



MANUAL

Manual Private Sector Development



AUSTRIAN
DEVELOPMENT
AGENCY

Imprint

Austrian Development Agency (ADA),
the operational unit of the Austrian Development Cooperation
Zelinkagasse 2, 1010 Vienna, Austria
phone: +43 (0)1 90399-0
fax: +43 (0)1 90399-2290
office@ada.gv.at
www.entwicklung.at

This manual was created by
Austrian Development Agency, Susanne Thiard-Laforet

Vienna, May 2015

Order:
Austrian Development Agency
Public Relations
oeza.info@ada.gv.at; www.entwicklung.at

Introduction

Economic development is one of the most important foundations for the development of a country and the overcoming of poverty. The main engine for creating jobs and income opportunities is the private sector. To unfold its potential stable framework conditions, a positive investment climate and functioning markets and institutions are needed.

In a functioning economy every individual and every institution should have access to diverse market systems and be able to act on these markets - as a consumer, producer, seller etc. Especially in developing countries this is very often not the case. The reasons for that are manifold, e.g. lack of technology or services, insufficiency of infrastructure, non-transparency in price building. And even 'functioning markets' are usually not regulating everything in a fair and reliable manner.

Therefore development cooperation via private sector development (PSD) aims to support sustainable, inclusive, hence poverty-reducing growth by strengthening the private sector and facilitating access to markets – of goods, services, jobs and information – for all, especially for the poor and marginalised sectors of the population. Assistance is not provided to given types of enterprise (in terms of size or industry) but aims to strengthen the socio-economic system as a whole. This form of economic development is guided by the principles of development cooperation, i.e. by taking social and ecological principles into account and respecting international rights, rules and standards.

The Guidelines for Private Sector and Development form the strategic basis for Private Sector Development in the Austrian Development Cooperation (ADC). They explain the orientation of the sector along three columns: Fostering an enabling environment, strengthening the private sector and the cooperation with the Austrian business community.

This manual on Private Sector Development contains explanations of the focus areas of ADC in the sector:

- The “inclusive market development” approach aims to analyse and to improve relevant market mechanisms, utilising them to reach programme or project goals.
- Local Economic Development projects are used to exemplify a private sector programme prototype that is tried and tested in many of ADC's focus countries.
- The quality criteria ensure a fast and reliable identification and assessment of PSD elements in programmes or projects.

The goal of ADC's strategy for Private Sector Development is to enhance the effectiveness of supported programmes and projects in order to contribute as much as possible to poverty eradication.

Table of Contents

Abbreviations	3
Inclusive Market Development	5
Local Economic Development	21
Quality Criteria for Private Sector Development	35

Abbreviations

ADA	Austrian Development Agency
ADC	Austrian Development Cooperation
AFD	L'Agence Française de Développement
BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung
CSR	Corporate Social Responsibility
DAC	Development Assistance Committee
DC	Development Cooperation
DCED	Donor Committee for Enterprise Development
DFID	Department for International Development
EU	European Union
FAO	Food and Agriculture Organisation of the United Nations
ILO	International Labour Organisation
SMEs	Small and medium-sized enterprises
LED	Local Economic Development
M4P	Making Markets Work for the Poor
MDG	Millennium Development Goals
OECD	Organisation for Economic Co-operation and Development
PPG	Pro-Poor-Growth
PSD	Private Sector Development
PS & D	Private Sector and Development
SDC	Swiss Agency for Development and Cooperation
SIDA	Swedish International Development Cooperation Agency
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization

Inclusive Market Development

Table of Contents

I. Introduction	7
What is inclusive market development by M4P?	7
Why M4P?	8
M4P and Private Sector & Development (PS&D)	9
II. Methodology	11
Approach in M4P programmes	11
Setting the strategic framework (Definition)	12
Understanding the market system (Research)	12
Defining sustainable outcomes (Planning)	13
Facilitating systemic change	13
Opportunities of M4P application	14
III. Challenges and Opportunities in the Implementation of M4P	16
Challenges of implementation	16
Opportunities of M4P application	16
IV. Annex I – M4P and other Approaches to International Private Sector Development	17
European Commission – inclusive and sustainable growth	17
OECD – pro-poor growth	17
UNDP – promoting inclusive market development	18
Donor Committee for Enterprise Development (DCED)	19
Conclusion	19
V. Annex II – Links to Further Information	20
Links to case studies	20
Links to further reading	20

I. Introduction

"It is the absence of broad-based business activity, not its presence, which condemns much of humanity to suffering. Indeed, what is utopian is the notion that poverty can be overcome without the active engagement of business." (Kofi Annan, former UN Secretary-General, Meeting on "The Business Contribution to the Millennium Development Goals", Paris, France, 14 June 2005)

Development cooperation via private sector development aims to support sustainable, inclusive, hence poverty-reducing growth by strengthening the private sector and facilitating access to markets – of goods, services, jobs and information – for all, especially for the poor and marginalised sectors of the population. Assistance is not provided to given types of enterprise (in terms of size or industry) but aims to strengthen the socio-economic system as a whole. This form of economic development is guided by the principles of development cooperation, i.e. by taking social and ecological principles into account and respecting international rights, rules and standards.

Together with the paper on Local Economic Development (LED) and the Quality Criteria in Private Sector Development, this paper on Inclusive Market Development is the cornerstone for implementing the ADC strategy, which is set to achieve the above goals.

- The “inclusive market development” approach aims to improve the analysis of market mechanisms which are relevant in programme and project contexts, utilising them with a view to programme or project goals.
- LED projects are used to exemplify a private sector programme prototype that is tried and tested.
- The quality criteria ensure a fast and sure identification of any PSD elements in programmes or projects as well as an assessment of these elements should they exist

What is inclusive market development by M4P?

Inclusive market development can be achieved by various methods. The following pages provide an illustrative example of the so-called M4P approach.

M4P means Making Markets Work for the Poor.

The central idea of this approach is that the poor, and the incomes of the poor, depend on market systems (in the broadest sense). Accordingly, enhanced efficiency and sustainability of these market systems leads to an improvement of their income situation and consequently a reduction of poverty.

This approach is based on four fundamental principles as follows:

1. M4P is a **systemic approach**: It is important to understand at which point market systems fail with respect to the poor; and to act in order to address such failure.
2. M4P seeks to bring about **lasting change**: The effectiveness of the market is enhanced by improving its mechanisms and by interaction of its actors.
3. M4P seeks to be as **inclusive** as possible: Improvements are designed to reach as many poor people as possible.

