: Lessons of Experience — Evaluation Synthesis Report
IDEV Evaluation Synthesis, October 2016

About the AfDB

The overarching objective of the African Development Bank Group is to spur sustainable economic development and social progress in its regional member countries (RMCs), thus contributing to poverty reduction. The Bank Group achieves this objective by mobilizing and allocating resources for investment in RMCs and providing policy advice and technical assistance to support development efforts.

About Independent Development Evaluation (IDEV)

The mission of Independent Development Evaluation at the AfDB is to enhance the development effectiveness of the institution in its regional member countries through independent and instrumental evaluations and partnerships for sharing knowledge.

About Norad

Norad is a directorate under the Norwegian Ministry of Foreign Affairs. In matters regarding Norway's International Climate and Forest Initiative (NICFI), Norad reports to the Norwegian Ministry of Climate and Environment. Norad's functions are laid down in the agency's terms of reference and annual letters of allocation issued by the Ministry of Foreign Affairs and the Ministry of Climate and Environment. Norad's main purpose is to ensure that Norwegian development aid funds are spent in the best possible way, and to report on what works and what does not work.

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.

Independent Development Evaluation (IDEV)
African Development Bank Group

Avenue Joseph Anoma, 01 BP 1387, Abidjan 01, Côte d'Ivoire

Phone: +225 20 26 20 41

E-mail: idevhelpdesk@afdb.org

Contents

Contents

List of Figures

List of Boxes

Abbreviations and Acronyms

AfDB	African Development Bank
AsDB	Asian Development Bank
AusAid	Australian Agency for International Development
BIO	Belgische Investeringsmaatschappij voor Ontwikkelingslanden (Belgian Investment Company for Developing Countries)
CAO	Compliance Advisor Ombudsman
CIDA	Canadian International Development Agency
DANIDA	Danish International Development Agency
DFI	Development Finance Institution
DFID	Department for International Development (UK)
EBRD	European Bank for Reconstruction & Development
EDFI	European Development Finance Institution
EIB	European Investment Bank
EU	European Union
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FI	Financial Institution
FMO	Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden (Netherlands Development Finance Company)
FUNDES	Fundación para el Desarrollo Economico y Social (Foundation for Economic and Social Development)
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (German Corporation for International Cooperation)
GTZ	Gesellschaft für Technische Zusammenarbeit (German Technical Cooperation Agency)
IDA	International Development Association
IDEV	Independent Development Evaluation
IDF	Infrastructure Development Fund (Netherlands)
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFI	International Financial Institution
IOB	Inspectie Ontwikkelingssamenwerking en Beleidsevaluatie (Policy and Operations Evaluation Department) (Netherlands)
JICA	Japanese International Cooperation Agency
KfW	Kreditanstalt für Wiederaufbau (Reconstruction Credit Institute) (Germany)
LICs	Low Income Countries
LMICs	Lower Middle Income Countries
LoCs	Lines of Credit
MICs	Middle Income Countries
MIF	Multilateral Investment Fund
MIGA	Multilateral Investment Guarantee Agency
NGO	Non-Governmental Organization
Norad	Norwegian Agency for Development Cooperation
NorFund	Norwegian Investment Fund for Developing Countries

PPIAF	Public-private Infrastructure Advisory Facility
PPP	Public-private Partnership
PSD	Private Sector Development
SDC	Swiss Agency for Development and Cooperation
SECO	State Secretariat for Economic Affairs (Switzerland)
SIDA	Swedish International Development Agency
SMEs	Small and Medium size Enterprises
SNPI	Statkraft Norfund Power Invest (Norway)
TA	Technical Assistance
UMICs	Upper-Middle Income Countries
USAID	United States Agency for International Development
WBG	World Bank Group
WDR	World Development Report

Foreword

The private sector is a driving force behind sustainable economic growth and a key source for creating wealth and jobs. A stronger private sector leads to increased economic opportunities, more job creation, and increased revenues for governments to meet the needs and aspirations of their citizens, including the most vulnerable. In order to achieve these outcomes, the private sector, civil society, donors and governments, need to partner together and coordinate their efforts by leveraging their comparative advantages.

Both multilateral and bilateral institutions have carried out a number of evaluations on support to the private sector and/or various segments in the private sector, which contain a wealth of evaluative evidence. The evaluation departments of Norwegian Agency for Development Cooperation (Norad) and African Development Bank (AfDB) have joined forces to mine and synthesize this evaluative evidence. 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.

I am positive that this Evaluation Synthesis will inform the debate on how to leverage private sector knowledge, resources and innovation to address development challenges and opportunities and to maximize its contribution to development. This is particularly important in Africa where formal jobs created are far less than the number of youth entering the workforce.

I would like to take this opportunity thank Norad's Evaluation Department for their partnership and for actively supporting and funding this evaluation synthesis.

Rakesh Nangia
Evaluator General
Independent Development Evaluation
African Development Bank Group

Executive Summary

Introduction

This document outlines the key findings of a synthesis of 33 evaluations carried out by various development institutions on private sector development (PSD). Both multilateral and bilateral institutions have carried out a number of evaluations on support to the private sector and/or various segments of the private sector [microfinance, private equity, public private partnerships, small and medium enterprises (SMEs)], which contain a wealth of evaluative evidence. The synthesis aims to inform the strategic direction as well as the design and implementation of future private sector development interventions in order to maximize the private sector's role in spurring economic growth and advancing development effectiveness in Africa. The objective of the synthesis is twofold: 1) to mine evaluative knowledge on the relevance, efficiency, effectiveness, sustainability, and management of private sector interventions; and, 2) to identify key lessons based on what worked and what did not work and why.

Key Findings

PSD Constraints and Challenges

There was broad agreement on the main constraints to PSD. The importance of these constraints varied by firm size, country context, and donor. Most donors used in-country consultations, and to a lesser extent formal diagnostic tools as the mechanisms for identifying PSD constraints.

The main constraints to PSD included inadequate access to electricity, lack of access to finance, corruption, high tax rates, political instability, competition from the informal sector, and inadequate worker and management skills. These constraints were often acknowledged in international financial institution (IFI)'s reports. However, in identifying what a PSD program may cover, the importance of each constraint differed by development partner and country. While donors made use of formal diagnostic tools, in-country consultations were the most prevalent mechanism for identifying constraints. Indeed, many donors engaged with the private sector, both local and international, to better understand the practical constraints to growth of enterprises.

Development Effectiveness of PSD Interventions

Relevance

Overall, donor strategies were aligned with national PSD strategies. However, relevance was weakened by a lack of selectivity, an unclear underlying rationale (theory of change), insufficient diagnostics and poor selection of beneficiaries.

The key findings are as follows:

- There was broad alignment between national PSD strategies and donor support strategies, but selectivity remained challenging due to the broad range of private sector entities that can be supported.

Maximizing sustainable PSD results through design

Key Lesson: *The donor community needs to invest more significantly in the research agenda to develop alternative theories of change and establish linkages between PSD interventions and poverty reduction.*

- The relevance of PSD programs' objectives in supporting poverty reduction (the overall goal of many donor programs) failed to be clearly demonstrated.

- Policy and regulatory reforms were necessary but not sufficient conditions for PSD.

Institutional Capacity is key

Key Lesson: *Changing laws and regulations can be a promising start to improving the business environment, especially when there is broad consensus among government and the private sector on the changes needed. However, it is important to build the capacity of public sector entities that deliver critical services to the private sector.*

- Financial instruments respond to a real need due to the fact that access to finance consistently appears in the top PSD constraints across almost all countries; they are also part of most countries' PSD programs.

- The relevance of non-financing support was found to be weak in several evaluations due to poor diagnostics and beneficiary selection.

- Interventions supporting only SMEs and micro-entrepreneurs are common. They are characterized by an unclear underlying rationale, a lack of definitional clarity, and often end up supporting larger or smaller firms than targeted.

- Bearing in mind that most of the poor lived in rural areas, many countries target agriculture and agribusiness as priorities. Donor PSD programs in agriculture and agribusiness are well aligned with national programs. Agricultural PSD interventions are found to be relevant even when donor support reaches the poor indirectly (for example, through the use of their labor or through increasing food security).

Effectiveness

PSD interventions effectiveness varied based on the type of intervention (for example, economy-wide, sector-specific and firm-specific). There is a broad consensus around the benefits of economy-wide policy reform measures, particularly for improving the business environment and ensuring the availability of infrastructure. Findings are more mixed regarding the effectiveness of different financial and non-financial instruments.

The key findings are as follows:

- Effectiveness of business environment reforms was not conclusive with donors presenting different opinions on the existing capacity of the public sector.

- Financing support was assessed as mixed. It was judged as more effective when coupled with technical assistance and capacity building for both the private sector and the financial intermediaries. The effectiveness of financial support to enterprises can be impacted by other factors. These include: 1) technical assistance, and 2) the intermediary's participation in the corporate governance of the enterprise. Most equity funds have representatives on the company boards in which they invest.

Maximizing sustainable PSD results through design

Key Lesson: *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.*

- In terms of non-financial support, achievement of output was high, but outcomes' achievement (job creation, poverty reduction) suffered from lack of evidence.
- Effectiveness of SME support was hampered by the lack of results data. The evaluations found that support to SMEs through intermediaries is effective only when the latter are already heavily focused on SME clients and have an existing SME strategy and portfolio.
- Effectiveness of micro-enterprises varied depending on whether investments were made in public or private sector institutions and whether the investment was in a standalone projects or a part of a program.
- Sectoral targeted interventions – particularly in agriculture – have proved effective.

Institutional Capacity is key

Key Lesson: *Targeting is a widely used approach even though programs targeting firms based on size (SMEs or micro-enterprises) have demonstrated limited results. Programs with a sectoral focus – particularly agriculture/agribusiness – have been more successful.*

- Infrastructure and private participation in infrastructure though extremely important received limited coverage in PSD evaluations (only 2 out of 33 evaluations). Public-private partnership in the infrastructure sector was rated as effective but coverage by the evaluations was still relatively modest.

Efficiency

Efficiency was found to vary depending on a number of factors, such as donors' field presence, institutional capacity, level of investment and the use of public sector institutions. The key findings are as follows:

- Efficiency was rated higher with donors' in-country presence but was hampered by capacity challenges, particularly related to retaining suitable numbers of staff with the right mix of skills and experience.
- Delivery of PSD donor support through financial intermediaries was more efficient than delivery through public sector institutions.
- The efficiency of business environment reforms was negatively affected by both design and implementation challenges.
- For financing support instruments, evaluations found that financial rates of return were found to be low when strategic choices are made to invest in riskier countries and sectors. Furthermore, process delays were found to be mixed among some evaluations reviewed.
- Evaluations noted delays in deploying non-financing support instruments.
- The efficiency of SME support was reported as mixed.
- The efficiency of interventions targeting micro-enterprises and micro-finance received limited coverage in evaluations. Evaluations that addressed this issue rated it as weak.

