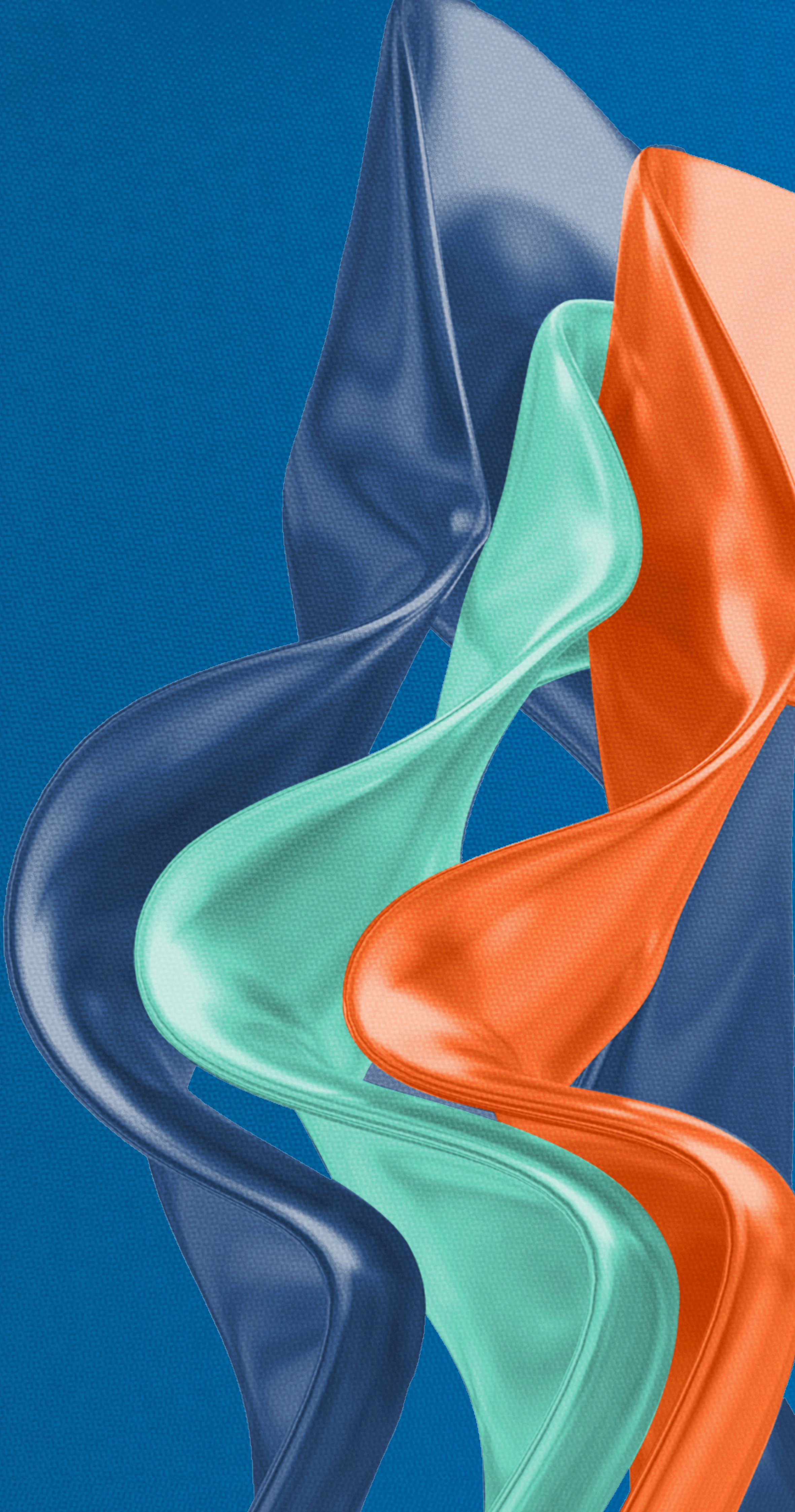
EVALUATION OF THE UNDP SUPPORT TO

PRIVATE SECTOR DEVELOPMENT AND STRUCTURAL TRANSFORMATION

EXECUTIVE SUMMARY

This evaluation of the United Nations Development Programme (UNDP) support to private sector development and structural transformation is the first dedicated global assessment by the Independent Evaluation Office of this highly strategic area of work for UNDP.

