
This series also includes:

And the following supporting tools:

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1. Introduction

The purpose of this guidance note is to clarify the initial steps that UNDP Country Offices may take in order to identify opportunities for effective IMD interventions. This note is a supporting document to the IMD Handbook, which describes UNDP’s IMD approach following the following four main stages:

i) Identification of Opportunities
ii) Project Formulation
iii) Project Implementation
iv) Evaluation.

This note provides a methodology to support the implementation of stage one and two of the IMD project cycle by providing:

- An approach for identification and selection of markets that have the potential to work better for the poor and
- The basic thought process behind this approach as well as specific questions and issues that need to be resolved at each stage of its application

It is envisaged that the principal users of the guidance note will be private sector focal points, programme managers and private sector ‘brokers’ in UNDP Country Offices, but it will also be helpful to other practitioners seeking an overview of how inclusive market development concepts can be operationalized.

The note is divided into two basic stages, the first providing a methodology for stage one of the project cycle (Identification of Opportunities) and the second for stage two (Project Formulation):

1) Rapid assessment of potential ‘target markets’ for intervention (chapter 2)
2) Comprehensive market assessments for markets that ‘pass’ the initial ‘screening’ test and offer realistic opportunities for contributing to inclusive growth (chapter 3).

Each of the key steps in each stage is followed by a short summary of key questions that should be addressed as well as information sources and approaches that may be helpful in resolving these issues. Links to external toolkits for specific tasks are contained in embedded ‘toolboxes.’ A list of useful reference sources is contained in Annex A. Brief case studies of successful inclusive market development programmes are contained in Annex B and caselets are embedded throughout the document. A glossary of key terms is contained in Annex C and frequently asked questions (FAQs) are contained in Annex D.
1.1 Before you Begin – Assessing Country Office Capacity
Prior to embarking on the market assessment and program formulation process, Country Offices will benefit from evaluating if they have, or will be able to procure, the capacity for effective implementation of the program. While the precise nature and scale of resources required - the finance, skills, knowledge, etc - will be determined through the market assessment process, it is important to be clear from the outset that inclusive market programmes are serious commitments that typically require between 3-5 years to conclude. Moreover, inclusive market development programmes are difficult to plan fully in advance. Markets are inherently dynamic and usually involve multiple stakeholders – many of whom will undergo changes over the course of the program. Core market transactions, the rules on which they are based and supporting institutional structures are all highly susceptible to change, with the result that project interventions need to be flexible and responsive even where this means deviating from well-prepared work plans. This dynamic process requires that strong CO commitment and management support is in place to ensure that the program can adjust to changing circumstances, work with key partners to make quick decisions when necessary, and communicate changes in approach to key stakeholders on an ongoing basis.

Despite the challenges that can be associated with IMD programmes, evidence from other international organizations suggests that these programmes can exhibit substantial development results. And while IMD programmes may marginally exceed the average budget of UNDP private sector development (PSD) programmes, they can represent excellent value for money in terms of pro-poor impact.

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**Examples of IMD³ Programme “From Behind the Veil”**

**Donors:** USAID  
**Budget/Time:** $600,000/3 years  
**Results:** The program provides assistance to homebound women in Pakistan. At the halfway point through a three-year programme it had linked 7,000 women producers to markets, 2,000 of whom increased their incomes more than threefold. The remaining 5,000 were earning an occasional income that was growing steadily.

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**Examples of IMD³ Programme from IFC**

**Program:** IFC - Sector Development and Business Services (SDBS) initiative  
**Donors:** DFID, EC, NORAD, CIDA and the Government of the Netherlands.  
**Budget/Time:** $6.08 million/3 years  
**Results:** Over a three-year period from 2003-5, the programme provided technical assistance and training to 136 enterprises, 20 service providers, 11 apparel buying houses and 3,017 individuals. Assisted firms and service providers reported increased sales of over $114 million and increased assets of more than $35 million. The total programme budget was $6.08 million, giving a leverage ratio (programme costs to sales increases for assisted clients) of 1:19. In addition, assisted firms created a total of 16,239 jobs.
To a certain extent, the level of commitment and capacity required to successfully complete any particular IMD programme will be determined by the nature and complexity of the market or market systems selected (see 2.3 below). Consequently, where the CO feels that sufficient capacity exists to embark upon an exploratory programming process, the assessment of CO capacity may be a factor in selecting an appropriate target market and can suggest limits to program size, scope and complexity that may be appropriate.

**CHECKLIST**

<table>
<thead>
<tr>
<th>Critical Items</th>
<th>Additional Questions to Consider</th>
<th>Possible Information Sources/Approaches</th>
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| Is your country office able to commit to a three-year plus programme? | Is there sufficient management capacity to provide adequate support? How many other private sector programmes are currently in the CO portfolio? Are there reasons to postpone commencement of 3-5 yr programs (e.g. imminent uncertainty as to continuity of current government, change in development landscape)? | • Discussions with senior managers  
• Evaluation of current private sector portfolio |
| Is your country office able to commit financial resources to the project for a 3-5 year period? | What is the resource envelope for private sector programming? What is the donor support environment for UNDP-facilitated private sector programming? | • Discussion with senior managers  
• Liaising with CO resource mobilization focal point  
• Informal discussions with potential funders |
| Does the CO have or could the CO realistically procure the technical skills and capacity necessary to design and implement an IMD project? | What is the current CO skill capacity for IMD programs? Are the limitations on capacity insurmountable through robust national/international recruiting efforts? Do funding or other constraints (e.g. conflict) create obstacles to the ability to procure necessary expertise (e.g. international expertise, specialized national sector experts, etc.)? | • Investigate the current market rate for national and international experts?  
• Investigate local and international rosters of possible consultants  
• Consult with other COs/UN Agencies/Donors/NGOs in your region that have managed technical procurement issues |

**Additional resources**

Where the CO is uncertain if they have the necessary capacity to take on IMD programming there are resources that can provide important feedback. UNDP’s Private Sector Division, comprising experienced professionals in both private sector partnerships and private sector development can offer useful guidance in assessing CO capacity to undertake IMD programs. The Private Sector Division can also be helpful in identifying required technical expertise as well as assisting with finding and procuring experts/consultants.

It can be helpful to speak with other UN agencies, donors and NGOs who have previously embarked upon IMD programs in the same country or region to better understand what level of capacity was ultimately required to deliver a successful program (and equally, where capacity was ultimately found to
be insufficient). Also, the requirements of CO capacity may vary where other partners are prepared to take on some of the administrative/programming responsibilities (see IMD Handbook for example of UN agency role division in Uganda IMD project).

1.2 Build Your Network

Introducing an IMD program in a country benefits greatly from cultivating a network of key stakeholders drawn from all sectors (business, civil society, labour unions, academia). It is critical that the IMD approach is introduced to key stakeholders to ensure both their understanding of the concept as well as to gain their buy-in. With regard to buy-in, it is obviously critical that the government supports the proposed programmatic approach and appropriate time should be spend to ensure that happens.

Additionally, this network is often invaluable in assisting with market assessment (both rapid and comprehensive), engages key actors and partners at an early stage, and provides enhanced legitimacy to the entire process. In the early stages the network can prove to be a valuable source of information about markets and market opportunities in the country, as well as provide a substantial amount of underlying data/information required for analysis (e.g. statistics, surveys, studies). Where the CO is able to effectively leverage the network to provide critical market intelligence and insight it can often dispense with the need to engage specialist market experts in the market assessment process.

Investing in building a strong network can provide a further set of intangible benefits throughout the process that can help programme leaders avoid common pitfalls and navigate difficult or controversial situations more effectively. Through network building activities IMD program staff can get a deeper understanding of relevant, existing programs active in the country, of similar programs that have been launched before (and their outcomes/lessons learned – both formal and informal), and get an early understanding of the different perspectives that various stakeholders might bring to the process. When working with stakeholders, it is useful not only to get their perspectives on the IMD concepts and possible interventions, but also to survey which other stakeholders they feel would be useful to involve in the process.

The network may involve a number of different actors including:

a) Public Sector/Academia
   - Relevant levels of governments/ministries
   - UN agencies and donors
   - Development banks (national and international)
   - Investment promotion agencies
   - Universities/Research Institutions/Think tanks

b) Private Sector/Civil Society
   - GIM network of partners
   - Business Call to Action signatory companies
- Global Compact Signatories
- Other lead firms
- Membership Organizations (Business Associations, Trade Unions, Consumer Groups, etc.)
- Cooperatives and associations of small or informal producers
- NGOs and community-based organizations
- Experts/Consultants in relevant fields

Engaging stakeholders is an ongoing activity running through the entire project cycle. If carried out in an appropriate way, it should lead to better decisions, more targeted interventions, stronger local ownership and greater sustainability over time.

**Possible Starting Point – Preliminary Network Mapping/Analysis**

A useful starting point if approaching the task of building your network for the first time can be to engage in a preliminary network mapping and analysis exercise. This is separate from the more focused stakeholder analysis that follows after a target market is selected and this process can be done without too much complexity (although a certain level of rigor/thoroughness will be helpful). Create a list of all major stakeholders (possible network targets) active in the country guided by the categories noted above and log in a spreadsheet their profiles, affiliations and development-relevant engagement. For example, you can note if a leading agro-processing with potential to be a lead firm in an IMD project is a member of the Global Compact, a Business Call to Action signatory, a GIM network partner, a prior CSR partner to UNDP or other UN agency/donor (if so, list the nature of the partnership), if their value chain encompasses small-scale producers, etc. Use the parameters that fit closest to your project objectives to determine the criteria for this early stakeholder targeting, and use the analysis to help prioritize and influence your network building. Part of the content of the profile building will come, as noted above, from discussions with members of your network – both in relation to themselves as well as other potential stakeholders.

**Additional resources**

In many UNDP program countries COs have invested significant efforts in building networks to support private sector engagement and development activities, particularly the Global Compact. Discussions with the individuals who have conducted outreach to private and public sectors in furtherance of these kinds of programs can provide valuable information about the national context, how to approach key players as well as valuable insight/lessons from their network building experience. Additionally, resources at the Global Compact Office in New York as well as UNDP PSD can be helpful in providing guidance on network building activities.

Additionally, a number of UNDP regional support centres (e.g. RBEC – Bratislava regional centre) house individuals with significant depth in economic analysis and with deep understanding of market structure and dynamics in the region as well as key players. Capitalize on this knowledge and engage relevant UNDP colleagues in suggesting high potential partners who should be engaged early on in the process.
One critical matter to keep in mind is that, while building the network is an important first step, maintaining and keeping the network engaged represents an ongoing challenge. It is imperative to think through how to keep the network engaged, to ensure periodic and relevant communications/contact, and to manage the relationships in an efficient yet effective manner.

**Potential Benefits from Building an Active Network**

- Get a quick overall sense of the IMD landscape (key players, initiatives, etc.)
- Build personal relationships with future partners and stakeholders
- Identify potential pitfalls and concerns
- Obtain important information and insight
- Generate preliminary for potential high impact opportunities/markets/interventions

### 1.3 Engaging stakeholders in the process

While this guidance note will cover a number of approaches that involve “desk” research and analysis, the entire process from initial market identification through program formulation can be greatly enhanced by adopting a participatory approach. There are many benefits associated with applying participatory methodologies to IMD program work. It enables faster and less costly gathering of information to aid the diagnostic process, in some cases allowing for data collection not otherwise available (for example see 3.2 below). This can often allow the CO to dispense with the need to engage specialist market experts and thus represents a potential cost saving to the program. Additional benefits can include better-focused ideas for market selection and interventions, increased legitimacy to the overall process, ensures that all voices are heard (including the poor) and fosters local ownership/buy-in from the very beginning. This latter point is critical for ultimate sustainability of the program, which needs to be result in change at the level of local market actors.

There are many possible approaches to engaging stakeholders. These can include activities that are formal or informal, bilateral or multilateral, and structured or unstructured. Different approaches may be particularly well suited for certain steps in the assessment process and these will be highlighted as appropriate in this note. One can engage stakeholders right from the very start in building a joint vision for the program as well as iteratively through the process (along with desk research and analysis) to continue sharpening and validating data/findings while engaging in participatory decision making.

It is important to note that participatory approaches alone are rarely sufficient to lead to successful IMD program outcomes. More often, it is important to combine these approaches with research, analysis and technical expertise as required. And while it does not need to be “expert-driven”, the CO must offer more than simply a process but ideas, knowledge and resources as well.
TYPICAL PHASES IN PARTICIPATORY APPROACHES

Set-up. This might include training of local facilitators, initial assessment of target market and networking with local stakeholders and introductory workshops to understand general opportunities and constraints.

