A photograph of a smiling woman, likely of African descent, wearing a light blue patterned headscarf and a colorful, floral-patterned dress. She is holding a large, shallow metal tray filled with a golden-brown grain, possibly millet or sorghum. Another person's hand is visible in the lower right, offering her a stack of banknotes. The background is a soft-focus green, suggesting an outdoor setting. The image is overlaid with a green horizontal band containing the title text.

*Inclusive Markets
Development*

HANDBOOK

Inclusive Markets Development Handbook (2010)

This series also includes the following supporting tools:

Private Sector Division, UNDP: "Assessing Markets" (2010)

Private Sector Division, UNDP: "Brokering Inclusive Business Models" (2010)

Private Sector Division, UNDP: "Guide to Partnership Building" (2010)

This document was produced by the Private Sector Division, Partnerships Bureau, UNDP

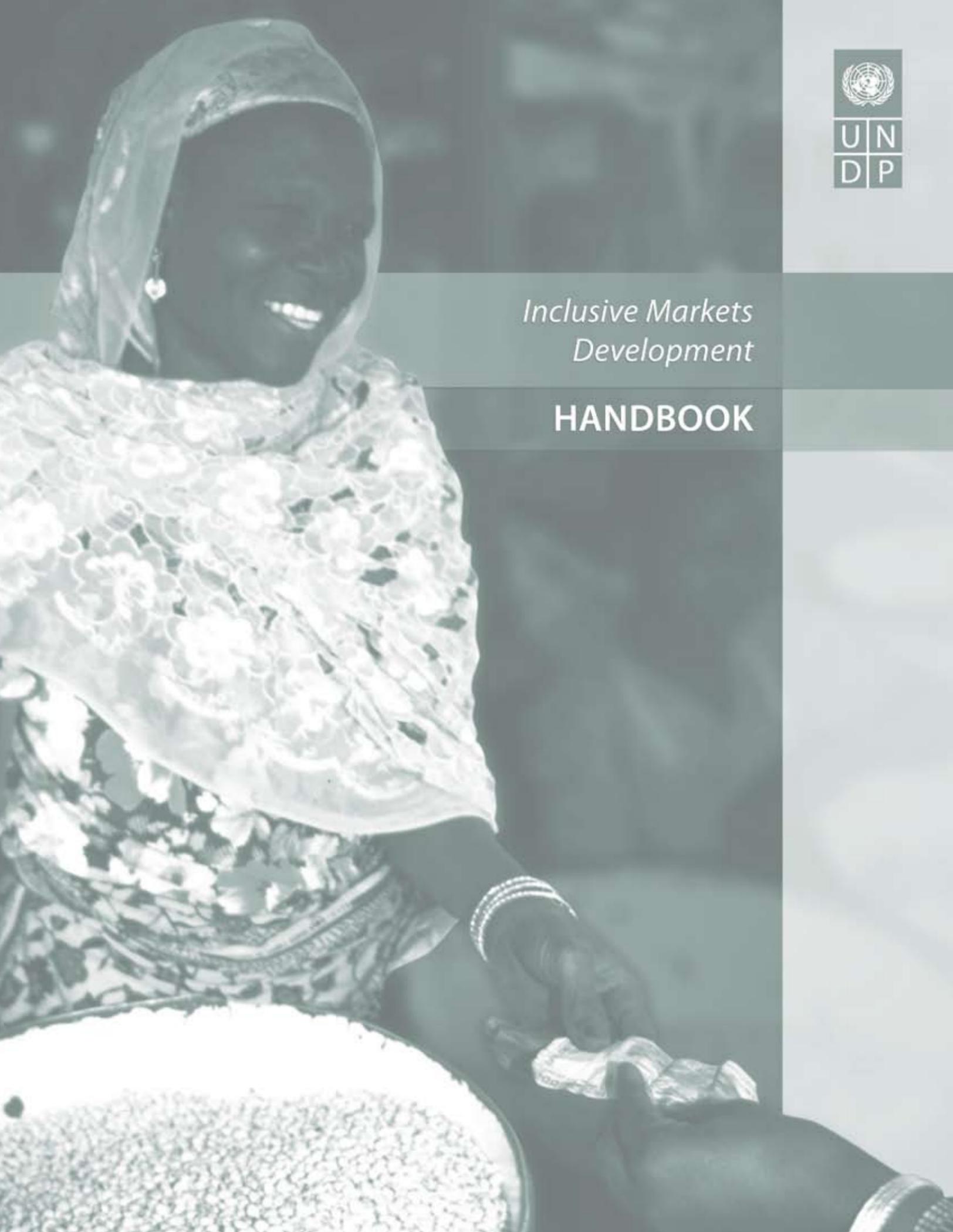
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A black and white photograph of a smiling woman wearing a headscarf and a patterned dress. She is holding a small object in her hand, and a large bowl of grain is visible in the foreground.

*Inclusive Markets
Development*

HANDBOOK

Abbreviations

BCtA	Business Call to Action
BOP	Base of the Pyramid or Bottom of the Pyramid
CO	Country Office
CSA	Cost Sharing Agreement
CSO	Civil Society Organization
CSR	Corporate Social Responsibility
DCED	Donor Committee for Enterprise Development
GIM	Growing Inclusive Markets
GSB	Growing Sustainable Business
IMD	Inclusive Markets Development
MDGs	Millennium Development Goals
M&E	Monitoring and Evaluation
MOU	Memorandum of Understanding
MSME	Micro, Small and Medium Sized Enterprises
POPP	Programme and Operations Policies and Procedures
PSD	Private Sector Development
PSE	Private Sector Engagement
VC	Value Chain
VCA	Value Chain Analysis
VCD	Value Chain Development

Definitions

BCtA	The Business Call to Action challenges companies to develop inclusive business models that offer the potential of development impact along with commercial success.
BDS	Business Development Services are services used by an enterprise to assist in business functioning or growth.
BoP	Base of the Pyramid refers to the population in the poorest socio-economic group or those who live on less than \$2 per day.
CSR	Corporate Social Responsibility is a business initiative which includes activities ranging from philanthropy to strategic social investments. These activities are aimed at making businesses more sustainable and at increasing business contribution to equitable development.
Embedded Services	Embedded Services are those that are included as part of a transaction, for example an input supplier may provide technical information when selling inputs to farmers.
GSB	Growing Sustainable Business (GSB) is a global initiative undertaken by the UNDP which aims to promote inclusive markets by identifying lead firms and working with these businesses. GSB is the predecessor of IMD.

GIM	The Growing Inclusive Markets (GIM) initiative is a UNDP-led global multi-stakeholder research and advocacy initiative that seeks to understand, enable and inspire the development of more inclusive business models around the globe that will help to create new opportunities and better lives for many of the world's poor.
Global Compact	The Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption.
Impact Logic	The Impact Logic shows the chain of causality through which interventions lead to the expected project results, including objective(s) and impact goal.
Inclusive Business Models	Inclusive business models include the poor into a company's supply chains as employees, producers and business owners or develop affordable goods or services needed by the poor.
Inclusive Markets	Inclusive Markets are markets that include the poor and other marginalized groups (e.g. women, youth and indigenous people) on the demand side as clients and customers and on the supply side as employees, producers and business owners.
Interventions	Interventions are the short-term activities carried out by the partners to facilitate and support the selected sustainable solutions.
Lead Firms	A lead firm refers to an input supplier or buyer who, in the course of doing business with MSMEs, provides information, technology or other support to its MSME customers or suppliers.
Market	Market refers to the interaction of demand and supply for a particular product or service. Markets in the IMD field include input, service and financial markets. It also refers to a consumer segment for a particular product or service. For example, the export market or urban market.
Sector	A sector that produces a particular product or service and the related broader market system, for example the dairy sector. In this document, markets and sectors are used interchangeably.
Stakeholders	Stakeholders are the individuals or firms who will benefit from the development activity or whose interests may be affected by that activity.
Sustainability	Ability of project impact to continue on an ongoing basis without financial support from government or charity organizations. Also refers to no negative environmental or social impact as a result of project activities.
Value Chain (VC)	A Value Chain is a sequence of related value adding business activities for a specific product or service, from primary production through processing, transformation, marketing, and up to the final sale of the particular product to consumers. It also includes the provision of specific inputs needed in the different stages of production.
Value Chain Analysis (VCA)	Analyzing market information on a particular market in order to understand various aspects of the VC including VC players, VC characteristics and the enabling environment.
Value Chain Development (VCD)	Value Chain Development (VCD) is a development approach which aims to achieve inclusive, sustainable economic growth and poverty reduction by integrating small-scale producers, such as farmers or artisans, into growing, stable, or high-value markets.

Foreword

Recognizing the vital role that markets play in poverty reduction and economic growth, UNDP has adopted a focus on Inclusive Markets Development. Under the IMD approach, project activities focus on developing private sector markets to make them more inclusive of and beneficial to the poor as producers, consumers, and employees. A similar pro-poor market facilitation approach is currently being adopted by many other development agencies, including the Asian Development Bank, the UK Department for International Development, and Swedish International Development Cooperation Agency, falling under the rubric of “making markets work for the poor.”

Even before inclusive markets were formulated as a strategic objective by UNDP in its Private Sector Strategy (2007), attempts were made at the country, regional and global levels to promote what is now termed inclusive markets, for example through the Growing Sustainable Business (GSB) initiative. The IMD approach builds on these successes but takes a more holistic approach, one that includes activities at the micro, meso, and macro level for more sustainable and systemic impact.

While project activities and interventions vary according to context and situation, IMD projects typically follow the same project cycle: 1) Identification of market opportunities; 2) Project formulation – assessing the market and defining interventions that will address the main constraints for making markets work better and be more inclusive, 3) Implementation to facilitate systemic and sustainable changes in the market; and 4) Results measurement and exit. In order to achieve sustainable and efficient impact, the approach promotes broad multi-stakeholder engagement throughout all stages of a project from planning through implementation to monitoring and evaluation.

The objective of this handbook is to provide UNDP Country Offices (COs) with a flexible programmatic approach to designing, implementing and overseeing IMD interventions at the country level. Using the IMD approach, COs will combine the competencies of the private and public sectors to develop interventions that contribute to making the markets more inclusive. COs that follow the IMD approach will become part of a global advocacy and knowledge network and get access to training, tools and other forms of technical guidance in facilitating inclusive markets development.



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1 INTRODUCTION TO THE HANDBOOK

The Inclusive Markets Development (IMD) approach recognizes that different interventions are required at different places and times in order to ensure that markets function more effectively for the poor. This may include entrepreneurship promotion, enterprise development and creation of supportive market infrastructure, enhancing market institutions, policies and legal frameworks. The defining factor, however, is that the IMD approach seeks to strengthen the whole market system where needed – enterprises, business relationships, market structures or the business environment. IMD can also be adopted in other development realms, for example leveraging the private sector to address gaps in educational services, foster energy and environmental solutions or used as a strategy in crisis prevention and recovery situations. Thus the approach not only addresses poverty alleviation but typically several of the other Millennium Development Goals (MDG's). Regardless of the context, in order to arrive at interventions that truly promote inclusion the approach promotes broad multi-stakeholder engagement throughout all stages of a project from planning through implementation to monitoring and evaluation.

1.1 Setting the Stage

The objective of this handbook is to provide Country Offices (COs) with a flexible programmatic approach to designing, implementing and overseeing IMD interventions at the country level. Using the IMD approach, COs will combine the competencies of the private and public sectors to develop interventions that contribute to making the markets more inclusive. COs that follow the IMD approach will become part of a global advocacy and knowledge network and get access to training, tools and various other forms of technical guidance in facilitating inclusive market development.

The IMD handbook acts as a reference guide throughout the project and programme cycle and provides links to resources, tools and guidelines for each step in the cycle. Chapter 2 of the Handbook provides a brief summary of the IMD approach, including a discussion of key concepts and guiding principles. Chapter 3 provides an overview of the project cycle with a short description of the process and highlights the important role stakeholders play throughout the project cycle. Chapters 4 to 7 explore each step of the process in further detail, providing expanded descriptions of key activities.

