United Nations DP/2024/17

Executive Board of the United Nations Development Programme, the United Nations Population Fund and the United Nations Office for Project Services

Distr.: General
1 March 2024

Original: English

Annual session 2024
3 to 7 June 2024, New York
Item 10 of the provisional agenda
Evaluation

Evaluation of UNDP support to private sector development and structural transformation

Executive summary

The evaluation assesses the relevance, coherence, effectiveness and sustainability of UNDP support to private sector development and structural transformation. It illustrates the evolution of UNDP engagement with the private sector, particularly on sustainability matters and finance; and assesses UNDP contributions at macro (policies, incentives and dialogues), meso (institutional development, value chain, market and trade) and downstream levels (productivity and business practices).

The evaluation identifies opportunities to strengthen UNDP programmes through higher integration of market-based approaches and the promotion of support ecosystems for micro, small and medium-sized enterprises that go beyond national public institutions. The evaluation also reflects on the internal coherence of the UNDP offer and the suitability of its current policy framework to support partnerships with the private sector. The report includes six recommendations to this end.

Elements of a decision

The Executive Board may wish to: (a) take note of the evaluation; and (b) request UNDP management to address the issues raised in the report and its recommendations.

Contents

I. Introduction

1. The evaluation of 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 was conducted as part of the office's revised multi-year programme of work 2022-2025.[1]

2. The evaluation maintained a two-fold accountability and learning goal. It determined the extent to which UNDP contributed to the development of the private sector, meeting companies' most critical needs, and promoted the structural transformation of business models towards higher sustainability, inclusion and modernization of practices. Insights on results achieved and lessons learned are expected to inform the implementation of the UNDP private sector development and partnership strategy 2023-2025 and contribute to the global discussion on the role of private sector in promoting sustainable development.

II. Context

3. Enhancing private sector capacities is key for growth and poverty reduction. The backbone of national economies, private businesses – and particularly micro, small and medium-sized enterprises (MSMEs) – remain the main source of employment, engaging 90 per cent of the national workforce and contributing to up to 40 per cent of national gross domestic products.[2]

4. 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 challenges such as inconducive industrial policies, political instability, conflict and corruption continue to hamper the growth and resilience of businesses. The weak capacity of essential services (transport and logistics, energy, information and communication technologies, and business and professional facilities) affects companies' ability to participate in commercial exchanges and be connected to larger-scale value chains. Unfavourable conditions further narrow the potential of trade to be an engine for development, particularly in least developed countries. Addressing these systemic weaknesses remains crucial for unlocking the full potential of the private sector and fostering sustainable development.

5. The entrepreneurial system of developing countries is marked by a prevalence of self-employed individuals and microenterprises, many of which operate within the informal sector and are highly vulnerable to external shocks. Higher levels of risks of closure and unemployment disproportionately affect women and youth, who find it more difficult to access bank financing to grow. Forty per cent of MSMEs in developing countries – around 65 million firms – have unmet financing needs for $5.2 trillion, equivalent to 1.4 times the current level of the global lending to MSMEs.[3]

6. Partly propelled by the coronavirus disease (COVID-19) pandemic, companies worldwide have increased the use of digital tools to commerce and trade, with positive impact on business operations and income. The enhanced availability of digital finance services also allowed MSMEs to conduct transactions more efficiently, lowering costs and offering smaller companies access to capital for investment. While a growth in business connectivity was recorded across countries and income levels, many enterprises in less developed countries did not manage to capitalize on growing e-commerce opportunities.

7. The 2030 Agenda for Sustainable Development recognizes the private sector not only as a beneficiary of assistance in developing and emerging economies, but also as an enabler and promoter of inclusive and sustainable practices globally. Since 2015, there has been a notable growth in sustainable businesses worldwide, including in developing countries. Growing concerns about climate change, pollution and environmental degradation have enhanced awareness among consumers, businesses and policymakers about the importance of sustainability. An increasing number of companies began to respond to public demands for

[1] The decision to revise the workplan was presented in the 2022 annual report on evaluation (DP/2023/16).
[2] World Bank and International Finance Corporation.
[3] World Bank.

greater transparency and accountability by measuring and reporting their social and environmental impacts. Regulatory incentives and advances in technology played a pivotal role in making sustainable practices more affordable and accessible.

8. Yet, unsustainable patterns of production and consumption continue to exert immense pressure on fragile ecosystems, serving as the primary driver of the triple planetary crisis of climate change, pollution and biodiversity loss. In 2021-2022, emissions from industrial processes reached their highest recorded level, as did the amount of fossil fuel subsidies, outbalancing the positive results achieved with the increased adoption of renewable energies.[4] The perception of diminishing returns for shareholders and societal norms, particularly those around gender and race, also continue to negatively influence decisions for more sustainable investments. Especially in developing countries, policy barriers, capacity constraints and limited access to financing continue to significantly challenge the companies' adoption of sustainable practices.

The UNDP response

9. UNDP supported the development of the private sector to create jobs, promote economic gains and improve livelihoods for the poorest and most disadvantaged individuals. Starting from the 2018-2021 Strategic Plan, UNDP introduced the concept of "structural transformation" to stress the importance of working towards more inclusive and greener business practices, while leveraging digitalization and technological advancements to promote development. UNDP strategic plans also highlighted the central role of private investments for the achievement of the Sustainable Development Goals, particularly on energy and natural resource management issues.