Research. Focus group discussions, interviews and other participatory methods involving local stakeholders for in-depth assessment of opportunities and constraints (SWOT analysis) and local competitive advantage.

Analysis. Evaluation of research findings in a planning workshop, and formulation of interventions that address needs and that promise quick returns.

Implementation. Presentation of proposals to the relevant community, setting priorities through participatory planning processes, setting up steering groups to guide implementation.

Potential Pitfalls

While participatory processes can greatly enhance IMD programming they are far from a panacea for poorly thought through initiatives and several potential pitfalls are always present. If done poorly, these processes can simply reinforce the status quo and existing power structures, give unhealthy influence to an unrepresentative group of stakeholders, or provide legitimacy to poor policies. Other pitfalls include allowing a lack of depth/rigor to dominate the process and letting the group mechanisms lead to interventions that represent nothing more than the lowest common denominator. The CO should also be keenly aware of potential conflicts of interest that can be present and take steps to mitigate the possible consequences of including participants that risk losing power, status or income from interventions that make markets more inclusive (e.g. traders that may lose profits in cases where smallholder farmers get more transparent information and access to markets).

Finally, it is critical to keep in mind that participatory processes serve the diagnostic and programming objectives, not the other way around. Consequently, they must be seen as a means to an end of more inclusive market systems rather than a fixed starting point or end goal. COs should adapt processes as needed to reflect local conditions and should continually monitor if the approaches taken are delivering the desired outcomes.

Additional resources

Meyer-Stamer, J (2003): Participatory Appraisal of Competitive Advantage (PACA) – effectively launching local development initiatives; Mesopartner, Duisburg, Germany


In addition to these documents, COs can turn to UNDP PSD for guidance in implementing participatory processes and avoiding potential pitfalls.
2. Rapid Assessment of Target Markets for Intervention

1. IDENTIFY YOUR BENEFICIARY GROUP

2. IDENTIFY MARKETS THAT ARE IMPORTANT FOR THE POOR/TARGET BENEFICIARIES

3. WHAT IS THE MARKET GROWTH POTENTIAL?

4. IS THERE POTENTIAL FOR SYSTEMIC CHANGE?

5. IS THERE GENUINE ADDITIONALITY?

6. DOES COUNTRY OFFICE CAPACITY IMPLY LIMITS ON POTENTIAL TARGET MARKETS?

7. SELECT AND APPLY ADDITIONAL CRITERIA

8. FINALIZE LIST OF MARKETS FOR COMPREHENSIVE MARKET ASSESSMENT
The first stage in the process is to identify markets that have the greatest potential to reduce poverty. This requires an initial judgment to be made, taking into account a set of primary filters (threshold issues) and a further set of additional criteria:

**Primary Filters**

(a) **Markets that are important for the poor**: The current or potential future importance of the market to the poor

(b) **Market growth potential**: Market growth is essential in order to develop successful projects

(c) **Opportunities for Systemic Reform**: The existence of realistic opportunities for systemic reform capable of yielding significant pro-poor benefits

(d) **Additionality**: Ensuring that any proposed intervention represents a genuinely additional contribution to the process of systemic reform.

(e) **Country Office Capacity**: Does CO capacity imply certain limitations on potential target markets?

**Additional Criteria**

Depending on the main objectives of the invention and national factors, additional criteria should be selected and applied to the final pool of potential target markets. This can include gender, environmental factors, geographic factors or any other criteria relevant to project goals.

The aim during this stage is not to arrive at a detailed strategy for market intervention, but to survey the landscape and identify a series of options that can be examined in greater depth through the comprehensive market assessment process (Chapter 3). The single most important factor in market selection is ultimately around achieving the maximum impact in terms of poverty reduction.

It is envisaged that in the majority of cases Country Offices will be able to identify target markets on the basis of information that is in the public domain, without recourse to specialist expertise. Equally, it is recognized that in a number of situations the target market for intervention may be identified at the outset (e.g. as a function of national government request) thus shifting the focus to the comprehensive market assessment.

**Clarifying program beneficiaries and poverty reduction goals**

Inclusive market programs will typically have the objective of improving the socio-economic welfare of a specific group of target beneficiaries. The beneficiaries will reflect one or more of the three fundamental ways in which poor people interact with markets: as producers, employees or consumers. The related poverty reduction goals will reflect objectives related to improving the poverty condition of
the target beneficiaries: “more” of something (e.g. income or assets) or “less” of something (e.g. deprivation, exclusion or inequality).

<table>
<thead>
<tr>
<th>Beneficiary Group</th>
<th>Example Poverty Reduction Goal</th>
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<tbody>
<tr>
<td>Producers</td>
<td>More income and/or income security</td>
</tr>
<tr>
<td>Employees</td>
<td>More decent work opportunities</td>
</tr>
<tr>
<td>Consumers</td>
<td>More access to important goods and services</td>
</tr>
</tbody>
</table>

The target beneficiary groups will often be further described/limited by other factors (e.g. gender, geography). It is beneficial to have a clear sense of which group of poor people is being targeted as well as the anticipated final impact on the target group. Where the description of the beneficiary group does not already identify the target market, the beneficiary choice will play a significant role in the market selection process.

For example, an inclusive markets program may seek to increase the incomes of rural livestock producers whose livelihoods are constrained by low output and productivity. Another program may seek to increase the access to energy supplies of poor consumers in a given region. Programs may also target multiple beneficiary groups (e.g. small-scale producers and consumers) in a given market system.

Key Questions:

Resolving this issue requires asking some initial questions:

- *Which group of poor people is being targeted?*
- *What is the profile of that target group, particularly the nature of their economic activity (employee, producer, consumer)?*
- *How is their poverty influenced by exclusion, inequality or deprivation in market systems?*

### 2.1 Primary Filters

(a) Markets that are Important to the Poor

The extent to which a market can be considered important to the poor is a function of three core factors: *Poverty Reduction Potential, Pro-poor Access or Growth Potential, and the Leverage Potential:*

*Poverty Reduction Potential:* This factor looks to identify market systems that have the potential to work well for significant numbers of poor people. For example, the CO should consider if the target market can create employment opportunities for the poor or if it can provide goods/services that meet the consumption needs of the poor. In many programme countries, markets that have relatively large numbers of poor producers and poor employees are well known. Equally, basic data on consumption patterns is available from household surveys and allows for identification of markets with concentrations of poor consumers.
Leverage Potential: This factor describes the role of the market in underpinning broader inclusive growth prospects. Certain markets, though not directly engaging large numbers of the poor, may nonetheless have a powerful potential to impact the poor through their inter-relationship with markets where large numbers of poor people are involved. Intervening in these markets thus raises the potential for maximizing impact.

The markets that are important to the poor characteristically do not work very well with the result that producers are unable to expand beyond a basic subsistence level, unemployment and underemployment remain high, and the poor pay disproportionately high prices (‘poverty premiums’) for the goods and services that they consume. In some cases, there may be strong demand for a produce or service from the poor but no supply - this situation is referred to as a ‘missing market.’

Don’t Forget

In examining the question of what markets are important for the poor, it is important to keep in mind the target beneficiaries as well as any other project criteria (see 2.2 below) that may limit or serve as a major influence on market selection. These considerations will help narrow the universe of possible options and expedite the analysis. At the same time, it’s important not to prematurely select a final target market without considering all relevant markets that fit within the project scope/criteria, including those that at first glance may seem less obvious.

Look Beyond The Obvious

In many cases, the initial search for market opportunities will gravitate towards markets and sectors where large numbers of the poor are already involved as producers, employees and consumers. But it is important not to simply ‘rush to where the poor are’ and to undertake a thoughtful assessment of the longer-term trade-offs. Factor markets (see box below), for example, are extremely complex and often politically sensitive, but if addressed successfully offer the prospect of enormous leverage, generating benefits across all sectors of the economy.

There is often a tendency to focus on obvious markets for commodities or goods that the poor produce directly (e.g. agricultural value chains) and ignore other markets for goods and services that support those value chains (e.g. seeds or transportation) or which are important to the poor as consumers. In an agriculture market system it may be that addressing the retail market for inputs (seeds, fertilizer, etc.) might generate significant leverage and impact on poor producers, despite not being a market with high concentrations of the poor per se. For example, in countries where the government sets a price ceiling on the price of fertilizer (as in India for example), there can often be the unintended consequence of fertilizer shortages. The brunt of these shortages often falls disproportionately on poor farmers with the result of limiting potential increases in productivity. In some cases, intervening in the fertilizer market may well provide a greater material impact on poor producers than interventions in other parts of the value chain.
Programmes need to include “less obvious” markets in the initial scope of analysis and be prepared for difficult trade-offs.

UNDERSTANDING DIFFERENT TYPES OF MARKETS

Where it is not immediately clear from an overview of existing markets - producer, consumer, labour and ‘missing markets’ - which should be prioritized for the market assessment, it may be useful to distinguish the functional role that different types of markets - factor markets, foundation markets, specific commodity, product and service markets, and so called ‘feeder markets’ - potentially play in driving growth and poverty reduction.

Factor markets are markets for the basic factors of production in an economy i.e. land, labour, capital and information. Because these markets are fundamental to the vast majority of economic activity, addressing systemic constraints to their establishment and operation has the potential to have a very considerable impact on growth and poverty reduction. Subject to a number of provisos therefore, if factor markets are not working properly, they should be a priority for action.

‘Foundation services’ markets are not factor markets per se, but are of arguably commensurate importance in terms of their role in determining the ability of the poor to participate in other markets, and indeed to secure their basic well being. Foundations services markets include health care, education and vocational training, energy, water, sanitation, housing, telecommunications and public transport. In many developing countries the emergence of foundation services markets is a response to the inability of governments to provide public services to the poor at subsidized rates. In the absence of viable and appropriate public sector alternatives, the development of inclusive foundation services markets should also be a priority for action.

Commodity, product and service markets are markets for most of the things that are produced and consumed in the economy. Commodity markets might include natural resources and basic agricultural products that are sold without qualitative differentiation e.g. iron ore, crude oil, coal, ethanol, cotton, salt, sugar, coffee beans, soya beans and rice. Product markets include higher value added outputs from processed commodities e.g. petrol, plastics, fabrics, most foodstuffs, to so called finished goods such as garments, automobiles and electronic goods. Service markets are generally divided into business services e.g. equipment maintenance and accountancy and consumer services, e.g. wholesale and retail distribution. Clearly, the significance of individual commodity, product and service markets varies considerably from one economy to another. Where particular markets are already important to the poor, focusing on them may be an obvious choice.

Feeder markets overlap with factor, commodity, product and service markets, but are distinguished by virtue of supplying the core technologies, inputs and services on which these markets rely. Examples include agricultural inputs markets e.g. seeds and fertilizers, the manufacture of equipment, tools and spare parts, and services such as agricultural extension services, veterinary, product certification
services, engineering maintenance and business development services. By their very nature, many of these markets have the potential not only to generate income and employment for the poor in their own right, but also to leverage increased productivity and returns across broader range of markets (multiplier effects).

Every market intervention scenario has its own risk-reward profile and these need to be weighed in the balance by Country Offices. For example, though commodity markets in many developing countries are the focus of vested interests and corruption, they are frequently the principal source of employment for the poor. Despite the significant challenges, reforming commodity markets, for example by increasing transparency and ensuring that commodity value chains are more inclusive, has transformative potential. The importance of individual markets to the poor changes over time and varies enormously from country to country, with the result that can be no ‘boiler plate’ solutions. Before reaching a decision several other filters need to be applied.

**Engaging Stakeholders**

This is a particularly valuable stage where input from stakeholders can deliver valuable dividends. Stakeholder discussions can supplement desk analysis to assist the generation of the preliminary list of target markets. These discussions can help deliver insight to guide COs with respect to non-obvious markets with a high potential impact or reflect certain markets where there is a broad consensus as targets for intervention. Stakeholders may also be able to provide key information/data that accelerates and informs the fact-finding process (e.g. national statistics, surveys, studies, etc.) as well as information that is not otherwise readily available. Civil society organizations, for example, may have valuable data/insight into missing markets that affect poor consumers. COs may also be able to learn about past/current IMD interventions where the lessons may rule out otherwise obvious market choices or “rule in” less obvious choices.

