AFRICAN DEVELOPMENT BANK GROUP

PRIVATE SECTOR DEVELOPMENT POLICY OF THE AFRICAN DEVELOPMENT BANK GROUP

ORVP DEPARTMENT
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Acronyms and Abbreviations

AAA	Best risk rating of long-term credit
AAAA	Analytical, advisory, and advocacy activities
AfDB	African Development Bank
AfDF	African Development Fund
AfDB Group	Bank Group
Bank Group	African Development Bank, African Development Fund and Nigeria Trust Fund
BDS	Business Development Services
CODE	Committee on Development Effectiveness
CSP	Country Strategy Paper
DFI	Development Finance Institution
ECON	Chief Economist's Vice-Presidency Complex
EITI	Extractive Industries Transparency Initiative
GCI	General Capital Increase
GDP	Gross domestic product
ILO	International Labour Organisation
IMF	International Monetary Fund
ISO	International Organisation for Standards
KPI	Key Performance Indicator
LVLE	Large or very large enterprise
MSME	Micro, small, or medium-scale enterprise
NEPAD	New Partnership for Africa's Development
OECD	Organisation for Economic Cooperation and Development
OPEV	Operations Evaluation Department
OPsCOM	Operations Committee
OPSM	Private Sector Department
ORPC	Operations Resources and Policies Department
ORQR	Quality Assurance and Results Department
OSGE	Governance, Economic and Financial Reforms Department
PBO	Policy-based operation
PPP	Public-Private Partnership
PSO	Private sector operation
R&D	Research and Development
RISP	Regional Integration Strategy Paper
SME	Small and medium-scale enterprise
RMC	Regional Member Country
SDR	Special Drawing Right (the financial accounting unit of the IMF)
UA	Unit of Account (the financial accounting unit of the African Development Bank Group; a composite unit composed of a basket of major, international convertible currencies: UA 1.00 = SDR 1.00)

Executive Summary

1. The African Development Bank Group ('the Bank Group') views its support for private sector development as the principal means to fulfil its mandate to "contribute to the sustainable economic development and social progress of its regional members individually and jointly." In promoting private sector development the Bank Group aims to contribute to strong and inclusive economic growth that will lead to economic transformation and sustainable development. The *Private Sector Development Policy* will ensure that the bulk of the Bank Group's financing and non-financing activities contribute to strengthening the private sector throughout the continent.

2. The *Private Sector Development Policy* has three long-term objectives: (i) improvement of the investment and business climate; (ii) development of infrastructure so that private sector actors and households can have increased access to reliable social and economic services; and (iii) development of private enterprises. The Bank will also address crosscutting issues such as gender and youth, climate change, and regional integration.

3. In supporting those three objectives, the Bank Group will be guided by five principles: (i) ownership of private sector development agenda by regional member countries (RMCs); (ii) selectivity; (iii) additionality; (iv) reinforcement of markets; and (v) maintaining financial integrity of the Bank Group. These principles are consistent with the MDB Principles to Support Sustainable Private Sector Operations. The Policy also spells out activities that the Bank Group will not support.

4. The principal operational tools for the policy's implementation will be: (i) sovereign financing operations, including project and programme financing, (ii) knowledge-intensive activities—analytical and diagnostic studies, policy dialogue, advisory services, and knowledge dissemination; and (iii) private sector and other non-sovereign financing operations, accompanied by technical assistance and advisory services as needed. In order to maximise the Bank Group's impact, a One-Bank approach will be followed. Under this approach, all operational strategies of the Bank Group will mainstream private sector development as a core objective. Furthermore, all organisational units of the Bank will support private sector development.

PRIVATE SECTOR DEVELOPMENT POLICY OF THE AFRICAN DEVELOPMENT BANK GROUP

1. Introduction

1.1 Background- During the past decade, Africa has emerged as one of the fastest growing regions in the world. Real Gross Domestic Product (GDP) growth rate averaged 5% over that period (see Annex 1). Going forward, Sub Saharan Africa is expected to grow by an average of 5.5% over the period of 2013-2017 (World Economic Outlook 2012). Similarly, despite the recent political unrest in a number of North African countries, it is expected that these countries will come to a sustained growth path in the medium term. This however presupposes that countries will continue to implement sound policies, invest in productive sectors; while at the same time addressing emerging challenges such as youth unemployment.

1.2 Inclusiveness and PSD- The challenge for Africa, as identified in the Bank Group's Strategy for 2013-2022, is to sustain strong inclusive growth. The speed and pattern of private sector development matter for such an inclusive growth agenda. Indeed, the private sector accounts for close to 90 per cent of employment in Africa. However, Africa's private sector is characterized by high informality, low productivity and is not well integrated into the global value chains. It is in this context that the Strategy prioritizes private sector development (PSD) as one of its key operational objectives.

1.3 Promoting Private Sector Development- Fostering PSD encompasses a broad range of interventions aimed at addressing the challenges that the African private sector faces and catalyzing the participation of the private sector in key opportunity areas (See Annex I). Thus, the development of this sector requires a comprehensive approach involving both public and private operators. This policy advances the objective of the Bank Group Strategy for 2013-2022 by holistically promoting private sector development, through both sovereign and non-sovereign operations.

1.4 ADB Track Record- The African Development Bank Group, over the years, has supported the development of the private sector in its Regional Member Countries (RMCs) through direct and indirect operational modalities. The Bank, through its public sector support, has contributed to closing the infrastructure gap in Africa and creating a favorable business climate. These in turn contributed to the ease of doing business in and with the continent. Through its private sector operations the Bank has increased its direct support to private operators. Between 2007 and 2011, the private sector operations have doubled, accounting on average for 25% of the value of approvals over that period. By the end of 2011, the Bank had provided direct financing to private sector operators in 38 out of its 54 RMCs. In addition, the Bank has an enlarged footprint on the continent through investments in commercial banks, regional Development Financial Institutions (DFIs) and private equity funds.

1.5 2004 PSD and 2008 PSO Strategies- The Bank Group's support to private sector development in recent years has been guided by the 2004 PSD Strategy and the 2008 PSO Strategy.[1] The related strategies aimed to make PSD a Bank-wide priority. In spite of these efforts, the Bank achieved limited success in fully mainstreaming PSD in its operations. The

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1 The 2004 Private Sector Development Strategy replaced the 1990 Private Sector Development Strategy. In January 2008, the Bank's Board of Directors approved a Private Sector Operations Strategy as an update to the 2004 PSD Strategy.

Bank Group recognizes however that there is considerable scope to maximize its development impact by stimulating the synergy between its assistance in the public and private sectors (see Annex II for lessons learned from the Bank Group past support to the private sector).