10. UNDP support 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 private companies, mostly MSMEs, by enhancing their technical and managerial capacities and promoting greener and more inclusive practices.

11. In 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 $3.4 billion, reflecting an increase in nominal terms compared to previous years.[5] UNDP and its partners primarily allocated resources in low-income countries, with nearly equal proportions distributed between lower-middle and upper-middle income countries.

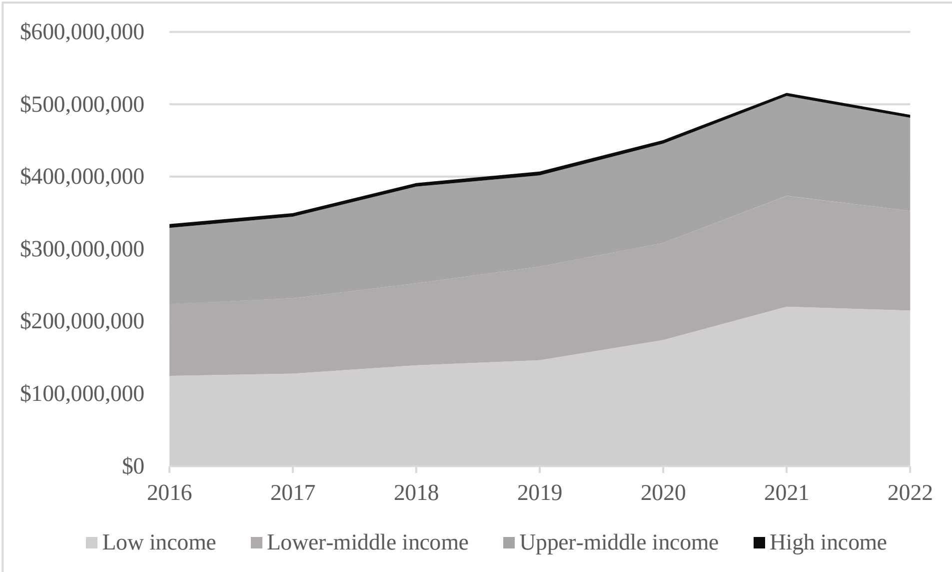
12. UNDP also provided assistance through non-project activities. Most of them were run by the UNDP Sustainable Finance Hub and included supporting businesses in measuring and monitoring their impact on the Sustainable Development Goals and identifying investment opportunities. Additionally, the UNDP food and agriculture commodity systems team spearheaded a few global umbrella initiatives on the sustainable production of agricultural commodities.

[4] United Nations Department of Economic and Social Affairs (2022), The Sustainable Development Goals Report. Also Simon Black, Ian Parry and Nate Vernon (2023). "Fossil Fuel Subsidies Surged to Record $7 Billion," International Monetary Fund. Available at www.imf.org/en/Blogs.

[5] Independent Evaluation Office analysis of data extracted from the UNDP Atlas and Transparency Portal.

Figure I. UNDP resources for private sector development increased over time and benefited low-income countries more.

UNDP project resources by country income level, 2014-2023



Source: Independent Evaluation Office analysis of UNDP data

13. UNDP support to private sector development and structural transformation fell under the responsibility of multiple UNDP units. 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.

III. About this evaluation

14. The evaluation was guided by eight questions aligned to standard international evaluation criteria of relevance, coherence, effectiveness and sustainability.[6] It employed mixed methods to answer its questions and test some of the hypotheses formulated in the reconstructed theory of change. An iterative and adaptive data collection process allowed for the adjustment of the direction of the evaluation, based on emerging evidence, while remaining within the framework set in the terms of reference.

Table 1. Evaluation questions grouped by criterion and data collection methods.

Criterion	Question	Data collection tool
Relevance	To what extent has UNDP contributed to address the most critical development needs of the private sector at national level, with a focus on priority industries for economic and sustainable growth?	Document review, including content analysis of 58 UNDP country programme documents. Statistical analysis of the relationship between UNDP programming size and contextual variables.
Coherence	To what extent has UNDP support to private sector development integrated sustainability considerations to green processes, reduce inefficiencies and limit the impact of growth on the environment?	

[6] Organisation for Economic Co-operation and Development, Development Assistance Committee.

	To what extent has UNDP created and relied on synergies with other interventions by Governments, United Nations agencies, international financial institutions and other development partners?	More than 500 interviews at headquarters, regional and country levels. Survey of 447 companies and entrepreneurs which participated in UNDP initiatives. Eight country-level case studies and coordination with three ongoing independent country programme evaluations. Desk-based study of UNDP support to food and agriculture commodity systems Desk-based study of newer and more innovative approaches to access to finance. Meta-analysis of 57 Independent Evaluation Office evaluations and relevant decentralized evaluations.
Effectiveness	To what extent has UNDP support at policy and regulatory levels enabled the development of the private sector, easing the way for doing business and promoting economic diversification? To what extent has UNDP enhanced the ecosystem for private sector development and contributed to strengthening sustainable value chains? To what extent has UNDP enhanced the productivity of the private sector, improving income and livelihoods of those engaged in it? What benefit has UNDP support brought to the structural transformation of the private sector?	
Sustainability	To what extent has UNDP contributed to unlocking institutional capacities and mechanisms that are likely to be sustained in the medium to long term?	

IV. Key findings

Relevance

15. UNDP support to private sector development primarily benefited micro and small entrepreneurs, in sectors where lower-income individuals were most employed and/or which 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 (e.g., youth, women, migrants), simultaneously addressing social development objectives. UNDP provided more financial support in higher fragility contexts, where the productive capacity needs were greater.