4. M4P considers development cooperation as a **facilitator**: Development cooperation is to act as a catalyst that stimulates market functions or those of its actors, inspiring change without ever assuming a leading role itself.

This approach was developed a few years ago and is now applied in many countries (e.g. SDC, DFID, Sida). However, the development of market systems is not only of concern to donors: So-called social investments, sustainable business practices and fair trade are becoming more and more important for business actors as well.

Why M4P?

Reduction of global poverty is the overarching goal of development cooperation. One way to achieve that goal is to promote economic development to improve the living circumstances of the population in partner countries. Over the decades, a variety of methods and approaches have been developed towards this end.

In many different ways, and under many different names, M4P is a synthesis, as well as the essence, derived from the different approaches used by the entire international donor community (see Annex I – M4P and other Approaches): The point is to design ‘**pro poor**’ growth and to increase the participation of the poor in business activities; consequently, the idea is **inclusion** of those sectors of the population that have hitherto been excluded from the market system.

Recognising the many dimensions of poverty, M4P programmes focus on reduction of income poverty. However, social, political and ecological aspects are also taken into consideration with a view to **sustainability**.

M4P takes account of the dynamism, unpredictability and “defectiveness” of market systems as well as their exposure - not only to social and political forces, but also to planned interventions in the system. One essential element of M4P is to understand and anticipate these influences (see also III, Implementation).

We need to identify not only who these “marginalised” sectors of the population are, but also which market systems must be changed, and how to do so. M4P analyses and understands (or at least attempts to understand) the complex interdependence of functions, actors, internal and external influences, formal and informal rules, relationships and constraints that make up a market system. These findings allow deriving how the poor interact with the system or why they are excluded. This forms the basis for developing ideas to improve their situation.

M4P aims at sustainability. For this reason, M4P aims to achieve systemic change through capacity building and creation of reward systems (not only in the financial sense!) for key actors of the market system, so that system functions are better aligned to the long-term needs of the poor.

With a view to finding solutions that last, M4P puts these actors into the focus of development, rather than resorting to external intervention or mediators.

Due to its systemic approach, M4P is an analytical tool that can be applied to all sectors. However, the following discussion primarily relates to its application in private sector development.

M4P and Private Sector & Development (PS&D)

This paper is complementary to the guidelines on PS&D (“Leitlinien W&E”) [German only], which continue to remain in force. These guidelines describe the PS&D policy area based on three pillars as follows: enabling environment, business development services and co-operation with the Austrian private sector.

www.entwicklung.at/uploads/media/LL_WuE_April2010_03.pdf

M4P provides a concrete frame of reference and analysis to the first and second pillars of the above guidelines. While the third pillar of private sector development relies on special instruments (e.g. business partnerships), the principles of M4P are nevertheless applicable.

Most of ADA's programmes and projects relative to private sector development actually combine elements of the first and second pillars. Economic development of a country/region always depends on the enabling environment and the services available to businesses.

M4P permits, and indeed supports, that combination by invariably starting out with a comprehensive analysis of the baseline situation and the factors inhibiting the market functions – both at enabling environment level and in relation to services for entrepreneurs.

M4P can be combined with the Local Economic Development approach, which has successfully been applied in ADC as this approach is also systemic and focuses on **empowerment** of vulnerable population groups (see Focus on LED).

Case I: „Enterprise for pro-poor growth“

Implimented by ILO and SIDA in four poor rural districts of Sri Lanka

Baseline: Most of the markets for ornamental fish, dairy produce and coconut fibres were in the hands of self-employed workers and micro-enterprises (including SMEs in the case of coconut fibres) which employed poor men and women. Due to the adverse business environment, low skills levels and poor knowledge of the market, the existing potential was not utilised.

Effects:

- Improved business services
- Improved organisation of market actors
- New business enabling conditions, e.g. by lifting local regulations limiting the fish farming industry and developing an export zone for ornamental plant producers.

Method: Combination of LED and M4P

- A number of improvements were developed at local level. Innovations were subsequently implemented in other districts and country-wide.
- Participatory methods were used to develop necessary measures; an M4P-compliant analysis shed light on the reasons for market malfunction.
- The project team acted as a facilitator by providing financial support only to investments in innovation and not to the provision of services.

Examples of measures include:

- Improved service provision to enterprises, worked out by local representatives
- Promotion of dialogue and cooperation between market actors
- Improving the business environment, e.g. by lifting local regulation limiting options for the fish farming industry

- Stimulating the creation of an export zone for ornamental plant breeders.

The project supported 16,400 firms in a period of 4.5 years. It is assumed that 50,000 businesses will benefit from the project in the long term.

Source: S. Barlow for the Springfield Centre, The Enter-Growth project – Sri Lanka, ILO 2011

II. Methodology

M4P is a private sector development approach that helps to understand how the poor interact with market systems and how systems can be changed to improve the lives of the poor.

M4P contributes to private sector development at three levels (cf. DFID & SDC 2008: A Synthesis of the Making Markets Work for the Poor Approach):

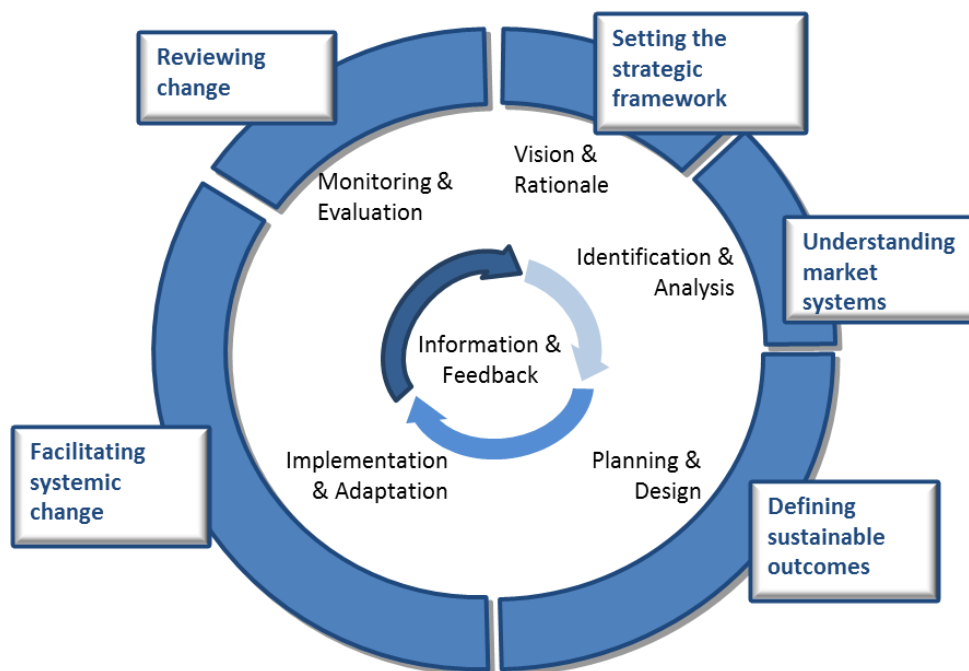
- As a strategy or basic logic to reflect on poverty reduction
- As a framework for understanding market systems and realistically reflecting sustainability and
- As guidance for activities and interventions, invariably by including an exit strategy

