



AFRICAN DEVELOPMENT BANK GROUP
GROUPE DE LA BANQUE AFRICAINE
DE DEVELOPPEMENT

Private Sector Development Strategy 2021-2025



The 2021-2025 Private Sector Development Strategy (PSDS) is a roadmap for delivering a substantial part of the African Development Bank (Bank)'s broad strategic vision, as outlined in the Bank's Ten-Year Strategy, its High 5s, and its commitments under ADF-15 and GCI-VII. The PSDS builds on the 2013-2017 PSDS and cements the Bank's interventions to support private sector development in regional member countries. Its vision is to support private sector-led growth as a means of creating jobs, augmenting socioeconomic inclusion, building long-term resilience and sustainability, and helping to achieve the sustainable development goals and Agenda 2063. Africa's private sector accounts for 90% of jobs, 70% of gross domestic product, and 70% of all investment. The private sector is the best engine for job creation and inclusive and green growth: by developing the private sector, the Bank can deliver on this principle for broad-based impact, including for youth and women.

The PSDS is an umbrella strategy that incorporates all Bank activities that relate to private sector development and ensures that those activities are cohesive and consistent. The PSDS aggregates the activities across sector strategies and anchor strategies, incorporating both sovereign and non-sovereign operations. The PSDS incorporates engagements with governments to improve the enabling environment for private sector investment, includes initiatives with governments and private sector actors to build out key infrastructure, and covers financing and other support for the private sector to facilitate its expansion and the achievement of economic and social objectives. The PSDS informs, and is informed by, specific sectoral strategies: for example, strategies for the development of the financial sector, for industrialization, for energy, for agribusiness, for human and social sectors, and for economic governance. The PSDS will help deliver much of the Bank's High 5s.

The PSDS fully integrates the political, socioeconomic, technological, and environmental factors that are reshaping Africa's private sector and are introducing new opportunities and challenges. Among these opportunities are the diversification of financial and trade partners; new markets and increasing domestic demand, spurred by urbanization and a growing middle class; the expansion of regional trade (the AfCFTA has underlined the importance of regionally integrated value chains); and the Fourth Industrial Revolution's promise of digital transformation. Among the challenges are climate change, growing insecurity related to terrorism, and the disruption caused by COVID-19. Some challenges are also creating new markets and investment opportunities. Several Fourth Industrial Revolution innovations are expected to positively impact the competitiveness of Africa's private sector: namely, artificial intelligence, drones, big data, 3D printing, and blockchain technologies, whose applications span the High 5s.

The proposed strategy was validated through broad consultations, internally and externally. Internal consultations included Board members, Senior Management, and staff in technical departments. The formal external consultation process involved public and private stakeholders in RMCs, multilateral development banks, and development finance institutions. The consultations validated the strategic importance of maintaining the three pillars, while moving into new areas to meet evolving challenges. The PSDS thus adds new focus and dimensions to the familiar three pillars. These new focus areas reflect both changing external needs and success factors from the prior period:

(i) The focus on improving the business environment will shift to more specific policy areas, such as support for implementing the African Continent Free Trade Area Agreement, regulating public-private partnerships and

infrastructure, and designing e-government solutions to improve licensing and concessions.

(ii) The infrastructure pillar will seek to address energy, transport, and communications gaps that deter private investment and overall competitiveness. It will focus on spatial solutions, such as transport corridors and industrial zones, and the expansion of public-private partnerships and related tools for encouraging private investment.

(iii) The enterprise development pillar will refine the way that financial intermediaries improve MSMEs' access to finance, will expand programs to develop value chains, will directly support transformative projects, and will help develop entrepreneurship ecosystems.

The vision of the PSDS proposed for 2021-2025 is: “a Post Covid Development Model for Africa Led by Private Sector, with Youth and Women at its Core, anchored on Industrialization, and Powered by Technology and Innovation.”. The vision will support the objective of private sector led growth that will help RMCs create jobs, further green growth, augment socioeconomic inclusion, build long-term resilience and sustainability, and help to achieve the sustainable development goals and the African Union's Agenda 2063. In this sense, the PSDS's overarching objective of fostering the conditions for more private sector-led growth is faithful to the Bank's ultimate vision of improving Africans' quality of life.

