

FINAL

Agricultural Livelihoods Program

AidWorks Initiative Number INJ090; INJ711; INJ622

INDEPENDENT COMPLETION REPORT

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4 July 2011

Aid Activity Summary

Aid Activity Name	Rural Livelihoods Transition (Agricultural Livelihoods Program); Cocoa Livelihoods Improvement Program; Kastom Gaden Association		
AidWorks initiative number	INH615; INJ090; INJ622; INJ711.		
Commencement date	<ul style="list-style-type: none">• 1 September 2008• 1 February 2010• 27 October 2010• 20 December 2010	Completion date	<ul style="list-style-type: none">• 31 Jan 2010• 31 October 2010• 30 June 2011• 30 June 2011
Total Australian \$	\$4,203,770; \$3,805,874.97; \$400,000; \$2,600,000		
Total other \$	n/a		
Delivery organisation(s)	AusAID, Kastom Gaden Association		
Implementing Partner(s)	The Ministry of Agriculture and Livestock; the Commodities Export Marketing Authority		
Country/Region	Solomon Islands		

Acknowledgments

The reviewers would like to thank Peter Wilson and Collin Potakana of AusAID for their assistance with logistical support and discussions on the program including its strengths and weaknesses.

The reviewers would also like to thank all those who gave their time and information in the course of the review.

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Executive Summary

Object of the evaluation

The object of the evaluation is the AusAID Agricultural Livelihoods Program (ALP) in the Solomon Islands and the ongoing Cocoa Livelihoods Improvement Project (CLIP) and Kastom Gaden Association (KGA). ALP started in October 2008 as a component of a larger community sector program. Most components of ALP were closed in October 2010. CLIP is being continued until mid-2012 and KGA until mid-2014.

The evaluation focussed on the role and impact of the programs and lessons for the future but also considered the other criteria for a standard independent completion report (ICR).

Background and context

The outcome specified for ALP was “Agricultural livelihoods strategically improved through targeted activities”. Sub-outcomes were “Increased agricultural productivity for food security and sale” and “Improved market access and smallholder terms of trade”. ALP comprised several agricultural projects designed to emphasise staged implementation approaches and included a mix of delivery mechanisms including both directly provided goods and services and more facilitative approaches making use of broader market chain perspectives.

Initially ALP interventions were strongly influenced by a livelihoods type approach where the household unit is the focus of interventions but towards the end of 2009 all agricultural livelihood activities became the subject of intense reviews, focusing on market development approaches being promoted under a proposed new Rural Livelihoods Program (RLP) that was designed but will not be implemented. Although the market development approach is considered by the reviewers to be a much needed form of assistance, there were problems with the way its principles and tools were introduced to the team implementing ALP.

The emphasis on a facilitative approach that is part of a market development approach has good potential for achieving sustainable outcomes but the project was closed with relatively short notice while a number of initiatives were still in the development phase. This impacted adversely on the potential for success of ALP. However, several interventions have shown considerable promise.

The projects

CLIP activities have included: the provision of training and information to farmers to help rehabilitate existing cocoa trees and improve yields, training in record keeping, training to processors, traders, exporters and government extension offices, and a 75 per cent subsidy to purchase specified tools and small driers. Efforts are also being made to improve the efficiency of the cocoa marketing system. The subsidy component of the program has been discontinued. The original goal of the CLIP remains to facilitate substantial increase in rural incomes through increased cocoa production and improved cocoa quality.

KGA is a grassroots NGO that provides a wide range of basic services directly to remote communities. The objective is to strengthen family food security and income generation through a livelihoods approach.

Value chains enterprise development (**VCED**) activities have focused on markets and marketing from a whole-of-chain perspective. The VCED project sought to take a largely facilitative approach to improving the efficiency and effectiveness of value chains with an aim of increasing smallholder incomes on a sustainable and scalable basis. There were activities to support coffee, floriculture, fruit and vegetable marketing, fruit and nut trees, peanuts, processed food and vanilla.

DME Virgin Coconut Oil involved assistance in the selection of communities and sites for the placement of a kit that can extract coconut oil from coconut mash. Communities were required to contribute 20 per cent of the cost of the kit and build a drier and shed prior to funds being released.

Findings

There is a role for a program in the Solomon Islands applying a 'market development' approach – which entails understanding the underlying causes of problems in market systems and addressing them with a facilitative approach that helps to ensure sustainability. However, while ALP contained a number of activities consistent with a market development approach, this was not explicitly recognised in most of the project documentation. In terms of **relevance** ALP was broadly consistent with a goal of broad-based rural economic growth but lacked a clear explicit rationale and a supporting strategic framework and principles to guide and monitor interventions.

In terms of **effectiveness** there has been a modest impact so far in terms of improving agricultural livelihoods. There is good evidence of improvements in productivity of rehabilitated cocoa trees and in productivity for food security and in market access for smallholder agriculture. Results for floriculture and the marketing of fruit and vegetables to the formal sector in Honiara are also success stories. KGA appears to be achieving good results but requires more attention to analysis and appropriate monitoring.

In terms of **efficiency** the main weaknesses relate to the absence of an agreement with the Solomon Islands government about roles and strategies, the lack of an appropriate strategic framework to support ongoing analytical work, the lack of a suitable monitoring system with adequate coverage of outcomes, management contracting weaknesses and poor management of the transition to the proposed RLP.

In terms of **impact** a number of projects and interventions are estimated to have realised very good rates of return. This includes cocoa, floriculture, marketing of fresh fruit and vegetables and peanut production. Some projects realised poor or lower returns because of the sudden

closure of ALP. In other cases interventions were ambitious and in the case of DME virgin coconut oil there is a concern about sustainability.

In terms of **sustainability** more generally, a mixed picture can be drawn, reflecting the mix in the nature of interventions. Where projects chose more of a direct delivery approach than a facilitative approach, sustainability is more limited. Examples of sustainable interventions are the efforts to embed the provision of services to farmers in transactions between cocoa growers and exporters and the floral art shows that continue to be organised by the Floriculture Association.

In terms of **gender equality**, the program had good potential to benefit women mainly through providing income opportunities and there are some good success stories e.g. floriculture, marketing of fruit and vegetables and market facilities. The conclusion of the program had adverse impacts for the fruit and nut tree project in particular. There also seems to have been little attention to activities that would lead to more involvement of women in decision making.

In terms of **monitoring and evaluation** in the early stages of the program there was too much focus on activities and intermediate outputs and this is still the case for KGA. However during the transitioning of ALP activities to RLP the team was introduced to a new system for monitoring and evaluation along the standards of the Donor Committee for Enterprise Development. This system focuses on identifying plausible attribution between interventions and impact and started to be implemented with some promise and is continuing with CLIP.

In terms of **analysis and learning**, there was relatively limited analysis prior to the influence of VCED but there was generally a lack of analysis of deeper systemic constraints. The lack of an appropriate strategic framework from the start and a supporting monitoring and evaluation system as well as the short contract time frames are likely to have been key reasons for the lack of analysis and learning.

Recommendations

The main recommendations are as follows.

1. AusAID should consult with the Solomon Islands government to reach agreement on policies and an implementation strategy to support rural development. This is an important priority in order to generate sufficient Solomon Islands government ownership and support for a new market development program as recommended below.
2. The AusAID Solomon Islands program should join the planned AusAID multi-country market development facility (MDF) in order to exchange learning experiences within the region on market development and benefit from a clearer strategic framework to guide program implementation as well as benefit from advice the facility can offer to AusAID staff and programs.

3. AusAID needs to invest more strongly in its own staff capacity – particularly with regard to familiarising staff with the role for and application of the market development approach in order to provide better strategic guidance to programs in the Solomon Islands
4. AusAID should consider the implementation of a new market development program with the goal of improving rural livelihoods. This would be a program in its own right and implemented under the rural livelihoods component of AusAID's partnership with the Solomon Islands government. It would also benefit from close links with the planned MDF and support the MDF can provide to programs in the region.
5. AusAID should fold CLIP into the new market development program to allow for better synergies and improved performance.
6. AusAID should invest in capacity building of KGA to deliver more effectively on development outcomes as well as fund-raising to help ensure sustainability. Significant or sudden reductions in support are not recommended.

Evaluation Criteria Ratings

The evaluation rankings relate to the whole time frame of ALP, CLIP and KGA to date. There was improvement for many criteria from early 2010. Outcomes were also adversely affected by the sudden closure of ALP.