M4P programmes may integrate combinations of different kinds of PSD intervention, e.g. reforms of the business enabling environment, value chain development and local economic development.

<http://www.enterprise-development.org/page/values-behind-psd>

The five following paragraphs explain the implementation of the approach in programmes.

Approach in M4P programmes



Quelle: http://www.value-chains.org/dyn/bds/docs/681/Synthesis_2008.pdf

Setting the strategic framework (Definition)

All M4P programmes aim to reduce poverty – sustainably. To reach that goal, M4P programmes require an underlying strategy.

In particular, the M4P strategy describes the **goals of poverty reduction, growth and market access as well as changing market systems**.

However, this strategy not only describes a set of goals leading to the desired change in the market system, but also the way these goals work. This is the basis for implementing the programme as well as a framework for measuring and evaluating the progress and effect of the programme.

Case II: „Market Alliances Against Poverty”

implemented by SDC & Mercy Corps, Duration: 3 years, Budget: € 2.2 million.

Goal: Reducing rural poverty in southern Georgia.

Baseline: The market for dairy products was identified as poverty-relevant. Low productivity and quality as well as a fragmented market inhibit its growth.

Reasons:

- poor quality of inputs
- inadequate farming practices due to lack of information and training
- inadequate access to water (resulting in problems of hygiene)
- lack of farmers' willingness to invest because of pessimism regarding the market and its development

Project vision: Creating a market system where farmers have access to the market, information and training, better inputs and water. This would improve product quality, hence increase incomes.

Source: Alliances documentation and direct communication with Ms. Helen Bradbury, Team Leader

Understanding the market system (Research)

M4P programmes rely on robust understanding and analysis of the market system and its effect on the poor. Successful M4P programmes **differentiate between causes and symptoms of market system failure**.

To start with, an in-depth analysis first provides a picture of the socio-economic context in which the poor act. In a subsequent step, filters and focusing help to further explore the constraints particularly affecting the poor. This process only aims to collect information for decision-making. A sound analysis is guided by justified curiosity and constant questioning until the true reasons for malfunctioning market systems are understood.

Alliance noted that

- existing information channels (TV, newspapers, local government agencies, service providers) were deficient in terms of coverage and quality, therefore of little relevance to small farmers.
- No advisory services were available on animal health issues. Farmers did not trust veterinarians (reasons: low-quality supply, outdated drugs for animals, high prices).

- Even though water was the key to clean milk, administrative authorities had not made any budgetary provisions or plans for improvement.

Defining sustainable outcomes (Planning)

M4P programmes are aimed at sustainable outcomes for the poor. For this reason, they seek to achieve long-term capacities for the market system and its actors rather than short-term results. It is thus important to carefully study the prevailing system before considering single interventions. As soon as it is clear how a market system might work more efficiently, ways of enabling the necessary changes are described.

The sustainability principle of the M4P approach requires targeted action together with a **clear exit strategy**.

Moreover, M4P programmes must be designed pragmatically: The planned interventions should not only bring about lasting change but also be feasible within the programme.

Key questions for the first three steps of the planning process:

- What is the nature of the specific market system?
- What is the historical market context?
- What type of innovation of relevance might trigger a redesign of functions and actors?
- What are the rewards of change?
- Which market actors dispose of which capacities?

Intended change: Firms buying milk from farmers should provide farmers with training and information – via collection points and professional trainers.

Intervention: The firms saw that the service makes commercial sense because it reduces transaction costs and allows product improvements. In addition, the firms were supported in developing this service and during the pilot phase.

An analysis conducted during project implementation (an important part of M4P projects!) showed that women did most of the work involved in milk production but failed to receive any information on ways of improvement because men – the heads of households – completed the training programmes without informing women of their new knowledge and skills learnt. The analysis also showed that women barely ever participated in meetings with government agencies in which crucial decisions were taken on budgetary priorities for improved water supply.

Consequently, milk producers were supported in reaching out to women and disseminating relevant information to the rural population by television and newspapers. To improve water supply, the number of women participating in decision-making processes was increased.

Facilitating systemic change

To support the way market systems work, M4P intervenes **as facilitator**. In this regard, actors and functions of the market system are encouraged to work more effectively, where-as the facilitator or the project itself does not assume any role in the market system.

Intervention in a market system might not only be supportive but also destructive. For this reason, ongoing monitoring of desired and undesired effects is a co-decisive factor in the programme's success (Do no harm principle!).

M4P is action-oriented. The project team, acting as facilitator, works with the market system in order to change the behaviour, practices, relationships and investment decisions of the actors, with the sole purpose of making it more effective and sustainable.

What does a facilitator do?

Among other goals, a facilitator seeks to

- Induce systemic change
- Improve the functionality of market systems for the poor
- Influence the behaviour of market players

Key means at the disposal of facilitators include:

- Not assuming any role in the market system
- Identifying market failure and opportunities
- Choosing measures generating maximum impact
- Introducing and promoting ideas and innovation
- Encouraging exchange between actors
- Providing temporary technical and financial assistance in order to share the risks involved in innovation.

<http://www.enterprise-development.org/page/download?id=2212>

A facilitator can thus be characterised as a communicator, relationship builder (and mediator), coach and innovator.