1.6 Institutional Commitments- Recognizing the opportunities and the needs of its RMCs, during consultations on the Sixth General Capital Increase (GCI-6) and the Twelfth Replenishment of the African Development Fund (AfDF-12), the Bank Group's Management committed to "draw up a comprehensive policy for private sector development, to provide a ''coherent guide for the Bank's private sector operations." The proposed Policy is part of fulfilling this undertaking.

1.7 Policy Rationale- This PSD Policy stems from the need to provide a comprehensive framework for the Bank Group to support its RMCs to generate strong inclusive growth through private sector development. This demands a shift in approach – to view the private sector not only as a beneficiary from Bank Group's support but a partner for development. Specifically, the Policy (i) articulates that all Bank Group operations support inclusive growth through PSD; (ii) maximizes the impact of the Bank Group on PSD by harnessing both public and private sector operations; and (iii) focuses the Bank Group support to selected areas for higher impact.

1.8 Policy Preparation Process- The PSD Policy is a product of internal and external consultations. Following CODE's clearance of the draft PSD Policy of the Bank Group for consultations, Management has posted the document on the Bank Group's website and organized external consultations[2] with a broad range of stakeholders including government representatives, private sector, civil society, academia, etc. The Policy has also been informed by the findings of the OPEV independent evaluation of Bank Group's Non-Sovereign-Guaranteed Operations for the period 2006-2011.

1.9 Outline- The Policy consists of five sections and three technical annexes. Following this introduction, Section 2 presents the Bank's vision, objectives, and guiding principles for private sector development support. Policy stances on key issues are outlined in Section 3, while Section 4 presents the implementation modalities. The paper concludes with recommendations in Section 5. Annex 1 presents opportunities and challenges for private sector development in Africa, Annex 2 summarizes the lessons from the Bank's past experiences, and Annex 3 summarizes the 1986 Industrial Sector Policy Guidelines of the Bank Group.

2. Policy Goal, Objectives and Guiding Principles

2.1 Vision- The Bank Group's vision of Africa is articulated in the Bank Group Strategy for 2013-2022, as a continent stable, integrated and prospering of competitive, diversified and sustainably growing economies. Consistent with this vision, the private sector will be a powerful driver of economic and social well-being in the continent—creating quality jobs for a growing working population; generating rising incomes; and supplying an expanding range of quality goods and services at competitive prices.

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[2] The consultations covered all sub regions namely, Southern African countries in Johannesburg, North, Central and West African countries in Casablanca; and Eastern African countries in Addis Ababa. A pan-African consultation, involving also non-regional stakeholders of the Bank, was also held during the 2012 Bank Group annual meetings.

2.2 Goal- The goal of the Bank Group in promoting private sector development is to contribute to strong and inclusive economic growth that will lead to economic transformation and sustainable development.

2.3 Objectives- In order to achieve the goal, the Bank Group will help its RMCs achieve inclusive economic growth under three mutually reinforcing objectives:

a) Improvement of the investment and business climate;
b) Enhancement of access to quality social and economic infrastructure; and
c) Promotion of enterprise development.

In supporting these three objectives, the Bank Group, its Management and staff will be guided by five principles.

2.4 Principle 1: Ownership- In its operations in support of private sector development the Bank Group will respect the ownership role of governments and stakeholder groups—including private sector associations—in RMCs. Consistent with this principle, the Bank Group assistance and financing will be aligned to countries' strategic priorities, within the framework of the Bank's core competencies and priorities and in line with the Bank's Charter[3]. By tailoring its assistance and support to the specific circumstances of countries at different stages of development, the Bank will demonstrate its relevance to all RMCs.

2.5 Principle 2: Selectivity- Cognizant of the many commercial entities and development agencies operating in private sector development, the Bank Group will be selective in its support, focusing on its comparative advantages. To ensure maximum impact, the Bank Group will continue to build partnerships with other development organizations to achieve synergies and complementarities by ensuring alignment and improved division of task at country level. Collaborations and partnerships will be anchored on mutual accountability for results and ethical standards in private sector development.

2.6 Principle 3: Additionality- In its operations in support of private sector development in RMCs, the Bank will ensure that it brings additionality. In all its support the Bank will aim to play a catalytic role and will ensure sustainability of the operations. The Bank will strive to crowd in, but will not crowd out, commercial operators. In particular, the Bank will endeavour to promote local entrepreneurship. The Bank will support public and private sector operations that demonstrate ex-ante inclusive

Box 1: Comparative Advantage of the African Development Bank Group

During the Private Sector Development Policy external consultations, participants outlined the following key comparative advantages of the Bank in supporting private sector development:

- Its African character, which gives it legitimacy to act as convener and partner on African PSD issues;
- Its ability to access long-term financing on the international market on highly favourable terms, as a triple-A institution, for onward lending to RMCs;
- Its special mandate on regional integration which empowers it to support African enterprises on regional trade and investment issues;
- Its track record of providing finance for infrastructure development in Africa; and
- Its country presence to develop first-hand knowledge of the challenges and opportunities of Africa's private sector development.

3 *Agreement Establishing the African Development Bank* signed in August 1963; 2011 edition; Article 17.1(b).

development outcomes. An important source of additionality will be generated from promoting social and environmental responsibility and encouraging governments and private sector operators to adopt international environmental and social standards, best practices, and good corporate conduct. The Bank will work with all enterprises including productive, social enterprises as well as external funds to ensure compliance with applicable best-practice norms such as the Bank Groups' Integrated Safeguards System (ISS)[4], the Extractive Industry Transparency Initiative (EITI), the United Nations Global Compact (UNGC), and the Bank-approved core labour standards which are in line with ILO Fundamental Principles and Rights at Work. In addition the Bank will encourage compliance with internationally agreed principles such as the Equator Principles and IMF's Guide on Resource Revenue Transparency.

2.7 Principle 4: Reinforcement of Markets- The Bank will aim to foster competition in the market, notably by providing the required support for RMCs to undertake appropriate policy reforms. Consistent with this principle, the Bank Group will avoid augmenting market distortions. When the use of subsidies is proven to be necessary the Bank Group will provide support only after ascertaining that such subsidies are fiscally sustainable; admissible under trade agreements to which the RMC is a party; confirming that an adequate risk management framework is in place and, there is a phase-out commitment over a finite timeframe. The Bank will attempt to effectively and efficiently address market failures where they exist.

2.8 Principle 5: Financial Integrity- Since 2003, the African Development Bank has been rated AAA by major international credit rating agencies. The Bank will strive to preserve the highest possible international credit rating in its class of Multinational Development Banks (MDBs). Towards that end, the Bank will maintain high standards of operational performance and financial prudence consistent with its mandate as a development finance institution and in line with its Risk Management Framework approved by the Board of Directors. In addition, operational risks will be supported by appropriate policies[5] and risk management strategies.