Institutional Capacity is key

Key Lesson: *Donors need to ensure that they have the appropriate institutional capacity (in terms of staff and systems) to effectively deliver PSD interventions.*

Sustainability

Overall, sustainability was found to be a weak area, mainly due to the fact that it was not always considered at the outset of the program design. When reflected, it tended to focus on financial rather than institutional sustainability. The ratings given to sustainability varied with the type of intervention (financing, non-financing, reforms).

The key findings are as follows:

- Sustainability is rarely treated as a primary focus during program design. In addition, reviews of the sustainability of activities at best focuses on the continued financial sustainability of implementing agencies instead of focusing more broadly on institutional sustainability.
- Sustainability of products and services delivered through donor programs was particularly challenging where subsidies reduced prices during the program period.
- Financing interventions were generally more sustainable than non-financing support; in particular, private equity funds continued to remain sustainable after program implementation.
- Donor supported business environment reform programs face sustainability challenges. These spring from the needs to ensure that regulatory standards are kept up to date and institutional knowledge in support organizations is appropriately maintained. Projects supporting technology for business development, business development services, and some value chain programs were particularly prone to the lowest ratings in terms of sustainability.
- Sustainability of Micro-Enterprises and Micro-Finance targeted interventions remained an issue although there were some positive expectations for private sector entities.

Managing Private Sector Development Interventions

Design and Delivery

Donor PSD program design was complex due to a multitude of factors, including: 1) the choice of constraints to be addressed with particular attention paid to binding constraints; 2) the diversity of instruments – policy reform, financing support, and non-financial support; and 3) the multiplicity of implementing agencies (public and private) and partnerships with individual private sector firms and associations. This complexity results in implementation challenges with regards to institutional coordination and sequencing.

Institutional Capacity is key

Key Lesson: *PSD interventions require a country-specific diagnostic of constraints, needs and absorptive capacity of the private and public sectors. This should be based on in-depth consultations with the full range of stakeholders to better address the needs of the private sector and to take into account the benefits for wider society.*

Most country PSD programs used a mix of interventions (national policy and regulatory reforms, support to key sectors and firm level support), tailored to address country specific PSD challenges. In light of the multiplicity of constraints, effective support to PSD placed the onus on tackling several constraints simultaneously, most notably those that were binding. Donor support to PSD used a mix of interventions and a diversity of implementation agencies to address country specific binding constraints. Donor programs often focused on three areas: (1) improving access to financial services, (2) an emphasis on particular instruments which may not be directly related to the final beneficiaries (for example, infrastructure such as transport) but may still be important to the program, and (3) improving the business environment. Additional areas included access to markets, support to organizations (for example, export promotion agencies) and focused on market development.

Evaluations noted that while "gap filling" is not a successful strategy, donors continue to pursue it. Most evaluations found that donor interventions should focus on additionality and catalytic impact rather than "gap filling". Evaluations reported that donors should minimize the distortions resulting from the subsidies that are often embedded in donor support. After all, the level of donor support will never be sufficiently large to address needs. Evaluations noted that donors think that gap filling will solve the problem. This was especially observed in smaller African economies where the financing gap may appear more amenable to filling through donor support. Evaluations highlighted the need to focus donor support on transforming the market structure or changing private sector behavior in the long-term as opposed to the direct outcome of gap-filling. They stressed the need to pay attention to the additionality of programs and instruments as well as to the risk of market distortions.

Maximizing sustainable PSD results through design

Key Lesson: *Given that the volume of donor PSD support will always be modest compared to the significant needs of the private sector, additionality and catalytic effects must be at the heart of PSD program design (for example, through helping to develop local currency financing products). Therefore, the focus should shift from "gap filling" support to changing market structure or behavior (through demonstration effects).*

Financing support was largely provided through intermediaries. The choice of intermediaries – taking into account their capacity and development focus – was an important determinant of success. Financing support was provided primarily through financial intermediaries (banks and private equity funds), as well as microfinance institutions, and, to a more limited extent, it was provided directly to private sector enterprises. Technical assistance and capacity building are provided in conjunction with financial support by some donors so as to enhance the capacity of financial intermediaries.

Maximizing sustainable PSD results through design

Key Lesson: *The choice of implementing institution(s) and building capacity in the selected institution(s) are key issues to be addressed during PSD program design*

Non-financing (knowledge) support was also largely provided through intermediaries. But unlike the financial sector, these intermediaries were often weak or indeed non-existent. Utilizing existing public sector intermediaries was found to be a more expedient approach. However, adopting such an approach limited the development of a private sector led market for business services. Non-financial instruments aimed to improve the productivity of firms, which suffered from market failures in many developing countries. However, each instrument had a specific focus ranging from stimulating the demand for knowledge services (by providing targeted funding), to developing the supply side for such services (either through strengthening domestic public or private providers or through partnerships with overseas enterprises). Interventions that utilized new private sector intermediaries faced delays while the latter were being developed. The evaluations noted the concern of continuing to work only with public sector providers and not developing the market for private

Maximizing sustainable PSD results through design

Key Lesson: *The impact and sustainability of results of non-financing (knowledge support) interventions is heavily influenced by the choice of intermediary (public or private), the attention given to building capacity in the intermediary, and the demand for services once subsidies are phased out.*

providers of business and professional services. Given the relatively smaller size of the African private sector, this is an area of particular interest.

Coordination

While donors recognize the importance of providing support in a coordinated manner, there is little evidence of coordination at country level beyond the exchange of information. Donors do, however, participate actively in global and regional multi-donor partnerships and often co-invest in the same private and financial sector intermediaries. Evaluations found that donors do not coordinate their PSD support at country level apart from exchanging information. This pattern occurred even where the partnership was an explicit goal of the original donor strategy. Yet evaluations reported that an indirect approach of donor coordination is through providing funding to the same financial or private sector intermediary. This type of collaboration is often seen in the case of financial intermediaries and non-financial business service providers. The most common example is the case of private equity funds, which usually receive simultaneous funding from several IFIs and development finance institutions. Lastly, donors do participate actively in global and regional multi-donor partnerships and associated trust funds.

Achieving more by working together

Key Lesson: *Donor cooperation beyond information exchange is critical to enhance the effectiveness and efficiency of donor programs.*

Monitoring & Evaluation

Evaluations identified a number of weaknesses in the area of monitoring and evaluation, including the following points: 1) a difficulty in assessing the impact of programs which try to influence and change private sector behaviors; 2) a focus on outputs rather than outcomes; 3) a lack of baseline data; and 4) challenges with attributing outcomes to donor support.

Job creation was rarely a direct objective and was not properly monitored. Moreover, when it was monitored the indicators were not meaningful. Programs that sought to monitor job creation focused on direct job creation; the impact was either low or very costly. Some programs attempted to establish a relationship between PSD and job creation at the country level but this was difficult to measure. There was a lack of national data on enterprise and employment creation. Furthermore, since job creation was generated by private firms, it was difficult to attribute observed changes in firms' behaviors to a specific intervention (for example, with respect to recruitment). Where direct impacts were identified, these assumptions were often not verified. Several evaluations pointed to the fact that non-financial results were not properly monitored. Hence, they were difficult to evaluate.

Gender Mainstreaming in PSD Interventions

Coverage of gender specific issues among the evaluations was surprisingly limited, especially in light of the attention shown to this agenda by donors in recent years. Indeed, it is possible that this emphasis may deepen in future years as gender focused initiatives near completion. Evaluations stressed that many broader PSD interventions –

What does not get measured does not get achieved

Key Lesson: *A rigorous monitoring and evaluation system that focuses on outcomes and that is integrated throughout the life cycle of PSD interventions (design, implementation, completion and post completion) is critical to demonstrate its anticipated impact on poverty reduction.*

particularly those focused on improving the business enabling environment – can significantly benefit smaller and less advantaged firms, typically owned by women entrepreneurs. However, evaluations did not present gender-segregated data. Nonetheless, the evaluations pointed out that country diagnostic work periodically focused on women entrepreneurs.

Background, Methodology and Approach

Rationale, Objective and Scope

Rationale: Private Sector Development (PSD)[1] has long been a central part of national development programs and associated donor support. Donor support for PSD is receiving renewed emphasis for two major reasons: 1) the increasing importance of job creation[2]; and 2) the need for significant private sector involvement to ensure sustainable financing for global development goals[3]. Donor PSD support can be provided through a combination of economy-wide, sector-specific, and firm-specific interventions[4]. Donor PSD support is a complex endeavor involving a range of factors, namely a number of sectors; a broad range of support instruments; a large number of private, and financial sector and public sector actors that can be supported.

Objective. The synthesis aims to inform the strategic direction as well as the design and implementation of future private sector development interventions to maximize the private sector's role in spurring economic growth and advancing development effectiveness in Africa. The objective of the synthesis is twofold: 1) to mine evaluative knowledge on the relevance, efficiency, effectiveness, sustainability, and management of private sector interventions; and 2) to identify key lessons based on what worked and what did not work and why.

Scope. This synthesis included 33 PSD evaluations carried out by bilateral and multilateral institutions over the last five years. Given the broad potential scope for the areas to be reviewed, the study undertook a literature review to narrow down the areas of inquiry and identified five key topics/ questions to be addressed through the synthesis.

Methodological Approach

The methodological approach used for this evaluation synthesis is presented in Annex 3. It highlights the selection of evaluations for synthesis, the main evaluation questions, the synthesis framework, content analysis, and the limitations and mitigation measures.

The synthesis findings are organized along the lines of three main topics: 1) Constraints and Challenges; 2) Development effectiveness of PSD interventions and; 3) Managing PSD interventions. The report ends by presenting the key conclusions and main takeaways.

Key Findings

Private Sector Development Constraints and Challenges

There is broad agreement on the main constraints to PSD. The importance of these constraints can vary by firm size, country context and among donors. Most donors use in-country consultations, and to a lesser extent formal diagnostic tools as the mechanisms for identifying PSD constraints.

