

**United Nations  
Development Programme**

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# **UNDP-Private Sector Strategy**

*“Promoting Inclusive Market Development”*

*September 2007*



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*Promoting Inclusive Market Development*

**Final Version**

**September 2007**

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### Abbreviations

ADB	Asian Development Bank
BDS	Business Development Services
BRSP	Former UNDP Bureau for Resources and Strategic Partnerships
CoP	Community of Practice
CSR	Corporate Social Responsibility
DfID	UK Department for International Development
FAO	Food and Agriculture Organisation of the United Nations
GC	Global Compact
GIM	Growing Inclusive Markets programme
GSB	Growing Sustainable Business programme
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit GmbH
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFI	International Financial Institution
ILO	International Labour Organisation
OECD/DAC	Organisation for Economic Cooperation and Development, Development Assistance Committee
PB	UNDP Partnerships Bureau (formerly BRSP)
PPPSD	Public Private Partnerships for Service Delivery programme (formerly PPPUE)
PSD	Private Sector Development
PSE	Private Sector Engagement
SEMFIN	UNDP thematic network on Small Enterprise and Microfinance
SIDA	Swedish International Development Agency
SME	Small and Medium Sized Enterprises
UNCDF	United Nations Capital Development Fund
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organisation
USAID	US Agency for International Development

## Executive Summary

The private sector strategy provides a framework for UNDP private sector interventions at global, regional and country office levels within the broader context of the UNDP Draft Strategic Plan for 2008-11. The strategy is intended to give practical direction and substance to the Strategic Plan's recognition that private sector development (PSD) and private sector engagement (PSE) are central not only to poverty reduction, but also to achieving wider corporate objectives in the areas of energy and environmental service delivery, crisis prevention and recovery and democratic governance.

The current UNDP private sector portfolio consists of approximately 530 private sector development and private sector engagement programmes in more than 100 country offices with an annual value of at least \$100 million and growing. These interventions position UNDP as a small but nevertheless significant player in the private sector and development arena.

Whilst in the past many of UNDP's private sector interventions have been demand-driven, in the future the organisation will develop a more explicitly pro-poor focus for its private sector work. In the PSD area, this requires moving away from single theme projects in areas such as business development services and micro-credit. In PSE, it requires ensuring that interventions have a more systemic and sustainable impact.

Measures also need to be taken to reinforce quality management systems and to strengthen the technical capacities and skills of UNDP private sector staff in ways that build on UNDP's niche, add value and facilitate more effective cooperation with other development agencies and partners. As part of this process it will be particularly important for UNDP to promote increased policy coordination and coherence in relation to other specialist UN agencies operating in the private sector and development arena e.g. FAO, IFAD, ILO, UNCDF, UNCTAD and UNIDO.

In response to these challenges UNDP will base its future approach to the private sector on the concept of facilitating the development of 'Inclusive Markets.' The overall aim will be to ensure that markets work better for the poor as entrepreneurs, wage employees and consumers. In keeping with this approach UNDP will exit a number of single-theme areas in the existing PSD portfolio and focus on five priorities.

The first four priorities contribute directly to the strategy's central objective of promoting inclusive market development. The fifth seeks to build on the traditional Corporate Social Responsibility (CSR) activities of large companies from the North and South and encourage new forms of 'core business' engagement that link the poor to markets and / or increase their access to affordable goods and services. The priorities are as follows:

- Policy advisory support will be provided to governments that wish to establish legal and regulatory frameworks for rule based and non-discriminatory markets, including robust and transparent market institutions that promote fair competition whilst safeguarding the rights of producers, employees and consumers and ensuring the inclusion of the poor;
- Assistance will be provided for the development of integrated value chains in market sectors that offer the prospect of sustainable growth and transition to higher valued added and better remunerated forms of employment. Priority will be given to commodity product and services markets that are characterised by a high labour intensity;

- Building on existing programmes in the area of pro-poor investment, further research on ‘bottom of the pyramid’ investment opportunities and sustainable business models will be undertaken in order to support countries to identify and facilitate the development of market sectors for key basic goods and services. Where appropriate, further support will be provided for the development of innovative pro-poor business models and the implementation of public private partnerships in sustainable local infrastructure provision;
- Renewed efforts will be made to promote entrepreneurship for the poor, in keeping with the objectives of the 2004 ‘Unleashing Entrepreneurship’ Report.<sup>1</sup> To this effect UNDP in conjunction with other development partners and the private sector will support the design and delivery of new best practice-based entrepreneurship development initiatives that are tailored to address local market realities. Specific efforts will be made to promote women’s entrepreneurship;
- Continued efforts will be made to advocate for the use and alignment of private sector CSR resources in ways that contribute to the development of inclusive markets. Corporate partners will be encouraged to align their CSR activities more closely to the achievement priorities 1-4 (above) as well as to the achievement of the MDGs and the UN’s development mandate more broadly.

In order to support these actions, steps will be taken to tailor existing private sector programmes more closely to the achievement of the strategy objectives. Further research and development will be undertaken to address key knowledge gaps and to position UNDP as a ‘thought leader’ in inclusive market development and ‘next generation’ CSR. Building on existing regional initiatives where appropriate, a global private sector Community of Practice will be established to facilitate knowledge sharing and the dissemination of best practices. Formal partnerships will be built with UN specialist agencies and key multi-agency fora.

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<sup>1</sup> *Unleashing Entrepreneurship: Making Business Work for the Poor*, UN Commission on the Private Sector and Development, 2004

## Section I – Background and Approach

### Introduction

*Without the energy of the private sector, without private enterprise, private initiative, private savings, private resources, we won't make it in terms of stimulating development. ...the private sector is, indeed, the driving force in development...[and] we need a very strong but lean state working with the private sector, not to undermine it but to strengthen it*<sup>2</sup>

It is now widely accepted that the markets have a crucial role to play in meeting the challenge of the MDGs. The private sector is the engine of growth in most developing and developed countries and contributes to the achievement of MDG 1 indirectly, through aggregate income and wealth creation, and directly through employment creation and the provision of affordable goods and services for the poor. By removing constraints to labour force participation, enhancing household incomes, increasing tax yields, raising standards and promoting non-discriminatory and rule based systems of exchange, markets also contribute significantly to the achievement of MDGs 2-8 (figure 1).

Just as it is recognised that aggregate economic growth is a necessary but not sufficient condition for poverty reduction however, so it is increasingly understood that the contribution of markets to poverty reduction and the MDGs is not assured. In many developing and transition countries the foundations for private sector activity are not in place, the 'rules of market operation' and the legal and regulatory institutions necessary to support them are weak or non-existent, and business environments obstruct or penalise entrepreneurship and investment, rather than encourage it. In addition, large incumbent enterprises frequently stifle entrepreneurial energy and initiative, taking advantage of weak institutional environments to protect monopolistic or monopsonistic positions. The result is that markets, where they operate at all, tend to favour existing elites and reinforce existing patterns of inequality and social exclusion.

Combating these problems, addressing the problem of 'missing markets' and helping to ensure that markets contribute to more inclusive growth processes, are the main purposes of this strategy. Building on the strengths inherent in UNDP's current private sector portfolio, it aims to bring greater focus and depth to UNDP private sector interventions, ensuring a more direct impact on poverty and the achievement of MDGs, whilst at the same time encouraging greater synergies with other UNDP practice areas and specialist UN agencies. In terms of substantive focus, the strategy focuses on addressing the needs of the poor as active economic agents (entrepreneurs, employees and consumers) rather than passive 'beneficiaries' of aggregate growth and welfare services. As a consequence, the types of partnerships that UNDP will seek with larger companies will embrace not only 'traditional' CSR activities, but also increasingly the deployment of core business processes and value chains in direct and sustainable support of inclusive markets.

The strategy also aims to provide a coherent framework for the implementation of a wide range of private sector related commitments contained in the UNDP Strategic Plan for 2008-2011, giving practical direction to the recognition that private sector development and private sector engagement have a central role to play not only in poverty reduction, but also in democratic governance, crisis prevention and recovery and energy and environmental service delivery among others. A summary of Strategic Plan references to the role of the private sector in development is contained in Annexes A and D. The strategy identifies a set of concrete and inter-related priorities

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<sup>2</sup> Kemal Dervis Closing Statement, GMTM 3 Feb. 2006, The Hague

for intervention that, when pursued in different contexts and in different combinations, contribute to the achievement of broader Strategic Plan goals and outcomes.

The document is divided into three main sections. The first briefly reviews UNDP's current private sector portfolio, sets out the main rationale for the strategy and outlines a new conceptual framework for the design, implementation and evaluation of new UNDP private sector interventions. The second reviews each of the five proposed priority areas for the strategy, and third outlines next steps for the implementation of the strategy.

**Figure 1. Examples of the Potential Contribution of the Private Sector to the Achievement of the MDGs**



### The Current Private Sector Portfolio

UNDP's current private sector portfolio consists of two broad categories of interventions: Private sector development (PSD) interventions aimed at increasing the contribution of micro-, small and medium sized enterprises to growth and poverty reduction, and private sector engagement (PSE) interventions aimed at fostering partnerships with a wide range of companies from multi-nationals (northern and southern), to small and medium sized enterprises (SMEs), often with a broader range of development objectives in mind.



Data produced for the Private Sector ‘Heatmap’ indicate that PSD initiatives account for approximately \$80 million of programme spending annually on approximately 400 projects in 101 Country Offices<sup>3</sup>. The PSD portfolio comprises a wide range of predominantly ‘single theme’ private sector development interventions, including support for business development services (BDS), access to micro-credit, and entrepreneurship development. Taken together single theme projects of this kind account for approximately 57% of the total portfolio in terms of a simple project headcount.<sup>4</sup> A further 25% relate to sectoral and supply chain projects of various kinds, and approximately 11% to policy related interventions, mainly in the area of business environment reform.

PSE initiatives, by contrast, generate approximately \$20 million per year in private sector funding contributions to UNDP through approximately 130 programs in 75 Country Offices and Regional Centres<sup>5</sup>. Cost sharing private sector partnerships are a relatively recent phenomenon in the development community at large, but performance to date suggests that UNDP is extremely well positioned in this area with a strong and rapidly growing portfolio. Approximately 60% of partnership projects are in the area of poverty reduction, followed by energy and environment, democratic governance, crisis prevention and recovery and HIV/AIDS. The majority are motivated by Corporate Social Responsibility (CSR) objectives and consequently include a wide spectrum of interventions, ranging from philanthropic donations through to market-led investments.

In addition, UNDP has three major global private sector programmes namely the Growing Inclusive Markets (GIM) programme, the Growing Sustainable Business (GSB) programme and the Public-Private Partnerships for Service Delivery (PPPSD) programme. Detailed descriptions of these programmes are provided in Annex B.