1.2 What is IMD?

In many developing and transition countries, the foundations for private sector activities are not in place and the legal and regulatory institutions required to support markets are weak or non-existent. The business environment often obstructs or penalizes entrepreneurship and investment rather than encouraging it. As a result, markets tend to favour existing elites and reinforce established patterns of inequality and social exclusion. Combating these problems and ensuring that markets contribute to more inclusive growth processes is the main goal of the IMD approach. IMD seeks to include the poor more meaningfully and effectively into growing markets both on the demand side as clients and customers, and on the supply side as employees, producers and business owners. Inherent in the concept “Inclusive Markets” is sustainability, here meaning environmental, social, and commercial. In the long term lack of these considerations will harm exactly the group of excluded and marginalized populations that the IMD approach targets.

Inclusive markets are markets that include the poor and other marginalized groups (e.g. women, youth and indigenous people) on the demand side as clients and customers and on the supply side as employees, producers and business owners.

1.3 IMD and the UNDP Private Sector Strategy

UNDP's Private Sector Strategy (2007) recognizes that private sector development (PSD) and private sector engagement (PSE) are central not only to poverty reduction, but also to achieving wider objectives in the areas of energy and environmental service delivery, crisis prevention and recovery and democratic governance. IMD provides a practical approach to implement the five priorities of the Private Sector Strategy. The priority areas are:

1. Establishing/strengthening the policy and institutional infrastructure
2. Facilitating pro-poor value chain integration
3. Brokering investments in pro-poor goods and services
4. Fostering inclusive entrepreneurship
5. Encouraging Corporate Social Responsibility in support of inclusive market development

A value chain is a sequence of related value adding business activities for a specific product or service, from primary production through processing, transformation, marketing, and up to the final sale of the particular product to consumers. It also includes the provision of specific inputs needed in the different stages of production.

While the IMD approach covers all five priority areas, the central focus is on value chain integration (Priority 2) and development of pro-poor goods and services markets (Priority 3). The other three areas are typically interlinked and will be addressed as part of the focus on Priorities 2 and 3; as such they will not be viewed as wholly distinct areas of interventions. Support for pro-poor value

chain integration (Priority 2) for example, may entail a range of cross-cutting and sector specific policy reforms (Priority 1) as well as capacity building support for poor producers (Priority 4) (Private Sector Strategy, p.16). Below are two case studies: one illustrating a project focusing on value chain integration and one illustrating development of pro-poor goods and services.

CASE STUDY: Dairy Value Chain Integration in Armenia

Description

Ashtarak-Kat, a leading dairy producer in Armenia, launched this initiative with the Centre for Agribusiness and Rural Development (CARD) with the aim of building sustainable milk collection centres for small-holder farmers in the rural Tavush region. Tavush has a need for investment in modern milk cooling and storage infrastructure, essential to building a modern dairy market. The initiative aims to enliven the region's milk sector and to help its inhabitants—of whom 60% depend on agriculture for their livelihoods—by renovating premises, purchasing equipment, developing farmers' cooperatives and linking them to milk buyers and by assisting the farmers in organizing, collecting and selling.

UNDP role

UNDP brokered the relationship between the private sector, CARD and the farmer associations and additionally contributed to the full renovation of collection centres and purchase of two milk trucks.

Results

Two co-operatives have been registered and three sustainable milk collection centres have opened, maintaining a 1,600-litre daily capacity that caters to 1,000 small-holder farmers and benefits 3,000 households from 10 villages. The household incomes of beneficiaries have increased by approximately 20–25%. The quality of milk has risen, creating healthy competition among farmers and creating new incentives for improving production. Today farmers sell milk to a variety of buyers and the centres have become fully self-sustaining businesses with appointed managers.



CASE STUDY: Provision of financial services needed by the poor

Description

The Pacific Financial Inclusion Programme (PFIP), a partnership of UNDP, UNCDF, the European Union and AusAid, aims to expand access to financial services to the 80% of the region's people who are excluded—mostly rural and low-income women and micro-entrepreneurs. The programme will create knowledge and disseminate it to policymakers, regulators, banks, non-bank financial institutions, telecommunications operators and other players to overcome challenges in financial-service delivery to these vulnerable groups.

UNDP role

PFIP can act as both broker and partner, with these roles varying during the process of engagement with a particular company. UNDP's engagement includes technical assistance (providing a consultant from MPesa to Vodafone Fiji, organising training-of-trainers on financial literacy); policy dialogue (formation of the National Financial Inclusion Task Force, organization of the Microfinance Pacific Week that brought service providers, micro-finance institutions, regulators and donors to chart actions on micro-insurance and financial education); awareness and knowledge (information exchanges in five countries on m-banking and micro-insurance; financial literacy and gender impact assessment; cash-point research; a DVD on micro-insurance; national financial-services-sector assessments); and grants to five companies on a cost-sharing basis.

Results

Collectively the five companies will have contributed to reaching 150,000 clients—at least 30% of them women—by the end of 2010; 113 trainers will have been trained; 48,000 people (mainly rural) will have received financial literacy training from 36 national organizations.

In addition, Pacific Ministers of Finance and central bank governors have adopted a set of common goals on financial education and access to financial services. At the same time new business models (m-banking products and services) are being developed and rolled out by the partner companies.



1.4 Supporting Documents

This handbook is not meant to be an in-depth IMD toolkit; rather it serves to explain the approach and provide an overview of the project cycle. COs who are looking for detailed tools should refer to the following guides within the IMD series:

- UNDP PSD HQ (2010): “**Assessing Markets.**” This guidance note explains the critical issues for consideration when carrying out a rapid assessment and a market assessment.
- UNDP PSD HQ (2010): “**Broker-ing Inclusive Business Models.**” This primer provides essential information

and tools for building inclusive business models with companies and other partners and stakeholders.

- UNDP PSD HQ (2010): “**Guide to Partnership Building.**” This guide provides tools and guidance on how to identify and work with stakeholders/partners throughout a project/programme.

These tools are all available for download from the IMD user group in Teamworks where feedback on the tools is also welcomed. In addition to these tools, the IMD approach is based on the priorities set out in UNDP’s Private Sector Strategy (2007) and falls within the framework of [POPP](#).

Key Resources:

IMD Tools and the Private Sector Strategy

The UNDP Private Sector Strategy, the IMD Handbook and the above-mentioned Guides/Tools within the IMD series are all available online for download in the IMD user group in [Teamworks](#).



2 INCLUSIVE MARKETS DEVELOPMENT (IMD) APPROACH

2.1 IMD Rationale

Globalization has dramatically changed the way world markets operate. They are increasingly competitive with enhanced flows of information, capital, technologies, and services. And while globalization has led to overall economic growth, benefits have not accrued to all segments of the population. While the poor are frequently involved in markets as employees or owners of small enterprises and businesses, they are often not able to interact in growing markets due to barriers preventing their participation. Yet, with access to growing input and output markets, the poor are provided with opportunities to build their business and access products that have a social and health benefit.

IMD operates on the principle that effective development initiatives that carefully support markets to develop in a transparent and non-discriminatory manner can help the poor improve their incomes and gain better access to needed goods and services. By using existing market systems and channels to address the problems of poverty, programmes can efficiently and effectively increase scale of impact. However, initiatives need to strengthen market systems, not just a handful of businesses, in

order to ensure sustainable change. Focusing only at the producer level or working just with lead firms will not lead to the required economic growth required for poverty reduction. A more holistic approach is necessary, one that encourages competitiveness of entire industries while ensuring that the poor are able to compete in or benefit from these new markets.

2.2 Guiding IMD Principles

While also applicable in other development realms, there are some key guiding principles of market facilitation to be considered throughout the project cycle.

- **Inclusion of Stakeholders:** Inadequate stakeholder involvement is one of the most common reasons programmes and projects fail. The often cited benefits of involving stakeholders include access to relevant information and resources. However, it is also important to bring stakeholders together for their unique perspective on the barriers preventing market growth and requirements to overcome these constraints. A broad participatory approach helps ensure programme legitimacy and neutrality, a better programme design, stronger local ownership, buy-in and commitment and therefore greater sustainability and impact.

- **Operate at Multiple Levels:** Stimulating the market without becoming part of it requires recognition of the diverse and broad spectrum of engagement options for pursuing market development objectives, including involvement of multiple stakeholders and partners at various levels (macro, meso, micro). In performing such a stimulating or catalytic role it is important to understand the root causes of poor functioning markets and those that exclude the poor and other marginalized groups. Interventions may work at higher levels of the value chain or on larger enabling environment issues; the impact goal, however, remains focused on including the poor in growing markets.
- **Addressing sustainability:** IMD projects must be time-bound; it is therefore crucial to have an exit strategy from the beginning of the project to ensure sustainability of the interventions. Sustainability is defined as the capacity to ensure that benefits continue beyond the period of the project. Sustainable market functions can only be undertaken by actors that are actually part of the market system. Be clear on whether a proposed intervention is just temporary or if it is expected to be a permanent market system function in the future. In case of the latter, an existing or potential market player with incentives and capacity to perform the function should be identified and strengthened. Sustainability also means that interventions are demand driven, i.e. that there is a clearly identified market demand from actors in the system for the targeted product or service.
- **Avoiding market distortion:** In facilitating and implementing IMD interventions, it is important to consider how interventions might affect market relationships, provide unfair advantages to select market actors or in other ways deliver unintended consequences that distort markets. This also includes avoiding short-term project subsidies and direct grants that can lead to distortion of markets; for example, free distribution of fertilizers may lead to artificial lowering of prices which in turn could lead to crowding out existing private sector suppliers.
- **Governance and relations between market players:** In facilitating IMD it is essential to understand the roles and responsibilities of the various stakeholders involved in the market and the power relationships or asymmetries between these stakeholders. An IMD project should strive to address information or power asymmetries (for example through capacity building of “weak” stakeholders) and facilitate more transparent governance of the market system in question.
- **Periodic monitoring and flexibility:** Markets are dynamic; successful IMD initiatives conduct periodic diagnostic tests to ensure interventions are still valid and appropriate. This may mean that interventions mentioned in the project document change and evolve to respond to wider changes in the market system, for example new government policy or new entrants in the market. Ensuring flexibility in the programme design will help ensure more sustainable and effective impact.
- **Foster economic choice:** The basis of IMD is economic choice for the poor; this entails involvement of multiple partners in programme implementation. Whether working with lead firms or using other IMD models, it is important that programmes work with a range of actors. This ensures competition for the poor thereby avoiding monopolies while improving the range of products and services on offer.
- **End Market Driven:** IMD focuses on enhancing the poor’s interaction with markets. In order for this interaction to be sustainable and viable, markets selected must be those that offer substantial growth potential. Interventions must also consider and address the different end market opportunities with activities designed according to the specific demands and criteria to compete in these markets.
- **Significant Impact:** IMD initiatives must select activities and interventions based on

those that offer the greatest opportunity to achieve scale. This means selecting opportunities that will not only reach large numbers of the poor but that also will lead to significant income increases. Programmes should identify opportunities where they can achieve the greatest depth and breadth of impact.

2.3 IMD and the Millennium Development Goals

As a driver of growth, markets and the private sector obviously play a critical role in addressing Millennium Development Goal (MDG) 1: End Poverty and Hunger. By harnessing the private sector to improve incomes and employment generation, private sector development can potentially help reduce the number of people living below the poverty line. However, Inclusive Market Development can also contribute significantly to the remaining MDGs, as demonstrated in Figure 1 below. The private sector, for example, can be used to address health issues where public services

are not available. Similarly, commercial application and activities can also be employed to enhance women's empowerment. Furthermore, markets and the private sector play a lead role in addressing and identifying solutions to issues of environmental sustainability, including climate change mitigation and adaptation. For further illustrations of the role of markets and the private sector in addressing the MDGs, please see "[The MDGs: Everyone's Business](#)".