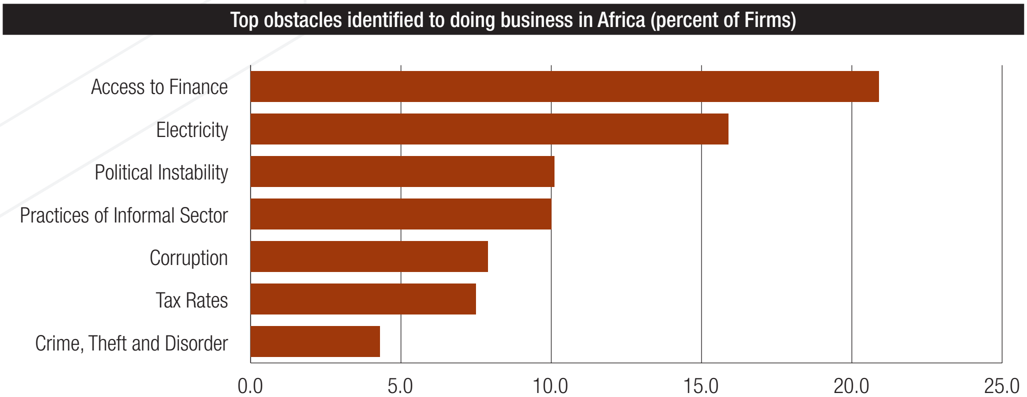
Main constraints to PSD

The main constraints to PSD do not vary much across countries. However, in identifying what a PSD program may cover, the importance of each constraint differs by development partner and country. Firm survey results reveal that globally the main constraints to PSD include inadequate electricity supply, access to finance, corruption, tax rates, political instability, competition from the informal sector, and poor worker and management skills. The biggest obstacles to doing business in Africa, according to World Bank Enterprise Survey results[5], include access to finance, corruption, electricity, political instability, the practices of the informal sector and tax rates (see figure 1).

The rank ordering of constraints can vary by firm size and/or country context. Large and medium-sized firms reported the lack of access to finance as the most important constraint. In contrast, small-sized firms identified inadequate access to electricity as their binding constraint. With respect to countries, access to finance was reported as the most important constraint irrespective of country income status. However, unreliable access to electricity was identified as the second most important constraint for low and lower middle African countries compared to corruption for upper middle African countries. For the complete list of obstacles disaggregated by firm size and country income status see Annex 2.

Donors also had different rank ordering of main PSD constraints. For instance, the Asian Development

Figure 1: Top Obstacles to Doing Business in Africa



Source: World Bank Enterprise surveys 2006-2015

Bank (AsDB) PSD Evaluation indicated that the types of business constraints considered as severe in most developing member countries (DMCs) by World Economic Forum survey respondents were: (i) inefficient government bureaucracy, (ii) corruption, and (iii) access to financing. According to World Bank enterprise survey results, the major constraints surrounding PSD relate to: (i) corruption, (ii) electricity, and (iii) tax rates. As for the African Development Bank (AfDB), its 2013-2017 PSD strategy highlights the restrictive business environment along with limited access to physical infrastructure.

PSD Key challenges

- *Restrictive business environment*
- *Limited access to physical infrastructure*
- *Access to financial services and the supply of long-term capital*
- *Specific obstacles for micro, small, and medium-sized Enterprise*
- *Weak value-chain link*

Source: AfDB's 2013-2017 Private Sector Development Strategy

In addition, most bilateral development partners considered the lack of or poor quality infrastructure as a key constraint to private sector development. For example, if there is no road or transport to bring your produce to the market, you cannot have a growth strategy for your farming activity. Similarly, the European Bank for Reconstruction and Development (EBRD) evaluation noted that for food production, the main constraint is not agricultural but infrastructure-linked ranging from transport to storage facilities.

Donor approach in identifying binding constraints to PSD

Most donors used in-country consultations and (to a lesser extent) formal diagnostic tools as the mechanism for identifying PSD constraints (see box 1). Several donor programs targeted the most important business environment constraints using a combination of diagnostic tools and public/private dialogue mechanisms.

Several evaluations noted that the diagnostic process could be improved. They identified the following shortcomings of diagnostic:

Box 1: Donor approach to identifying PSD Constraints

- The World Bank Group (WBG) Investment Climate Evaluation notes the broad range of diagnostic tools used including surveys (for example, Enterprise Surveys and Tax Compliance Cost Surveys), indicators/indices (for example, Doing Business; Women, Business, and the Law; Investing Across Borders; and Logistics Performance Index), and assessments (for example, Investment Climate Assessments, marginal effective tax rate, and standard cost model). Diagnostic tools are widely used – between 50 to 67 percent of the time.).
- The AsDB evaluation noted that business constraints varied according to firm size and ownership, but AsDB strategies, analysis and support lacked adequate differentiation to ensure greater inclusiveness – one of the Bank's principal strategic objectives. Support for reforms seeking to reduce regulatory costs, enhance competition, improve property rights, and reduce corruption was low although growing. Consultation with a broad range of relevant private sector representatives is crucial in the identification and design of specific regulatory reform measures but AsDB had played a minor role in national donor-private sector forums.
- The European Union (EU) evaluation found that of 40 Country and Regional Strategies over 60 percent identified the main obstacles to PSD in terms of the Institutional and Regulatory Framework and 70 percent included strategies geared to removing such obstacles. Strategies were not formulated on the basis of specific studies or diagnostic tools which identified the obstacles to PSD; instead, a more informal and pragmatic approach was adopted based on dialogue with the government and other donors (but with limited consultations with the private sector).

- Current diagnostic tools did not adequately cover some key areas such as: contract law, competition policy, consumer protection, intellectual property rights, employment law, and alternative dispute resolution (ADR) as well as environmental law;

- There was no comprehensive tool that allowed for an assessment of all regulatory aspects and helped determine which area was most problematic;

- Better assessment of political commitment was needed. Unsuccessful efforts focused on improving the technical quality of legislation but ignored the importance of understanding political processes, particularly in fragile and conflict situations (FCS), where these processes are more unstable; and

- Diagnostic analysis focused only on enterprises and generally did not include all stakeholders (for example, non-governmental organizations (NGOs) and trade unions).

Evaluations reported that most donors with an in-country presence significantly improved the consultations with the private sector. However, the diversity of private sector entities presented challenges in terms of ensuring that all types of private sector entities participated in the diagnostic phase. Even where consultations were complemented by formal diagnostic instruments (for example, firm surveys undertaken by the WBG), such instruments were likely to focus on the constraints faced by large manufacturing firms. Yet a significant share of the private sector in most countries was centered on the informal sector and the constraints affecting this sector were rarely assessed. The WBG evaluation noted that analysis of SME and/or informal enterprises was conducted in only four countries (Cambodia, Georgia, Lao PDR, and Liberia) while gender assessments (most women worked in the informal sector)were conducted in only three countries (Bangladesh, Cambodia, and the Republic of Yemen).

Development Effectiveness of PSD Interventions

Relevance

Overall, donor strategies were aligned with national PSD strategies. However, their relevance was weakened by design shortfalls including: difficulties with selectivity, unclear underlying rationale (theory of change), weak diagnostic and poor selection of beneficiaries.

There was broad alignment between national PSD strategies and donor support strategies but selectivity remained challenging due to the broad range of private sector entities that can be supported. Countries' national development strategies typically included statements regarding the important role of the private sector. All donor strategies were well aligned with national development strategies and their own institutional policies. However, evaluations indicated that translating policy alignment into selective interventions was challenging. Donor strategies varied with regards to the interventions deployed as part of their PSD programs. Factors that influenced the choice made by donors included: the donor's experience, legal objectives and charter, and views relating to possible additionality and analysis of potential benefits (and image) of its aid. PSD support was usually considered by the donors as part of their overall country strategy. The size of the PSD program and the instruments chosen reflected the overall focus of the country strategy. For example, an infrastructure or human development focused country strategy would result in very different PSD interventions as noted in the EU and Australian reports.

As indicated above, evaluations noted the importance of engaging private sector actors, both local and international, in the process of formulating the strategy. A broad consensus that the strategy addressed the most important constraints to enterprise growth was required. However, the evaluation reports contained limited information on the in-country processes (in both donor and developing countries) utilized for identifying priorities and formulating donor programs. Many donors employed consultation processes with their own private sector and the domestic private sector in beneficiary countries. They also engaged with a diversity of implementing agencies (public and private) and partnered with individual private sector firms and associations in PSD delivery. In addition, evaluations noted the need to carefully design public private dialogue process to manage the risks of 'capture' and/or special pleading by vested interests. They also stressed the importance of the private sector's role in monitoring the implementation of donor PSD programs.

Relevance of PSD programs objectives in supporting poverty reduction (overall goal of many donor programs) was not clearly demonstrated. While many evaluations note the contributions that PSD makes to job creation, there are conceptual and practical difficulties with measuring actual job creation. Furthermore, there are multiple channels (tax paid to government, capital investments and promotion of competition) through which PSD programs affect poverty reduction both directly and indirectly. All the evaluations highlight the fact that there is no demonstrated linkage between the objectives of donor PSD programs and donor global objectives (that is, poverty reduction). It is possible that such a relationship may exist but the theory of change – whether through direct or indirect impacts – is not clearly spelled out. In addition, some programs do attempt to establish a relationship between PSD and job creation at the country level, but as discussed in the monitoring and evaluation section below, this is difficult to measure. Since job creation is a result of the actions of private firms, it is difficult to attribute observed changes in firms' behavior (for example in recruitment) to a specific intervention. Where direct impacts are reported, the assumptions are often not verified/validated.

Key Lesson: *The donor community needs to invest more significantly in the research agenda to develop alternative theories of change and establish linkages between PSD interventions and poverty reduction.*

Given the diversity of PSD programs, it is unlikely that a single theory of change could be defined. Hence, further investment is needed to develop alternative theories of change identifying the poverty impact of the macro, sector and firm level support contained in PSD programs.

Policy and regulatory reforms were necessary but not sufficient conditions for Private Sector Development. Reforms which addressed business environment constraints (e.g. lack of competition, barriers to the establishment and operation of businesses, costs of doing business.) were found to be important in reducing the regulatory burden on the private sector and creating a regulatory framework. They provided a "level playing field" where economic players had equal opportunities to succeed. Evaluations found that relevance of design for business environment reforms was strengthened since they consisted of activities whose impact was measured annually through the WBG's Doing Business Indicators. Support was provided both in the context of policy reform operations (where business environment may be a small part of the overall operation) as well as technical assistance to help implement the reforms.

Evaluations noted that limiting the consultation process to the most important constraints in the business environment could lower the relevance of business environment reforms to the society at large. In addition, they reported that focusing on improving the country's international rankings (particularly on Doing Business) presented a challenge since other countries were also likely to undertake similar reforms. Once the legal and regulatory impediments were addressed, the focus needed to broaden to the slower but equally needed agenda of building capacity in public sector entities that delivered critical

Key Lesson: *Changing laws and regulations can be a promising start to improving the business environment, especially when there is broad consensus among government and the private sector on the changes needed. However, it is important to build the capacity of public sector entities that deliver critical services to the private sector.*

services to the private sector (for example, business registries, tax administration and land titling). This is likely to be particularly important in Africa where many countries have already undertaken the first round of reforms.

Financial instruments responded to a real need given the fact that lack of access to finance consistently appeared in the top PSD constraints in almost all countries and they were part of most countries' PSD programs. In contrast, the relevance of non-financing support was assessed as weak in several evaluations.