UNDP’s existing PSD portfolio consists mainly of grant funded technical assistance programmes and projects, including policy advisory and local capacity building initiatives. These account for a small but significant share of the estimated total ODA contribution to private sector development,<sup>6</sup> with an annual value (not allowing for non-budgetary private sector contributions to joint programming initiatives) roughly equivalent to the annual programming budget of UNIDO. UNDP, moreover, is one of a limited number of donors active in the private sector arena with an explicit commitment to interventions that target the poor directly.<sup>7</sup> By comparison ‘mainstream’ IFI assistance, including the majority of World Bank and IFC PSD interventions, are aimed at enhancing the indirect contribution of the private sector to poverty reduction through aggregate economic growth. Through its existing PSD portfolio and its growing pro-poor PSE portfolio, UNDP has considerable potential to develop approaches to private sector development which contribute in greater measure to poverty reduction, whilst complementing the ‘mainstream’ approaches of the IFIs and other donors.

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<sup>3</sup> *UNDP Private Sector Development Heatmap* UNDP Private Sector Division 03.07. Project data for period 2004-2006

<sup>4</sup> Owing to the prevalence of capital projects in micro-credit, the proportion would be higher in value terms

<sup>5</sup> Data drawn from *UNDP Private Sector Development Heatmap* UNDP Private Sector Division 03.07 and an analysis of the MYFF 2004-2006 results databas (<http://results.undp.org/>). N.B. This figure does not include a wide range of private sector dialogue and advocacy activities across UNDP practice areas. In 2006, for example, 91 Country Offices engaged a total of 202 such activities.

<sup>6</sup> OECD DAC estimates

<sup>7</sup> The key message of ‘Unleashing Entrepreneurship’ is that entrepreneurship offers the poor the opportunities to be agents in their own empowerment and enrichment, rather than simply beneficiaries of aggregate growth processes generated elsewhere,

In addition to championing inclusive and pro-poor approaches to PSD and PSE UNDP also possesses a number of other ‘comparative’ advantages in relation to other international organisations and donors. These include:

- A very strong ‘brand appeal’ based on the MDGs and a rapidly growing network of multi-national and local partner companies gained through existing PSE programmes and active involvement in the establishment and maintenance of Global Compact (GC) networks. UNDP’s head-start in this area provides it with a unique window of opportunity to influence the development outcomes associated with ‘lead companies’ at a time when their significance in structuring exchange relations within global supply chains is growing rapidly;
- A very large geographic footprint, particularly in less developed areas of Sub-Saharan Africa, North Africa, the Middle East and East Asia, where UNDP has between 20-60% more field offices presence than the next closest donors;
- An ‘impartial’ reputation with the capacity to promote open policy dialogue and partnership between the private sector, government and civil society;
- Strong convening power and the ability to coordinate the private sector and development efforts of other international organisations and donors.

## Challenges

In order to capitalise on these advantages however, a number of important challenges remain to be addressed.

At an organisational level, the designation of private sector and development as a sub-practice area that is defined simply by virtue of doing things ‘for’ the private sector (PSD) or ‘with’ the private sector (PSE) is unconvincing and suggests the absence of any larger cohering vision based on the precise development objectives that these activities are intended to achieve.

In relation to PSD, the growth of a significant project portfolio at the country office level can be interpreted as evidence of responsiveness to local needs. However the disparate nature of these initiatives, coupled with their small average size<sup>8</sup> also raises other possibilities. In general BDS, micro-credit and entrepreneurship and skills development projects have relatively low technical barriers to entry, do not in principle require ‘up-stream’ policy skills and can be easily replicated, often within the framework of broader turnkey approaches to area-based development, local development or decentralisation programmes.<sup>9</sup> There is therefore a corresponding danger that whilst some projects may be justified with reference to ‘real needs’ on the ground, they may not constitute the most appropriate or effective responses to address those needs, and thus be open to the charge of being ‘supply-driven.’ This danger, moreover, is underlined by a growing consensus in the international development community that many of the single-theme projects characteristic of the UNDP PSD portfolio, especially ‘standalone’ BDS and micro-credit projects, are unsustainable, ineffective and have a minimal impact in terms of poverty reduction.<sup>10</sup>

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<sup>8</sup> Benchmarking study. The average size of UNDP supported PSD projects is approximately \$250,000.

<sup>9</sup> Current examples include such as the ILO ‘Start your Own Business’ programme and EMPRETEC (entrepreneurship development) and Micro-Start (micro-credit).

<sup>10</sup> This point has been made forcibly in a number of places. See for example *Policy Guidelines for SIDA’s Support to Private Sector Development*, SIDA 2004 and *The Promotion of Sustainable Enterprise* ILO 96<sup>th</sup>

PSE, by comparison, is a relatively new and uncharted territory for UNDP and other international organisations, but presents a number of clear challenges in terms of securing genuine additionality and ensuring that the benefits of particular partnership initiatives have a sustainable and systemic impact. In addition, there are potential reputational and other risks for the UN in engaging in partnerships that have limited added value, or involve enterprises that have questionable business practices. These risks need to be effectively managed using UNDP corporate risk management tools,<sup>11</sup> supplemented where necessary and appropriate by clear and updated policies and guidelines for working with the private sector.

## Rationale and Objectives

The current strategy seeks to respond to these challenges. The main rationale for the strategy are as follows:

- **Implementation of Corporate Priorities** – Having recognized the central role of the private sector in achieving the UNDP 2008-11 Strategic Plan goals and outcomes, there is a need to translate the broad strategic commitments into concrete and actionable priorities.
- **Niche Identification** - As a niche player in the private sector and development arena, it is important to avoid duplication and identify meaningful and realistic opportunities for UNDP intervention, ensuring, wherever feasible and appropriate, that UNDP complements and builds upon the work of other partner organizations;
- **Quality Management** - The track record of UNDP in private sector development programming has to date been uncertain. With the exception of microfinance<sup>12</sup> there have been no portfolio evaluations of private projects undertaken at corporate level. As mentioned, there are nevertheless strong *prima facie* grounds for supposing that the effectiveness of many single-theme projects has been limited;<sup>13</sup>
- **Improved Coordination and Policy Coherence** – Within UNDP, responsibilities for private sector programming have been consolidated in the Private Sector Division, under a matrixed management arrangement with the Partnerships Bureau (PB previously BRSP) and the Bureau for Development Policy (BDP). Until recently however they were spread across a range of different agencies within UNDP (including BRSP, BDP and other units at HQ level, regional centres, and country offices) with little coordination of effort and the potential for

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Session, 2007 Chptr 2. Standalone micro-credit initiatives can succeed, but are more likely to do so when supported by targeted interventions at the macro- and meso- levels.

<sup>11</sup> See UNDP's Enterprise Risk Management User Guide

<sup>12</sup> See *Microfinance Donor Peer Reviews – Findings and Recommendations of 8 Microfinance Donor Peer Reviews*, Latortue A and Duflos E, CGAP 09.03; and *Review of UNDP Microfinance Portfolio*, Revised Version 06 (originally 10.03), Rosenberg R, CGAP. The Portfolio Review concluded that UNDP's microfinance projects were 'on the lower end of weak.' Out of 66 graded projects, only 14 projects (21 percent) were rated 'good', and 28 projects (42 percent) were judged 'unacceptable.' This unhappy picture places UNDP toward the lower end of the spectrum of donor agency effectiveness in microfinance. However, CGAP found that when programmes were undertaken in partnership with UNCDF, the success rate improved dramatically to 69%. These findings provided the principal rationale for the UNDP microfinance policy (see [http://www.uncdf.org/english/microfinance/undp\\_policy.php](http://www.uncdf.org/english/microfinance/undp_policy.php)).

<sup>13</sup> This point has been made forcibly in a number of places. See for example *Policy Guidelines for SIDA's Support to Private Sector Development*, SIDA 2004 and *The Promotion of Sustainable Enterprise* ILO 96<sup>th</sup> Session, 2007 Chptr 2.

significant internal duplication. In the wider UN system, coordination and collaboration on private sector and development related issues is also limited ;

- **Capacity Building** – Arguably the largest constraints to developing UNDP’s niche role in private sector development are the knowledge and skills of its professional staff, especially at the cutting-edge of UNDP programming i.e. in Regional Centres and Country Offices. Whilst some efforts have been taken to address this problem at corporate level, for example through global knowledge networks, capacity building for the private sector and development has generally been a piecemeal effort.

Taking into account the above challenges and rationale, the objectives of the strategy are threefold:

- i. To provide a framework for capitalizing on UNDPs existing strengths in PSD and PSE, whilst ensuring greater consistency of approach and a renewed focus on the achievement of private sector outcomes that contribute tangibly to poverty reduction and the achievement of the MDGs;
- ii. To lay the ground for new programming approaches at global, regional and country office levels, consistent with the UNDP 2008-2011 Strategic Plan objectives and to lay explicit foundations for closer cooperation with other UN specialist agencies working in the private sector arena
- iii. Within the context of 1 and 2 above, to provide a robust and coherent basis for building the capacity of UNDP private sector staff and for effective knowledge management practices that contribute to maximizing the impact of policy advisory and programming interventions at global, regional and country office levels.

### **Conceptual Framework - Promoting the Development of Inclusive Markets**

Responding to these challenges and realising the objectives of the strategy, requires a clear conceptual framework that addresses the main shortcomings and lessons learned from UNDP’s private sector work to date and provides a solid and coherent basis for the design, implementation and evaluation of future interventions. This needs to give primacy to the role of the private sector in poverty reduction and the achievement of the MDGs and to provide a common platform both for PSD and PSE interventions.

Accordingly, UNDP will adopt a focus on pro-poor market facilitation, hereafter referred to as promoting the development of ‘Inclusive Markets.’ A similar pro-poor market facilitation approach is currently being implemented by a number of other international development agencies i.e. ADB, DfID and SIDA, under the rubric of ‘making markets work for the poor’ or ‘M4P’ for short.<sup>14</sup> It also provides the conceptual underpinnings for the current UNCDF policy on ‘Building Inclusive Financial Sectors’ and for a number of existing UNDP programme initiatives.

