**Terms of reference for policy-supporting research**

**Private Sector Development**

**Analysis**

Sustainable and inclusive entrepreneurship is one of the motors for sustainable development. A strategic document concerning the role of the Belgian cooperation in private sector development (PSD) has been approved in 2014 and is used since then as a general guideline for the implementation of activities. This document is not up to date anymore.

Today, private sector development plays an important role in the partnerships of the Belgian development cooperation. It figures prominently in the recently adopted governmental cooperation programs with partner countries Guinea and Burkina Faso, and new programs that are under preparation in Tanzania, Palestine, Benin, Senegal and Rwanda will have a focus on the private sector. At the same time, NGOs are working also on private sector issues such as affordable financing of local entrepreneurship and developing value chains in agriculture. Many multilateral organizations also work attracting private sector capital for development purposes. This new approach poses several challenges for Belgian development administration (DGD) as a whole and in particular for the directorate in charge of the governmental programs.

Private sector development is not easy in the partner countries of the Belgian development cooperation which are mostly least-developed countries, and are often confronted with fragility. Nevertheless opportunities exist and could be better seized. According to a recent evaluation by the External Evaluation Service there is a lack of strategic direction on key aspects of PSD. Support is often fragmented, because there are few coordination mechanisms that link the different instruments and actors of PSD. An identification of the opportunities and the bottlenecks in the context of the Belgian development administration is therefore needed.

**Defining the problem and identifying the fields of activity**

It is clear from the recommendations made in the PSD evaluation of the Belgian cooperation interventions carried out by the External Evaluation Service (S4) that DGD needs a better knowledge base and analytic capacity to deliver the expected results for PSD, especially in the field, where the bulk of the resources are spend, but in a very fragmented way. As Private Sector Development is context-dependent, the approach will specific for each situation.

The central problem is to define an adequate and coherent, multi-faceted and multi-partner Belgian approach to sustainable and inclusive Private Sector Development in partner countries, combining the available resources and instruments. This proposed Belgian response should be based on an analytical framework, bringing together the analysis of the needs and opportunities dovetailed with the Belgian instruments and partners.

The needs are to be studied in the partner countries at the different levels:

* The macro-economic stability and investment climate, available physical infrastructure
* The current productive capacity the potential and inhibitions, analysis of selected value chains: components, political economy and levers for change.
* The legal and institutional framework
* The current approach to PSD of Belgium and the other donors, leveraging the strengths of the private sector while complying with the OECD/DAC on untied aid
* The combined use of the Belgian instruments for PSD and the potential for further development of innovative complementarities between instruments and/or institutions (Embassy, ENABEL, civil society, universities, private sector, etc.)

The idea is to explore the niches where Belgium can make an impact for PSD. This means there will be a focus on the potential contribution by Belgian actors, especially in the areas where there is already a Belgian presence. Special attention should be paid to the potential of combining Belgian instruments with local national and international dynamics and instruments.

Approach:

The proposal will select some partner countries of the Belgian direct or indirect cooperation. In these countries the focus should be further narrowed down to a region, sector or value chain.

Using available literature and research, the study will describe the currents status of the private sector, the inhibitions, bottlenecks and potential. Special attention should be paid in analyzing the political economy of the current status quo in PSD issues, the physical and institutional inhibitions, and defining Theories of Change for development.

Furthermore, the study will map the current Belgian potential to respond to these needs, and propose a coherent response, leveraging the existing capacity, expertise and instruments to optimal effect.

Finally, based on the experience in the pilot areas, a methodology for preparing a Belgian PSD strategy at partner country level will be developed.

**Expected results of policy support for Belgian Development Cooperation**

The main result is a document describing the methodology for defining a Private Sector Development strategy for the Belgian Development Cooperation, responding with a mix of Belgian instruments to the PSD local needs for maximizing the impact.

Two or three pilot strategies will be documented, proposing a mix of Belgian instruments leveraging the potential in concrete country, region or value chain analysis situations.

These pilot strategies will be based on both the analysis of the local situation and potential, and an analysis of how the Belgian PSD instruments can be applied.