Additional Resources:

[BDS Guiding Principles, 2001, Donor Committee.](#)

[How Sustainable Can Business Development Services Really Be? Report on Harare Workshop, 1998, Committee of Donor Agencies for Small Enterprise Development.](#)

Figure 1: Private Sector and the MDGs

The Private Sector is an important force in meeting the MDGs. It:

	<ul style="list-style-type: none"> • Is the engine of economic growth & main contributor to public revenues • Provides jobs and access to necessary products and services
	<ul style="list-style-type: none"> • Has an influential role in tackling child labour in the work place • Facilitates the education of employees' children and invests in education
	<ul style="list-style-type: none"> • Strengthens women's economic capacity as entrepreneurs, employees and producers • Contributes to and invests in women's leadership development
	<ul style="list-style-type: none"> • Provides affordable health products and services, including donations • Advocates to support the Rights of the Child and support children's issues
	<ul style="list-style-type: none"> • Provides affordable health products and services, including donations • Improves working conditions and occupational health for women
	<ul style="list-style-type: none"> • Provides affordable health products, services and innovative solutions • Implements workplace HIV/AIDS programmes focused on education, prevention treatment
	<ul style="list-style-type: none"> • Has major environmental impacts and increasingly invests in product and business process innovations to lower impacts
	<ul style="list-style-type: none"> • Is an important partner in promoting investments and an open trading & financial system • Is a crucial partner in supporting youth employment & making new technologies available

CASE STUDY: Solutions for Health – Bionexx in Madagascar

Description

Recognizing the need to develop the cultivation in Africa of *Artemisia Annua*—a plant recommended by WHO and UNICEF as an effective treatment for malaria, a disease that infects 350 million and kills 1 million people every year—UNDP partnered with Bionexx, the sole producer of *Artemisia* in Madagascar, to expand production. Artemisinin, which is extracted and purified from *Artemisia Annua* leaf material, is the major component in the latest generation of Artemisinin Combined Treatments (ACTs).

UNDP role

UNDP invested in a feasibility study aimed at improving production techniques for captive production sites and at analyzing programme opportunities for Madagascar's small farming community. UNDP also convened a partnership with key national and international partners to ensure that the project could be implemented successfully—for example, organising a donor round-table in 2006 that raised funds for project technical assistance and equipment. UNDP has also co-financed the involvement of an international NGO to help Bionexx with its first harvest.

Results

The initiative benefited 4,500 growers in 2010, with a target of 7,300 in 2011. So far in 2010 Bionexx produced 550 tons of *Artemisia Annua* leaf, which helped in 4.5 million ACT treatments, and planned production in 2011 will reach the equivalent for 12 million ACT treatments. Bionexx and its partner Innovexx have invested nearly \$7 million in farming and industrial equipment for this initiative, which has strengthened the value chain by assuring production, transport and information exchange while it has also increased market and economic opportunities for previously isolated rural communities. The leaf increases the revenue of the growers and ameliorates the productivity of the land through alternance, while the system motivates growers to increase yields and seek high leaf quality. The final, crystal form of artemisinin is sold to large pharmaceutical companies involved in manufacturing ACTs.



2.4 UNDP and IMD: From Strategy to Action

While IMD is a fairly new approach for UNDP, the organization already has experience and comparative advantage in relevant areas such as trade, coordination, upstream policy advice, capacity development and partnerships with governments and the private sector. Complementing these strengths is the organization's strong reputation, particularly for impartiality, amongst multinational and local partners based on past experience. These strengths, combined with the organizations strong geographic footprint, place COs in a unique position to play an important role in IMD, particularly in project facilitation and partnership development.

Even before inclusive markets were formulated as a strategic objective in the Private Sector Strategy, attempts were made at the country, regional and global levels to promote what is now termed inclusive markets.

The global initiative Growing Sustainable Business (GSB), which came into existence in 2003, signifies one of UNDP's larger attempts in the inclusive markets area. GSB aimed to promote inclusive markets by identifying lead firms and working with these businesses, for example helping them to strengthen their supply chains and/or promote pro-poor investments. These are also referred to as inclusive business models.

Inclusive business models include the poor into a company's supply chains as employees, producers and business owners or develop affordable goods or services needed by the poor.

GSB signified a new and innovative way for UNDP to work with companies on their core business while promoting development objectives. As the thinking on inclusive business models and markets evolved, it was recognized that in order to achieve the broader systemic impact envisioned in the Private Sector Strategy, a new and more strategic approach would be necessary. In 2009 UNDP introduced the IMD approach. IMD is neither a programme nor an initiative but *a flexible approach for COs to translate the Private Sector Strategy into concrete action on the ground*. The shift from GSB to IMD is based on the need for a more holistic approach, one that fosters the growth of market systems and addresses activities at many levels for a more sustainable, systemic impact.

A lead firm refers to an input supplier or buyer who, in the course of doing business with MSMEs, provides information, technology or other support to its MSME customers or suppliers (ILO).

The IMD approach identifies interventions by selecting specific market sectors that are important to the poor and that also demonstrate clear opportunities for growth and accessing new or expanded markets. It includes engaging the relevant stakeholders in the specific sector or market, including small producers, SMEs, investors, larger lead firms, NGOs, relevant government authorities and other stakeholders in partnership with whom key constraints could be overcome. This ensures a demand driven strategic approach whereby the opportunities for the poor are the

starting point. This is in contrast to the more supply driven, single-focus approach under the GSB initiative where demand from a lead company/investor was the key determinant of sector/market selection and where the focus of project interventions was to develop a company's business model to be more inclusive.

However, the idea of inclusive business models has not been lost in the IMD approach. It is still central to engage companies, lead firms and investors as one part of the broader focus on developing inclusive markets in the selected sector or market.

CASE STUDY: Enterprise Development in Nepal (MEDEP) – Beyond Lead Firm Approach

Description

UNDP Nepal, the government and local partners—with financial contributions from donors AusAid and NZAID—are addressing rural poverty by engaging the population in entrepreneurial activities, particularly in agriculture, forest industry and tourism.

UNDP role

UNDP has co-defined and co-financed the project, monitors progress and works with the government on policy changes to scale up the approach in other parts of the country and contributes to policy development. The government recognized the word micro-enterprise, and UNDP provided feedback to government policy based on project experiences.

Results

The programme has contributed to the growth of more than 46,000 micro-enterprises, 68% of them owned by women and 66% by young people, while 35% are within indigenous communities. The programme has created more than 55,400 jobs, and the entrepreneurs' income has risen by 297% on average. Micro-enterprises, as project beneficiaries, receive advice on environmentally sustainable solutions. Recognizing micro-enterprise development as a viable strategy to enhance poor people's livelihoods and generate self-employment, the government has made it a priority for 2011–13 and plans to expand the programme in all 75 districts.



2.5 UNDP Roles in IMD initiatives

The nature of UNDP's various roles in IMD projects will be outlined in the project document and can, in principle, be categorized according to whether UNDP works as a broker or a partner.

As a **broker**, UNDP *facilitates* partnerships between civil society, the public and the private sectors. The activities that UNDP undertakes as a broker may include convening potential partners, researching context

and feasibility, building the capacity of participating organizations, acting as a promoter to ensure progress of the overall initiative and monitoring the implementation of new partnerships. In some cases, the CO may choose to use a specialized individual broker with expert knowledge within certain sectors/subsectors/markets or adopt a more flexible model where specialized consultants are attached to specific projects within their sphere of specialization and act as brokers/coordinators for these projects.

CASE STUDY: UNDP as Partner

Small businesses in Belarus suffer from a number of institutional constraints that affect their growth, including an unstable legal environment, weak supporting institutions, and low incentives for their growth and development. To address these issues, UNDP worked with a number of partners to enhance consultations between government and the small business community. Activities included establishing teams of experts to perform in-depth studies, proposing improved policy measures, drafting legislations on issues that hinder the growth of small businesses, encouraging debate and consultation between business associations, civil servants, and other stakeholders, and developing awareness amongst the general public on the role of private enterprise.

As a **partner**, UNDP is not merely facilitating but acts an active project partner, for example by providing substantive technical as well as policy advisory support and training.

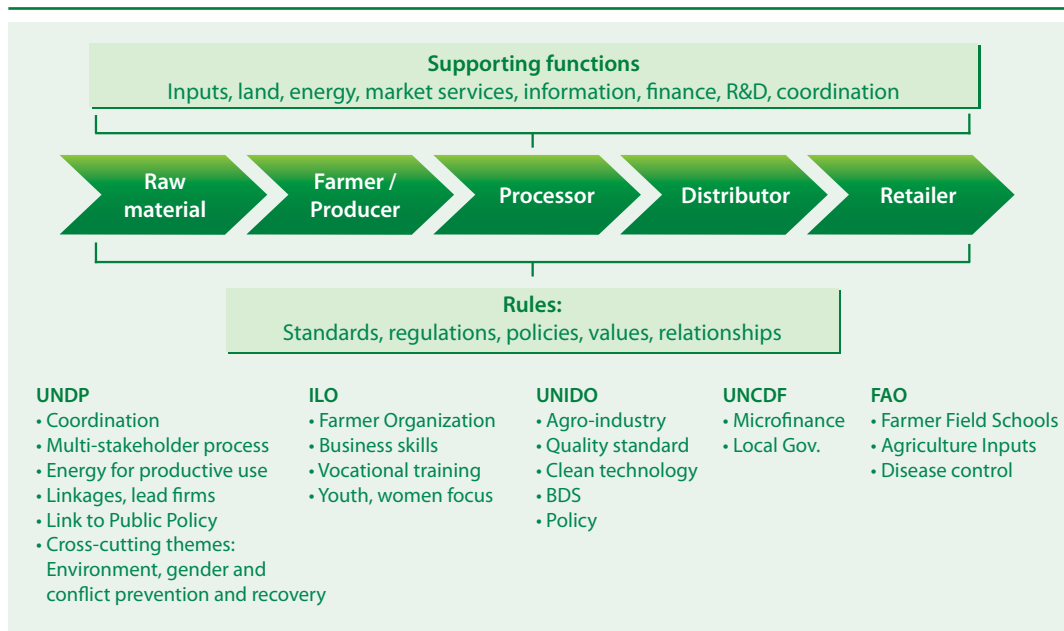
["Policy on Cooperation between UNDP and the Private Sector"](#) (2009) describes in detail these two roles and the extent to which UNDP can engage in different projects.

UNDP's role in the implementation of a specific project will also depend on UNDP's relative strength and comparative advantage versus other stakeholders and potential partners. In line with the ONE UN concept, the IMD approach encourages cooperation with other UN agencies whenever appropriate, particularly with those agencies that possess the technical expertise needed to address

different barriers in a target market/sector. The example below illustrates a hypothetical value chain project in which several UN agencies partner and perform complementary interventions, based on each organization's competency.

A key part of IMD's value proposition is the ability to link to other UN agencies/initiatives active in the area of private sector development such as ILO, ITC, FAO, UNCTAD, UNIDO and others. These agencies may not have an on-the-ground presence, but may offer support (such as training or capacity building) in specific markets and thus could form an important part of a multi-stakeholder project alliance. In Zambia, for example, one of the ILO programmes was BDS Zambia,

Figure 2: Value chain entry points and potential partners (source: UNDP Uganda Scoping Mission, 2009)



focusing on promoting commercial information services for small businesses. It was in this context and through the creation of a joint UN agency programme, that IMD/GSB was transferred to ILO leadership in Zambia. A process to further strengthen UN agency cooperation in value chain development is currently underway, spearheaded by UNDP and ILO. Further details and resources about joint UN work in this area will be available

through the UNDP Private Sector Team-works space.

As a general rule, UNDP should always aspire to tap into opportunities with other partners and players to bring about systemic change and should always keep an eye on strengthening institutional structures and local capacities when developing initiatives for inclusive markets.



3 PROCESS OVERVIEW

3.1 The Project Cycle

The IMD project cycle encompasses four generic stages: 1) identification and selection of market opportunities, 2) project formulation and design of interventions, 3) project implementation to address key market barriers; and 4) results measurement. The cycle intends to serve as a broad framework and an

easy reference guide for UNDP project managers to introduce, integrate, expand or scale up IMD activities in line with UNDP's overall programmatic framework as described in UNDP's [Programme and Operations Policies and Procedures \(POPP\)](#).

