

March 2018

the enabling environment for private sector development

donor spending and links to other
catalytic uses of aid

discussion paper

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Executive summary

Supporting developing countries, particularly least developed countries (LDCs), to strengthen the underlying 'enabling environment' for private sector development is recognised as important in several international development agreements.¹ It is also a priority area of attention for developing countries² with a long history in aid policy discourse. It can be characterised as a catalytic approach for private finance, as it supports the establishment of the conditions necessary for the private sector to flourish; and should be considered alongside other approaches adopted by donors which directly engage private actors (such as blended finance³).

Donors are increasingly facing pressures to allocate their resources towards direct mechanisms to catalyse private finance in developing countries, especially due to the increasing momentum of the blended finance market. Blended finance will have a legitimate role to play in certain contexts. However, without also considering the multiple ways in which public finance can engage with the private sector, this risks diverting scarce aid resources away from more systemic approaches aimed at supporting the establishment of robust enabling environments for both national and international private investment. This could in theory decrease the need for blending, or at least be considered in coordination or sequenced with such instruments.

There are barriers preventing effective dialogue on resource allocation and the most effective ways international public finance can work with the private sector. One is the lack of a standard definition of what donor support to the enabling environment for private sector development entails. Another is the lack of clarity around the variety of interventions captured under this type of support, and where these may result in the most impact – including on the poorest and most vulnerable people.

This paper contributes to strengthening this evidence base providing better guidance to donors around how they can best facilitate private sector contributions to sustainable development outcomes, as envisaged in the Addis Ababa Action Agenda. It does this by illustrating firstly how donor support to the enabling environment for private sector development fits alongside, and underpins, other catalytic aid approaches. And secondly by highlighting how available data can (or, indeed, struggles to) inform decisions to maximise the impact of donors' catalytic interventions in different groups of developing countries.

The 'enabling environment for private sector development' is defined as the conditions necessary for domestic business and entrepreneurs to operate and the conditions that facilitate international trade and private investment into a country. Thus support to the enabling environment represents a more systemic, market-level approach to catalysing private investment in developing countries than the deal-level approach of blended finance and other mechanisms that directly engages private actors for individual investment projects.

We find that official development assistance (ODA) spent delivering activities targeted at strengthening the enabling environment for private sector development (termed 'enabling environment ODA' in this paper) totalled US\$9.9 billion in 2015. This compares with that spent on education and is more than the amount of ODA spent on water and sanitation in the same year. A wide range of actors provide this type of support, though it plays a bigger role in some donors' portfolios than others. While it appears to target LDCs more than private finance mobilised via blending, middle-income countries that are not LDCs benefit the most from enabling environment ODA. This is despite international commitments that emphasise the importance of investing in this area, particularly in least developed contexts. There is thus an opportunity for donors to increase support in these contexts and to consider strengthening coordination, including sequencing, of their approaches to catalyse private resources in different groups of developing countries.

Enabling environment ODA is delivered through a range of channels and modalities, with the majority delivered through channels other than recipient governments. While domestic government entities may still be involved in implementing projects even when they are not the first implementing partner, donors should consider this finding closely especially in relation to development effectiveness commitments. There is scope to increase funding delivered through recipient governments, particularly enabling environment support aimed at policy and institutional reform.

There is no typical project to support the enabling environment for private sector development. This is an area of donor support that cuts across multiple sectors and levels of interventions (from global policy reform to country-level infrastructure). Such a wide portfolio of activities suggests that this type of support is, and can increasingly be, used to serve a variety of needs. While there are some notable differences in specific enabling environment areas that ODA funding tends to target in differing developing contexts, it remains unclear whether the right type of support is going to where it's needed the most.

When mapped against global private sector performance indicators such as the Global Competitiveness Index, enabling environment ODA appears to mainly target countries with relatively high scores. This suggests that there is scope to improve allocation of this type of donor support to ensure that it targets countries where need may be greatest. Beyond the aggregate level, enabling environment ODA appears to be responding to need in some areas more than others. This illustrates the importance of looking at lower-level indicators of need to ascertain whether this type of donor support is indeed responding to country-specific challenges. More dialogue is required to identify appropriate lower-level indicators of need and to establish better reporting mechanisms to enhance donor accountability in relation to this type of aid.

We urge stakeholders involved in the financing for development process at the UN as well as more specific discussions around public–private financing at fora such as the Organisation for Economic Co-operation and Development, to closely consider the findings of this paper as well as their implications on relevant policy guidance for donors. And we urge donors to adopt country-specific, strategic approaches to support the mobilisation of the resources needed to achieve national and international development objectives. We highlight questions at the end of the paper that require particular attention, and on which we would welcome feedback from readers.

Introduction

The private sector has an important role to play in achieving the Sustainable Development Goal (SDGs). The Addis Ababa Action Agenda (AAAA) and individual donor strategies recognise this,⁴ including in light of the significant gap in resources needed to achieve the SDGs and fulfil the leave no one behind agenda. However, stimulating private investment is not a technical solution; rather it requires consideration of policy coherence factors in the context of often conflicting interests and objectives. It also requires attention to the diversity of private sector actors and the risks and opportunities that different approaches to catalyse private resources present in relation to the delivery of sustainable development outcomes, and the ability to respond to country-specific needs, including those of the poorest and most vulnerable people.

Gaps in data and information hinder the ability of donors to base such considerations on evidence. A better understanding of the range of approaches that donors can employ to catalyse private resources in developing countries is needed – including how these may best be used together according to their comparative advantages. These include both direct and indirect approaches, each able to serve poverty eradication and sustainable development objectives in different yet complementary ways. While pressure is increasingly being placed on donors to adopt direct mechanisms of catalysing private finance in developing countries, such as blending, it is important that more indirect approaches, such as supporting local private sector development, are not forgotten.

The first part of the paper presents a framework to illustrate the diversity of donor approaches to catalyse private resources for development. This is done to allow stakeholders to look at indirect approaches – such as supporting the enabling environment for private sector development – in the same framework as those that require direct engagement with private actors, such as blended finance. Such a framework is an essential starting point to highlight the approaches available, the strengths and differences between them, and the potential for synergy. For the purpose of this paper, the enabling environment for private sector development is defined as the conditions necessary for domestic business and entrepreneurs to operate and the conditions that facilitate international trade and private investment into a country – both at the policy/institutional and the market functioning level. (This is hence broader than what is commonly referred to as the 'business enabling environment'⁵ and includes other factors relevant to private sector development in developing countries, such as infrastructure, access to finance and availability of a skilled labour force.)

Building on previous work on blended finance,⁶ the second part of the paper presents some initial findings on donor spending – mostly official development assistance (ODA) – targeted towards the enabling environment for private sector development. It considers linkages to and implications on other catalytic approaches, particularly blended finance. The aim is to strengthen the evidence base on which donors can rely to take resource-

allocation decisions in relation to how best they can catalyse private resources for development in different developing contexts. Ongoing financing for development discussions as well as more specific ones on public–private financing are particularly pertinent platforms for such dialogue and knowledge sharing. An example is the ongoing policy dialogue on how to operationalise the Organisation for Economic Co-operation and Development (OECD) Blended Finance Principles and other efforts by stakeholders to make blended finance more effective for sustainable development.⁷

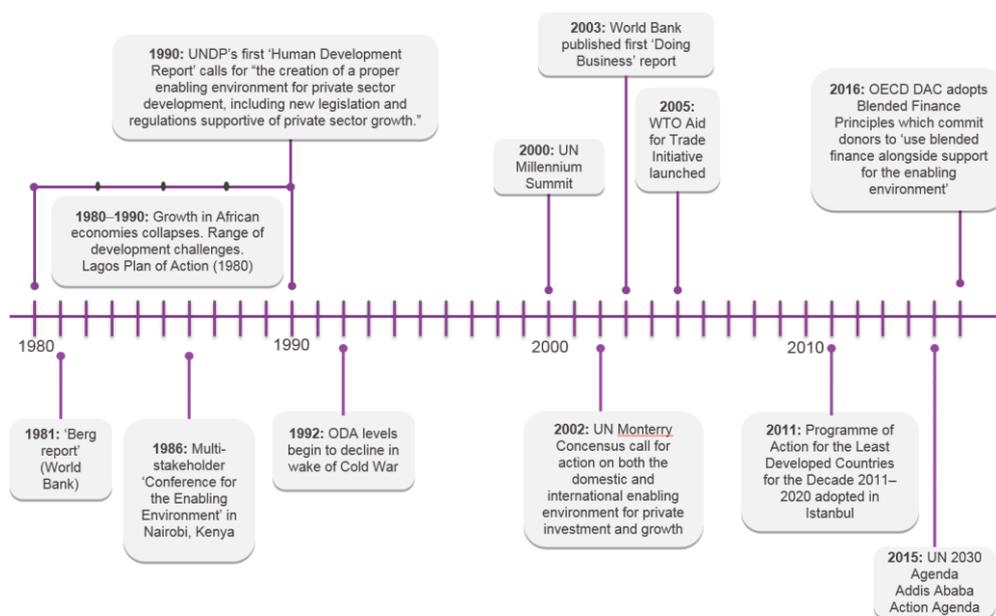
Background, definitions and framing

Background

Global policy dialogue on financing needs for the UN 2030 Agenda for Sustainable Development, including the UN financing for development process, has focused on the significant gap between these needs and the resources available to developing countries to achieve the SDGs. This has generated increased interest from donors in how existing forms of international public support, particularly ODA, can be used to 'catalyse' additional resources, particularly from the private sector. Catalytic aid can take various forms; blended finance mechanisms have attracted perhaps the most recent attention in global debates on financing for development.⁸ But the importance of supporting developing countries, particularly the least developed countries (LDCs), to strengthen the underlying 'enabling environment' for private sector development is also an important focus for donor support. And it is a priority area of attention for developing countries, with a long history in aid policy discourse.

The concept of donor support to the enabling environment is closely linked with the history of ODA. The first 'Conference for the Enabling Environment' was held in Nairobi, Kenya, in 1986.⁹ In 1990, the UN Development Programme's first *Human Development Report* stated that "the basic objective of development is to create an enabling environment for people to enjoy long, healthy and creative lives". It called for "the creation of a proper enabling environment for private sector development, including new legislation and regulations supportive of private sector growth".¹⁰ Subsequent international agreements, such as the Monterrey Consensus (2002) and the Istanbul Programme of Action (2011), reflected a growing emphasis on the importance of donor countries to provide support for developing countries in strengthening their domestic enabling environment, while providing a conducive international enabling environment (e.g. in relation to international trade, tax and macroeconomic issues). Figure 1 summarises some key historical events related to this area of donor support.

Figure 1. Supporting the enabling environment for private sector development has a long history in aid policy discourse



Notes: DAC: Development Assistance Committee; ODA: official development assistance; UNDP: UN Development Programme; WTO: World Trade Organization.

Defining the enabling environment for private sector development

As barriers to private sector growth tend to differ from country to country, there is no set definition of the 'enabling environment' for private sector development. Definitions in the literature range from a country's business regulations and legal/regulatory framework to public infrastructure, national and private banks and government institutions, and support for the interrelationship and dialogue between public entities and firms, markets and entrepreneurs. Definitions can range wider to include infrastructure, education and health, and a broad concept of 'good governance' and rule of law. The term is also now used to refer to the international enabling environment for private sector development, meaning global trade and investment regimes and the macroeconomic environment.

For the purposes of our analysis, we define the enabling environment for private sector development as the conditions necessary for domestic business and entrepreneurs to operate and the conditions that facilitate international trade and private investment into a country. The rationale for this definition is two-fold. Firstly, we want to clearly distinguish between private sector development support that is more systemic or market level, and that which is delivered at the firm level and involves direct enterprise support. This distinction is key given the different nature of these two approaches to private sector development support, including the different types of actors likely to be involved in delivering them. It is also key as existing donor commitments around the enabling environment for private sector development lack clear accountability mechanisms, in part

due to the lack of a widely agreed definition of the term. Secondly, with this definition we seek to capture the diverse challenges that developing countries face in relation to the more systemic and market-level aspects of private sector development. These include but are not limited to those related to the business enabling environment (which tends to focus mostly on policy, regulatory and institutional factors). Box 1 provides further detail on our categorisation of the enabling environment for private sector development. (See Annex 1 for relevant definitions that were considered in formulating our own; and Annex 2 for a list of example projects that fall within our definition of enabling environment.)