2.9 What the Bank will not support- Arising from the guiding principles outlined above, except under a waiver by the Board of Directors, the Bank Group will not support[6] any of the following: (i) speculative activities; (ii) operations to which RMCs' governments have expressed objections, or those that are linked to corrupt practices; (iii) projects that are not commercially viable; (iv) production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements including discrimination based on race, gender, nationality, political grounds or the like; (v) production or trade in alcoholic beverages, tobacco and related consumer products; (vi) gambling, casinos and equivalent enterprises; (vii) arms and ammunitions production and trade; (viii) production activities involving the exploitation of child labour and forced labour, benefitting from or facilitating human trafficking. In line with its Energy Sector Policy, the Bank Group will not fund oil and gas exploration activities as well as nuclear plants and uranium enrichment. In addition to the above, the Bank will not support activities included in the exclusion list of the Bank Group Integrated Safeguards System Policy.

3. Policy Stance in Priority Areas of Private Sector Development

[4] The Integrated Safeguards System is currently being developed.
[5] The Bank will assess its Credit Policy in light of the economic developments on the continent and the evolving global economic landscape.
6 These activities are in accordance with the Bank Group Policy on Expenditure Eligible for Bank Group financing.

This Section outlines the Bank Group's policy in priority areas and issues of promoting private sector development. Lessons learnt from past Bank Group operations indicate that developing the private sector as an engine of inclusive growth requires a comprehensive approach addressing multiple constraints hindering private sector growth (see Annex II). To this effect, the Bank Group support will mainstream PSD in all operations. The PSD Policy states the Bank Group's response under the three interrelated policy objectives, namely, improvement of the investment and business climate (3.1); enhanced access to quality social and economic infrastructure (3.2); and enterprise development (3.3).

3.1 Investment and Business Climate

3.1.1 Policy Dialogue- The Bank, as a convener and honest broker, will work with all stakeholders to create a forum for dialogue between government(s) and the private sector to identify reforms that promote inclusive growth. Public-private dialogue forums are not only a means to identify policy reform agenda, but will also help create trust among the players. The Bank will seek to catalyze successful dialogue among PSD actors, including by building capacity on PSD cutting-edge knowledge and best practices.

3.1.2 Reforming Policies and Building Critical Institutions- The Bank will continue to prioritize reforms aimed at bringing good governance in line with its *Policy on Good Governance*. The Bank Group supports its RMCs in their efforts to promote: *(i)* effective, capable and responsive States and *(ii)* a dynamic private sector.[7] Under the first area of support the Bank will promote accountability, transparency, participatory governance and effective judicial systems and combat corruption. In its support towards building a capable state, the Bank will pay particular attention to low income countries (LICs) and fragile states. This group of countries need to create a conducive economic and political environment that is critical for sustainable private sector development. In support of the creation of a dynamic private sector, the Bank Group will widen its current assistance to RMCs to deepen their policy reforms in a bid to promote a more efficient and internationally competitive business environment. With regard to MSMEs, policy support will include creating incentives for informal sector enterprises to migrate to the formal sector. Furthermore, the Bank will support policy reform on issues including gender-equitable property rights, employment and labor-related issues, and open-market standards. The Bank will assist RMCs to ensure that women and youths are not adversely affected by socio-economic reforms.

3.1.3 Financial Sector Development. Support will be provided toward the development of a sound financial sector and capital market in the RMCs, in line with the current Bank's Financial Sector and Microfinance Policies.[8] Assistance will be provided towards strengthening countries' and the continent's financial infrastructure through institutional reforms, capacity strengthening, and harmonization, as well as greater leveraging of Information Communication Technology (ICT). In addition, the Bank will support efforts to improve domestic resources mobilization that is vital for efficient functioning of the financial sector. In this area, the Bank will collaborate with other multilateral and bilateral development finance institutions.

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[7] *Policy on Good Governance*; ADB/BD/WP/99/55/Rev.2/Approved & ADF/BD/WP/99/40/Rev.2/Approved; Jan. 19, 2000.

[8] *Bank Group Financial Sector Policy*; ADB/BD/WP/2002/49/Rev.2, and ADF/BD/WP/2002/55/Rev.2; July 29, 2003. *Microfinance Policy and Strategy of the Bank Group*; ADB/BD/WP/2006/06/Rev.1/Approved, and ADF/BD/WP/2006/08/Rev.1. Considering the increased importance of financial sector to private sector development, the Bank Group will critically assess the financial sector policy for eventual update.

3.2 Infrastructure

3.2.1 Hard Infrastructure- The Bank has supported RMCs in the development and management of economic infrastructure. Going forward, the Bank will continue to provide substantial support in view of the high priority that RMCs have accorded to infrastructure. Within the scope of its infrastructure sector policies, the Bank will promote sustained expansion of national and regional infrastructure networks with particular focus on energy, transport, water supply and sanitation and ICT. In addition to financing infrastructure development, the Bank Group will support capacity building of national authorities and local governments, including municipalities, to plan, finance and manage infrastructure projects. In its effort to develop infrastructure the Bank will encourage the participation of the private sector in the provision and management of infrastructure services. Furthermore, in its choice of infrastructure interventions, the Bank will consider the increased importance of cities and urban areas in the transformation of African economies and the adoption of economically viable cleaner technologies towards transitioning to green growth.

3.2.2 Soft Infrastructure- The Bank Group will promote increased access to quality social services as a means to human capital development for PSD. Within the scope of its social sector policies and strategies, the Bank will remain selective and its principal focus will be in the sub-sectors of Education, Health, and Social Protection. The Bank Group will take the lead in key areas of its comparative advantage in these sectors, particularly skills development and improved governance of public-private partnerships in service delivery. With the view of tackling youth unemployment, the Bank will continue to focus on investment in higher education and vocational training to better match the supply of and demand for skilled workers. The Bank will promote a gender and disabled perspective in the development of infrastructure and access to services, assisting RMCs to more fully take into account the needs of women and the disabled for access to services.

3.2.3 Public-Private Partnerships (PPPs). The Bank will promote PPPs and support RMCs' efforts to establish policy, regulatory, taxation and fiduciary frameworks that provide adequate incentives for private partners and safeguards for taxpayers and consumers. It will also support RMCs to build capacity at central and local government departments to manage PPPs. Furthermore, the Bank will pay particular attention to the specificities of LICs and Fragile States when addressing their large infrastructure deficits, in particular when using PPPs.