Figure 3. IMD Project Cycle

Stage of Project Cycle	Identification of Opportunities Selecting Markets	Project Formulation Designing Interventions	Project Implementation Addressing Market Barriers	Results Measurement & Exit
	Chapter 4	Chapter 5	Chapter 6	Chapter 7
Activities	<ul style="list-style-type: none"> Rapid market assessments Final sector selection Identification of additional stakeholders for project formulation 	<ul style="list-style-type: none"> Stakeholder dialogue Market research Project design • Constraints analysis • Visioning process and solution development • Development of impact logic and interventions 	<ul style="list-style-type: none"> Partner identification Development of written agreements Development and coordination of project interventions Periodic multi-stakeholder engagement Adapting design to changes and demands in the market 	<ul style="list-style-type: none"> Monitoring and Evaluation Phase-out, scale up & exit Best practice dissemination
Key Outputs	<ul style="list-style-type: none"> • Sector selection report 	<ul style="list-style-type: none"> • Action plan/Project document with clear outputs and interventions 	<ul style="list-style-type: none"> • Finalized partner agreements • Project launch • Sustainable market solutions in place • Regular project monitoring 	<ul style="list-style-type: none"> • Final report/outcome assessment • Best practices publication

The following chapters present each step sequentially. However, the approach is flexible and should be adjusted to local circumstances. While it is not intended that all the steps in the four stages are followed in order, the stages should provide a sense of direction to implement the Private Sector Strategy. As mentioned earlier, the programme design should be viewed as a rolling design. Projects need to adapt as markets change; COs therefore need to ensure flexibility as new ideas or innovations are brought forward by stakeholders and businesses.

3.2 The Role of Stakeholders

As stressed in section 2.2, stakeholder involvement is essential to the IMD approach to ensure demand driven programming. Each chapter discusses the specific roles of stakeholders at each step of the project cycle.

Stakeholders are the individuals or firms who will benefit from the development activity or whose interests may be affected by that activity.

Keep in mind that stakeholders will change over time. To ensure that the relevant stakeholders are identified at each stage of the process, it is recommended to carry out a stakeholder analysis. Various stakeholder analysis tools can be used with the main objective to properly identify key stakeholders who may have a strong interest in or ability to influence planned activities. For example, a simple stakeholder importance and influence matrix can be used as illustrated in “[Guide to Partnership Building](#)” (Tool 3).

Typical/Potential Stakeholders in IMD Project

- Government (relevant levels of governments/ministries)
- GIM network of partners
- Investment promotion agencies
- Business associations
- Cooperatives and associations of small or informal producers
- UN Agencies and donors
- NGOs and community based organizations
- Global Compact signatories
- Lead firms
- Business Call to Action signatory companies
- Development banks - national and international
- The poor and other marginalized groups, etc.

3.3 Role of Cross-Cutting Issues

Key cross cutting themes, such as environment and gender, need to be considered at all stages of the project cycle. It is not enough to develop gender or environment strategies at the end of the project formulation; these issues need to be included from the start of the project which entails ensuring research questions address these concerns. When assessing markets, for example, the COs may want to consider markets with opportunities to address gender inequalities. Or, when developing solutions for specific constraints, the COs should consider the environmental impacts of selected strategies and define ways to mitigate these. Environmental sustainability and gender aspects need to be part and parcel of any IMD initiative.

Monitoring and Evaluation (M&E) is also examined throughout the project cycle, not just as a separate step after implementation. For example, the market assessment can consider important information or elements of the baseline survey. As part of project formulation, the design team needs to start developing an impact logic and M&E systems.



4 IDENTIFICATION OF OPPORTUNITIES: SELECTING MARKETS

The first step of the project cycle is identification of key sectors/or markets for project design. In order to select a sector, a rapid market assessment must be conducted. For a guidance note on conducting a rapid market assessment refer to “[Assessing Markets](#)”. Below is a brief summary.

4.1 Guide to Selecting Markets

The rapid assessment explores four key questions:

1. Which markets are important to the poor as producers, consumers and/or employees?
 2. Which markets are growing or represent opportunities for expansion?
 3. Are there opportunities for systemic reform which will lead to increased or stable benefits?
 4. To what extent can the CO make an additional contribution through a project/ programme?
1. Exploring *markets important to the poor* involves considering the following questions of different markets: Are there employment opportunities for the poor in the market? Does the market provide goods and services that meet the consumption needs of the poor? Are the poor in the market active as enterprise or business owners? Different kind of markets should be assessed including factor markets (land, labour, and capital), markets for foundation services (typical public goods such as health care, education, water, and telecommunications), commodity, product and service markets (natural resources, agricultural products, processed commodities, finished goods, and business services) and feeder markets (inputs to commodity, product and service markets). If the assessment concludes that there are no significant opportunities for the poor, then the CO should reconsider interventions in the sector since outreach would be limited.
 2. Assessing *market growth potential* involves investigating trends and opportunities in the end market. Is the sector growing? As incomes rise, are new

market opportunities presented due to increased demand? Is there a risk that markets may decline? Is supply growing in tandem with demand or are there gaps and therefore opportunities for new market entrants? It is also important to explore the competitiveness of each value chain in these markets. Even if the poor are active in these markets, if growth is limited, it is not feasible for the CO to develop project interventions for the particular sector. An additional important aspect of assessing growth potential is to understand the demand of larger lead firms in the sector and their interest in engaging in different ways. Talking directly to lead firms can give a good indication of the level of opportunity.

3. Exploring *opportunities for systemic reform in potential markets* involves considering different dimensions depending on whether the poor primarily engage in the targeted market as producers, employees or consumers. Can the poor achieve a sustainable increase in income and/or income security, for example through productivity gains or changes in level of demand? As wage employees, is there a substantial increase in supply of decent job opportunities? In some cases there may be a trade-off between a significant growth in short-term low quality jobs or fewer but higher quality, durable jobs; this should be carefully considered. Is there a potential for increasing access to goods and services that significantly contributes to human welfare, for example by addressing missing markets or reducing the ‘poverty premiums’?
4. Exploring *additionality* involves considering whether UNDP’s potential contribution is significant or decisive for the market to become more inclusive and to ensure that UNDP does not duplicate

other development agencies or donors’ efforts. Finally, the CO should consider if it has sufficient resources available to engage in inclusive market development.

After having applied the primary filters to the potential target sectors, additional criteria may be needed to drive target sector selection. Criteria can include economic and market-related indicators as well as development indicators. For example, if the main criterion is jobs for women then a strong focus should be on criteria related to women.

Upon completion of the rapid assessment and any potential application of further criteria, the CO should have a clear “short-list” of potential sectors to target. At this stage it is recommended that a selection of the stakeholders that have been consulted as part of this assessment be brought together in a workshop or meeting to review the assessment, verify the findings and jointly select the market(s) to target. At the workshop, the CO will need to make the case for why it is important to work together, “educate” the stakeholders on the concept of inclusive markets, present the results of the rapid market assessment and facilitate a discussion around the sector or market selected for further analysis.

4.2 Role of Stakeholders

As part of undertaking the rapid market assessment it is essential to consult with a range of stakeholders about potential markets to focus on and what the opportunities may be. This should include representatives from the private sector, governments, various types of business and sector associations etc. Which stakeholders to consult with will depend on which markets are being explored and will therefore be ongoing through the market assessment. At this stage the range of stakeholders should be fairly broad and should also include actors that have a broad view of which

market sectors of the economy have growth opportunities and are important to the poor. Stakeholders could also be consulted when considering possible additional criteria for the final market selection. Drawing on the knowledge of the actors has the additional benefit of engaging the actors at an early stage and pro-

viding legitimacy to the assessment and the actual selection of sectors and markets.

Once the sector selection is complete and the IMD initiative is moving to the next stage, a more narrow set of market relevant stakeholders should then be identified to participate in the project formulation phase.

Tip:

The following tools/guidelines will be useful resources for a stakeholder workshop or market selection:

[Guide to Partnership Building](#) provides input on how to make the case for collaborative action (Tool 1), facilitation tips (Tool 4), negotiation tips (Tool 5) and capturing complex information through mapping (Tool 3).

[Assessing Markets](#), Section 2.3, provides a decision matrix. In some cases it may be useful to present a decision matrix at the stakeholder meeting.

Additional Resources:

In addition to the “Key Resources” (p. 13), the following resources may be helpful:

DFID, IFC et. al. (2006): [“Public-Private Dialogue \(PPD\) Handbook”](#).

DCED (2008): [“Supporting Business Environment Reforms, Practical Guidance for Development Agencies”](#)



5

PROJECT FORMULATION

Upon finalizing market selection, the CO and stakeholder team transition into the second phase of the project cycle: project formulation. The formulation process involves a further analysis of the selected sector or markets and design of the project. Upon completion of the project design, partners, lead firms and/or investors are identified and engaged.

5.1 Overview of Project Formulation Process

There are two steps in the project formulation process: market research and project design. Market research is a comprehensive research activity to uncover key constraints and opportunities in the selected markets. Project design analyzes the findings from the market research to determine effective interventions for an IMD initiative. Note that while market research starts with the market assessment, market research actually occurs at each step of the design process to ensure that selected interventions respond to the needs and requirements of target clients.

Prior to starting the market research, the CO may want to consider a stakeholder

workshop to ensure common consensus on project formulation. This will include clarification of research scope and mandate of the planned project with an explanation of the project formulation process.

5.2 Market Research

It is crucial to obtain deeper knowledge of the identified markets. For this purpose, a market assessment is carried out to provide a better understanding of the sector as a whole (from initial input supplier to end customer), different changes in the market, and the role of target MSMEs and larger businesses.

A market assessment can be very simple or highly complex, depending on the context, the purpose of the assessment, and the resources available. It could consist of qualitative research with different business people and market stakeholders, or include in-depth business, economic, or competitiveness analyzes with large quantitative surveys.

It is recommended that the CO employs a specialist to carry out the market research including coordinating the process with the stakeholders.

Tip:

PSD HQ has a searchable roster of specialist available [online](#).

In order to enhance this roster COs are requested to recommend any consultant/specialist they have used by uploading the CV [here](#).

It is important to note that there are a variety of tools and approaches with different units of analysis, for conducting market assessment. The framework described below is based on that used by [USAID](#) for market assessment. Other approaches/tools include “[Making Value Chains Work Better for the Poor](#)” and UNDP’s “[Assessing Markets](#)” which builds on Making Markets Work for the Poor.

Despite the various assessment forms, the quality and impact of the project will, to a large extent, depend upon getting an insight into the following categories: 1) end market, 2) enabling/business environment 3) value chain relationships, 4) support markets and 5) business performance.

- 1) **End Market:** It is important to understand the consumer trends and market opportunities in final markets, and the competitiveness of the value chain products or services. Only markets with strong growth potential should be selected for programming. It is also important that the stakeholders understand what is happening in each market with specific activities tailored to address customer preferences. When conducting the assessment, COs will want to determine what are the major trends in the markets, who are the major competitors and on what basis do they compete?

- 2) **Enabling/Business Environment:** The enabling or business environment includes the policies, institutions and operating context for businesses in that industry and the socio-economic context including political, gender, physical or environmental issues. For a programme to be successful there must be an understanding of the conditions in which the poor are operating with activities developed to address any barriers that hinder their enhanced participation. Has the government prioritized the sector? Are there favourable trade policies? Are there cultural norms that affect the ability of marginalized populations from entering new markets? While these vary from market to market, some of the most frequent constraints include lack of adequate infrastructure, human capital, policy, legal and administrative frameworks, access to investment finance and consumer financial services, market information, market governance (barriers to entry, distortions caused by government policies and anti-competitive conduct by incumbent firms) and the political economy (the broader political economy of decision making and power as it relates to the business environment).

- 3) **Value Chain Relationships:** When analyzing markets, it is important to consider the structure, business relationships and linkages in the value chain, including transfer of information, product designs, credit, technology or other support products and services, through value chain relationships. How do firms interact with one another? Do companies collaborate to compete? What are the competitive dynamics of the market, including the main players and their main horizontal and vertical linkages. Assessing relationships involves placing these insights in a time series that highlight key trends.

4) Support Product and Service Markets:

Support services are the critical business development services required by the businesses in the value chain in order to operate and grow their enterprise. A market assessment needs to identify the key services and inputs required at all levels of the value chain. Are these services already available? How do the different sector actors purchase and pay for these services?