Box 1. Categorising the enabling environment for private sector development

We categorise the enabling environment for private sector development in two levels:

- 1. Policy/institutional level:** this comprises what is commonly referred to as the 'business enabling environment' or 'investment climate', spanning international, national and sector/industry level policies and institutions (including trade agreements and trade policy as well as domestic industrial policy reform);

 - 2. Market functioning level:** this comprises additional areas that are just as key for the private sector to develop and operate. For example those aimed at facilitating production and distribution of goods and services, addressing market failures and imperfections and integrating all actors into markets, including small and medium-sized enterprises (SMEs). These represent more specific hurdles encountered by private actors in developing countries and include, among others:
 - Infrastructure – comprising physical infrastructure interventions directly related to private sector development, such as building roads to facilitate market access and strengthening supply chains

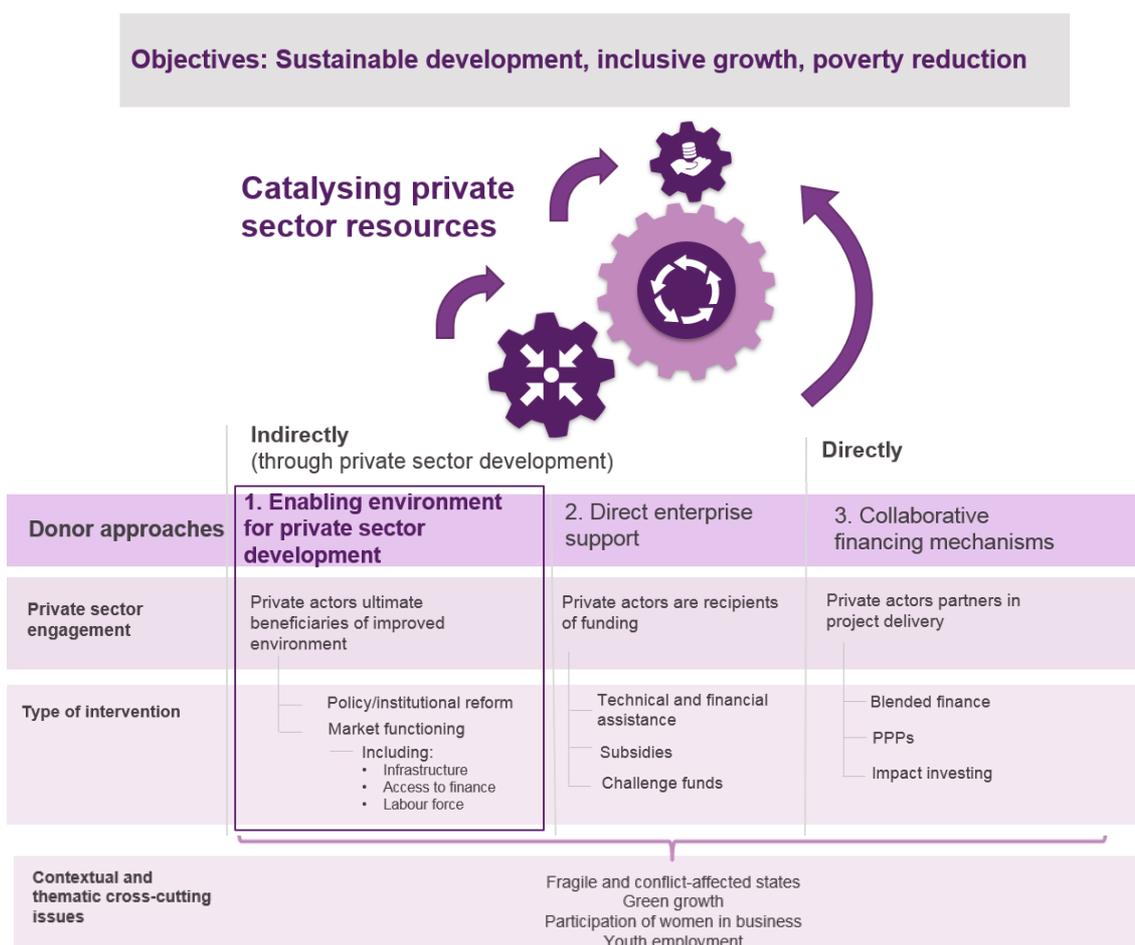
 - Access to finance – comprising support to financial intermediaries, both formal and informal, such as support to expand access to financial services for micro, small and medium-sized enterprises (MSMEs) in rural areas

 - Labour force – comprising social infrastructure interventions directly related to private sector development, such as vocational training or managerial and technical capacity building aimed at increasing the skills and employability of the local labour force.
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Situating support for the enabling environment in the context of wider donor approaches to catalysing private finance

While analytical frameworks that categorise donor approaches to private sector development exist,¹¹ it is not always clear where enabling environment interventions are situated within them. Nor is there a mapping of how donor support to private sector development relates to other ways that donors adopt to catalyse private finance. The framework in Figure 2 builds on existing categorisations and addresses these two issues by clearly situating support to the enabling environment for private sector development within broader private sector development efforts, and more widely within a range of donor approaches aimed at catalysing private resources for development – allowing for these to be considered alongside each other.

Figure 2. Supporting the enabling environment for private sector development is an important form of catalytic aid



Notes: Policy/institutional reform is elsewhere referred to as 'business enabling environment' or 'investment climate'. Market functioning refers to activities related to improving production and distribution, addressing market failures and imperfections and integrating all actors into markets. Blended finance is defined as the use of public (or philanthropic) funds to attract additional investments from private sector actors into development projects.¹² Private actors as contractors are not included in the framework – when donors engage private entities as contractors they do so for a specific good or service, which tends not to be linked to broader catalytic objectives.

The purpose of this framework is to provide a basis for generating evidence that could facilitate donors' decision-making processes, helping to answer questions such as which approaches (and types of interventions) may be better suited to address the needs of different countries in relation to private finance mobilisation, and how they may most effectively complement each other.

Key aspects of the framework include:

- **Objectives grounded in the SDGs.** Many donor strategies that involve the private sector emphasise that although support in this area directly benefits private actors, the aim remains that of reducing poverty and boosting inclusive and sustainable growth.¹³ Donors allocating resources to this area should ensure that they benefit or engage with private entities able to contribute to growth that is broad-based, inclusive and pro-poor, and focused on long-term sustainable outcomes.
- **The sub-categorisation of private sector development support.** Disaggregating private sector development by whether interventions relate to the enabling environment or direct enterprise support enables the isolation of support to the enabling environment specifically. As mentioned earlier, this is key to relevant existing AAAA commitments as well as more recent debates around blended finance principles that require donors to invest in the 'enabling environment' but do not yet provide clear definitions and accountability mechanisms for such support.
- **The type of private sector engagement.** Donor approaches to catalysing private finance are categorised according to the role played by private actors and their level of involvement in delivering interventions. This allows for considerations around what the necessary conditions are for specific approaches to be successful. For example, enabling environment interventions (approach 1) benefit private actors but do not directly engage them in the delivery of activities and thus do not rely on the existence of a functioning, vibrant private sector (in fact they contribute to establishing it). Collaborative financing mechanisms (approach 3) instead require direct engagement with private actors as partners in the delivery of activities/projects and call for considerations around the supply of commercially viable projects in the country.

With more evidence on which types of private actors are involved in each approach (e.g. SMEs, multinational corporations, foreign or local firms), and on the success factors and impact that each approach can have in different developing contexts, the framework could be developed further. It would then be possible to more comprehensively assess the potential of each approach to address the needs of the poorest and most vulnerable people, as well as the link with the leave no one behind agenda.

Donor spending to the enabling environment for private sector development

How much is there?

Donor support to the enabling environment for private sector development totalled at least US\$16.6 billion in 2015 – including spending in the form of both ODA and other official flows (OOFs). Given the quality of reporting on the one hand and the type of methodology used for the analysis on the other, the OOF estimate is likely to be an underestimate of true OOF spending in this area (see Box 2 and Annex 3 for more detail on the methodology).

Box 2: Summary of methodology

Just as there is no widely accepted definition of the 'enabling environment' for private sector development, there is no established methodology to quantify donor spending in this area. While there are links and overlaps with other, more established concepts such as Aid for Trade (for which methodologies exist), there are enough key differences that call for a different, ad-hoc methodology to measure donor spending to the enabling environment for private sector development.

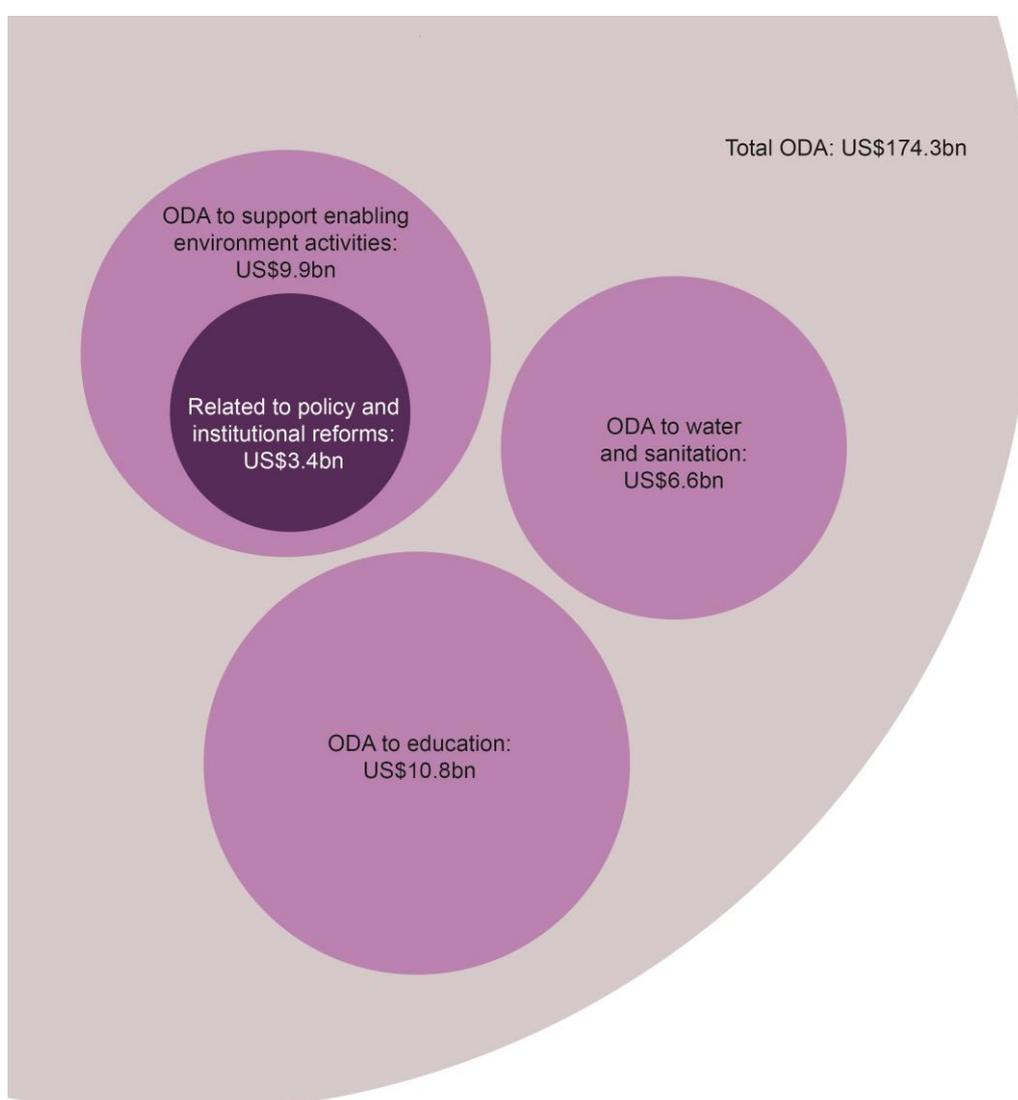
The figures presented in this section are based on data reported by donors to relevant purpose codes in the OECD Development Assistance Committee (DAC) Creditor Reporting System (CRS). Spending on activities reported against purpose codes that were considered fully relevant to the enabling environment for private sector development as defined in the paper was considered in its entirety. Additionally, to capture relevant activities reported against purpose codes not considered to be fully relevant to this area, a keyword search was introduced, based on the information provided in descriptive fields. This allowed for consideration of all activities demonstrating donor intent towards strengthening the enabling environment for private sector development.

Given differences in the quality of reporting of ODA and OOFs, our analysis focuses on ODA, while providing some top-line tentative figures on OOFs too. (See Annex 3 for more detailed methodology notes.)

ODA activities estimated to be targeted towards the enabling environment for private sector development totalled **US\$9.9 billion in 2015**. This indicates a significant focus of ODA to the area: 5.7% of total ODA in 2015. This proportion is similar across different developing country contexts: in middle-income countries (MICs) it totalled US\$4.5 billion equivalent to 5.7% of the total; in LDCs it was US\$2.3 billion or 4.9% of the total; and in countries in fragile situations it amounted to US\$3.3 billion or 4.8% of total ODA.

Compared with ODA to other major sectors in the same year, the enabling environment for private sector development total compares with ODA to education (US\$10.8 billion), and is more than ODA to water and sanitation (US\$6.6 billion), and less than ODA to governance and civil society (US\$15.9 billion) and health (US\$20.6 billion).¹⁴

Figure 3. ODA to the enabling environment for private sector development compares with ODA to education in 2015



Source: Development Initiatives based on OECD DAC CRS

Note: There is some overlap in ODA to support the enabling environment for private sector development, education, and water and sanitation (not shown in figure).