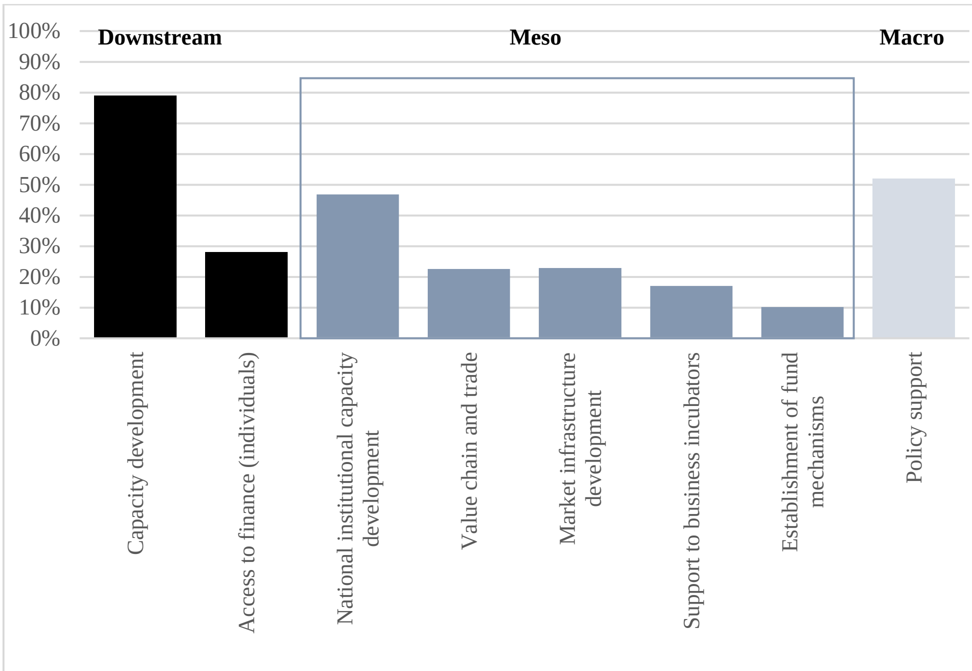
16. UNDP enhanced its support to private sector development when the COVID-19 pandemic erupted. In addition to an overall increase in resources, UNDP responded to the emerging needs of MSMEs by adapting its programming. It enlarged its digital offer, provided seed funding and wage subsidies to cover subsistence needs (e.g., in the Dominican Republic and Ethiopia) and reduced co-financing requirements of existing initiatives (e.g., in Bosnia and Herzegovina). Up to 2023, the digitalization of MSMEs remained an important goal of UNDP country programme documents.

17. The focus of UNDP projects was skewed towards immediate assistance to micro and small enterprises, with insufficient appreciation of meso-level interventions. The provision of direct support to entrepreneurs was relevant, but it did not always respond to the most pressing needs faced by entrepreneurs and companies. Primary and secondary data sources consulted by the evaluation 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. Interviews revealed that the focus on entrepreneurship and the more limited emphasis on other areas of support stemmed from donor preferences for quicker results.

18. With few exceptions, UNDP did not employ sectoral approaches,[7] which would have allowed a more thorough consideration of different factors influencing private sector growth and fostered strategic collaboration with partners. Until recently, UNDP had limited involvement in providing forward-looking advice for economic diversification, which meant missing opportunities to identify industries with greater potential for poverty reduction.

Figure II. UNDP projects focused on the downstream level. They paid insufficient attention to access to finance and meso-level interventions as drivers of private sector development.

Percentage of projects



Source: Independent Evaluation Office analysis of UNDP data

Coherence

19. UNDP strategies on private sector development and partnership were not translated into programmatic approaches that effectively utilized multiple UNDP offers. UNDP support to MSMEs remained disjointed from other initiatives that aimed to bring the private sector in closer alignment with the Sustainable Development Goals. Coordination between projects implemented under different “portfolios” and units were rarely reported. Successful collaborations were primarily observed in initiatives led by the UNDP Sustainable Finance Hub, facilitated by dedicated resources.

20. UNDP partially met its aspirations to promote deeper cooperation and sharper synergies with international financial institutions (IFIs) and United Nations partners for a more coherent approach to private sector development and structural transformation. Strategic partnerships with other United Nations agencies working on economic development and the United Nations global compact were rarely pursued. In the area of food and agriculture commodities, UNDP collaborated with the Food and Agriculture Organization of the United Nations and the United Nations Environment Programme through headquarters-centred mechanisms. At the country level, the modest cooperation among UNDP, IFIs and specialized agencies in the area of private sector development was a symptom of the lack of incentives (outside mechanisms of joint financing) and the ineffective functioning of government-led coordination mechanisms.

[7] Sectoral approaches analyse and address the needs, opportunities and challenges within individual sectors of the economy.

Effectiveness and sustainability

Downstream support and value chains

21. The evidence regarding UNDP effectiveness on the improved productivity, resource efficiency and income of project beneficiaries was generally positive but inconclusive. Although evidence of outcomes was often difficult to discern, 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. Projects supported by the UNDP SDG value chain programme largely improved the reputation of the majority of the MSMEs surveyed and provided them with economic gains. UNDP support was less helpful in providing access to new markets, increasing the number of employees and promoting more participation of women in the workforce at all levels.