The rankings of 5 for relevance and monitoring and evaluation largely reflect the integration of market development principles and measurement tools more focussed on relevant outcomes in 2010.

Evaluation Criteria	Rating (1-6)
Relevance	5
Effectiveness	3
Efficiency	2
Sustainability	2
Gender Equality	4
Monitoring & Evaluation	5
Analysis & Learning	2

Rating scale: 6 = very high quality; 1 = very low quality. Below 4 is less than satisfactory.

1 Introduction

Activity Background

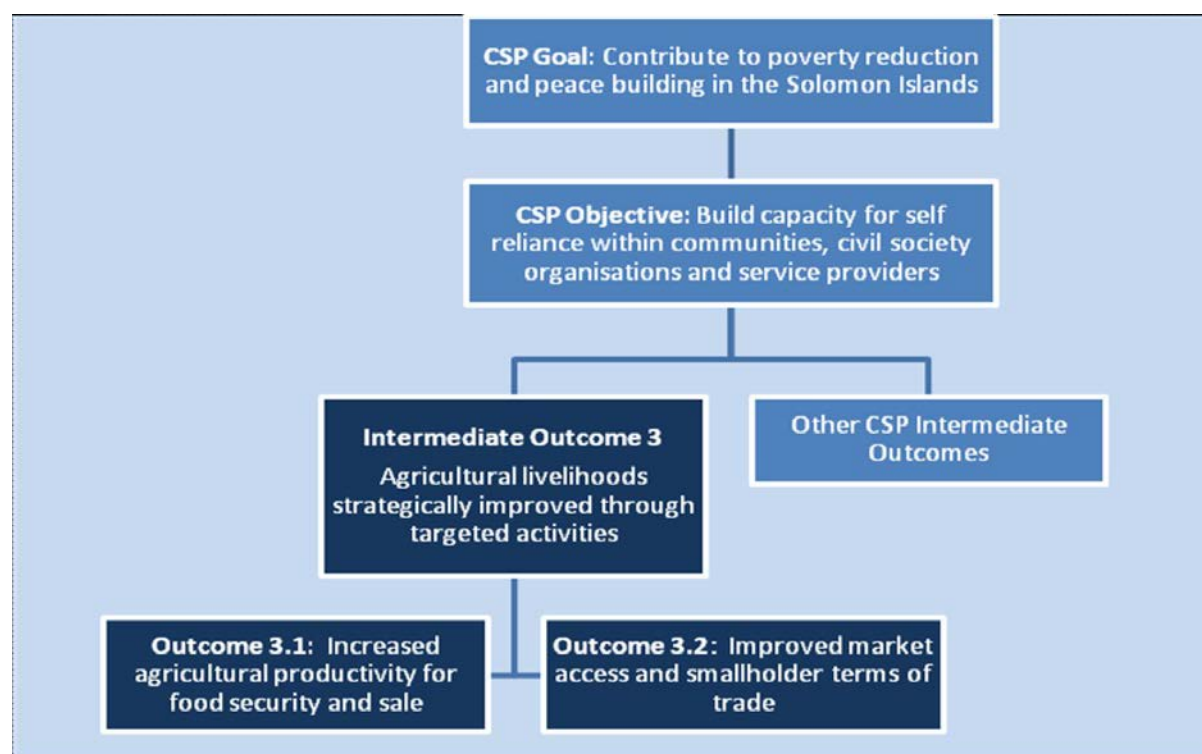
Object of the evaluation

The object of the evaluation is the AusAID Agricultural Livelihoods Program (ALP) in the Solomon Islands. ALP arose out of some existing programs that had been initiated in the middle of a period of substantial political and social instability from 1998 to 2003. A review of the origins of ALP is provided in Annex 1.

The main focus of the evaluation is on ALP activities since it was integrated with the Community Sector Program (CSP)¹ in October 2008. Most of the other components of CSP were closed in January 2010, Most of the components of ALP were closed in October 2010. CLIP and KGA are being continued until mid-2012.

ALP specified two outcomes as described in Figure 1 below. Each of the two outcomes had a set of strategies, activities, inputs and outputs.

Figure 1: Agricultural Livelihoods Program hierarchy as a component of CSP



¹ CSP had two key elements: small-scale, demand driven and practical support to communities, and support for analysis and strategy development in the areas of capacity building, rural livelihoods and community planning. Another component was the Road Rehabilitation and Maintenance Program (RRMWP) in Malaita. The ALP component of CSP arose when agricultural related projects of the CSP were combined with the transitional support to agriculture program (TSAP) which started being implemented in mid-2008 under RAMSI.

All agricultural projects in the merged entity were designed to emphasise staged implementation approaches (with regular progress checks), local contribution of ideas and inputs (including cash where considered appropriate), partnership arrangements, a focus on skills development (rather than 'donor dependency') and on broader market chain perspectives, (particularly in the last eight months of the program).

The other components of CSP were completed at the end of January 2010. When CSP closed, AusAID's bilateral program in Honiara sought and gained approval for an extension to the ALP component of CSP until October 2010. The aim was that during this period a new long term program of support based around market development, the Rural Livelihoods Program (RLP), would be finalised and contracted. For the purpose of continuity and in order to see early gains, RLP was to take over management of some ALP activities. During this phase, ALP focused on implementing the portfolio of agricultural projects left from CSP while realigning the program around making-markets-work principles and implementation tools and introducing a more relevant results-based management approach in preparation for RLP. However, ultimately RLP was withdrawn due to a variety of reasons including design faults and a lack of Solomon Islands Government support for the program.

Basic components and costs of ALP

ALP comprised eight projects as described in Table 1 below. The projects entailed a mix of direct delivery services, provision of subsidised inputs and facilitative services. From mid-2008 to October 2010 total expenditure on ALP was \$A 7.4 million. An additional \$A 539, 419 has been spent on CLIP from November 2010 to April 2011.

Table 1: Expenditure of ALP projects July 2008 to October 2010

Project	\$A
Vanilla	208,724
Fruit and Nut Trees	959,920
DME Virgin Coconut Oil	682,611
Value Chains Enterprise Development	2,023,831
Peanut Production	937,577
Market buildings and facilities	255,643
KGA	730,677
Cocoa Livelihoods Improvement Project	1,513,184
Total	7,412,150

Source: ALP (2010a)

A summary of the activities and objectives of each component is provided in Annex 2.

Country and sector strategy

The current AusAID country strategy for the Solomon Islands is outlined in the Australia Solomon Islands Partnership for Development agreement dated 27 January 2009. The agreement acknowledges the principles of mutual respect and mutual responsibility in relation to development objectives and Solomon Islands leadership of its own policies.

The commitments include support for Solomon Islands pursuit of sustainable and broad based economic growth strategies and efforts to improve service delivery, particularly in rural areas. The priorities recognise the importance of rural development, including the improved operation of markets and market access.

The Government of the Solomon Islands has made rural development its priority (Government of Solomon Islands 2007). This was true at the time of the design of the TSAP and ALP and is still the case. The 2007 Agricultural and Rural Development Strategy includes various policy actions to improve the enabling environment for private sector development and more specific interventions to develop markets and address inefficiencies in key value chains. This includes expansion of market information systems, strengthening of networks of extension services, and the development of public-private partnerships. The Strategy (p.32) notes that there is a 'public goods' rationale for public support for certain activities that lead to improvements in the efficiency of value chains. These activities can be categorised as supporting market development and improving the functioning of markets.

CSP focussed on contributing to peace keeping and reconciliation and contained a legacy of ad hoc projects initiated under the Community Peace Restoration Facility (CPRF). This made integration of ALP a difficult task. ALP initially did not have an explicit rationale based on a market development approach but by mid-2009 was being adjusted to ensure more focus on market development activities.

Evaluation Objectives and Questions

The object of the evaluation is the AusAID Agricultural Livelihoods Program (ALP) in the Solomon Islands.

The evaluation was required to focus particularly on the impact of the ALP and lessons and recommendations for the future. This included:

- i. An assessment of the costs and benefits and rates of return of the ALP to the extent that data are reasonably available.

- ii. Analysis that will help inform AusAID's dialogue with the Solomon Islands government.
- iii. Analysis of AusAID's role in private sector development through ALP including fostering entrepreneurialism, the value chains approach and challenging the hand-out mentality.
- iv. Specific recommendations to improve the Kastom Gaden Association Program (KGA).
- v. Specific recommendations to improve the Cocoa Livelihoods Improvement Program (CLIP).