The key entailments of supporting Inclusive Markets can be summarised as follows:

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<sup>14</sup> Good expositions of the M4P approach include ‘Making Markets Work for the Poor – An Objective and Approach for Governments and Development Agencies’ Ferrand, Gibson and Scott, July 2004; ‘Making Market Systems Work Better for the Poor – An Introduction to the Concept’ DfID 2005; ‘Making Financial Markets Work for the Poor’ Porteus, October 2004

- An analytic focus on the functioning of markets, rather than specific kinds of enterprises (micro-enterprises, SMEs and large companies) per se. The approach recognises that markets comprise often highly complex ‘business eco-systems’ that may include many types of enterprises and their inter-linkages. Whilst enterprises clearly have an essential role to play in markets, evidence suggests that it is market outcomes that are more or less pro-poor, not particular types of enterprises. As illustrated in Figure 3 below, in addition to enterprises, functioning market systems also require consumers that wish to buy products and services and have the means to do so, market infrastructure and services that provide the physical requirements of a market and support to regulators and enterprises, for example communications, transport and accounting services, and an appropriate policy and institutional environment that establishes and maintains the ‘rules’ of the market operation.
- An overriding concern with overcoming the barriers that prevent markets from operating more inclusively, recognising that the poor participate in markets as entrepreneurs, employees and consumers and that some markets and market sectors, for example labour markets, and markets for essential goods and services are more important for the poor than others;
- A recognition that overcoming barriers that prevent markets from operating more inclusively may require different kinds of interventions in different places and times, including measures aimed not only at promoting entrepreneurship, enterprise development and investment, but also at creating sustainable market infrastructure and services and equitable and transparent ‘rules’ of market operation, including strong market institutions (government agencies and membership organisations). The approach thus allows that markets cannot be left to themselves to allocate resources efficiently and equitably, being prone to a number of well documented sources of market failure.<sup>15</sup> Markets, moreover, may fail the poor in particular: markets in poor rural areas may be non-existent (missing markets) or too thin, the costs or risks of participating in markets may be too high or social and economic barriers may effectively exclude the poor and vulnerable (defined by gender, race, religion etc.) from participation.

Supporting the development of Inclusive Markets can thus be seen as an integral component of strategic approaches for the attainment of Inclusive Growth, defined as ‘a catalytic level of economic growth in countries that simultaneously has direct positive impact on the poor without pure reliance on ‘trickle down’ effects or redistribution policies.’ Like Inclusive Growth, the inclusive market development approach recognizes that conventional policies for market restructuring and reform such as liberalization and privatization cannot simply be assumed to reduce poverty. On the contrary, it accepts that explicit methods must be considered in order to encourage and promote participation by the poor. At the international level, for example, it recognizes that carefully targeted support may be needed to assist poor countries to diversify their economies and increase the competitiveness of sectors that are especially important to the poor for food and livelihood security.

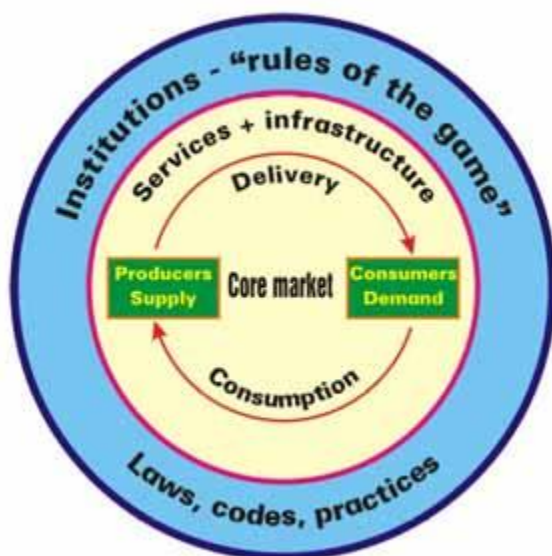
The approach, moreover, recognizes that an analysis of the functioning and development of markets, and the identification of inclusive market development policies, cannot be undertaken in purely economic terms. Markets are deeply embedded in a set of non-market, social and political institutions: the way in which the poor participate in markets is conditioned by economic,

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<sup>15</sup> Principally public goods, the abuse of market power, negative externalities and information asymmetries

political, social and cultural factors, just as the decisions to favour pro-poor or inclusive market policies involve making explicit political choices.

**Figure 3. Components of a Functioning Market<sup>16</sup>**



‘Inclusive Markets’ are defined broadly as ‘markets that result in expanded choice and opportunity for the poor and produce outcomes that benefit the poor.’ For the poor as entrepreneurs and employees, such outcomes will be measurable in terms of increased returns on goods sold, improved access to labour markets and increased opportunities for ‘decent work.’ For the poor as consumers, they will include increased choice and affordability for essential goods and services, including access to financial services that help reduce risks and vulnerability.

Through the implementation of the strategy and on-going applied research initiatives, UNDP will seek to contribute to the further development of pro-poor market facilitation approaches in the wider international development community, promoting the development and implementation of more rigorous impact assessment procedures for measuring the outcomes of policy advisory and programme interventions and their contribution to pro-poor market development. UNDP’s overall approach will place a heavy emphasis on capacity development, building upon existing tools and approaches to capacity assessments and diagnostics.<sup>17</sup>

The principal differences between UNDP’s existing approach to the private sector and development and the emphasis on supporting the development of Inclusive Markets are summarised below.

<sup>16</sup> From DfID 2005, Op. cit

<sup>17</sup> See [http:// www.capacity.undp.org](http://www.capacity.undp.org).

**Figure 2. Contrasting Approaches to the Private Sector and Development**

<b>The Current Portfolio</b>		<b>The New Approach</b>
Many small projects	→	Fewer larger projects
Focus on downstream delivery	→	Greater focus on upstream policy reform and systemic market facilitation
Indirect or indeterminate poverty reduction impact	→	Direct, measurable poverty reduction impact
Focus on enterprises, especially micro-enterprises and SMEs	→	Greater focus on integrated value-chains and pro-poor market outcomes
‘Single factor focused interventions’ (e.g. BDS, micro-credit)	→	Multi-faceted, multi-factor approaches to value chain blockages
Implicit objective to create employment opportunities for the poor	→	Explicit objective to expand choice and opportunity for the poor as producers, employees and consumers
Emphasis on ‘cross-cutting’ enterprise support measures	→	Greater emphasis on sectoral targeting - working in specific market sectors that offer ‘decent work’ opportunities, and expanded range of goods and services to the poor
Partnerships with companies based mainly on ‘traditional’ CSR interests i.e. social investment and philanthropy	→	Strategic partnerships focusing on core business activities and competencies that contribute to inclusive market development and empower the poor as entrepreneurs, employees and consumers
Relationship to PSE coincidental / overlapping (‘PSE for PSD’)		PSE as a conscious and deliberate modality for pro-poor market facilitation based on viable and hence sustainable ‘win-win’ investments

### Key Priorities

Within the overall framework of supporting the development of Inclusive Markets, the strategy has five main interlinked priorities as presented below. The fifth priority area, CSR, includes

interventions that may not result directly in the development of Inclusive Markets, but nevertheless contribute to the achievement of the MDGs.

- **Priority 1 – Establishing the Policy and Institutional Infrastructure.** Recognising that for markets to work for the poor, they must first work. UNDP will support governments that wish to promote the development of rule based, non-discriminatory and inclusive markets, including robust and transparent market institutions that promote competition whilst safeguarding the rights of poor entrepreneurs, employees and consumers. Wherever feasible and appropriate UNDP will seek to complement the work of the policy reform efforts of the World Bank other international organizations and donors, focusing on policy reforms that benefit the poor directly. As part of this effort UNDP will assist governments to introduce pro-poor market reform policies into PRSPs and other strategic planning frameworks.
- **Priority 2 - Facilitating Pro-Poor Value Chain Integration.** Inclusive markets are defined partly by their ability to generate significant employment opportunities for the poor as self-employed producers or wage employees. UNDP will therefore support the development of integrated value chains in market sectors that offer the prospect of sustainable growth and transition to higher valued added and better remunerated forms of employment. Priority will be given to commodity product and services markets characterised by a high labour intensity.
- **Priority 3 - Brokering Investments in Pro-Poor Goods and Services.** Inclusive markets are also defined by their ability to increase access to important goods and services that contribute tangibly to the reduction of income and non-income forms of poverty. Building on existing programmes in this area,<sup>18</sup> UNDP will facilitate research and development that leads to the identification of viable ‘bottom-of-the-pyramid’ investment opportunities and business models and will work with key international and national investors to realize these. Support will also be provided for development markets for pro-poor goods and services, with special emphasis on key factor markets.
- **Priority 4 - Fostering Inclusive Entrepreneurship.** Inclusive markets require the poor to take advantage of new opportunities and become agents in their own economic empowerment (Unleashing Entrepreneurship). UNDP, in conjunction with other UN agencies, development partners and the private sector, will support the design and delivery of new entrepreneurship development initiatives that will be tailored to local opportunities and delivered through the private sector.
- **Priority 5 - Encouraging Corporate Social Responsibility in support of Inclusive Market Development and the MDGs.** Recognising that Corporate Social Responsibility has become a central consideration in the investment decisions of multinational companies as well as an increasing number of small and medium-size enterprises, UNDP will continue to advocate for the use of CSR resources in ways that contribute to the development of inclusive markets, producing sustainable long-term benefits rather than short-term visibility or dependency. UNDP will therefore encourage Corporate partners to align their CSR activities more closely to the achievement priorities 1-4 (above). UNDP will also continue to advocate for the alignment of CSR investments with national and local development priorities that cannot be addressed through market mechanisms, including in support of UNDP’s own four focus areas as expressed in the UNDP Strategic Plan 2008 - 2011.

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<sup>18</sup> For example joint UNDP /UNCDF programming on ‘Building Inclusive Financial Sectors.’



With the limited exception of certain CSR engagements, the common denominator of UNDP's activities under all five priorities is that they will ultimately be evaluated in terms of their contribution to the establishment of sustainable, functioning markets<sup>19</sup> that benefit the poor as entrepreneurs, wage employees and consumers.<sup>20</sup> Furthermore, the five priorities are interlinked and will not be viewed as wholly distinct areas of intervention for programming purposes. Support for pro-poor value chain integration (Priority 2) for example, may entail a range of cross-cutting and sectorally specific policy reforms (Priority 1) as well as capacity building support for poor producers (Priority 4.)

The strategic priority areas are expected to be applicable and relevant for all UNDP programme countries in various combinations depending on local needs and contexts. A specific effort will be made to support an integrated approach to inclusive market development in post-conflict countries. UNDP's work in this regard will be aligned with the UN system wide policy for "Employment Creation, Income Generation and Reintegration in Post-Conflict Settings".

In order to focus efforts on the five strategic priorities, UNDP will simultaneously cease to provide direct policy advisory support for a number of 'stand-alone' PSD areas contained in the current project portfolio, especially those that are strongly supported by the UN specialist agencies. Excluded policy areas will include BDS, active labour market policies, and policies to support investment promotion, privatisation and enterprise restructuring. At the same time, as stated<sup>21</sup>, a key objective of the strategy is to lay explicit foundations for closer cooperation, including potential joint programming and implementation arrangements, with relevant UN specialist agencies that have competencies in the five priority areas and a shared commitment to inclusive market development.

In each of the priority areas, the strategy aims above all else to be practical. It sets out an agenda for action that highlights priorities and builds on UNDP's existing strengths and comparative advantages in relation to other development agencies. A fuller explanation for each of the priorities in turn, outlining key rationale, UNDP comparative strengths, objectives, activities and implementation arrangements is contained in the following sections.

