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DCD/DAC/FA(2000)1



Organisation de Coopération et de Développement Economiques
Organisation for Economic Co-operation and Development

OLIS : 20-Dec-1999
Dist. : 20-Dec-1999

PARIS

DEVELOPMENT CO-OPERATION DIRECTORATE
DEVELOPMENT ASSISTANCE COMMITTEE

Or. Eng.

DCD/DAC/FA(2000)1
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Working Party on Financial Aspects of Development Assistance

**DEVELOPMENT FINANCING FOR PRIVATE SECTOR LED GROWTH
IN LESS ADVANCED DEVELOPING COUNTRIES: ROADMAP**

This document is submitted for CONSIDERATION at the meeting of the Working Party, to be held in Paris on 21 January 2000.

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DEVELOPMENT FINANCING FOR PRIVATE SECTOR LED GROWTH IN LESS ADVANCED DEVELOPING COUNTRIES

ROADMAP

Development financing for private sector led growth in less advanced developing countries

I. Introduction

1. The main objective and output of the present stage of work in the Working Party on development finance issues is to prepare, for the December 2000 SLM, a set of good practices for donors. The product should not only connect the three thematic areas so far investigated in the Working Party -- infrastructure, financial systems and enterprise development -- but set out the underlying "philosophy", objectives and strategic orientations for donor support.

2. This short note sets out a proposal for the Working Party's consideration on how this material can be brought together and presented to the SLM in December 2000. The basic idea is to bring this work together in a "compendium" which would complement the 1995 publication on Private Sector Development. Members' views on the proposal will be important in defining the overall shape of the "compendium", its component elements and its key messages.

3. Section II of this note outlines the proposal for a "compendium". Section III addresses how it may be brought together in a timeframe to meet the December 2000 SLM target.

II. Proposal for a "compendium"

a) Proposed title

4. The proposed/working title could be, "Development Finance for Private Sector Led Growth in Less Advanced Developing Countries".

b) Structure, content and key messages

5. The following overview of the "compendium" and its content and messages is suggested:

- *Chapter 1 -- Strategic orientations for donor support*

6. This chapter would set out the "philosophy", objectives and strategic orientations for development co-operation roles to mobilise financing for development. In the context of the evolving "model" of development finance, it would show what needs to be done with partner countries to move towards the levels and structures of financing from all sources (domestic and external) required to underpin

efforts to meet the international development targets. Promoting partnership approaches (with other bilateral donors, multilateral donors, recipient governments and the private sector), relevance for poverty reduction efforts, and implications for reduced aid dependency, would be key themes of this chapter.

7. The chapter would also show the relevance and interconnections between the three thematic issues on which the “compendium” would focus. Sound and appropriate financial systems are essential for sustainable resource mobilisation and allocation to underpin growth and poverty reduction strategies. Without such upturns, finance for enterprise development, a central component of the growth strategies needed for effective poverty reduction, will be inadequate to meet needs. Insufficient and inadequate physical infrastructure will not only constrain enterprise growth, but hinder the achievement of international development goals in other areas such as health and education.

8. A key overarching objective of the chapter would be to set out the strategic directions at the *generic* level, based on the need for systemic approaches to development finance for private sector-led growth fitting into CDF-type frameworks.

9. The “building blocks” for this chapter, beyond the 21st Century Strategy and the development partnerships strategy would include:

- The evolving international development financing agenda as set out in the 1999 Development Co-operation Report (particularly its chapter 1 on “Financing Development”) and recent World Bank/IMF orientations following the September 1999 Development Committee meeting ;
- “On common ground”;
- Work in progress towards the UN 2001 conference on financing for development;
- Work in progress in the DAC in relation to poverty guidelines, partnership principles and policy coherence, following the orientations provided by the December 1999 SLM discussion.

- “Thematic” chapters (2, 3 and 4)

10. These chapters would, respectively, address the three workshop themes -- financial systems for sustainable resource mobilisation; meeting infrastructure needs into the 21st century; and enterprise development for private sector led growth.

11. Each chapter would follow the same basic “model”. Each theme would be set in the framework developed in chapter 1, and *specific* donor roles (in respect of each of these three areas) would be identified through a three-tier approach:

- systemic approaches to assessment of problems and identification of needs;
- developing strategic objectives and systemic frameworks for donor co-operation;
- design, implementation and delivery of co-ordinated initiatives with partners.

12. Note DCD/DAC/FA(2000)2, on financial systems for sustainable resource development, to be addressed under item 3a) of the present meeting, sets out a draft for that chapter on the above basis. Members are invited to comment on it as a draft for this particular chapter, but also as a “model” for the other two thematic chapters.

- *Concluding chapter*

13. This could develop more *operational* guidance based on the generic and specific orientations of the previous chapters, turning broader principles and roles into operational or “how to” practices. As such, it could also look at how to exploit available “tools” (e.g. Country Assistance Strategies, sector assessments, Poverty Reduction Strategy Papers, CGs/RTs, etc) to co-ordinate, implement and evaluate policies at the field level through CDF-type frameworks.

14. This chapter may prove the most difficult to define and complete. However, Members’ comments on the orientations and products of future work on development finance have signalled a need to avoid overly general principles and provide guidance in the form of “tools” and the “how to” of implementation. Comments on the audience and content for this chapter are, therefore, particularly needed.

III. Timetable and preparations

15. The suggested timetable for this work is as follows. With the December 2000 SLM in mind, a draft of the compendium would be submitted to the Working Party at its October 2000 meeting. Following the discussion of the overall approach and the three thematic chapters at the present meeting, a first draft of the “compendium” could be prepared and circulated to Members for written comments around May 2000. A revised draft, taking account of comments received, would then be circulated in September 2000 in preparation for the October 2000 meeting.

16. Preparing such a “compendium” in this timeframe and in a manner that meets Members’ needs is a major challenge. Members are invited to consider setting up a small steering group or task force (say of three to four experts) to work with the Secretariat in advancing this work. Nominations of experts that could join such a group would be greatly welcomed.