The main focus of the evaluation is on ALP activities since they were integrated into the Community Sector Program (CSP) in October 2008.

Given the terms of reference, outlined above, and additional requests during the field trip that required more consideration of the role of AusAID and the Solomon Islands Government and recommendations for a future program, it is relevant to recognise that this is not a standard independent completion report.

Evaluation Scope and Methods

The evaluation scope involved about 40 person days in total for the team members including a nine day field visit to the Solomon Islands.

The evaluation methodology focused on three aspects: (1) The rationale for the program and its components; (2) Management of the program; and (3) Assessment of the impact.

In addition, it should be recognised that the formal market economy and the informal subsistence economy in the Solomon Islands are closely related and the assessment and conclusions cover aspects of ALP more focussed on subsistence agriculture, particularly with respect to KGA activities.

As the program and terms of reference raised the issue of the role of government and AusAID in private sector development, the review prepared and presented material for the debriefing that reviewed the standard economic approach to government policies for supporting private sector development and the role of what has become known as the 'market development' approach to private sector development. This material is included in this report.

The principles underlying a role for market development activities are set out in Annex 3. As the review team was requested by AusAID to apply the market development approach in the assessment of ALP, Annex 4 contains a summary of key market development principles that were applied in the ICR and Annex 5 provides some key references. The key market development principles that have been applied when evaluating the ALP are: (1) Identification

of the underlying causes for failures in market systems; (2) determine facilitative and catalytic actions that can lead to sustainable outcomes without ongoing assistance and (3) aim to design projects that have a large scale impact.

Given the breadth of the program, the private sector development objective and concerns about a hand-out mentality, it was clear that there was a need to consider systemic factors, including scalability and sustainability, in determining the effectiveness of the program and how it or its key components could be improved. This confirmed the relevance of applying key market development principles in the assessment, as also requested by AusAID and reflected in the selection of consultants for the review team.

The assessment of management and implementation issues relied heavily on project documents and several previous reviews and completion reports. Concerns raised in those reports were verified during the field visit.

The impact of the program was assessed by qualitative review of information provided in reports and interviews and quantitative data that were reasonably available. Sufficient data were obtained so that some indicative rates of return were calculated for several projects.

The field visits focussed on identifying benefits and reasons for success but also on problems that emerged with the program, how they were dealt with and how they could be dealt with in a better way if there was a similar program in the future.

Information for the review was drawn from project documents, other reviews and relevant reports, interviews with stakeholders and project staff in the Solomon Islands and former project officers by telephone.

The principles and framework that underlie the assessment of the rationale for the program together with findings from the field visits and review of other reports were used to suggest some options for developing the rural private sector in the future.

Although it would have been useful to have more time to undertake a more thorough review of specific interventions, particularly given most of the components of the project had been closed for some time, the team considers that the information obtained was sufficient to provide clear support the conclusions and recommendations.

During the field visit the reviewers met with or spoke with: current and former project officers, AusAID in-country staff; staff from the Solomon Islands Ministry of Commerce, Commodities Export Marketing Authority and Ministry of Agriculture and Livestock; cocoa, fruit, vegetables and nut tree growers in Guadalcanal and Malaita; cocoa processors, input suppliers, buyers and exporters; food processors; and consultants involved in the design and implementation of the separate rural development program. Visits were made to several cocoa farms and two larger fruit and vegetable farms on Guadalcanal and Malaita.

Evaluation Team

The evaluation is an independent evaluation undertaken by Dr John Fallon of Economic Insights Pty Ltd, Australia and Matthias Herr of the Springfield Centre, United Kingdom.

Both team members had no previous involvement in the program.

John is an economist with 15 years experience in analysing and formulating economic policies in the Pacific. He has extensive expertise in private sector development policies, cost benefit analysis and estimating rates of return. John was the team leader.

Matthias has a background in political science and economics. He has extensive experience in design, implementation and evaluation of market development policies and projects. He has expertise in applying analytical rigour in the assessment and design of value chain interventions. As a member of The Springfield Centre, he was included as part of the team by AusAID to bring a market development perspective to the assessment of ALP.

2 Evaluation Findings

The Independent Completion Report (ICR) template specifies a number of criteria for the evaluation as set out below. As noted the evaluation focussed on three aspects: rationale; management and implementation issues; and impact. Rationale is considered as part of the criterion of relevance but it also impacts on effectiveness, impact and sustainability. Management and implementation issues can be largely classified under the criterion efficiency. There is a specific criterion for impact.

Recommendations for a future assistance in the sector are provided in a separate section.

Relevance

Rationale for the program – a market development benchmark

In terms of rural development (defined as a widespread and sustainable improvement in living standards for people in rural regions) there is a fundamental economic rationale for government to²:

1. Ensure that the core functions of government are in place and working well. The core functions include basic services and policies that affect all development activities.
2. Ensure that markets work well and address market failures including missing and incomplete markets. There are many missing and incomplete markets in the Solomon Islands. Interventions focussed on “market development” are potentially very important for realising both direct returns and returns to functions under (1).
3. Address specific equity, distributional, social and environmental concerns not otherwise addressed by (1) and (2).

As the Solomon Islands has a comparative advantage in agriculture and other rural activities an approach focussed on (1) with appropriate attention to (2) if implemented well will naturally mean widespread and sustainable rural development. In terms of private sector development, activities that relate to improving the ‘enabling environment’ for business are largely part of (1) while (2) requires a more active role in addressing market failures. (3) can be addressed by a range of direct policies and actions but also through the use of facilitative methods that engage civil society to achieve relevant objectives.

AusAID has the capacity to provide assistance with either (1), (2) or (3). When considering AusAID’s comparative advantage for implementing (1) versus (2) it is likely to be the case that it is relatively better at providing assistance for certain components of (1) such as education,

² Annex 3 provides more information on the economic rationale for government in economic development.

basic infrastructure, law and order and fiscal operations than with providing assistance for many aspects of (2). This is a standard application of the concept of comparative advantage.³

However, if it is established that (2) is needed and important for complementing the efforts in relation to (1) it is relevant to consider AusAID's capacity for undertaking aspects of (2) relative to other donors. If other donors are unable to undertake aspects of (2) effectively then AusAID may still have a role to play here.

Evaluation of rationale and relevance

Our investigations have confirmed that ALP entailed a range of interventions that were addressing problems arising from the problem of missing and incomplete markets, although this paradigm was not explicitly recognised in most of the project design documentation. In fact there was a lack of a coherent strategy for the program when it started. The role and strategic framework for the ALP program were also not specified in a way that would effectively support a market development intervention.

The ALP program was based on a comprehensive AusAID (2006) funded Smallholder Agriculture Study (SAS). It provides an extremely good information base documenting the status of agriculture, constraints, existing support mechanisms and market opportunities. It also provides detailed recommendations for numerous interventions in agriculture and their likely costs and benefits.

What is missing from the SAS report is clear specification of a set of principles or a framework to guide why an intervention should occur and be supported by AusAID. Many constraints and problems are documented but there is no explicit attempt to investigate underlying causes e.g. binding constraints or systemic factors that provide a clear rationale for intervention to address market failure. Many of the recommendations make a lot of practical sense and are likely to have a strong rationale in terms of addressing market failures and systemic constraints but have not been formulated based on an explicit and well rationalised strategic framework that provides well defined principles for interventions. This does not mean the recommendations are not justified and they may reflect different working paradigms adopted by the authors but not set out explicitly in the report which may have proven effective in practice. However, an approach that is not explicitly grounded in well specified strategic framework inhibits communication, adjustments to the recommendations to take account of different circumstances, the prioritisation of projects and activities and evaluation.

³ This perspective recognises that the concept of comparative advantage assumes all necessary functions will be undertaken and individual entities will specialise in their comparative advantage which is not likely to occur in a development context.

This same criticism can be applied to the ALP program itself and the continuing CLIP and KGA interventions as well as AusAID's overall involvement in rural development in the Solomon Islands. Essentially there was a lack of a coherent strategy and a lack of a specific strategic framework to guide decision making for ALP and this continues to be the case for AusAID's support for rural development in the Solomon Islands. Although an attempt was made during the implementation phase to introduce frameworks, tools and monitoring systems this was badly managed (see discussion under efficiency criterion).