5) Business Performance: Business performance refers to how the various businesses upgrade their activities. What is the capacity and willingness of different firms to develop and grow their business? Are there leaders in the sector who can act as early adopters for programme activities?

All five dimensions must be analyzed to ensure IMD projects are holistic in their approach and look at building entire market systems.

In order to have sufficient information and background to design the interventions, the market assessment may have to be complemented by components of other types of analysis. This depends upon the specific context and the type of project. If the CO is taking a value chain development approach, the CO may choose to carry out a value chain analysis instead of a market assessment or simply complement the market assessment with components of a value chain analysis (refer to Value Chain Analysis Toolbox on page 36 for resources). Such an analysis puts even greater focus on the interlinkages between the value chain actors and the strength and gaps in the chain.

Stakeholders and potential partners should be involved in the assessment phase by providing information, and discussing preliminary findings. They can also assist in identification of useful contacts and resources for the assessment. In some situations, the CO may also want to include stakeholders as part of the research team.

5.3 Project Design

Project design entails analyzing the market research findings to identify key constraints that prevent the poor from participating in markets, development of solutions to sustainably address these problems, and identification of interventions to facilitate selected solutions with development of the impact logic model. The project design process is driven by the input and contributions from stakeholders. While the CO team facilitates this process (possibly with the assistance of an expert in the sector with appropriate facilitation skills) it is the stakeholders who analyze the situation and complete the visioning process. The CO team and stakeholders may want to take their findings after each step in the process to the field for a wider vetting.

5.3.1 Constraints Analysis

The constraints represent the key barriers or bottlenecks that prevent markets from being more inclusive. Informed by the market assessment, stakeholders and the CO team should brainstorm the major problems in the selected market. The long list of constraints can then be fed into a problem tree or problem analysis to identify top priority constraints. For each priority problem selected, stakeholders should undertake a problem (cause-effect) analysis. To undertake the problem analysis the stakeholders will generally:

- Begin with the major issue(s) or problem(s) that was identified
- Brainstorm on the major causes of the problem. It is often helpful to think in terms of categories of causes, such as policy constraints, institutional constraints, capacity weaknesses, or social or cultural norms
- Brainstorm the possible causes of the problem by asking “What is causing this to happen?” For each cause identified, drill down further by asking “Why has this happened?”

In addition to developing constraints, the stakeholders should also consider strengths that the project can build upon, based on the analysis framework. For example, is there

strong government support for the sector with favourable policies that the project can leverage? Or is there an association of processors already established?

Additional Resources: Value Chain Analysis Toolbox

While IMD often focuses on national markets, there are some contexts where projects are attempting to integrate target clients into export markets, particularly through greater value addition. The Aid for Trade initiative uses value chain analysis as a tool for preparing sectoral chapters in Diagnostic Trade and Integration Studies (DTIS) and Aid for Trade Needs assessment. Value chain related recommendations are then reflected in the policy action matrix. A useful toolkit is the [“Aid for Trade and Human Development: A Guide to Conducting Aid for Trade Needs Assessment Exercises”](#).

[‘Making Value Chains Work Better for the Poor - A Toolkit for Practitioners of Value Chain Analysis’](#) was prepared on the basis of experience of a number of development agencies including DfID, GTZ and SNV. Its main distinguishing feature is that it focuses explicitly on how to analyze value chains from the perspective of the poor. It explains four ‘core tools’ (for value chain identification, mapping, measuring costs and margins and analyzing technology, knowledge and upgrading) and four ‘advanced’ tools (for analyzing incomes, employment, value chain governance and linkages).

[‘A Guide for Value Chain Analysis and Upgrading’](#) draws on ILO’s extensive experience in value chain programming and contains five modules covering project set-up, research and analysis, finding upgrading solutions, implementation and impact assessment

Additional resources include:

- FIAS [‘Moving Towards Competitiveness’](#) value chain approach
- GTZ’s [‘ValueLinks Manual’](#)
- USAID [value chain Wiki](#)
- Action for Enterprise [‘Value Chain Programme Design’](#) manual;
- MEDA’s [Programme Design Toolkits](#)

5.3.2 Visioning Process and Solution Development

Based on the problem analysis, stakeholders and CO team next engage in a process of formulating solutions. This exercise may simply involve rewording the problems and their causes into positive statements or objectives. To facilitate this process, the team should engage in a visioning process in order to visualize what the future market would look like if the poor were engaged as active participants. There are a number of benefits of a visioning process:

- Groups can be energized by thinking positively about what the future would look like if these problems were solved. This exercise encourages creativity and helps ensure that the process is not too analytical.
- The vision of the future may identify additional ideas that would not have emerged if the process was confined to simply rewording problems into positive results.
- Visioning is a good way to engage members of the group who are not relating well to the more structured processes of problem analysis.
- Coming to a shared vision of the future can be a powerful launching pad for collective action

The vision should be a clear and realistic statement of the future positive situation.

Once the visioning process is complete, the stakeholders need to identify the strategy for carrying out the identified solutions. In order to be sustainable, solutions must be feasible and commercially viable (unless they relate to broader enabling environment issues such as policies, regulations, capacities of public institutions, etc). They should be implemented by value chain players or commercial service providers, not development agents. A sustainable solutions strategy therefore identifies which actors in the sector will “purchase” (i.e. use) and “sell” (i.e. provide) the solution, as well as the payment mechanism for the stated solution. For example, a veterinary service solution may be sold by a para-vet to small-holder farmers on a fee-basis. Alternatively, a lead firm may “sell” technical assistance to a farmer on an embedded basis. It is also important to consider the business model or business case for the different firms to engage in the solution; why is this a commercially viable option for the different actors? Solutions strategies should therefore be developed by market actors with identification of opportunities for them to fill missing gaps in the market, either by improving their efficiency or taking on a new role in the value chain.

Tip:

The [Guide to Partnership Building](#) includes a guide as how to facilitate a vision building process with stakeholders (Tool 1).

Table 1: Constraints and Illustrative Solutions

Critical Constraint	Illustrative Solutions
Limited access to support services to grow or sustain business	In Azerbaijan, with funding from USAID, Mercy Corps helped farmers access critical veterinary services by initiating clusters of farmers which helped reduce transaction costs which prevented vets from servicing remote areas. The project also worked with vets to improve service delivery and add new product offerings.
Limited access to finance due to poor understanding of client's financial needs	IMON (formerly National Association of Business Women in Tajikistan) partnered with MEDA to expand its lending portfolio and enter rural markets. Working with MEDA's agricultural extensionists, IMON enhanced its understanding of critical financial issues for farmers and developed loan products that addressed their unique borrowing requirements.
Poor functioning cooperatives mean farmers do not have adequate market linkages.	As part of a larger programme, Katalyst in Bangladesh strengthened the capacity of a local fishing association to further develop the fisheries sector. Among other activities, Katalyst has worked with the association to increase its membership base and expand its service offering. It has also supported the association to take the lead on different market development initiatives.
Weak vertical linkages hinder sector growth	The Kenya BDS programme, implemented by EMG and funded by USAID, developed a number of activities to work with lead firms to offer embedded services to fruit farmers, including graft and pest management. Kenya BDS worked with these firms and farmers to develop supply contract arrangements. Strategies were also developed to foster "copy cat" lead firms.
Key barriers in the enabling environment prevent market development	TechnoServe in Tanzania worked with the coffee association, KILICAFE, and other industry stakeholders to develop a plan to enhance the country's competitiveness in the sector. The organization analyzed government taxes and regulations that were affecting the sector and worked with KILICAFE to advocate for policy change. Policy dialogue also led to reduced restrictions on coffee export channels with suppliers able to sell outside the auction system.

5.3.3 Developing Impact Logic and Interventions

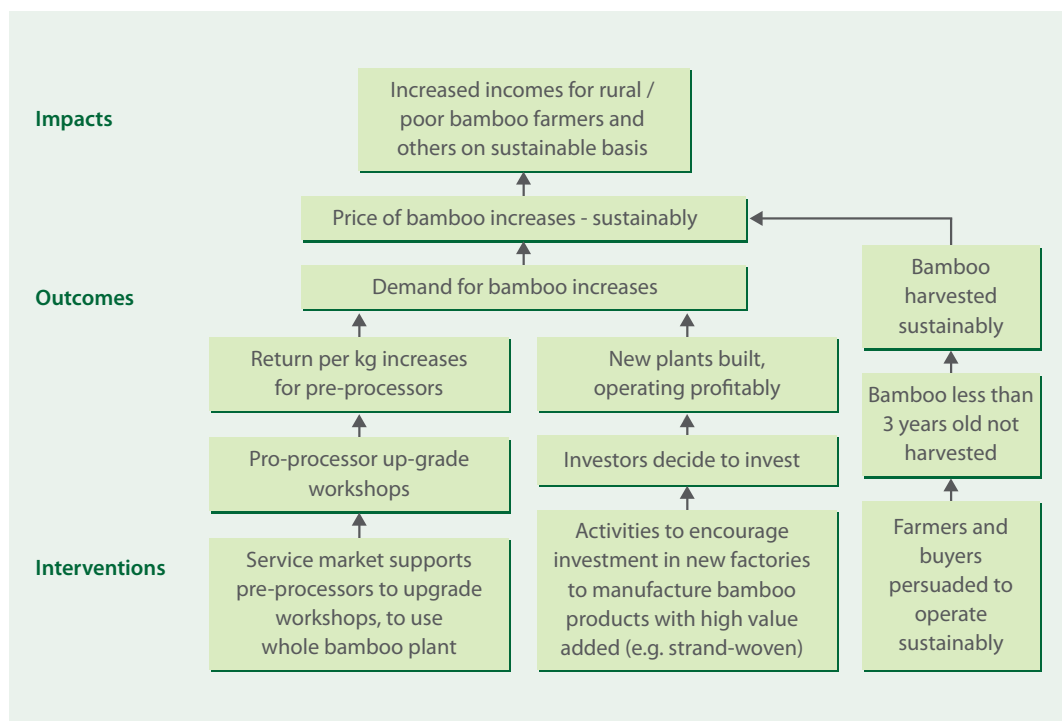
Once the CO team and stakeholders have finalized the vision and solutions for the sectors, an impact logic and interventions strategy are developed. Impact logic is the causal model that demonstrates how the project's activities will lead to the stated benefits. Thinking through this logic, and focusing on results, helps to clarify priorities and improve effectiveness. When developing the impact logic, the stakeholders will develop specific interventions.

To develop the impact logic, stakeholders should formulate a few precise objectives that the programme or project could achieve (e.g.

increase income for bamboo farmers). These objectives should flow from the visioning process. Objectives should be considered at the short, mid, and long term. Based on the objective(s), an impact logic or result chain is established (as illustrated below in a simplified model).

Interventions are the short-term activities carried out by the partners to facilitate and support the selected sustainable solutions.

Figure 4. Impact Logic (DCED, 2010) (Source: www.Enterprise-Development.org)



Linking interventions to expected changes in the sector is in principal formulation of a chain of hypotheses: intervention X will bring about a change in Y (outcome) which in turn will bring about a change in Z (impact). The impact logic therefore is used to help develop interventions.

When developing interventions, the CO and stakeholders should consider what would motivate stakeholders, value chain actors, and other businesses to engage in the identified solution. What is the incentive for them to upgrade their business and engage with the poor? What specific activities can the project undertake to facilitate the selected solutions? And while it is critical that market actors carry out the solutions, projects should also identify opportunities, wherever possible, for market actors to implement selected interventions.

The range of interventions and entry points necessary to strengthen the whole system and create systemic impact varies from initiative

to initiative. Through the IMD approach, UNDP aims to take a comprehensive and integrated approach and typically works to address constraints at the micro, meso, and macro levels in a coordinated way. Activities at the micro level, for example, typically focus on interventions aimed directly at MSMEs and lead firms. This may involve training, capacity building, or introduction of new tools and techniques. Interventions at the meso level focus on ensuring supportive infrastructure, including institutions, for the poor. Macro level interventions focus on policy and improving the enabling environment. In some cases single theme interventions may suffice to overcome the shortcomings of the market. Due to the often highly complex markets, however, there will in most cases be a need for a broad range of interventions and partners. Some of the common entry points and interventions used in IMD initiatives are highlighted in Table 2.