3.3 Enterprise Development

3.3.1 While a good business climate and access to quality social and economic infrastructure are key for the private sector to flourish, this Policy also has enterprise development as a direct objective. In this regard, the Bank will prioritize support to MSMEs. It will also continue to support large and very large enterprises (LVLES) in RMCs to diversify and expand their business operations across borders, and build export clienteles in other regions of the world.

3.3.2 Access to finance- Access to finance has been identified as a major constraint for private sector development in most of the sub regions of the continent (ADR, 2011). Under this Policy, the Bank reinforces its commitment to increase access to finance, both directly and indirectly, for productive and social businesses. The Bank will aim at strengthening its support to promote financial sector and capital markets development in its RMCs.

3.3.3 Promotion of Local Entrepreneurship- The Bank Group will prioritize local entrepreneurship development in its effort to encourage the growth of domestic private sector. The support will ensure that local entrepreneurs have access to technology, knowledge and know-how. With respect to improving the competitiveness of local enterprises, the Bank Group will ensure access to appropriate Business Development Services (BDS). The Bank in its financing will encourage the integration of local entrepreneurs into the regional and global supply chain and thereby promote local contents, among others, through exploring appropriate modalities such as business incubation.

In its effort to support the development of local entrepreneurship the Bank will seek market-based solutions, including commercially viable providers of services. At programming level, the Bank will ensure that women and youth are given adequate priority by ensuring that they can participate in the development of projects and programmes.

3.3.4 Support to Micro, Small and Medium scale Enterprises (MSMEs)- The Bank Group will promote MSMEs development, particularly because they have a large potential to accelerate inclusive growth through generating employment and income. Large segments of MSMEs are however operating in the informal sector, which is characterized by low capital utilization and low labor productivity.[9] The Bank will address the factors that underlie the low productivity of MSMEs, and will support multi-pronged initiatives to boost local enterprises' competitiveness and integration in the supply chains. In this regard, the Bank will support RMCs effort to strengthen the quality of administrative, business development and financial services targeting MSMEs with a view to create incentives for informal businesses to move to the formal economy.

3.3.5 Given the important constraints MSMEs face to access finance, the Bank will continuously seek innovative ways to increase financing to MSMEs while improving the effectiveness of its existing support through financial intermediaries. In particular, the Bank will endeavour to support microfinance, in line with its *Microfinance Policy.*[10] This will allow the Bank Group to increase access to financial services for small-scale economic operators, low-income households and the youth that are not well served by the conventional banking system. In particular, the Bank will work towards increasing the availability of long term finance for MSMEs working with national and regional development financial institutions including Regional and National Development Banks. In addition, the Bank will ensure optimal use of existing financial instruments to catalyze commercial financing to MSMEs, and facilitate the channelling of additional resources such as remittances. In conjunction with the above, the Bank will address perceived risks associated with MSME's capacity to borrow. These include among others the MSME's capacity to prepare bankable projects and their perceived credit worthiness.

3.3.6 Promotion of Social Business- Social businesses are revenue-generating, non-dividend businesses aimed at achieving social objectives – such as education, health, environment, poverty reduction, and gender equality (to cite generic examples). Social businesses offer a new opportunity for development banks to achieve development outcomes through promoting employment opportunities. The Bank will support the development and sharing of knowledge on social business. It will support the development of policy frameworks for such businesses to thrive; and provide technical and financial support to viable social business project initiatives.

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[9] These factors are reviewed in the 2011 African Development Report.

[10] African Development Bank Group (2006): *Microfinance Policy and Strategy of the Bank Group*; Board document codes ADB/BD/WP/2006/06/Rev.1/Approved, and ADF/BD/WP/2006/08/Rev.1/Approved; June 12, 2006; Executive Summary, paragraph 9.4, and Sections 4.4 and 4.5.

3.3.7 Promotion of value chain development- Africa remains one of the most undiversified economies in the world with the highest export concentrations in world trade, mostly primary commodities.[11] Hence, the Bank, consistent with its vision of promoting economic transformation, will support RMCs to diversify their economies and move to a higher value production path through industrialisation. In this regard, the Bank will:

i. support the development of national policy frameworks that expand private sector activities to higher value added and better remunerating employment opportunities;
ii. support the development of infrastructure to allow small producers to gain higher value for their produce;
iii. facilitate the advancement of technological capabilities and entrepreneurial activities in high potential manufacturing sectors; and
iv. support transformational investments that catalyze the development of local, regional and global value chains based on each country competitive advantage and the opportunity to create jobs especially for the youth. In fostering value chain development, the Bank will prioritize, among others, agriculture and agro-processing sectors given their potential for value addition.

3.3.8 Promotion of Trade- Africa's share in the global trade is low.[12] In order to promote Africa's trade both regionally and globally the Bank will provide support to trade development initiatives. The Bank will also advocate for fair and open trade in international forums. The Bank will strengthen its RMCs' infrastructure and support standardisation initiatives. It will also support information management systems that could make trade related information easily accessible to African businesses. The Bank will also enhance the depth and coverage of its trade facilitation support to RMCs.

3.4 Crosscutting Priorities

3.4.1 Gender Equality- In addition to the specific interventions outlined under the three objectives (paragraph 2.3) that will have significant impact on gender, the Bank will emphasize the economic empowerment of women to participate on an equal footing in all economic activities. The Bank will:

i. champion policy and institutional reforms—including advocating equal access to assets ownership and services such as land, education and vocational training;
ii. work for the opening up of employment and career advancement opportunities for women in all sectors of the economy;
iii. promote improved access to financial services to support self-employment opportunities; and
iv. support effective information systems that will increase empowerment of women and opportunities for employment.

3.4.2 Youth Employment- Unemployment, particularly of the youth, is pervasive in almost all African countries. Recognizing the importance of the private sector as the main source of job creation, the Bank will place high priority on youth employment within the framework of the PSD Policy. In support of countries' effort to address youth employment, the Bank will help RMCs: (i) create a business environment which is more inclusive for the youths; and (ii) enhance access to finance and skill development for the youth to engage in social and

[11] The value earned by producers of raw materials is often less than 10% of the total value embodied in the final product.
[12] In 2011, the share of Africa in the global trade was 3%.

productive entrepreneurship. To this effect, the Bank will ensure that youth employment issues are adequately mainstreamed in all country and regional strategies, as well as in operations.

3.4.3 Climate Change- The growing concern about climate change and environmental issues presents both challenges and opportunities for private sector development in Africa. In order to remain competitive in global markets, firms need be active in mitigating climate change while supporting initiatives that build resilience to its adverse effects. Africa has the opportunity to leapfrog others to achieve green growth by taking advantage of green industrial development based on low energy-intensity, low-carbon emissions and clean technologies. In addition to powering its industrial development using increasingly renewable energy sources, Africa should identify its niche in the manufacturing of low-carbon and environment-friendly technology products, as well as define business opportunities for adaptation, targeting environmentally aware markets. The private sector in Africa should seize this opportunity.