The CSP (Rogers 2010 p.36, p.42, p.50) activity completion report also commented on the ad hoc nature, limited scope and prospect of sustainability of ALP and concluded that this reflected the lack of strategic coherence and coordination that characterised CSP Components. It also noted that this was particularly the case prior to the TSAP merger.

The main features of what is considered to be an effective, analytically based approach to market development are outlined in Annex 4 and references to case studies for successful application of the market development approach are provided in Annex 5.

As already noted, the key elements of an effective market development approach entail: focussing on market systems and the underlying causes of market failures; and facilitation of actions of those involved in market actions so that they have incentives to make markets work better which helps ensure sustainability and scalability of the intervention to help ensure large impacts.

AusAID (2010) has prepared a project design document for a multi-country market development facility, which has been put to tender. It also provides a useful summary of the market development approach and examples of success.

Although the ALP was not designed with explicit use of a market development framework (MDF) and principles and in fact suffered from a lack of a coherent strategy it did contain elements of an MDF and was modified during implementation to incorporate many of the principles and tools of an MDF. Thus ALP is assessed in terms of the principles underlying the market development approach, while recognising that the effectiveness, impact and sustainability of ALP were likely to be adversely affected by the lack of a clear rationale, strategic framework and supporting analytical tools and monitoring systems from the start.

ALP contained a mix of market development activities as well as other activities that entailed direct delivery of assistance. Thus some activities were consistent with the framework and principles outlined in the section on rationale while others were not.

In summary, although the program lacked a clear, explicit rationale and contained some activities not consistent with the underlying principles for effective market development, it is considered highly relevant given its role in addressing important aspects of market failure.

Effectiveness

The main findings were as follows:

- In terms of the overall outcomes there has likely been a modest impact so far in terms of improving agricultural livelihoods.
- However, there are examples of improvements in productivity for food security and sale and in market access. The main ones are:
 - A very significant improvement (300 per cent or more) in the yield of rehabilitated cocoa trees and a very good return from the project so far.
 - Some good returns from other specific interventions (see the section on Impact).
 - Improvements in the productivity of smallholder agricultural production and market access.
 - Increased sales of coffee, flowers and fresh fruit and vegetables that can clearly be attributed to the work on value chains.
- Many aspects of the ALP program have good potential (see section on Impact). In particular the adoption of aspects of a market development approach that identifies **key constraints** and emphasises **highly focussed interventions** that involve an initial **concentration of expertise** on resolving specific problems in partnership with the private sector **without ongoing government support** has shown promise. This type of intervention is likely to be more difficult to implement than programs focussed on for example building basic infrastructure. However, it may nevertheless be needed to help generate good returns to infrastructure and other donor investments.
- The program had good potential for outreach and was positively viewed by many people in rural communities as well as processors and others in the value chain.
- However, it is also the case that there is minimal developmental impact that could be attributed to several specific projects in ALP e.g. vanilla production, fruit and nut tree production and processed food. This is likely to reflect a range of factors including inadequate rationale for the type of intervention, poor design, limited flexibility and limited time, particularly given the closure of the project without a successor program.

The following factors (some of which were not part of the program) reduced the effectiveness of the program:

- The lack of a clear rationale for the program and lack of an explicit link to market development approaches and principles.
- The short and interrupted time frames for some of the projects that had not reached a stage where increased production could occur (see Box1).

- Other management weaknesses as outlined below.
- Limited progress on reform of complementary policies and actions to improve the enabling environment for private sector development (business regulation, tax reform and extension services).
- Inadequate road and port infrastructure and inter-island shipping services.

Box 1: Reduced effectiveness in peanuts due to early closure

Peanuts are a significant crop grown by many households in rural parts of the Solomon Islands (estimated 2,000 subsistence farmers). They are grown for own household consumption, but also sold on markets in Honiara and other urban centres. Apart from providing the household with a source of nutrition, they are also a welcome source of additional income given the high demand in local markets.

ALP interventions focussed on introducing new varieties of peanuts to the market: The peanut project found – based on studies and work conducted by ACIAR – that the introduction of new varieties from PNG, combined with improved farm management practices, could raise productivity by 50 to 100%, thus providing an attractive increase in income of subsistence farmer households. Trials on Guadalcanal resulted in an additional net income of \$15,000 per hectare. New varieties also opened up new opportunities in terms of processing for oil, butter etc. that were previously difficult to achieve with local varieties.

Under the VCED component, seeds (7kg) of new varieties were therefore imported from PNG and distributed to selected farmers in order to multiply and build up a sufficiently large seed stock prior to wider distribution to farmers. It was calculated that a seed stock of 5 tons would be required to generate a quantity of seeds that was commercially viable for distribution and would lead to large-scale impact. This seed stock had to be grown and bulked up over a period of 1-2 years.

The abrupt closure of ALP prevented this bulking-up of seeds, as well as the introduction of improved farm management practices. The intervention had to be stopped at a critical point where the project was considering a strategy for scaling-up (bulking and distribution of seeds) that could have potentially improved incomes of 2,000 subsistence farmers. The effectiveness of the intervention was therefore compromised by the closure at a critical development stage – despite signals provided to the team that interventions would continue under the RLP which was not implemented.

Efficiency

The following observations relate to management and implementation issues that impacted adversely on efficiency:

- The lack of a clear rationale for ALP also extended to lack of clarity and coherency of outcomes that were expected of ALP.
- There was and still is no agreement between AusAID and the Solomon Islands government about: appropriate policies and interventions for rural development; the role of each; and the objectives, principles, and strategy for implementation. This has meant there is minimal Solomon Islands Government ownership of initiatives and reduced the scope for co-ordination of activities to ensure their effectiveness. It has

also made it difficult to build on the successes of ALP in the design of additional rural development programs.

- There was not a specific strategic framework to guide decision-making: AusAID did not provide projects with coherent technical guidance (i.e. frameworks and principles) as to what it perceives as being good practice for effectively achieving sustainable and widespread development outcomes until very late in the implementation process (i.e. during the transition phase of 2010).
- There were numerous weaknesses in management contracting: contracting partners, requirements and timelines have changed several times within a short time period; and instead of providing projects with a longer term time frame (e.g. 5 years), projects were or are being continued with short term extensions (6-12 months). This severely undermines sustainable and large-scale outcomes, as projects: a) are not able to conduct proper analysis to guide decision-making on systemic interventions; b) have no clear vision of how the market system should function in say 3-5 years without them; c) have little idea of the impact they instigate due to the lack of an appropriate monitoring and evaluation system; and (d) those involved have to work with great uncertainty about the project and their roles.
- The transition from ALP to the proposed rural livelihoods program (RLP) was poorly managed and occurred at a time of difficulty for Australia's relationship with some sections of the Solomon Islands Government in relation to AusAID engagement in the livelihoods sector .
 - The process itself was too long, too complicated and involved too many people on the design team (12): the chosen design process of the RLP (AusAID 2009) led to a design document that leaves the impression of a 'patchwork' of different opinions and influences rather than a coherent strategy that provides a clear and rigorous strategic foundation and guidance for the RLP. The RLP design document is also presented in a form that is not easy to read and difficult to communicate to stakeholders. Many people expressed this reaction during the field work for this report. In addition the proposal in the project design to establish an oversight committee or formally constituted body with representation from six ministries, the private sector, civil society and donors is considered to be impracticable. It should also be recognised that design, communication and acceptance of the RLP was also greatly constrained by the lack of agreement and effective interaction between AusAID and the Solomon Islands Government on policies and strategies for rural development.

- The failure of the design document to explain what RLP was about, can be seen a key reason for AusAID's decision to halt the transition of ALP to RLP as well as the lack of support from the Solomon Islands Government.
- When material more relevant to a market development role was introduced it was effectively imposed on ALP staff without recognising that many activities actually fitted quite well with what was being introduced. Whilst, in retrospect, ALP staff found frameworks and principles of the market development approach useful to think through their strategy (as part of a series of workshops in 2010), the initial communication of this material from the management contractor and AusAID created resentment and resistance.
- ALP was terminated with very short notice, leading to job frustrations and further resentment and adversely impacted on credibility for possible future interventions. Interventions could not be closed down properly, commitments that had been made had to be abandoned, and proper documentation and impact assessment were inadequate.

Impact

In responding to the terms of reference, the focus in terms of impact was on measuring rates of return. The extent to which interventions were likely to have led to sustainable and scalable impacts was also investigated. Table 2 provides estimates of rates of return for several projects and interventions and Box 2 provides some examples of positive outcomes. Findings on sustainability are covered under the separate sustainability criterion.