The evaluation maintained a two-fold accountability and learning goal. By examining the relevance, coherence, effectiveness and sustainability of UNDP's work, the evaluation aimed to determine the extent to which UNDP contributed to the development of the private sector, allowing enterprises to have their most critical needs met, while promoting the structural transformation of business models towards higher sustainability, inclusion and modernization of practices. The evaluation covered the period 2016-2022.



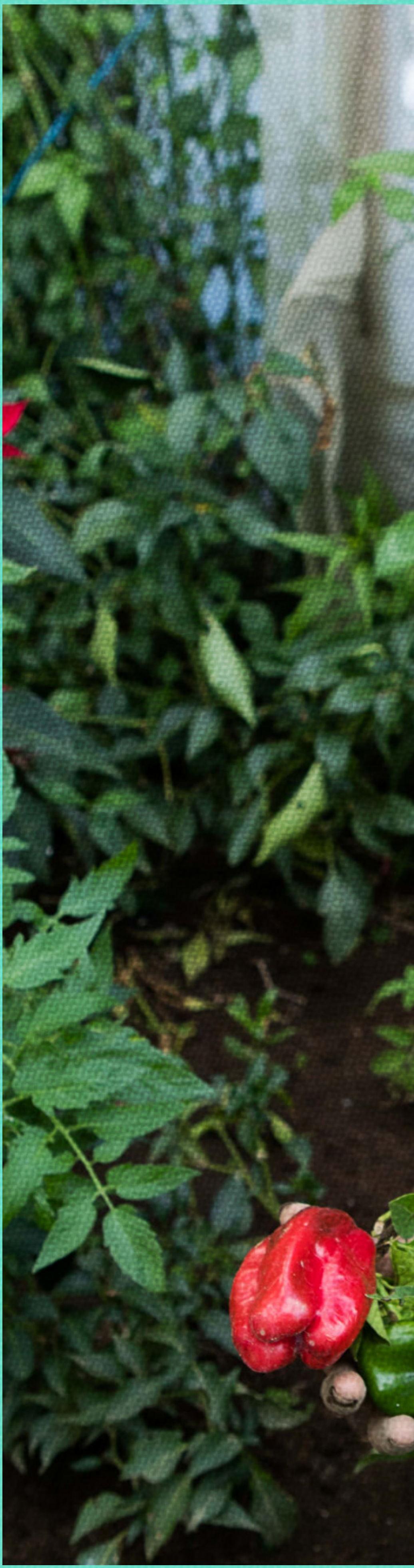
GLOBAL CONTEXT

Enhancing private sector capacities is key for growth and poverty reduction worldwide.

Enhancing private sector capacities is key for growth and poverty reduction worldwide. Private enterprises, and particularly Micro- and Small Medium Enterprises (MSMEs), are the main source of employment and the backbone of national economies, contributing to up to 40 percent of national Gross Domestic Product.

In recent years, many developing countries experienced a surge in private sector investments, propelled by government reforms to improve the business environment, attract foreign capital and promote entrepreneurship. However, persistent policy and capacity challenges, coupled with political instability, corruption, unfavourable trade conditions and limited access to finance, continued to hamper the growth and resilience of businesses. The entrepreneurial landscape of developing countries continues to be marked by a prevalence of self-employed individuals and microenterprises, many of which operate within the informal sector and remain highly vulnerable to external shocks.

Since 2015, the number of businesses that chose to operate sustainably grew globally, driven by increased awareness, regulatory incentives and technological advancements. Companies began responding to public demands for greater transparency and accountability by measuring and reporting their social and environmental impact. Despite a surge in sustainability pledges, unsustainable production and consumption patterns continued to exacerbate climate change and biodiversity loss. The perception of diminishing returns for shareholders and societal norms also continued to negatively influence sustainable investment decisions.



© PNUD Guatemala Caroline Trutmann

UNDP'S WORK

UNDP's support to private sector development and structural transformation included interventions at macro-, meso-, and downstream levels. UNDP aimed to create a more enabling environment to ease the sustainable growth of enterprises through policy advice, dialogue and capacity building of national institutions and service providers, including on supply and value chain matters and for enhanced access to finance. UNDP also provided direct support to (mostly) MSMEs by enhancing their technical and managerial capacities and promoting greener and more inclusive practices.