The Alliances project met all the above requirements:

- A tender for the development and implementation of relevant training programmes was launched in collaboration with a milk producer.
- Collection points would work as centres for training women; they also started to work with women officially. This provided women not only with information but also with pay.
- The model was adopted by five dairy plants. The plants now provide training without receiving project assistance.
- Dairy farmers - men and women – were reached by television and a new newspaper for the rural sector. All of these efforts are ongoing, without project support.
- Training provided to administrative officers raised awareness and encouraged new gender-sensitive legislation. In addition, meetings of women were launched for women to share information and discuss their concerns.
- Women's participation in community decisions has thus increased and administrations have provided funds for water supply (and childcare facilities).

Opportunities of M4P application

All M4P programmes ensure that lessons are learnt and adaptations made. Ongoing reviews seek to identify whether interventions actually contribute to programme goals or what other effects they may have.

It is important to measure and assess changes against the strategic framework and defined goals. For this purpose, it is crucial to select and measure realistic and significant indicators of change and effect.

To fine-tune activities, M4P programmes integrate learning processes into decisions (see also DCED Standard for Results Measurement: <http://www.enterprise-development.org/page/download?id=1449>).

The reporting system of the Alliances project is aligned to the DCED Standard, i.e. reporting is taken into consideration during the very preparatory stage of intervention. Monthly monitoring meetings ensure that data on productivity and results are analysed and measures adapted.

(Interim) results:

- At the end of the first project phase, approx. 2,500 farmers had made use of the milk producers' new services. 15,390 farmer families benefited from the changes.
- Indirect effects produced by firms that adopted the model without any project obligation are subject to further analysis.
- While nearly 7,000 farmers watch the television programmes arising out of the project, 5,000 buy the new newspaper. 84% of its readers managed to improve farming practices and farmers receive better prices for better milk (+ € 238.- a year).
- Milk sales generate direct income for more women; they have a stronger say in the allocation of these additional funds. The project will now be extended to other regions of Georgia.

III. Challenges and Opportunities in the Implementation of M4P

Challenges of implementation

- M4P attempts to take the complexity of market systems into consideration. Consequently, all M4P programmes start out with a thorough analysis of the baseline situation. While this may seem laborious, it is necessary to identify and adopt the “right” approaches.
- M4P requires some flexibility in programme preparation and implementation. The approach includes adaptation of measures to new circumstances or external influences, even during implementation.
- M4P projects do not assume a permanent role in the market system but attempt to facilitate change. A clear definition of measures and steps to be taken by a facilitator is often difficult and not immediately undertaken at project start; for this reason, there is a degree of risk that the analytical phase is too detailed and lengthy.
- The role of facilitator involves certain loss of control, i.e. the dependence on partners of implementation is higher in M4P programmes than others.
- Markets are not closed systems whose boundaries are instantly visible. For this reason, the risk of further strengthening existing power structures is real. Consequently, it is particularly important for M4P programmes to focus on a reconciliation of any imbalance of power and to extend interventions beyond the market system, e.g. by means of gender mainstreaming or sustainable management of the environment.

Opportunities of M4P application

The application of M4P as an analytical tool and for the strategic formulation of private sector development implies innovative approaches at different levels:

- A new way of thinking: understanding market systems and learning how ADC might support systemic change – for the poor sectors of the population that are active in, or excluded from, these markets.
- A new way of engaging in DC: The debate on existing market systems and their shortcomings is intensive. A great deal of time is devoted to analysing the underlying reasons and the question is: What could our role as facilitator be?
- A new way of measuring results: M4P is making outcomes more important. The aim is to achieve results that are measurable quantitatively: income and jobs, number of enterprises, number of beneficiaries.
- A new type of portfolio management: M4P may shift the emphasis of the PSD portfolio and will ensure a wider and more sustainable impact of the interventions.
- A new way of dealing with sectors and themes: M4P is relevant for all sectors and can be applied anywhere (ranging from education through environment to rural development) without being limited to private sector development. Therefore it will be interesting to jointly explore the synergies between sectors and themes and utilise them for enhanced effectiveness of the programmes.

Overall, for ADA the implementation of M4P implies a more integral approach to reaching development goals in private sector development (and other sectors).

IV. Annex I - M4P and other Approaches to International Private Sector Development

Donors such as DFID, Sida and SDC have used M4P for years. It is one of the approaches promoted by the Donor Committee for Enterprise Development (see below). But how can this approach be integrated into the international debate on PSD? What are the differences compared to the approaches adopted by other – especially multilateral – organisations?

European Commission – inclusive and sustainable growth

In its Agenda for Change (October 2011), the European Commission defines two key priorities of its working programme:

- Human rights, democracy and other key elements of good governance, and
- **Inclusive and sustainable growth** for human development.

http://ec.europa.eu/europeaid/policies/european-development-policy/agenda-change_en

In supporting inclusive and sustainable growth, the EU focuses on the following areas:

- Sectors forming the basis for growth and assistance: social protection, health and education
- Improving the business enabling environment and furthering regional integration
- Sectors acting as a multiplier for environmental protection and climate change, such as sustainable agriculture and energy.

With regard to the above, the EU's fundamental considerations are as follows: Strengthening the private sector, small and medium-sized enterprises (SMEs) in particular, is the key driving force of economic growth and job creation in many developing countries. In many different ways, private sector development has an impact on the local population, including the informal sector and the poor: as employees, employers and consumers.

http://ec.europa.eu/europeaid/sectors/economic-growth/private-sector-development_en

In its strategy for private sector development, the EU focuses on influencing the business parameters of the enabling environment. It is an undisputed fact, also for the EU, that eradication of poverty requires investments in participatory market systems which include the poor sectors of the population. These considerations, as well as the objective of eliminating barriers to inclusive, sustainable economic development, are in full agreement with the M4P approach.