The rates of return are defined as the net incremental benefits for the Solomon Islands (net incremental income) relative to the AusAID expenditure. Ideally this means identifying only those net benefits that occurred because of the project. For example there is likely to be a trend increase in cocoa production and associated incomes as the Solomon Islands economy recovers from the period of tensions and as the population grows over time, so that simple before and after comparison over time is not a reliable method for isolating the impact of the ALP intervention.

Another aspect is that the Solomon Islands labour involved in the projects has a value in an alternative use, even if that value is very low and represented by the value of time spent in subsistence production. Thus the rates of return have been defined as net incremental benefits in terms of net income generated for the Solomon Islands relative to the cumulative AusAID expenditure for the project for each year. The net income was based on estimates of sales revenue less relevant costs.

Table 2: Rates of Return on AusAID expenditure on Agricultural Livelihoods Program – 2010 and 2011

Project	Rate of return - %		Comment
	2010	2011	
Cocoa Livelihoods	50	58	Returns are very good on expenditure to date. However, no noticeable improvement in price premiums. Yields from rehabilitation are impressive. Returns are expected to increase significantly in the next few years.
DME Virgin Coconut Oil	4	6	Returns are very low but activities that were fully subsidised by other donors are not yielding any income.
Coffee – value chain	8	16	Coffee production and sales are well below what was expected and this benefit is largely realized by a single company with limited prospects of scalability to rural communities.
Floriculture – value chain	76	111	Estimates are based on conservative assumptions and significant benefits are realised by a highly successful individual but there is some prospect of more dispersed growth.
Fruit & vegetables marketing – value chain	13	27	Relates to the development of contracts between two community companies and hotels, restaurants and other businesses in Honiara. Good growth prospects mainly focussed on servicing Honiara.
Fruit and nut tree production – value chain	2	..	Project was still building stocks when project closed - uptake did not occur.
Peanut production – value chain	28	22	Project was still in the building stage when the project was closed, estimates are very approximate.
Vanilla – value chain	0.4	0.5	There were high expectations for this project. A small group of farmers in Guadalcanal are successful. A key benefit was reported to be confirmation to farmers of non-viability outside of certain parts of Guadalcanal.

Source: Author's estimates; see Annex 6 for assumptions

Some of the project documentation showed awareness of this attribution issue and made attempts to estimate incremental production and income. This information was checked and used where it was considered to be a reasonable depiction of attribution. In addition estimates of the local costs of generating incremental income (in particular for example the opportunity cost of labour) were taken into account in estimating net incremental income.

Data limitations meant that rates of return could be calculated only for the 8 products shown in Table 2. The main activities where it was not possible to calculate rates of return were: the KGA project, the expenditure under marketing for constructing market place facilities and VCED assistance for processed food.

The main sources for calculating the rates of return were ALP (2010a,c), ADB and AusAID (2010) and the Central Bank (2010). Assumptions for the calculations are summarised in Annex 6. The rates of return are in approximate real terms since they relate to income for the year and cumulative expenditure adjusted for inflation.

Given the approximations that had to be made, and the scope for both additional benefits and costs to arise the rates of return should be interpreted as indicative estimates. However, we consider they are consistent with the qualitative information we obtained and our judgement of likely impacts.

A rate of return less than 5 per cent is considered to be poor, 5-10 per cent is modest, 10-20 per cent is reasonable, 20-30 per cent is good and above 30 per cent is very good.

A brief discussion of the rates of return is presented below and two prominent qualitative examples of success are summarised in Box 2.

Cocoa Livelihoods Improvement Project

The goals of CLIP in terms of incremental income are considered to be quite ambitious but may be achievable (see Annex 2). Incremental tonnage that could be ascribed to the project is considered to be likely to be less than 1,000 metric tonnes in 2011 although it is likely to increase in subsequent years. There is little evidence of improved premiums for quality cocoa at this stage. However, recently, with the help of CLIP, two new companies were formed and have contracts directly to buyers in Asia which should lead to higher prices by bypassing an intermediary in the distribution chain.

Nevertheless, the incremental increase in tonnage has been sufficient to generate a sizeable return based on export prices for 2010. We confirmed that the radical pruning and associated husbandry of cocoa plants was able to increase yields by at least 300 per cent and that this was the key driver of the incremental production and associated income. As a result net returns on AusAID expenditure of 50-60 per cent have been realised so far.

The rehabilitation of existing cocoa stock is proceeding slower than consistent with achieving the targets but there is substantial potential for further incremental production, if improvements are made in the approach to extension service. There is scope for realising higher prices but this is likely to take more time.

Even without higher prices, higher returns are expected in the next few years.

DME Virgin Coconut Oil

Low returns of 4-6 per cent have been realized for the Virgin Coconut Oil project. Although these returns are low, a striking feature is that the AusAID approach of selecting suitable communities and requiring direct cash and labour contributions⁴ from the community has meant that all of the communities that have been supported are producing oil whereas those communities that received fully subsidised assistance from the European Union are not producing oil. This shows that with some relatively modest requirements it is possible to address concerns about a 'hand-out' mentality that has been a longstanding feature in the Solomon Islands but which has been reinforced following aid interventions since the tensions.

Kokonut Pacific the company that supplies the oil extraction kits and buys and exports the coconut oil has confirmed that its main problem is obtaining adequate supply so there is substantial demand to support further expansion.

However, an issue in terms of sustainability is an apparent perception by the company that aid funding will be available to continue to subsidise the sale of the equipment. Sustainability would be more likely if the company was able to provide the equipment on a leasing arrangement and it is considering a revolving fund that may facilitate further uptake however the exact status of this option is not clear.

The returns that have been calculated make allowance for replacement of equipment and facilities over 10 years but they are marginal from both the perspective of AusAID and communities who operate the facilities. Higher production levels from each unit would most likely be needed on a sustained basis to ensure long term viability. This project is not considered to be very successful to date, given the overall returns that have been realised.

Coffee

Returns of 8-16 per cent have been realised for coffee processing as a result of the value chains enterprise development project. Returns are likely to continue but scalability is unlikely to occur because production is unlikely to increase to meet the needs of the processor. It is

⁴ Communities were required to make 20 per cent contribution to the costs of the oil extraction kit and their labour to build a shed and storage facilities.

understood that coffee has to be grown above 800 metres but most Solomon Islanders live close to the coast or along rivers and transport constraints (there is very little land above 800 metres that is reasonably accessible) will likely limit significant expansion of coffee. However, the processor has acquired good insights into how to market coffee in the domestic market as a result of the assistance provided and as the formal sector expands local sales are likely to continue to increase but with limited impact on rural regions. The processor is blending imported bulk coffee with local coffee to ensure reliability of supply, particularly for those months of the year when there is no local production.

Floriculture

Returns to the value chain intervention for floriculture are exceptionally good and good returns are likely to continue given the skill transfer that has occurred. The benefits are a mix of income generated for sales of wreaths and arrangements to aid agencies, businesses and for various formal occasions as well as increased sales in the main market place. One business has realised substantial returns and it is likely the model will be replicated in Honiara. However, scalability will be limited given the focus on the formal domestic sector. A healthy domestic sector is a precursor to developing an export market but successful exporting would require considerable scale and expertise, better transport economics and the need to address any quarantine restrictions.

Fruit and vegetable marketing

Promising returns of 13-to 27 per cent have been realised from the value chains assistance provided to farmers serving the Honiara business market. The returns reflect the value of contracts with hotels, restaurants and other businesses in Honiara. Two community companies owned by groups of farmers have formalised several contracts and have been successfully fulfilling the contracts for some time. There is a prospect of additional incremental income from securing more contracts with hotels and restaurants and benefiting from continued growth in the Honiara market. This innovation is important for consolidating entrepreneurial attitudes and basic business skills. However, for now the community companies seem to be mainly focussed on just supplying the existing contracts and there was no evidence of other companies forming to serve this market.

Given the skill transfer and the capacity of the key individuals in the community companies this innovation is considered to be clearly sustainable but probably has relatively limited scalability without further assistance e.g. for hotels and tourist attractions in other provinces.

Fruit and nut tree production

Returns to the fruit and nut tree project have been poor. However, this can be largely attributable to the closure of ALP when the project was still in a development phase. Production has occurred and will most likely continue given the stock that was established

and the number of people that received training but uptake by additional farmers has not occurred and appears unlikely to occur to any significant extent.