A subset of ODA relevant to the enabling environment for private sector development encompasses interventions targeted towards policy and institutional reform (see Figure 2). These are often undertaken at the macro level, and form part of what is commonly called the 'business enabling environment'. They can include: business or private sector policy, legislation, regulation or reform; financial sector policy and regulation; employment policy and legislation; trade policy and planning; trade-related legislation and regulatory reform; trade facilitation (including import and export procedures and tariff reforms); and donor activities with a stated focus on the enabling environment for business.

We estimate, as a subset of our overall figure, ODA activities which contained a full or partial focus towards these areas in 2015 at **US\$3.4 billion**, just over a third (34%) of total ODA to the enabling environment for private sector development. The remaining two-thirds included interventions towards access to finance, market functioning and other forms of support to private enterprise such as transitions into markets and building competitive capacities.

OOFs¹⁵ estimated to be going towards the enabling environment for private sector development totalled **US\$6.7 billion**. A significant proportion of this figure is comprised of OOFs to purpose codes including financial policy and administrative management (US\$2.2 billion), informal/semi-formal financial intermediaries (US\$1.4 billion) and SMEs development (US\$855 million). Large OOF providers to the enabling environment for private sector development were the International Bank for Reconstruction and Development (US\$3.1 billion), the Inter-American Development Bank (US\$2.5 billion), and the Asian Development Bank (US\$703 million).

However, the keyword-based methodology in use is likely to underestimate the true OOFs value to the enabling environment for private sector development; this is due to, on average, a lower level of detail being present in OOFs activity reporting compared with ODA. This therefore potentially omits relevant interventions such as infrastructure sector projects including road construction and port development, where CRS descriptions do not detail a private sector focus and are thus excluded from our estimates.

Box 3: Comparing our aggregate ODA figure to other related measures

Aid for Trade: Aid for Trade refers to helping developing countries (in particular LDCs) build the trade capacity and infrastructure they need to benefit from trade opening.¹⁶ It is measured by including all ODA reported to purpose codes falling under the following sector categories: 'trade policy regulations and trade-related adjustment', 'economic infrastructure' (such as transport and storage, communications and energy generation and supply), and 'building productive capacity' (such as banking and financial services, agriculture, industry and mineral resources and mining).¹⁷ Aid for Trade ODA stood at **US\$39.5 billion** in 2015 (23% of total ODA) – with the economic infrastructure component treated as a proxy measure due to the difficulties in separating out the amount from this which is strictly trade related.

Private sector development: two interlinked frameworks for measuring development cooperation for private sector development are presented by the OECD.¹⁸ The frameworks consist of: (a) three policy areas of private sector development: investment, physical infrastructure and productive capacity; and (b) three different levels at which private sector development interventions can take place: policies and governance (upstream), market functioning (mid-stream), enterprise resources (downstream). Combining the two frameworks into a methodology for quantitative analysis sees an allocation of CRS purpose codes (with manual intervention where applicable) into one of the three levels (upstream, mid-stream and downstream), and into the relevant policy area (investment climate is upstream, physical infrastructure is mid-stream and productive capacity activities can occur at all three levels). This methodology results in an estimate (for the year 2013) of around **US\$60 billion** in ODA towards supporting private sector development.

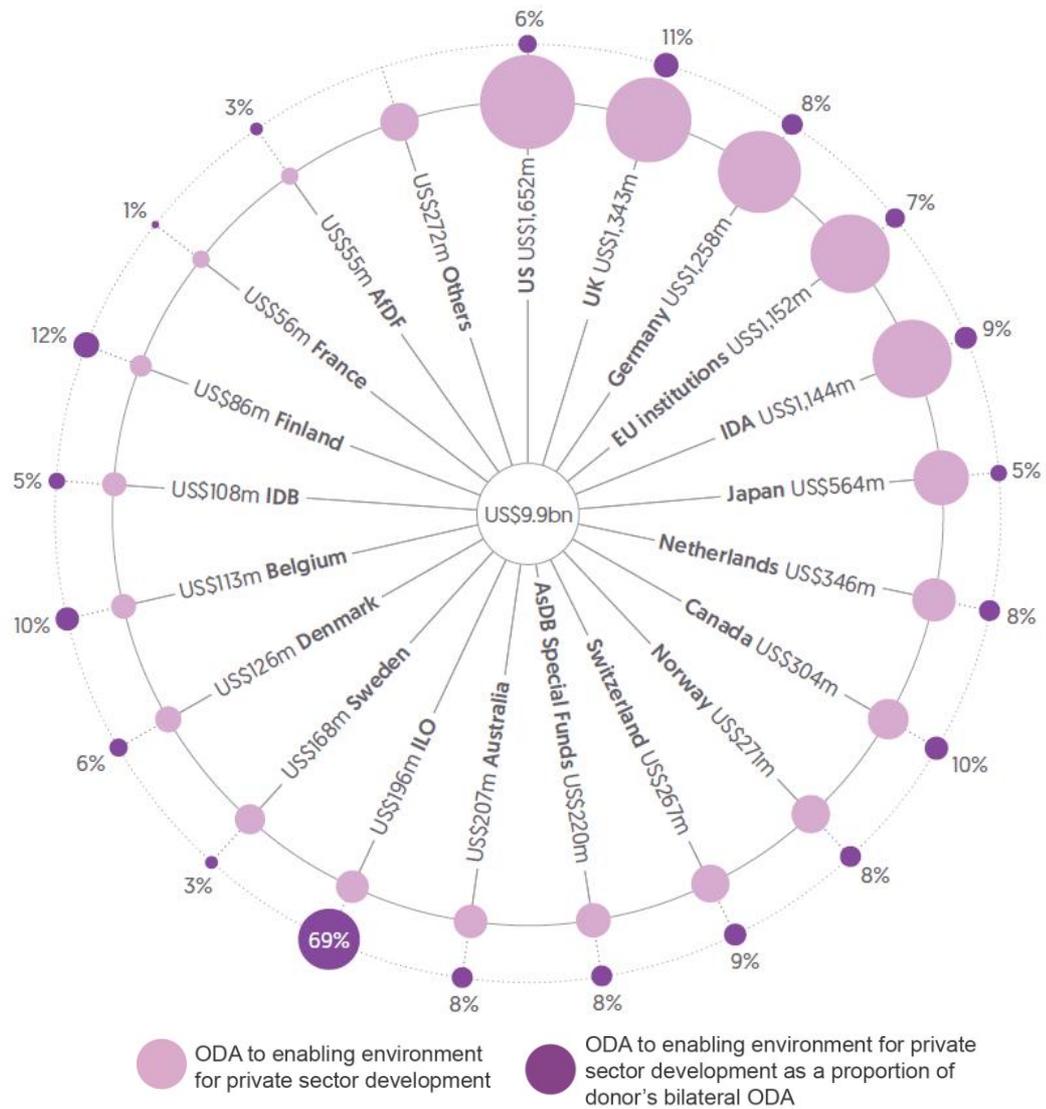
Annex 3 provides more detailed information on our methodology, including how it differs from other related ones.

Who are the largest providers?

The largest three providers of ODA to the enabling environment for private sector development in 2015 were the US (US\$1.65 billion), the UK (US\$1.34 billion) and Germany (US\$1.26 billion). Yet our analysis shows that multilateral organisations play a key role in providing support to this area, with the EU institutions (US\$1.15 billion) and the International Development Association (US\$1.14 billion) the fourth and fifth largest overall donors respectively. Regional development banks also appear as important players, with the Asian Development Bank Special Funds (US\$220 million), Inter-American Development Bank Special Fund (US\$108 million) and the African Development Fund (US\$55 million) all in the largest 20 donors to the area.

But not all donors place the same emphasis on this type of ODA in their overall portfolios. As a percentage of total bilateral ODA, the US spends 6% on projects targeted towards improving the enabling environment for private sector development, the UK 11% and Germany 8%. While the International Labour Organization (ILO) – though 13th in terms of volumes provided – targets most of its ODA to supporting the enabling environment for private sector development (69%), of which 91% goes to projects related to employment policy (US\$179 million).

Figure 4. The US, UK and Germany provide the most ODA to the enabling environment for private sector development, though the ILO provides the most as a share of total bilateral ODA



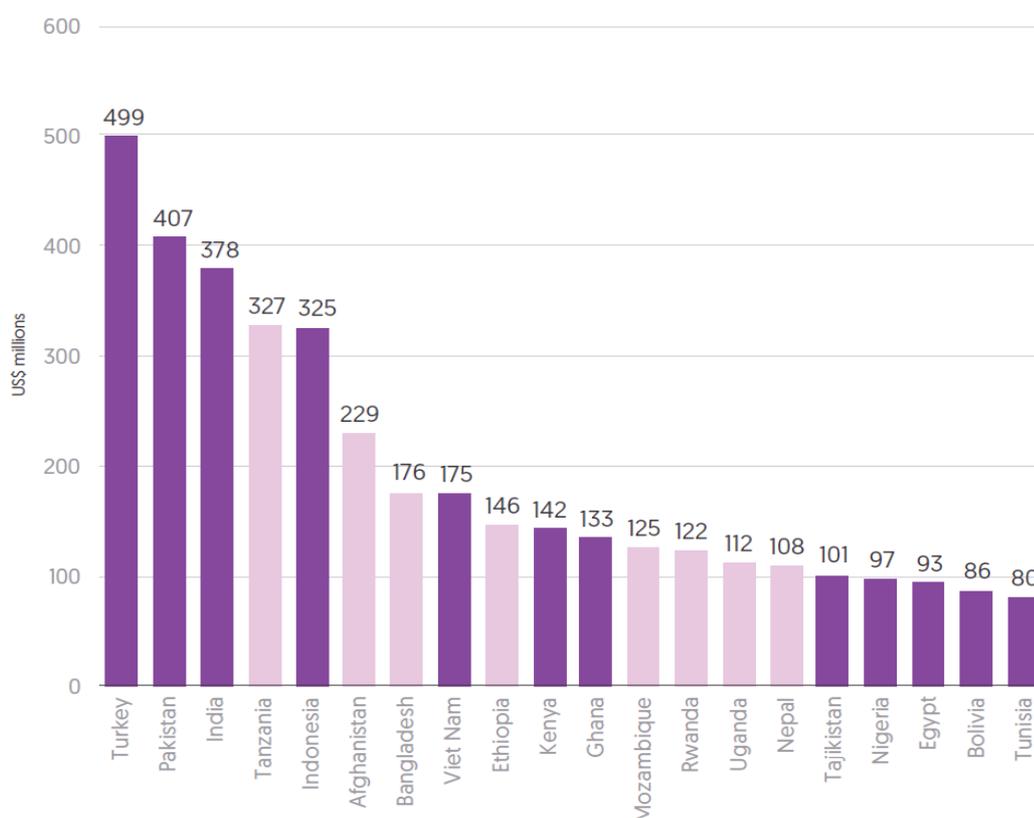
Source: Development Initiatives based on OECD DAC CRS

Notes: Data is for 2015. AfDB: African Development Bank; IDA: International Development Association; ILO: International Labour Organization; ODA: official development assistance.

Who are the largest recipients?

One-third of enabling environment ODA goes to projects that are regional in scope or is not transferred to specific countries. The latter includes in-donor research and support to institutions based in donor countries¹⁹ as well as projects such as the ILO's activities to improve global employment policies. Thus individual countries receive less support directly than aggregate figures might suggest. Of the country-allocable amount (US\$6.4 billion), Turkey, Pakistan and India received the most in 2015. Tanzania – the fourth largest recipient overall – received the largest amount of enabling environment ODA among LDCs, at US\$327 million.

Figure 5. Turkey, Pakistan and India received the most enabling environment ODA in 2015

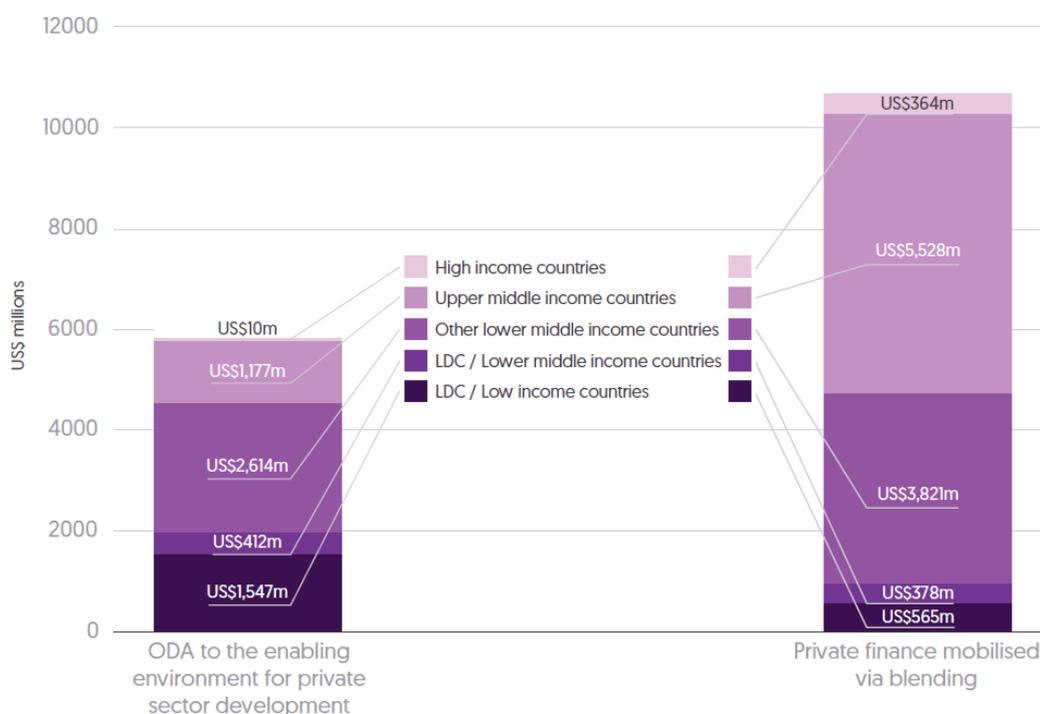


Source: Development Initiatives based on OECD Development Assistance Committee (DAC) Creditor Reporting System (CRS)

Note: Lighter shading indicates least developed country (LDC) status.