**CHECKLIST**

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<thead>
<tr>
<th>Critical Items</th>
<th>Additional Questions to Consider</th>
<th>Possible Information Sources/Approaches</th>
</tr>
</thead>
</table>
| What market systems are centrally important to the target beneficiaries? | What is the nature of their engagement (employee, producer, consumer) in th system(s)? | • Talk with organizations that have experience dealing with the target beneficiary group  
• Socio-economic studies  
• Household surveys |
| Poverty Reduction Potential: Are there reasonable prospects of | Is an assessment of the market justified by household | • Households surveys  
• Employment Data (govt.) |

1 A taxonomy of ‘feeder markets’ is found in ‘Implementing Sustainable Private Sector Development: Striving for Results for the Poor’ Alexandra Miehlbradt A and McVay MILO 2006 p. 54
### (b) Market Growth Potential

Assessing *market growth potential* involves investigating trends and opportunities in the end market. Is the sector growing? As incomes rise, are new market opportunities presented due to increased demand? Is there a risk that markets may decline? Is supply growing in tandem with demand or are there gaps and therefore opportunities for new market entrants? It is also important to explore the competitiveness of each value chain in these markets. Even if the poor are active in these markets, if growth is limited, it is not feasible for the CO to develop project interventions for the particular sector. An additional important aspect of assessing growth potential is to understand the demand of larger lead firms in the sector and their interest in engaging in different ways. Hearing directly from lead firms can give a good indication of the level of opportunity.
Example: A programme identified the broiler sector within the poultry industry as a potential focus for intervention. It was initially chosen because large numbers of poor households were involved in rearing broilers and, because the industry was growing, it appeared to offer good prospects for raising their incomes. Closer analysis revealed that the medium-term (5 year) prospects did not favour small-scale producers because of an increasing trend towards industry consolidation around centralized large-scale producers with networks of well-established outgrowers. The programme decided not to pursue intervention because outgrowing opportunities for poor households would be few.

As part of this analysis the CO should consider relevant growth trends related to the target market (e.g. the growth of production value per year over the past five years for agricultural commodities) as well as the potential for growth through value addition (e.g. ability of the market to grow through manufacturing industries and service sectors).

(c) Opportunities for Systemic Reform

In order to justify moving to the next stage and undertaking a more in-depth market assessment, it is important to establish a plausible case for intervention. Country Office staff should be convinced that the market system in question contains realistic opportunities for systemic change and that these opportunities could potentially be addressed through an inclusive market development programme. Systemic change is a change which alters the way in which a market system operates into the longer term without the agent of change remaining within the market system. It represents a change in the underlying causes of market system performance. In practice, in the majority of the cases, this means having evidence of one of the following scenarios:

(i) Poor as producers

In the case of markets in which the poor are strongly represented as producers, there must be a realistic prospect for achieving sustainable increases in income and/or income security. This can result both from productivity gains, especially where they are associated with increased value creation and retention, and changes in the level and structure of demand for their products, for example through opportunities to expand into new markets or reduce dependence on single buyers or cartels. To be considered opportunities that drive “systemic change” they should have broad impact on the market system - the ‘rising tide’ that lifts all boats - irrespective of whether individual producers capitalise on them equally. Examples of such system-wide opportunities could include reforms that lower the costs of doing business for producers, enable them to achieve collective scale economies or remove barriers to entry to new markets.

(ii) Poor as employees

In the case of markets in which the poor are employed in large numbers, or have the potential to be employed in large numbers, there should be a plausible prospect of increasing the supply of ‘decent work’ opportunities. Wherever possible, markets should be sought which have the potential to generate employment growth and significant productivity gains relative to the alternatives e.g. floriculture and pigs, compared to crop framing and livestock. But where this is not possible the prospect of generating a
significant growth in short-term low quality job opportunities should be weighed very carefully against alternatives that result in fewer but higher quality and more durable employment opportunities. Systemic change in this area may include interventions that address gender gaps in employment and/or targeted capacity building.

In many countries, young women are doing better than young men in the educational system and yet still find it harder to enter and remain in the labor market. Policies and programmes to promote youth employment need to give attention to gender-based discrimination. Young women from ethnic minority groups or with disabilities face the greatest discrimination and are the most disadvantaged.

Many young people are trained in skills for which there is little or no demand or are disadvantaged in terms of core skills required in the current labor market. Often, these issues can be addressed by:

- Involving employers in identifying skills needs and providing training for young people within enterprises
- Emphasizing basic skills for working life (teamwork, problem solving, etc.) and also entrepreneurial skills
- Improving vocational guidance and counseling and employment services
- Promoting lifelong learning

(iii) Poor as consumers

From the perspective of poor consumers, the selection of target markets should be guided by the realistic prospect of increasing access to goods and services that contribute significantly to human welfare and well being. In some cases this will be achieved by addressing ‘missing markets while in others it will require interventions to reduce ‘poverty premiums’ i.e. disparities in the price paid for goods and services between poor and non-poor populations. Another form of potential interventions are those that reduce the costs of supply and / or increase competition among suppliers, resulting in lower prices and greater affordability.

Assessing which goods and services contribute to human welfare and wellbeing is relatively uncontroversial in the case of many so called ‘foundation’ markets, for example food, water, sanitation, energy, housing, health care and education services and markets that offer choice and opportunities simultaneously to consumers and producers, for example land, financial services, public transportation and telecommunications. But in many other cases informed judgment and foresight will be required. Systemic change would demand that the intervention be able to produce a sustainable, material change in the market system that fundamentally changes access for the poor. This may not be the case with impulsive interventions that provide direct delivery of services during the period of the project, but fail to create a sustainable foundation for service delivery beyond the project lifespan.
Examples

a) FinMark Trust, South Africa

The goal of the FinMark Trust was to increase access to financial services markets for the poor. The Trust addressed a range of systemic constraints in this market through a series of activities that included: building a shared view of the industry's future, supporting service innovation, developing information services, improving regulatory processes and stimulating consumer education.

b) Other sample interventions that address systemic constraints:

i) Introduction of a new business idea (such as retailer training in vegetables) and providing technical support to develop this, and limited financial support to defray risk

ii) Establishing a forum for new ideas and exchange services

iii) Providing technical assistance and some financial support to regulators and researchers to improve the process of policy analysis

Engaging Stakeholders

Civil society, consumer action groups, trade unions and other stakeholders can offer valuable insight into the systemic constraints that limit the inclusive of markets. At the same time, COs should be careful not to only speak to local communities – who may be limited in their understanding of market systems – and ensure that other market players are engaged (e.g. buyers, suppliers, government, service providers, etc.). Technical/sector experts may have particularly valuable insight in this area. Some questions that are particularly appropriate to discuss with stakeholders include:

- What are the underlying causes of a market system’s underperformance?
- What are the main reasons why the poor’s participation is currently weak?
- What are the primary challenges to increase their level of participation?

Greater clarity on these and other questions can help in the assessment as to whether systemic change is plausible in a given market system. Some examples of successful evidence of systemic change could include:

- Improved delivery (such as increase in access or participation rates, improved quality levels of satisfaction)
- Changed attitudes of, and evident, ownership by, market players
- Changes in practices, roles and performance of important system players and functions
- Demonstrated dynamism of market players and functions (for example, responsiveness to changed conditions in the system)
• Independent and continuing activity in the system (i.e. sustainability - the extent to which changes are maintained after direct intervention support has ceased)

CHECKLIST

<table>
<thead>
<tr>
<th>Critical Items</th>
<th>Additional Questions to Consider</th>
<th>Possible Information Sources/ Approaches</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor as producers</td>
<td>Are these opportunities system-wide i.e. could they in principle be realized by or for the benefit of all producers as opposed to a select few?</td>
<td>• FAO data (agricultural producers)                   • Stakeholder engagement                  • Sector experts</td>
</tr>
<tr>
<td>Poor as employees</td>
<td>If so, what can be ascertained about the likely quality and sustainability of the jobs in question? Will they contribute to the achievement decent work standards?</td>
<td>• National Bureau for Labour Statistics/other govt. departments                               • ILO data                                                                 • Stakeholder engagement (trade unions, civil society, etc.)</td>
</tr>
<tr>
<td>Poor as consumers</td>
<td>Alternatively, are there opportunities for reducing the cost / increasing the affordability of existing goods and services?</td>
<td>• Household surveys                                                            • Poverty Maps                                                                  • Stakeholder engagement</td>
</tr>
</tbody>
</table>

(d) Additionality

Having identified markets that are important to the poor and established the potential for systemic change exists, Country Offices then need to be convinced that any proposed intervention will be genuinely additional – is necessary, non-duplicative and contributes substantially to systemic change in the identified market system. Research on inclusive markets, including many of the case studies undertaken as part of the UNDP Growing Inclusive Markets (GIM) initiative,\(^2\) contains numerous examples of market reforms and business innovations resulting in market outcomes that were beneficial for the poor without any form of donor intervention. The mere existence of an opportunity for inclusive market development does not in itself evidence a need for UNDP or other donor intervention.

In a similar vein, it is important to avoid duplication of effort by establishing early on in the identification and selection process what other actors are already doing in supporting the development of the market or market systems in question. Assuming this information is not known already, Country Office staff should appraise themselves of the key private sector development activities of relevant Government line ministries and agencies, as well as other international agencies and donors. The 'core' group of donors that have explicitly adopted an inclusive market development approach to private sector

\(^2\) Creating Value for All: Strategies for Doing Business with the Poor - UNDP July 2008
development at the current time includes the Asian Development Bank (ADB), AusAid, DfID, SDC and SIDA. But many other agencies and donors are engaged in activities that are compatible with an inclusive market development principles, including a large and growing body of integrated value chain interventions supported by agencies such as DfID, FAO, GTZ, IFC, UNIDO, USAID and the World Bank.

The sole fact that another organization is active in the same target market being evaluated would not necessarily imply that there is no scope for additionality. It is important to look closely at the specific interventions undertaken, if the programme may be beginning to be phase out, if there is scope for partnership/building on existing programmes and other possible synergies.

**Engaging Stakeholders**

This is a classic area where stakeholder engagement is essential. Discussions with government and other aid agencies can allow COs to create a map of existing PSD/IMD interventions. It is also useful to consider the map with a “time series” element, to capture whether programs are starting/winding up and the implications for launching new IMD programs.

**CHECKLIST**

<table>
<thead>
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<th>Additional Questions to Consider</th>
<th>Possible Sources/Approaches</th>
<th>Information</th>
</tr>
</thead>
</table>
| Would the intended benefits to the poor materialize without UNDP / donor involvement? | Are other donors or government agencies intervening in the market? Have adequate steps been taken to avoid duplication of effort? Does intervention in the market offer the prospect of synergies with other UNDP, donor or government programmes? How receptive are other players to coordination with UNDP on this topic? | • Map of existing PSD/IMD interventions  
• National multi-donor PSD/IMD working groups  
• CO Evaluation and judgment  
• Other stakeholder engagement (e.g. government officials) |             |

(e) Limits Implied by Country Office Capacity

Country Office capacity is very much a threshold issues (as noted in 1.1. above). Equally however, where the CO feels that the initial threshold is met, capacity limitations may result in striking out certain markets from the preliminary list due to size, scope and complexity. In general, the largest commitments will be required in the markets where the stakes are the highest i.e. key factor, foundation and commodity markets.

**Stakeholder Engagement**

While this area requires significant internal CO analysis and understanding, engaging stakeholders can be helpful in understanding exactly the nature of the capacity required to undertake certain IMD programs based on their past experience. Equally, UNDP PSD can be a helpful resource in evaluating capacity requirements.
### CHECKLIST

<table>
<thead>
<tr>
<th>Critical Items</th>
<th>Additional Questions to Consider</th>
<th>Possible Information Sources/Approaches</th>
</tr>
</thead>
</table>
| Is CO capacity sufficient to successfully tackle all of the current markets under consideration? | What limits are implied by potential or likely funding restrictions? What limits are implied by management bandwidth?  
If the program is targeting multiple markets does CO capacity match the scope of ambition? Is the CO prepared to invest necessary resources to address factor markets? How politically sensitive are the target markets? | • Find examples of other IMD programs and their budgets  
• Assess current list of target markets according to size, scope and complexity  
• Discussions with donors/potential funders  
• Discussions with other IMD implementing agencies  
• Other stakeholder engagement |

### 2.2 Select and Apply Additional Criteria

After having applied the primary filters to the potential target markets identified and depending on the overall objectives of the intervention additional criteria may be needed to drive target market selection. These criteria can include economic and market-related indicators as well as development indicators. For example, if the main criterion is jobs for women then a strong focus should be on criteria related to women. In particular, gender and environment are two significant crosscutting issues that should be appropriately emphasized. With that said, a clear focus should typically be kept on economic factors (growth trends, contribution to national employment, etc.). In order to help prioritize potential targets it may be helpful to evaluate the target markets against each additional criteria using a high, medium, low rating system.