22. UNDP maintained an important focus on women and marginalized populations (e.g., migrants and ethnic minorities) but often did not address broader issues such as underlying social norms and entrenched systemic inequalities. Only 44 per cent of the UNDP portfolio analysed by the evaluation was classified as GEN2 (i.e., providing significant contributions to gender equality), with a few projects labelled as transformative. Although the emphasis remained on the participation of selected groups, an increase in confidence, livelihoods and income perspectives was reported in many country case studies and reviewed in independent country programme evaluations.

23. UNDP did not consistently integrate a market-driven approach to livelihoods, paying insufficient attention to a product's commercialization and competitiveness and the conditions that would enable companies to grow. More in-depth market analysis at the design stage could have supported the selection of initiatives and products with higher commercial potential. When this occurred, positive results were evident, especially in cases where UNDP promoted sharing of services and collaboration with "anchor companies" (e.g., in Albania, Colombia and Venezuela). This contributed to fostering local economic development and reinforced the position of MSMEs in the global economy.

Trade and e-commerce

24. UNDP work on trade was limited in scope and more impactful when realized through larger and regionally coordinated projects (e.g., Aid for Trade in Central Asia). These initiatives facilitated increased exchange and sale opportunities for companies by working at macro and meso levels (e.g., supporting policy harmonization, the streamlining of procedures, developing stakeholder capacities and promoting products). Results from country-level initiatives (e.g., in Botswana, Cambodia and Lesotho) were instead frequently constrained by the fragmentation of efforts in a highly complex domain of work.

25. UNDP has yet to effectively address the challenge of connecting MSMEs to global value chains. Although UNDP support to the African Continental Free Trade Area Agreement is too nascent to show outcome-level results, the evaluation noted a mismatch between the support provided to smaller firms at country level and the more advanced, capital-intensive productions which the Agreement's secretariat and partners had identified as having more potential to benefit from the framework. It is uncertain whether encouraging smaller businesses to participate in trade under this agreement will yield more benefits for development compared to encouraging trade through larger companies, unless accompanied by more comprehensive and intense support to strengthen the ecosystem for MSMEs.

26. UNDP managed to nurture an interest in e-commerce among targeted MSMEs, while room remains to further integrate e-commerce trade into private sector development projects. UNDP was more effective when it had the opportunity to implement longer and more structured initiatives, framed in the context of national digital transformation strategies (e.g., in Bangladesh and Malaysia). E-commerce initiatives designed during the pandemic struggled to achieve results, given the significant digital gaps of both producers and consumers. More promising results were observed when these projects used technologies already partly familiar to the target groups. Interviewees acknowledged that many initiatives were designed to respond to immediate needs but proved unsustainable in hindsight.

Institutional capacity development and policy advice

27. Prolonged UNDP support to national governments enhanced capacities and promoted the institutionalization of services to (micro)entrepreneurs, particularly in middle-income countries (e.g., Egypt and Nepal). With UNDP 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. UNDP advice helped to maintain the focus of national institutions on individuals and communities most at risk of being left behind, and helped to enhance the sustainability of these institutions by crowding in contributions from other international partners. With few exceptions, the effects of the services offered were often unknown, as important gaps remained in the institutions' monitoring and evaluation systems, particularly in cases where UNDP support had diminished over time.

28. UNDP direct support to institutional capacity development came at times at the expense of a more organic vision of business needs, with limited attempts to promote public institutions as business service integrators. 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 international chambers of commerce and industry was not frequent, but proved to be highly valuable, including from a sustainability perspective (e.g., Türkiye and Uzbekistan).

29. Although UNDP did not hold a comparative advantage (vis-à-vis IFIs) in providing macro-level support for private sector development, it responded to government requests for advice on economic matters, mostly through studies and diagnostics. In some instances (e.g., Dominican Republic and Honduras), UNDP support to the simplification of government procedures helped to reduce friction, leading to a more favourable environment for companies to conduct their business. Private sector stakeholders also valued UNDP as a convener of public-private dialogues, which allowed them access to the highest levels of government to inform policy and legislations.

Structural transformation and alignment of business practices with the Sustainable Development Goals

30. Following the adoption of the Goals, UNDP increased its engagement with the private sector to assist companies in aligning their objectives with the Goals. The SDG impact accelerators facilitated companies in operationalizing their ideas more quickly, contributing to improving their ability to sell their business concepts better. The use of commitment tools – such as those promoted by the Business Call to Action, the Gender Equality Seal and the carbon footprint programme – motivated companies to reconsider the way they create value in business.

31. UNDP efforts showcased inspiring examples of change by companies that understood the socio-economic value of sustainable practices. Results of the evaluation survey indicated that these initiatives enhanced the capacities of mostly young and emerging entrepreneurs who wanted their companies to grow and contribute to sustainable development through new products. They granted entrepreneurs better knowledge of their customer needs and positively impacted their credibility and reputation among consumers and communities. Entrepreneurs that most benefited from the interactions with investors promoted by UNDP were either more experienced and/or closely accompanied through curated, tailored matchmaking sessions. The engagement of business partners and impact investors at the earliest convenience was reported as a good practice, which UNDP initiatives did not always follow.

32. The alignment of companies' goals to the Sustainable Development Goals was challenged by the novelty of the topic and the availability of limited incentives to this end, reinforcing the intention-action gap. Translating and consolidating learning remained difficult due to change management challenges, particularly if programmes were decoupled from daily operations. Identifying specific business solutions proved easier than attempting to align the core of the business to the Goals. Dedicated training and advisory services also resulted in a significantly higher application of practices, easing – at least temporarily – the challenges faced by

companies in collecting impact data. UNDP support was sometimes too brief and disconnected from other activities, preventing it to reach its maximum potential.