OECD – pro-poor growth

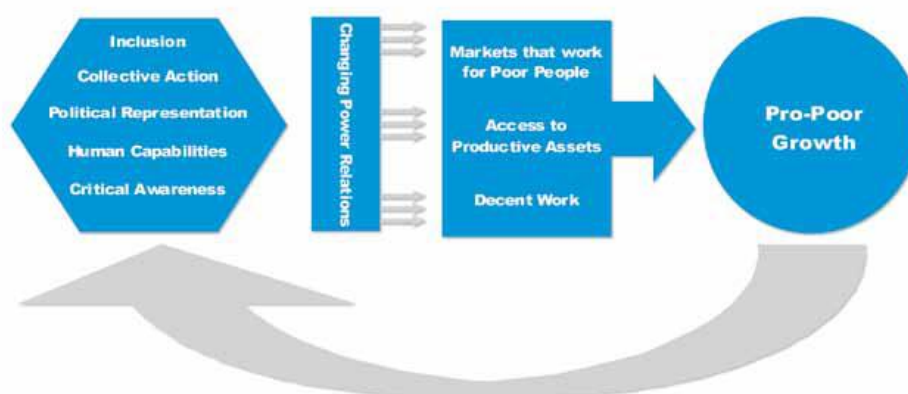
Background documents: Pro-Poor-Growth (Guidelines 2007), Empowerment of Poor People for Poverty Reduction (through PPG)

Pro-poor growth is growth that:

Improves opportunities for the poor to earn a livelihood from the **production and sale of products** and services in those sectors in which they are already active, such as agriculture, and

1. increases **job opportunities** (employment) for the poor by transforming the economy and creating new opportunities in manufacturing and services sectors, e.g. by value chain development or support to SMEs and diversification, and

2. is accompanied by a **public ‘pro-poor policy’**, which finances public spending for improved services and infrastructure by means of a progressive tax system, for example, or acts as a trade regulator through incentives and taxes.



Source: <http://www.oecd.org/development/povertyreduction/47466424.pdf>

The above diagram shows that in addition to access to productive assets and decent work, such pro-poor growth **depends on markets** that work for the poor. This requires change in power relations that can only be achieved by a number of highly diverse measures: inclusion, collective action, political representation, human capabilities, and critical awareness.

UNDP – promoting inclusive market development

http://www.undp.org/content/undp/en/home/ourwork/partners/private_sector/OurStrategy/

UNDP’s private sector development strategy, called “Promoting Inclusive Market Development”, dates back to 2007 and forms the framework for all of UNDP’s PSD interventions – at global, regional and country level.

The Strategy comprises five areas as follows:

- Policy and institutional infrastructure: policy advice and capacity-building to help governments create a better business climate for the private sector;
- Pro-poor value chains: integration of local producers into local and global value chains;
- Pro-poor goods and services: encouraging private investments in affordable goods and services for the poor;
- Development of entrepreneurship: promotion of micro, small and medium-sized enterprises; as well as
- Corporate Social Responsibility (CSR): to support inclusive market development and achieve the Millennium Development Goals.

While the fifth item refers to market development as an explicit goal, this goal is also contained in all other components of the UNDP strategy. Value chains are market systems, and the production of affordable goods is as much in conformity with the M4P principles as the creation of a business-friendly environment in partner countries.

Donor Committee for Enterprise Development (DCED)

The Donor Committee for Enterprise Development is a donor association that reduces poverty by elaborating the most effective practices to create business opportunities and jobs, based on the lessons learnt by its members and other economic development actors.

Moreover, the DCED has become a leading platform of knowledge on private sector development. It documents and publishes successes and lessons learnt with the aim of improving the results of PSD programmes in developing countries.

Apart from ADA, its members include AFD, the Australian Department of Foreign Affairs and Trade, the Danish Ministry of Foreign Affairs, DFID, the European Commission, the Finnish Ministry of Foreign Affairs, FAO, the Ministry of Foreign Affairs, Trade and Development Canada, BMZ, the International Development Research Centre in Ottawa, ILO, the International Trade Centre in Geneva, the Netherlands Ministry of Foreign Affairs, NorAD, OECD, SIDA, SDC, The MasterCard Foundation, UNCTAD, UNDP, UNIDO and the World Bank Group's partnerships and advisory services.

The DCED considers M4P one of the most widely accepted approaches to private sector development, which has proven its worth over the years. It is closely linked to the DCED Standard for Results Measurement, which was developed with, and for, the M4P programme, but is now also applied to all other approaches. The DCED website provides access not only to all background documents on M4P but also to lessons learnt in its application and critique of the approach (see Annex).

Conclusion

While the terminology of private sector development projects and strategies may vary from one organisation to the other, the ultimate goal remains the same: to strengthen market-based economic engagement with the poor sectors of the population, which is considered crucial for sustainable economic development and indispensable for reducing poverty.

While M4P has a great deal in common with other discussed approaches, the principal difference is the emphasis given to the facilitative role rather than direct support. M4P programmes are thus more likely to be sustainable (see Links to case studies below).

V. Annex II – Links to Further Information

Links to case studies

http://www.ilo.org/wcmsp5/groups/public/@ed_emp/documents/publication/wcms_152820.pdf
<http://www.m4phub.org/programme-finder/>
<http://enterprise-development.org/page/case-studies>
http://www.value-chains.org/dyn/bds/docs/843/RAIN-full-case_FINAL.pdf
<http://www.enterprise-development.org/page/download?id=2212>
<http://www.businessenvironment.org/dyn/be/docs/252/Enable%20BMO%20Case%20Study.pdf>
<http://www.enterprise-development.org/page/download?id=2270>
<http://www.value-chains.org/dyn/bds/docs/807/PrashantRanaKatalystPresentationMarch2011.pdf>
<http://www.enterprise-development.org/page/download?id=2271>
<http://www.springfieldcentre.com/resources/springfield-papers/>

Links to further reading

M4P

<http://www.enterprise-development.org/page/m4p>
<http://www.m4phub.org/what-is-m4p/introduction.aspx>
<http://www.m4phub.org/why-use-m4p.aspx>
<http://businessinnovationfacility.org/>
http://www.sdc-employment-income.ch/en/Home/Making_Markets_Work_for_the_Poor
<http://www.value-chains.org/dyn/bds/docs/681/OP%20Guide%202008.pdf>
<http://www.value-chains.org/dyn/bds/docs/681/Perspectives%202008.pdf>
http://www.value-chains.org/dyn/bds/docs/681/Synthesis_2008.pdf

PSD donor strategies

http://ec.europa.eu/europeaid/policies/european-development-policy/agenda-change_en
http://ec.europa.eu/europeaid/sectors/economic-growth/private-sector-development_en
<http://www.oecd.org/dac/povertyreduction/promotingpoorgrowthpolicyguidancefordonors.htm>
<http://www.oecd.org/dac/povertyreduction/50313489.pdf>
<http://www.oecd.org/development/povertyreduction/47466424.pdf>
http://www.undp.org/content/undp/en/home/ourwork/partners/private_sector/OurStrategy/

M4P critique

<http://policy-practice.oxfam.org.uk/publications/making-markets-empower-the-poor-programme-perspectives-on-using-markets-to-empo-188950>

M4P and specific sectors (health, water, education)