UNDP's support to private sector development and structural transformation fell under the responsibility of multiple UNDP headquarters units, with corresponding functions mirrored at regional and country levels, depending on resource availability. The Istanbul International Center for Private Sector in Development, established in 2011, coordinated the development of private sector strategies and was responsible for the refinement of policies, procedures and instruments to engage programmatically with the private sector.

In the period 2016-2023, the UNDP portfolio comprised 801 projects which covered, in full or in part, activities aimed at promoting private sector development and structural transformation. The total budget was US$3.4 billion (annual average of US$420 million). UNDP and its partners primarily allocated resources in low-income countries.

KEY FINDINGS + CONCLUSIONS

UNDP support for private sector development was designed to help small businesses, focusing on countries where needs were highest. UNDP support to private sector development primarily benefitted micro- and small entrepreneurs, in sectors where they were already employed and/or did not require large capacity development investments to start a new activity. UNDP made deliberate efforts to include groups most at risk of being left behind, simultaneously addressing social development objectives. UNDP support to the digitalization of MSMEs and the creation of e-commerce platforms valuably helped struggling businesses during the COVID-19 pandemic.

UNDP adapted its strategic approach to promote a broader engagement of the private sector for the achievement of the SDGs. UNDP's vision was underpinned by a stronger organizational positioning to steer private finance towards sustainable investments. Following the adoption of the Agenda 2030, UNDP Strategic Plans embodied a clearer commitment to promote the structural transformation of the private sector for greener, digital and more inclusive practices, which was then reflected in country strategies. Recognizing that the desired change would require larger private investments in productive economic activities in line with the SDGs, UNDP strengthened its internal capacities to fill a gap left by International Financial Institutions and other organizations traditionally engaged in promoting access to finance around the definition of strategies and instruments to enhance SDG-aligned investments.

UNDP strategies on private sector development and partnership were not translated into programmatic approaches that effectively utilized UNDP's multiple offers. UNDP did not have one specific niche that made it the most suitable partner to governments for private sector development and structural transformation. The value added of the organization lay in the breadth of its mandate and experience, which gave UNDP an opportunity to use multiple entry points to promote change. Numerous UNDP offers were rarely brought together at country level in more coherent programmes that addressed the most important needs of the private sector. UNDP support to MSMEs remained disjointed from other initiatives that aimed to bring the private sector in closer alignment with the SDGs.

The focus of UNDP projects was skewed towards direct assistance to micro- and small enterprises, with insufficient appreciation of meso-level interventions. The provision of direct support to entrepreneurs was relevant but did not always respond to the most pressing needs faced by companies. Primary and secondary data sources consulted by the evaluation team questioned the assumption, on which numerous UNDP projects had been planned, that self-employment was the most effective way out of poverty and training the best way to spur growth**.** UNDP downstream-level work rarely occurred through the lens of a 'private sector development approach,' with inadequate attention paid to market requirements, barriers to trade and supply-demand balances. UNDP rarely adopted sectoral approaches, which could have facilitated more integrated interventions. Examples of collaboration among UNDP, more specialized United Nations agencies, and International Financial Institutions were limited, reducing the opportunities to achieve higher effectiveness.

The evidence regarding UNDP's effectiveness on the improved productivity, resource efficiency and income of project beneficiaries was generally positive, but inconclusive. The knowledge and assets provided by UNDP generally helped to increase motivation, productivity and income for individuals who were struggling to maintain their business and were at risk of being left out. Most respondents to the IEO survey considered UNDP programmes impactful in terms of reputational effects and economic gains, while less helpful in providing access to new markets and/or promoting more participation of women in the workforce at all levels.

UNDP's more impactful efforts on trade and value chains, while limited in scope, were realized through regionally coordinated projects and work around 'anchor companies.' Significant achievements were realized when UNDP adopted an integrated approach covering macro-, meso-, and downstream levels, and when it collaborated with other institutions. Support to the elaboration and/or amendment of strategies, laws and regulations enhanced capacities of national stakeholders and trade support institutions, with trickle down effects for companies in terms of trade opportunities, productivity and income gains. In other contexts, work around select value chains promoted better relationships among companies and a deeper understanding of buyers' and sellers' requirements and needs. Larger companies became involved in the professionalization of their suppliers, with reported growth in sales and customers.