Financing support (for example lines of credit, equity funds, guarantees and equity participations) was found to be relevant. In contrast, the relevance of non-financing support was assessed as weak in several evaluations. This was due to various reasons, namely: 1) weak diagnostics, which did not appropriately identify market failures to be addressed, 2) poor beneficiary selection, and 3) insufficient monitoring of incremental impact (particularly given subsidies),and failure to separate the impact of non-financing support from other complementary activities.

Interventions supporting only SMEs and micro-entrepreneurs were common among donors and were characterized by an unclear definition of SMEs and underlying rationale. A lack of definitional clarity meant that they often ended up supporting larger or smaller firms than targeted. Unclear SME definitions were a universal design issue highlighted by all SME evaluations. Given that SME definitions had to be developed taking into account the context of the country/region, unclear definitions led to poor targeting, which often resulted in support being received by micro-enterprises or large enterprises.

In addition, the rationale for targeting specific categories of enterprises, typically SMEs (or micro-enterprises) was not spelled out and the link between the PSD programs and the constraints being addressed was often not clear, due to gaps in the diagnosis of the constraints to address. Most evaluations highlighted the fact that there was limited global evidence based on net job creation that would justify supporting SMEs while excluding other groups of firms (for example, microenterprises and large firms). While specific country circumstances could provide a justification, none of the evaluations indicated that this rationale was explicitly validated at the country level.

Evaluations reported that the nature of response to address the most important constraints for SMEs (i.e., targeted vs economy-wide) varied based on the country. This was also corroborated through an analysis of enterprise survey data[6], which noted that response needed to be country specific and depended on how firm size interacted with country conditions. This analysis pointed to the centrality of country analytics. However, the reviewed evaluations noted that there was insufficient attention to analyzing country specific binding constraints to SMEs.

Similarly, targeting micro-enterprises required a careful diagnostic of the local context and the proposed funding channel. This analysis aimed to ensure additionality and to avoid creating over-indebtedness at the household level, which has been a particular challenge in recent years. Financial inclusion is an important area of focus for many donors. This emphasis was not surprising given the 200 million formal and informal micro-enterprises and SMEs in developing countries, as well as 2 billion households which lacked access to or usage of affordable and quality formal financial services (savings, payments, insurance and credit). While it was difficult to separate the support provided to micro-enterprises from that provided to households – they were often the same entity – this section as far as feasible focused on the PSD aspects of targeting micro-enterprises. Therefore, micro-finance (particularly micro-credit) was of interest to – and supported by- donors since the industry scaled up significantly in the 1990s. The approach adopted by donors was to address market failures in credit information/financial infrastructure. Donors deployed business models which could work in untested and riskier environments to finance activities where social and economic rates of return exceed financial rates of return to investors. Nonetheless, evaluations found that relevance of interventions targeting micro-enterprises was mixed. Some donor support was found to be responsive to the needs of member countries and aligned with national poverty reduction strategies. In other cases, there was little evidence that interventions targeting micro-enterprises were aligned with the country and regional strategies. Moreover, some donor programs were criticized for inappropriate focus; targeting micro-credit when there was demand for other products (e.g. savings schemes for cooperatives).

Bearing in mind that most of the poor lived in rural areas, many countries target agriculture and agribusiness as priorities. Donor PSD programs in agriculture and agribusiness were well aligned with government programs. Agricultural PSD interventions are found to be relevant even when donor support reaches the poor indirectly (for example, through the use of their labor or through increasing food security). Agriculture is emphasized both for domestic consumption/food security and for exports. Given the importance of agribusiness, governments have identified it as a priority in several country strategies. In turn, donors have aligned their programs with these national strategies.

Performance and Effectiveness

PSD interventions performance and effectiveness varied based on the type of intervention (for example, economy-wide, sector-specific and firm-specific). There is a broad consensus around the benefits of economy-wide policy reform measures, particularly for improving the business environment and ensuring the availability of infrastructure. Findings are more mixed regarding the performance and effectiveness of different financial and non-financial instruments.

Effectiveness of business environment reforms was not conclusive. Effectiveness of business environment reforms was measured by changes in the behavior of private firms (either through increased investment and/or other increases in business activity). To avoid an overemphasis on improvement in Doing Business rankings, evaluations used other measures of effectiveness such as changes in the behavior of private firms (increased investment and/or other increases in business activity). This however created a challenge in attributing outcomes to business environment reforms. Evaluations did not provide clear answers on the effectiveness of business environment. Several evaluations for instance pointed the different perception of the institutional and regulatory reforms achievement among stakeholders (mainly between officials and private sector). Other donors noted positive outcomes with difficulty to attribute changes in overall business conditions to specific business reforms. Success factors highlighted in most evaluations included: government commitment and political will, stakeholder ownership and conviction of the benefits of reforms, and quality of the overall governance environment..

Several evaluations pointed out challenges with regards to achieving impact (in terms of increased private investment) and in ensuring that reforms benefited all of society as opposed to firms only. Improved business environment outcomes did not guarantee higher levels of investment. Moreover, some evaluations stressed the need for better integration of business environment reforms and other PSD activities together with the importance of external factors.

Financing support was assessed as more effective when coupled with technical assistance and capacity building for both the private sector and the financial intermediaries (e.g., banks, equity funds and microfinance institutions) through which the support was provided. In addition, financing effectiveness ratings were lowered by tensions between development and investment goals and delays in achieving outcomes.

At the beneficiary level, evaluations noted that delays in achieving outcomes coupled with a disconnect between investment and development goals hindered the effectiveness of financing support. At the financial sector level, evaluations reported the positive catalytic effect that investments in equity funds had on developing the private equity industry, particularly in Africa and, in improving corporate governance standards in the investee firms.

Furthermore, the provision of technical assistance and capacity building components strengthened the effectiveness of financial support to enterprises, such as technical assistance. Indeed, donors provided technical assistance (commonly tied to investments in financial intermediaries) for capacity-building purposes. MDBs such as the AsDB, EBRD and the World Bank Group, used technical assistance to a much greater extent. Evaluations found that support delivered through financial intermediaries (often accompanied by technical assistance to the intermediaries) created a demonstration effect or had a catalytic effect on the formation of a market for SME finance, stimulating competition, sustained institutional capacity, and the motivation for intermediaries to engage in future financing of SMEs.

Key Lesson: *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.*

Literature review presented mixed evidence regarding the effectiveness of many financial instruments[7]. First, lines of credit were instruments with questions regarding their additionality, effectiveness and sustainability. Second, partial credit guarantee schemes were considered to have a somewhat positive effect but the evidence base was weak and questions remained regarding additionality. Third, equity finance could have positive impacts yet the evidence was largely from developed countries. However, where the funds were channeled through equity funds, the firms supported had superior management practices – which is consistent with the delivery method. There was some evidence on possible positive employment effects for skilled workers, although other studies did not find positive employment

Moreover, the literature review showed that the impact of micro-finance instruments varied across credit, savings, and insurance and payment systems[8]. First, while micro-credit had modestly positive effects including on business creation, it was not the transformational instrument increasing income and consumption as expected. Furthermore, results depended on the characteristics and circumstances of borrowers and the purpose of the loans. Over-indebtedness emerged as a challenge in some countries and resulted in a greater focus on credit information, consumer protection and financial literacy. Second, savings were perceived to have a more positive impact, although the literature was more limited and pointed to the need for products and techniques designed to overcome constraints shared by low-income households and micro-entrepreneurs. Third, micro insurance was considered as important since managing risks might have greater importance to the poor than providing liquidity. The evidence was that this product – including index-based drought insurance – had positive effects on farmers and entrepreneurs even though limited uptake could have moderated its benefits. Finally, payment systems – including remittances – showed quite positive initial results due to reduced costs and increased connectivity to the formal financial system; the remaining challenge was for increased connectivity to translate into increased usage.

With respect to non-financing support, evaluations noted that output achievement (knowledge transfer such good business practices, technology transfer) was high, but evidence on outcomes' achievement was limited (job creation and poverty reduction). Evaluations found that where the primary counterparts were public sector institutions, opportunities for market development were missed.

It is important to mention that for non-financial instruments, the literature left open the question regarding justification for large-scale policy interventions. There was some evidence on possible positive employment effects for skilled workers, although other studies did not find positive employment or innovation effects. Finally, matching grants were also a common policy instrument used to foster technological upgrading, innovation, exports, use of business development services and other activities leading to firm growth. Since they involved subsidizing firms, there was always the risk of subsidizing activities that firms were planning to undertake anyway. An attempt was made to evaluate the impact of seven matching grant programs in Sub-Saharan Africa using randomized experiments but the study failed to do so due to a variety of reasons, including: continued project delays, politicians not willing to allow random assignment, and low program uptake.

Assessment of the effectiveness of SME interventions was hampered by the lack of M&E. The evaluations found that support to SMEs through banks is effective only when the participating banks are already heavily focused on SME clients. Some evaluations noted that results' data could only be gathered at the level of the financial intermediary rather than data about benefits directly accruing to firms. In addition, all evaluations noted lack of sufficient M&E data on SME projects, which would enhance understanding of their development impact. Effectiveness of SMEs was threatened by design weaknesses leading to limited ability to reach SMEs. Additionality of SMEs is often assumed rather than actually examined. There was a lack of serious quantitative evaluation of development impact of leading product lines (e.g. lines of credit to support SMEs). Some projects rated successful in terms of impact on beneficiaries provided little evidence on whether underlying systemic obstacles were addressed. It is noted that while the financial capacity and sustainability of financial intermediaries were strengthened, most did not have an SME strategy and did not build better capacity or dedicated structures (distribution channels, business units or staff) to serve SMEs. Banks usually serve a small number of select SME clients and do not expand credit provision to more SME customers. In some countries (e.g. Azerbaijan, China, Mongolia, and Vietnam), technical assistance to strengthen intermediaries' institutional capacity and skills in SME lending was identified as critical for the success of the financial intermediary loans.

Effectiveness of support for micro-enterprises varied across donors. Investments in greenfield institutions showed additionality, but struggled financially at least in the short-term. Targeting only micro-enterprises was challenging as these were likely to include SMEs as well. Several evaluations reported a satisfactory level of results achievement for micro-enterprise targeted interventions. Other evaluations noted less success in terms of results achievement for micro-enterprise targeted interventions. This was mainly due to factors including an inadequate design/quality at entry, and the dilemma of providing smaller loans to ultra-poor households

__Key Lesson:__ Targeting is a widely used approach even though programs targeting firms based on size (SMEs or micro-enterprises) have demonstrated limited results. Programs with a sectoral focus – particularly agriculture/agribusiness – have been more successful.