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<sup>19</sup> As mentioned, priority area 5 on CSR also aims to engage the private sector in support of broader development priorities, beyond inclusive markets, and as such will also be measured in terms of its contribution to broader development.

<sup>20</sup> A diagram, mapping the five priorities to the strategy framework used for the Private Sector Heatmap is contained in [Annex C](#).

<sup>21</sup> Objective ii. above

## Section II – Strategic Priorities

### Priority 1 – Establishing the Policy and Institutional Infrastructure

#### *Rationale*

In many UNDP programme countries, policies to support the development of inclusive markets are weak or non-existent with the result that markets, where they function at all, often reinforce existing inequalities and patterns of social exclusion. For this reason it is crucial that governments integrate carefully targeted policies into their poverty reduction strategy papers (PRSPs) and other national policy frameworks to ensure that the expansion of private sector activity contributes not only to aggregate economic growth, but also to enhanced employment and consumption opportunities for the poor.

To date however, the track-record of government and donors in integrating inclusive market development policies into national development strategies has been patchy. For example, whilst most PRSPs acknowledge the role of the private sector in generating aggregate growth, few contain explicit measures for actively including the poor in wealth creation processes or give adequate attention to the needs and aspirations of existing informal sector businesses. Moreover, recent studies suggest that the private sector development sections of most PRSPs lack the concrete benchmarks and time-bound progress indicators necessary to ensure effective implementation.<sup>22</sup>

Addressing these problems requires a commitment from Governments and donors to work together with the private sector to identify policy reforms that promote employment-intensive growth and stimulate new markets for affordable goods and services at the bottom of the pyramid. This in turn requires not only new policies and more-inclusive policy making processes, including policy reforms to promote the competitiveness of indigenous industries and their ability to trade, but also a renewed emphasis on capacity building and strengthening measures for supporting market institutions.

#### *UNDP Niche*

Findings from the ‘Heatmap’<sup>23</sup> suggest that UNDP’s role to date in promoting effectively policies for inclusive market development has been limited. In the absence of a clear conceptual framework and corporate commitment, policy advice has been provided on an *ad hoc* basis, frequently in relation to specific issues in private sector development (e.g. BDS, micro-credit, trade facilitation or investment promotion).

Nevertheless, the potential to position UNDP as a strategic player in the provision of policy advice for inclusive market development, providing a complementary perspective to ‘mainstream’ private sector development agencies including the World Bank, is significant. The results of the UNDP Benchmark Study<sup>24</sup> confirm that UNDP has a valuable role to play in

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<sup>22</sup> *Poverty Reduction Strategy Papers – Review of Private Sector Participation* Fox J., USAID 10.03. See also *Private Sector Development in the Context of Poverty Reduction Strategy Papers* Eggenberger Argote N., Gerster Consulting (for SECO) 02.05

<sup>23</sup> *UNDP Private Sector Development Heatmap* UNDP Private Sector Division 03.07

<sup>24</sup> *UNDP Private Sector Benchmark Study*, Simon White & Mark Habib for UNDP’s Private Sector Division, 2007

promoting the role of inclusive market development in PRSPs through advocacy, the provision of policy advisory support to governments and convening and coordinating the private sector development efforts of other international organisations and donors.<sup>25</sup> Research undertaken through the GIM initiative, moreover, is yielding considerable analytical insights into the policy requirements and dynamics of pro-poor markets, reinforcing UNDP's potential for knowledge leadership.

UNDP is also well positioned to promote more effective dialogue between the government and private sector counterparts in the policy making process for inclusive market development, capitalising on regional and national Global Compact Networks, existing partnership programmes (e.g. PPPSD and GSB) and extensive national networks including business representative agencies and economic development NGOs. UNDP's democratic governance expertise, particularly in relation to institutional strengthening, capacity building and fostering inclusive participation, also positions UNDP well to address policy processes that support development of inclusive markets.

### *Objectives*

UNDP's objectives for promoting policies and institutions for inclusive market development are threefold:

- i. In PRSP countries, to ensure that meaningful and realistic policy options are presented to governments for promoting inclusive market development consistent with international best practices;
- ii. In non-PRSPs countries, to advocate for the inclusion of inclusive market development policies in national and local strategies for economic development and poverty reduction;
- iii. To ensure adequate private sector participation in PRSPs and national policy strategies, particularly in respect of informal and other business sectors that are typically excluded from formal policy-making processes.

In addition to reinforcing existing support to PRSP and other policy processes, UNDP will investigate the possibility of promoting Sector Wide Approaches (SWAPs) in private sector development and Inclusive Finance (the latter in cooperation with UNCDF), in accordance with DAC guidelines and emerging best practices in this field.<sup>26</sup>

### *Service Offer*

Consistent with the findings of the Benchmark Study, UNDP will seek to achieve these objectives by playing a convening and coordinating role wherever feasible and appropriate, bringing together other international organisations, specialist UN agencies, bi-lateral donors and private sector representatives to build coherent policy frameworks for inclusive market development.

UNDP policy advisory support will be driven by local priorities but is likely to focus on the following areas:

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<sup>25</sup> *UNDP Private Sector Benchmark Study* Habib M. and White S., 05.07 p. 5

<sup>26</sup> *Harmonising Donor Practices for Effective Aid Delivery* OECD DAC, vol 2. 2006

- Legal and regulatory reforms aimed at creating an improved enabling environment for inclusive market development. UNDP will not seek to replicate mainstream ‘business environment reform’ initiatives supported by the World Bank Group and a number of bilateral donors, but will focus on complementary policy areas that support pro-poor market development, including relevant industrial policies and public private partnerships for infrastructure development;
- Capacity building support for the development of effective market regulatory institutions, in support of the above;
- Sectoral policies to promote pro-poor value chain formation and integration - particularly in employment intensive growth sectors, factor markets and other markets for goods and services markets that benefit the poor (priorities 2 and 3 below);
- Inclusive policy dialogue - support for the development of business representative institutions to represent the poor and mechanisms for ensuring their inclusion in national policy-making processes. Special emphasis will be placed on representation for the informal sector and other groups, including women entrepreneurs, that are often excluded from policy-making processes.

#### *Implementation Arrangements*

Assistance to governments for the incorporation of inclusive market development policies in PRSPs will be delivered under the umbrella of the MDG Support programme, including other UN agencies with a strong commitment to pro-poor private sector development and employment generation i.e. FAO, IFAD, ILO, UNCDF, UNCTAD and UNIDO.

Particular emphasis will be placed on cooperation with the ILO-Joint Programme on Employment and Poverty<sup>27</sup>, and on the promotion of complementary demand-side policies that enhance the role of the private sector in generating ‘Decent Work’ opportunities for the poor (see also Priority 3 below).

In relation to factor markets, UNDP will cooperate closely with the Commission on Legal Empowerment of the Poor<sup>28</sup> on property rights and business environment reform and with UNCDF on building inclusive financial sectors.

In order to provide policy support for the development of national private sector development plans, UNDP will seek to establish regionally based private sector policy advisory staff, supported by sectoral experts located in UNDP country offices and the regional and national offices of specialist UN agencies as appropriate.

<p><b>Table 1. Establishing the Policy and Institutional Infrastructure - Links to Regional Programmes</b></p> <p>Recognizing the critical importance of targeted policy reform in supporting inclusive growth and tackling the region’s historic inequality, RBLAC’s 2008-2011 strategic plan underscores the importance of building <i>innovative development strategies and policies which promote social cohesion, inclusive markets and human development.</i></p>
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<sup>27</sup> ILO-Joint Programme on Employment and Poverty (see <http://www.undp.org/poverty/emplstrat.htm>)

<sup>28</sup> see <http://legalempowerment.undp.org/>

RBA's 2008-2011 strategic plan highlights that continent's urgent need for pro-poor trade reform and measures to improve the region's investment climate, calling for a *greater role and strengthened institutional capacity* of regional actors and networks to insure *more gains for Africa from the process of globalization*.

## Priority 2 – Facilitating Pro-Poor Value Chain Integration

### *Rationale*

Evidence from recent research shows that in addition to broader issues relating to macroeconomic stability and general business enabling environments, sector specific issues affecting product market competition are collectively the most important impediments to faster economic growth and poverty reduction.<sup>29</sup> The majority of such impediments relate to sector specific policy and enforcement issues, and to bottlenecks that prevent the formation and integration of inclusive product and service value chains, limiting the access of poor local producers to markets and stifling the creation of new opportunities for wage employment.

Understanding these constraints and bottlenecks and responding to them effectively is therefore of equal importance to ensuring the incorporation of cross-cutting inclusive market development policies and related institutional strengthening measures into PRSPs and other national planning frameworks. But progress to date has been slow. Most developing and early stage transition countries continue to evidence a fundamental disconnect between burgeoning informal sectors supplying purely local markets with low value added goods and services, and large formal sector enterprises offering higher value added goods and services supplying national and international markets.<sup>30</sup> Meanwhile evidence on the labour share in GDP, a strong indicator of the extent to which aggregate economic growth translates into poverty reduction, shows a decline in most developing countries, despite their putative labour cost advantage. Even where markets are creating growth therefore, they are not creating jobs and reducing poverty at a commensurate rate.<sup>31</sup>

In addition to business environment reforms that make it easier for poor entrepreneurs to set up and compete in the formal sector, addressing these problems requires a clear view of market sectors that are important for growth and poverty reduction, and integrated approaches that bring together key stakeholders to address value chain blockages, assisting poor producers to 'move up' value chains and creating new opportunities for waged employment. Such blockages will vary from one market to another but may include factor price rigidities, infrastructure and human capital deficits, information asymmetries, access to appropriate finance, industry specific regulations and their enforcement, statutory and proprietary quality (hygiene, health and safety) standards, and non-tariff barriers to trade.

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<sup>29</sup> *Industry Level Analysis – The Way to Identify the Binding Constraints to Economic Growth* Palmade V, Small Enterprise Development Vol 16 No 4. 12.05

<sup>30</sup> *Making Markets Work for the Poor* Ferrand D, Gibson A and Scott H, Conmark Trust 08.04

<sup>31</sup> *Labour Shares* Lubker M, ILO Technical Brief No. 10, also *Trade and Employment - Challenges for Employment Policy Research* WTO / ILO 07

Emerging best practices and a rapidly growing body of advisory literature confirm that there are no ‘one-size-fits all’ approaches to successful pro-poor market facilitation, requiring tailor made ‘packages’ of interventions to be built around local market realities.<sup>32</sup>

#### *UNDP Niche*

Evidence from the Heatmap reveals that sectoral projects of one kind or another currently account for approximately one third of UNDP’s total private sector development portfolio. Many of these projects are aimed at increasing the export-readiness and competitiveness of domestic SMEs, and promoting access to global supply chains, particularly in relation to agricultural and food products. Approximately one half are in the tourism sector which is not strongly associated with the generation of pro-poor outcomes.