For example, if one of the criteria is the contribution of this market system to national employment then a possible evaluation system could be:

- **High**: Target market currently generates over 1 million jobs.  
- **Medium**: Target market currently generates between 500,000 and 1 million jobs.  
- **Low**: Target market currently generates less than 500,000 jobs.

While it’s not possible to list out all potential criteria that you may wish to consider, set out below are a number of issues that may be relevant for inclusive market programs:

- Gender (e.g. active participation of women in the target market)  
- Environment (e.g. what is the environmental impact of the target market on biodiversity, soil conservation and water sources?)  
- Age (e.g. involvement of youth in the target market)  
- Geography (e.g. to what extent does the target market cover poor and marginalized districts?)  
- Economic Aspects  
  - Evidence of unmet market demand (locally, regionally, globally)
- Potential for value addition
- Increased productivity
- Current market growth trends

Engaging Stakeholders

This is an area where stakeholder engagement is essential. There is great value – from a content, legitimacy and local ownership perspective – in getting stakeholder input and participatory decision-making around the set of additional selection criteria. This might take place in the form of brainstorming session where criteria are discussed, a workshop where preliminary criteria are presented or other forms of participation. Irrespective of the form, an effective approach is likely to be iterative. A first set of criteria and analysis are generated with/without stakeholder engagement, followed by stakeholder validation which is followed by further analysis/refinement. This is all part of the process of finalizing selection of the target market for program focus (see 2.3 below).

2.3 Finalize Selection of Target Market

Upon completing stages 2.1-2.2 of the rapid assessment, the CO should have a good idea about which sectors have the potential to become more inclusive. Based on the result of the assessment the CO will, in broad consultation with all stakeholders, discuss and agree on what market(s) to select for further analysis. In some cases, a formal multi-stakeholder meeting may be held to ensure the decision is legitimate. It may be useful to use a decision matrix tool to arrive from the analysis to the actual decision – such a matrix is presented in the guidance note for market identification.

This approach makes use of the high/medium/low criteria evaluations made in the previous step (see 2.2) and allocates a certain score to each criteria. and then ranks each possible target by its total score. Criteria can all have equal weighting or the stakeholders may decide to afford a greater weighting to certain criteria over others. A sample matrix might look like the example below, which compares three very different potential target markets (dairy, green beans and crafts) using the same evaluation criteria.
Example: Target market weighted ranking matrix

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Weight</th>
<th>Dairy</th>
<th>Green Beans</th>
<th>Crafts</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rating</td>
<td>Score</td>
<td>Rating</td>
<td>Score</td>
</tr>
<tr>
<td>Competitiveness</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unmet Market Demand</td>
<td>3</td>
<td>4</td>
<td>12</td>
<td>4</td>
</tr>
<tr>
<td>Market Growth</td>
<td>3</td>
<td>4</td>
<td>12</td>
<td>3</td>
</tr>
<tr>
<td>Potential to Diff. from Comp.</td>
<td>1</td>
<td>3</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Targeting</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Potential No. of MSMEs</td>
<td>3</td>
<td>3</td>
<td>9</td>
<td>4</td>
</tr>
<tr>
<td>Potential Increase In Incomes</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Enabling Environment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Favorable Business Env.</td>
<td>1</td>
<td>3</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>TOTAL WEIGHTED SCORE</td>
<td>41</td>
<td>39</td>
<td>34</td>
<td></td>
</tr>
</tbody>
</table>

An example of an unweighted ranking matrix is shown below. In this case, the stakeholders were evaluating agricultural target commodity markets that they had defined at the individual crop level (see 3.1 on market delineation below for more information on “defining the market”). In the first example a mixture of economic and non-economic criteria were used in target market selection while in the second example it was largely economic factors that made up the selection criteria.

Example: Target market unweighted ranking matrix

<table>
<thead>
<tr>
<th>Subsector</th>
<th>Commodity</th>
<th>Return on investment</th>
<th>Market potential</th>
<th>Value addition potential</th>
<th>Beneficiary preference</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Livestock</td>
<td>Fish (U)</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td>Livestock</td>
<td>Beef (N)</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>Fruits</td>
<td>Pincapples (U)</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>11</td>
</tr>
<tr>
<td>Fruits</td>
<td>Citrus (N)</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>11</td>
</tr>
<tr>
<td>Cereal / staples</td>
<td>Maize (U)</td>
<td>1</td>
<td>3</td>
<td>3</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>Cereal / staples</td>
<td>Rice (N)</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>Oil seeds</td>
<td>Ssim (N)</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>Oil seeds</td>
<td>Sunflower (N)</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>7</td>
</tr>
</tbody>
</table>

Return on investment:
- Low = below 5/ha 250,000
- Medium = 500,000
- High = Above 500,000

Market potential:
- Low = Not prioritized
- Medium = Prioritized in one zone
- High = Prioritized in at least 2 zones

Beneficiary preference:
- Low = Limited VA
- Medium = Smon: VA
- High = Significant VA

Value addition potential:

Assessing Markets – Private Sector Division, Partnerships Bureau, UNDP
Irrespective of the approach, the critical element is that the CO engage all relevant stakeholders and ensure an informed, transparent and sufficiently robust participatory process validates the selection criteria as well as the final analysis and market selection. It may well also be helpful in many countries to ensure that stakeholders validate the underlying data sources and methodologies used, particularly in countries where there exist significant data gaps.

2.4 Summary of Chapter 2

The process of rapid market assessment, despite the possibilities for a short, quick process may well be best handled as an iterative process. Often data constraints and uncertainty over selection criteria will necessitate further analysis after validating data/findings with stakeholders. While the rapid market assessment stage should not entail endless iterations, some back-and-forth between stakeholder engagement and desk research/analysis will likely result in sharper market selection. Engaging with stakeholders, as appropriate, throughout the process can enhance the diagnostic effectiveness as well as substantially increase legitimacy, ownership and buy-in of the final selection.
3. Undertaking Market Assessments

The range of methodologies and tools for market assessments is vast given the range of possible markets and the diversity of stakeholder interests. Assessing markets with a view to understanding why they are not working for the poor has, nevertheless, some distinctive requirements.

The general approach outlined below is built on a series of stages. It is not intended that Country Offices follow these uncritically, mechanistically or even necessarily in the sequence outlined. Ultimately however, the quality and impact of the final programme, and the ability of programme staff to accurately monitor and evaluate its development impact, will be contingent upon obtaining clear insights at each stage. The process focuses on the types of information required to inform decisions about inclusive market programmes and includes information on some specific tools that may be used to collect that information at each stage. The main stages are fivefold namely:

i. Delineating Market boundaries
ii. Understanding Market Structure and Dynamics
iii. Estimating the Current Market Access Frontier and Pro-Poor Growth Potential
iv. Identifying Systemic Constraints
v. Identifying Actions and Entry Points
   (a) Setting Objectives (and Baseline Survey)
   (b) Identifying Entry Points

Progression through these stages, ideally with an iterative approach, should allow the practitioner to gain a deeper understanding of the target beneficiaries within their economic context, the target market system and its stakeholders, and the systemic constraints that impede full and satisfactory realization by the poor of the potential benefits of the market system. Taken as a whole, this assessment methodology takes the practitioner from symptoms to causes of the market issues. Equally, s/he may use a number of different tools (e.g. value chain analysis), depending on the specific context, to progress through the stages of market assessment. The collective insight from these steps enables the practitioner to develop an informed and reasoned perspective on the focus of the inclusive market intervention programme.

Where a decision is made to undertake a market assessment, Country Offices should consider the possibility of employing specialist external expertise. The UNDP Private Sector Division is currently in the process of constructing a consultancy roster that will include expertise on inclusive market development and specific sectoral markets.

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3 A selected set include: value chain analysis, access frontier, structure-conduct-performance, consumer research, productivity studies, regulatory review, organizational appraisal tools, investment climate survey, competitiveness analysis, regional economic and industry studies, and livelihoods analysis. This list is far from comprehensive.
3.1 Delineating Market boundaries

Delineating market boundaries refers to the process of defining the parameters of the target market. Delineating precise boundaries is a matter of judgment and the practitioner may often decide exactly how narrowly or broadly to define a market give her/his needs. For example, if we define a market in a narrow sense (the market for air travel to Laos) or a broader senses (the air transport industry) makes a big difference in the follow results that flow from market analysis – for example, the extent to which the market is dominated by one or a few players. Equally importantly, precise market definition is challenging because markets typically overlap and can influence one another profoundly. This is nicely illustrated in Fig. 1 below that shows how the markets for fresh vegetables and maize in Bangladesh intersect with markets for agro-tools and inputs such as seeds and fertilizers.

Fig. 1 - Inter-Connected Markets (Bangladesh)

While the basic inter-connectedness of markets add to the complexity of the boundary setting exercise, in general there are two ways to define the limits of a market: in terms of products and in terms of the characteristics of the potential or existing buyers.

a) Products

---

4 Market and industry are words that are often used inter-changeably. For the purposes of this guidance note the word market is predominantly used.
Markets can be defined in terms of the products (goods and services) supplied. From the product perspective, a market is usually delineated by reference to a group of firms producing identical or closely related products - where 'closely related' means that they are widely used as substitutes by consumers and/or that they are produced using identical factors of production. There is significant complexity that can be brought to bear in this analysis, but for our purposes a pragmatic approach will usually suffice since the size of the product market is often limited by a focus on producers below a certain average income threshold. For example, one possible market delineation would be small-scale wheat farmers with incomes less than $2/day in Uttar Pradesh, India. This market is defined along several dimensions the main factor (product) and several descriptive factors (size of producer, income threshold, geography).

- Product/crop (wheat)
- Size of farmer (small-scale – generally referring to less than 2 acres of land)
- Income threshold (less than $2/day)
- Geographic limits (Uttar Pradesh)

Having delineated product markets, it is nevertheless important that Country Offices consider overlapping/inter-connected markets to the target market - for example ‘feeder markets’ for the supply of agricultural inputs or downstream markets for retail distribution if it becomes clear that these present the main obstacles to pro-poor market development. This further analysis will enable COs to best identify systemic constraints on the target beneficiaries and thus design optimal intervention strategies. It may result in targeting interventions at the less obvious feeder market to maximize impact.

b) Existing or Potential buyers (“Buyer Markets”)

Markets can also be defined by potential or existing buyers, including their size, expenditure, and geographic footprint. For example, one possible market delineation may be unbanked consumers in Northern Uganda with household incomes of less than $1/day. Another may be rural households earning less than $2/day that spend 20% of household income on healthcare expenditures. For the purposes of inclusive market programming the delineation of markets using buyer expenditure characteristics may be relatively straightforward where household income data is available for a variety of income groups. However, Country Offices need to avoid some obvious traps. In general a measure of absolute income – e.g. the number of households living on less than $2 a day – is preferable to a measure of average household income, since the latter opens up the possibility of attribution errors – attributing the average characteristics of a group to all its members.

At the same time it is important that the identification of buyer markets at the ‘base of the pyramid’ takes into account actual income constraints as well as price elasticities of demand (how demand for a product will vary with changes in the price). A market is not defined by whether people would like to consume a particular good or service, but by whether they are both willing and able to do so at a particular price (see 3.3 below). For example, for our purposes it would be acceptable to delineate a
market as all rural households willing and able to pay $10 to purchase a cellphone. It would not be sufficient to delineate a market simply as all rural households who would like to own a cellphone.

In addition, it is important that the delineation of geographic boundaries is undertaken carefully in order to ensure that they are – so far as possible – match the boundaries of the market itself. Drawing barriers too wide risks diluting effort. Drawing them too narrowly risks arbitrarily missing potential beneficiaries that could be included with little additional cost to the inclusive market development programme. Equally, boundaries that are too narrow may result in interventions that focus on symptoms rather than the root causes of market failure or underperformance. Outside the limited realm of public procurement, markets rarely – if ever – coincide with administrative boundaries.

The delineation of the target market will have a significant impact on the nature of the program. Generally, for a given set of resources, if the market is defined narrowly (e.g. small farm users of leaf testing services in the palm oil sector in region A) analysis can be much more specific, detailed and manageable – but with the danger that it might neglect the bigger picture. On the other hand, with the same resources a much broader market delineation (e.g. the entire palm oil sector nationwide) will allow for an overview level of analysis but may not enable a high level of detail. Thus it is important to be clear about how the market definition will impact upon information and resources required to undertake a successful program.

**Stakeholder Engagement**

As described above, there is a substantial amount of judgment that is called for in the market delineation analysis. It is both useful and important to engage stakeholders in the exercise of developing and/or validating market delineation given the extent of its overall impact on program design. This may well be a fruitful subject for discussion at a multi-stakeholder workshop early on in the design process. In setting preliminary boundaries, you can be guided by government, donor and Country Office priorities, Country Office and partner capacity, resources, and the context of the beneficiary group. Academics/researchers and sectoral/technical experts may be helpful in providing insight on appropriate market delineation.