33. With few exceptions, UNDP collaboration with large companies remained limited. UNDP continued to treat the private sector more as a beneficiary than a partner, lacking a full understanding of the levers and incentives it could utilize to drive change. Private sector representatives had limited involvement in the design of interventions, which hindered the assurance that projects effectively addressed the most pressing needs of companies.

Greening practices

34. 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. Incentives and cost-benefit studies were necessary to promote change and diminish the risk of reverting to conventional approaches. UNDP 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.

35. In the area of clean energy, UNDP incentivized private sector development and the transformation of existing practices through policies and regulations and by demonstrating the viability of clean technology. Collaborations with national standards organizations (e.g., in Egypt) facilitated the full integration of regulations in procurement processes. The demonstration of results furthered investments and scaling-up. All highly successful projects benefited strongly from effective finance components. In some cases (e.g., Ghana and Nepal), the insufficient capacity of local operators and the high cost of financing hampered foreign investments in national companies.

36. UNDP contributed to the establishment of dialogue mechanisms for the sustainable production of major food items (e.g., coffee, cocoa, palm oil). With UNDP support, national action plans were successfully developed, delivering protection benefits and facilitating farmers’ access to markets. Dialogue mechanisms provided producers with opportunities to voice their requests and concerns and enabled direct interaction among farmers, private sector companies and commodity traders. The collaboration with platforms and companies such as the International Coffee Organization, Lavazza, the Musim Mas Group and COFCO International raised the impact potential of UNDP work.

37. The consolidation of national commodity platform processes within project time frames remained, however, a challenge, and progress achieved tended to lose momentum in the absence of governments’ continued commitment (e.g., in Costa Rica). Attempting to balance power relationships between large companies and farmers through short to medium-term projects remained also difficult. Notably, the most successful projects were built on companies and networks with already established sustainability and certification schemes. Interviewed stakeholders reported the engagement with UNDP as a matter of corporate image and brand prestige.

38. Outside of the food and agriculture commodities area, UNDP direct advice to private sector companies on achieving net-zero goals was limited. Most prominent examples came from Latin America and the Caribbean (e.g., Colombia, Dominican Republic and Mexico) where UNDP engaged several companies in greening their practices and promoted biodiversity-friendly certifications, with positive reputational effects reportedly resulting in increased sales.

Inequality, gender and human rights

39. Overall, UNDP did not clearly outline how its support would help the private sector to reduce inequality. According to both internal and external stakeholders, this area received less attention than deemed necessary, with the largest UNDP programmes gradually phased out. The goal of promoting equal and more inclusive businesses was reflected in a minority of UNDP country programme documents.

40. The UNDP Gender Equality Seal for the private sector contributed to strengthening business policies and processes, promoting parity of conditions and mitigating the risk of open discrimination against women in the participating companies. Most notable results were found

in traditionally "masculine" sectors and among financial institutions, leading to gender bonds as spillover effects. The initiative, which certified 873 companies in Latin America and the Caribbean and 40 in Africa, however struggled with scaling. These difficulties were attributed to the programme's length, costs and inconsistent commitment from public institutions.

41. 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 at company level, particularly in countries with a more enabling political environment. In a few countries, UNDP also developed screening instruments to encourage responsible practices among foreign investors and companies listed on the stock exchange. Work with MSMEs in the informal sector remained challenging.

Access to finance

42. 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 work to support private sector development and structural transformation until recently. More than two thirds of UNDP projects did not include an access to finance component.

43. Because of its mandate, UNDP offered limited direct financial assistance to MSMEs. Most support came in the form of small grants that were competitively distributed; however, their administration presented efficiency challenges for both UNDP and the applicants. Performance-based payments proved suitable primarily for operations in upper-middle-income countries (e.g., Serbia), where companies had the initial capital required for investments. UNDP lacked an appropriate financial mechanism to effectively channel resources and support initiatives co-financed by investors and external partners. Unsuitable and cumbersome procedures adapted from procurement processes delayed the implementation of matching-grant initiatives, which could progress only by resorting to multiple waivers (e.g., in Malawi).

44. UNDP played an important facilitation role in the negotiation of favourable loan conditions from banks to the benefits of MSMEs, but mostly in middle-income countries. In conflict-affected and less developed countries, the effects of political instability hampered cooperation with financial institutions. In these contexts, UNDP was more effective in creating savings and loans associations, which contributed to livelihoods improvement but whose impact on business development remained modest. Interviewed stakeholders saw a value in involving UNDP in the establishment of national funds for small and medium-sized enterprises, but mostly to promote the engagement of regulators than in the definition of technical aspects.

45. UNDP intensified emphasis on facilitating financing for the SDGs enabled the planning of regulatory reforms that would support the private sector's alignment with the Goals. Despite the overall slow progress with the integrated national financing frameworks, the support by UNDP and its partners resulted in the prioritization of numerous financial reforms to improve the business environment in the short term and encourage investments, including through new laws on public-private partnerships and tax incentive reviews (e.g., in Cabo Verde and Kyrgyzstan).