UNDP's prolonged support to national institutions had important effects, leading to enhanced capacities and institutionalization of services to (micro)-entrepreneurs, particularly in Middle Income Countries. With UNDP's support, public institutions delivered business development services to existing and aspiring entrepreneurs, mostly through information sharing, training and to a lesser extent advice on registration procedures, product improvement and commercialization. With few exceptions, the effects of the offered services were often unknown, as important gaps remained in the institutions' monitoring and evaluation systems, particularly in cases where UNDP's support had diminished over time. The continuity of UNDP's support and technical advice was important to enhance the sustainability of institutions by also crowding in contributions by other international partners.

UNDP direct support to institutional capacity development at times came at the expense of a more organic vision of business needs, with limited attempts to promote public institutions as business service integrators. Opportunities to leverage UNDP's convening role for promoting inter-institutional linkages and facilitating the integration of business associations and private providers of services remained unexplored. As public institutions dealt with ongoing challenges related to resources and efficiency, there was insufficient focus on establishing business support ecosystems involving private sector providers. The engagement of Chambers of Commerce was not frequent, but proved to be valuable, including from a sustainability perspective.

UNDP promoted closer alignment of business practices to the SDGs. Through its acceleration programmes, UNDP enhanced the capacities of mostly young and emerging entrepreneurs who wanted their companies to grow and contribute to sustainable development, creating opportunities to redefine the visions of those businesses, create new products and foster some connections with funders. The alignment of companies' goals to the SDGs was challenged, however, by the novelty of the topic and the limited availability of incentives, reinforcing the intention-action gap. Identifying specific business solutions proved easier than attempting to align the core of the business to the SDGs.

UNDP played an important role in championing environmental policy changes and promoting sustainable business practices, resulting in reported positive impacts on the environment and a decrease in ozone-related harm. The establishment of dialogue mechanisms for the sustainable production of major food items provided producers with opportunities to voice their requests and concerns, but often stopped after the projects ended. UNDP's experience across countries demonstrated that farmers and entrepreneurs continued struggling with better pricing for sustainable products (particularly in local markets) and vertical scaling, in the absence of external funding or investment opportunities. The most successful projects were built on companies and networks with established sustainability and certification schemes.

UNDP's approach to supporting the private sector in reducing inequality was not clearly defined and received less attention than necessary. The integration of a Leave No One Behind approach in UNDP programming resulted in the organization paying systematic attention to the inclusion of marginalized groups in business activities. UNDP interventions produced some economic gains but their reach and the number of people who benefitted were limited. UNDP often struggled to promote more transformative changes, given the width of capacity asymmetries, social norms and power dynamics at play. The largest dedicated programmes in this area were discontinued. UNDP's Gender Equality Seal for Private Sector process strengthened companies' internal policies, mitigating the risk of open discrimination against women, but struggled with scaling. Even so, over time, UNDP positioned itself as a strong interlocutor in the area of Business and Human Rights. The dialogue facilitated by UNDP enhanced trust among stakeholders and started influencing change among companies, particularly in countries with a more enabling political environment.

Until recently, access to finance was not a central aspect of UNDP's programming. While acknowledged as a critical constraining factor to the growth and sustainability of businesses, enabling access to finance was not at the forefront of UNDP's work to support private sector development and structural transformation. Because of its mandate, UNDP offered limited direct financial assistance to MSMEs. Most support came in the form of small grants competitively distributed, the administration of which presented efficiency challenges for both UNDP and the applicants. UNDP lacked an appropriate financial mechanism to effectively channel resources and support initiatives co-financed by investors and external partners. Collaborations with banks and intermediary organizations in Middle Income Countries succeeded in raising capital. UNDP's intensified emphasis on SDGs finance enabled the planning of regulatory reforms to support private sector alignment with the SDGs. Investor Maps fostered informed dialogues among relevant stakeholders and partners, but tangible financial opportunities are yet to manifest.

The change in UNDP's vision and strategies on private sector engagement did not translate into a corresponding shift in the organization's culture and policy framework. UNDP has long acknowledged the need to adapt its internal private sector engagement instruments, deemed inefficient and unsuited to respond to requests for collaboration and promote equal partnerships with the private sector. Evidence collected by the evaluation team validated the urgent need for a policy and practice review to address recurring issues around efficiency of contracting processes, co-investments, enabling access to finance and risk appetite. UNDP's most recent approach to advance private sector partnerships, defined as one of the 12 strategic priority areas for the first 100 days of the Strategic Plan 2022-2025, was well aligned with the challenges identified by the evaluation but required accelerating action to resolve contentious issues.