**Examples of IMD Market Delineation**

a) A major inclusive markets program is mandated by its funders to work in selected rural regions and to promote the competitiveness and growth of selected value chains. Its goal is to achieve large-scale pro-poor change in these regions.

b) Another program used industry leadership potential as a selection criterion for markets/value chains.

As noted above, this stage is part of an iterative process of deepening market understanding. After completing further stages in the process, as well as after stakeholder feedback, you may well decide to
alter the market delineation in light of new insight (e.g. focusing intervention solely on a value chain/feeder market rather than a product market with high concentration of the poor producers).

**CHECKLIST**

<table>
<thead>
<tr>
<th>Critical Items</th>
<th>Additional Questions to Consider</th>
<th>Possible Sources/Approaches</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>What are the main products or services that you are targeting?</td>
<td>Does your delineation include the feeder markets or value chains that supply critical inputs to the market?</td>
<td>• Value chain analysis</td>
<td>• Stakeholder engagement</td>
</tr>
<tr>
<td>If you are targeting poor producers or consumers by geographic area, have you ensured that the geographic boundaries are (approximately) in line with the market in question?</td>
<td></td>
<td>• Poverty Maps</td>
<td>• Household surveys</td>
</tr>
<tr>
<td>Do the poverty indicators employed take account of poor consumers likely willingness and ability to pay?</td>
<td></td>
<td>• Stakeholder engagement (producers/retailers, processors, etc.)</td>
<td>• Technical experts</td>
</tr>
</tbody>
</table>

**3.2 Understanding Market Structure and Dynamics**

Having defined the main boundaries of a market and decided 'who is in, and who is out' for programmatic purposes, it is important to clarify its overall structure and dynamics. Some of the important questions to think about at this stage include:

- How does the market system work, what are its key functions and who are its key players?
- What are the dynamics of the market in terms of its overall effectiveness, for example its competitiveness, productivity or level of coverage or access?
- What are barriers to entry and exit?
- In what specific ways is the market failing to serve the poor (what are the symptoms of underperformance) or where are potential opportunities for the poor?

In examining a specific market system there are three basic elements to consider:

a) Size and Structure of the market

b) Competitive Dynamics of the market

**a) Size and structure**

The overall size of the market is normally measured in terms of the total volume of sales, units sold or the total number of buyers and sellers. Which of these measures is most useful will depend on whether the Country Office is targeting producer or buyer markets.
Analyzing the basic structure of the market involves identifying the main players in the market, their size in terms of sales and preferably market share, and their main horizontal and vertical linkages (see Value Chain Analysis below) – essentially the function they play in the market system. It can be useful to map out the relationships between the different players (for example in a value chain, between consumers, retailers, processors, producers and input suppliers). See example of the relationships between different players in a citrus value chain below.

**EXAMPLE – RELATIONSHIPS BETWEEN MARKET PLAYERS – CITRUS VALUE CHAIN**

**Stakeholder Engagement**

In general, publically available information on markets, where exists at all, will not relate directly to the chosen market delineation (3.1 above). When assessing the size and structure of the market, information should therefore be sought directly from the main participants, including buyers and sellers, and where relevant and available, trade associations, consumer organisations and relevant government agencies.

**c) Competitive Dynamics**

A useful proxy for the competitive structure of the market is the level of market concentration i.e. the number of businesses in a market and their share of overall sales. A high market concentration i.e. a large share of the market in the hands of a small number of competitors, may signal the presence of significant barriers to entry or anti-competitive behaviour by incumbent firms (see 3.4 (vi) below). This could reflect an abuse of market power. There are two commonly used measures of market concentration: the 'market concentration ratio', and the 'Herfindahl Hirschman index' or HHI.\(^5\) While CO staff may not be expected to deliver analyses using these tools, they should be aware of their existence and engage with technical experts (UNDP staff or external) as needed to ensure a proper understanding of the market.

\(^5\) More information on these measures and their uses can be found at www.oft.gov.uk/advice_and_resources/resource_base/Mergers_home/mergers_fta_advice/basf-ag. UPDATE.
**Tool – Structure-Conduct-Performance Framework**

One useful tool to gain insight into market structure and dynamics is the SCP framework (Structure-Conduct-Performance). This leads the practitioner to understand how market structure (its organizational characteristics), market conduct (decisions of individual firms within a market – e.g. pricing decisions), and market performance (actual firm performance, measured in profits/losses) influence and affect one another. This is one tool used by global NGO TechnoServe to analyze the structure and dynamics of agricultural markets and value chains involving smallholders in Africa and Latin America.


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**Understanding how markets change over time**

Clearly, markets are dynamic entities and the nature and direction of change - i.e. whether the market is growing or contracting, whether it is becoming more or less concentrated etc. - provides vital clues as to how it might develop in future. For this reason the size and competitive structure of the market is most useful when placed in a time-series that highlights key trends. Where possible this should be supplemented by sources of market research information including specialist reports and trade journals that draw attention to the key drivers of market change. These might include consumer trends, demographics, policy or regulatory changes, restructuring and the introduction of new technologies or processes. Clearly, in the case of value chains that extend across borders, the main drivers of change may originate outside the ‘jurisdiction’ of the Country Office.

Some further details to examine when looking at how a market system changes over time can include:

- Changes in the flow and nature of goods or services over time (e.g. value, volume, type, profile of suppliers and consumers).
- Performance relative to competing, complementary or similar sectors and regions (e.g. productivity, value-added, customer satisfaction, level of competition)
- Major events and changes (e.g. new entrants, new legislation or technological innovation)

When focusing on buyer markets, especially markets for goods and services that have reached maturity elsewhere, it may be useful to consider the current stage of development of the market in the context of an ideal-typical growth trajectory model. While it’s not expected that Country Office staff will need to

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⁶ It can be viewed online at: [http://docs.google.com/viewer?a=v&q=cache:BGlCeC0o0wPDYI:www.fews.net/docs/Publications/MT%25520Guidance_%25520C%25520P_No%255202_En.pdf+international+development+and+structure+conduct+performance&hl=en&pid=bl&srcid=ADGEEShV4qQM5wLzO4TphIJD6b5zMUU3yWReCQdbkOLy4c2TBkCDwXywV8122mNaEKMfYHK9pvlawnW0K8DHkmNChS-RATjD3GxM3lUGG8qEUE3ENQzjP-BrvTonYBQ71iv311J&sig=AHIEtbRikmGdW8_H3g9rLdgU0ziCu9bMjWy](http://docs.google.com/viewer?a=v&q=cache:BGlCeC0o0wPDYI:www.fews.net/docs/Publications/MT%25520Guidance_%25520C%25520P_No%255202_En.pdf+international+development+and+structure+conduct+performance&hl=en&pid=bl&srcid=ADGEEShV4qQM5wLzO4TphIJD6b5zMUU3yWReCQdbkOLy4c2TBkCDwXywV8122mNaEKMfYHK9pvlawnW0K8DHkmNChS-RATjD3GxM3lUGG8qEUE3ENQzjP-BrvTonYBQ71iv311J&sig=AHIEtbRikmGdW8_H3g9rLdgU0ziCu9bMjWy)
produce such a model for the purpose of programme development, it may be useful reference tool to deepen understanding of certain globally mature markets.

This model typically highlights how certain market characteristics change over time: rates of return, the number of firms and the percentages of households consuming the good or service. An illuminating example of this approach is provided by the FinMark trust in relation to the growth of the mobile telephony market in South Africa (see Fig.2) ⁷

Fig. 2 – Ideal-typical model of Mobile Phone market development (South Africa)

In the first phase of an ‘ideal-typical’ market development, a small number of firms bring an early product to market. The return on equity is negative up until the point where they start to recover their investment in research and development. Assuming that the product or service is successful, sales start to pick up during the second phase and the initial firms move into profitability, attracting more competitors into the market. Competition is typically based on quality or product differentiation. In the third phase, the market starts to grow rapidly as increased competition drives down prices, attracting more customers. Competition is increasingly based on price, and falling margins cause some firms to exit the market. Finally, in the fourth stage, the market reaches its saturation point – usage reflects all the customers that are willing and able to purchase the product or service at its most competitive price point.

Stakeholder Engagement - Access Donor Colleagues
The kind of market analysis outlined in this section is often undertaken by various development banks and other donor agencies active in this area. It is certainly worthwhile to speak with colleagues at the World Bank and IFC, as well as at USAID, DfID, GTZ and other donors. They may have relevant analyses already “on the shelf” or may be able to provide insight/guidance in how to execute this kind of analysis or technical experts/consultants who can deliver this kind of work.

CHECKLIST

<table>
<thead>
<tr>
<th>Critical Items</th>
<th>Additional Questions to Consider</th>
<th>Possible Information Sources/Approaches</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size and Structure</td>
<td>What is the overall size of the market? Who are the main players and how are they linked (horizontally and vertically)?</td>
<td>• Industry reports</td>
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<td></td>
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<td>• Development/donor reports</td>
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<td></td>
<td></td>
<td>• Stakeholder engagement (civil society, market players, multilateral development banks)</td>
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<td></td>
<td></td>
<td>• Technical experts</td>
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<td></td>
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<td>• Value chain analysis</td>
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<tr>
<td>Competitive Dynamics</td>
<td>What is the competitive structure of the market? What proportion of overall market share is accounted for by the top 4 businesses? Is the market growing or contracting and what are the main trends or developments that will influence its overall trajectory in future?</td>
<td>• Specialist reports</td>
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<td>• Trade journals</td>
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<td></td>
<td>• Stakeholder engagement</td>
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<td>• Technical experts</td>
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3.3 Identifying Access Boundaries

Once the market system has been clearly delineated and its size, structure and competitive dynamics understood, the next steps are to estimate where the existing limits to participation in the market lie, and to obtain a more precise view of the potential scope for ‘inclusion’ of the poor, contingent on market growth. Again, the approach required for this task will vary from one market to another and according to whether the intended beneficiary group is poor producers, employees or consumers. Overall, it should provide a better understanding of the poor’s position within the market system and how the market is currently serving - or not serving - them.

i) Poor Producers
In the case of poor producers, the main indicators of existing participation are number of businesses, market share, average prices and margins (profit margin is calculated as (revenue-costs)/sales). In order to estimate the producers’ potential scope for growth these indicators need to be assessed relative to competitors – e.g. commercial producers - and relative to other value chain participants - e.g. suppliers and buyers. Although this kind of information is rarely accessible 'off the shelf,' a wide range of value chain analysis (VCA) methodologies are available involving different levels of complexity and sophistication. Country Offices should select those that best suit the requirements of the market in question. In some cases, VCAs and up to date market analyses may be available from other donor
agencies (including development banks) and NGOs. In other cases, a highly relevant VCA may only be in need of updating to reflect current market realities but with a methodology and source list that remains accurate. In seeking to identify the scope for increased participation, the analysis should also take into account the fact that most markets have a natural saturation point i.e. a point at which new producers entering the market will result in over-supply and falling average margins.

**ii) Poor Employees**
A similar logic applies in the case of poor employees. The main indicators of existing participation are numbers of employees, share of total employment and average wage levels (disaggregated where appropriate by gender and ethnicity). In addition an attempt should be made to capture other key characteristics of employment in the target market, including the extent of underemployment (the numbers of employees that are forced to work part time in other occupations in order to supplement their income) and other decent work indicators. Further guidance on labor market assessment methodologies and statistical indicators for decent work can be obtained from ILO. Estimating the potential for pro-poor employment growth in any market or market sector should take into account the capacity of the market to grow sustainably without the need to substitute capital for labor.

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**Labour Markets Toolbox**
Where the focus of the market assessment is the functioning of a particular labour market, specialist tools may be required. Labour markets in the modern world increasingly require employees to be flexible, adaptable and mobile, which in turn means that they must acquire and maintain skills throughout their working lives. But vocational education systems in many UNDP programme countries have struggled to keep up with this demand, with a resulting loss of productivity and competitiveness.

An overview of labour markets issues from an inclusive market development perspective can be found in ‘Perspectives on Making Markets Work for the Poor.’ ILO has produced numerous tools to assist in the analysis of labour markets. The Key Indicators for the Labour Market (KILM) initiative identifies and explains 20 key variables that should be incorporated in a labour market assessment. The ‘Toolkit for Mainstreaming Employment and Decent Work’ includes a self-assessment guide for examining enterprise development and employment creation conditions ‘on the ground’ as well as modules on social protection, standards and rights and work and social dialogue.