3.4.4 To unleash this potential, access to finance, technology, and expertise is required to be involved in all stages of the value-chain of environment-friendly products. In this regard, the Bank Group will support the development of policy frameworks that provide enterprises including MSMEs with incentives for promoting technologies and know how toward greener industrial products. The Bank will leverage additional resources for onward financing from global climate change finance for climate-resilient development and green growth in the continent. In addition, within the framework of existing policies and strategies,[13] the Bank will continue to support RMCs on the broader issues of adaptation and mitigation to climate change.

3.4.5 Regional Integration- The Bank Group is championing the regional integration agenda in line with its mandate.[14] Going forward, the Bank Group will continue to prioritize regional cooperation and economic integration, which will unleash the potential for private sector led growth. In delivering on the regional integration agenda, the Bank Group will work closely with the Regional Economic Communities (RECs) and the African Union Commission (AUC). In particular, the Bank Group will focus on:

i. rationalisation of barriers to trade, investment flows and talent mobility in Africa;
ii. coordination of national policy frameworks with the goal of attaining macro-economic convergence within sub-regional economic spaces, and cooperation on monetary policy;
iii. harmonisation of commercial, business and environmental laws and regulations in Africa;
iv. harmonisation of technical quality standards, accreditation and certification;
v. prioritizing financing of projects with high regional development impacts.

3.4.6 Knowledge Management and Capacity Building- In promoting private sector development the Bank Group will prioritize generation and sharing of knowledge relevant to private sector development, with a special focus on MSMEs. In addition, the Bank Group will actively work with RMCs to build capacity of critical institutions, including business associations, to formulate and implement policies to promote private sector development. In

[13] For example, the Climate Risk Management and Adaptation Strategy (CRMA), Clean Energy Investment Framework (CEIF), Climate Change Action Plan (CCAP) 2011 – 2015, and the Bank Group Energy Policy.

[14] *Economic Cooperation and Regional Integration Policy*; Document codes ADB/BD/WP/2000/13 & ADF/BD/WP/2000/17; Feb. 3, 2000.

its support towards knowledge management and capacity development the Bank will build effective partnerships with regional and international research institutions.

4. Policy Implementation

This Policy will be implemented through the *Private Sector Development Medium term Strategies* of the Bank Group that will be formulated at periodic intervals. The Strategies will articulate the approach and specific means, tailored to circumstances of specific times, for implementing the Policy, particularly, the modalities outlined below. In this regard, the first Private Sector Development Strategy is being developed for 2013-2017. The forthcoming PSD Strategy foresees three distinct but interrelated pillars: i) business enabling environment; ii) social and economic infrastructure; and iii) enterprise development.

4.1 One-Bank Approach- Prominent among the lessons from past Bank operations (see Annex II) is the need to mainstream private sector development and to capitalize on operational synergies, rather than regarding it as a distinct sector for the Bank's investments. In light of this, a One-Bank approach will be followed, with a view to maximizing the impact of the Bank Group's resources. This will have two clear implications:

i. Private sector development will be mainstreamed in all operational strategies of the Bank Group as a core objective; and
ii. All organisational units of the Bank will support PSD as an integral part of their mandate.

4.2 The Bank's Country and Regional Business Platforms- RMCs are heterogeneous in their development stages. The range includes middle-income countries, low-income countries, and fragile states. Private sector development is at different stages and faces varying challenges and opportunities from country to country. The Bank Group support, therefore, will be tailored to the needs and development stages of individual countries. This is done by anchoring the Bank Group's support on country-driven national development plans prepared with the participation of all stakeholders. Country priorities are then translated into Country Strategy Papers (CSPs) and Regional Integration Strategy Papers (RISPs). They will serve as the principal business platforms for all Bank Group operations in support of private sector development in RMCs.

4.3 Policy Instruments

4.3.1 Modalities and Instruments- In the implementation of the *Private Sector Development Policy*, the Bank Group will employ the full range of operational modalities and financing instruments at its disposal. Bank staff will systematically identify, analyse and assess available options and provide clear justification for the recommended instrument(s). The instruments include technical assistance, knowledge-intensive activities, sovereign and non-sovereign financing operations.

4.3.2 Knowledge-Intensive Activities- Continuing improvements in investment climate and business enabling environment require policy and institutional reforms based on reliable evidence and objective analysis. The Bank therefore will invest more effort in Analytical, Advisory, and Advocacy Activities (AAAAs), and policy dialogue with RMCs. In deploying this instrument, the Bank will strive to avoid situations of potential conflict of interest. In cases where the provision of advisory services to clients has the potential to conflict with the role of the Bank as financier or to put at risk the Bank's credit through moral hazard, for example, in the case of non-sovereign operations—a firewall arrangement will be put in place to separate the Bank Group's advisory activities from lending operations to the same clients.

4.3.3 Sovereign Financing Operations- Sovereign financing operations will continue to serve as an important means for supporting private sector development, in view of the importance of improving the investment and business enabling environment and infrastructure development.

4.3.4 Non-Sovereign Operations- Direct engagement with non-sovereign operators will provide an important channel for the Bank Group's support to private sector development in RMCs. Non-sovereign operational transactions will be conducted under a consolidated set of policies and guidelines, the *Policy Guidelines for Private Sector and Other Non-Sovereign Operations.*[15]These catalytic operations will be managed in conformity with the Bank's Risk Management Framework.

4.4 Monitoring and Evaluation

4.4.1 The implementation of this Policy will be assured through the application of the Bank's operational review process. The process will ensure that:

i. private sector development is mainstreamed in the Bank Group's *CSPs*, *RISPs*, and sector strategies;
ii. the Bank Group's interventions bring additionality, and that such interventions have sufficiently high development outcomes;
iii. non-sovereign operations have acceptable risk ratings, and that operational and risk management arrangements are adequate; and
iv. business enabling environment operations target concrete specific improvements;

4.4.2 A logical results framework and Bank-wide Key Performance Indicators (KPIs) will be established on a medium-term basis to provide benchmarks for monitoring and evaluation of the Bank Group's operations in support of private sector development in Africa. The Quality Assurance and Results Department (ORQR) and the Operational Policies Department (ORPC) will monitor the policy's implementation and assess the interim results including through the use of disaggregated information by gender and age groups. These results will be presented in an annual report to be submitted to the Operations Committee (OpsCom). At intervals not greater than 3 years, Management will present to the Committee on Development Effectiveness (CODE) a *Progress Report on Private Sector Development Operations of the Bank Group*. In addition, the Operations Evaluation Department (OPEV) will undertake periodic evaluations of the Bank's implementation of this Policy.