By contrast, much of the current GSB portfolio has a value chain focus and explicitly involves working with lead firms (buyers, traders, input suppliers) to promote demand-driven value chain investments that benefit subordinate producers, often through contract farming schemes or other local sourcing arrangements. Given the growing influence of ‘lead firms’ in global chains, GSB and other private sector partnership initiatives provide a significant potential entry-point for an expanded focus on value chain interventions.

The Benchmarking Study and a number of other recent sources<sup>33</sup> confirm that value-chain interventions are becoming an increasingly common focus for other international organisations and donors. DfID, FAO, GTZ, IFC, UNIDO and USAID, for example, are actively engaged in value chain initiatives with the aim of identifying barriers to entry, assessing the risks and opportunities related to different value chains, and promoting appropriate strategies for value chain integration. In addition the Donor Committee for Enterprise Development (DCED) has established an active multi-donor working group on value chain development.<sup>34</sup> Different donors tend to emphasize different attributes in targeting value chain interventions, with many initiatives aimed at growth potential market sectors, rather than specifically pro-poor growth market sectors.

Given the enormous challenge of unmet needs, these developments, far from representing a threat, provide a significant opportunity for consolidating and refocusing much of UNDP’s existing private sector development portfolio around pro-poor value chains. Value chain interventions also provide a potentially robust platform for promoting increased donor coordination and joint programming initiatives in private sector development<sup>35</sup> UNDP is well positioned to play this role, especially in relation to the UN specialist agencies.

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<sup>32</sup> Examples include *A Handbook for Value Chain Research* Kaplinsky R and Morris M, IDRC 00; *Integrating SMEs in Global Value Chains* UNIDO, 01; *Value Chain Analysis for Policy Makers and Practitioners* Schmidt H, ILO 05; *Making Value Chains Work Better for the Poor – A Toolbook for Practitioners of Value Chain Analysis*, M4P

<sup>33</sup> See for example *Donor Approaches to Supporting Pro-Poor Value Chains* Report Prepared for DCED, Altenburg 07, and *Private Sector Development and the Poor – Current Thinking and Future Directions* Tanburn J, Small Enterprise Development Vol 17. No. 4. 12.06

<sup>34</sup> see <http://www.enterprise-development.org/groups/group.asp?groupid=4>

<sup>35</sup> *Value Chain Analysis for Policy Makers and Practitioners* Schmidt H, Op cit.

### *Objectives*

UNDP's objectives for facilitating the development of pro-poor value chains are fourfold:

- i. To facilitate the development of integrated value chains in market sectors where significant productivity gains are possible, potential linkages to the wider economy exist and the poor are strongly represented as entrepreneurs or employees, thus contributing to sustained employment growth;
- ii. As a corollary of i. above, to increase the share of value added accruing to poor producers and returns on labour to poor employees in targeted market sectors, thus contributing to income growth;
- iii. In countries where similar mechanisms are not already in place, to facilitate and coordinate joint donor platforms and private sector partnerships for inclusive market development, engendering greater policy coherence, efficiency and development impact;
- iv. In support of i and ii. above, to maximise the market-wide or systemic impact of existing private sector engagement initiatives, and to step up efforts to develop new partnerships with investors from emerging markets that are active in programme countries.

### *Service Offer*

In order to meet these objectives, UNDP will focus its efforts on supporting the design and implementation of new inclusive market development programmes at regional and national levels, and to increasing the pro-poor impact of existing private sector engagement initiatives.

New inclusive market development initiatives will focus on commodity and product markets, giving priority to employment intensive market sectors that offer realistic prospects for sustained earnings growth and transition to higher value added employment opportunities. The selection of markets will vary from one location to another depending on a range of factors, but in most developing countries is likely to entail a focus on higher value added agricultural production, non-farm production and manufactured goods.<sup>36</sup>

The identification of target market sectors will build on the analytical foundations of on-going work under the ILO-Joint Programme on Employment and Poverty<sup>37</sup> and the GIM programme.

### *Implementation Arrangements*

The successful implementation of inclusive market sectors initiatives will require concerted action at the level of target markets. In many cases these will be national markets, but given current trends in the internationalisation of value chains, significant capacity will also be required

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<sup>36</sup> In large parts of Africa, for example, the domestic food market is the largest and most rapidly growing source of demand for agriculture. Elsewhere, in regions or countries that are self-sufficient in basic foodstuffs, the emphasis may need to shift to higher value added crops that have greater market potential. In general, the choice will be determined by the sectoral composition of output, the labour intensity of production and the terms of trade. *Fighting Poverty – The Development Employment Link* Islam R, Chptr.3 ILO 2006

<sup>37</sup> Op cit

to implement programmes at sub-regional, regional and global levels. The focus of this work lends itself primarily to a sectoral, rather than a spatial approach.

Accordingly, UNDP will need to develop a team of specialist advisers with in-depth expertise corresponding to (each of) the priority sectors outlined above. Such advisers would provide global coverage, but would ideally be located in regional centres, SURFs and larger country offices, based on the projected strength of local demand. Their role would be similar to existing SURF regional advisers, supported through the Global Cooperation Framework, and the recently established regional microfinance gatekeepers supported by UNCDF in developing countries.

Work on inclusive markets for selected goods and services will, where appropriate be undertaken in partnership with other UN agencies i.e. FAO, IFAD, ILO, UNCDF, UNCTAD and UNIDO. As a first step towards this, a comprehensive mapping exercise of other UN Agency value chain initiatives will be undertaken with a view to identifying possible areas of synergy. This could be extended to include other donor and resources, possibly through the DCED working group on linkages and value chains.<sup>38</sup>

Close internal cooperation will be required between the Private Sector Division and BDP policy advisors working on employment and trade facilitation. This includes cooperation with regional level advisers working in SURFs and regional centres.

**Table 2. Facilitating Pro-Poor Value Chain Integration - Links to Regional Strategic Plans**

RBA's 2008-2011 strategic plan recognizes that if the MDG targets are to be achieved for the region, both national governments and donors must do more to reach the poor by specifically targeting resources to the sectors in which the poor are most economically active, including agricultural value chains.

RBA's plan also underscores the need for UNDP to facilitate inclusive financial policies and accompanying capacity-building activities to ensure maximum impact of new and existing private sector engagement initiatives, including those that relate to value chains

### **Priority 3: Brokering Investments in Pro-Poor Goods and Services**

#### *Rationale*

One key aspect of inclusive markets is their ability to increase access to important goods and services that contribute tangibly to the reduction of income and non-income forms of poverty. In most UNDP programme countries, the poor are in desperate need of improved access to a wide range of such vital goods and services.<sup>39</sup> The poor can benefit from better access to basic goods and services in a number of ways:

- Meeting basic needs increases productivity and overall well-being;

<sup>38</sup> Op cit.

<sup>39</sup> Basic goods and services ranging from water, sanitation, energy, telecommunications, transportation to financial services, basic construction materials, health and hygiene products etc.



- Access to products and service can also empower the poor in their economic activities. For example, access to banking and insurance services, energy, transport as well as information services are crucial to stimulate and realize opportunities for economic activity and entrepreneurship;
- The poor are also often involved themselves in the provision of basic goods and services, through informal enterprises or as employees of other private providers. Strengthened private sector provision of goods and services also contributes directly to creation of jobs and livelihoods.

There are a number of reasons for the lack of access to basic goods and services for the poor.

Firstly, regulatory and policy frameworks do not often create the right incentives for the private sector to service the poor and do not stimulate the competition and innovation necessary to ensure efficiency and quality.

Secondly, on the supply side there are constraints both on the public and private sector sides. The delivery of many basic services has traditionally been and continues to be the responsibility of the public sector. However, the public sector does not always have capabilities or is well suited to be directly involved in service delivery. New approaches, including different types of public-private-community partnerships have emerged and are becoming more common. However, these arrangements still require a capable public sector to perform its regulatory and oversight roles.<sup>40</sup>

Concerning direct private sector provision of basic goods and services to the poor, with the exception of microfinance there is still largely a lack of business models and approaches that allow for effective, safe and affordable provision in a financially viable way. There is however a growing universe of experiences of how private firms reach and serve the poor that needs to be better researched to allow for replication and scale up.

Finally, on the demand side there are obviously also constraints. While there is a strong need and demand for basic goods and services, the poor have limited ability to pay. The experience of microfinance has however demonstrated that the poor many times are able and willing to pay for certain key services if they are provided with the opportunity and appropriate mechanisms. New and innovative private sector solutions that enable the poor to pay and gain access to various services are emerging, such as group payments and group access models (e.g. ICT services), flexible payment models such as pre-payment and pay-as-you go options (e.g. phone cards, pre-paid energy services etc) and tiered pricing depending on ability to pay (e.g. medicines). More understanding and awareness of such models is still needed.

#### *UNDP Niche*

Through a number of past and existing initiatives UNDP has gained important experiences of how to work with a range of stakeholders to develop better functioning markets that improve access to basic goods and services for the poor.

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<sup>40</sup> For a further discussion on the roles of the public and private sectors in provision of infrastructure services, see for example *Making Infrastructure Work for the Poor*, UNDP 2005, p. 19-20.

Through the Growing Sustainable Business (GSB) initiative for example, UNDP has gained experiences in engaging the private sector and other local partners to explore and develop sustainable business models for reaching the poor with basic goods and services in areas such as energy, electrification, clean water, telecommunications, consumer goods and financial services. The GSB approach is to identify and work with ‘lead companies’ that are looking at new or different business models for serving the base of the economic pyramid. Through these experiences UNDP has created a unique niche.

In cooperation with and under substantive leadership of UNCDF, UNDP also has extensive experience of supporting the development of financial sectors and the provision of financial services to the poor on a sustainable basis. Through early innovative initiatives such as MicroStart and more recent work to take a comprehensive, sector wide approach towards building inclusive financial sectors (including leading a High-level Panel on Building Inclusive Financial Sectors), UNCDF and UNDP are playing a leading role in the UN system and the wider development community in this area.

Another approach towards delivering basic services is through Public Private Partnerships (PPP). PPPs in this context aim to establish cooperation between public and private actors and to bundle financial resources, know-how and expertise to address basic service needs, ranging from water, sanitation, waste management and transport to management and operation of market places, health care facilities, education and training facilities etc. UNDP’s PPPSD initiative brings experiences in building capacities for public private partnerships mainly for the provision of small scale local infrastructure services. UNCDF’s work on local development also includes innovative public-private-community partnerships for service delivery. Focusing on various PPP solutions at the local level is a niche for UNDP where relatively few other development organizations are active.

Finally, the UNDP-led Growing Inclusive Markets (GIM) initiative provides deep insight into and research on innovative sustainable business approaches along with public innovations that enable inclusive markets and private sector provision of basic goods and services. These insights will serve to guide and inspire UNDP-supported dialogue, advocacy and concrete interventions at country and regional level.