Table 2. Entry Points and Interventions

Entry Point	Issues to Consider
Governments	<ul style="list-style-type: none"> • Capacity development • Policy reform / policy dialogue • Legal and regulatory reform • Standards • Public procurement
Lead Companies	<ul style="list-style-type: none"> • Supply chain upgrading • Local sourcing strategies • Base of the Pyramid business plans / market entry strategies
Producers	<ul style="list-style-type: none"> • Capacity development / Business Development Services • Building or strengthening cooperative and producer associations • Building or strengthening business membership organizations • Access to finance, access to market information, access to technology
Consumers	<ul style="list-style-type: none"> • Capacity development • Consumer associations
Civil Society Organizations	<ul style="list-style-type: none"> • Capacity development • Social entrepreneurship • Work integration

A specific IMD initiative will typically involve a package of complementary interventions and activities at different levels; these may be a combination of private sector development interventions (i.e. capacity development, provision of sustainable business development services, supporting business organizations, business enabling environment reform etc.) and private sector engagement activities (i.e. engaging mainly large enterprises and their representative organizations as partners and contributors to the development process, complementing their commercial role as “drivers” in the sector or value chain).

IMD initiatives will ideally (but not necessarily) also be part of a broader UNDP/UN portfolio of complementary private sector projects that cover both private sector development and private sector engagement activities. Such complementary activities could, for example, include research and advocacy on inclusive markets, broader business enabling environment projects, broader dialogue, advocacy and partnership platforms initiatives

such as the [Global Compact](#) and the [Business Call to Action](#).

Once interventions are developed, there is a need to measure and verify if interventions in fact lead to the anticipated changes. On the basis of the results chain/impact logic *appropriate* indicators are identified for each major step in the impact logic to monitor outcomes of specific interventions and their impact on the market system. The programme should work with three types of indicators: Key change indicators (programme specific), universal indicators (predefined) and lasting impact indicators. These indicators are described in detail in chapter 7.

In order to measure the changes in these indicators, a baseline needs to be put in place before the programme starts. The market assessment may have shed light on the baseline, but in most cases a separate baseline analysis needs to be conducted. The baseline can only be finalized once a project has selected its interventions, and identified what indicators to track.

CASE STUDY: IMD at the Micro, Meso, and Macro Levels

In an effort to support poverty reduction and post-Tsunami social recovery, UNDP Indonesia and the Department of Planning and Development of the provincial government of Indonesia created Aceh Partnerships for Economic Development (APED) in 2006. With funding of over USD 2 million from the World Bank, DFiD and UNDP, the programme supported economic development, linking farmers to nonlocal markets in export oriented sectors. Initial intervention focused on coffee and cocoa clusters, including assessing the current lending practices by local banks, analyzing current exports versus market capacities and examining possibilities in emerging markets. The project worked at the micro, meso, and macro level in order to restore market systems and enhance income opportunities.

Micro-level activities:

The project included a number of interventions at the producer and value chain levels, including increased information sharing, development of a coffee cultivation manual, SMS market information systems, and research on improved seedlings.

Meso-level activities:

In order to rebuild markets, the project also worked to enhance supporting institutions for the sector. For example, grants were provided to business associations operating in each sector.

Macro-level activities:

Government has been an important partner, initially providing seed funding and facilitating organization of farmers into associations as well as policy guidelines for cluster development. The project effectively mobilized USD 1.17 million from the government, on an annual basis, for coffee industry development.

APED has seen encouraging results in its three years of existence: Coffee and cocoa farmers' interests are represented by organised Cocoa and Coffee fora. Well organised and resourced sectors are receiving increasing number of orders from international buyers. Most importantly, The World Bank reported that the poverty rate declined from 28.4% (2004) to 23.5% (2008) in Aceh.

CASE STUDY: Project Formulation – Linking homebound rural embroiderers into high value markets

MEDA, an international NGO, with its partner Entrepreneurship Community Development Institute (ECDI), a Pakistani NGO, completed a successful USAID-funded project entitled “Behind the Veil” which effectively linked homebound rural embroiderers into high value markets.

The project started with initial identification of opportunities with exploration of four potential sectors. The goal was to identify sectors that had strong economic growth and significant outreach potential, particularly amongst female entrepreneurs. Based on the market research, MEDA and ECDI identified significant potential for impact in the embroidered garments subsector.

The two partners then conducted a second round of research which allowed them to investigate further the critical issues constraining women’s participation in the sector. The majority of rural embroiderers relied on their male family members for trading activities and was therefore unable to reach identified market opportunities or interact with potential buyers. This also meant that embroiderers were not able to understand customer preferences and, despite their superior technical expertise, continued to produce products of inferior quality with outdated designs.

To address these issues, the partners identified a sustainable solution whereby homebound women would sell their products to retailers through female sales agents in a culturally appropriate manner. These female intermediaries would provide producers with a link to the market, through which critical support services, such as information, modern designs, and inputs, could be channelled with the sales agents charging a commission fee for their services. Workshops and meetings with key stakeholders in the sector, including retailers, wholesalers, and producers validated the appropriateness of the sales agent model and helped the team identify potential intervention strategies.

Intervention activities focused on identifying women who were willing to act as sales agents to rural women embroiderers and a training programme to build the capacity of sales agents in areas such as producer outreach, entrepreneurship, sales and marketing, and business development. To develop the necessary links with buyers, sales agents were assisted with establishing contacts and fostering relationships with retailers, exporters and exhibition organisers.

The three-year project effectively integrated homebound rural producers into higher value markets through a variety of sales channels. Over 9,000 rural embroiderers and 200 sales agents were reached through the project; project clients have successfully, on average, almost tripled their monthly income. The programme is also extremely cost-effective with a cost of USD 100 per client. Building on this success, MEDA has launched a large multiple-subsector women’s economic empowerment programme funded by CIDA.

5.4 Role of Stakeholders

Multi-stakeholder engagement is particularly useful for generating new ideas and building a joint vision for sustainable solutions and interventions. In this process, the aim is to engage stakeholders in thinking as openly and creatively as possible about what they want to achieve. The project formulation process will often require a series of stakeholder workshops and meetings to analyze the problems, commission studies, undertake research, discuss and come to conclusions on priorities and approaches, formulate the programme and put together an M&E plan. Typically, the stakeholders will at this point consist of national and local government representatives, companies, business associations, Civil Society Organizations, UN agencies, donors, poor/target

group and their organizations sector/market specific companies, and sector organizations. The in depth market assessment carried out at the beginning of the project formulation in stage 2 will spell out the most important stakeholders and potential partners in the targeted market sector. It may occasionally be necessary to conduct an updated stakeholder analysis to ensure that relevant actors are appropriately engaged.

As the process of project formulation progresses, the number of participants in the multi-stakeholder meetings will typically decrease, filtering down to the more relevant participants, stakeholders and potential partners.

In IMD initiatives where more than one sector has been identified, separate multi-stakeholder groups and meetings should be convened for each of the targeted sectors.

CASE STUDY : UNDP's Role in Stakeholder Engagement

UNDP and Cadbury partnered in 2008 in a new initiative, the Cadbury Cocoa Partnership, with the goal of improving livelihoods for cocoa farmers and their communities in Ghana. Over a ten-year period, Cadbury has committed USD 42.3 million to improve productivity including improvement of community resources, such as building of wells. UNDP played a critical role in developing the partnership including identification of appropriate stakeholders and facilitation of the project design. UNDP now serves as an advisor to the partnership and a lead partner in addressing issues of environmental sustainability in the cocoa sector in Ghana.

CASE STUDY: Project Formulation with Stakeholders

Under the IFC-Funded SEDF Bangladesh programme, the staff conducted basic research in the Ready Made Garment (RMG) sector based on secondary research. The team then worked with the RMG association to identify and develop specific intervention strategies.

Source: PSD Reader, 2006.

Tip:

Making the stakeholders aware of the importance of collaboration is essential. [“The Guide to Partnership Building”](#) provides input as to how the CO can make the case for stakeholders and potential partners (see Tool 1). As part of the multi-stakeholder dialogue it is recommended to arrange a discussion around constraints and solutions for inclusive markets and business models in the sector. [“Brokering Inclusive Business Models”](#) provides a tool for discussion facilitation.

Tip:

There are pitfalls when engaging stakeholders. Done badly, the multi-stakeholder engagement can give unhealthy influence to an unrepresentative group of stakeholders, reinforce links between politicians and lobbyists, and provide a veneer of legitimacy for bad policies. Other potential pitfalls include confusing the means (participation) with the ends (outcome and impact) and allowing the quasi ‘democratic’ process to produce compromises that are not sufficiently focused. [The Public-Private Dialogue \(PPD\) handbook](#) from DFID, IFC et al. provides a tool on working effectively with multi-stakeholders through PPDs. The handbook lists strategies for tackling this risk by getting an explicit commitment to transparency, establishing numerous working groups to ensure a broad base, and the incorporation of monitoring and accountability mechanisms.

Additional Resources:

The Springfield Centre: [Making markets work for business and income growth](#).

Action for Enterprise: [Value Chain Programme Design: Promoting Market Solutions for MSME's](#).

DFID – SDC: [The Operational Guide for the Making Markets Work for the Poor \(M4P\) Approach](#).

MEDA [Market Development Toolkits for Market Research and Programme Design](#).



6

PROJECT IMPLEMENTATION

In the implementation phase, the interventions expected to bring about systemic impact are carried out as laid out in the project document.

The main guiding principle for implementing an IMD initiative should be to facilitate changes in a market system so that it operates more efficiently to better serve the poor. The initiative should do so by stimulating and supporting market actors themselves to perform functions they either currently do not perform or to perform them more efficiently. To stimulate and support such changes among market actors, it will sometimes be necessary to bring in outside partners, for example government or international development agencies, that can provide advice and technical assistance to the market actors at various levels, i.e. at micro, meso and macro levels. Rather than intervening in the market, these partners act as a facilitator to foster and encourage sustainable solutions identified by stakeholders in the project formulation. The roles of such technical partners are in most cases finite – they are catalysts that provide temporary interventions to stimulate or strengthen the market but they are not part of the market as itself.

Implementation of IMD programming is therefore a combination of public sector actors

conducting target interventions in partnership with businesses of all sizes as they grow and adapt to respond to new market opportunities resulting in sustainable changes in the market system.

6.1 Partner Identification

As part of the multi-stakeholder nature of IMD projects and the project formulation process, it is necessary to identify and select a number of project partners that will be involved in implementation activities of the project. While the CO team and stakeholders will have identified a number of different actors and partners for the selected project activities in the project design stage, there may still be gaps in expertise and capacity. It is important for the CO to ask what additional knowledge and expertise is required to address the identified constraints and for activities to be successful. Does the CO need to hire a sector expert? Does the team have the required training capacity? Based on the selected constraints and solutions, the CO will likely need to partner with other UN agencies or external technical experts to address gaps in expertise and capacity.

When selecting private sector partners, in particular larger so-called “lead firms”, COs

must meet the criteria spelled out in POPP on “[Assessing Partnerships with Private Sector](#)”. POPP stresses that when working with private sector companies UNDP will need to pay special attention to the risk of breaching principles of good practices in transparency, non-exclusivity and avoidance of unfair advantage in partner selection. In order to follow good practice, a mapping and scoping of companies should be carried out and there must be a public announcement of the initiative. By following the IMD approach, the mapping and scoping will to some extent normally already have been carried out as part of the rapid assessment and market assessment. It is important to highlight that potential and interested lead firms should already have been identified at that early stage. Risks in the partner selection process are further mitigated by the use of multi-stakeholder meetings since these are, per definition, inclusive and foster transparency.

As a public announcement, UNDP must provide information on the project parameters and the selection criteria (as determined during the multi-stakeholder meetings). Additionally, in order to maximize opportunities for relevant businesses to participate in workshops, stories in local media, public consultation and, if appropriate, solicitation practice like calls for proposals, may be used.

Tip:

Especially for larger companies, there is an added value in working with UNDP and it is important that potential partners are made aware of UNDP’s value addition. Making the case to potential partner companies and lead firms includes highlighting how UNDP can help companies build inclusive business models. This is described in “[Brokering Inclusive Business Models](#)”.