5. Conclusion and Recommendation

5.1 Conclusion- This Policy embodies the African Development Bank Group's recognition of the important role of the private sector in fostering inclusive economic growth. It is informed by an analysis of the opportunities and challenges that RMCs face in private sector development, and lessons learnt from past operations. It articulates private sector development as an objective for the whole Bank and will use traditional as well as innovative operational tools to achieve identified outcomes.

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[15] The new Policy Guidelines is under preparation and will replace the 1995 *Revised Private Sector Operations Policies* (ADB/BD/WP/94/127/Rev.2) .

5.2 Recommendation- Senior Management hereby recommends the adoption of the Private Sector Development Policy by the Boards of Directors of the Bank Group. Furthermore, Management requests the Boards to allow the Private Sector Development Policy to replace the 1986 Industrial Sector Policy Guidelines**.**[16]

[16] *Industrial Sector Policy Guidelines*; ADB/BD/WP/86/86/REV and ADF/BD/WP/86/70/REV; September 9, 1986.

TECHNICAL ANNEXES

ANNEX I: Africa's Private Sector Opportunities and Challenges

A1.1 Opportunities

A1.1.1 Africa possesses numerous opportunities for entrepreneurs and business operators that are ready for a serious long-term commitment. There are many possibilities for lucrative investments. The continent represents one-fifth of the world's land mass, and a corresponding share of the world's natural resources. These include arable land, minerals, fossil fuel deposits, renewable energy potential, natural forests, unique fauna and flora, fresh water resources, inland lake and continental shelf fishing grounds, and fabulous tourism attractions.

A1.1.2 Even more important is the potential presented by Africa's population, which passed 1 billion mark in 2009. The continent today is home to over one-seventh of the world's population and is a large and growing market for consumer goods and services. Africa's demographic structure is predominantly youthful. Roughly 65% of the population is younger than 31 years; and about 35% is in the 16-30 years age group—the source of first-time job seekers. With the fertility rate and population growth rate already in gradual decline in many developed countries, the continent is poised to enjoy a prolonged 'demographic dividend'. The demographic dividend could be further multiplied by fully exploiting the untapped potential of women who play an important role in large sections of the economy in many African countries.

A1.1.3 The decade-long sustained period of economic growth in Africa is prompting the interest of investors to the continent. Africa is emerging as an important growth pole, similar to a number of East-Asian countries a couple of decades ago. Although the drivers of growth vary from country to country, the general trend is that growth has largely been driven by: (i) large public spending on major infrastructure investments; (ii) increased Foreign Direct Investment (FDI) inflows; and (iii) improved economic management and business climate. It is estimated that Foreign Direct Investments (FDI) to Africa rose nearly nine-fold – from only $10 billion in 2000 to $88 billion in 2008.

A1.1.4 The large population with increasing purchasing power is potentially a fabulous treasure trove of new consumer products and services, if science, technology, methodical artisanship, and innovation can be coupled with the continent's rich and diverse culture and the creative energy of its youth. Tantalising possibilities that could be unleashed include new processed foods and drinks for Africa's newly urbanising population; fashion and apparel, internal furnishings, and decorations imbued with African motifs; music instruments patterned on traditional ones; entertainment products (music, theatre, film, toys and games, etc) incorporating African experiences; cultural and ecological tourism making it possible to explore and enjoy the continent's natural wealth; etc.

A1.1.5 Africa has an additional important advantage. It can learn from past successes and mistakes of more developed regions. It has the opportunity to leapfrog the development process by harnessing scientific and technological progress and accumulated innovations to increase productivity, protect its environment, and conserve scarce resources. In order to do so, however, RMCs will have to significantly strengthen their technological capacity and invest substantially more in research and development (R&D). This is particularly important for Africa's vision of transition to a greener economy while accelerating its transformation. Africa has indeed an opportunity to be at the forefront of the green revolution, by implementing green industrial development based on low energy-intensity, low-carbon emissions and clean technologies. In the context of private sector development, this could take several forms, namely: (i) Energy efficiency measures that help mitigate Green House Gas (GHG) emissions and reduce costs; (ii) renewable energy production for own consumption and export; (iii) production of green niche products and services which are increasing in demand; and (iv) improvement of MSMEs' competitiveness through putting the right incentives for "going green", and integrating them into green global supply chains. This could be done through enhanced partnership with large local and international buyers.

A1.1.6 All these advantages present bright opportunities for entrepreneurs, investors and enterprises—both local and foreign—to prosper in individual countries and across borders. World experience has shown that an expanding and diversifying private sector is the key to development, employment generation, and improvement in people's well-being. Africa's private sector is coming of age. It is poised to serve as the engine of economic growth and poverty reduction. Already, the private sector in Africa supports about 90% of total employment and generates 80% of Africa's aggregate economic output.[17] It should be further supported to assume its transformative role in Africa. The continent needs to attract high quality private investments and businesses that promote sustainable development.

A1.2 Challenges

African countries have considerable opportunities for private-sector-led inclusive growth. However, before those opportunities can be unleashed, the countries, individually or collectively, need to tackle the major challenges. These challenges are summarized below.

A1.2.1 Africa's population growth rate is expected to continue outpacing that of any other continent over the foreseeable future. Indeed, Africa is projected to account for about 35% of the global population growth between 2010 and 2030.[18] Based on Africa's youthful demographic profile and an incipient demographic transition that is now under way, a rough estimate is that all the African countries combined need to create about 15 million jobs per year (net of jobs lost), just to cater for new entrants into the labour market. A higher rate of job creation is required to absorb the unemployed and under-employed members of earlier cohorts of job seekers. Particularly, the private sector which employs close to 90% of the working age population should be transformed to create the jobs. African countries generally have not performed well in wealth redistribution and creating quality jobs, particularly for young people. High unemployment in excess of 25% of potential labour market participants is chronic in many countries, posing a potential threat to political and social stability. It is quite dismaying that unemployment rates of young diploma-holders and university graduates are often higher than national average rates. African private sector continued to be dominated by large informal actors accounting close to 40% of Africa's economy.