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**iii) Poor Consumers**
Finally, in the case of poor consumers, the analysis needs to focus both on existing levels of consumption by the poor and on income constraints. There are a variety of potential - and overlapping - approaches to this. One is to derive a picture of existing and latent demand for particular goods and from household survey data. In the case of many foundation services markets this is relatively straightforward since it can be assumed that most people that do not have access e.g. to health care services, water and sanitation, would like to have access and can therefore be considered to represent excess demand. In essence, this is the approach taken by the UNDP GIM ‘market heatmaps’ which calculate the size of the poor population living in a particular area and subtract from this the total

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number of current consumers or users for a particular good or service to arrive at an estimate of market growth potential and business opportunity (see Fig. 3 below).

FIG 3. HEAT MAP – ACCESS TO CREDIT IN GUATAMALA

STEPS IN CONSTRUCTING A MARKET HEAT MAP

1) *Measure possible demand for good or service within a market.* There are a number of ways to approach this, since different metrics are appropriate depending on the market examined. As a starting point to reflect demand by the poor, one takes the total number of potential poor consumers in the market.

2) *Measure how much access possible poor consumers have to the good or service.* Access can be interpreted in several different ways with reference to different issues (such as affordability or geographic proximity). For the heat maps, the measure of access used is the number of poor individuals or households now consuming or using a good or service.

3) *Provide additional information.* This last step disaggregates the information in step 2. It provides additional information on the relative shares of the different agents that together constitute total current supply.

Another approach, pioneered in the work of the FinMark trust\^11 is to estimate the current 'market access frontier' - i.e. the current maximum proportion of people in a society who are able to access the product or service in question, given current configurations of cost and market structure - and the supra-market zone - i.e. the proportion of consumers that are likely to remain beyond the direct reach of the market for the foreseeable future due to lack of income - the extremely poor with very low or no cash income (see Fig 4.).

Fig. 4 Access Frontier Approach

**STEPS IN USING THE ACCESS FRONTIER APPROACH**

1. **Specify the Market and the user**
2. **Determine Current Usage Levels and Trends.** The level of usage as a % of eligible customers, currently and over recent years
3. **Segment non-usage to assess the current access frontier and natural limit.** With the exception of consumers in the supra-market zone (step 5), non-users fall into two groups: those choosing not to use the product and those that are not aware of it
4. **Assess positions of the future access frontier in the medium term.** Estimate how foreseeable changes will affect the access frontier, including both demand – (e.g. consumer tastes) and supply-sides (e.g. technology and competition)
5. **Identify those in the Supra-market Group.** Those who involuntarily are unable to purchase the product – usually due to income constraints.

While the Access Frontier approach has the advantage of accommodating income constraints, both approaches clearly have their limitations, especially with respect to non-essential goods and services where price elasticities (how much demand varies as price changes) are higher and consumption patterns are often influenced by substitutes.

The upshot of this exercise, despite the limitations involved, should be a clearer picture of the potential for market growth to reduce poverty whether as a result of increased returns for producers, higher wages, better working conditions or new job opportunities for employees, and increased access goods and services for consumers. The next crucial step is to understand why it is that this potential is not being realized.
### CHECKLIST

<table>
<thead>
<tr>
<th>Critical Items</th>
<th>Additional Questions to Consider</th>
<th>Possible Information Sources/Approaches</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Poor Producers</strong>&lt;br&gt;What share of the total market is accounted for by poor producers and what are the average margins they are able to achieve relative to competitors?</td>
<td>Would new market entry (for poor producers) result in overall market growth or falling average margins?</td>
<td>● Value chain analysis&lt;br&gt;● Stakeholder engagement</td>
</tr>
<tr>
<td><strong>Poor Employees</strong>&lt;br&gt;How many poor people are currently employed in the market and what are their average wages?</td>
<td>What is the scale of unemployment and underemployment in the market area? Would overall growth in the market result in sustainable new job opportunities for the poor or increased wages for existing employees?</td>
<td>● ILO&lt;br&gt;● KILM initiative (Key Indicators for the Labour Market)/ILO&lt;br&gt;● National bureau for labour statistics/other government departments&lt;br&gt;● Stakeholder engagement</td>
</tr>
<tr>
<td><strong>Poor Consumers</strong>&lt;br&gt;What is the share of the poor in the overall consumption of the good or service in question?</td>
<td>How many poor people are currently unable to consume the good or service and what would be the effect of increasing the availability and / or reducing the price of the good or service? What share of the total number of poor people that do not consume the good or service are likely to be permanently out of the reach of the market?</td>
<td>● Household Surveys&lt;br&gt;● GIM – heat map and related methodology (consult UNDP PSD)&lt;br&gt;● Access Frontier approach</td>
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### 3.4 Identifying Systemic Constraints

The identification of systemic constraints involves moving from the symptoms of market failure for the poor to an understanding of causes. What are the main obstacles that currently prevent the development of the market from benefiting increasing numbers of poor people?

While it is not possible to foresee all the obstacles or systemic constraints that might be encountered in different markets, at different times and places, it may be helpful to Country Offices to be aware of some of the most frequently occurring constraints before commencing their own analysis.

The most common systemic constraints fall into seven categories:
Table 1. Generic and Market Specific Constraints to Market Development

<table>
<thead>
<tr>
<th>Generic</th>
<th>Market Specific</th>
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<tbody>
<tr>
<td>• Infrastructure</td>
<td>• Market Information</td>
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<tr>
<td>• Human Capital</td>
<td>• Market Governance</td>
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<tr>
<td>• Policy and Legal Framework</td>
<td>• Political Economy</td>
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<tr>
<td>• The Regulatory and Administrative Framework</td>
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<tr>
<td>• Access to Investment Finance and Consumer</td>
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<tr>
<td>Financial Services</td>
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Some of these constraints may be generic i.e. they may affect all producers, employees and consumers and others may be market specific. Whereas in the past donor assistance has focused predominantly on generic constraints (e.g. business environment and investment climate reforms), it is essential for the purpose of designing IMD programmes that equal attention is paid to both.  

a) Generic

i. Infrastructure

Access to markets is profoundly influenced by infrastructure. In rural areas and urban slums, the poor frequently lack connections to important transportation and communication networks, electricity supply grids, irrigation systems and water, sanitation and waste collection services. For poor producers these problems are often compounded by an absence of logistics infrastructure e.g. collection hubs, cold storage facilities, etc. to the point where the cost of accessing new markets is prohibitive. As an example, for many small producers in India the potential to increase the prices they receive for non-staple crops by improving knowledge of market prices remains elusive for most due to insurmountable costs and barriers related to poor infrastructure. In other cases, they are forced to rely on expensive intermediaries, such as market traders, that undermine their profitability. For consumers infrastructure deficits erode quality of life, substantially reducing the range of goods and services available to them, while simultaneously driving up prices.

ii. Human Capital

Most UNDP programme countries continue to have levels of new enterprise formation up to 10 times lower than developed market economies, and enterprise formation and survival rates are typically lower amongst the poor than other better educated and wealthier segments of the population. This is a function of the restrictive nature of regulatory and administrative obstacles to private sector

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12 IFC estimates that at least 50% of the obstacles to doing business in any market are market-specific (see Enterprise Development and Microfinance, Vol 16, Number 4 (December 2005). “Industry-led analysis: the way to identify the binding constraints to economic growth”)
development (see below) as well as a shortage of entrepreneurship skills. In addition, most UNDP programme countries do not have effective systems for the provision of vocational education and training, with the result that many businesses, particularly small businesses, are unable to obtain the technical skills they need in order to develop higher value added products and services.

Human capital shortages also affect consumer markets. Suppliers, distributors and retailers frequently lack the knowledge and skills to deliver quality products and services consistently, on time and at an agreed price. Equally they often lack the ability to provide adequate advice to consumers about the benefits and usage parameters of particular products. In the case of seed suppliers, this lack of human capital can have a substantial impact on the productivity of small-scale farmers who rely on them for counsel. Additionally, potential consumers may lack the skills to utilize products properly, sometimes with significantly adverse affect (e.g. in the case of misuse of anti-malarial bednets).

iii. Policy and Legal Framework

Effective policy and legal frameworks have still not been developed and implemented in many UNDP programme countries for improving regional trade and investment, promoting open markets and supporting the development of micro, small and medium sized enterprises (MSMEs). Over half of UNDP programme countries do not have competition policies to regulate agreements that restrict free trading, ban abusive behavior by dominant firms and supervise mergers and acquisitions (see Regulatory and Administrative Framework below).

Sectoral policies and sub-national policies, for example to promote specific industries or local economic development, also need to be examined carefully to see whether they assist or constrain competitiveness and the development of inclusive markets. In some cases Country Office staff will need to consider the short-term benefits of specific policies against their longer-term contribution to growth and poverty reduction.

iv. Regulatory and Administrative Framework

The development of inclusive markets requires judicious regulatory and administrative frameworks. These rules and regulations should adequately protect the rights of producers, employees and consumers without stifling them in unnecessary bureaucracy. Equally they should not raise the costs of business to the point where poor producers can no longer operate profitably and poor consumers pay significantly inflated prices for basic goods and services (the “poverty premium”).

As the World Bank’s annual ‘Doing Business’\textsuperscript{13} report testifies, significant progress remains to be made in this area by most developing countries. Unnecessary regulatory and administrative obstacles are generally agreed to be one the key barriers to entry for poor producers seeking to establish or grow a businesses and a major reason for the burgeoning of the informal sector. But whereas the business sector in most programme countries is typically over-regulated, regulations to protect poor consumers

\textsuperscript{13} Doing Business 2010 www.doingbusiness.org
and ensure that they have effective mechanisms for redress against dangerous or poor quality products are either non-existent or very inadequate.

When scanning for potential policy regulatory and administrative obstacles to inclusive market development it is important that the analysis is not confined to the content of individual statutes and regulations but also examines the capacity of the institutions tasked with their implementation and enforcement. In many situations in UNDP programme countries adequate regulatory frameworks on paper rarely translate into actual adequate protection of rights for the poor.

v. Access to Investment Finance and Consumer Financial Services

Despite the rapid growth and development of micro-finance in the last 15 years, the provision of seasonal or longer-term investment finance targeted at poor producers is still in its infancy in the majority of UNDP programme countries. Without such finance, poor producers cannot invest in the technologies needed to improve their productivity and competitiveness and are confined to operate on a subsistence basis.

Similarly, the majority of consumers in UNDP programme countries do not have access to an array of consumer financial services, including and most notably deposits, transactional banking services and insurance. This significantly undermines their ability to take advantage of bulk buying and to reduce their vulnerability to unforeseen events such as crop failure and illness.

Specific
i. Market Information

Information constraints have the ability to undermine the development of inclusive markets in many ways. Poor producers often lack basic information about potential markets. This can include accurate weather forecasts, market prices and trends and so are unable to plan their future production in order to maximize profitability. Meanwhile, established businesses with an interest in developing ‘base of the pyramid’ markets for their goods and services often lack basic information about consumer preferences and poor consumers’ willingness to pay. And consumers themselves lack information about the strengths and weaknesses of particular products and services and the likely benefits or potential liabilities associated with them. A common source of market failure for the poor occurs when suppliers and purchasers on different sides of a market do not share the same information.

ii. Market Governance

In many markets the main barriers to pro-poor market development stem from anti-competitive practices and policies that stifle opportunities for producers to innovate and grow while at the same time making consumers worse off. As a consequence, a competition assessment should form an integral part of any market assessment, especially where the analysis of market structure (3.2 above) reveals high levels of market concentration i.e. a large share of the total market in the hands of a small number
of suppliers or buyers. In general, obstacles to competition in most markets take one of three forms: barriers to entry, distortions caused by government policies and practices, and anti-competitive conduct by incumbent firms.

**Barriers to entry** may prevent poor producers from accessing new markets, or poor consumers from accessing competitively priced goods and services. For the purposes of conducting the competition assessment it is useful to distinguish three basic types of barriers to entry: natural barriers, strategic barriers and regulatory/policy barriers.

(i) **Natural barriers.** 'Natural' barriers to entry occur where producers do not have the basic attributes necessary to participate in the market. This commonly occurs where market entry requires large economies of scale, high sunk costs, or access to expensive specialist technologies, raw materials or distribution channels.

(ii) **Strategic barriers.** Strategic barriers to entry result from actions by existing suppliers or buyers that are intended to discourage new entry. Such actions can include creating excess capacity, predatory pricing, the creation of long-term exclusive supply contracts, and ' bundling and tying' i.e. forcing new entrants to compete for 'grouped' product contracts rather than individual products. It's noteworthy however, that the latter two tactics may be justifiable if they are required to reduce costs and / or maintain quality standards.