When compared with the distribution of blended finance (proxied by the volumes of private finance mobilised via blending²⁰), ODA targeted at supporting the enabling environment for private sector development appears to target LDCs more, particularly low-income LDCs. This said, middle-income countries that are not LDCs still receive the largest amount overall, despite international commitments that emphasise the importance of investing in this area, particularly in least developed contexts (Figure 6).

Figure 6. While enabling environment ODA reaches LDCs more than blending, most goes to non-LDC MICs, which also benefit the most from blended finance



Source: Development Initiatives based on OECD DAC CRS, World Bank, and 2016 OECD survey 'Amounts Mobilised from the Private Sector by Official Development Finance Interventions'.

Notes: Data is for 2015. HIC: high-income country; LDC: least developed country; LIC: low-income country; LMIC: lower-middle-income country; MIC: middle-income country; UMIC: upper-middle-income country. Data on 'Private finance mobilised via blending' refers to 2014 data reported in the 2016 OECD survey 'Amounts Mobilised from the Private Sector by Official Development Finance Interventions'. Figures include amounts mobilised through the use of three instruments: guarantees, syndicated loans and shares in collective investment vehicles. Analysis is limited to 85 developing countries for which data on both ODA to the enabling environment for private sector development and 'amounts mobilised through blending' is available.

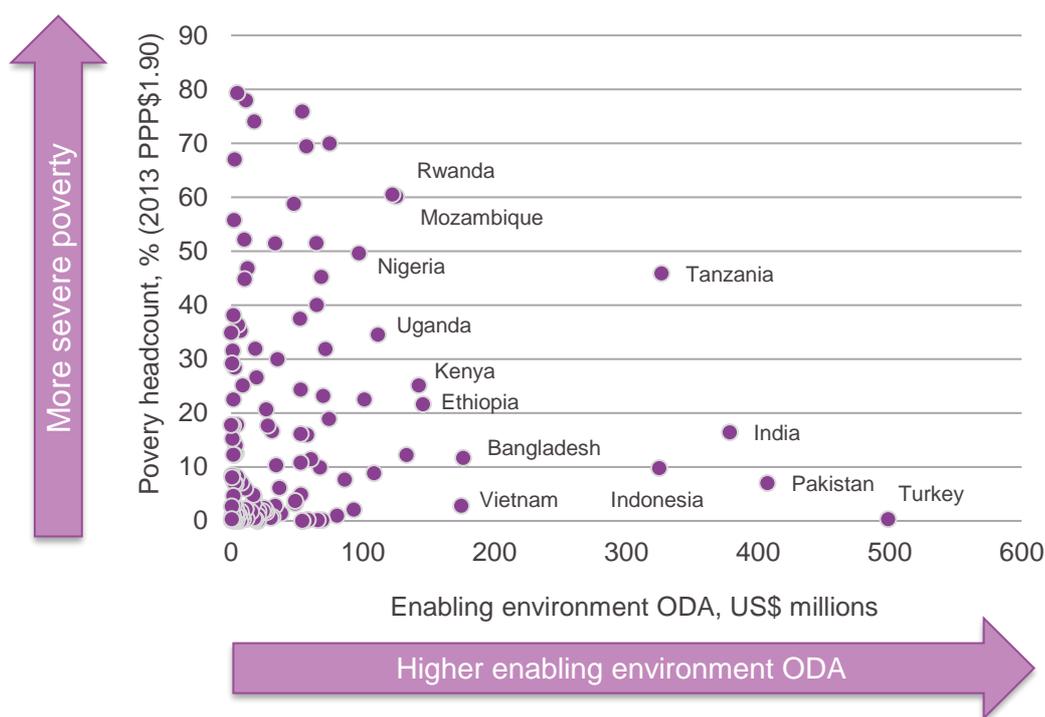
Middle-income countries are also those most benefiting from blended finance investments, and there's a risk that the increasing momentum around this type of financing may result in increasing concentration of financing in such contexts, unless blending incentives and practices change.²¹ There is thus an opportunity for donors to increase support to the enabling environment in LDCs, high poverty countries or those in fragile situations. It is often argued that one of the main hurdles to private investment in less developed countries is the lack of 'bankable', or commercially viable projects.²² Interventions aimed at expanding the availability of viable investment opportunities (such as those that support domestic governments to create favourable conditions in the enabling environment) may be an important prerequisite, or at least a complementary measure, to scaling up investments in mechanisms that engage private actors as partners and that require a supply of such projects (such as blended finance).

The OECD Blended Finance Principles and policy guidance present a timely opportunity for strengthening the link between blending and donor interventions aimed at enhancing the enabling environment for private sector development, including the potential need for sequencing different donor approaches in specific contexts. As do broader ongoing financing for development discussions at the UN. A sequenced, coordinated and country-focused approach could lead to enhanced 'pipelines' of blended finance opportunities in LDCs, with greater country ownership and more sustainable outcomes.

Enabling environment ODA to high poverty contexts

Countries with high poverty levels tend to attract relatively low blended finance investments.²³ Figure 7 shows that they also receive less investments in support of the enabling environment as compared with countries with lower poverty (with Tanzania being somewhat of an outlier with a poverty headcount of 46% and enabling environment ODA of over US\$320 million, mainly driven by disbursements from the International Development Association (IDA) and the UK).

Figure 7. Countries with higher poverty levels typically receive less enabling environment ODA (2015)



Source: Development Initiatives based on OECD DAC CRS and World Bank PovcalNet

Notes: Countries with no poverty data from PovcalNet are excluded from the analysis. These include some countries that receive relatively large amounts of enabling environment ODA, such as Afghanistan (US\$228.8 million).

However, the focus on poverty differs across donors – which signals interesting opportunities for sharing lessons and best practice for this type of support. For example, out of their country-allocable totals:

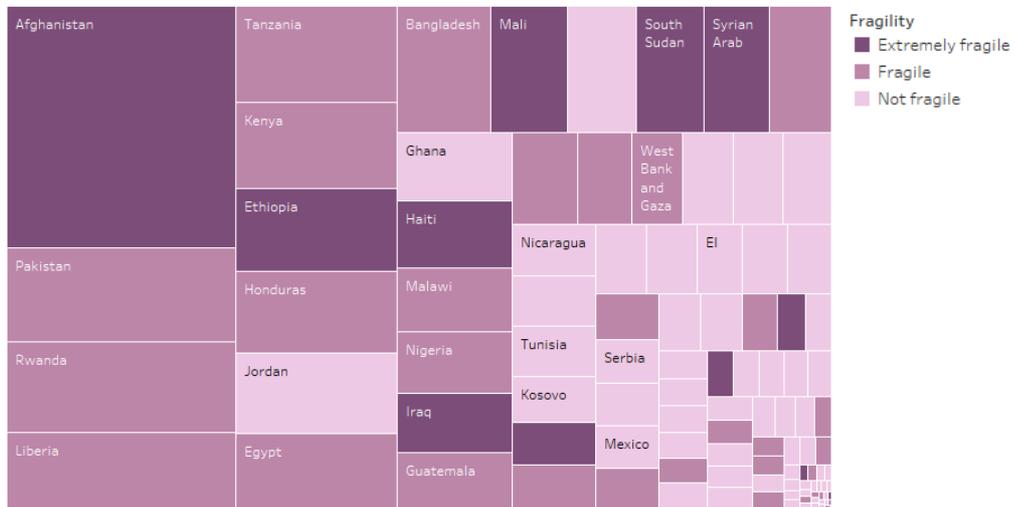
- Germany spent a third in Turkey and Serbia, both with poverty rates below 1%
- EU institutions spent over a quarter (29%) in Turkey alone, with poverty headcounts below 1%, and another 16% in India, where 16% of the population lives below the poverty line
- the African Development Fund spent almost half (49%) in Malawi, where 70% of the population lives under the poverty line, and the rest in other African low-income country (LICs) and lower middle-income countries (LMICs) with poverty rates above 30% (except for Ghana)
- the Netherlands spent almost a fifth (19%) in Rwanda, where 60% of the population lives in extreme poverty.

Enabling environment ODA to countries in fragile situations

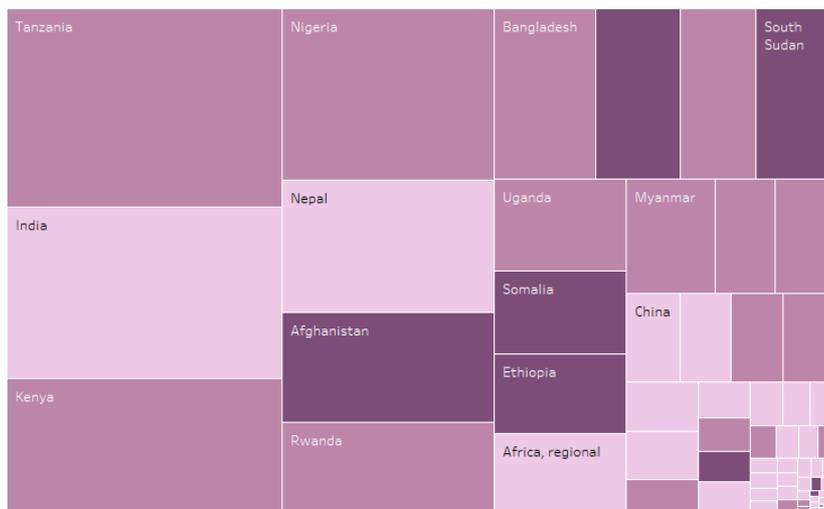
Fragile and extremely fragile contexts received US\$3.3 billion of enabling environment ODA in 2015 – equivalent to 51.7% of the country-allocable amount. (This is comparable to overall ODA, for which 58.9% of the country-allocable total goes to countries in fragile situations.) However, this is being driven by a limited number of large donors. Five donors – the US, IDA, the UK, the EU and Germany – account for almost three-quarters of the US\$3.3 billion total (or 74%), with the US and IDA accounting for most of it. Figure 8 illustrates the difference in the extent to which countries in fragile and extremely fragile situations are targeted by the six largest donors of overall enabling environment ODA. It shows that although some of these donors may be providing significant amounts of support to fragile contexts overall, the largest country recipients are still non-fragile countries (see, for example, EU and Germany country recipients). Overall, there is scope to increase focus on enabling environment support in fragile contexts, and similarly to what was pointed out above in relation to poverty, there are opportunities for donors to share experience, lessons and success factors in order to facilitate this shift.