### *Objectives*

UNDP’s main objectives in supporting improved access to basic goods and services for the poor are:

- i. To support countries with a) identifying key market sectors for basic goods and services where the poor currently have limited access and where the private sector has potential and interest to become providers, b) diagnosing main constraints and c) facilitating action for the development of these market sectors.
- ii. To support countries with building inclusive financial sectors and facilitate joint donor approaches to support such sector development at country level.
- iii. To support and facilitate establishment of different types of PPPs for delivery of basic services, focusing on assisting local authorities, private sector actors and communities at the local level.

- iv. For all of the above, facilitate and coordinate joint UN and donor approaches and collaboration in developing the targeted market sectors, thereby engendering greater policy coherence, efficiency and development impact.

*Service Offer*

In order to achieve these objectives, UNDP will focus its efforts on refining, adapting and strengthening select current corporate initiatives and approaches for further rollout. The design and implementation of new inclusive market development programmes at regional and national levels will also be supported. Inclusive market development initiatives will be prioritized as follows:

- a) *Factor markets* – Priority will be given to combined policy and capacity development interventions that address bottlenecks mainly in land and financial services markets, enabling the poor to capitalize their assets, engage in formal economic activity and access an increased range of financial services for investment, risk underwriting and consumption purposes. UNDP will not intervene directly in labour market reform issues that are strongly supported by ILO.

Building inclusive financial sectors will be a particular priority area and assistance will be offered in close collaboration with UNCDF and based on UNCDF's sector development approach<sup>41</sup>, which includes the following main steps:

- Financial Sector Assessment that diagnoses the sector to identify constraints and opportunities to be addressed to allow for the participation of poor households and micro and small firms in the financial sector;
- Development of a nationally owned vision, strategy and action plans for building inclusive financial sectors, based on multi-stakeholder consultations;
- Investments - the national action plan for financial inclusion is implemented through joint investment decisions (grants and credits) by a multi-donor investment committee, usually serviced in the LDCs by UNCDF as secretariat.

There is also an emerging trend of growing private sector interest and involvement in developing inclusive financial sectors, e.g. bank downscaling, entry of non financial private sector actors (e.g. cell phone companies) etc. Exploring engagement with these private sector actors will be an important component of UNDP's work in this area.

- b) *Service markets* – Priority will be given to integrated market development initiatives that address policy, capacity and market linkages in a coherent manner in key basic goods and services markets. In doing so, local authorities, the private sector and communities will be engaged to build local capacity for service delivery and in order to ensure win-win-win situations.

In terms of sustainable private sector business models, UNDP will build on the work and experiences of past and current UNDP and other initiatives in order to work with and develop capacity of governments and other local actors to undertake the following:

- Identify specific service markets where there is a particularly strong need and also opportunities for interventions;

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<sup>41</sup> Based on the recommendations from the Blue Book" on Building Inclusive Financial Sectors for Development. More on UNCDF's sector development approach - <http://www.uncdf.org/english/microfinance/sectorDev/index.php>

- Diagnose these markets to identify constraints and areas for action
- Coordinate and support needed action, which could include identifying lead companies interested to explore new models for reaching the poor; brokering partnerships with other development organizations and partners to address various barriers and ensuring close links with broader policy dialogue and advice along with capacity development efforts.

With regards to supporting the development of public private partnerships for the provision of small scale local infrastructure services, UNDP will build on, adapt and further develop existing approaches such as the PPPSD programme<sup>42</sup> and UNCDF's work on decentralization and local (economic) development<sup>43</sup>. The emphasis will be on addressing policy, capacity, finance and infrastructure gaps in the development and operation of transparent local 'markets' for the construction and delivery of local infrastructure services including water, sanitation, waste management, transportation etc.

### *Implementation Arrangements*

The successful implementation of supporting inclusive factor and service markets will require concerted action among a range of partners and organizations with different types of expertise. This is based on the recognition that there are often a range of various barriers at different levels that need to be addressed to make these markets work and enable delivery of basic goods and services to the poor.

In addition to the service offer elaborated in the previous section, UNDP will in general seek to play a convening or facilitating role in bringing various actors and partners together to address the targeted markets in a concerted way. In particular, partnerships with relevant UN agencies will be explored.

In this regard, UNDP will aim to further strengthen its capacities and expertise in order to professionalize the role of facilitating and brokering development of inclusive markets. This will also include deepened expertise in areas such as PPPs and overall sustainable business models, as well as some strengthened specific sector expertise in the priority sectors referred to above.

In relation to factor markets, UNDP will work closely with and follow up on the recommendations of the Commission on Legal Empowerment of the Poor<sup>44</sup> in relation to land and property markets, and with UNCDF and the Inclusive Financial Sectors initiative in relation to financial services markets.<sup>45</sup>

### **Table 3. Facilitating Investments in Pro-Poor Goods and Services - Links to Regional Programmes**

RBLAC's 2008-2011 strategic plan prominently mentions UNDP's strategic niche in facilitating the improved provision of basic goods and services to the poor as it specifically relates to market-based energy and environmental services, noting that *good practices of environmental valuation and payments for ecosystems services at the national and sub-national level will be systematized.*

<sup>42</sup> <http://pppue.undp.org/index.cfm>

<sup>43</sup> [http://www.uncdf.org/english/local\\_development/index.php](http://www.uncdf.org/english/local_development/index.php)

<sup>44</sup> <http://legalempowerment.undp.org>

<sup>45</sup> [http://www.uncdf.org/english/microfinance/advisors\\_group/](http://www.uncdf.org/english/microfinance/advisors_group/)

RBA's 2008-2011 strategic plan proposes a series of programmatic measures aimed at developing *sustainable/new business models for delivery of goods and services to the poor at the bottom of the pyramid* and more generally calls for *capacity building to better manage the increased ODA flows and revenues from commodities and oil and channel more of these resources into basic service delivery, especially for the poor.*

## Priority 4 – Fostering Inclusive Entrepreneurship

### *Rationale*

In addition to sound policies and robust institutions, the development of inclusive markets requires the poor to be able to take advantage of new business opportunities and become active agents in economic growth processes from which they benefit directly. The fact that this is also what many of the poor want, may itself provide a sufficient justification for governments and donors to intervene.<sup>46</sup>

To date however, the performance of government and donor efforts to support entrepreneurship development for the poor has been unconvincing. Most developing and early stage transition countries continue to have levels of new enterprise formation up to 10 times lower than developed market economies, and enterprise formation and survival rates are typically lower amongst the poor than other better educated and wealthier segments of the population. Meanwhile misconceptions, for example about the 'innate' nature of entrepreneurship and the causal links between subsistence micro-enterprises and SMEs (the former lead directly to the latter), continue to abound in government and donor circles.

Entrepreneurship is not a panacea for poverty reduction, but it is widely agreed that in most developing countries, foreign direct investment alone will not generate sufficient new employment opportunities to make a significant mark on existing poverty levels. Entrepreneurship development is therefore an important part of any overall strategy for inclusive growth. Tackling it effectively requires new thinking to design and deliver sustainable and replicable entrepreneurship development programmes that are properly tailored to local needs and the exigencies of local markets and business enabling environments.

### *UNDP Niche*

UNDP's current entrepreneurship development portfolio is a mixed bag of initiatives, the most notable of which are the Empretec and Enterprise Africa Programmes. Empretec, which is managed by UNCTAD, was launched in 1988 and now operates in 27 countries predominantly in Latin America and Africa. It aims to identify promising entrepreneurs, provide them with entrepreneurship skills and give them access to advisory services and potential trade partners.<sup>47</sup>

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<sup>46</sup> See *A Better Investment Climate for Everyone* World Development Report, World Bank 2005 p. 33. Survey findings show that poor rate 'self-employment', followed by 'income from wages and salaries' as providing the best prospects for escaping poverty from 12 alternatives. Male and female participants shared this overall assessment, with some minor differences in the degree of preference given to self-employment and wage income.

<sup>47</sup> The programme was evaluated in 2000 see 'Evaluation of the UNCTAD Empretec Programme' UNCTAD. The evaluation referred to a 'slow process of erosion' undermining the quality of the

The Enterprise Africa project operates in more than 15 countries and is explicitly based on core elements of the Empretec programme.<sup>48</sup> In a number of programme countries, UNDP is also implementing the ILO Start and Improve Your Own Business (SIYB) programme.<sup>49</sup>

Evidence from the Benchmarking Study suggests that in the last few years a number of donors have withdrawn from entrepreneurship development, reflecting an overriding concern with business environment reform issues. Whilst the importance of business environment reform should not be underestimated, it remains that in many countries with streamlined legal and regulatory systems, a significant investment is still required in human capacity in order to ensure that entrepreneurs are able to fully exploit the opportunities provided by more liberal operating environments. UNDP is extremely well positioned to address this need, drawing on its past experience in the above programmes and the engagement of large foreign investors in the provision of local entrepreneurship development support. Indeed the private sector engagement modality is especially well suited to entrepreneurship development, since companies are generally more credible and effective as providers of business skills than governments or donors.

### *Objectives*

UNDPs objectives for fostering entrepreneurship development are threefold:

- i. To facilitate the rapid dissemination of entrepreneurship skills in countries that have a demonstrable commitment to business environment reform and the development of inclusive markets, giving special emphasis to the poor and other excluded groups, including women, youth and ex-combatants;
- ii. To provide a multi-partner initiative(s) in support of entrepreneurship development in the above countries, bringing donors together with governments, key private investors and other local partners;
- iii. To establish sustainable long-term institutions in programme countries for the continuous provision of entrepreneurship development and education for the poor and other excluded groups.

### *Service Offer*

In order to meet these objectives, UNDP will seek to develop a new entrepreneurship development initiative in cooperation with other specialist UN agencies private sector partners, and international donors subject to agreement. The programmes will complement existing UNDP global programmes to promote inclusive market development<sup>50</sup> and will take the form of a global partnership between the UN system, the private sector and participating governments to support poor and aspiring entrepreneurs in selected programme countries.

The initiative will differ from previous entrepreneurship development programmes by virtue of a strong private sector engagement component and a focus on concrete and realistic local market

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motivational training provided for 'Empretec', as well as the need to 'modernise' training curricula and improve the training of trainers.

<sup>48</sup> A mid term evaluation was conducted in 2001. See 'Enterprise Africa: Strengthening, SME Creation, Development and Regional Integration

<sup>49</sup> See <http://www.ilo.org/public/english/region/afpro/harare/areas/employment/siyb.htm>

<sup>50</sup> i.e. the GIM and GSB

opportunities, often linked to the core business of private sector partners in participating countries. A particular focus will be on supporting women's entrepreneurship.