Peanut production

The returns to peanut production were promising even though the project was still in the stages of bulking up. The project had good potential for scalability. Production is likely to continue but uptake by additional farmers beyond those trained in the project is uncertain.

Vanilla

Returns for the vanilla project have been negligible. Although agronomic conditions on the northern plains of Guadalcanal were identified in expert reports as very good, vanilla production has been well below what was expected. Generally the sector is stagnant except for a small group of successful farmers in Guadalcanal. Farms close to Honiara are reported to have better alternatives than growing vanilla. A benefit identified in the project monitoring documents was convincing many farmers that a perception of a 'vanilla boom' following developments in Papua New Guinea was not realistic for the Solomon Islands. This is a genuine benefit but it was not anticipated in the project design.

Box 2: Two examples of positive outcomes of ALP/CLIP

1. Cocoa sector

Most cocoa farmers on the Solomon islands have no access to knowledge on more productive farming practices, and do not grow cocoa in a systematic way, but rather grow it with minimal husbandry. CLIP has therefore brought in an international expert from PNG who introduced a new production technology known as 'Integrated Pest and Disease Management' (IPDM). Following this approach, farmers can increase yields per tree by threefold or more, generating significantly more income for rural households.

Whilst the benefits of applying IPDM are obvious, the challenge is about getting that knowledge out to as many cocoa farmers as possible, using a sustainable dissemination mechanism. So far, CLIP has been working with a lead farmer model – i.e. they train lead farmers, who then train other farmers. Signs are however that lead farmers have mixed incentives in spreading the message and therefore outreach remains limited – apart from still relying heavily on CLIP inputs. It is also highly unlikely that government extension services will provide an effective mechanism for dissemination of IPDM.

However: the spread of IPDM knowledge has worked, where trainers had an additional incentive of purchasing cocoa beans from other farmers and selling them further – typically for larger processors and exporters more and better beans from farmers in their locality mean more sales and profits for them. The reason however why more exporters do not provide farmers with advice on how to raise productivity and quality) is the current monopsonistic structure on the international buyer side (an Australian company) and a pricing system that does not encourage exporters to improve performance (the ICR found that one exporter on Malaita was providing information services to nearby farmers, but it seems that the majority of exporters remains cautious in this regard).

CLIP has therefore engaged with a group of exporters in Honiara, supporting them to establish direct market linkages with a large food processing company in Malaysia. As a result, a first container has recently been shipped directly to Malaysia, bypassing the Australian monopsonist. Most importantly, this might positively affect incentives of exporters to engage more directly with cocoa farmers: if they are able to achieve better prices and exercise more control over their profits, they have a strong interest in more and better beans and hence will invest into providing information on IPDM to farmers.

This model of embedded services, based on commercial incentives, seems to provide a more sustainable and effective distribution mechanism for IPDM, and leads to a win-win situation where not only the exporter benefits, but farmers as well (through better information that leads to increase in productivity and subsequently household income). It is this pathway that CLIP has started to explore and needs to deepen further.

A further positive change that the ICR team could observe in the cocoa sector, was emerging signs of a service market for IPDM: rather than actually training other farmers on how to apply IPDM, it seems that some farmers trained by CLIP retain that knowledge and are actually providing specialised IPDM services (such as pruning of trees) to other farmers for a small fee. Though this might be a model that CLIP did not have in mind initially, it certainly achieves the overall purpose of raising productivity, and also demonstrates potential for the development of a service market around cocoa farmers. CLIP should closely observe this development and see how this can be supported.

2. Floriculture

Significant changes in the floriculture sector can be directly attributed to ALP interventions. Among other interventions, the VCED project focussed on strengthening the marketing side of the value chain through improved business skills, floral art display and industry representation. Prior to the project floral art was conducted only at a very limited level, and there were no shows that would display floral art. Flower sellers would mainly sell their products loosely on open markets mainly in Honiara.

Under the VCED project, an international expert from Fiji was brought in to provide training to flower producers and retailers on floral art display. This included the making of wreaths and other flower decorations. The VCED in collaboration with the Solomon Islands Flower Association also supported the development and implementation of floral art shows and competitions, which exposed the industry and created demand.

As a result of these efforts, not only the number of market sellers has increased, but also the number of those that offer value-added products on the market – representing an overall growth of income and employment opportunities in the sector.

A further income effect has been achieved through a simple intervention in the pricing system used at the Honiara floral market: previously flower sellers put price tags on the buckets with flowers; after VCED intervention, price tags have been removed and sellers apply a more flexible pricing approach which allows them to raise or cut prices (or add/reduce numbers of flowers per bunch) according to how busy the market is at different times of the day.

Sustainability

Although a mixed picture is evident and might be expected in a portfolio of projects, a common factor in terms of more successful sustainability was interventions that tended towards a more facilitative and systemic approach. In cases where the projects chose a more direct mode of delivery (e.g. training of farmers or heavily subsidised tools and equipment), sustainability is more limited (see Box 3). In some cases, the withdrawal of support has led to a collapse of services and innovations introduced by the projects, and which therefore undermines some of the positive impact that has been achieved.

In order to develop a vision of sustainable change, programs require a good understanding of key functions and players within the targeted market system and, consistent with the market development approach, need to continuously ask themselves: Who does? Who pays? (See *Annex 4, Figure A2*). This provides a framework against which the ICR has assessed the sustainability of ALP interventions.

Box 3: Examples for unsustainable interventions

- The ICR team visited a training centre supported by KGA in Busurata on Malaita. The site, managed by a lead farmer, was used to conduct training on improved farm practices for vegetables and other crops. However, because KGA had withdrawn funding and other support, the training centre had been dysfunctional for more than one year – no training was taking place, and the lead farmer had not continued on his own. Though KGA explained this as being related to a ‘glitch’ in administrative procedures (verification of expenditure and application for funds), it still proves the wider point that once funding ceases, training stops.

Similarly, the ICR team spoke to another lead farmer in Busurata (who was living closer to the main road), who is involved in many training courses – not only in Busurata, but also in other parts of Malaita and the Solomon Islands. This farmer makes 70% of his income from training – which is however fully paid by KGA. Withdrawal of funding might also lead to this farmer ceasing the training he provides to others. Farmers’ willingness to pay for training services themselves has not yet been explored by KGA.

- CLIP operates with a similar lead farmer model to disseminate knowledge on integrated pest and disease management (IPDM) to farmers. Two aspects are problematic in terms of sustainability: a) someone needs to continue to train the trainers after CLIP has phased out – it is not clear yet as to who this will be (and realistically seen the government is an unlikely option); b) there is not much evidence that lead farmers will actually continue with training of other farmers without CLIP support; their training is most likely to concentrate on immediate family and friends. It seems particularly with regard to the latter that incentives and capacities have not been clearly analysed and understood by CLIP.

Where the projects *have* used a more facilitative approach – i.e. stimulating market players to take on more valid roles based on a good understanding of their incentives and capacities as well as the wider market system – sustainability of introduced innovations and services is more evident. For example as mentioned in the case of the cocoa sector (Box 2 above) information on IPDM embedded in transactions between exporters and cocoa farmers seems a more sustainable solution, as it is based on commercial incentives. Another example is the floral art shows that continue to be organised by the SIFA, as they have proved to be a useful marketing instrument and also constitute a legitimate service of SIFA towards its members.

It is absolutely critical that AusAID programs develop a clear view of how a specific market system (such as the training system for farmers in the cocoa sector) will operate sustainably after a period of say 3-5 years in relation to required market functions and roles of market players. Such a view of sustainability then also needs to be consistent with actions the programs take in order to achieve this ambition.

It is not always evident that ALP, CLIP and KGA had this view of sustainable change for the sectors where they were intervening. Some projects (particularly those directly under ALP) show more evidence of sustainability than others (KGA interventions being the least sustainable). Several reasons might be considered here:

- The abrupt end of ALP as well as the short-term extensions and the overall uncertainty evolving from this, did not allow the program sufficient space to develop a vision of sustainability (as well as scale of impact) for each of the sectors.
- The limited time frame meant that projects had to ‘leap into’ action fairly quickly, without sufficient analysis of constraints and understanding of the wider system, and without sufficient time for reflection.