46. UNDP partnered with private equity investors and national development banks to establish impact investing funds, whose effects appeared promising (e.g., in Egypt and Rwanda) but have yet to fully manifest given the recent nature of most engagements. With few exceptions, the investment opportunities identified in UNDP SDG investor maps were also yet to materialize into actual investment deals. Interviewed stakeholders acknowledged the value of the maps as market intelligence tools, which facilitated an informed dialogue with relevant stakeholders. Maps were promoted through both internal initiatives and partnerships. It became apparent however, in hindsight, that most maps had been developed with an insufficient engagement of investment agencies and financial institutions to ensure full alignment with lenders' risk appetite. Stakeholders also emphasized the need to simultaneously increase the support to MSMEs in the identified areas to make them more appealing to banks and investors.

Internal policy framework

47. UNDP policies and instruments proved insufficient to support private sector engagement, with uncertainties in the application of rules and delays further hampering the organization's capacity to partner with the private sector efficiently and effectively. Internal documents acknowledged the need to review and adapt UNDP private sector engagement instruments already in 2012.

48. Evidence collected by the evaluation validated the urgent need for a policy and practice review, mostly in three directions. First, while appreciating the value of informed risk management, UNDP staff reported extremely lengthy contracting processes, which were partly attributed to the application of due-diligence screening to all companies with which UNDP planned to engage. Interviewees also cited the need for a standardization of operating procedures and more clarity on the application of policies to different cases. Second, staff identified a clear gap in current policy instruments for equal partnerships with private sector stakeholders, which continued to be considered as either vendors/service providers or beneficiaries. The application of the intellectual property rights policy reportedly reduced the appetite of innovators to partner with UNDP. Last, on enabling access to finance, the established ceiling for micro-capital grants and the requirement to work through a civil society organization were reported as limiting the opportunity for UNDP to de-risk business ventures with social impact.[8] Some interviewees perceived that the UNDP-supported guarantees policy challenged the organization's ability to work with the United Nations Capital Development Fund (UNCDF) as an implementing or responsible partner in higher-risk countries, with too strict demands for coverage and leverage ratios.[9]

49. The shift of UNDP strategic positioning and expanded work with the private sector did not manifest in an observable organizational culture change towards more, still informed, risk-taking. Interviewees perceived many UNDP managers as risk-avoidant, in contrast with the organization's emphasis on the importance of partnering with companies in higher-impact (but also higher-risk) areas. An internal analysis of due diligence cases elevated to headquarters confirmed this, with more files than necessary brought to the attention of headquarters mechanisms.

50. The most recent UNDP approach to advance private sector partnerships – defined as one of the 12 strategic priority areas for the Executive Group in the first 100 days of the Strategic Plan 2022-2025 period – was well aligned with the challenges identified by the evaluation but requires accelerating action to resolve contentious issues. As of October 2023, most progress had been achieved through the review of the due diligence policy, which entrusted UNDP regional and country offices with more substantial roles in the process. This appeared in line with UNDP decentralized business model and good practices by other organizations in the United Nations. The ability of regional and country offices to perform this function is at this point unknown. Other items remain under discussion and/or have yet to be approved. These include modifications to the responsible party agreement for the private sector and the use of non-procurement processes, the definition of a new licensing policy on intellectual property, proposals on how to better partner with UNCDF as a responsible party and increases to micro-capital assistance to MSMEs through an update of the latent UNDP microfinance policy.

[8] UNDP Financial Regulations and Rules, Regulation 19.01 allows UNDP to provide micro-capital assistance only through intermediary services which include non-governmental or grass-roots organizations. This cannot exceed $150,000 per grant. Additionally, UNDP has a policy requirement that cumulative grants to the same organization should not exceed $300,000 in a programme period.

[9] UNDP Financial Regulations and Rules, Regulation 16.05 indicates that: "the administration […] of resources obtained from or through UNDP shall be carried out under the [organization's] respective financial regulations, rules, practices, and procedures […] only to the extent that they do not contravene the principles of the Financial Regulations and Rules of UNDP". UNCDF rules contravene clause 23 and 26 of UNDP-supported guarantees' policy.

V. Conclusions

51. **Conclusion 1 – Relevance. In an increasingly unequal world, supporting the growth and structural transformation of the private sector is of paramount importance to decrease poverty, mitigate the effects of climate change and promote sustainability. UNDP – whose mandate is highly relevant to these ends – implemented most of its programmes in countries where needs were highest and adapted its strategic approach to promote a broader engagement of the private sector for the achievement of the Sustainable Development Goals. The UNDP vision was underpinned by a stronger organizational positioning to steer private finance towards sustainable investments.**

52. The UNDP mandate and vision around more inclusive, digital and greener businesses responded well to the need to reconcile the global focus on growth and jobs with national ambitions on decarbonization and energy transition, which the worsening inequality and effects of fossil fuel emissions on climate change have made imperative. UNDP programmes were designed to meet the needs of those most at risk of being left behind and/or susceptible to perceive larger effects of external (economic and environmental) shocks. UNDP placed lower-income groups, women and youth at the forefront of its programmes, supporting the growth and resilience of micro and small enterprises, including when the COVID-19 pandemic erupted.

53. To contribute to overcoming the persistent challenges faced by MSMEs and promoting the structural transformation of the private sector towards more inclusive and greener practices, following the adoption of the 2030 Agenda, UNDP made its intent to enhance the engagement of the private sector (including larger companies and finance stakeholders) explicit in its strategic plans and corporate and thematic strategies. Programmatic documents at country level also reflected UNDP ambition to work more with the private sector beyond the pursuance of economic objectives, with a sustained focus on natural resource management to incentivize cleaner production processes and contribute to reducing companies’ environmental footprint.