Sectoral targeted interventions – particularly in agriculture – were found to be effective[9]. Specific sectors such as agriculture were targeted (for example, through a value-chain/cluster approach). The private sector played a significant role in agriculture – ranging from production (whether undertaken by smallholders or large scale commercial farms) to the supply of agricultural inputs supply to commodity value chains. Private sector development was central to the rural development challenge, and addressed various aspects of the sector such as infrastructure, regulatory arrangements, technology deficiencies, organization and efficiency of the supply chain. The traditional approaches of public sector led agricultural development evolved considerably into approaches which applied many of the PSD approaches discussed in this report – business environment reform, infrastructure and private sector financing and non-financing support instruments – to enhance productivity of particular value chains thereby having a greater impact on rural poverty. All evaluations of agricultural PSD programs indicated that these programs were effective and generated measurable impacts, including: crop production, food manufacturing, food retail, and support for crops (seeds, fertilizer manufacturing, and distribution

Box 2: Findings from the Evaluation of World Bank Group Support to Public Private Partnerships (PPPs)

Assessment

- PPP Support was assessed as being effective in so far as it reached the countries that needed it.
  - **a.** Advisory Support from the WBG (and the Public-Private Infrastructure Advisory Facility) reached countries at a “nascent” stage of developing an enabling environment for PPPs or one stage furthermore— so-called “emerging” PPP countries, as per a country classification system of the Economist Intelligence Unit . IIFC advisory also had a strong focus on lower-middle-income countries and Sub-Saharan Africa, regions with relatively untested PPP frameworks.
  - **b.** Success on sector reform – a necessary condition for successful PPPs – was only evident in 55 percent of World Bank loans. Similarly, in the case of IFC Advisory Services, only half of projects reach contract closure, partly explained by its presence in countries without established PPP frameworks.
  - **c.** Financing support: IFC-supported PPPs show very high development outcome ratings, with 83 percent rated satisfactory or better reflecting project and country selectivity (that is “developed” countries that have a track record of implementing PPPs and relatively well established frameworks but are increasingly also served by commercial banks). The evaluation notes that PPPs by other investors suggests that IFC can—and should—shift parts of its PPP business into “emerging” countries, especially since the IFC success rate is about the same in those countries.
  - **d.** MIGA: PPP Guarantees have been more strategically relevant than other infrastructure guarantees.
  - **e.** World Bank: 62 percent of PPPs received successful development outcome ratings. This was significantly lower than IFC but it should be emphasized that the Bank takes on significantly more country risk (19 percent in nascent countries compared to six percent for IFC).
  - **f.** Caveat: development outcome ratings measure business success and improvement in overall access but not pro-poor aspects, fiscal effects and quality of service delivery. Data on one dimension is available for about half of the projects, no project has data for all dimensions, and less data is available on pro-poor (access) and fiscal effects.

Infrastructure and private participation in infrastructure, though extremely important, received limited coverage in PSD evaluations. PPP support for infrastructure development, was rated as effective but coverage was still relatively modest (2 out of 33 evaluations). Infrastructure – particularly power and transport – is generally understood to be a critical determinant of the country environment in which firms operate. As for infrastructure and PPP, Box 2 highlights the assessment of the WBG Support to PPPs.

Efficiency

Efficiency was found to vary depending on a number of factors ranging from field presence, institutional capacity, the level of investment assessment to use of public sector institutions.

Efficiency was higher for donors with in-country presence. Furthermore, donors have faced challenges with efficient delivery particularly with respect to the retention of suitable numbers of staff with the right skills mix and experience.

Donors who had no local presence ran a higher risk of irrelevant design, inadequate supervision and poor efficiency in program delivery. What is more, several evaluations pointed to shortages of in-house PSD skills, and a high rotation of staff leading to a lack of institutional memory, which in turn exacerbated the requirement for new skills to oversee an increasingly diverse set of institutional clients. Most evaluations noted the need to carefully assess the levels and skills of staffing that existed for supporting PSD programs; expertise in engaging with the private sector directly or engaging with private sector associations or financial intermediaries is unique. Staffing at both headquarters and in country offices with large PSD programs needed to be considered upfront, particularly where local capacity was weak, (for example, in fragile states). Institutional memory (particularly in knowledge management) was found to be important to capitalize on lessons learned from prior experience.

Key Lesson: *Donors need to ensure that they have the appropriate institutional capacity (in terms of staffing and systems) to effectively deliver PSD interventions.*

Delivery of donor support for PSD through financial intermediaries was found to be more efficient than delivery through public sector institutions, especially when a proper investment assessment was made and an active ownership position on the Board was utilized. In contrast, lower efficiency was seen to result from program delivery through public sector institutions due to insufficient capacity. In the case of multi-donor projects, there were potential efficiency gains from the use of common implementation and monitoring arrangements. However, efficiency of business environment reforms was negatively affected by both design and implementation challenges including: (1) under-estimation of the complexity and length of reforms; (2) inadequate risk assessment and inadequate M&E; and (3) client performance and the occurrence of crisis.

For financing support instruments, evaluations found that financial rates of return were found to be low when strategic choices are made to invest in riskier countries and sectors. Furthermore, processing delays were mixed among some evaluations reviewed.

Appropriate efficiency measure would have been to measure net profit contributions from individual investments. It was however difficult to estimate. Evaluations noted that donors' pricing their loans differently, making comparison much more difficult. Several evaluations noted that while returns on loans were generally achieved, returns on equity were low, based on the choice made to invest in risky countries or sectors.

These low returns were seen as the reason for continuing public sector (IFI/DFI) involvement in equity funds. There were similar variations on other efficiency measures, such as staff productivity and processing timelines. Some donors processing times was longer (and staff efficiency lower than in comparator institutions). Other donors notes that their project cycle was efficient and operating costs in line with other DFIs.

Several evaluations noted that the non-financing instruments were often deployed with delays. The reasons ranged from coordination issues among various institutions, inefficient approval process, and poor design issues. These included promoting disbursement and grant levels which were initially too generous, matching Grant Schemes that required the establishment of a separate project management structure and strong oversight.

The efficiency of support for SMEs was reported as mixed. In several evaluations, the efficiency of SMEs support was assessed as satisfactory primarily based on financial performance and particularly where financing was provided to SMEs through intermediaries. However, other evaluations rated efficiency as moderately satisfactory. The positive assessment of efficiency was for instance due to work quality[10] which exhibited several strengths – including linkage to prior analytic work, a high rate of successful development outcomes, and a high rate of realism in self-evaluations. However, some weaknesses resulted from complex designs, overly optimistic implementation timeframes and a frequent delays, restructuring, and partial cancellation. Technical assistance accompanying SME finance projects had procurement issues. For some donors, project processing cycle being twice as long and with twice as many approval steps as comparator institutions.

Efficiency of interventions targeting micro-enterprises and micro-finance targeted interventions received limited coverage in the evaluations. Evaluations that assessed this criterion assessed the efficiency of these interventions as weak. They reported shortcomings in timeliness and cost-effectiveness. The most critical factors affecting the efficiency of the interventions were related to both the partner country (the national or regional counterparts' capacity, the beneficiaries' capacity and the national institutional and regulatory constraints) and donors' procedures and inadequate planning.

Sustainability

Overall, sustainability was identified as a weak area due to the fact that it was not always considered at the outset during program design. When taken into account, the focus was more on the financial sustainability of implementing agencies as opposed to institutional sustainability. Subsidies negatively affected the sustainability of products and services delivered through donor programs. Financing interventions were in general more sustainable.

Sustainability as a primary focus during program design was rare. In addition, reviews of sustainability of activities at best focused on the continued financial sustainability of implementing agencies rather than examining institutional sustainability more broadly. Among all the evaluations reviewed only the Australian evaluation noted that sustainability was one of the first aspects assessed prior to program launch. Furthermore, sustainability when measured ex-post was usually focused on financial sustainability, whereas the focus should be on sustainability of program benefits. This often required attention for building capacity in implementing agencies which could benefit from long-term support. Several evaluations noted the important role of local ownership and the inherent vulnerability arising from changes in domestic political priorities. The capacity building interventions were highly vulnerable to the frequently changing political priorities and to the politically driven appointments of agency managers.

Sustainability of financing support was particularly challenging where subsidies reduced prices during the program period. Moreover, Financing interventions were in

general more sustainable than non-financing support. Financing was often provided at subsidized rates or longer maturities than available locally. Similarly, non-financial support/Technical Assistance was funded through grants (matching or otherwise). Hence, the rationale of subsidizing certain firms but not others needed to be clearly spelled out and often different institutional culture and skill sets were required to implement such programs. In several evaluations, sustainability remained an issue in the short-term for commercially oriented MFIs, given the presence of parallel institutions receiving donor subsidies. However, there was a greater likelihood of achieving sustainability in the long-term, particularly for Multilateral Investment Funds engaged in savings mobilization. In contrast, for non-financing support, there was likely to be only a limited willingness to pay the full price for services once subsidies end.

Donor supported business environment reform programs face sustainability challenges arising from the need to ensure that regulatory standards are kept up to date and institutional knowledge in support organizations is maintained. Three factors affecting sustainability of reforms were highlighted: 1) the need to update the regulatory framework to keep up with changes in the global trade environment, including updates to sanitary and safety standards (for example for food); 2) refreshing updated organizational knowledge and maintaining institutional memory in key government organizations; and 3) developing business support institutions that serve the private sector.

Managing Private Sector Development Interventions

PSD donor support for PSD use a mix of interventions and diversity of implementation agencies to address country specific binding constraints which have been identified through analytical work and consultations. It mainly focuses on "gap filling" rather that additionality, catalytic impact and minimizing the distortions resulting from the subsidies. Donor support uses intermediaries for financing and non-financing support. Yet support was not provided in a coordinated manner and suffered from major weaknesses in monitoring and evaluation systems with little focus on gender mainstreaming.

Design and Delivery

Donor PSD program design was usually complex due to the choice of constraints to address, the diversity of instruments and multiple implementing agencies.

Complexity in designing PSD programs was due to: (i) identifying which constraints are addressed – with particular attention to binding constraints; (ii) diversity of instruments – policy reform, financing and non-financial support; and (iii) the multiplicity implementing agencies (public and private) and partnerships with individual private sector firms and associations. Furthermore, programs can support economy-wide issues (improving the business environment or infrastructure), provide sectoral support through value chain/cluster approaches (for example, for agribusiness) or assist firms in general or target particular firms (for example, SMEs or micro-enterprises). This complexity also resulted in implementation challenges with regards to institutional coordination of multiple implementing agencies and sequencing. One indicator of complexity of design is the number of separate components and subcomponents a loan has – each one requiring oversight and coordination internally and with an often unique set of relevant counterparts and stakeholders.

In practice, donors adopt complementary approaches to identifying which PSD constraints they would focus on alleviating in their overall strategies (see box 3).