- As a consequence, no clear exit strategy had been thought of. In fact the abrupt closure came at a time where several projects were still in a pilot stage and testing innovations – hence had not even entered a stage of scaling-up of impact.
- Furthermore, the absence of a clear strategic framework with emphasis on achieving systemic change (as opposed to providing services/solutions directly) as well as the lack of clear guidelines and a definition of sustainability led to the above mentioned variance of sustainability in different projects under ALP.

Gender Equality

The project documentation for assessing aspects of gender equality was limited but being developed towards the end of the project (ALP 2010d,e,f,g). Many of the interventions involved considerable input from women and considerable success for some. For example:

- Most of the direct beneficiaries of the floriculture industry success story are women and one woman is the main driver of the industry in Honiara.
- The two community companies that have been formed and entered into contracts to supply fruit and vegetables to businesses in Honiara are providing direct benefits to both women and men and one woman is a prominent leader of one company.
- Although cocoa tends to be a male dominated crop in terms of decision making, the CLIP advisor on IPDM uses the cocoa field of a woman on Guadalcanal as an example of the best management of a small cocoa plantation.
- The delivery of the KGA program is mainly led by women who work for KGA, many trainers are women and women have benefited from skill transfer for improving subsistence production and generating income from small scale processing and market sales.
- The DME virgin coconut oil project, although marginal in terms of the rate of return on AusAID expenditure, is of considerable benefit to women in some communities. In Sepa the DME unit is owned and operated by a women's group with about 30 members and they consider it has provided a significant benefit to them in the form of a regular source of income.
- Peanut is an important cash crop for local markets and is generally regarded as a reliable income earner and important nutritional crop for many families and particularly for women. It is a household rather than a community activity. Many women do the majority of work, but also have their own peanut plots and a direct source of income. Men tend to be more involved in cocoa production.
- Vanilla is also a crop that involves both men and women and women reported vanilla was a good crop for them to be involved in (ALP 2010c).

- The fruit and nut tree project also had good potential for the involvement of women (AusAID 2006c).
- The main source of income for women tends to be from food crops at local market places and the building of basic market infrastructure has meant a more comfortable and healthy environment for women who tend to be the main vendors at the public market places (ALP 2010c).

For crops that tend to generate more cash, men are more likely to control the income, although this varies by household. For cocoa, men and women are involved in all stages of production except transportation to market, selling of dried beans and the marking of lines for new plantations which tend to be done by men only. It was apparent from the field visits that men dominate decision making in relation to cocoa. However, CLIP training promotes the sharing of income benefits for families by encouraging discussion on project planning, implementation and spending of incomes.

Overall ALP had good potential to benefit women mainly through providing income opportunities and there are some good success stories e.g. floriculture and marketing of fruit and vegetables. The sudden closure of the program had adverse impacts for the fruit and nut tree project in particular. There also seems to have been little attention to activities that would lead to more involvement of women in decision making.

In summary, although the sudden closure of ALP impacted adversely on many outcomes that could have been realised, the selection of interventions and success in the time frame for some interventions are still considered to provide sufficient justification to mean a relatively good ranking for this criterion.

Monitoring and Evaluation

During the transitioning period of ALP to the intended Rural Livelihoods Program (RLP), the team was introduced to a new system for monitoring and evaluation (M&E) along the standards of the Donor Committee for Enterprise Development (DCED).⁵ This is the standard to which most development agencies engaged in economic development are now committed, including AusAID. Central to this system are intervention-specific results chains that map out anticipated changes across different levels of a causality chain using clearly defined indicators.⁶ The purpose of doing so is to create plausible attribution between interventions and final impact, thus allowing the program not only to demonstrate its impact to AusAID and

⁵ For more information, please refer to the documents on the DCED standard for results measurement, available from <http://www.enterprise-development.org/page/measuring-and-reporting-results>

⁶ Different levels of the causality chain might include Intervention activities, changes in service markets of market systems (output), improved enterprise/sector performance (outcome) and increased rural income and employment opportunities (goal).

other stakeholders more credibly, but also – and more importantly – to allow for more effective decision-making on the direction of intervention strategies.

Most of the monitoring and evaluation of ALP to that point had been overly focussed on project activities and intermediate outputs, for example measuring only the number of lead farmers trained (and to some extent how many farmers these train in return), number of workshops etc. This is particularly true for KGA and to a lesser extent CLIP. Little attention was given to measuring relevant changes at enterprise and sector level (i.e. productivity increases, sales/exports, profitability, production volume, quality improvements etc.), as well as rural household level (income and employment). As a result, evidence for the effectiveness of interventions remains largely anecdotal, and attribution of changes to programme interventions is often weak.

Most importantly, insufficient monitoring and evaluation at enterprise/sector and rural household level deprived the program of an effective decision-making instrument (i.e. Do our interventions lead to the desired outcomes? If not, how does the intervention strategy need to change to bring about the desired changes?). It would also have brought issues related to sustainability and scale of impact to an early attention of intervention managers, i.e. help them to think through more systematically how both objectives could be achieved.

It needs to be recognised however that ALP has itself gone through an evolution during which it has undertaken commendable efforts in developing its own M&E system: recognising the importance of M&E, two experts were engaged to develop an M&E methodology and conduct impact assessments as well as ‘mini-case studies’ at various stages. Initial efforts were based on a Sustainable Livelihoods Approach (SLA), which was the basis for a project-wide impact assessment in late 2009 (see CSP2009a). As mentioned above, this methodology however generated insufficient attention to attribution between interventions and final impact – a weakness that has been addressed in 2010 through the introduction of the DCED results measurement standard (see ALP 2010c). Results chains with indicators and measurement methods had been designed for most of the ALP interventions and CLIP, building the ground for a more effective M&E system under the anticipated RLP.

Whilst the efforts of developing a more credible M&E system that was in line with current thinking in the wider international development community were going in a good direction, these efforts and the valuable experience that has been generated within that process have been in vain because of the early and abrupt closure of ALP and the abandoning of the RLP. Should AusAID consider a new market development program (see recommendations later on), it will be essential that efforts are undertaken to preserve some of the recent work done by ALP and CLIP on M&E.

In summary although the initial monitoring and evaluation system was inadequate it was improved greatly with the introduction of DCED-based standards, which have been further developed and implemented for CLIP, supporting a relatively good ranking for this criterion.

Analysis and Learning

It is critical for market development program such as ALP and CLIP which focus on addressing growth constraints in specific agricultural sub-sectors to build interventions based on sound technical analysis and continued learning. The risk of not doing so may lead interventions to address merely symptoms of underperformance rather than systemic root causes; and it may lead projects to assume a direct delivery role rather than a facilitative one that is based on a clear understanding of the wider system and roles of different market players within that; and it will limit impact in terms of scale and sustainability. The ability to distinguish symptoms from causes therefore constitutes an important function of development programs and enables them to provide local stakeholders with more credible strategic advice on how a specific subsector needs to change in order to bring about more growth and competitiveness for rural income and employment generation. Annex 4 (Figure A1) provides some further relevant information on the market development framework.

The basis for ALP and CLIP in terms of analysis has been laid by the 'Solomon Islands Smallholder Agriculture Study' commissioned by AusAID in 2006.⁷ As noted, this study provides an overall scoping of the agricultural sector and outlines specific opportunities (i.e. subsectors) that have the potential to provide income and employment to rural households. Whilst each subsector is mentioned in the report, it does not provide a detailed analysis of constraints and opportunities but rather points out to possible intervention areas that however require further investigation.

The question therefore is: how much did ALP and CLIP progress in terms of conducting more in-depth analysis of agricultural subsectors in order to inform the design of more specific interventions that address systemic constraints rather than merely symptoms of underperformance? More specifically to what extent did ALP 'move down' the market analysis process to identify underlying constraints? Again, the signs are mixed:

- It is not entirely clear to the ICR team whether comprehensive analysis (e.g. a value chain analysis) was conducted for all subsectors prior to interventions. A sector analysis was conducted in the course of the design of CLIP; with the introduction of the VCED component in ALP later on, value chain analysis was done for some sectors (though to a limited extent); and a number of completion reports were done in the course of interventions that provided limited analysis.
- Mostly it seems however that ALP initially relied on the findings and recommendations of the SAS report, personal experience of intervention managers as well as a more informal form of analysis through engagement with sector stakeholders (i.e. learning-by-doing).

⁷ AusAID (January 2006): Solomon Islands Smallholder Agriculture Study, Volumes 1-5, Canberra.