Figure 8. Different donors target fragile and extremely fragile contexts to varying extents (2015)

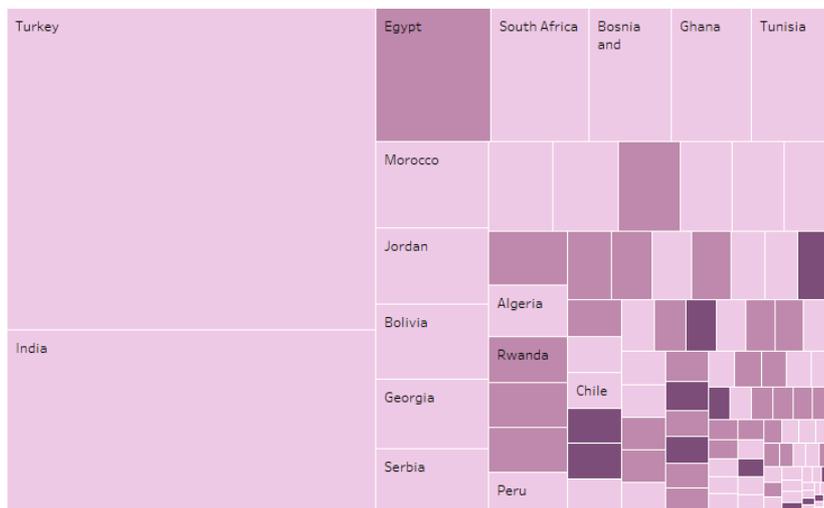
USA



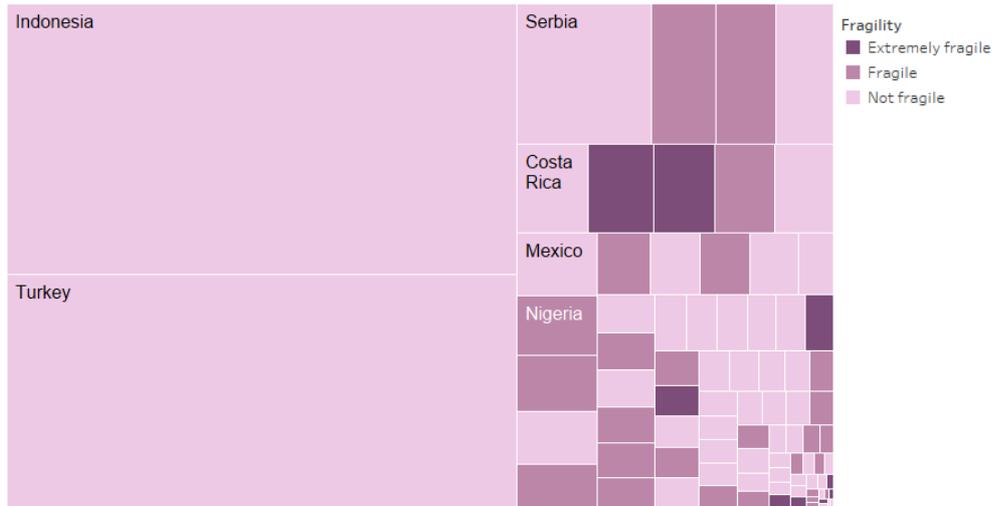
UK



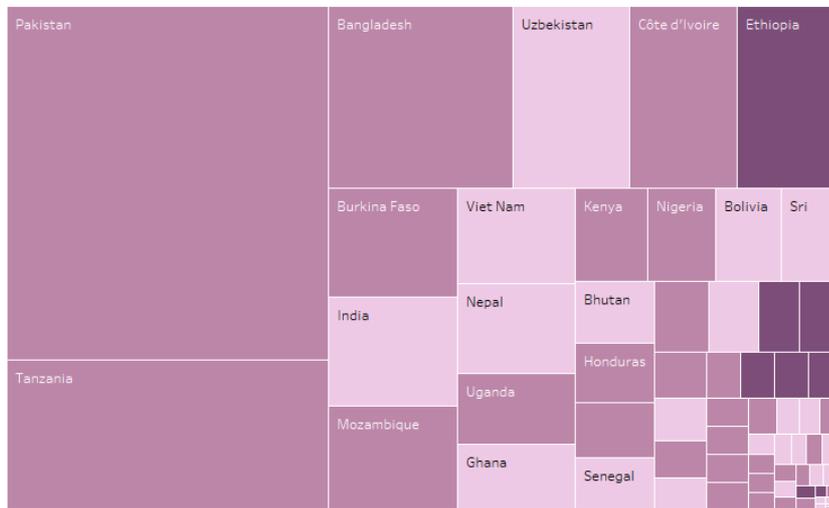
EU



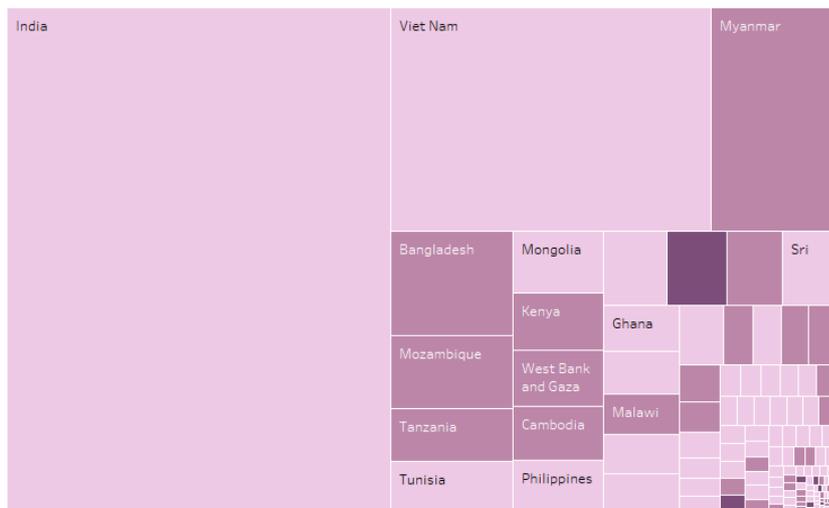
Germany



IDA



Japan



Source: Development Initiatives based on OECD CRS and OECD States of Fragility 2016

How is enabling environment ODA delivered?

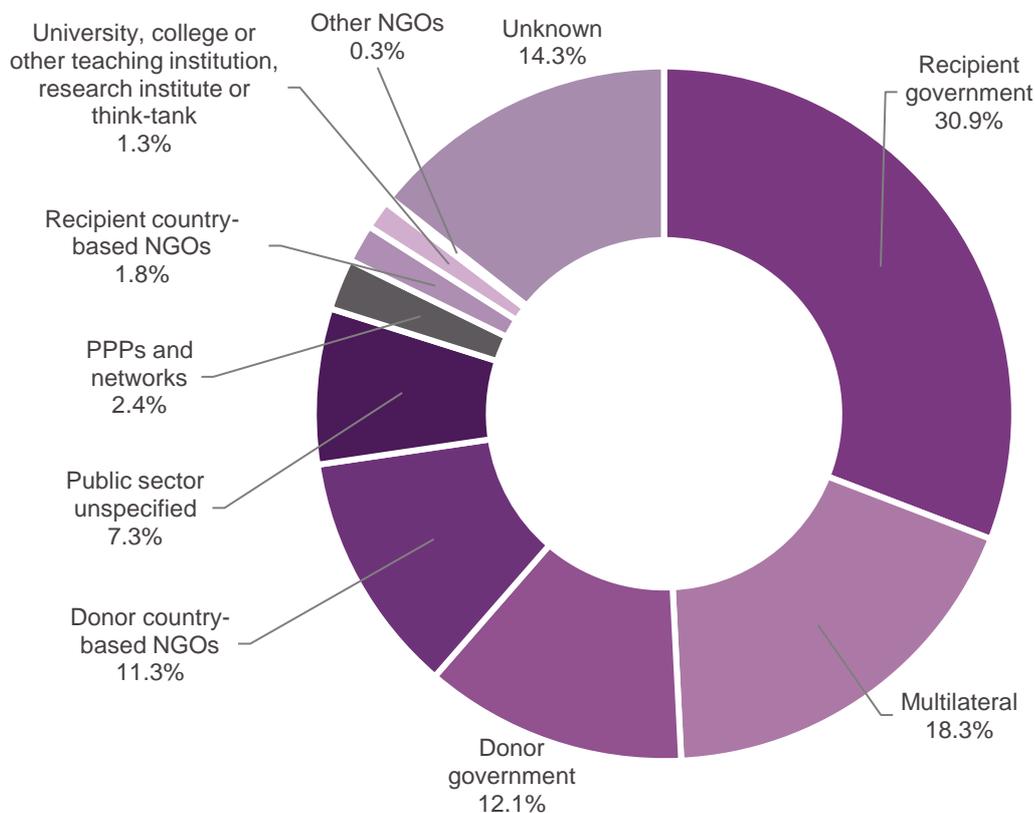
Channels of delivery

Enabling environment ODA is delivered through a range of different channels and actors. Shedding light on what these are can help assess the effectiveness of donor support in this area, as it relates to country ownership for example. It can also provide insight on the extent to which donor support is likely to effectively respond to country-level needs.

Depending on the project, different actors – public or private, local or international – may be better placed to deliver activities that are responsive to needs, including those of the poorest and most vulnerable people. In the case of enabling environment support, due to the wide range of interventions included in it, there is currently little evidence on which channels and actors – recipient governments, private entities or multilateral organisations – are best positioned for different types of interventions. More qualitative evidence on the success factors for different types of enabling environment support is necessary to make specific recommendations. However, as a first step, our findings provide a picture of how enabling environment ODA is currently being delivered and which types of projects are being implemented through different channels.

Recipient governments are the largest single channel of delivery accounting for 31% of enabling environment ODA, though the majority is disbursed through other channels – including multilaterals, donor government agencies and non-governmental organisations (NGOs) (Figure 9). This finding may not be surprising as support to the enabling environment can take various forms, some of which – particularly at the market functioning level – may not necessarily involve governments. However, it does present somewhat surprising results when explored beyond the aggregate level. Recipient governments deliver just over a third (35%) of funding allocated to policy and institutional reform components of enabling environment support (i.e. the US\$3.4 billion estimate cited earlier). While recipient governments may still be involved in implementing projects even when they are not the first implementing partner, this finding does raise potential questions around country ownership and alignment of donor support to nationally identified strategies and priorities. The Donor Committee for Enterprise Development, a knowledge hub for donors engaged in private sector development, notes that an important success factor for interventions at all levels is knowledge of the "political economy factors that influence reform"²⁴ – particularly as it relates to ensuring buy-in from all relevant parties, and thus long-term sustainable outcomes. Our findings suggest that there may be scope to increase the amount of funding delivered through domestic government entities (in line with commitments made at the Global Partnership for Effective Development Cooperation).

Figure 9. Most enabling environment ODA is disbursed through channels other than recipient governments



Source: Development Initiatives based on OECD DAC CRS

Notes: Data is for 2015. PPP: public-private partnerships.

Multilateral organisations channelled 18% of enabling environment ODA, most of which targeted areas of industrial policy and employment policy with a regional or global scope. Regional development banks are significant channels in the broader multilateral category, especially the African Development Bank (US\$288 million), the Black Sea Trade and Development Bank (US\$102 million), and the African Export Import Bank (US\$65 million). Our finding that multilaterals are the second largest channel of delivery for enabling environment ODA overall supports that many of these organisations (especially multilateral development banks) aim to play a leading role in private sector development in developing countries. This is particularly in areas such as capacity building, knowledge sharing, managing public-private partnerships, and coordinating and convening private investors in respective regions and focus countries.²⁵

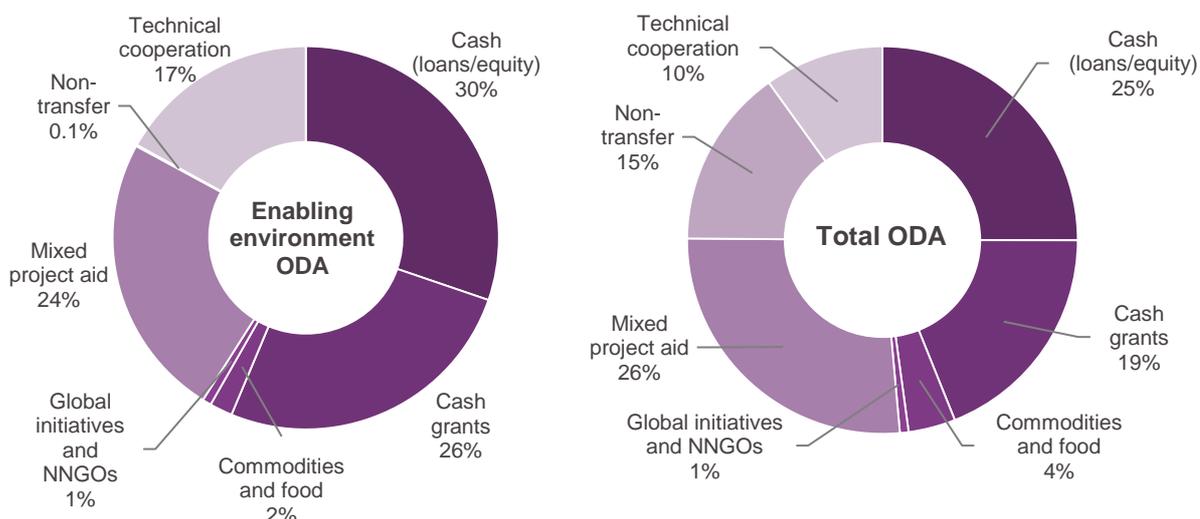
Donor government agencies – the third largest channel overall – delivered 12% of all enabling environment ODA. This includes activities for which a donor government’s own public sector agencies such as departments, operational components and research centres are the first implementing partner of a disbursement. Bilateral development

finance institution (DFIs) are also included under the 'donor government' channel. Notably, of the US\$1.2 billion total channelled through donor governments, US\$918 million (over three-quarters) represented capital contributions to bilateral DFIs, including BIO (Belgium), CDC Group (UK) and Norfund (Norway), for which activity-level information is unavailable.