In designing the specific interventions based on the diagnostic analysis, two issues were likely to shape the donor programs. First, the PSD support was usually considered by the donors as part of its overall

Key Lesson: *PSD interventions require a country specific diagnostic of constraints, needs and absorptive capacity of the private and public sectors. This should be based on in-depth consultations with the full range of stakeholders to better address the needs of the private sector and to take into account the benefits for wider society.*

country strategy and the size of the PSD program, while the instruments chosen usually reflected the overall focus of the country strategy. Second, as discussed in the following chapters, a variety of macro, meso and firm level instruments could be deployed as part of PSD programs. Donors chose instruments they were familiar with and which were relevant given the size of the donor programs. The latter two factors may be particularly important for smaller donors who can only provide more modest volumes of aid.

Most country PSD programs used a mix of interventions (national policy and regulatory work, support to key sectors and firm level support), which were tailored to address country specific PSD challenges. In light of the multiplicity of constraints, effective support to PSD required that a number of constraints be addressed simultaneously with particular attention to the binding constraints. The literature review pointed to the fact that a broad range of government actions and donor support can influence Private Sector Development. This breadth in approach contributed to the lack of a single theory of change and the lack of a single definition for measuring donor support for PSD. Beyond initial conditions of various constraints, PSD support had to be tailored to two key factors: 1) the role of the state in productive activities and the provision of public goods; and 2) the absorptive capacity of the private and public sectors. To achieve this tailoring of support, it was important (as indicated above) to have robust diagnostics, an ongoing dialogue between the government, private sector and donors; and, last but not least, strong monitoring and evaluation to adjust the program as the constraints evolve.

Given the large gap between private sector needs and the supply of financing and non-financial support, evaluations pointed to the need for donor interventions to emphasize additionality, the catalytic impact and minimization of the distortions resulting from the subsidies that are often embedded in donor support. 'Gap filling' is not a successful strategy although donors continue to pursue it.

There is a clear understanding that the level of donor support falls far short of what is needed to address

Box 3: Donor approaches in choosing the PSD Constraints to address

Three strategies are mainly used by donors in choosing the PSD constraints to address

- Focusing on those constraints which they perceive to be areas with more direct links to poverty reduction. Some donors focus on rural development (Australia, for example), agriculture and agro industries or on SMEs; links to poverty alleviation (and the impact on women farmers) are perceived to be more direct in such cases.
- Focusing on areas of donor comparative advantage. Dutch, Austrian and Norwegian evaluations highlight the focus on areas where the private sector in their home countries have a competitive advantage.
- Several bilateral donors use country selectivity in limiting the number of countries they work in (this is often based on development, commercial and historical links/colonial considerations).
- A particular case of a scattered approach was highlighted by the AfDB for its assistance to microfinance. In this case, AfDB did not use its convening power to promote projects on the ground as the vast majority of projects (95 per cent of the investment portfolio) result from clients approaching the Bank with request for funding support.

Key Lesson: *Given that the volume of donor PSD support will always be modest compared to the significant needs of the private sector, additionality and catalytic effects must be at the heart of PSD program design (for example, through helping to develop local currency financing products). Therefore, the focus should shift from "gap filling" support to changing market structure or behavior (through demonstration effects).*

the PSD constraints. Evaluations noted that donors have a tendency to use gap filling as a strategy to solve the problem. This was more prevalent in smaller African economies where the financing gap was more amenable to filling through donor support. What matters is not the direct impact of the immediate 'gap filling' from donor support but how donor support can help transform the market structure or private sector behavior in the long-term (for example, through demonstration effects) and how the support can catalyze impact at the needed, much larger scale (including through leverage). Therefore, evaluations noted the importance of focusing on additionality of programs and instruments and to the risk of market distortions. There was often a tension between the immediate financial viability of donor interventions and the long-term development of the private sector. The challenge of 'gap filling' was particularly acute in the case of SME financing gaps, which were substantially larger than the scale of SME operations of all donors combined (particularly since SME targeted support rarely exceeded five percent of any donor's assistance program). Furthermore, to the extent that 'gap filling' assistance was provided through existing financial intermediaries, it was necessary to evaluate additionality both in volume terms and/or better terms of support.

Financing support was largely provided through intermediaries. The choice of intermediaries – taking into account their capacity and development focus – was an important determinant of success. Most donor financing support was provided primarily through: 1) banks and equity funds); 2) microfinance institutions (MFIs); 3) and to a more limited extent directly to private sector firms. However, evaluations of Lines of Credit reveal that the choice of intermediaries – taking into account their capacity and development focus – was an important determinant of success.

Some evaluations reported that in selecting intermediaries for on-lending to SMEs, the existence of an SME strategy and portfolio was s a significant predictor of success.

Key Lesson: *The choice of implementing institution(s) and building capacity in the selected institution(s) are key issues to be addressed during PSD program design.*

Non-financing (knowledge) support was also largely provided through intermediaries yet unlike in the financial sector, these intermediaries were weak or non-existent. Utilizing existing public sector intermediaries could be more expedient but may have prevented the development of a private sector led market for business services. Intermediaries were weak or indeed have to be created through the donor program. While there was a wide diversity in the instruments employed, they were reviewed as a group since their objective was similar: that is to improve the productivity of firms which was assumed to suffer from a market failure in many developing countries (since any technology

Key Lesson: *The impact and sustainability of results of non-financing (knowledge support) interventions is heavily influenced by the choice of intermediary (public or private), the attention given to building capacity in the intermediary, and the demand for services once subsidies are phased out.*

or productivity gains were likely to be observable and improvement in skills of staff could be easily captured by rival firms). However, each instrument had a specific focus. Some instruments focused on stimulating the demand for knowledge services (by providing targeted funding) while others focused on developing the supply side for such services (either through strengthening domestic public or private providers or through partnerships with overseas enterprises).

The evaluations also identified the challenge of continuing to work only with public sector providers and not developing the market for private providers of business and professional services. Given the relatively smaller size of the African private sector, this is an area of particular interest. Furthermore, interventions that utilized new private sector intermediaries faced delays while the latter were being developed. Consequently, the choice of implementing institutions and building capacity in selected institutions were key issues to be addressed at an early stage in the PSD program design. What is more, program design needed to explicitly factor in how the limited willingness to pay the full price for services would be overcome, once subsidies were curtailed in the interests of sustainability.

Coordination

While donors recognize the importance of providing support in a coordinated matter, there is limited evidence of program coordination at country level beyond the exchange of information and the use of common financial and private sector implementing entities. Most donors, however, participate actively in global and regional multi-donor partnerships and trust funds. Many donors had funding and capacity limitations which forced them to only focus on alleviating a single constraint. Their programs needed to fit within a larger sequenced program of addressing a set of binding constraints – in order to achieve impact. This tension could be resolved through an overall country PSD program which individual donors could align with and contribute to. While donor coordination could be a powerful instrument, the evaluations indicated that the primary focus was currently on exchange of information. Evaluations noted that there was a need to ensure that donors were coordinating the design and implementation of their programs particularly in ensuring additionality and complementarity with each other's programs as well as with private sector led initiatives.

Key Lesson: *Donor cooperation beyond information exchange is critical to increase the effectiveness and efficiency of donor programs.*

Evaluations noted that an indirect approach of donor coordination is through providing funding to the same financial or private sector intermediary. This type of collaboration was often seen in the case of financial intermediaries and non-financial business service providers. The most common example was the case of private equity funds, which usually received funding simultaneously from several IFIs and DFIs. However, the reviewed evaluations did not provide evidence on whether this approach was more effective or not. Moreover, there was greater coverage of global and regional multi-donor partnerships and programs. The foreign direct investment was for instance a multi-donor program (60 per cent of costs of program contributed by Austria, Netherlands, Norway, Switzerland, Sweden, US, UK, 7 other bilateral donors, EU, Trade Mark East Africa and others).

Monitoring & Evaluation

Evaluations identified a number of major weaknesses associated with monitoring and evaluation, including: difficulty in measuring the impact of programs which try to influence and change private behaviors, a focus on outputs over outcomes, lack of baseline data and

Key Lesson: *A rigorous monitoring and evaluation system that focuses on outcomes and that is integrated throughout the life cycle of PSD interventions (design, implementation, completion and post completion) is critical to demonstrate its anticipated impact on poverty reduction.*

challenges with attributing outcomes to donor support. Despite some recent improvements, it was too early for the evaluations to assess these changes. Job creation was rarely a direct objective, and was not properly monitored; or monitored by indicators which were not meaningful. Programs that monitored job creation focused on direct job creation and the impact was either low or very costly. Some programs attempted to establish a relationship between PSD and job creation at the country level but this was difficult to measure (for example, given the paucity of national data on enterprise and employment creation). Furthermore, since job creation was a result of the actions of private firms, it was difficult to attribute observed changes in firms' behavior (for example, in hiring) to a specific intervention. Where direct impacts were identified, these assumptions were often not verified or validated. In addition, several evaluations reported the fact that non-financial results were not properly monitored, making their evaluation difficult. More recently, there have been efforts to improve monitoring. Efforts included the introduction of the Additionality and Development Outcome Assessment in 2009 (AfDB) and the use by many European DFIs of common approach developed by the German DFI (DEG) for project rating which covered impact (for example on government revenues, value added, foreign exchange, job creation, gender) and evaluation. However, it is too early to assess the impact of the new approaches. Finally, only few donors' programs have had impact assessments due to the fact that most evaluations were missing baseline data.

This fact was corroborated by findings from the literature review[11], which indicated that while the private sector was seen to be the primary actor in job creation, there were several theoretical and practical challenges with measuring job creation. The outcome most sought by countries was to reduce poverty and the principal pathways out of poverty were through jobs (including self-employment), but measuring job creation was a complicated task. For instance, the 2013 IFC jobs study on "Assessing private sector contributions to job creation and poverty reduction" which comprehensively reviewed literature and evidence on this subject, observed that while most of the evaluations of employment effects found positive effects of private sector programs on job creation, methodologies varied as did definitions of what counted as employment. Moreover, a proper counter factual was not always possible to identify. Attribution was as a result difficult or impossible.

In addition, the literature review noted that there was greater consensus regarding the use of rising private investment and increasing firm productivity as outcome measures. While there are still ongoing debates on the theory of change surrounding job creation and firm creation with no commonly accepted and replicable methodologies for measuring outcomes, there is greater consensus in the existing literature on the two main drivers of economic growth being private investment and productivity improvements. There are several studies showing that investment is the only robust determinant of economic growth and that private—but not public—investment is robustly correlated with growth. Furthermore, many firm-level studies, often using data from the WBG's Enterprise Surveys, show that total factor productivity is higher in countries and regions where the business environment is more hospitable.