54. Recognizing that the desired change would require larger private investments in productive economic activities in line with the Sustainable Development Goals, UNDP strengthened its internal capacities to fill a gap – left by IFIs and other organizations traditionally engaged in promoting access to finance – around the definition of strategies and instruments to enhance investments aligned to the Goals. While questions on the breadth and strength of UNDP positioning remain, sustainable finance grew into an area of comparative advantage for the organization, which responded to private sector needs.

55. **Conclusion 2 – Strategic positioning and coherence. 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 by the organization lay in the breadth of its mandate and experience, which gave UNDP an opportunity to use multiple entry points to promote change. UNDP developed numerous offers in support of private sector development and structural transformation. These were rarely brought together at country level in more coherent programmes that addressed the most important needs of the private sector.**

56. With the exception of some prolonged crisis contexts, where UNDP was the main provider of assistance and often played a fiduciary role for IFIs, UNDP did not have a clear comparative advantage in the area of private sector development and structural transformation, linked to its technical, specialized capacities or its resource availability. The value added by UNDP was inextricably linked to the flexibility that its mandate provided to design responses and systems that best responded to the needs of governments and the private sector.

57. UNDP support to private sector development and structural transformation spanned across areas of work and levels of intervention. It provided valued policy advice when requested, strengthened the capacities of national public institutions and service providers and effectively contributed to the simplification of government business regulations. Through its headquarters and regional functions, UNDP also developed numerous tools and initiatives to support country-level programming, which were inconsistently integrated in projects.

58. UNDP did not provide a single solution for private sector development. Its programmes had to adapt to the unique needs of each situation. Nevertheless, there is a significant potential to consider how various UNDP programmes – including on sustainable finance and governance – could be better coordinated at country level to further change. UNDP did not live up to the expectation of bringing its private sector strategy to the regional and country levels. Instances of cross-fertilization of practices were rare, and collaboration across areas of work were limited.

59. **Conclusion 3 – Effectiveness and depth of support. The overall UNDP approach to private sector development was too focused on the provision of capacity development to micro and small companies and support to entrepreneurial ideas. Important results were achieved, but questions remained on the interventions' responsiveness to the ultimate needs of the private sector and overall sustainability. Integrated projects – which encompassed macro and meso-level interventions – were rare, as was cooperation with partners that could have heightened the effectiveness and sustainability of UNDP downstream support.**

60. UNDP focused most of its support to private sector development and structural transformation at the microlevel, to enhance the productivity and resilience of low-income people who mostly operated in the agriculture sector or ran small businesses. These interventions built human capital, enhanced motivation and contributed to economic gains (inasmuch as inferred by available data). In least developed countries and conflict-affected contexts, bottom-up approaches to private sector development were particularly valuable to meet some of the most immediate challenges faced by micro and small entrepreneurs, as the absorption capacity of national institutions were limited. In these and other settings, however, these interventions were often insufficient to allow individuals to escape their poverty trap and relied on untested assumptions of capacity development as the answer to the most pressing needs of beneficiaries.

61. The effectiveness of UNDP support was restrained by limited considerations of market perspectives for supported production chains, which a more consistent use of trade analytics and stronger connections with business intermediaries could have helped mitigate. The role of larger companies – to which micro and small enterprises could be anchored and which could create jobs, expand marketing opportunities and enhance resilience to shocks – was underplayed. Work in the area of food and agriculture commodities stood as a significant exception, where UNDP built on its convening role to promote dialogue among the government, multinational companies and small producers for more sustainable practices and inclusion.

62. UNDP maintains a comparative advantage in facilitating an integrated approach to private sector development and structural transformation, and it was not a lack of understanding of the importance of macro and meso-level interventions that prevented UNDP to work at different levels. The availability of sustained donors' support and their preferences conditioned UNDP choices. Limited coordination with other organizations engaged in private sector development and structural transformation also prevented UNDP to fully leverage the comparative advantages of its country presence and broad mandate for higher impact. The adoption of narrower sectoral or issue-based approaches would have also enabled UNDP to be more effective in integrating work at different levels (from macro to downstream) within manageable domains.

63. **Conclusion 4 – Change enablers. UNDP effectively strengthened the capacity of public institutions to provide services to the private sector, particularly MSMEs. The continuity of UNDP support promoted the sustainability of a stronger national apparatus. Opportunities to leverage the UNDP convening role to promote inter-institutional linkages and facilitate the integration of business associations and private providers of services remained unexplored.**

64. By nature of its mandate, strengthening public institutions was the main entry point for UNDP to promote private sector development and structural transformation at meso level. With the technical and operational support of UNDP, these institutions enhanced the capacities of entrepreneurs and provided them with information, including on how to meet registration and fiscal requirements. Through its support to public service providers, which was often

sufficiently prolonged to promote institutional sustainability, UNDP created a more enabling environment for MSMEs.

65. To facilitate their growth, private enterprises require the support of an ecosystem of actors, including private sector stakeholders which may have a better knowledge and first-hand experience of market dynamics and an ability to provide faster responses. With few exceptions, UNDP projects seldomly focused on facilitating institutional connections among different public and private service providers, including international chambers of commerce and business associations, which could ease the various blockages to companies' growth and transformation, promoting business incubation and integration in value chains. This role – which required a deeper understanding of private sector dynamics than the one that UNDP had – would have allowed the organization to fully leverage the comparative advantage of its field presence and close relationship with governments.