The development and roll out of the initiative will include a number of steps as follows:

- The evaluation of UN-funded and other donor funded Entrepreneurship development programmes, including relevant private sector engagement initiatives, with a view to codifying lessons learned and best practices;
- Consultations with key UN Agencies and counterparts in other international organisations, donors, governments and private companies in order to clarify and agree key project parameters, including target countries and resource requirements;
- Partnership development and resource mobilisation efforts in support of the above, including consultation with private sector players that have commercially-proven products or distribution channels which could benefit from franchise or other arrangements with aspiring entrepreneurs in a specific sector or country context.

#### *Implementation Arrangements*

In order to avoid the initiative falling into the trap of other multi-country programmes, it will be essential to maintain global principles of good practice in entrepreneurship development whilst maintaining a high degree of flexibility to unique business environments and cultures in participating countries. To this end the initiative will adopt similar management oversight arrangements to the GSB programme, with centralised quality assurance and decentralised delivery.

Delivery responsibilities at country level will be determined on the basis of agency presence, the requirements of the participating private sector partners and the specific technical focus of local programmes. For example, programmes targeted at women entrepreneurs may be implemented with the active engagement of UNIFEM.

The initiative will seek to capitalize on synergies with the GSB programme and may benefit from and reinforce the existing operational structure of the program by channeling further resources for the promotion of entrepreneurship to program countries. Programme initiatives aimed at providing entrepreneurship skills targeted at enhancing backward and forward linkages to participating companies' core business operations may be undertaken within the framework of the GSB programme.

<p><b>Table 4. Fostering Inclusive Entrepreneurship - Links to Regional Programmes</b></p> <p>Both the RBA and RBLAC strategic plans offer broad support and cross-cutting synergies for increased attention by UN actors to enterprise development and creation, stressing the importance of deliberate policies to help poor people transition from the informal to the formal sector.</p>
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## **Priority 5 - Encouraging Corporate Social Responsibility in support of Inclusive Market Development and the MDGs**

### *Rationale*

Corporate Social Responsibility (CSR) has over the last decade emerged as a significant issue in the global business community and is now viewed as a central consideration in the way many companies conduct their business.<sup>51</sup> Stakeholders ranging from investors, consumers, communities, employees and government officials are increasingly demanding that companies behave responsibly and look at how their positive impact on society can be maximized. Simply put:

*Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large<sup>52</sup>*

Based on this definition, UNDP views CSR as a spectrum of business activities ranging from philanthropy on one end via strategic social investments to how core business processes can become more sustainable and contribute to development.

As markets are increasingly global and connected, CSR is becoming relevant for enterprises of all sizes and in all geographies, including in developing countries. As such it is recognized that CSR activities can contribute to national and global development priorities such as the Millennium Development Goals, providing that they are applied in coordination with broader public policies and efforts. Governments also recognize the role of the private sector and CSR in contributing to responsible growth in the world economy and a more inclusive form of globalization.

It is also becoming recognized that CSR can help companies, industry sectors and geographic regions to develop a competitive edge which can contribute to accessing new markets, translating into greater economic development.

CSR and engagement of the private sector is relevant for all of UNDP's priority areas as outlined in the UNDP Strategic Plan 2008-2011, including for the promotion of *inclusive growth and globalization*. The way the private sector acts in the market place and contributes to growth and development matters immensely. But private efforts cannot take place in isolation and need to be in support of public policies and interventions. To ensure alignment and synergies between public policies and private CSR initiatives there is a need for intermediaries that can bring the two sectors together. UNDP is well positioned to play such a role.

### *UNDP Niche*

Since the late 1990s, UNDP has been a pioneer in the UN system in engaging the private sector in its development work, largely based on a CSR interest from the private sector. UNDP's private sector engagement can typically be clustered into two main types: i) engaging the private sector in policy dialogue around development priorities and CSR issues; ii) engaging the private sector in concrete partnership projects in support of development priorities.

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<sup>51</sup> In a survey conducted by The Economist in 2004, 85% of executives and investors said that corporate responsibility is a central or important consideration in investment decisions.

<sup>52</sup> "Making Good Business Sense" by Lord Holme and Richard Watts, WBCSD, 2000



One important mechanism for initiating and stimulating UNDP's engagement with the private sector is the Global Compact (GC) and its local networks. The Global Compact is today the largest CSR initiative in the world and it serves as a framework for engaging the private sector in support of UN principles and goals.<sup>53</sup> To date, UNDP has been involved in establishing a majority of the existing GC networks in developing countries and countries with economies in transition. While the advocacy and awareness raising aspects of the GC and its networks can be considered successful, the challenge is now to further engage the GC participants in more substantive and concrete activities that can generate positive development outcomes.

UNDP is also well positioned to support the involvement of the private sector in broader dialogue, capacity building and action around national and local development priorities, including on MDG-based national development strategies as well as on more specific development issues such as policy aspects of inclusive market development, HIV/AIDS and energy and environment.

In terms of concrete partnerships with the private sector, UNDP has established a significant number of partnership projects in which one or more companies partner with UNDP and provide financial, in-kind, expert and / or management resources to UNDP managed projects. In the period 2004-2006, UNDP engaged in more than 130 such partnership projects with around 85 companies. For example, in the countries affected by the tsunami in 2004, UNDP has worked with Coca Cola and the UN Foundation to support rehabilitation of water and sanitation systems; in Angola UNDP works with ChevronTexaco to promote small enterprise development and in China the world's largest steel company Arcelor Mittal works with UNDP on a range of environment and energy efficiency issues.

As the coordinator of the UN system at the country level, UNDP with its experiences in private sector engagement is also well positioned to ensure coordination in the UN system's private sector engagement efforts in any given country, including encouraging cooperation among different UN agencies vis-à-vis the private sector.

The issue of engaging the private sector in concrete partnership activities in developing countries can in some instances be viewed as a sensitive matter. UNDP is well positioned as an impartial multilateral actor that can act as a trusted intermediary, without being perceived to be associated with a particular national, financial or commercial agenda.

Going forward, and building on its experiences of engaging with the private sector around CSR to date, UNDP will increasingly encourage the private sector to engage in 'next generation' CSR activities by looking at how its core business activities, competencies and key assets can be deployed to support Priority Areas 1 – 4 of the UNDP Private Sector Strategy, i.e. to contribute to inclusive market development. At the same time, UNDP will continue to strategically engage with 'traditional' CSR activities that contribute towards the achievement of MDGs and other development priorities that cannot be addressed through market mechanisms.

### *Objectives*

UNDP has the following main objectives in promoting CSR and engaging the private sector in the development process:

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<sup>53</sup> There are 10 Global Compact principles in the areas of human rights, labor rights, environment and anti-corruption. <http://www.unglobalcompact.org>

- i. To facilitate dissemination, dialogue and adoption of best practice CSR approaches and application of sustainability principles, in particular related to the environment, among private enterprises at the country level and how these can support broader development priorities.
- ii. To engage the private sector in strategic, larger scale partnership initiatives that are deemed to have significant impact in UNDP's different focus areas or on the MDGs.
- iii. To facilitate engagement of the private sector in policy dialogues relating to national and local development priorities and governance issues, as well as on more specific development issues such as private sector and inclusive market development and environment and energy.
- iv. To facilitate and support the private sector, governments and other actors to examine and implement CSR approaches that deploy core business assets that can contribute to developing inclusive markets (in particular Priority Areas 1-4 of the UNDP strategy above) and strengthening sectoral and national competitiveness.

#### *Service Offer*

In order to meet these objectives, UNDP will adopt the following approaches, building on its past and current work.

CSR activities that are aligned with local, national and global development priorities: Based on the commitment of Global Compact participants in the 2007 Global Compact Leaders Summit Geneva Declaration<sup>54</sup> to strengthen their engagement in GC Local Networks, UNDP will continue and strengthen its commitment to the Global Compact as a framework and platform to convene dialogue and learning, catalyze partnerships and support implementation of CSR principles. A set of tools and examples will be developed to provide practical guidance on how GC networks can encourage CSR that supports inclusive markets and the MDGs.

UNDP will also facilitate involvement of the private sector in other forms of public-private dialogue at global, national and sub-national levels relating to its development priorities.

Strategic Partnerships: At corporate level, UNDP will focus on engaging in fewer but more strategic, larger scale partnerships with potential for significant development impact.

Firstly, UNDP will engage the extractive industry in support of local governance capacity building and local economic development in countries that are rich in non-renewable natural resources (minerals, oil and gas primarily). New and best practice approaches for public-private collaboration, including with local governments, civil society and donor governments, will be developed and implemented;

Secondly, and relating to its focus on entrepreneurship and inclusive market development, UNDP will seek to engage companies, donors and governments in support of a global platform / programme for entrepreneurship development (see Priority 4);

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<sup>54</sup> [http://www.unglobalcompact.org/docs/summit2007/GENEVA\\_DECLARATION.pdf](http://www.unglobalcompact.org/docs/summit2007/GENEVA_DECLARATION.pdf)

Paragraph 13: "We, the participants of the Global Compact Leaders Summit...will seek to mobilize our subsidiaries and business units around the world to engage in UN Global Compact's Local Networks, with a view to strengthening them so that the ten principles are embedded in cultures and languages everywhere."

Select key strategic global partnerships in support of UNDP's other priority areas, including crisis prevention and recovery, democratic governance and environment and energy will also be explored. A limited number of major global partners that are appropriate and interested in supporting UNDP's work in these areas should be identified and pro-actively pursued as long-term partners. Sufficient time and resources need to be devoted on behalf of UNDP to manage these global partnerships.

Furthermore, new policies and guidelines for appropriate and effective engagement in partnerships with the private sector will be developed to support and guide increased decentralization to Country Offices in developing partnerships with the private sector.

The role of CSR in driving competitiveness and access to markets: Building on its work with the Global Compact networks and CSR, and responding to the emerging interest from governments to better understand their role in creating incentives for CSR as a mechanism to improve competitiveness and access to markets, UNDP will seek to develop further competency in advising and working with governments, the private sector and other stakeholders on this issue. As part of this, UNDP will seek to pro-actively follow up on the commitment by participants in the 2007 Global Compact Leaders Summit to '*encourage our supply chain partners and other organizations we do business with to commit to the UN Global Compact and its ten principles.*'<sup>55</sup> This commitment will also be linked to under UNDP Private Sector strategic priority 2 above (Facilitating Pro-Poor Value Chain Integration).

#### *Implementation Arrangements*

UNDP will explore possibilities for further cooperation with the Global Compact with a view to increasingly engage GC participating companies in support of the development of inclusive markets (priority areas 1-4 of UNDP's strategy) and in ways that more explicitly integrates and builds on companies' core business activities and competencies. Closer cooperation with other UN agencies involved with the Global Compact, especially at the country level, will also be considered.