Gender Mainstreaming in PSD Interventions

There is surprisingly little focus on gender targeted PSD interventions. Coverage of gender specific issues within PSD interventions among evaluations was surprisingly limited despite the emphasis given to this agenda by donors in recent years. It is possible that evaluations may increase in future years as gender focused activities which have been initiated in recent years are completed. In four evaluations (out of 33 evaluations) presenting some findings, it was indicated that even in the case of women's economic empowerment interventions, where most activities include gender mainstreaming activities, few activities monitored gender impacts. Evaluations noted a limited number of PSD interventions include gender-related objectives and explicitly target women as direct beneficiaries.

Moreover, many broader PSD interventions – particularly those focused on improving the business enabling environment – can significantly benefit smaller and less advantaged firms, such as those owned by women entrepreneurs. However, no gender-segregated data was presented in the evaluations regarding this differential impact.

Conclusion

Private Sector Development (PSD) has long been at the heart of national development programs and associated donor support. Donor support for PSD is receiving renewed emphasis for two major reasons: the increasing importance of job creation and the need for significant private sector involvement to ensure sustainable financing for global development goals.

A broad range of government actions and donor support aim to contribute and influence PSD. 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. This breadth has contributed to the lack of a single theory of change and a lack of a single definition for assessing the impacts of donor support to PSD. Given the diversity of PSD programs, it is unlikely that a single theory of change could be defined.

While the importance of PSD for job creation and for achieving the SDGs is broadly accepted, there are conceptual and practical difficulties with measuring actual job creation. Furthermore, there are multiple channels through which PSD programs affect poverty reduction directly and indirectly. All the evaluations pointed to the difficulties that PSD programs had with demonstrating these causal linkages. While there are many claims with respect to the impacts of PSD interventions, particularly on job creation and poverty, these have not been demonstrated by sound evidence.

Moving forward, the following are the key takeaways (particularly for policymakers) of this evaluation synthesis:

- A need to go beyond “gap-filling” towards an integrated approach that focuses on additionality and catalytic impact, which has the potential to lead to changes in market structure and behavior and to mitigate the risk of market distortions.
- Invest further in research to unpack and understand the poverty impact of the macro, sector and firm level support contained in PSD programs.
- Ensure proper capacity assessment of donors (particularly in the field), intermediaries, and governments to ensure that they have the proper capacity to deliver on the expected outcomes of the PSD interventions in a sustainable manner.
- Ensure that donor support packages include capacity building components for intermediaries, which are designed to strengthen the institutional capacity of the latter and to create the right conditions for success (specifically in the case of interventions targeting SMEs).
- Design, implement and invest in a rigorous monitoring and evaluation system that focuses on outcomes and that is integrated throughout the life cycle of PSD interventions (design, implementation, completion and post completion).

Annexes

Annex 1: List of Evaluations

	Selected Evaluations
1	IFAD private sector strategy 2011
2	European Commission evaluation-private-sector 2013
3	AsDB PSD 2013
4	IEG PPP 2012
5	AsDB PSO 2013
6	Austrian Development Evaluation_private_sector 2013
7	SECO Business Environment 2011
8	IEG investment climate 2014
9	IOB In-search-of-focus-and-effectiveness 2014
10	AfDB Independent Evaluation of Non-Sovereign Operations 2006-2011 2014
11	MFA Aid for Trade 2012
12	IaDB Second Independent Evaluation- Multilateral Investment Fund 2013
13	AusAid Rural Development 2012
14	BIO Investment Phase I and II 2012 and 2014
15	AfDB Evaluation of Bank Group Assistance to SMEs (2006-2013) 2015
16	IEG sme 2014
17	NORFUND Evaluation of the Norwegian Investment Fund for Developing Countries 2015
18	USAID Business Environment 2012
19	AfDB An_Evaluation_of_the_Bank's_Microfinance_Policy__Strategy_and_Operations__2000–2012 2013
20	DfID Business Development 2015
21	IOB Aided-trade-evaluation 2015
22	Ausaid pacific-private-sector-development-initiative-evaluation 2012
23	DANIDA Business to Business_program_2006_2011 2014
24	AsDB microfinance-strategy 2012
25	IEG financial inclusion 2015
26	AsDB trade-finance-program 2014
27	EDFI Evaluation of EDFI support to SMEs through FIs 2014
28	EIB if_operations_femip_acp 2013
29	AusAid Infrastructure partnership 2012
30	EBRD Agribusiness_2015
31	IFC Investments 2012
32	USAID African diaspora marketplace program evaluation and African women entrepreneur program assessment 2014
33	AfDB Independent Evaluation of Bank Group Equity Investments-Summary Report 2015

	Excluded Evaluations
1	IFC Agribusiness 2013
2	IFC jobs 2012
3	AFDB 6 Bank Financing to Small and Medium Enterprises In East Africa Findings of A Survey in Kenya Tanzania Uganda and Zambia 2012
4	ASDB Regional Equity Investment 2013
5	GIZ -evaluation-vocation-education-training 2013
6	CGAP 2012
7	MFA Japan-ODA-Evaluation-2014
8	FMO Development Impact Report 2013-2014
9	EBRD Annual Eval 2012
10	AFD Lines of Credit 2012 FRENCH
11	AFDB 6 Bank Financing to Small and Medium Enterprises In East Africa Findings of A Survey in Kenya Tanzania Uganda and Zambia 2012
12	FMO_Energy Evaluation_2015
13	MFA meta eval 2015
14	NORAD experiences-with-results-based-payments--in-norwegian-development-aid 2015

Annex 2: Obstacles to Doing Business – Enterprise Surveys

	Access to finance	Access to land	Business licensing and permits	Corruption	Courts	Crime, theft and disorder	Customs and trade regulations	Electricity	Inadequately educated workforce	Labor regulations	Political instability	Practices of the informal sector	Tax administration	Tax rates	Transportation
Africa Total	**20.9**	**4.6**	**2.5**	**7.9**	**0.7**	**4.3**	**4.1**	**15.9**	**3.1**	**1.2**	**10.1**	**10.0**	**3.8**	**7.5**	**3.3**
Large firms (100+) – Africa	11.9	3.9	0.7	7.5	1.2	4.1	6.3	16.3	7.1	2.4	11.7	10.7	3.5	9.0	3.2
Medium firms (20-99) – Africa	15.8	5.7	2.3	8.1	1.0	3.2	4.4	15.9	3.8	1.6	12.3	10.6	4.2	7.6	3.4
Small firms (5-19) – Africa	23.1	4.6	2.8	7.7	0.6	4.5	3.7	15.9	2.4	1.0	9.4	10.2	3.6	7.2	3.1
Low income – Africa	21.2	3.9	2.6	7.0	0.7	3.4	3.5	18.9	1.5	0.6	9.9	9.7	3.4	9.9	3.8
Lower middle – Africa	21.1	4.1	2.0	8.2	0.8	4.0	4.9	14.0	3.3	1.7	10.9	11.0	4.9	6.9	2.3
Upper middle – Africa	18.6	8.0	3.4	10.5	0.6	9.4	3.8	9.2	8.1	2.3	8.0	8.8	1.9	2.2	4.3

Source: Enterprise Surveys 2006-2015

Annex 3: Methodological Approach

1. Selection of Evaluations for Synthesis

Two key parameters determined the list of evaluations to be included in the synthesis: thematic/instrument keywords: geographic scope and list of organizations. A comprehensive list of keywords including 13 thematic keywords and ten instrument keywords was used (see table 1).

Table 1: Thematic and Instrument Keywords utilized

Thematic Keywords	Instrument Keywords
PSD/Private Sector Development	Equity investment
FSD/Financial Sector Development	Equity fund
Private sector	Financial intermediaries
Financial sector	DFI/Development Finance Institution
Private investment	Investment fund
Competition	Guarantee
Microfinance	Investment loan
Corporate Social Responsibility/CSR	Leasing
Innovation	Impact Investment
Entrepreneurship	Development Finance
Inclusive growth	
Job creation	
SME/Small and Medium Enterprise	

In addition, a greater geographical scope was utilized and a larger number of institutions were scanned for potential evaluations. While the original intent was to focus on evaluations covering Africa, only a limited number of evaluations met this geographical scope. Therefore, the scope of potential evaluations was expanded to include global, regional and multi-country evaluations focusing on private sector development in developing countries and a larger number of donor countries/institutions were included (see table 2).

Table 2: List of Institutions Scanned for Relevant Evaluations

Countries/Bilateral Institutions	Multilateral Institutions
France/Agence Francaise de Development	African Development Bank
Australia/AusAID	Asian Development Bank
Belgium (including BIO and BTC)	European Commission
Canada/CIDA	European Bank for Reconstruction and Development
Denmark/DANIDA	European Investment Bank
Finland (MFA)	Inter-American Development Bank Group
Germany (including GIZ and KfW)	Islamic Development Bank Group
Ireland	World Bank Group
Italy	
Japan/JICA	
Netherlands/FMO	
Norway (including NORAD and Norfund)	
Sweden/SIDA	
Switzerland (SECO and SDC)	
United Kingdom/DfiD	
United States/USAID	

Only evaluations conducted by independent evaluation functions in multilateral and bilateral agencies were included in the list of eligible evaluations. This was done to adhere with OECD-DAC Quality Standards for Development Evaluation particularly with the key principle of impartiality and independence.

33 evaluations were selected for detailed review. By interacting the two variables – that is running the keywords against independent evaluations from relevant institutions using the NVivo software, an initial list of 46 evaluations was identified. Evaluations with less than ten occurrences of the keywords were excluded; evaluations with greater than ten but less than 25-30 occurrences of the keywords were reviewed to ensure their relevance. This resulted in 11 reports of low relevance being dropped for various reasons including: two summaries of Annual Evaluations which did not have a specific thematic focus on PSD; one corporate evaluations with limited focus on external impact; an evaluation of non-sovereign lending with several PPP references which did not evaluate the instrument; and a validation report on a single Private Equity Fund. During the detailed review, two other studies were furthermore removed from the list since they did not meet the criteria for independent evaluation. Their findings were, however, incorporated into the literature review.[1] The final 33 evaluations selected included four from the AfDB and one from Norway (see Annex 1).

Table 3: Final Evaluation Studies

Evaluation Studies	Total	Selected for synthesis
Multilaterals	25	18
Bilaterals	21	15
Total	46	33

These final selected reports have been utilized in sub-thematic distribution as per the following classification (see table 4).