<http://www.enterprise-development.org/page/m4p>

DCED Standard for Measuring Results

<http://www.enterprise-development.org/page/measuring-and-reporting-result>

Local Economic Development

Table of Contents

I. Introduction	23
What is LED?	23
Why LED?	24
LED and Private Sector & Development (PS&D)	25
II. Methodology	27
The LED hexagon	27
III. Opportunities & Challenges	30
IV. LED and other Approaches to Economic Development	31
LED versus macroeconomic development	31
LED versus value chains	31
LED and inclusive markets development	31
Conclusion	32
Related Links	33

I. Introduction

"The donor community needs to overcome its distaste for the profit motive and realise that this is what drives the innovation and dynamism of the private sector. It can present benefits as well as costs, opportunities as well as threats and advantages as well as disadvantages. In development terms, the private sector is neither a good thing nor a bad thing; it is a necessary thing." (Peter Davis, Overseas Development Institute, Blog post on The Guardian, "The private sector must assume a central role in development")

The basic logic applicable to private sector development can be outlined as follows:
A business enabling environment, market development and partnerships with the private sector ensuring that

- new enterprises are established and
- existing enterprises enabled to work more efficiently and at a higher quality.

This allows the private sector to become more productive and/or grow, and generate more jobs.

Result: Economic growth and regular incomes for larger sectors of the poor.

This paper deals with Local Economic Development (LED), a method that has frequently been used by Austrian Development Cooperation.

Complementing the paper on Inclusive Market Development and the Quality Criteria for Private Sector Development, this paper presents the “prototype” of private sector development in greater detail and addresses the challenges and opportunities arising in its application.

What is LED?

LED stands for local economic development.

The central idea of this approach is that each region and each local context has a relative economic advantage over others – either due to the very situation or thanks to the local business actors; such advantage can be utilised for the development of the region.

LED aims to create **employment and opportunities for generating income at local level** through

- an enabling framework that is conducive to the economy
- support to the competitiveness of enterprises
- creation of new business opportunities (for both external and local enterprises)

Case I: Nicaragua – Masaya

1964-00/2010 (Duration: 2010-2013, Project Value: € 1.7 million)

Goal: Poverty reduction by creating (1,500) qualified jobs and boosting beneficiaries' incomes through local economic development.

Measures:

- Strengthening the partnership between public institutions and private enterprises in nine communities in the department of Masaya, approx. 30 km from Managua
- Strengthening capacities in communities
- Improving the competitiveness of local small and medium-sized enterprises
- Improving the integration of local small and medium-sized enterprises into national and international markets
- Connecting local plans and initiatives with national sector programmes and policies
- Implementing 12 strategic projects to stimulate the local economy in different sectors, such as tourism or furniture-making

Project Agency: CIDEL, an *inter-municipal consortium for local economic development*, comprising representatives from the communities and private enterprises.

Principal partners: Ministry of development, industry and trade (MIFIC); association of municipalities of Masaya (AMUDEMAS)

Beneficiaries: 1,700 small and medium-sized enterprises, their employees as well as municipal authorities in the nine communities of the department of Masaya

Why LED?

LED is the preferred approach adopted by donors such as the World Bank, GIZ, ILO (to promote its Decent Work Programme) and UNIDO. The approach also plays a major role in Austrian development cooperation (under different names) (see project case studies).

The principal benefit of this approach is physical closeness, consequently social coherence, among its actors. The direct impact on the region has a positive effect on the motivation of all actors, including local government representatives (see chapter III).

It might sound like a paradox, but globalisation has also contributed to a growing interest in local economic development:

- While national boundaries are becoming less important, many international firms have unlimited access to global markets, causing increased competitive pressure on local actors.
- In fragile situations, companies focus on core competencies and outsource other functions. This opens up new business opportunities for local suppliers, service providers and other actors engaged in supportive activities.
- As the mobility of industry increases, companies might be interested in a variety of locations. As regions are in need of jobs and taxpayers, they are interested in businesses settling in. Competitive pressure is on the rise - not only for enterprises, but for regions and cities as well.

The principal goal of LED programmes is to develop the endogenous (local) potential: by promoting cooperation within the region, by closing gaps in the local economic system and by creating new business opportunities, for example.

Case II: Ethiopia – North Gondar

2509-01/2011 (Duration: 2011 - 2013, Project Value: € 2.9 million; Follow-up: 2013 - 2016, € 6 mn.)

Goal: Sustainable rural development and improved food security by raising incomes in selected woredas (local administrative units) in North Gondar

Components:

- Resources Management (Integrated Watershed Development, Rural Land Administration, Tourism and Park Management)
- Improvement of the Living Situation (Crop Development, Marketing/Entrepreneurship & Livelihood Option, Livestock Development)
- Capacity Development and Programme Management (Capacity Development, Gender & Poverty, Knowledge Management & Communication, Planning/M&E)

Management by steering committees at regional, zonal and local (woreda) level, consisting of various stakeholders, such as local authorities and the national park management.

Activities are planned, implemented and supervised by involved communities, and supported by responsible local authority representatives.

LED and Private Sector & Development (PS&D)

This paper is complementary to the guidelines on PS&D (Leitlinien W&E) [German only], which continue to remain in effect. The guidelines describe the PS&D policy area based on three pillars: the enabling environment, business development services and cooperation with the Austrian private sector.

http://www.entwicklung.at/uploads/media/LL_WuE_April2010_03.pdf

In fact, most of ADA's programmes and projects relating to private sector development combine elements from the first pillar with the second. The economic development of a country/region always depends on the enabling environment as well the services available to businesses.

Most LED programmes also adopt this combination. Many ADA interventions (see Cases) are aimed at local or regional (economic) development. This paper seeks to present this approach in a concise and informative manner to provide guidance for new projects.

Case III: Burkina Faso – Boucle de Mouhoun

2414-00/2009 (Duration: 2009-2012, Project Value: € 2 mn.; Follow-up project 2013-2016, € 2.5 mn.)

Goal: Enhancing the quality of life of the population in the ADC priority region of Boucle de Mouhoun through sustainable improvement of living conditions and business environment by strengthening local ownership.

Measures:

- Establishing a regional development fund for the regional council and 13 regional communities, thus

- Providing funds for investing in local infrastructures and equipment, measures to protect natural resources, training and raising the awareness of local actors as well as
- Assistance in gaining access to microcredit for local manufacturers, small entrepreneurs and cooperatives.