A1.2.2 At the same time, the continent is in the midst of an unprecedented socio-economic transformation—from a predominantly rural and agrarian population not long ago to a majority urban-based population. By 2025, slightly over one-half of Africa's 1.5 billion people will be living in the continent's cities and towns. Transformation of RMCs' economies is further complicated as countries are grappling to address the effects of climate change. Just to mention some of the effects of climate change, according to the most recent UN estimates[19], the livelihoods of one third of the world's population could be affected by water scarcity by 2025, and - by the end of the century - half of the world's population could face severe food shortages due to rising temperatures. Their welfare and, necessarily also the welfare of the population still in the rural areas, will increasingly depend on the dynamism and resilience of local and regional markets, and how these interact with (and are insulated from) global markets and other external factors such as climate change.

A1.2.3 In order to meet the above challenges, RMCs need to raise domestic investment to at least 35% of GDP—two-thirds of which should be private investment. The remainder would be public capital investment, financed by current and future fiscal revenues, mostly from taxation on private incomes and economic activity.

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[17] African Development Bank (2011): *African Development Report 2011*, "*Private Sector Development as an Engine for Africa's Economic Development*".

[18] This is based on analysis of UNFPA statistics. (UNFPA: *State of World Population 2011*; October 2011; page 5.)

[19] See http://www.fao.org/nr/water/index.html.

A1.2.4 However, RMCs' success in attracting private capital investment and encouraging enterprises to expand productive activities in the formal setting continues to be hampered by an investment climate that is still less attractive than what is offered by dynamic emerging economies such as the so-called BRIC (Brazil, Russia, India and China) and MIST (Mexico, Indonesia, South Korea, Turkey). Investment and business operations in a number of RMCs face high costs and risks that cast doubt over commercial viability, and limit the prospects for growth and expansion. The high costs and risks are reflected in the low rankings of most African countries in the ease of doing business index that is prepared and published by the World Bank. As documented by the 2011 African Development Report, many African countries have commenced a range of reforms to improve their business environment. Compared to a decade or two ago, now there is greater understanding of the importance of sound macro- and micro-economic policy frameworks for economic growth. There is a stronger commitment to economic and institutional reforms and to opening up opportunities for private investors and business operators. According to the World Bank[20] the 10 economies in the world that made the longest strides in rendering their regulatory environment more favourable to private business between 2005 and 2010 include Rwanda, Burkina Faso, Mali, and Ghana. Governments of these countries have each implemented more than a dozen reforms during that period to increase the ease of doing business. In the period May 2010 to May 2011, 36 out of 46 countries monitored in the Sub-Sahara sub-region implemented regulatory reforms aimed at making it easier to do business.[21] But further reforms are needed to boost countries' competitiveness in the globalized economy. In this regard, the following are major issues affecting investment and business environment:

- The high cost of doing business in the continent compared to other countries is the most important factor shadowing the investment and business environment in Africa. The factor that is most responsible for this is bureaucratic red tape. African countries are rated as having the most burdensome and least transparent business regulations and procedures on starting or winding down a business, compared to countries elsewhere. Indeed, among the top one-third of the countries ranked on the basis of ease of doing business, only 5 are African. These are Botswana, Mauritius, Rwanda, South Africa, and Tunisia.[22]
- A second factor in the high cost of doing business is poor access to essential infrastructure and associated services—such as reliable energy supply; competitively priced transportation services by road, rail, air and sea that are free of unreasonable bureaucratic hurdles; efficient information and communication services; potable water supply; and good sanitation. There is a short supply of essential support services—such as credit, financial services, and affordably priced business technical services.
- A third factor is inadequate legal and regulatory frameworks, weak institutional capacities, and entrenched corruption. The cost of doing business is raised further by fragile conditions in some post-conflict countries, and by new instabilities spurred by rising discontent in segments of society, notably unemployed and under-employed youth, that feel excluded from opportunities and have difficulties making ends meet.
- A fourth factor is the inadequate provision of private property rights and obligations in a number of RMCs. Only about one third of the Sub-Saharan African economies have laws that safeguard and encourage the use of all types of assets as collateral. This is compared to two-thirds of the East Asian and Pacific, and OECD high-income economies that have such laws.[23] The most affected in this condition are women.

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[20] World Bank: *Doing Business 2011: Making a Difference for Entrepreneurs*; Washington, D.C.; 2010; p. 2.
[21] World Bank: *Doing Business 2012: Doing business in a more transparent world*; Washington, D.C., 2011; Executive Summary.
[22] World Bank: *Doing Business 2012: Doing business in a more transparent world*; Washington, D.C., 2011.
[23] World Bank (2010): *Doing Business 2011, op. cit.*, p. 9.

- A fifth factor is inadequate supply of labour in a range of modern skill categories. Competency of modern skills is essential to be able to master the rapidly changing modern production technologies and processes. On the other hand, in the segment of the population with tertiary and vocational qualifications, there is a large mismatch between the education undertaken and the productive skills that employers seek.

A1.2.5 These challenges translate into low international competitiveness. Just four African countries (Tunisia, South Africa, Mauritius, and Rwanda) are ranked among the top 70 out of 139 countries reviewed for the *2012 Global Competitiveness Index*.[24]Low competitiveness limits African countries in accessing international export markets as well as capital markets.

A1.2.6 Market size is one of the factors in international competitiveness. In Africa, private sector activity is hampered by the small size of national markets. Indeed, in 2010, 39 of Africa's 53 countries had a population below 20 million; and 35 had gross national incomes smaller than US$20 billion.[25] Some national markets are further hampered by internal transportation bottlenecks and inefficient payments clearance and settlement systems. Individual national markets, therefore, do not offer attractive economies-of-scale opportunities to business operators. To address the small size and fragmented nature of national markets, African governments and regional and sub-regional organisations have long been advocating for regional integration. Despite its long history, regional integration in Africa has limited success. This is mainly due to (i) the uncertainties and concerns about the distribution of benefits that are arising from regional integration amidst the dominance of a few countries and the huge disparities in size among members of regional groupings which translated into low enforcement of regional integration agreements; (ii) weak institutional capacity of regional, sub regional and national institutions in charge of implementing the agreements;(iii); underdeveloped regional infrastructure; and (iv) limited involvement of the private sector in the discussions and decision making process of the regional integration agenda which led to an approach that is predominantly public sector led.

A1.2.7 The Bank Group, in collaboration with other partners, supports African countries in their efforts to sustain private-sector-led economic growth and development as an indispensable means of harnessing the continent's opportunities to overcome the enormous but not insurmountable challenges that they face now and, increasingly, in the future.

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[24] *World Economic Forum:* Global Competitiveness Report 2011-2012; Geneva, 2011; p. 15.

[25] On 9th July 2011, a new sovereign African state—South Sudan—was formally established, bringing the number of countries in Africa to 54. The new statehas an estimated population of 8.26 million and gross domestic product of $13.3 billion in 2010. After this development, the remaining state of Sudan had estimated population of 36.79 million and GDP of $48.8 billion.