Assessing Potential Partners and Lead Firms

More than one lead firm should be selected and engaged in an IMD project. Lead firms provide often, but not always, an opportunity for linking a value chain with larger end markets such as national, regional or international markets and therefore many projects involve working with lead firms. The lead firms may commit to buy the products produced in the value chain, invest in upgrading the chain, or use their information and influence to the benefit of a value chain.

[The Business Call to Action](#) is an initiative that challenges companies to develop inclusive business models that offer the potential of development impact along with commercial success.

[The Global Compact](#) is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption.

When identifying potential lead firms, the CO may consider tapping into BCtA signatories’ network. Another potential pipeline is reaching out to companies participating in the Global Compact networks.

When assessing potential companies for cooperation special attention should be paid to the “[Risk Assessment Tool](#)” in POPP. The assessment can be supplemented by the “Partner Assessment Tool” (refer to the “[Guide to Partnership Building](#)”) and additional criteria for best practices in lead firm selection ([Field Working Group](#)):

- Select lead firms with large number of commercial linkages with MSMEs and demonstrated commitment/willingness to invest in improved/ expanded relationships with them

- Select lead firms with sufficient financial strength and long-term perspective needed to make required investments (but don't make automatic assumption that large firms will make large investments)
- Work with as many lead firms as possible (given programme capacity) to expand outreach/impact, increase producer options, increase replication opportunities, and ensure programme continuity if some firms drop out
- Conduct "background check" of targeted lead firms (reputation in market, history of relations with other market actors, track record of respecting laws and environment, etc.) by using the "[Risk Assessment Tool](#)" (POPP)
- Try to remain neutral of local authorities/political pressures in selection of lead firms (as well as target areas and implementation activities) to avoid damaging image and credibility of the programme
- Ensure that there is a strong market for lead firm products (and related inputs/products from producers) before engaging in programme activities. Understand from the beginning the competition that lead

firms/producers face and assess the capacity of lead firms to successfully compete in these markets.

- Identify whether there are distinct "end markets" for different value chain products and consider this when selecting lead firms to work with (based on their capacity to compete in those different markets)
- Understand the "leverage potential" of different lead firms (for achieving scale and systemic impact) but be careful of automatically choosing large lead firms due to programme time constraints.

6.2 Written Agreements

To formalize the roles and responsibilities, there will typically be a need to sign some type of agreement for the project's implementation. Depending on the project, the partners, and the responsibilities of the partners, agreements range from Memorandum of Understanding (MOU) to actual Cost Sharing Agreement (CSA) following the POPP procedures of "[Programme and Project Management](#)" or "[Partnership Management](#)".

Additional Resources:

The [FIELD Facilitation Working Group](#), a collection of international Market Development organizations, has produced a number of resources which COs may find useful in their operations with lead firms, including:

FIELD Facilitation Brief 1: Defining Lead Firms & Principles

FIELD Facilitation Brief 2: Lead Firm Selection

FIELD Facilitation Brief 3: Structuring and Managing Collaboration with Lead Firms

FIELD Facilitation Brief 4: Interventions with Lead Firms

FIELD Facilitation Brief 5: Addressing Absence of LFs in Value Chains

MOUs may be used for agreements with lead firms, for example on training they will provide to MSMEs. Cost sharing agreements will typically be used with lead firms, partner agencies and donors that agree to make financial contributions to UNDP to execute the project.

Cost Sharing Agreements and MOUs must follow the guidelines laid out in POPP but content-wise they will vary significantly. Some may be more general and set out only the framework of collaboration. Others may essentially be contracts, focused on a particular area with detailed mutual expectations and deliverables. In some cases, agreements may need to be sequential. For example, an initial MOU between UNDP and lead firms might include carrying out joint planning and research with the aim of identifying joint activities or specific investments. Subsequent agreements could then cover the actual implementation.

Tip:

Irrespective of the agreement type, a general partnership agreement is often useful since it describes the entire partnership and ensures it is equitable, transparent and beneficial to all partners. A template for such a partnership agreement is available in the [Guide to Partnership Building](#) (Tool 6).

6.3 Multi-Stakeholder Engagement

To ensure that the project is progressing as planned and barriers are tackled efficiently, there will be a need for continuous multi-stakeholder meetings. It is the broker or the country office focal point's role to set up these meetings as often as needed. These meetings will typically only involve the partners plus relevant government representatives.

A common implementation challenge is the ongoing motivation and participation level of stakeholders while ensuring the facilitator's credibility. There is a significant momentum at the start of the project with excitement for a new initiative. However, results are typically slow and gradual in IMD programmes. COs therefore need to find opportunities for "quick wins" to encourage stakeholders. They also need to identify strategies to keep the partners engaged; often, this involves regular communication with partners to determine their support requirements.

Regular engagement and dialogue has the additional benefit of ensuring ownership of the project by the stakeholders and managing their expectations of project benefits. Given the range of stakeholders involved in a project, different engagement and communication strategies will likely be required.

6.4 Ensuring Ongoing Sustainability

As discussed in Chapter 5, market actors are supported throughout the project formulation process to identify their functions in the vision for the value chain and determine strategies to take on new roles in the market. Doing so is a critical first step towards ensuring sustainability in an IMD initiative. However, IMD initiatives need to consider sustainability beyond project formulation and into implementation of activities. Project facilitators should regularly revisit their interventions during the implementation phase to ensure that market actors are undertaking the solutions while the project retains its focus on the short-term interventions to facilitate those solutions.

Successful IMD initiatives regularly evaluate their interventions to determine what level of influence or impact they are having on the market. While the original project activities may be designed with sustainability

in mind, facilitators need to regularly assess interventions to ensure they are not leading to market distortion or crowding out existing private sector actors. Has the project started to include implicit handouts by performing a role that should be filled by a private sector business, for example quality control or marketing for manufacturers of agricultural equipment? If so, the project should identify different actors who can take over these roles and develop activities to highlight the incentives for firms that take on this function.

6.5 Adapting Design to Changes in the Market

It is important to note that no market is static; project design is on a rolling basis. The outcome of interventions therefore needs continuous attention in order to assess what works and which interventions may need adjustment. This is done through a monitoring process where the impact logic is continuously tested (refer to section 5.3). Market research is also conducted periodically throughout implementation to ensure relevancy of project activities. Additionally, as activities are implemented, actors and partners may bring forward new ideas or innovations that should be incorporated into implementation plans. Successful IMD programmes are those that view M&E as an ongoing process, with iden-

tification of lessons learned and modification of project activities accordingly.

As markets are dynamic, market research must be conducted over the life of the project. How has the market changed since the start of the project? Are there new consumer trends requiring adaptation by the project's clients? Are there new competitors or market entrants? What initial successes has the project seen from preliminary interventions that can be scaled or replicated? Regularly assessing markets to ensure that project interventions and activities are still market-driven will help ensure lasting impact.

6.6 Staff Capacity

Finding the right staff to implement IMD initiatives is critical to ensure effective and sustainable impact. The blend of skill sets required is unique and many COs may find it hard to find the expertise in-house. It may also be challenging to find staff that buy-in to the approach and appreciate the catalytic role the private sector can play in achieving the MDGs. Plans should therefore be included to build in capacity development activities in the project implementation plan. This will likely include a mixture of formal (for example a class-room based training course) and informal (for example, exposure visits, mentoring, and on-the job learning) training.

CASE STUDY: Improving competitiveness of MSME's

The USAID-funded Production, Finance and Technology (PROFIT) Programme in Zambia aims to increase industry growth in the agriculture and assuring poverty reduction at the household level among poor farmers. Using a demand driven approach, the project helps MSMEs improve their competitiveness, strengthen industry clusters, and facilitate links between the MSMEs and stakeholders in the value chain, the not-for-profit sector, and government.

One of the sectors where PROFIT is currently active is the cattle market. At the start of the programme, the sector was largely fragmented with weak linkages throughout the value chain. These ineffective linkages meant that the industry was not competitive as it was unable to respond to critical constraints such as low productivity, high incidence of disease and competition from imports. Limited information flows hindered the adoption of better on-farm techniques and take-up of critical support services, including veterinary and financial services. Initial interventions worked across the entire value chain, including development of consolidations strategies, facilitation of outgrower models, enhanced links to financial services providers, and support to Zambian National Farmers Union to enhance services to members. The project also developed a commercially viable veterinary services market with supply-side activities to increase the quality and accessibility of veterinary services and demand-side activities which focused on convincing farmers to invest in preventive care. A new business model was promoted which involved the recruitment and training of Community Livestock Workers (CLWs), who take orders from the cattle owners in their villages and, in consultation with veterinarians, work with the farmers to apply preventive treatments. The CLWs receive a commission; there is therefore an incentive for them to educate smallholders about the importance of prevention. The project also worked on enhancing the enabling environment for the veterinary services market, for example restrictions on medicine imports.

While the initial activities were pre-defined, the project employed ongoing learning to drive follow-on facilitation activities, for example establishment of standards and improved networking amongst veterinarians. The desired impact or outcomes did not change but the project adapted activities in response to the progress and growth of the target industries. Activities are therefore not set in stone but are rather updated and adapted to facilitate greater competitiveness of the selected sectors as well as scale-up and exit of project interventions.

CASE STUDY: Mexico Supply Development Programme

Objective

Launched in partnership with Secretaría de Economía (Secretary of the Economy), the programme aims to develop better supply chains in order to improve the performance and competitiveness of national SMEs in Mexico.

Activities

The programme contributes to increase the integration of SMEs into the broader Mexican economy, raise the competitive capacity of the big companies through consolidating a network of business allies, improve the productivity and efficiency of companies and contribute to the substitution of imports and to the development of export markets for the domestic enterprises.

A value chain observatory has been established. It examines best-practice activities of lead firms and value chain development programmes in Mexico and other countries in order to provide the government with a best practice benchmarking and recommendations on how to promote a competitive environment for Mexican businesses and SMEs.

UNDP role

UNDP was involved in defining the methodologies used, selecting and training the core team of the project, supervising selection of consultants, as well as administering funds and ensuring their use is transparent and in line with the goal of the initiative. In addition, UNDP contributed to promoting this project among businesses and recruiting additional SMEs to join the initiative as well as advocating for government funding.

By 2012, UNDP Mexico aims to have formed a sustainable institution which will continue to use the developed methodologies in order to continue supporting and strengthening Mexican SMEs. At the international level, UNDP Mexico will continue to introduce and encourage the programme in other countries, as it has in El Salvador.

Results

SDP has contributed significantly to the development of many productive chains throughout Mexico through reduced cycle times and improved sales for Original Equipment Manufacturers (OEMs) and decreased lead times and cost reductions for suppliers. The project provides SME suppliers with response capacity for market needs, achieving fulfillment of standards and indicators defined by the OEM buyer.

The programme has so far benefitted 450 SMEs and 56 client companies and has incorporated over 4,000 companies to its website portal, where buyer and supplier companies can post respectively their demand and potential supply. In 2009, the programme was also transferred to El Salvador.



7

RESULT MEASUREMENTS AND EXIT

Given the growing focus on result measurement, UNDP published a new “[Handbook on Planning, Monitoring and Evaluation for Development Results](#)” in 2009. This handbook highlights that results planning is a prerequisite for effective programme design. Results measurement should be reflected upon and applied throughout all stages of the project cycle.

7.1 Importance of M&E

The growing focus on making developing organizations, including the UNDP, more results-oriented stems from external as well as internal pressures:

- External pressures are requiring development agencies to prove effective and efficient use of resources. This includes the need to enhance accountability to citizens, host governments, and donors on resource allocation, achievement of results, and effectiveness of achieving results in human development.
- Internal pressures are pushing organizations to improve their effectiveness.

There is a need to improve performance by learning which approaches and programmes produce successful results. There is also the need to better inform decision-making throughout implementation and allow for rational adjustments of ongoing interventions.

In order to be more results-oriented, UNDP follows the [framework](#) developed by The Donor Committee for Enterprise Development (DCED) for private sector interventions.