Project Agency: Regional Council of the Boucle de Mouhoun Region

Support provided by local administrative units and technical assistance

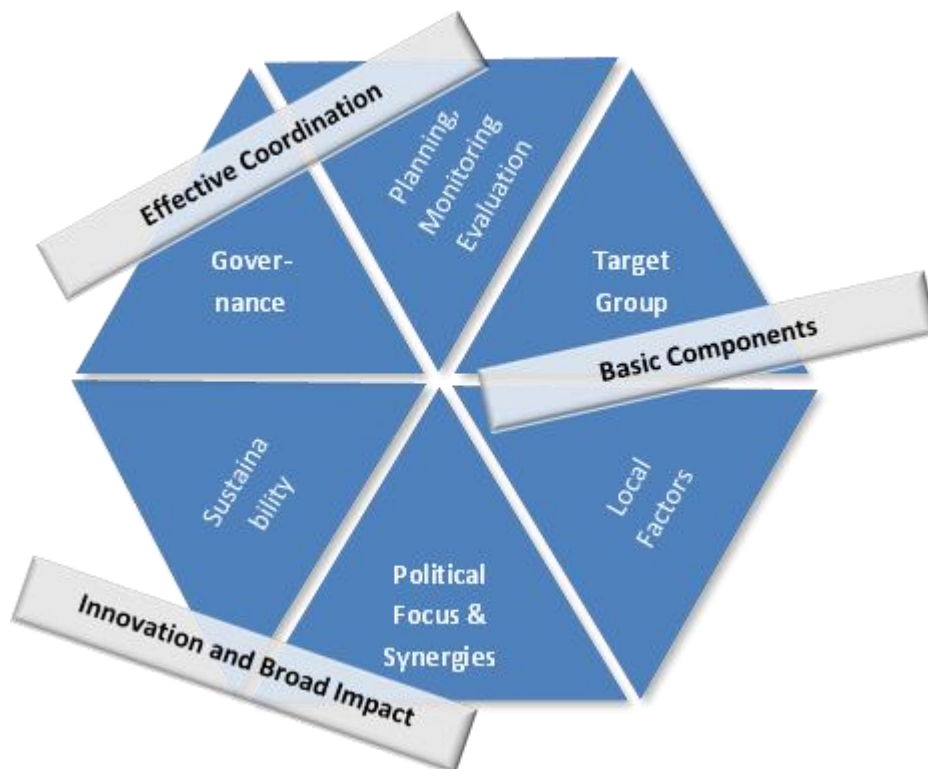
All eligible measures are proposed by local councils, reviewed by a technical secretariat and selected by a commission consisting of representatives from all groups involved.

I. Methodology

The LED hexagon

The following figure shows the tools and methods available to LED. For this purpose, each heading below combines two triangles as follows:

- Basic Components: Beneficiaries and Local Factors represent the fundamentals, the core of local economic development processes.
- Innovation and Broad Impact: Political Focus & Synergies and Sustainability add innovation, another perspective and broader impact to the LED programme.
- Effective Coordination: Governance, Planning and Monitoring & Evaluation address practical activities involved in implementing LED initiatives.



Source: <http://www.meso-nrw.de/toolkit/Hexagon/>

1. Beneficiary: Private Sector

LED focuses on (private) enterprises, its key target group. LED may address a variety of firms: external investors, local businesses or start-ups.

External investors are of key importance whenever the local basis is extremely weak and lacks momentum. If an economic basis exists, it is more important to strengthen that basis and invest in its competitiveness. In principle, measures should always address all three groups of enterprise and exploit a maximum of synergies.

2. Political Focus and Synergies

Local factors of influence are further aspects determining the baseline situation of each LED initiative and the attractiveness of a region for business, including:

- **Material** factors such as location, infrastructure, real property, jobs, energy and the environment, taxes and incentives. These factors are the easiest to quantify.
- Immaterial factors of **relevance to enterprises** such as the State's administrative powers, the image of the region, the distance to related industries, universities, research & development and business associations.
- Immaterial factors of **relevance for individuals** such as quality of accommodation, environmental quality, quality of schools, social infrastructure, recreational facilities. These factors are crucial for questions such as: Are highly qualified persons willing to work in the region? Do women have a chance to work?

3. Political Focus and Synergies

LED is not only about business development, support to SMEs and microenterprises. The overarching goal of LED programmes is to **create jobs and generate income**. For this reason, integrating measures and organisations aimed at job creation is crucial. These measures must be distinguished from community development initiatives, which are solely aimed at the reduction of poverty, preferably through social activities.

The success of LED programmes depends crucially on the utilisation of **synergies between economic and social development** as well as urban design plans – for instance through demand-oriented provision of vocational training, by supporting entrepreneurship (even at school), applying commercial principles to social projects, leveraging infrastructure development and improving the local quality of life, especially in low-income regions.

4. Sustainability

Social, ecological and economic sustainability are also important at local level – for example, creating jobs by regional recycling of materials, or by extracting energy from local biomass.

LED initiatives often arise from a problematic situation that is converted into a business opportunity.

5. Governance

Successful LED initiatives are usually based on close cooperation between the public and private sectors (see Cases).

6. Planning, Monitoring & Evaluation

Key elements in formulating LED programmes are as follows:

- Participatory diagnosis (motivation and mobilisation)
- Participatory planning (implementation)
- Participatory monitoring, evaluation and benchmarking (measurement of results and adaptation)

Further documentation on planning, monitoring and evaluation processes:

http://www.meso-nrw.de/toolkit/case_studies/case-studies-case-11.html

III. Opportunities & Challenges

The fact that LED initiatives are limited to a given geographical region has its pros and cons. The advantages are as follows:

- Actors benefit from planned improvements in the local business environment and conditions directly. Thus they are expected to be highly motivated.
- Many interventions have an impact with not much lead time, i.e. improvements are quickly felt. This facilitates donors' measurement of results.
- Even if funding is relatively low, LED programmes may have sustainable impact – limited to a given geographical area.
- Cooperation between various governmental and non-governmental actors may trigger ideas and proposals for more comprehensive economic change.
- LED programmes may therefore serve as pilot projects and seek to develop replicable business models (e.g. clusters, public-private dialogue).

The challenges:

- LED programmes follow the key principle of participation by local actors. In many cases, this narrows the view and bears the risk of fighting the symptoms of market failure rather than its causes.
- Geographical limitation may also increase the potential for conflicts, such as access to limited resources.
- The success of LED programmes depends crucially on local actors' capacities of communication and cooperation. There is a certain dependence on a few decision-makers in the project region and their personal attitude towards the project.