ANNEX II: Lessons Learned from Past Private Sector Support

A2.1 Starting with the first *Private Sector Development Strategy* in 1990, the institution has sought a Bank-wide approach. Experience has shown, however, that such a *modus operandi* cannot be realised without a comprehensive institutional transformation of the Bank. In particular, the institution's overall mandate and expected results would need to mainstream private sector development concerns; and, all organisational units should contribute to that objective on different aspects. However, the creation of the Private Sector Department (OPSD) in 1998, and of the Governance, Economic and Financial Reforms Department (OSGE) in 2006, did not result in the mainstreaming of private sector development in Bank Group operational activities.

A2.2 Outcomes of the bulk of operations financed by the Bank Group over the years have contributed in one way or another to improving investment and business climates in RMCs. This, however, has most often been in spite of—rather than because—of rational consideration of private sector development in the configuration and implementation of those operations. The preliminary findings of the forthcoming evaluation of the Private Sector Portfolio (PSO) further reveal that although there is an overall alignment between the PSO portfolio and the PSO priorities as described in the PSD strategy, there is a need to further improve alignment by better coordination between the Private Sector department and other departments working on macro issues including OSGE, ECON and country teams.

A2.3 From a critical review of the Bank Group's experience, a number of lessons outlined below can be drawn, which should be incorporated in a policy on promoting private sector development:

A2.4 There is need for the Bank to adopt an explicit policy framework for inclusive and sustainable development and economic growth to serve as a basis for Bank Group assistance to its RMCs. Such a framework would integrate both 'public sector' and 'private sector' operations as instruments for achieving this goal. The policy framework should promote synergies between the Bank Group's 'public sector' and 'private sector' operations, instead of deploying them as independent and unrelated interventions in individual RMCs or sub-regional groups of countries. This implies that Country Strategy Papers (CSPs) and Regional Strategy Papers (RISPs) should serve more as a business platform to identify projects with significant development impact for financing through PSOs.

A2.5 All regional member states now place a high priority on promoting private sector development as a means to meeting the growing needs and wants of their populations. The Bank Group's sovereign financing operations—policy-based operations (PBOs), sector projects and programmes, and regional projects—all should be more effectively used to support inclusive and sustainable private sector development.

A2.6 The framework should promote results-oriented and adaptive approaches. Without a monitorable results framework, it is difficult to monitor and evaluate the outcomes and impacts of Bank Group activities and resources and their contribution to private sector development. .

A2.7 To draw greater enabling outcomes from financing operations, there is need for more knowledge generation, sharing and application so that policy and institutional reforms, infrastructure and other sector projects and programmes supported by the Bank Group would be grounded in sound, evidence-based analysis. To enhance its effectiveness in promoting private sector development, the Bank needs to strengthen its analytical, advocacy and advisory activities (AAAA), including policy dialogue, multi-stakeholder consultations, and opinion gathering as a basis for the preparation and implementation of policy-based operations and sector projects.

A2.8 The activities undertaken by different operational units of the Bank contribute to private sector development and support to private enterprises and investors. To use the Bank Group's limited resources more efficiently requires a 'whole-of-Bank' approach—a more rational division of responsibilities among the Bank's organisational units in line with their basic mandates, better coordination of efforts, more efficient internal sharing of information, and a focus on a common goal and set of objectives.

A2.9 The promotion of inclusive private sector development in Africa is a vast and complex objective that no single institution on its own has adequate capacity to take on. Traditionally, the Bank, in its private sector support operations, has tapped multilateral and bilateral partnerships. The Bank Group's approach to promoting private sector development should continue to be anchored on effective partnerships that exploit comparative advantages and are based on continuous knowledge sharing, well-defined collaborations, complementarities, and avoidance of duplicative competition.

A2.10 For the Bank Group's sector operations to generate significant outcomes and lasting impacts, greater attention has to be given to strengthening local entrepreneurship and promoting the development of local enterprises to generate value-added to 'public sector' investments. From the perspective of inclusive development, it is not enough to invest in a road or rural power supply, to cite two examples, if they do not lead to a sustainable increase in the supply of reliable and competitively priced transportation services to households and small enterprises, or stimulate investments in cottage industries, in the project area. Local enterprises, however, generally possess limited capacity to generate value-added services, due to lack of capital and access to financial services. In this regard, the Bank Group should continue to fine tune its financing instruments to increase the effectiveness of its support to local enterprises. The recent PSO review preliminary findings note that there have been some limitations in the use of financial intermediaries for increasing access to finance to MSMEs..

A2.11 Under circumstances that can be characterised as '*missing markets*', 'public enterprises' can be instrumental in the development of an inclusive private sector. The enterprises in question, however, need to be *competently managed, and subjected to full accountability for resources and results*. Furthermore, a 'public enterprise' occupying a 'missing market' should dedicate significant effort to attracting private market entrants and strengthening competition. Where 'public enterprises' are protected from competition, invariably, private sector development is impeded and society at large suffers significant welfare losses.

ANNEX III: Industrial Sector Policy of the Bank Group

A3.1 The Boards of Directors, in 1986, approved the Bank Group's Industrial Sector Policy Guidelines.[26] These policy guidelines have remained in force without any revision or updating to incorporate comprehensive strategic re-orientations, policy changes and institutional restructuring in all RMCs since the mid-1980s. The purpose of the policy guidelines was to spell out the Bank Group's support to the **Lagos Plan of Action (LPA)**,[27] adopted by African Heads of State and Government in 1980, as a blueprint for development.

A3.2 The Industrial Sector Policy had five objectives:

i) promoting industrial development in African countries by helping states to develop appropriate frameworks;
ii) supporting various types of productive enterprises, including key service sectors;
iii) supporting development finance corporations and other financial institutions that are essential in resource mobilisation for industrial development;
iv) encouraging the expansion of the private sector in African countries in support of industrial development, including an emphasis on micro, small and medium scale enterprises (MSMEs); and
v) ensuring respect for commercial principles in the management of private and parastatal enterprises and financial institutions.

A3.3 The LPA was eventually superseded as African countries' collective long-term strategy. It was replaced in 2001 by the **New Partnership for Africa's Development (NEPAD)**, which aims to achieve the same objectives while placing greater emphasis on the role of the private sector and public-private partnership. The new Private Sector Development Policy, which promotes the same principles, supersedes the Industrial Sector Policy Guidelines.

[26] 4.1.1 African Development Bank (1986): Industrial Sector Policy Guidelines; Board document codes ADB/BD/WP/86/86/REV and ADF/BD/WP/86/70/REV; September 9, 1986.
[27] Organisation of African Unity (1980): Lagos Plan of Action; June 1980.