66. **Conclusion 5 – Access to finance and other persistent challenges to MSME growth. The pathway that would provide MSMEs with opportunities to grow and enhance their resilience is ridden with obstacles, primarily linked to their abilities to access finance, enhance their digital presence and enter international markets on fair terms. The UNDP stance to leave no one behind brought the organization to address some challenges in these areas, but more sustained efforts were required to move beyond equality of opportunities towards equity and transformational change.**

67. MSMEs continue facing numerous challenges in the pursuance of their economic objectives, many of which are loosely dependent on their operational efficiency and production capacities. Political instability, limited access to electricity and poor infrastructures, ad-hoc levies and fees, limited demand, and insufficiently developed financial sectors all compound the private sector's ability to grow.

68. The integration of a "leave no one behind" approach in UNDP programming brought the organization to pay systematic attention to the inclusion of marginalized groups (such as smallholder farmers, female producers, or migrants) in business activities, while promoting the digitalization of smaller companies to allow their integration in global markets. UNDP interventions produced economic gains for some and/or in the short term, but often struggled to promote more transformative changes, given the width of capacity asymmetries, social norms and power dynamics at play.

69. Access to finance remained a fundamentally unmet need of MSMEs, which more sustained efforts from UNDP (including for the identification of alternative credit scoring mechanisms) could have helped reconcile. Past UNDP engagement of national banks proved that the organization was able to negotiate more favorable conditions for enhanced access to finance, particularly in more developed countries. UNDP engagement of financial institutions, intermediaries and partner organizations, as well as the support to MSMEs to access investments, was however insufficient to facilitate the finalization of investment deals. The UNDP role in enabling market confidence and de-risking investments through governance and rule of law interventions remained partly unexplored, particularly in lower-income countries where the needs were higher.

70. **Conclusion 6 – The private sector as a partner. The change in UNDP vision and strategies on private sector engagement did not translate into a corresponding shift in the organization's culture. UNDP struggled in treating the private sector as a genuine partner, rather than just a beneficiary. Although the necessity to enhance the internal policy framework for more efficient and seamless interaction with the private sector was long acknowledged, the required improvements are yet to be fully implemented.**

71. Imperative for the achievement of the 2030 Agenda, strengthening private sector engagement presented UNDP with numerous opportunities for transformational change. However, it also partly challenged UNDP development paradigm (centered around the provision of support to governments) and questioned the suitability of organizational policies and tools for collaboration. Despite the long-recognized need for a review of its instruments, it took UNDP a long time to define a clear course of action to this end, with many of the internally devised recommendations for change yet to be agreed upon and implemented.

72. UNDP maintained a conservative attitude towards the private sector, and particularly large businesses. Beyond the respect of due diligence processes, aimed at ensuring the companies' commitment to the United Nations core values, UNDP managers frequently deemed the reputational risks of engaging the private sector too high to be mitigated or managed.

73. As its vision to enhance engagement with the private sector for the Goals brought UNDP to consider collaborations with larger companies than those traditionally supported, the organization struggled with identifying levers of change to transform companies' business models. Better results were achieved when UNDP built on companies' existing sustainability initiatives and external financial and regulatory incentives, rather than advocating for the application of its own instruments. With some exceptions, UNDP did not change its relationship with the private sector towards a partnership of equals. Large companies and global networks of the willing were seldom engaged to promote a change in private sector norms towards the desired outcomes.

VI. Recommendations

74. Based on the above-mentioned conclusions, the evaluation puts forward six interrelated recommendations.

75. **Recommendation 1. 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.**

76. 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 favoring the integration of different tools for more effective support.

77. **Recommendation 2. 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.**

78. The design of all UNDP projects aimed at promoting the development or structural transformation of 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 the private sector growth.

79. On trade, UNDP should enhance its partnerships with the United Nations Conference on Trade and Development and the International Trade Centre, to ensure the full integration of their tools and capacities, which the UNDP country presence will help to disseminate further. UNDP should enhance its support to e-commerce through more comprehensive interventions.

80. **Recommendation 3. UNDP country offices should strengthen its support to private sector development and structural transformation by focusing on sectors that can significantly contribute to poverty reduction and a greener economy.**

81. 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.

82. **Recommendation 4. UNDP should strengthen its engagement with larger companies and network of private sector enterprises, both at global and regional/country level, to**

promote the integration of MSMEs in global value chain on fair terms and the private sector's structural transformation at broader scale.

83. 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 the UNDP experience with the food and agriculture commodity systems 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.

84. UNDP should clarify its positioning and support to promote a stronger role by the private sector in reducing inequality. The knowledge gained through the implementation of the Business Call to Action should be integrated into future initiatives and projects for the continued promotion of inclusive business practices.

85. **Recommendation 5. 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.**

86. UNDP should focus on policy de-risking and on enhancing the private sector's productive and managerial capacity to attract national and foreign investments, including through the development of bankable business plans and a 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 Goals.

87. **Recommendation 6. UNDP should finalize the changes to its policies and regulations, based on the recommendations by its internal private sector task force.**

88. UNDP should develop instruments that facilitate the 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 UNDP Financial Regulations and Rules to the Executive Board for its deliberation, following established procedures.

89. 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. Its risk assessment should be digitalized, and use of external resources enabled to fasten the cross-check of information.

90. 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.