© PNUD Guatemala Caroline Trutmann

RECOMMENDATIONS

01

UNDP should define how its multiple service offers could be better leveraged to promote more integrated and coherent support for private sector development and structural transformation. UNDP should develop a full theory of change for its Private Sector Development and Partnership strategy to identify how the application of UNDP service offers helps the private sector address its needs to grow, become resilient and transform its practices towards higher sustainability. The exercise, which should be repeated at regional and/or country level and run in consultation with private sector stakeholders, should help UNDP prioritize a dedicated set of interventions that best respond to companies' needs, while favouring the integration of different tools for more effective support.

02

Across its projects, and including those focused on livelihoods support, UNDP should enhance the integration of market-based approaches and the promotion of supply and value chains, particularly in middle-income countries. The design of all UNDP projects aimed at promoting the development or structural transformation of the private sector, including micro- and small entrepreneurs, should question the marketability of supported products or services. When challenges are identified, UNDP should avoid a default response of setting up a new institution, programme or initiative to address the issue. UNDP should rely to the extent possible on existing national institutions, strengthening their capacities for higher sustainability, and enhance its collaboration with Chambers of Commerce and business associations as enablers of private sector growth. On trade, UNDP should enhance its partnerships with the United Nations Conference on Trade and Development (UNCTAD) and International Trade Centre (ITC), to ensure the full integration of their tools and capacities, which UNDP country presence will help further disseminate. UNDP should enhance its support to e-commerce through more comprehensive interventions.

03

UNDP Country Offices should strengthen their support to private sector development and structural transformation by focusing on sectors that can significantly contribute to poverty reduction and a greener economy. UNDP should build its programmes on existing market analysis, including SDG Investor Maps, and/or explore foresight tools to identify future areas of possible engagement, including for the promotion of circular economies. Sectoral approaches should comprehensively assess the existing barriers to growth and structural transformation, including regulations and policy incentives, and work with partners on multiple entry points for higher-impact interventions.

04

UNDP should strengthen its engagement with larger companies and network of private sector enterprises, both at global and regional/country levels, to promote the integration of MSMEs in global value chain on fair terms and private sector's structural transformation at broader scale. UNDP should facilitate dialogue between companies of different sizes, and possibly create Business Advisory Councils on key thematic and/or geographic areas of engagement. Through these dialogues, UNDP could develop offers that better respond to market incentives and/or align with existing sustainability initiatives by companies. Lessons learned from UNDP experience with Food and Agriculture Commodities Systems (FACS) dialogue mechanisms, the SDG Impact steering group, and with the advisory group established for the Regional Bureau for Africa should inform the terms of these platforms. UNDP should clarify its positioning and support to promote a stronger role by the private sector in reducing inequality. The knowledge gained through the Business Call to Action's (BCtA's) implementation should be integrated into future initiatives and projects for the continued promotion of inclusive business practices.

05

UNDP should comprehensively identify and consider all the factors affecting the decisions of investors to support private companies in developing countries and focus on those that are more in line with its capacities and comparative advantages. UNDP should focus on policy de-risking and enhance private sector productive and managerial capacity to attract national and foreign investments, including through the development of bankable business plans and pipeline of investment-ready projects. UNDP should continue facilitating the engagement of national and international financial institutions and intermediary services to promote a stronger alignment of finance flows for the development of private sector opportunities for the SDGs.

06

UNDP should finalize the changes to its policies and regulations, based on the recommendations by its internal private sector task force. UNDP should develop instruments that facilitate engagement with the private sector as a partner, including for jointly designed initiatives. If considered appropriate and approved by the Administrator, UNDP should present proposals for changing the Financial Regulations and Rules (FRRs) to the Executive Board for its deliberation, following established processes. The implementation of the revised due diligence policy should be monitored at regular intervals to ensure that capacity issues and other aspects do not hamper prompt decision-making. Risk assessment should be digitized and use of external resources enabled to quicken the cross-check of information. UNDP should provide clear guidance to its staff on the application of rules by type of engagement and ensure adequate dissemination to promote a risk-responsive organizational culture, which gives greater recognition to the development role of the private sector.