Case IV: Kosovo – Suhareka

8134-01/2007 (Duration: 2009-2012, Project Value: € 3.6 million)

Goal: Supporting integrated, autonomous and sustainable rural development in the community of Suharekë/Suva Reka by strengthening local structures and potentials.

Measures:

- Construction of a Municipal Development Centre (MDC) in the community
- Strengthening capacities and competencies of representatives from the municipality and the MDC as well as other actors concerning regional development issues
- Provision of funds for local development measures on a competitive basis within the scope of the MDC

Beneficiaries: Representatives of the municipality of Suharekë/Suva Reka, of the private sector and civil society, e.g. stakeholder organisations, cooperatives etc.

The indirect beneficiary of the project is the rural population of the community of Suharekë/Suva Reka (approx. 80,000 people).

IV. LED and other Approaches to Economic Development

LED versus macroeconomic development

LED is based on the same principles as macroeconomic development, with a few differences as follows:

- Instruments: Changing the macroeconomic framework – such as exchange rates, tax rates or the legislative basis of employment - is definitely out of question for local initiatives.
- Actors: Macroeconomic development is controlled and implemented by national governments. While non-governmental organisations and the private sector might be involved in policy-making, for instance by lobbying or substantive input, they are more often the beneficiary than the policymaker. By contrast, LED initiatives are generally based on close cooperation between governmental and non-governmental organisations, such as chambers, unions, universities, research institutions, companies and NGOs, occasionally even without any involvement of government agencies.
- Governance: At macroeconomic level, legislative and executive powers are strictly separate. LED programmes must often start out by defining and separating the actors' blurred roles first.

LED versus value chains

Value chains include all processes relating to the production and distribution of goods: their manufacture, logistics, services and sale; but they also include supportive processes such as procurement and personnel development, technological development and the corporate infrastructure.

Consequently, programme measures to improve the development of value chains focus on the production of goods, without any geographical limitation.

By contrast, local economic development focuses on measures to support economic development in a given geographical region. Improvements generally benefit various sectors, without any specialisation in a given product or service. This notwithstanding, LED may also include elements of value chain development, provided these elements relate to the local context.

LED and inclusive market development

Inclusive market development approaches such as M4P have a great deal in common with LED and are therefore easy to combine.

- Market development programmes assume a role of facilitator (see Focus on Inclusive Market Development). This also applies to good LED projects because they affect the development of local market systems.
- Supporting the performance, or improvement, of the functions assumed by market actors – no matter whether they are public or private – is a key strategy for both approaches.
- Accounting for the enabling environment as part of the market system is also crucial for both approaches. Both aim to improve the situation (through the relevant actors).

Yet there are differences:

- Market development programmes work with a market system, no matter if it is limited to a given geographical region or not. In contrast, LED focuses on a given local situation and subsequently attempts to change the markets of importance for that region.
- One of the goals of inclusive market development is to include as many actors as possible. In principle, this also applies to LED, but its focus on a given area limits the effect a priori.
- When analysing the baseline, LED and inclusive market development adopt different approaches: While M4P, for example, attempts to identify the reasons for market failure on its own, LED programmes focus on the participation of local actors. This approach may lead to very useful findings that contribute to direct effects. On the downside, however, such analysis remains superficial and means combating the symptoms rather than the causes of market failure.

Consequently, to better align LED programmes to inclusive market development principles, these programmes would have to

- strictly adhere to the role of facilitator
- be in a position to extend activities beyond the local context
- conduct a fundamental analysis of market systems, focusing on the causes of market failure and going beyond the local perspective
- develop interventions that address these causes, which is usually associated with a higher degree of innovation of the measures.

Conclusion

While it is possible to combine LED with inclusive market development, a combination of the two approaches is not a necessary requirement. LED also involves working with markets, analysing them and addressing their failure, but in that case the programme/project usually goes beyond the role of facilitator, for instance by providing financial support to small projects in the form of non-repayable grants. Moreover, LED programmes go without in-depth analysis as the local actors themselves decide on the measures to be taken.

LED programmes aim to enable local actors to actively participate in the design of their immediate business environment.

If used in tandem, M4P, for example, forms the analytical framework for regional projects, whereas LED provides some of the necessary tools for implementation.

Related Links

LED

<http://www.meso-nrw.de/toolkit/> - resources

<http://www.enterprise-development.org/page/ledclusters>

<http://www.ledknowledge.org/UserFiles/UserAdmin/File/Document-Blog/Genesis%20Brochure%20lr.pdf>

<http://led.co.za/sites/led.co.za/files/approac.pdf>

<http://www.ledknowledge.org/>

LED in tourism

<http://www.giz.de/expertise/downloads/en-tourism-sustainable-development.pdf>

Case studies

<http://www.meso-nrw.de/toolkit/> - case studies

Quality Criteria for Private Sector Development

Quality Criteria for Private Sector Development

In one way or another, private sector development forms part of many ADA programmes and projects. It is not always possible or necessary to have the documents reviewed by PSD experts.

The ten following questions provide assistance in assessing the quality of a planned intervention:

1. Has the market or the market segment been analysed comprehensively (i.e. in its economic, social, ecological and political dimensions) and is the planned intervention based on the results of such analysis?
2. Are the underlying causes of existing problems in the system defined (or only its symptoms)?
3. Is market access of poor/disadvantaged women and men restricted and does the project/programme aim to lift these restrictions?
4. Was inclusiveness a criterion for selecting the market system and the partners?
5. Is it clear how the planned interventions affect results, and vice versa (cause/effect logic)?
6. Have both public and private actors been considered for the interventions?
7. Does 'the project/programme' adopt the role of a facilitator?
 - a. Or does the project advocate direct business support? If so, is the decision who to assist subject to a transparent, competitive process?
 - b. Will direct support to single market players change the market system (or simply support the market players)?
8. Is it clear why the interventions are deemed sustainable?
9. Have all dimensions of sustainability been taken into account: economic, social, political, ecological?
10. Is it clear at which point development cooperation will have fulfilled its role? Is there a clear exit strategy?

If all questions are answered in the affirmative, the intervention will contribute to inclusive and sustainable development.

If some of the questions are answered in the negative, please reflect and explain why the project/programme should nevertheless be carried out.

If most questions are answered in the negative, the programme/project will not have a sustainably positive effect on the development of the partner country.