Table 4: Sub-thematic distribution of Evaluation Studies

Topic	Number of reports
Cross-cutting/program level evaluation	10
Financial and non-financial support to private sector entities (including through financial sector entities)	12
Business environment	6
Agribusiness	1
Microfinance/financial inclusion	3
Public Private Partnerships in Infrastructure	1
Total	33

There were a sufficient number of reports for several topics, which is program level evaluations, evaluations of programs supporting private enterprises and, possibly, business environment evaluations. During detailed analysis, findings in cross-cutting/program level evaluations were also utilized to supplement evaluations

1 The two studies were both undertaken by IFC's Development Impact Evaluation Department and included the 2013 Jobs Study and a meta evaluation of private sector interventions in agribusiness. To the extent that IFC activities are covered under three other IEG World Bank Group evaluations, it is suitably represented in the findings of this synthesis.

in other areas. However, there were fewer reports for other topics (that is, agribusiness and micro-finance). The detailed analysis of these reports revealed the following validation challenges. Given that there was only one evaluation on PPPs, it has been presented in Box 2 in this report. Furthermore, an IFC report which is included under the financial support category reviews Financial Institution compliance with its Environmental and Safeguard standards. Given the unique nature of its findings, these are also presented separately in Box 2.

2. Main Evaluations Questions

Based on the literature review, the following topics/questions arose as areas to explore further in the list of evaluations:

1. Do the evaluations provide sufficient evidence regarding contributions made by donor PSD programs to the achievement of broader development goals (particularly poverty reduction)?

2. Given the importance of country specificity in donor PSD programs, are these programs designed in accordance with a rigorous use of country diagnostics? What other factors determine the design of donor PSD programs? Are these programs aligned with national programs and coordinated with other donor programs?

3. Given the wide range of PSD interventions, what are the key common findings regarding relevance, effectiveness, efficiency, impact and sustainability of different interventions?

4. What are the key findings that differ by type of intervention? What are the findings with regard to targeting and a different mix of donor support instruments in different country contexts?

5. What lessons can be distilled for optimizing PSD interventions in African countries and future donor PSD support?

3. Synthesis Framework and Content Analysis

The study questions were translated into a more detailed list of sub-questions using the ECG Good Practice Standards for Country Strategy and Program Evaluation Framework[2].

As for content analysis, a two-phase approach was used. First, the existing list of keywords together with additional keywords (identified on the basis of the study sub-questions) was used to review the evaluation reports with the objective of identifying key patterns and linkages. The second stage of analysis also highlighted some key trends across the evaluations. The analysis also identified areas of overlap between various subjects.

2 For a detailed description of the GPS see https://www.ecgnet.org/documents/4792/download.

4. Limitation and Mitigation Measures

The synthesis report faced two challenges: it was dependent on the underlying quality of evaluation reports; and on the harmonization of the findings extracted from the evaluation reports. With regard to quality, the synthesis has had to depend on the existing quality assurance processes of all multilateral and bilateral agencies' evaluation units. The team preparing the synthesis report did not make value judgments regarding the quality of the underlying documents. However, where evaluation findings differ across agencies, these have been noted and the knowledge base underlying the evaluation findings has been discussed.

As for PSD sectoral targeted, evaluations reviewed infrastructure in a limited manner. Therefore, this evaluation synthesis report did not provide sound evidence on the effectiveness and management of this kind of PSD intervention.

5. Assessing Performance and Effectiveness

In assessing PSD interventions Effectiveness, most bilateral donors including the EDFI institutions used the OECD-DAC definition stated as "*A measure of the extent to which an aid activity attains its objectives.*" As member of Evaluation Cooperation Group (ECG), multilateral institution is mainly using the *2011, Good Practices Standards for the Evaluation Private Sector Investment Operations, 4th Edition.* ECG operationalizes performance and effectiveness criteria as follows (see table 1). For instance, financial support, project's development outcome is measured across four indicators: project business performance; economic sustainability; environmental and social effects; and contribution to private sector development, while for Non-financing support the definition of outcome related to OECD-DAC.

Table 5: Criteria for assessing Performance and Effectiveness of PSD interventions

Performance of Investment Operations (Financial support)	Non-Financing support (including Advisory Services)
Development Outcome ▌ Financial performance and fulfilment of project business objectives ▌ Economic sustainability ▌ Contribution to IFI's mandate objective ▌ Environmental and social performance	**Effectiveness1** ▌ Output achievement ▌ Output achievement ▌ Outcome achievement ▌ Impact achievement
Institutional Performance ▌ IFI Investment Profitability ▌ Financial Additionality ▌ Non-Financial Additionality ▌ IFI work quality	

Source: ECG, 2011, Good Practices Standards for the Evaluation Private Sector Investment Operations, 4th Edition,201; IFC Approach for development evaluation of private sector operations[2]

The *2011, Good Practices Standards for the Evaluation Private Sector Investment Operations, 4th Edition* has defined additionality as *"The extent to which activities (and associated results) are larger in scale, at a higher quality, take place quicker, take place at a different location, or take place at all as a result of a donor intervention."* The bilateral institutions, like EDFI institutions are working towards a common understanding of additionality as they found it so difficult to define and assess. The lack of consensus and a common may limit the comparability of the reported results across different evaluations.

Evaluations highlight issues around limited evidence of additionality in terms of extra investment; risk of crowding out private finance and the focus on project output achievement. Most evaluations fall short of providing a credible estimate of financial, developmental or institutional additionality of PSD assistance[3].

6. Key Evaluation Criteria

The synthesis uses the OECD-DAC criteria for evaluating development assistance and the DCED as described below.

Terms	Definition
Relevance	The extent to which the aid activity is suited to the priorities and policies of the target group, recipient and donor.
Effectiveness	A measure of the extent to which an aid activity attains its objectives.
Efficiency	A measure of how economically resources/ inputs (funds, expertise, time, etc.) are converted to results.
Sustainability	Sustainability is concerned with measuring whether the benefits of an activity are likely to continue after donor funding has been withdrawn.
Outcome	Short and medium-term changes in condition or behavior that have resulted (in whole or in part) from a development intervention.
Impact	The positive and negative changes produced by a development intervention, directly or indirectly, intended or unintended.
Additionality	The extent to which activities (and associated results) are larger in scale, at a higher quality, take place quicker, take place at a different location, or take place at all as a result of a donor intervention.
IFI additionality	IFI's value proposition in providing support to the project.
Financial additionality	Financial additionality includes the extent to which : 1) the client have been able to obtain sufficient financing / insurance from private sources on appropriate terms; 2) the IFI was catalytic in mobilizing funds from other investors and lenders, or was it merely helping to complete the financing package and 3) the IFI was (by virtue of its being an IFI) needed to reduce risks or provide comfort (i.e., improve the investors' perceptions of the risks involved) and, thus, to encourage other investors and lenders to proceed.
Non-Financial additionality	Non-Financial additionality includes the extent to which: 1) the IFI was needed to bring about a fair, efficient allocation of risks and responsibilities e.g., between the public and the private investors; 2) the IFI improved the project's design (through contributing knowledge or innovation), help the client's functioning in business (including adoption of new or better standards), or otherwise contribute to the client's capacity-building objectives
Development outcomes	Project's development outcome encompasses all effects that affect a country's economic and social development.
Financial performance and fulfilment of project business objectives	The effect of the project on all financial stakeholders in the project and/or the company. Fulfilment of project business objectives is the extent to which the project has delivered on the process and business objectives stated at approval.
Economic sustainability	The effect of the project on all key economic stakeholder (including beyond the project company's owners and financiers (including economic distortions conveying trade protectionism.

3 The Donor Committee for Enterprise Development (DCED) noted that additionality cannot be 'proven' or 'exactly measured'. However it is possible to enhance assessments in practical ways – to make an informed and credible judgement on additionality and to maximize the added value of public funds. (DCED, 2014, "Demonstrating Additionality in PSD Initiatives – A practical Exploration of good practice for challenge funds and other cost-sharing mechanisms).

Terms	Definition
Contribution to IFI's mandate objective	The positive and negative contributions of the project in the following areas : Competition; market expansion; private ownership and entrepreneurship; frameworks for markets; transfer and dispersion of skills; demonstration effects; standards for corporate governance and business conduct; development of financial institutions and financial / capital markets; attracting FDI flows; and development of physical infrastructure.
Environmental and Social performance	The project company's/enterprise's overall environmental and social performance in the area of influence of the project.
IFI investment profitability	The profitability of each of the IFI's investment (s) in the project company.
IFI work quality	Quality of the IFI's pre-commitment work and on-going monitoring and supervision.

Endnotes

1. That is strategies and interventions to support and increase the contribution that private enterprises make to overall economic growth and poverty reduction.

2. As noted in the 2013 World Development Report on Jobs, 200 million people are currently unemployed and an additional 600 million jobs need to be created by 2020. Jobs – both formal and informal – are seen as the principal pathway out of poverty and 90 per cent of jobs are created by the private sector.

3. Given the enormous development needs, aid is likely to remain a fraction of the support needed. Consequently, the 2015 UN General Assembly Resolution on the Sustainable Development Goals (SDGs) emphasized that the implementation of the SDGs will require global partnerships, domestic resource mobilization and engagement of the private sector.

4. For example, AfDB has adopted a private sector development strategy built around five pillars: improving the investment climate; supporting private enterprises; strengthening financial systems; building competitive infrastructure; and promoting regional integration and trade. Hence, PSD is a theme which cuts across a number of sectors and activities.

5. These firm-level surveys were carried out by the World Bank during 2006-15

6. World Bank Enterprise Survey, 206-2015.

7. WBG SME Evaluation.

8. WBG Financial Inclusion Evaluation.

9. The positive nature of the findings regarding sectoral targeting particularly with regard to agriculture was found from the three agriculture related reviews (i.e. IFAD, EBRD and AusAid).

10. See table 5 in annex 3

11. This is about literature reviews contained in the reviewed evaluations.

An IDEV/Norad **Evaluation Synthesis**

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.

About the African Development Bank Group (AfDB)

The overarching objective of the African Development Bank Group is to spur sustainable economic development and social progress in its regional member countries (RMCs), thus contributing to poverty reduction. The Bank Group achieves this objective by mobilizing and allocating resources for investment in RMCs; and providing policy advice and technical assistance to support development efforts.

The mission of **Independent Development Evaluation (IDEV)** is to enhance the development effectiveness of AfDB initiatives in its regional member countries through independent and instrumental evaluations and partnerships for sharing knowledge.

About Norad

Norad is a directorate under the Norwegian Ministry of Foreign Affairs. In matters regarding Norway's International Climate and Forest Initiative (NICFI), Norad reports to the Norwegian Ministry of Climate and Environment. Norad's functions are laid down in the agency's terms of reference and annual letters of allocation issued by the Ministry of Foreign Affairs and the Ministry of Climate and Environment. Norad's main purpose is to ensure that Norwegian development aid funds are spent in the best possible way, and to report on what works and what does not work.

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.

IDEV
Independent Development Evaluation
African Development Bank

Evaluation Department
Norad

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

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

Design: CRÉON • www.creondesign.net . Layout: Phoenix Design Aid, Denmark

idev.afdb.org