

ADVANCING GOOD GOVERNANCE in International Development

Making Market-based Approaches to Development Work for the Poor

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Rhodes House, Oxford

Closing Plenary: Ensuring Market-based Approaches to Development Work for the Poor

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Market-based approaches to development, and the wider transition from aid to trade, have the potential to produce development that is sustainable, in that they rely on generating economic growth and financial self-reliance and less on the promise of assistance from donors. At the same time, these approaches run the risk of losing sight of the needs of the poor and vulnerable, particularly the poorest of the poor, who often fall outside the reach of markets or are left behind in competitive market environments.

This session considered the challenges faced by donors (such as the UK's donor agency, DFID) in implementing private sector development policy objectives. It also considered some of the key barriers to successful private sector investment in developing economies and fragile states where governance is weak.

Key Points from the Session:

1. **There is increasing focus on private sector development over human and social development.** Donor agencies are increasingly focussing on private sector development and there are growing numbers of NGOs choosing to work with private sector operators. There is a range of opinion as to the desirability of this trend, with many arguing that a balance is required. There can be issues with over-ambitious ambition which does not translate through to realistic operational plans and programming. There is a need to ensure that there is coherence and join up between high level macro regulatory reform programming, mid level M4P and micro level programming such as micro finance. Some Seminar participants thought that there is increasing acceptance that it does not matter who delivers development solutions, as long as they work.
2. **Donors need new skill sets and mind-sets to promote private sector development.** ICAI has published two reports examining DFID's work in private sector development (see: '[Private Sector Development](#)' and '[Business in Development](#)'). Amongst other things, ICAI found that DFID did not have significant or senior staff with private sector experience (although recently efforts have been made to increase the number of private sector advisers it has). This can impede efforts to work effectively with the private sector.
3. **The private sector is not a neutral party: it adapts to and shapes the environment in the countries in which it operates.** Even when acting within the boundaries of the law, the private sector can (sometimes unintentionally) shape its environment. For example, where weaker governance structures permit anticompetitive behaviour, innovation and competition may be stifled, thereby adversely impacting development. Countries with weak governance tend to attract private sector operators with poor governance. However, it should not be assumed that all private sector operators are the same, or that those from certain countries necessarily place a greater value on good governance than others. Some companies have adapted to difficult environments, developing innovative solutions to governance challenges.

4. **There are major barriers to donor agencies and businesses seeking to operate in developing markets with poor governance.** A good enabling environment is required to allow private sector investment and to allow the poor to access its benefits. For example, Seminar participants noted the potential for private sector development in urban services, and the perception that poor governance had held these back.

Emerging Questions:

1. What can be done to ensure that private sector development advances at an appropriate pace?
2. How can donor agencies ensure that their ambitions are realistic, and they possess the necessary expertise to pursue private sector development strategies?
3. What actions can the private sector operators take both to address investment risks associated with poor governance and to ensure good governance in the institutional and political environment?