Concerning partnerships with the extractive industry, corporate partners will be engaged at both country, regional and global level where possible. Cooperation arrangements with donor governments with a strong interest in extractive industry will also be explored, as will be cooperation opportunities with the WB/IFC and other UN agencies. Internally, close cooperation between relevant UNDP HQ units, regional programmes and country offices will be ensured.

Close cooperation between the Private Sector Division and other practices such as Environment and Energy will also be required to ensure effective and innovative engagement of the private sector, in particular in areas such as climate change, biodiversity protection and sustainable energy.

Regarding the focus on CSR as a driver of competitiveness, UNDP will seek to develop institutional partnerships with leading international, regional and national CSR and business advocacy organizations in order to undertake further research and analysis on this issue, as well as for cooperation in providing advice and assistance to private and public sectors.

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<sup>55</sup> [http://www.unglobalcompact.org/docs/summit2007/GENEVA\\_DECLARATION.pdf](http://www.unglobalcompact.org/docs/summit2007/GENEVA_DECLARATION.pdf)  
Paragraph 14.

Finally, UNDP will take the lead in strengthening UN country team coordination and cooperation with regards to engagement with the private sector.

**Table 5. Promoting Corporate Social Responsibility in support of the MDGs and Inclusive Markets – Links to Regional Programmes**

RBLAC's 2008-2011 strategic plan supports coordination between national and regional actors to *promote public-private partnerships and responsible corporate citizenship*.

RBA's 2008-2011 strategic plan advocates for the *promotion of more active engagement by the private sector in support of MDGs through partnership vehicles and scaling up of corporate social responsibility initiatives*.

## Section III – Next Steps

### Supporting the Strategic Plan

It is envisaged that all five of the priority areas outlined in the previous section will contribute directly to the development of inclusive markets and to the implementation of the UNDP Strategic Plan for 2008-2011. A table showing the link between the individual priorities, and Strategic Plan focus areas, key results and outcomes is contained in [Annex D](#).

Responding effectively to each of the five strategy priorities will require a concerted and well coordinated effort at all levels of UNDP. In addition to implementation arrangements for individual priorities outlined above, steps will be taken to build on existing programmes and maximise their contribution to the achievement of the five priorities, to strengthen implementation capacity at headquarters, regional and country office levels, and to significantly enhance existing knowledge management processes relevant to all aspects of inclusive market development.

### Global Programmes

In order to address priorities 1, 2 and 3, the UNDP will continue to implement the GIM, GSB and PPPSD programmes, seeking to continuously improve and update them in response to feedback gained on emerging needs and programme outcomes in participating countries.

**Growing Inclusive Markets (GIM)** - The GIM programme contributes directly to priorities 1,2, 3 and 4 by aiming to raise awareness and information on how businesses, but also governments and civil society can create opportunities for the poor through market-based approaches (see [Annex B.1](#)). Growing Inclusive Markets builds a platform for action. Its initial products: data, catalogs of experience and analysis intended to help us better understand the developing world's markets—their composition, opportunities to expand their reach, and challenges in doing so.

In order to meet the priorities of the PS Strategy in its second phase, the GIM programme will be further developed and implemented in two ways:

- Countries will be provided with a kit of diagnostic tools and methodologies for developing national reports that examine the inclusiveness of markets in individual countries
- In a number of business-in-development 'hot spots' around the world, the UN will launch national multi-stakeholder processes designed to share experiences and knowledge of effective business models that benefit the poor, and encourage public and private actors to take action to replicate and scale up those innovations that have successfully grown inclusive markets.

**Growing Sustainable Business (GSB)** - The GSB programme contributes directly to priorities 2, 3 and 5 and thus has a central role to play in the achievement of the strategy objectives (see [Annex B.2](#)). The programme has recently undergone a strategic review with the objective of creating a service delivery platform that is more focused on achieving demonstrable systemic impact at the field level, improved quality control and a rationalisation of the programme portfolio according to consistent project identification and selection criteria.

In accordance with the findings of the review, the project will in future place a greater emphasis on outputs that lead to market and sector led growth at the meso- and macro-levels, extending beyond immediate project beneficiaries. All new brokers will be required to undertake a comprehensive country scoping analysis that, amongst other things, seeks to identify those sectors which offer the greatest opportunity to contribute to inclusive market development and thus achieve systemic development impact. The programme will focus increasingly on facilitating linkages with capital providers to promote sector wide development initiatives at regional and country levels and will seek a more formal collaboration with the Global Compact Office and GC regional resource people in order to support effective use of the Global Compact local networks as platforms for GSB interventions.

**Public Private Partnerships for Local Service Delivery (PPPSD)** - The PPPSD programme contributes directly to the achievement of priority 3 in the area of local infrastructure services (See [Annex B.3](#)). The programme will continue to assist UNDP Country Offices and UN Country Teams in promoting enabling policy, regulatory and institutional environments for public-private partnerships for local service delivery and building the capacity of key local partners, including local governments, local businesses and communities. The PPPSD programme will pursue its objectives through two main instruments: country level initiatives selected on a demand-driven basis (including joint initiatives with other UN Agencies, partners' programmes and facilities) and a Global Learning Network which fosters the identification and exchange of experiences and lessons learned on local level pro-poor partnerships for service delivery. In addition the programme will promote the development of new knowledge products and capacity development tools that support of pro-poor multi-stakeholders partnerships for local service delivery.

## Research and Development

In order to position UNDP as a leading player in pro-poor private sector arena, it is essential that increased efforts are made to contribute to, and stay abreast of, on-going research and development efforts in each of the five priority areas, drawing wherever feasible and appropriate on UNDP's considerable 'on-the ground' experience. To this end, a number of steps will be taken to encourage and support new in-house research and development initiatives, targeted at important 'knowledge gaps' pertinent to the strategy. Examples include:

- Emerging best practices in SWAPs for pro-poor private sector development – findings from the Benchmarking study indicate that a number of donors are supporting sector wide approaches to private sector development,<sup>56</sup> but very little is understood about the scope and impact of these efforts. Drawing on the approach promoted by UNCDF in respect of SWAPs for financial services and local development, further research is required to identify effective methodologies for the development and implementation of sector assessments, nationally owned strategy and action plans and investment modalities for pro-poor private sector development (priority 1).
- The identification of pro-poor growth sectors – building on the work of the ILO-UNDP Joint Programme on Employment and Poverty reduction<sup>57</sup> and the GIM programme, further research is required to develop practical methodologies for the identification of viable employment-intensive sectors and investment opportunities that can be used to inform policy dialogue on pro-poor private sector development (priority 1) as well as to target

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<sup>56</sup> Benchmarking Study p.26

<sup>57</sup> See <http://www.undp.org/poverty/emplstrat.htm> Op cit.

integrated value chain initiatives (priority 2) and investments in pro-poor goods and services (priority 3) respectively.

- The identification and promotion of pro-poor business models – building on the work of GIM and the ODS<sup>58</sup>, further research is required to identify viable and replicable business models underpinning successful ‘bottom of the pyramid’ investments. The results of this work will be used for direct advocacy purposes (i.e. with potential investors) and to train GSB brokers and private sector focal points at regional and country office levels.

Extensive market or sector specific research will also be required in support of priority 2, but wherever appropriate efforts will be taken to utilise existing value chain analysis undertaken by governments and donors in sectors that have the potential to contribute to inclusive growth.<sup>59</sup> Access to shared information will be facilitated by active UNDP participation in the Donor Committee on Enterprise Development (DCED , see further below).

### **Capacity Building**

In addition to strengthening key market institutions and business organisations in programme countries, the successful implementation of the strategy will require substantial technical capacity building for implementing UNDP country offices. To this end, support will be provided for the establishment of a global private sector Community of Practice (CoP). This will be built on functioning CoPs at regional level, in order to provide a platform for technical training, exchange of experience and best practices.<sup>60</sup>

During the establishment phase of the CoP a comprehensive mapping will be undertaken of private sector expertise and experience in regional centres and country offices (including temporary contract staff) with a view *inter alia* to identifying sources of in-house expertise in generic PSD and PSE areas (priorities 1, 4 and 5), as well as sector specific experience and expertise relevant to pro-poor value chain integration (priority 2), and investments in pro-poor goods and services (priority 3).

It is envisaged that CoPs will be managed primarily at regional level, convening at global level for the purpose of addressing areas of common concern. Considerable interest, for example, has already been shown in sharing global experience on promoting competitiveness in emerging (middle income) countries in Latin America, Eastern Europe and Asia. Early priorities for technical training will focus on approaches to ‘M4P’ and pro-poor value chain analysis (VCA) methodologies.

### **Knowledge Management**

Subject to demand, the CoP will also organise global conferences and workshops to showcase best practices in inclusive market development and CSR, and to highlight and discuss key research findings (above).

Consideration will be given to establishing and managing a moderated private sector and development network, building on the existing SEMFIN network. In addition to facilitating on-

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<sup>58</sup> *Innovations to Make Markets more Inclusive for the Poor* ODS Draft Paper 04.07

<sup>59</sup> See <http://www.globalvaluechains.org/> and the DCED inter-agency database on value chain studies on: <http://www.value-chains.org/dyn/valuechains/bdssearch.home>

<sup>60</sup> An active regional private sector CoP already exists in RBEC

line discussions, the network will manage a website and act as a central repository for key information sources, including applied research publications, technical reports and data sets. The website will provide the 'pro-poor' equivalent of the World Bank PSD Rapid Response website.<sup>61</sup>

The possibility will be explored of establishing both the network and the website as a joint UN agency initiative. It is envisaged that this will yield considerable benefits including expanded access to knowledge and expertise, reduced operational overheads and increased 'policy coherence.'

## **Partnerships**

As outlined under each of the five priorities, the successful implementation of the strategy will require closer cooperation with the World Bank and other specialist UN Agencies operating in the private sector arena i.e. UNIDO, ILO, UNCTAD, FAO and IFAD. In addition, UNDP will seek to play a more active role in other key international donor fora with an interest in inclusive market development. Corporate membership in DCED will be an early priority and will yield considerable benefits, including access to a multi-donor experience and knowledge sources, the ability to contribute to (and influence) on going debates in inclusive market development and significant resources for cost sharing, joint programming and resource mobilisation with other participating agencies.<sup>62</sup>

## **Resources**

In order to resource the strategy, a comprehensive assessment will be undertaken of existing competencies and capacity needs, at different levels of the agency. In addition to regionally based sector advisers, limited additional capacity is likely to be required at HQ level, particularly to service priorities 1, 2 and 5. An improved balance of core to non-core posts may also be required in order to ensure greater continuity. A detailed memorandum of resource requirement will be drafted subsequent to agreement on strategy.

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<sup>61</sup> <http://rru.worldbank.org/>

<sup>62</sup> See <http://www.enterprise-development.org/default.asp>. Full membership of DCED entails a nominal annual charge to cover the cost of the committee's full-time secretariat.