Delivery modalities

Enabling environment ODA is also delivered through a range of modalities – with loans and equity being the most significant, followed by grants. Technical cooperation is used to deliver 17% of enabling environment ODA, a larger proportion than average for ODA activities (Figure 10). Almost a third (32%) of enabling environment support delivered through technical cooperation is either regional/global in scope or targets multiple recipient countries. Relevant activities are particularly focused on business support services for both recipient and donor country-based actors (which could arguably raise concerns around 'tying' of aid), and trade policy and facilitation – including projects aimed at strengthening regional trade integration, liberalisation and developing countries' exports. Of the country-allocable amount delivered as technical cooperation, non-LDC LMICs receive the most. Meanwhile LDCs receive the largest shares of enabling environment ODA in the form of cash – delivered as grants in the case of low-income LDCs, and loans and equity in the case of lower-middle-income LDCs (such as Bangladesh and Cambodia).

Figure 10. 30% of ODA to the enabling environment for private sector development was delivered in the form of loans and equity



Source: Development Initiatives based on OECD DAC CRS

Notes: Data is for 2015. Aid modalities are based on information contained in individual reported activities, including the aid type, channel of delivery and free-standing technical cooperation policy marker.

Different modalities through different channels

Of the US\$3 billion delivered as loans and equity, two-thirds (US\$2 billion) was channelled through recipient governments. Almost a fifth of loans and equity channelled through recipient governments were in LIC contexts, with most of the rest (73%) going to LMICs. Governments receiving large amounts of ODA in the form of loans and equity included Pakistan (US\$312 million), India (US\$295 million), and Indonesia (US\$251 million) – each receiving over half of their respective totals to different sectors. For Pakistan, this was business support services and institutions; for India, formal sector financial intermediaries; and Indonesia, energy policy and administrative management.

Cash grants (US\$2.6 billion) were disbursed through various channel types, the most significant being multilaterals (33%), recipient governments (22%) and NGOs (16%). Grant-funded multilateral projects include grants from donors which are implemented by multilaterals, for example, a project aiming to promote business formalisation and financial market functioning in Myanmar and channelled through the UN Capital Development Fund. Like loans, grants were disbursed to a range of sectors, with business support services (US\$785 million) and agricultural development (US\$346 million) among the largest. Almost a third of grants were disbursed to unspecified recipient countries while Afghanistan (US\$98 million), Rwanda (US\$92 million) and Turkey (US\$92 million) were the largest recipients of the country-allocable share.

Technical cooperation was delivered through a variety of channels too, including NGOs (18%), recipient governments (17%) and 'other' (24%). 'Other', which includes private sector institutions,²⁶ indicates the potentially significant involvement of private sector actors as an implementing partner and/or recipient of enabling environment ODA in the form of technical cooperation. Example of such projects include channelling expenditure to consultants to improve an electric power network with entrepreneurs as a beneficiary group (private sector as implementing partner), and supporting access to finance for SMEs (private sector as recipient).

Highlighting the different modalities in which enabling environment ODA is disbursed raises questions that would benefit from further analysis. To what extent is one form of aid, such as technical assistance, being used in conjunction with other forms of support in single country or sector contexts? To what extent are the ways of working and success stories derived from aid provided in one modality (such as loans) transferable to another (such as grants)? What is the strongest form of tailored support in differing country contexts (LDCs, LICs, MICs and fragile states)? Answering these questions would require increased dialogue among relevant stakeholders, in the context of broader discussions around how to best support the mobilisation of private resources for development.

How does enabling environment ODA differ across recipients?

Our analysis illustrates that the enabling environment for private sector development is an area that cuts across a wide array of ODA intervention types – with activities of relevance being picked up across multiple sectors and sub-sectors. Removing the overlaps between different components of the enabling environment (e.g. policy/institutional

reform, infrastructure, access to finance, labour force) can thus be challenging and prevents a clear distinction of donor spending to each. However, it is possible to interrogate the data on a sectoral level and assess whether different groups of countries tend to receive support for specific aspects of the enabling environment.

There are notable differences in the particular enabling environment areas that ODA funding tends to target across different development contexts. This suggests that needs across countries are likely to differ depending on the stage of development. In LICs, activities in the agricultural sector account for 18% of total enabling environment ODA; while in LMICs and upper middle-income countries (UMICs), most support targets business support services and institutions, and then formal financial intermediaries. The latter includes activities such as assisting MSMEs by providing financing for investments to improve their productivity and competitiveness and to generate employment.

In LDCs the sectors targeted the most are agriculture (17%) – with activities such as the Feeder Roads Development Project for Rwanda aimed at enhancing all season road connectivity to agricultural market centres in selected districts – and support to enhance selected value chains (e.g. coconut in Vanuatu, sesame in Yemen); business support services (16%); and SME development (7%).

Table 1. The focus of enabling environment ODA differs across development contexts

LDCs	LICs	LMICs	UMICs
Agricultural development	Agricultural development	Business support services & institutions	Formal sector financial intermediaries
Business support services & institutions	Business support services & institutions	SME development	Business support services & institutions
SME development	Trade facilitation	Formal sector financial intermediaries	SME development

Source: Development Initiatives based on OECD DAC CRS

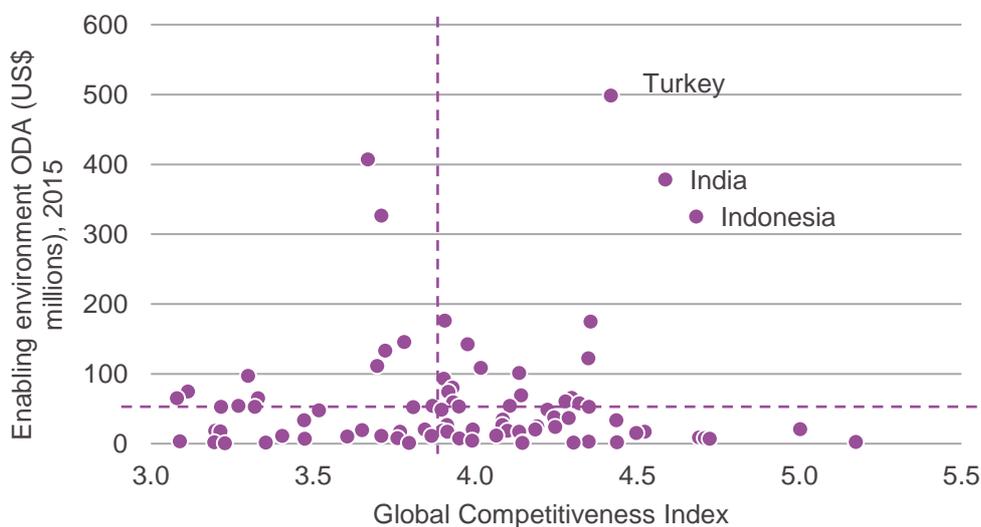
Notably sectors such as transport, communications and energy – where most infrastructure projects are recorded – are missing from the areas highlighted in Table 1. This does not necessarily mean that donors do not target infrastructure improvements as part of their support to strengthening the enabling environment for private sector development. In our methodology we have sought to capture only projects that express donor intent towards supporting private sector development, thus excluding infrastructure projects that do not mention private sector development in their objectives/description. The ones that do are often found under different sectoral codes, including agricultural and SME development – as seen in some of the examples discussed. Nonetheless, given the multiple calls for increased investments in infrastructure, particularly in LDCs,²⁷ this finding does call for further analysis and assessment of whether enabling environment ODA is targeting the areas that are most in need in any given context.

Does enabling environment ODA respond to need?

A key aspect of donor support is whether it responds to needs in partner countries. To assess this, comparable measures of such needs are required to guide the allocation and targeting of donor resources across countries. Enabling environment ODA can be used to address a range of different, often interlinked, challenges. Thus, global indicators of private sector performance and business climate – such as the Global Competitiveness Index (GCI) and the Ease of Doing Business Index (DBI) – can be useful proxies for overall 'need' for this type of support.²⁸ While they do not cover the same areas as those included in the definition of 'enabling environment for private sector development', they can still provide insight. Particularly so on the extent to which donor support intended to enhance the conditions necessary for the private sector to flourish is going to countries where private sector performance and business climate are seen as relatively weak (and thus the need to strengthen the enabling environment is likely to be relatively high).

Figures 11 and 12 show enabling environment ODA mapped against scores for the two indicators, the GCI and the DBI.²⁹ Overall it seems that enabling environment ODA tends to target countries whose scores are relatively high – such as Turkey, India and Indonesia. Meanwhile countries such as Somalia and Eritrea – whose DBI scores are the lowest globally (no data available for GCI) – receive some of the lowest amounts of enabling environment ODA, though they may need it the most. The majority of enabling environment ODA goes to countries whose scores are above both the GCI developing country average of 3.917 and the DBI developing country average of 54.8.

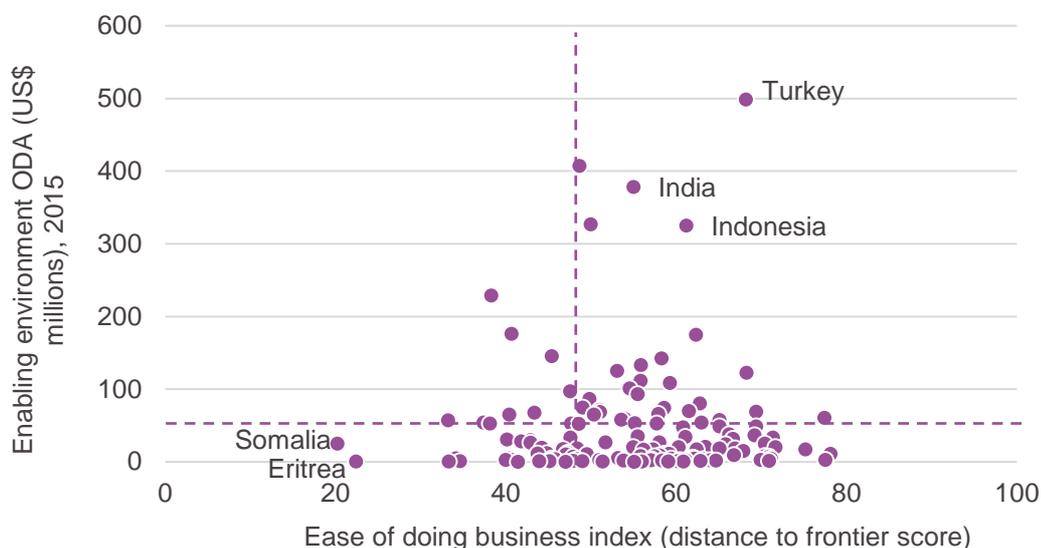
Figure 11. 54% of enabling environment ODA goes to countries where private sector performance is seen as above average



Source: Development Initiatives based on OECD DAC CRS and World Economic Forum Global Competitiveness Index (GCI) dataset 2007–2017

Notes: The analysis excludes countries for which no Global Competitiveness Index data is available. The dotted lines represent developing country averages, calculated based on developing countries for which data is available. Index scores are for the year 2017. The higher the score, the stronger the economy's performance against the index.

Figure 12. 55% of enabling environment ODA goes to countries where the business climate is seen as above average



Source: Development Initiatives based on OECD DAC CRS and World Bank Ease of Doing Business (DBI) Index data

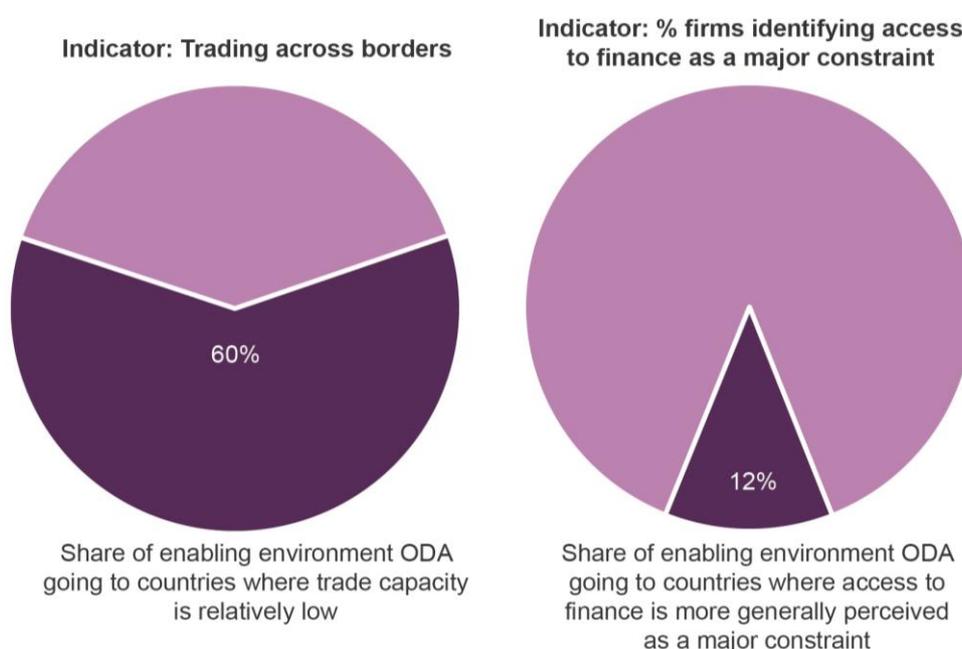
Notes: The analysis excludes countries for which no data is available for the DBI distance to frontier (DTF) scores. The dotted lines represent developing country averages, calculated based on developing countries for which data is available. Data on the DBI DTF scores is for the year 2016. The Distance to Frontier Score captures the gap between an economy's performance and a measure of best practice across the entire sample, where 100 is the frontier and 0 is the furthest from the frontier; the closer the score is to 100 the better the performance. (See www.doingbusiness.org/data/distance-to-frontier for more information).

