Lessons for Australia from DFID's underperforming private sector development efforts

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> Where possible, priority should be given to leveraging private sector investment to support economic growth and job creation. Ultimately, it will be economic growth not official development assistance that will determine how quickly a country makes the transition out of poverty.

Foreign Minister Julie Bishop
National Dialogue on the Role of the Private Sector in Development and Aid for Trade, University of Adelaide, July 2013

Minister Bishop's thinking resonates clearly with the objectives of DFID's engagement in private sector development. DFID's minister, Justine Greening, says that her department is on 'a dramatic journey' to become 'pro-entrepreneur, pro-business because that's how we ultimately defeat poverty'. There should be a lot to learn from DFID, which has now been charged with spending £1.8 billion of its bilateral budget on 'economic development' by 2015-16, more than double what it spent in 2012/13. This doesn't include DFID's considerable funding to multilateral organisations like the International Finance Corporation.

However, if the Independent Commission for Aid Impact (ICAI) is to be believed, the lessons to be learned from DFID's efforts to date are cautionary, if not downright negative. The UK parliament's aid watchdog last month released a damning review of DFID's private sector development work. Based on an evaluation of DFID's private sector work in Tanzania, Uganda and Bangladesh, the report gave DFID an overall 'amber-red' rating (the second-lowest in a four-tier ranking system), arguing that 'significant improvements should be made'. Graham Ward, ICAI's Chief Commissioner, said:

> much of what [DFID] seeks to achieve, such as transformational change through regulatory reform and relaxation of international trade rules, lies not only outside its control but also outside its core competencies as an aid agency.

The report has attracted more attention and comment than your average aid evaluation report. Claire Provost of *The Guardian* gives a good account of it here. Aid Leap highlights three interesting findings: that DFID's ambition is 'immense' compared to what it can realistically achieve, that it is not fully considering the risks of private sector development and that simplistic targets can be counter-productive. Vijaya Ramachandran of the Centre for Global Development elaborates on this last point, taking a shot at the emerging target culture in aid agencies.

The report is not devoid of good news. It finds that, overall, 'the impact of individual programmes is positive (particularly at the micro-level)'. The fundamental problems seem to be two: rhetoric far outpaces, and indeed distorts reality, and country programs do not follow systematic, well-thought-out strategies for achieving significant and lasting impacts on private sector development.

The Australian government has made no grand promises about spending on economic development, and on private sector development in particular. It is hardly in a position to do so, even if it has parked a reasonable amount of money in regional and cross-regional funding allocations in the 2014-15 budget and the 2013-14 budget revision, which it might call upon for relevant programs. It has however drawn on the same rhetorical palette as Justine Greening in articulating the distinctive aims of its aid program. The ICAI report gives good reason to be cautious in articulating goals, targets or benchmarks in this area. Australia should undoubtedly be doing more. It spends much less than most other donors on most aspects of private sector development, and gives the subject little attention in its country strategies. But success will be achieved through highly focused efforts, not through attempts to force a wholesale change of course away from supporting governments in the provision of public goods.

A final observation on the ICAI report is that it quite consciously does not attempt to evaluate DFID's participation in public-private partnerships for development. This is a whole other subject, even if it overlaps somewhat with the subject of private sector development, and will be the subject of a separate ICAI review. That review, too, should be very instructive for an Australian government wishing not only to promote private sector development but also to develop, as Julie Bishop, recently said, 'new kinds of partnerships between the private sector and government.'