(iii) **Regulatory/policy barriers.** Regulatory and policy barriers to competition can also raise the costs of market entry, particularly unnecessary or inappropriate registration and licensing procedures. Where regulations are clearly required, opportunities may exist for reformulating them or their process of administration so that their impact on competition is minimised.

Access to markets for poor producers and consumers can also be unnecessarily - and often unintentionally - restricted by government policies or institutions. Examples of this include State Owned Enterprises that crowd out private competitors (particularly where they receive subsidies or preferential treatment), public procurement policies that appear to consistently favour a small number of suppliers and lack transparency, the over-regulation of certain economic sectors, and poorly conceived trade and industrial policies. More generally a competition assessment should look beyond what is stated in government regulations and policies, to how they are implemented and enforced. In many programme countries, taxes, labour regulations, health and safety regulations, access to land and key infrastructure, standards and intellectual property rights are not enforced equally.

Finally, a competition assessment needs to take account of the potential for **anti-competitive conduct by incumbent firms.** Once again, this can arise from a number of sources. In addition to predatory pricing and other tactics to block market entry, firms with high market share are often able to abuse their dominance by charging monopoly prices, entering into price fixing agreements and cartels with potential competitors or undertaking anti-competitive mergers and acquisitions.
iii. Political Economy

Market reform processes everywhere are intimately connected with the broader political economy of change, including the system of accountability and governance exercised within and on governments, the extent to which governments are open or 'captured,' and the extent to which policy-making processes are open to influence.

For these reasons, a market assessment needs to incorporate a clear understanding of the underlying 'political economy' of decision-making and power as it relates to the broader business environment and the specific market in question. In particular, Country Office staff need to be clear whether key stakeholders in a target market are resistant to reform because they do not grasp the potential benefits, because they are used to things as they are and are afraid of change, or because they are invested in maintaining the status quo. This typically requires going beyond the identification of stakeholders and their influence to a deeper understanding of 'vested interests' and motivations. Particular attention needs to be paid to potential obstacles for increasing the 'voice' of the poor, and the 'accountability' of the various institutions - government agencies, incumbent firms, etc - that are responsible for enforcing the rules of market operation. A range of stakeholder analysis tools are available to assist in this task.15

Stakeholder Engagement

Stakeholder engagement is an invaluable approach in this stage of the development process. While a number of toolkits and approaches exist to analyze various components related to systemic constraints, a lot of relevant information may not be publicly accessible or even published. Consequently, stakeholders and members of your network may be able to provide unique insight into market obstacles that would not otherwise be available.

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15 For a summary of tools and approaches see DFID (2009). “Political Economy Analysis: How to Note”.

Assessing Markets – Private Sector Division, Partnerships Bureau, UNDP
# CHECKLIST

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<tr>
<th>Critical Items</th>
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<th>Possible Information Sources/Approaches</th>
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</table>
| **Infrastructure**                                                           | What are the main physical constraints to the development of the market e.g. geographic remoteness and infrastructure deficits (e.g. transportation, energy, water and sanitation, telecommunications etc) | • Stakeholder engagement (infrastructure constraints are likely to vary market by market)  
• National reports  
• Donor reports (the development banks often does in-depth analysis of national infrastructure capacity) |
| **Human Capital**                                                             | Is there an adequate supply of entrepreneurship and vocational education, and how far is this relevant to new and emerging needs of the market? | Are critical new or emerging skills in short supply?  
|                                                                              |                                                                                                 | • Ministry of Education  
• ILO  
• Donor/development bank reports  
• Stakeholder engagement  
• Entrepreneurship-driven NGOs (e.g. Kauffman Foundation) |
| **Policy and Legal Framework**                                                | Does the current policy and legal framework for enterprise development, employment, consumer protection and market regulation help or hinder inclusive market development? | What are the critical measures that could be adopted to improve it?  
|                                                                              |                                                                                                 | • World Bank – Doing Business reports  
• Stakeholder engagement |
| **Regulatory and Administrative Framework**                                   | Does the current regulatory and administrative framework help or hinder inclusive market development? | Is there adequate capacity to ensure that legal and regulatory provisions are consistently and transparently implemented and enforced at national, regional and local levels?  
|                                                                              |                                                                                                 | • Stakeholder engagement  
• Law firms |
| **Access to Investment Finance and Consumer Financial Services**              | Do poor producers and consumers have access to sources of affordable finance / consumer financial services? |                                                                                                           | • FinScope surveys (select countries)  
• Stakeholder engagement (CGAP/World Bank)  
• UNCDF country analyses  
• Government reports |
| **Market Information**                                                        | Do buyers and sellers in the market have access to same information?                           |                                                                                                           | • Stakeholder engagement (market players, etc.) |
| **Market Governance**                                                         | Are there significant natural, strategic or regulatory barriers to entry that prevent poor producers from accessing new markets, or poor consumers from accessing affordable goods and services? | Does the operation of state owned enterprises, public procurement rules and the implementation of trade and / or industrial policies ‘crowd’ out opportunities for poor producers or consumers?  
|                                                                              |                                                                                                 | • Competition assessment analysis  
• DFID competition assessment framework approached |
| **Political Economy**                                                         | To what extent is the market open or ‘captured’?                                               | Is there any evidence to suggest that dominant firms – possibly in collusion with government agencies and other competitors - are using their position to limit competition and or maintain | • Drivers of change analysis  
• SGACA (framework for strategic governance and corruption analysis)  
• Power analysis |
3.5 Setting Objectives and Identifying Entry Points

Having completed the market assessment, Country Office staff should have a clear idea of the size, structure and dynamics of the market, current market access boundaries for the poor, and the main constraints that need to be addressed in order to make the market more inclusive. This information should be sufficient to enable the design of an inclusive market development programme, bearing in mind the need to consider CO capacity limitations.

When entering into the project design phase it is crucial that Country Offices define clear and measurable objectives for the programme and consider the variety of potential entry points. It is also important to establish an accurate baseline of the current market situation in order to facilitate measurement of progress and impact.

(a) Setting Objectives

One of the benefits of a rigorous market identification and assessment process as outlined above is that it should enable Country Offices to set clear measurable objectives for an inclusive market programme. This allows progress to be accurately monitored throughout the implementation phase and a final impact assessment to be undertaken at its conclusion.

Conducting a Baseline Analysis/Survey

It is important in the context of IMD programming to consider very strongly undertaking a baseline survey as part of the overall project process despite that is sometimes perceived as simply costly overhead. A baseline survey is relevant not only in the objective setting stage, where it enables COs to develop clear and realistic targets, but equally in all the following stages. The existence of baseline indicators allows for more effective ongoing program management and supervision. It allows for concrete milestone setting and evaluation of progress during the implementation phase as well as clear results measurement in the evaluation phase. This final part is important for UNDP in the current development climate as agencies are increasingly being held to account for delivering concrete results with taxpayer funds.

It is true that baseline indicators may not be available or appropriate for all relevant criteria in the IMD program, and indeed there is often difficulty in attribution of cause/effect with IMD interventions given the nature of systemic change. However, to the extent that baseline indicators allow for tangible measurement and the establishment of measurable objectives, these become highly valuable tools that complement more qualitative impact analyses in providing the complete picture of IMD program effectiveness. COs should ensure that baseline surveys and results-management thinking are...
embedded into the program development right from the start and the decision about outcome indicators should inform the nature of interventions undertaken.16

Typical outcomes indicators for different target beneficiaries are shown in Table 2 below. In many cases all of the below indicators allow for objective measurement and the establishment of baseline indicators. In cases where relevant data is not readily available, the CO can productively lead a broader stakeholder discussion as to whether or not the necessary primary surveys/data collection is a high-value activity that justifies program expenditure.

Table 2. Sample Outcome Indicators

<table>
<thead>
<tr>
<th>Intended Programme Beneficiaries</th>
<th>Employees</th>
<th>Consumers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Producers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Number of producers able to access existing market</td>
<td>• Number of Jobs retained</td>
<td>• Increase in consumption of existing goods or services</td>
</tr>
<tr>
<td>• Number of producers able to successfully diversify into new markets</td>
<td>• Number and quality of new jobs created</td>
<td>• Access to new goods or services (missing markets)</td>
</tr>
<tr>
<td>• Average net income / earnings/ margins</td>
<td>• Increases in average wage levels</td>
<td>• Reduction in average prices (increased affordability)</td>
</tr>
<tr>
<td>• Increases in household incomes</td>
<td>• Reductions in underemployment</td>
<td>• Reduction in 'poverty premium'</td>
</tr>
</tbody>
</table>

Leveraging baseline indicators to set clear and realistic targets will help Country Offices to prioritize and sequence individual interventions in accordance with their likely contribution to desired programme outcomes.

(b) Identifying Entry Points

Finally, it is important to emphasize at the outset of the design process that the achievement of desired outcomes will frequently require the programme to adopt multiple 'entry points,' especially in relation to highly complex and dynamic markets. Many of these individual entry points will be familiar from existing UNDP private sector development and private sector engagement programmes that nevertheless fail to take a broader market systems perspective. Some common examples of entry points and interventions used in inclusive market development programmes are highlighted in table 3 below. These are not intended to be exhaustive. Country Offices requiring further information on existing inclusive market development programmes should consult the IMD Handbook.

16 See also http://www.enterprise-development.org/page/measuring-and-reporting-results
### Table 3. Potential Entry Point and Interventions

<table>
<thead>
<tr>
<th>Entry Point</th>
<th>Sample Interventions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governments</td>
<td>• Capacity Development</td>
</tr>
<tr>
<td></td>
<td>• Policy Reform / policy dialogue</td>
</tr>
<tr>
<td></td>
<td>• Legal and regulatory reform</td>
</tr>
<tr>
<td></td>
<td>• Standards</td>
</tr>
<tr>
<td></td>
<td>• State Owned Enterprises</td>
</tr>
<tr>
<td></td>
<td>• Public Procurement</td>
</tr>
<tr>
<td>Lead Companies</td>
<td>• Supply chain upgrading</td>
</tr>
<tr>
<td></td>
<td>• Local sourcing strategies</td>
</tr>
<tr>
<td></td>
<td>• Base of the Pyramid business plans / market entry strategies</td>
</tr>
<tr>
<td>Producers</td>
<td>• Capacity development / Business Development Services</td>
</tr>
<tr>
<td></td>
<td>• Building or strengthening cooperative and producer associations</td>
</tr>
<tr>
<td></td>
<td>• Building or strengthening business membership organisations</td>
</tr>
<tr>
<td>Consumers</td>
<td>• Capacity Development</td>
</tr>
<tr>
<td></td>
<td>• Consumer associations</td>
</tr>
<tr>
<td>Civil Society Organisations</td>
<td>• Capacity Development</td>
</tr>
<tr>
<td></td>
<td>• Social entrepreneurship</td>
</tr>
<tr>
<td></td>
<td>• Work integration</td>
</tr>
</tbody>
</table>
Annex A - Recommended Sources

Papers


DECD (2007). “Donor Approaches to supporting pro-poor value chains”


DFID (2005). “Making Markets Work for the Poor (M4P) - An Introduction to the Concept”


Enterprise Development and Microfinance, Vol 16, Number 4 (December 2005). “Industry-led analysis: the way to identify the binding constraints to economic growth”

Enterprise Development and Microfinance, Vol 17, Number 2 (June 2006). “Value Chain Analysis”


International Training Centre of the ILO (2006). “Implementing Sustainable Private Sector Development: Striving for Tangible Results for the Poor”


Guidance

DFID (2008), Competition Assessment Framework: An operational guide for identifying barriers to competition in developing countries
DfID and SDC (2008), A Synthesis of the Making Markets Work for the Poor Approach
DfID and SDC (2008), Perspectives on the Making Markets Work for the Poor Approach
DfID and SDC (2008), The Operational Guide for the Making Markets Work for the Poor Approach
ILO (2007), Toolkit for Mainstreaming Employment and Decent Work

UNDP PSD HQ - Growing Inclusive Markets Initiative (2008), Creating Value for All: Strategies for Doing Business with the Poor

Websites

http://www.enterprise-development.org/
http://www.markets4poor.org
http://www.katalyst.com.bd
http://www.springfieldcentre.com
Annex B - Selected Case Examples\textsuperscript{17}

FULL-LENGTH CASE STUDIES

A - Making Markets Work for Small Scale Wool Farmers in South Africa

1. Delineating the Market

The market is defined with respect to the key players in the vertical chain of value-added linking wool farmers to final wool consumers. This includes players such as breeders, input providers, brokers, spinners and exporters. As well as buying and selling of wool at various stages of processing, therefore, a range of other formal and informal services - and the flow of information associated with these - need to be considered.