The 2021-2025 PSDS is designed around a Theory of Change (ToC) that reflects the Bank High 5 strategic direction, the guiding principles of the Ten-Year Strategy (TYS) and the evolving PSD needs of the range of RMCs covered by the Bank. The ToC supports the PSDS overarching objective of supporting private sector led growth in RMCs that create jobs for the underserved by leveraging the Bank unique comparative advantage of using its Sovereign Operations to create the enabling environment that drives private investments and NSO into the

development of domestic and regional value chains in high growth sectors by lifting binding PSD institutional and infrastructure constraints, paving the way for economic structure transformation. The ToC is a road map that establishes a global results chain of how and why a PSDS intervention expects to reach its intended outcomes and impact while remaining flexible to better meet the challenges, needs, and priorities for private sector development indicated in individual RMCs CSP.

The PSDS will make operations more effective and inclusive while expanding their scope. It will widen the Bank's footprint in transition countries, improve the synergy between sovereign and non-sovereign operations, elevate the use of public-private partnerships, expand support for entrepreneurship and MSMEs, and diversify the non-sovereign portfolio into the real sector. The PSDS will build on the Bank's comparative advantages in four areas: (i) policy dialogue, as when the Bank leverages its position as the continent's premier multilateral development bank—a bank whose unique history of client intimacy legitimizes its support for landmark policy reforms; (ii) the Bank's convening power, in terms of the partnerships it pulls together; (iii) optimizing Bank's financial and technical resources, which exploit platforms such as the Africa Investment Forum, Affirmative Finance Action for Women in Africa, and Africa 50; and (iv) leveraging the Bank's operational expertise, which is rooted in its field presence, its network of sector experts, and its track record of delivering results, notwithstanding limited resources.

The PSDS places special focus on the private sector in transition countries. The Bank's private sector development-related activities span all 21 transition countries in such sectors as infrastructure, agriculture, energy, industry, and trade. Activities in these countries draw on the Bank's many instruments, including sovereign and non-sovereign operations, policy-based operations, and technical assistance. Transition countries are classified in three categories,

depending on the degree of their fragility, and the PSDS adapts accordingly. The entry points for designing, developing, and implementing private sector development activities are the Bank's country diagnostic notes and country strategy papers.

As an umbrella strategy, the PSDS will use tools and indicators already developed by the Bank to measure results. Considering the dispersed implementation of PSDS across many units, the proposed PSDS RMF is an aggregation of metrics already in use within those units 'operations relevant to the PSDS pillars and sub pillars. The PSDS is based on a theory of change whose result measurement framework is grounded in the Bank's High 5s and its sector strategies. Results will be measured by aggregating indicators from general and sector-specific strategies already in place. These will cover access to infrastructure, domestic enterprise growth, MSME investments, MSMEs' access to finance, value chain growth/participation, job creation, and the implementation of relevant reforms.

The new PSDS puts a special emphasis on resource mobilization. The Bank will more aggressively leverage its existing platforms including AIF, AFAWA to identify co-financing opportunities, leverage SO operations particularly the ones supporting the development of infrastructure dedicated to PSD and designed to attract private investment including SEZ, SAPZ and industrial zones to promote these infrastructures to private investors. Furthermore, the Bank will have a more comprehensive approach to PPPs in RMCs by helping create a more conducive institutional environment upstream, supporting pipeline development midstream and leveraging NSO to mobilize private capital. The Bank will also continue its outreach to impact investment funds and institutional investors to co-finance private projects on the continent leveraging the Bank's premier impact investor position.

The new PSDS will focus on climate finance and green growth. The Bank's Climate Change and Green Growth Strategic Framework will help the Bank deliver on its ambitious commitments on climate change and green growth, including by aligning its investments and internal activities to the Paris agreement by 2025. The PSDS which integrates the FSDS is already working closely with PECG on several initiatives with a focus on (i) "greening" the financial sector through our lending and the creation of a dedicated credit facility to support African financial institutions and SMEs to access climate finance and promote green investments in the continent, and (ii) supporting the African financial sector to identify and manage climate related risks in their portfolio and new lending.

The PSDS mission is to support the development of private sector led growth that leads to structural transformation and the generation of quality jobs particularly for the women and the youth. As such the focus to achieve these objectives is to prioritize local transformation of competitive raw material through industrialization and value chain development support in high growth sectors. Industrialization and value chain development are designed to create value by moving up the value chains where sustainable well-paying jobs are generated. The PSDS pillars and sub-pillars are designed to create the conditions to attract capital and skills in the value chains of high growth sector with a focus on dedicated infrastructure such as SEZ and industrial zones, special agro-processing zones, and the support of AfTCA to create the markets for these products. This also goes hand in hand with ensuring that there are policies that tackle the issue of skills upgrade for the targeted population to enable them to access these jobs.