7.2 The DCED approach

The DCED approach aims to establish more consistent standards of results measurement, which in turn can generate credible information. As part of the initiative, DCED has defined three “universal indicators”: Scale, net additional income, and net additional jobs. These indicators allow for aggregation of results across interventions and permit comparison between programmes. However, the main emphasis of the initiative is to test a standard of good measurement practice

which focuses on the integrity of measurement processes or systems with programmes taking responsibility for measurement, rather than relying on external assessments. A programme's measurement approach will then be audited for compliance with the standard.

7.3 Methodology

The DCED approach emphasizes the need to understand result measurement as a continuous process. It needs to be incorporated at the formulation stage, throughout the implementation phase and may even continue after the programme interventions have been completed. DCED operates with a standard which is based on the articulation of impact logic.¹ To ensure the results are credible, the system is audited by an external auditor. The following methodology is based on DCED (2010): "[Measuring Achievements in Private Sector Development – Implementation Guidelines](#)."

DCED Standard

1. Articulate impact logic
2. Define appropriate indicators for each major step in the results chain
3. Measure changes in those indicators
4. Attribute those changes to the programme (or other factors)
5. Capture wider changes in the system or market
6. Relate those changes to the programme costs
7. Report on those changes
8. Manage the results measurement system

The DCED Guidelines provide detailed instructions on each step in the Standard listed above. Some of the key elements of the Standard are described below. However, COs should ensure familiarity with all steps in the standard before proceeding with project formulation.

Selecting indicators

Following the DCED approach, the programme should work with three types of indicators: Key change indicators (programme specific), universal indicators (predefined) and lasting impact indicators.

Key change indicators:

A programme may choose either to designate all changes described by the model(s) as "key changes" or, to lessen the amount of assessment required, to highlight the most important "key changes."

Programmes should identify quantitative or qualitative indicators to be measured for each "key change" in the results chain. A good indicator is SMART: specific, measurable, attributable, relevant and time bound.

In some situations proxy indicators (i.e. an indicator that does not directly measure a phenomenon but provides an indirect, substitute measure) may be used, as long as appropriate justification is provided.

¹ The impact logic is what is sometimes referred to as a "result chain," "results map," "outcome model," "logic model," "logical framework," or "programme model."

Table 3 General indicators for broad application (DCED: 2010, p. 15).

Level	Broad area of measurement	Indicators	When appropriate
Household Level	Poverty reduction	Net additional income for SME workers and owners	
		Changes in other poverty indicators (nutrition, empowerment, working conditions, etc.)	
Enterprise Level	Enterprise competitiveness	Change in SME productivity	Ideally each intervention will have measurable impact on as many indicators as possible
		Change in SME net income	
		Jobs created as a result of programme activities	
		Promising innovations/changes in business practices (e.g. sustainable eco-efficient products and processes)	
Service Market Level	Changes in framework conditions	Changes in policies or regulations as a result of programme activities	When the services or deliverables which the target group expects come from the government
		Documented changes that will modify how a policy or regulation, aimed at the target group, is implemented by a public agency (institutional)	
		Target group's opinions concerning how the change has impacted on their businesses	
	Changes in the demand for services	Target groups awareness of the service and the benefits it can deliver	When measuring impact of services that might only have a direct impact on the target group in the long run
		Willingness to pay for service	Fee-based or stand alone services
		Level of satisfaction with services	When measuring changes in demand for embedded services
		Changes in business practices as a result of service	
		Number of new service providers entering the market	
	Changes in the supply of services	Changes in number of clients served	All intervention types - to measure change in service quantity
		Changes in volume of business	
		Changes in range of products offered	
		Changes in number of service providers	
		Target group's opinion of service provision	
		Level of supplier satisfaction with success of service	
Service Provider Level	Immediate outputs in business service markets	Number of service providers trained	

Universal indicators:

DCED advocates for the application of three main indicators to be integrated whenever possible at the goal level; these indicators are also referred to as the universal indicators. The application of these indicators allows agencies to aggregate and compare results across programmes:

- **Scale:** Number of target enterprises who realize a financial benefit as a result of the programme's activities, per year and cumulatively. The programme must define its "target enterprises."
- **Net additional income:** Net additional income (additional sales minus additional costs) accrued to target enterprises as a result of the programme per year and cumulatively. In addition, the programme must explain why this income is likely to be sustainable.
- **Net additional jobs:** Net additional, full time equivalent jobs created in target enterprises as a result of the programme, per year and cumulatively. "Additional" means jobs created minus jobs lost. The programme must explain why these jobs are likely to be sustainable.

Lasting impact indicators:

Finally, indicators for the likelihood for *lasting impact* should be defined. For each key change, programmes should include qualitative and/or quantitative intermediate indicators to assess sustainability of impact. Such intermediate indicators can include profitability for all stakeholders, sustainability of sources of income, satisfaction among market players, and capabilities to carry out new functions.

Because it takes time for interventions to have an impact on enterprises and poverty, it is recommended that projects make upfront

projections (milestones) about expected impacts when starting activities. Projections should be made for all key indicators as well as the three universal impact indicators, wherever possible predicting the change that will result from the programme intervention either at the end of the programme or two years after the end of the programme.²

Establishing a Baseline

In order to measure the changes, a baseline needs to be established for all indicators before the programme starts. In most cases the market assessment will shed light on the baseline of many indicators, but it is important to determine if additional data needs to be collected. If a baseline was not established at the time of project design, programmes will need to be innovative. Gathering information from a variety of sources will enable triangulation of data thereby allowing for a reasonably accurate picture of the base situation.

Attribution

It is necessary to show what changes resulted from the activities of the programme, and would not have happened otherwise (additionality). Every programme must have a clear and reasonable approach to establishing this attribution at each step in the impact logic and therefore in all indicators.

The programme must report other contributors (donors operating in the same area or Government) to the change and outline, as accurately as possible, the total financial value of each programmes' contribution to the change. The standard does not require parsing out the attributable impact to each individual programme that contributed to the change nor to attribute impacts according to

² Attribution more than two years after a given intervention, in most cases, is less plausible and data become less reliable (DCED 2010, p. 13).

the contribution from the private sector, even though these may also be substantial.

Capturing wider changes in the system or market

Because IMD programmes aim for systemic impact, benefits are likely to be wider than just among the direct recipients or partners. The research to measure this effect should be appropriate to the size of the programme.

Tracking programme costs

In order to judge and improve the efficiency of IMD programmes, results must be related to the costs of achieving them.

Results Measurement

The programme must develop a system to regularly measure and track the indicators. The measurement frequency will depend on the indicator. Which method to use is determined by the size, significance and nature of the intervention. Smaller interventions generally use simpler methodologies; larger interventions use more substantial methodologies.

When designing an impact assessment system, programmes must decide whether to focus only on quantitative analysis, or whether to combine quantitative methods with supporting qualitative techniques. Qualitative information collection tools have been found to be particularly useful for underdeveloped value chains, getting information from MSMEs, and understanding MSMEs' behaviour.

Rather than selecting one method, programmes should aim to use a range of tools to collect the necessary data; information generated by mixed methods can help to establish the validity of the data and the reliability of the measures of change. However, it is not necessary to use a different tool for each indicator, in fact, it is important to group the indicators together and collect data on as

many as possible with the same tool or tools. While measurement is required at the start and end of a programming, monitoring is also required at appropriate intervals during the programme's lifetime to identify any gaps in the programme's progress with strategies developed to address any shortfalls.

Additional Resources

- [DCED Result Measurement Initiative: Introduction for Programmes.](#)
- [DCED Measuring and Reporting Results, Progress in 2008 and Plans for 2009, Oslo, December 2008.](#)
- [DCED Measuring and Reporting Results Workshop, Abuja Nigeria, June 2009.](#)

7.4 Phase Out/Scale Up/Exit

Based on the results of the evaluation, UNDP and the national government will decide whether the project should be continued in a new phase or whether it should be phased out. Often, UNDP's involvement in a particular project is in the early stages of project development and implementation.

As a general rule, UNDP may exit a specific project in situations where there is insufficient progress, for example lack of commitment from partners, the value addition of UNDP's involvement has been delivered or is not critical in running the projects, or the entire project is concluded.

Exit and scale-up strategies must be considered from the beginning of the project cycle at project formulation. Exit strategies allow the market facilitator to plan for withdrawal of interventions to ensure sustainable solutions continue beyond the life of the project without ongoing dependency on the market facilitator. Scale-up strategies help the market facilitator build upon

the success of pilot interventions to replicate and build outreach; often this entails activities to foster demonstration effects and encourage “copy cats” in the market. Developing these strategies mid-way through the project will likely lead to unsustainable activities and ongoing dependency by project beneficiaries on the CO; impact will also be limited. Given that programmes change and adapt during project implementation, it is important that these strategies are revisited and revised as activities evolve.

Upon request from UNDP COs, the Growing Inclusive Markets (GIM) initiative of UNDP’s Private Sector Division may carry out in-depth studies at the completion of projects. Based on the information, GIM will develop tools and approaches in implementing IMD activities and inclusive business models that foster both systemic impact on poverty and commercially sustainable business models. The best cases will be published as IMD publications and/or will be shared on the external website. COs may also find additional fora for sharing of lessons learned.

CASE STUDY: Scaling up/Exit: JOBS Bulgaria

Since initiation in 2000, JOBS has established or supported 42 Business Centres across Bulgaria with 10 Business Incubators and 17 offices. Through its country-wide network of locally incorporated organizations, JOBS has assisted almost 20,000 clients - start-up entrepreneurs, micro and small businesses – and has created more than 33,500 jobs and has trained over 51,000 people providing them with new knowledge and skills and specifically targeting marginalized and vulnerable groups. The JOBS project has been successful in providing over 1,900 start-up and micro enterprises and agricultural producers with access to micro-leasing. While supporting the establishment, growth and sustainability of the Business Centres as business support providers, the JOBS Initiative has also, in the period 2004-2008, diversified into other 14 components (sector-specific or theme-specific) that have been identified for their potential to create higher value-added products and higher employment through a strengthened value chain.

To ensure sustainability of the service, UNDP is facilitating transformation of a UNDP project into a local entity - JOBS Foundation and JOBS Microfinance Institution - to secure provision of services such as non-financial business development services, financial services (through the Financial Leasing Fund). Services will be developed and customized to meet the needs of the most excluded from the labour market. This will be done through a partial state subsidy which will continue to be provided to the business centres.

8

CONCLUSION

Much as markets evolve, so does the field of Inclusive Market Development. The hallmark of the approach is the incorporation of innovation and creativity to ensure that the poor are effectively linked into markets that provide increased incomes, stable employment, and access to critical social and health services and products. As development agencies pilot new initiatives, experiences are shared to ensure that interventions push the envelope of inclusive market development. The inherent “evolving” nature of the field has led to UNDP adopting the more holistic approach which ensures that all elements of the market are considered in project design. The ideas and approach behind GSB, i.e. working with lead firms, are still important components but are now part of a larger approach that COs can use to ensure the poor are effectively engaged in markets.

This handbook has provided an overview of the IMD project formulation process.

While COs may facilitate the process, the role of stakeholders at each stage is critical. Their knowledge, resources, visions, and solutions need to drive the final project activities. Without their input and ideas, project interventions will not gain traction and impact will be limited.

Project design can be a complex process. And while this handbook seeks to present an overview of tools to make the approach more manageable, it is important to remember that project formulation is an art, not a science. Incorporating creativity at each step of the process and adapting the different resources for your specific project needs will ensure that real innovation results. And don't forget to allow for flexibility through the project implementation process; this will allow your project to respond to new signals and information from the market thereby ensuring truly inclusive market development.

Resources

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UN, “[Aid for Trade and Human Development: A Guide to Conducting Aid for Trade Needs Assessment Exercises](#)” 2008.

UNDP: “[Handbook on Planning, Monitoring and Evaluation for Development Results](#)” 2009.

USAID “[Value Chain Wiki](#)”, 2010

The following resources are available in [Teamworks](#) (IMD user group)

UNDP PSD HQ: “Assessing Markets”. 2010.

UNDP PSD HQ: “Brokering Inclusive Business Models. 2010.

UNDP PSD HQ: “Guide to Partnership Building”. 2010.

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