More specifically, the lowest performing quarter of countries according to GCI scores receives less than half the enabling environment ODA that the top performing quarter does. Meanwhile the lowest performing quarter of countries according to DBI scores receives only 17% of all enabling environment ODA. This suggests that notwithstanding context-specific challenges that may make this type of support particularly difficult to implement, there is scope for donors to improve their allocation of enabling environment ODA, to ensure that they target places where this may be needed the most.

Given the breadth of enabling environment support, donors also need to look at the particular challenges faced in different contexts and focus on the type of interventions most in line with country needs (e.g. policy and institutional reform, access to finance, infrastructure). Specific indicators of the DBI or of the Enterprise Survey can be used to proxy some of these lower-level needs. For example, the 'trading across borders' DBI sub-indicator can be used to assess the extent to which enabling environment ODA related to trade policy and regulations responds to need. While the Enterprise Survey's indicator on the 'percentage of firms identifying access to finance as a major constraint' can be used to assess the extent to which enabling environment ODA targeting formal sector financial intermediaries goes to where formal financial intermediation is perceived to be weakest.³⁰

Figure 13 shows that donors appear to be more responsive to need in relation to trade than access to finance. Most enabling environment ODA aimed at supporting 'trade policy and regulations and trade-related adjustment' went to countries that score relatively low on the 'trading across borders' DBI indicator (i.e. below the developing country average). Instead, only 12% of enabling environment ODA aimed at strengthening 'formal sector financial intermediaries' went to countries where more than 26% of surveyed firms identified access to finance as a major constraint. The vast majority went to countries where access to finance is not generally perceived as a major obstacle to business operations (26% being the developing country average value for this indicator).

Figure 13. Donors appear to be more responsive to need in relation to trade than access to finance



Source: Development Initiatives based on OECD DAC CRS; World Bank Doing Business Index data, World Bank Enterprise Survey data

Notes: Countries for which indicator scores are not available are excluded. The analysis splits enabling environment ODA according to the share that is received by countries that score above or below the developing country average (median) score for each indicator.

These findings show how important it is to look beyond the aggregate level to see whether enabling environment ODA is indeed responding to the needs of partner countries. Global indicators of private sector performance and business climate can be useful proxies for where scope to improve the enabling environment for private sector development may be greatest overall. But given the breadth of this type of donor support, it is crucial to look at lower-level indicators able to reflect the particular challenges that different countries face. More dialogue is needed to identify and agree such indicators, as well as better ways to accurately quantify donor spending directly related to them. Until then it will remain unclear whether enabling environment ODA is going to where it is needed the most.

Conclusion

This paper situates donor support to the enabling environment for private sector development among other approaches used by donors to catalyse private resources for development; and it provides a range of findings based on quantitative analysis of spending in this area. Some are of particular relevance to ongoing policy dialogue, including the financing for development process at the UN, given the focus on the 'enabling environment' that emerges in the AAAA and the key role of the Inter-Agency Task Force on Financing for Development in monitoring and quantifying progress against commitments in the AAAA, including commitments on the enabling environment. Findings are also relevant to more specific dialogue on public–private finance, such as policy guidance around the OECD Blended Finance Principles.

The distribution of enabling environment ODA shows that there is an opportunity to increase enabling environment ODA in LDCs. This would be in line with international commitments made in this area, and could also enhance 'pipelines' of blended finance opportunities. Stakeholders should consider stronger coordination, and perhaps sequencing, of different approaches to catalyse private finance, especially in the poorest, most fragile and least developed contexts.

Developing country stakeholders have an important role to play in guiding donor interventions in line with country needs and national development priorities. While support to private sector development may not always involve government, donors wanting to support the strengthening of enabling environments at the country level in developing contexts must remain mindful of how their interventions may contribute to national development plans, to ensure effective use of ODA in this area. More needs to be done to ensure that the voice of developing country stakeholders is heard.

The wide portfolio of activities that donors can implement to support the strengthening of the enabling environment for private sector development suggests that this type of support is, and can increasingly be, used to serve a variety of needs. But more dialogue is required to identify appropriate indicators of need and better reporting mechanisms to enhance donor accountability in relation to this type of aid.

However, as a first step to broaden the evidence base and allow for more meaningful analysis of enabling environment support, clear definitions and an agreed analytical framework are needed. Additionally, more evidence is required on the intended and actual beneficiaries of different types of donor interventions, including the kinds of private actors involved. Further research is also needed to deepen understanding of the extent to which different catalytic approaches can have an impact on the poorest and most vulnerable people in any given setting. The framework in Figure 2 presents a starting

point for this type of analysis, provided that more comprehensive and more consistent data and information on these elements is made available.³¹

DI will build on this work through our Investments to End Poverty programme. Your thoughts, feedback and comments are welcome, especially on the following questions:

- How can monitoring of spending in support of the enabling environment for private sector development be enhanced? Are the definition and methodology used in this paper a helpful starting point? If not, how can they be improved?
- How can we better assess the extent to which enabling environment ODA is being targeted at the countries, people and sectors that need it most? How could reporting of enabling environment ODA be improved to facilitate a more accurate quantification of this type of support? What is the role for developing country stakeholders in identifying these needs, and appropriate forms of support for addressing them, taking into account issues of policy coherence?
- What information would be needed to analyse critical factors for success in enabling environment ODA, both at country and project level? Is this information available?
- How can dialogue and knowledge sharing be enhanced to guide donor support to the enabling environment for private sector development alongside other catalytic aid approaches?

To provide feedback please contact Cecilia Caio, Senior Analyst, cecilia.caio@devinit.org.

Acronyms

AAAA	Addis Ababa Action Agenda
CRS	Creditor Reporting System
DAC	Development Assistance Committee
DBI	Doing Business Index
DFID	Department for International Development
DTF	Distance to frontier
GCI	Global Competitiveness Index
HIC	High-income country
IDA	International Development Association
ILO	International Labour Organization
IP	Intellectual property
LDC	Least developed country
LIC	Low-income country
LMIC	Lower middle-income country
MSME	Micro, small and medium-sized enterprise
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
OOF	Other official flows
SME	Small and medium-sized enterprises
UK	United Kingdom
UMIC	Upper middle-income country
US	United States

Annex 1. Definitions

Organisation/ document	Term used	Elements of definition	Link to source
Addis Ababa Action Agenda (AAAA) (paragraph 116)	Enabling environment at all levels	Regulatory and governance frameworks; science and innovation; dissemination of technologies, particularly to MSMEs; industrial diversification; value added to commodities	www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf
Inter-Agency Taskforce on Financing for Development	Investment climate/ enabling environment for private sector business and investment	Reforms to the legal framework; transparency; red tape; access to finance ('inclusive finance'); labour, environmental and health standards	https://developmentfinance.un.org/sites/developmentfinance.un.org/files/Report_IATF-2017.pdf
USAID	Business enabling environment	Norms and customs; laws; regulations; policies; international trade agreements; public infrastructure that either facilitate or hinder the movement of a product or service along its value chain	www.microlinks.org/good-practice-center/value-chain-wiki/business-enabling-environment-overview
Donor Committee for Enterprise Development (DCED)	Business environment	Policy, legal, institutional and regulatory conditions that govern business activities; administration and enforcement mechanisms established to implement government policy; institutional arrangements that influence the way key actors operate	www.enterprise-development.org/wp-content/uploads/DCED_Creating_An_Enabling_Environment_For_Inclusive_Business.pdf

International Labour Organization (ILO)	Enabling environment for sustainable enterprises	Political, economic, social and environmental aspects of enterprise development – including business regulations; access to finance; labour laws; governance; education; infrastructure	www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_358294.pdf
Sida	Conditions for a viable private sector	Legislation and bureaucracy – including land and intellectual property (IP) rights, labour force skills, access to credit, market access	www.sida.se/English/how-we-work/our-fields-of-work/market-development/private-sector-development/
World Bank	Investment climate	Stability and security; regulation and taxation; finance and infrastructure; workers and labour markets	http://siteresources.worldbank.org/INTWDR2005/Resources/complete_report.pdf

Annex 2. Example projects

Project details	Project description
<p>Donor: US Recipient: Tanzania Sector/purpose: Agricultural development Disbursement: US\$3.3 million</p>	<p>Sustain the productivity of the agricultural sector through investments that foster increasing returns to land, labour and capital. Targeted interventions to male and female producers provide improvements in technology and management practices, expanded access to markets and credit, increased organisational and market efficiency, and restoration and protection of resiliency in production and livelihood systems.</p>
<p>Donor: UK Recipient: Bangladesh Sector/purpose: Anti-corruption organisations and institutions Disbursement: US\$0.5 million</p>	<p>PROKAS – an innovative fund, implemented by the British Council, to support action by government, businesses and civil society to improve transparency and accountability in specific areas in business regulation.</p>
<p>Donor: Germany Recipient: Bangladesh Sector/purpose: Business support services and institutions Disbursement: US\$2.6 million</p>	<p>Factories in the textile and leather industry keep increasing social and environmental laws and international standards, taking into account the rights of people with disabilities.</p>
<p>Donor: Germany Recipient: Indonesia Sector/purpose: Energy policy and administrative management Disbursement: US\$207 million</p>	<p>Implementation of government reforms to improve the investment climate in the energy sector, promotion of renewable energies and energy efficiency, and increasing access to energy.</p>
<p>Donor: Germany Recipient: Tunisia Sector/purpose: Financial policy and administrative management Disbursement: US\$0.8 million</p>	<p>The regulatory and institutional frameworks for a sustainable microfinance sector are enforced.</p>
<p>Donor: Germany Recipient: DRC Sector/purpose: Formal sector financial intermediaries Disbursement: US\$8.0 million</p>	<p>Strengthening the capacity of Congolese microfinance institutions' sustainable and efficient range of customised financial services to MSMEs.</p>
<p>Donor: Netherlands Recipient: Unspecified Sector/purpose: Humanitarian Disbursement: US\$6.6 million</p>	<p>CASA (Conflict Affected States in Africa) is a donor-funded International Finance Corporation programme aimed at private sector development by offering advisory services in fragile and conflict-affected states in Africa.</p>

<p>Donor: UK Recipient: Unspecified Sector/purpose: Legal and judicial development Disbursement: US\$3.2 million</p>	<p>LASER works in 8 Department for International Development (DFID) partner countries to identify and help solve problems in commercial legal systems. This should support improvements in the business environment and investment. It will build an evidence base to inform how legal interventions to strengthen the business environment are done in future.</p>
<p>Donor: Australia Recipient: Timor-Leste Sector/purpose: Road transport Disbursement: US\$4.4 million</p>	<p>The Roads for Development program ... will enable more rural women and men to benefit from improved access to roads and therefore access to markets. Improved roads will help farmers to earn higher and more sustained incomes and will make it easier for people to access health centres, schools and markets.</p>
<p>Donor: UK Recipient: Uganda Sector/purpose: Trade facilitation Disbursement: US\$9.2 million</p>	<p>Greater regional integration and trade competitiveness in Uganda. It is expected that the programme will reduce transport times along the northern corridor by 15% and increase Uganda's exports by 10%.</p>

Source: OECD Development Assistance Committee (DAC) Creditor Reporting System (CRS)

Annex 3. Methodology

Estimating donor spending on the enabling environment for private sector development presents challenges. First and foremost, the lack of an agreed definition means that there is no established methodology to measure donor support in this area. Second, as is the case with overall international development cooperation, comprehensive estimates are hindered by incomplete reporting and inconsistent quality of reporting across different donors and more.³²

The methodology used in this paper to estimate donor spending to the enabling environment for private sector development relies on data reported to the OECD DAC CRS. Although the CRS is a comprehensive source of data and info on ODA (and to a lesser extent OOFs), challenges remain, especially in relation to quantifying flows targeted to the enabling environment specifically. Firstly, there is no unique reporting field for the enabling environment for private sector development. However, flows reported to the OECD CRS can be ascribed a purpose at the activity level, in the form of purpose codes, which can be used to identify relevant activities. In 2015 donors reported ODA to a total of 203 purpose codes, and OOFs to 166. The starting point for our methodology was to review purpose codes for their relevance to the enabling environment for private sector development, via descriptive information provided in the reporting guidance for donors and in descriptions of activities reported to the purpose codes. Additionally, given the limited use by donors of descriptive fields for OOFs-funded activities, as well as the inconsistencies in the use of purpose codes, our analysis focuses on ODA.