2. Understanding the Market

a. Trends - globally after a decline in World prices and a more recent reduction in output, price stabilization at relatively high prices is anticipated. In South Africa, wool production has declined by more than 50% in 10 years, reflecting a number of factors such as better returns in other activities. However, global trends offer opportunities for South African production. Moreover, the recent fall in output has left over-capacity in processing; processors need more wool.

b. The Poor and the Market - wool production is dominated by around 9,000 commercial farmers who produce 97% of output by volume (and more than this by value). The remaining 3% is generated by an estimated 200,000 other small-scale producers, many of them poor. This is not a homogenous group - with a smaller grouping of emerging farmers (of up to 20,000) beginning to use more organized herd and health management practices. The divergence in performance between different growers is reflected in returns per animal. For commercial farmers these are Rand 89; for emerging farmers Rand 22 and for the rest less than Rand 4.

c. Functions and players - in a complex industry, a range of different services are important related to genetics and productivity, herd management and marketing. A key player in the provision of technical guidance for farmers has historically been the National Wool Growers' Association (NGWA), providing services to (fee paying) members. They also establish standards for the industry. Brokers are the key players in downstream marketing, providing a range of formal (shearing, transporting, bailing etc) and informal (information on price and industry trends) services to producers, and are regulated by an industry body. Government agencies offer services related particularly to animal health and management.

d. Systemic constraints - services have historically been concentrated on commercial farmers and do not work well (or not at all) for emerging farmers. There appear to be a number of problems here. Emerging farmers (demand-side) are small-scale and scattered geographically and, without organization, difficult and high-risk for providers to serve. Their lack of voice and organization has not allowed them to

\textsuperscript{17} Case studies reproduced from 'Making Markets Work for the Poor' as a Core Objective for Governments and Development Agencies' Elliot D. and Gibson A. Conmark Trust February 2004. p. 30 & 33.
articulate an effective demand. Moreover, their knowledge and understanding of services is weak and their existing sources of information inadequate.

On the supply side, providers existing practices - geared towards large-scale farmers - are inappropriate for the small scale and they are unable to see the commercial benefit in serving them. Overall there is a noticeable disconnect between the formal and informal systems that have developed for the mainstream industry and those of emerging farmers.

3. A Future Picture

Better functioning services markets in the wool industry, improving participation by the poor, may offer the opportunity for increased incomes (prices and output) for a large number of small-scale producers. To achieve this, structural change in terms of functions and players for the main categories of services is not envisaged. The future vision of the industry, however, is one where, first; providers are offering better and more relevant services to emerging farmers and, second, in order to allow this to happen, emerging farmers are better organized to consume, pay for and interact with these supply-side players. In so doing, informal networks and information flow and quality should improve.

4. Actions

In pursuit of this future picture, a range of short-term development activities supported by a development agency could be provided aimed at improving:

i. the key supply-side players' knowledge, capacity and practices (e.g. the NGWA, government agencies and private sector brokers)

ii. demand side players' knowledge of the mainstream industry. This might include activities such as:

- technical assistance to enhance the offer of an incentivize private sector providers of market services
- assistance to advance health management, selection and breeding services from NGWA and government provided services
- linkage improvement between commercial farmers and breeders.

B - Making Financial Services Work for the Poor in South Africa

1. Delineating the Market

The major categories of service in financial services market are transaction banking (current account, bill-paying, cheques etc), savings, credit and insurance. These are offered by formal financial institutions.

2. Understanding the Market

a. Trends - the industry has been characterized by tight margins in recent years. High-end customer numbers are static. The most likely source of growth in the industry is from new customers, especially the significant numbers of so called 'emerging customers' who are being brought 'on grid' into the
formal economy with housing, mailing addresses, electricity and water. Expectations of improved services among this group, including financial services are growing.

b. The poor and the market - poor people participate in the market as consumers. Although numbers vary from one service to another, only approximately 40% of South African adults use financial services. The 'unbanked' 60% of the population amounts to around 17 million people. Clearly the vast majority of poor people do not participate in the market.

c. Functions and players - the industry is dominated by a small number of banks who compete with one another and develop their own products. Legal regulation is provided by government but, through the industry's own body - the Banking Council - various performance standards are also set. The Banking Council also represents the industry to government (and others) and coordinates with them on its future development.

d. Systemic constraints - a number of reasons appear to underpin the low level of coverage achieved among low-income groups. In contrast with higher-income groups - where coverage and service levels are high - banks see this as a high-risk group with very little of the certainty offered by higher income customers in the form of information and standards. Product development aimed at low-end customers has been minimal. More generally, the lack of clarity over the future path of the industry and discussions with government over the Financial Services Charter, have clouded future planning. On the demand side, many potential consumers, with limited exposure to financial services, lack an understanding of the rights and responsibilities inherent in using financial services.

3. A Future Picture

A more inclusive banking industry offers the prospect of large-scale impact on the poor: extending coverage from 40% to 60% would reach an additional 5 million people. To achieve this, a number of different scenarios are possible for a more inclusive banking industry. That which appears to offer most prospect of success involves a clear allocation of responsibilities between key players. In order to address the core information problem at the heart of the market's poor performance, the banking industry would collectively design an 'account for life' standard, providing shared information on individual customers. This could then provide the basis for improved product development by banks - drawing on a central fund established by the industry with its own resources.

Government would play an active role in supporting the industry's efforts to extend to new markets through a number of specific roles: a large scale programme of public education for this new consumer group would be delivered along with more appropriate regulation of the industry, including suitable licensing and supervision of new banking organisations, a new consumer credit law and enhanced monitoring of access performance.

4. Actions

This shared vision of the future would provide the basis for a number of specific and complementary actions by the key players: government, the industry as a whole, and individual financial services
providers - as well as development agencies supporting these. A range of activities might be envisaged, for example:

- research on consumer awareness and understanding of financial services
- a substantial consumer information and awareness campaign
- development of the modus operandi of a product development innovation fund
- development of industry-wide standards for low-income customers including the operational basis for information sharing
- in support of new and appropriate licensing and consumer credit regulations, major steps to enhance the capacity of suitable government offices and personnel.

**CASE SUMMARIES**

A. Katalyst, Bangladesh

1. Context – low productivity stemming from incorrect practices and use of inputs restricts the potential income, employment and nutrition effects of vegetable cultivation.
2. Goal – to improve the productivity of vegetable farming on a sustainable basis.
3. Challenge – building information and advice as embedded services in the value chain.
4. Main activities – provide support to input suppliers to develop a retailer training programme and so build the retailers’ incentives and capacity to offer better advice to farmers.
5. Achievements – new business model in supply chain serving and improving performance among 1m farmers.

B. FIT-SEMA, Uganda

2. Goal – to improve the quality and relevance of commercial radio programming on a sustainable basis.
3. Challenge – changing the prevailing radio business model.
4. Main activities – work with small number of radio stations to improve programme innovation and quality; demonstrate business case, engage other partners, strengthen wider market functions (audience research, journalism, etc.)
5. Achievements – 25 stations offering 50 new programmes and reaching 7m more listeners.
Annex C - Glossary

**Agencies**: development organizations – funded by aid or other non-commercial sources – who act as funders or facilitators in pursuit of developing market systems.

**Approach**: a set of principles, frameworks and good practice points to guide both analysis of a market system and actions to bring about change.

**Asymmetric information**: when one party in a market trans-action – supplier or consumer – knows more than the other.

**Basic Services**: a range of services important in building people’s capacities, where consumption serves not just individuals but impacts on the wider economy and society. This includes education, health, water and sanitation.

**BDS**: business development services.

**Core function**: the central set of exchanges between providers (supply-side) and consumers (demand-side) of goods and services at the heart of a market system. The medium of exchange can be financial or non-financial (such as through accountability mechanisms).

**Externalities**: negative or positive spillover effects that are not reflected in a market price.

**Facilitation/Facilitator**: action or agent that is external to a market system but seeks to bring about change within a market system in order to achieve the public benefit objective of systemic change.

**Inclusive Markets**: markets that include the poor on the demand side as clients and customers and on the supply side as employees, producers and business owners at various points along value chains.

**Intervention**: a defined package of temporary activities or actions through which facilitators seek to affect change in a market system.

**Lead firms**: businesses capable of exerting a leading influence on other firms and other players because of, for example, their size or their reputation for innovation; (ILO definition: an input supplier or buyer who, in the course of doing business with MSMEs, provides information, technology or other support to its MSME customers)

**M4P**: the making markets work for the poor or market development approach

**Market**: a set of arrangements by which buyers and sellers are in contact to exchange goods or services; the interactions of demand and supply.

**Market Player**: organizations or individuals who are active in a market system not only as suppliers or consumers but as regulators, developers of standards and providers of services, information, etc. This therefore may include organizations in the private and public sectors as well as non-profit organizations, representative organizations, academic bodies and civil society groups.

**Market Structure**: the organisational and other characteristics of a market; includes characteristics of a market which affect the degree of competition between firms and their pricing decisions (number and size distribution of buyers and sellers; existence/absence of barriers to entry and exit)

**Market System**: the multi-player, multi-function arrangement comprising three main sets of functions (core, rules and supporting) undertaken by different players (private sector, government, representative organizations, civil society, etc.) through which exchange takes place, develops, adapts and grows. A construct through which both conventionally defined markets and basic services can be viewed.
**Representative Organization**: an organization which acts to advance the interests of a specific group, such as a trade union or a consumer rights body. Also referred to as a membership organization.

**Stakeholders**: persons or organizations who are actively involved in the sector/market or whose interests could be positively or negatively affected by any proposed intervention.

**Sustainability (IMD-relevant definition)**: the market capability to ensure that relevant, differentiated goods and services continue to be offered to and consumed by the poor beyond the period of an intervention.

**Systemic Change**: change in the underlying causes of market system performance – typically in the rules and supporting functions – that can bring about more effective, sustainable and inclusive functioning of the market system.

**Tools/Instruments**: relatively standardized methodologies for market analysis (value chain analysis or usage, attitude and image surveys) or for intervention (e.g. vouchers or challenge funds).

**Transaction Costs**: the costs associated with the basic process of exchange including costs concerned with searching, screening, negotiating, contracting, monitoring and enforcing transactions; the “cost of running the economic system”

**Value Chain**: encompasses the full range of activities and services of market actors required to bring a product or a service from its conception to its end use and beyond
Annex D - FAQs

1. Is the replacement of informal mechanisms of exchange with commercial services always good for the poor?
Poor people often have developed arrangements, especially in relation to finance, through which resources are allocated and information and knowledge shared. These arrangements are set within social networks and relationships that may often discriminate against the poorest – and cement their “lowly” position. But it is over-optimistic to assume from this that inclusion in commercial services will accord them equal and respected status as market players such as clients or producers.

2. Do the poor “win” from market change?
Change is a recurring feature of market systems and processes of change are seldom smooth. Markets are competitive, with firms and individuals juxtaposed against each other. In this context, “the poor” are not a homogenous group; they may well have conflicting interests such as producers versus consumers. Simply “stopping” change is rarely a realistic option but neither is it straightforward to determine where and how the best interests of poor people (in aggregate) are served.

3. What should the role of government be?
In determining an appropriate role for government, institutional experience may provide conflicting evidence about what to do. Government-controlled health services are excelled in Cuba but dysfunctional in many low-income countries. State-owned banks often have high numbers of poor people as bank account holders but does providing access equate with offering useful services?

4. Is the inclusive markets approach consistent with rights-based obligations?
Proponents of rights-based development argue that they create a moral and legal climate to force change. Critics see them as empty promises that fall into disrepute because they fail to consider how obligations will be met. It is often assumed that government will deliver directly, but if it can’t or won’t – and this is frequently the case – can a different government role be interpreted within a rights context?

5. Where does market development meet social protection?
Social protection, by definition, is different from development (dealing with symptoms not causes) but in practice the distinction is often blurred. Obviously, many of the poorest people in difficult circumstances need welfare but there are recognized dangers that over-dependence on welfare damages the incentives and self-reliance necessary for longer-term-development.

6. Does the inclusive markets approach mean that only large and costly interventions are warranted?
The ambitions to achieve large-scale change does not mean interventions themselves have to be large in terms of resources. Starting small to achieve ambitious objectives may be a perfectly valid strategy but small “pilot” projects, if they are to achieve larger-scale impact, need to be grounded in the incentives of players, the transactions between them and the supporting functions required for growth. Small that
can only ever be small – the worthy tokenism of some development efforts – is not consistent with the inclusive markets approach.