Purpose codes which contained reporting guidance relevant to, or a significant number of activities overlapping with one or more components of our definition of the enabling environment for, private sector development were fully included in the analysis. The exercise of reviewing purpose codes also revealed some containing a split between activities of relevance to the subject area and others of limited relevance. To capture these activities in the analysis, while limiting the inclusion of irrelevant activities, a list of keywords relevant to the enabling environment for private sector development was applied to the remaining OECD CRS data, with positive matches included in the analysis alongside those activities in the fully relevant purpose codes.

The use of keyword searches also allowed for donor intent to be considered when establishing whether to include or exclude specific projects. In this way, projects that may be broadly related to private sector development but not specifically targeted at improving the *enabling environment* for private sector development were not included in the analysis. It is important to note that the introduction of keyword searches though allowing for additional refinement and focus, also includes an aspect of subjectivity into the methodology. For this reason as well as usual reporting quality issues, the findings presented in this paper should be interpreted with care.

Table A1: List of purpose codes which were fully included in the measurement of ODA to the enabling environment for private sector development

Purpose code	Purpose name
16020	Employment policy and administrative management
24010	Financial policy and administrative training
24040	Informal/semi-formal financial intermediaries
24081	Education/training in banking and financial services
25010	Business support services and institutions
25020	Privatisation
31191	Agricultural services
31194	Agricultural co-operatives
31391	Fishery services
32130	Small and medium-sized enterprises (SME) development
33110	Trade policy and administrative management
33120	Trade facilitation
33130	Regional trade agreements
33140	Multilateral trade negotiations
33150	Trade-related adjustment
33181	Trade education/training

Box A1: List of keywords applied to project descriptive fields outside of those within included purpose codes listed in Table A1

enabling environment for business, business enabling environment, enabling environment for investment, enabling environment for private sector, private sector enabling environment, enabling business environment, business environment, business practices, business climate, private sector development, Business Management, investment climate, Business regulation, business legislation, regulatory framework for private sector, regulatory framework for business,

Business climate policy, competitiveness policies, competitiveness policy, custom procedures, Financial policy, Financial regulation, market reforms, financial sector reform, investment regulation, regulation of the financial industry, business and regulatory environment, business regulatory environment, quality and standards compliance, labour market policy, international labour standards, employment market policy, private sector reform, investment climate, business environment reform, regulatory burdens for businesses, business procedure, market reform, corporate governance, small and medium enterprise, micro, small- and medium-sized enterprise, MSME, micro-enterprise, social enterprise, medium enterprise, micro enterprise, private enterprise, enterprise, entrepreneur, small and medium producers, agribusiness, artisan, Small enterprise, small and medium sized enterprises, access to market, market access, Trade route, market linkages, feeder road, market oversight, value chain, value-chain, market opportunities, market systems, inclusive market development, competitive markets, inclusive market, inclusive business

Overlaps with methodologies that exist to measure different but related flows

Our measure of ODA to the enabling environment for private sector development overlaps with both the Aid for Trade and private sector development measures through the inclusion of certain purpose codes. It also overlaps through activities returned from keyword searches in purpose codes used in both these other measures. However, beyond the 'enabling environment' being a narrower measure than broader private sector development (see framework in Figure 2), one key difference between the methodologies is the aim in this paper to separate out projects at the activity level to capture those targeting the enabling environment for private sector development. This method (which relies on donor reporting to descriptive fields and keywords), sees a lower level of inclusions in certain sectors. Examples are the infrastructure and productive sectors compared with the Aid for Trade and private sector development estimates, as not all activities falling within these sectors are explicitly aimed at private sector development. For instance, a project may be related to energy generation but have as main policy objective climate change mitigation.

Notes

¹ The Monterrey Consensus (2002) calls for the need to achieve a robust investment climate and business-enabling environment to attract inflows of productive capital for development (paragraphs 21 and 24). The Istanbul Programme of Action for the Least Developed Countries (2011) emphasises the constraints limiting private sector growth in LDCs and calls for action by development partners to continue to promote the enabling environment for PSD (paragraphs 55 and 56). The Addis Ababa Action Agenda (2015) points to different catalytic uses of international public finance, including strengthening the domestic enabling environments as well as investing in blending and pooled financing mechanisms (paragraph 54). It also points to the need 'to create the enabling environment at all levels and a regulatory framework necessary to encourage entrepreneurship and a vibrant domestic business sector' (paragraph 36) and for LDCs to 'continue to improve their enabling environments' (paragraph 46). Monterrey Consensus available at:

www.un.org/esa/ffd/monterrey/MonterreyConsensus.pdf. Istanbul Programme of Action available at: <http://ldc4istanbul.org/uploads/ipoa.pdf>. AAAA available at: www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf

² Developing countries emphasise the need to improve the international and domestic enabling environments, and for policy coherence as well as direct donor support. See for example the *Statement on Behalf of the Group of 77 and China by H.E. Ambassador Mamabolo, at the Round Table on Ensuring Policy Coherence and an Enabling Environment at all Levels for Sustainable Development at the Third International Conference on Financing for Development* (Addis Ababa, Ethiopia, 14 July 2015). Available at www.un.org/esa/ffd/ffd3/wp-content/uploads/sites/2/2015/07/G77-AND-CHINA-Round-Table-2.pdf

³ "... no amount of blended finance will compensate for a poor enabling environment and a structurally weak economy", Blended Finance Taskforce (2018) *Better Finance Better World* (p. 16). Available at:

http://s3.amazonaws.com/aws-bsdc/BFT_BetterFinance_final_01192018.pdf#asset:614:url

⁴ For example, DFID (2017) *Economic Development Strategy: prosperity, poverty and meeting global challenges*; BMZ (2011) *Developing markets, creating wealth, reducing poverty, taking responsibility – The private sector as a partner of development policy: key issues paper on cooperation with the private sector*; Sida (2013) *Portfolio Overview: Private Sector Development*.

⁵ The term 'business enabling environment' tends to refer to policy/regulatory and institutional frameworks – see for example the definition by the Donor Committee for Enterprise Development : www.enterprise-development.org/wp-content/uploads/DCED_Creating_An_Enabling_Environment_For_Inclusive_Business.pdf

⁶ Please see <http://devinit.org/post/di-kicks-off-project-on-blended-public%E2%88%92private-finance-for-development> for an overview of our work on blended finance to date and links to relevant publications.

⁷ For example Blended Finance Taskforce (2018) (see note 3).

⁸ Development Initiatives (DI) (2016) *Blended Finance: Understanding its potential for Agenda 2030*. Available at: <http://devinit.org/post/blended-finance-understanding-its-potential/>; and Blended Finance Taskforce (see note 3)

⁹ Nairobi Statement (1986) *The Enabling Environment Conference: Effective Private Sector Contribution to Development in sub-Saharan Africa, 21-24 October 1986* http://pdf.usaid.gov/pdf_docs/PNAAW669.pdf

¹⁰ UN Development Programme (1990) *Human Development Report*, p64 <http://hdr.undp.org/en/reports/global/hdr1990>

¹¹ OECD (2017) *Development Co-operation for Private Sector Development: Analytical Framework and Measuring Official Development Finance*. Available at: http://www.oecd-ilibrary.org/development/development-co-operation-for-private-sector-development_ded2028f-en; Classification of PSD approaches by the Donor Committee for Enterprise Development. Available at: www.enterprise-development.org/implementing-psd/; the North-South Institute and Canadian Council for International Cooperation (2013). Available at: www.nsi-ins.ca/wp-content/uploads/2013/01/2012-The-Business-of-Development.pdf; the North South Institute (2013) *Mapping Private Sector Engagements in Development Cooperation*. Available at: www.nsi-ins.ca/wp-content/uploads/2013/09/Mapping-PS-Engagment-in-Development-Cooperation-Final.pdf

¹² DI (2016) *Blended Finance*. (see note 8).

¹³ OECD (2017) (See note 11).

¹⁴ It is important to note that projects included in our estimate of enabling environment ODA may be captured in other sectors – overlaps are difficult to account for given the methodology.

- ¹⁵ Other official flows (OOF) are defined as official sector transactions that do not meet the conditions for eligibility as ODA, either because they are not primarily aimed at development or because they are not concessional in character (with grant element of less than 25%). See: <https://stats.oecd.org/glossary/detail.asp?ID=1954>
- ¹⁶ World Trade Organisation. *Aid for Trade fact sheet*. Available at: www.wto.org/english/tratop_e/devel_e/a4t_e/a4t_factsheet_e.htm
- ¹⁷ OECD. Aid for Trade sector codes. www.oecd.org/dac/aft/Aid-for-trade-sector-codes.pdf
- ¹⁸ OECD (2017) (See note 11).
- ¹⁹ The bilateral unspecified figure also includes capital contributions of donors to their DFIs which have been reported against relevant purpose codes or whose descriptions included words in our list of keywords that were used to capture relevant projects beyond fully relevant purpose codes. Capital contributions to DFIs amounted to US\$918 million including BIO (Belgium), CDC (UK) and Norfund (Norway).
- ²⁰ Data in the 2016 OECD survey captures 'amounts mobilised from the private sector' but not the amounts invested by donors. For the purposes of this analysis, and in the absence of data on the latter, the former is used as a proxy for the scale and distribution of blended finance. See DI (2016) *Blended Finance: Understanding its potential for Agenda 2030*. Available at: <http://devinit.org/post/blended-finance-understanding-its-potential/>
- ²¹ See for example: OECD (2018) *Making Blended Finance Work for the Sustainable Development Goals*. Available at: www.oecd.org/publications/making-blended-finance-work-for-the-sustainable-development-goals-9789264288768-en.htm
- ²² ODI (2015) *Why subsidise the private sector? What donors are trying to achieve and what success looks like*. Available at: www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/9948.pdf. Blended Finance Taskforce (2018) *Better Finance Better World*. Available at: http://s3.amazonaws.com/aws-bsdc/BFT_BetterFinance_final_01192018.pdf#asset:614:url
- ²³ See Figure 12 in DI *Blended Finance* (2016) (see note 8).
- ²⁴ Donors Committee for Enterprise Development (2016) *How to create an enabling environment for inclusive business*. Available at: www.enterprise-development.org/wp-content/uploads/DCED_Creating_An_Enabling_Environment_For_Inclusive_Business.pdf
- ²⁵ Mourgues and Kingombe (2017) 'How to support African PPPs: the role of the enabling environment' in João Leitão, Elsa de Moraes Sarmento, João Aleluia (ed.) *The Emerald Handbook of Public-Private Partnerships in Developing and Emerging Economies: Perspectives on Public Policy, Entrepreneurship and Poverty* (p. 298)
- ²⁶ The analysis shown on channels of delivery refers to the OECD DAC channel codes before the recent inclusion of the 'private sector institution' channel.
- ²⁷ Inter-agency Task Force on Financing for Development (2017) *Financing for development: progress and prospects*. Available at: https://developmentfinance.un.org/sites/developmentfinance.un.org/files/Report_IATF-2017.pdf
- ²⁸ Asian Development Bank (2007) *Measuring Performance in Private Sector Development*. Available at: www.adb.org/sites/default/files/publication/27982/private-sector-dev.pdf
- ²⁹ Recent controversies around the methodology used to derive the DBI highlight the need for caution when drawing conclusions from the data. However, DBI indicators retain a use in illustrating relative performance of economies in areas relevant to private sector development. See for example DCED 'Uses and abuses of Doing Business indicators', available at: www.businessenvironment.org/dyn/be/docs/149/Channell.pdf
- ³⁰ Enabling environment ODA reported under the CRS sector 'trade policy and regulations and trade-related adjustment' was used to map donor support against the DBI trading across borders scores. This excludes enabling environment ODA reported under other sectors that may relate to trade, including the broader 'aid-for-trade' measure, as well as enabling environment ODA reported under the trade development policy marker. This is because such broader measures would veer away from areas directly relevant to what is covered by the chosen indicator. For example, the trade development policy marker is used to denote projects that 'stimulate trade by domestic firms and encourage investment in trade-oriented industries' - a much broader area than the logistical process of exporting and importing goods captured by the 'trading across borders' DBI scores. Enabling environment ODA reported under the CRS purpose 'formal sector financial intermediaries'. This is due to the fact that the World Bank's Enterprise Surveys target "formal (registered) companies with 5 or more employees". See Enterprise Survey Methodology webpage. Available at: www.enterprisesurveys.org/methodology

³¹ For instance, the need to improve reporting on investee entities was emphasised in previous publications on blended finance. See p. 26 in DI (2016) *Blended Finance* (see note 8).

³² See DI (2017) *Approaches to measuring and monitoring South–South cooperation* for an overview of the challenges and issues around quantifying south-south cooperation flows. Available at: <http://devinit.org/wp-content/uploads/2017/02/Approaches-to-measuring-and-monitoring-South%E2%80%93South-cooperation.pdf>

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