- Initial analysis prior to the entry of VCED focussed overly on the production level and mainly consisted of a needs assessment rather than exploring integration into the overall value chain and the wider system.
- With VCED the focus shifted towards the integration of rural households into markets. Whilst this has been a positive move in terms of broadening the understanding of ALP of rural markets, analysis overall seldom moved beyond mere problem identification.
- There has been generally a lack of analysis of deeper systemic constraints, which would have required the program to examine the underlying causes of identified problems, map out the wider system and better understand different roles and incentives of market players (as shown in Figures 2 and 3).⁸
- More in-depth analysis of systemic constraints might have led ALP and CLIP to arrive at different conclusions where the focus of interventions should have been or arrive at them earlier. For example: a change in the pricing incentives of exporters and their capacity to provide knowledge on IPDM as an embedded service to farmers, might have been the more viable solution rather than the lead farmer model that was initially chosen if analysis had been conducted. Insufficient analysis was related to the absence of an explicit rationale and strategic framework.

Why did ALP and CLIP not conduct more in-depth analysis? The lack of an appropriate strategic framework from the start and short time frames factors are likely to be the main reasons. If the programs had a clearer and longer time perspective, this would have allowed more scope for analysis rather than leaping straight into interventions. Less frequent and more appropriately focussed reporting requirements to AusAID would also have provided more time for analysis. And it is clear to the ICR reviewers that more and better analysis would have greatly improved the performance of ALP and CLIP.

In the case of KGA, analysis seems largely absent prior to decision making on interventions. Much is based on a more participatory type of needs assessment in communities that directly feeds into solutions provided by KGA (i.e. What problems do communities have? How can we solve these problems?). A better understanding of the wider system into which communities are embedded would certainly help to improve the effectiveness and sustainability of KGA interventions.

⁸ See also Module 2 of the M4P operational guide (DFID and SDC. 2008), available from www.M4PHub.org

3 Evaluation Criteria Ratings

The evaluation rankings relate to the whole time frame of ALP, CLIP and KGA to date. There appeared to be improvement for many criteria from early 2010. Outcomes were also adversely affected by the sudden closure of ALP.

The rankings of 5 for relevance and monitoring and evaluation reflect the integration of market development principles and measurement tools more focussed on outcomes for incomes in 2010.

Evaluation Criteria	Rating (1-6)
Relevance	5
Effectiveness	3
Efficiency	2
Sustainability	2
Gender Equality	4
Monitoring & Evaluation	5
Analysis & Learning	2

Rating scale:

Satisfactory		Less than satisfactory	
6	Very high quality	3	Less than adequate quality
5	Good quality	2	Poor quality
4	Adequate quality	1	Very poor quality

4 Conclusions and Recommendations

The key conclusions for the assessment and recommendations for future assistance are set out below.

Conclusions for the assessment

Overall the ICR team found that **interesting and innovative approaches had been applied under ALP and CLIP**, some of which had the potential to achieve large-scale and sustainable impacts. Much of this reflects an evolution within the project that corresponds with current thinking in the wider development community (e.g. in the context of AusAID's review of its rural development portfolio as well as the implementation of a multi-country market development facility) on the effectiveness of aid.

Clearly, **ALP/CLIP filled a gap in technical assistance to the Solomon Islands**. Whereas most donor-funded initiatives either focus on government-centric delivery of public services and infrastructure and public sector/regulatory reform or are engaged in community level development program with rather limited scope and impact, ALP/CLIP focussed interventions on specific market systems (or subsectors) that are relevant as source of income and employment to the rural population, and tried to address constraints within these markets that prevented them from performing better. This involved collaboration with a multitude of public and private players to attempt to bring about large-scale and sustainable impact.

Based on the experience of ALP/CLIP, the ICR team therefore believes that **AusAID is well placed relative to other donors and development agencies in the implementation of a market development program**.

Whilst ALP/CLIP were innovative and filled a gap, the effectiveness of the program was undermined by a number of external circumstances and management weaknesses (frequent changes in contracting, uncertainty about time frame, poor management of transition to RLP and abrupt closure) as well as the lack of a clear strategic framework that provides frameworks and guiding principles for effective implementation. With regard to the latter, Table 4 summarises key learning points from the ICR:

Table 4: Key Findings of the Review

Overall strategic rationale for intervention	Key questions and answers
<p><i>Relevance to the target group (poor people)</i></p>	<p><i>Overall (and in its choice of sectors), has the project considered reasonable prospects of affecting (positively) significant numbers of poor and other disadvantaged people?</i></p> <p>ALP worked in a variety of agricultural subsectors, largely based on the recommendations made by the 2006 SAS report. In terms of relevance to rural households a mixed picture can be drawn: while some sectors involve large numbers of households (cocoa, vegetables, coconut oil), others play a rather minor role (e.g. coffee, vanilla). A stronger emphasis should have been given to selecting sectors that involve large numbers of the rural population. This essentially determines also the potential for large-scale impact of a program.</p>
<p><i>Growth and access enhancement</i></p>	<p><i>In the selected sectors, are there sufficiently strong prospects for improving the performance of the system in terms of: growth of incomes for the target groups; and access, e.g. a greater number and proportion of poor people receiving services.</i></p> <p>If growth prospects were considered more explicitly from the outset of subsector selection, subsectors such as vanilla or coffee might have been excluded from the ALP portfolio from the outset. The ICR however recognises it as a positive feature of ALP that it has been able to experiment and try new innovative approaches that could have led to stronger growth.</p>
<p><i>Intervention feasibility</i></p>	<p><i>Are the identified constraints and challenges impinging on future development addressable through external intervention?</i></p> <p>The Solomon Island remains a difficult climate for development intervention. In particular the strong presence of international development agencies in a relatively small country has led to a handout mentality (both at rural household level as well as in the institutional environment) that poses particular challenges for a market development program such as ALP and CLIP which utilise a more facilitative approach. The interventions of ALP and CLIP in different subsectors should therefore be seen as being highly innovative in a challenging market environment. AusAID needs more of this type of program to effectively address the hand out mentality problem and achieve broad-based and sustainable development in the Solomon Islands.</p>
<p><i>Setting the specific strategic framework (project rationale)</i></p>	<p><i>Has the overall causal logic of the project been focused on developing means as much as ends (i.e. is this really about trying to change systems)?</i></p> <p>A clearer strategic framework with a focus on achieving systemic change as the priority objective of ALP interventions (rather than providing direct solutions to rural businesses) would have</p>

	<p>provided clearer and more effective guidance with regard to the program's role and relationship with local partners, and likely have led to a more sustainable and large-scale impact. In the course of ALP, some interventions have taken on a more systemic focus, whereas others have tended to position the program in a more direct provider role. Overall the ICR reviewers could, however, observe a positive evolution in the program towards more systemic interventions. In particular the transition process to RLP has reinforced this change in rationale.</p>
<p>Understanding of existing sector</p>	<p><i>Has there been a sufficiently detailed understanding of the current systems? (i.e. do we know enough?)</i></p> <p>Formal and upfront analysis was conducted only to a limited extent; most of the learning took place in the course of interventions (i.e. learning-by-doing); value chain analysis was introduced only at a later stage and to a limited extent. Much of the analysis focussed on problem identification, but stopped short of a more in-depth analysis of underlying causes. This has led program interventions often to leap to solutions without an appropriate understanding of the wider system, and the roles and incentives of market players, and has prevented it from formulating a vision for sustainable change. A key constraint has been time limitations imposed on the program.</p>
<p>Defining sustainable outcomes</p>	<p><i>Has there been a realistic, detailed and valid view of how the system should function successfully in the future? (i.e. what's our picture of the future?)</i></p> <p>Whilst intervention managers had a vision of the right solution to an identified problem, there was less certainty about how such a solution could be provided in a sustainable manner allowing also for a longer-term crowding-in effect. For example: whilst the benefits of IPDM are clear for cocoa farmers (raised productivity), the most effective dissemination mechanism was less certain (the project's initial assumption of government extension services taking on this role seems highly unlikely to have led to a successful outcome). This can be traced back to the program's insufficient understanding of the wider system around specific markets – i.e. who relevant players are that might perform necessary functions (who does?), and how these might be sustained financially (who pays?). Again, the approach to sustainable outcomes has been more an evolutionary one rather than one based on clear analysis and an objective of achieving systemic change.</p>
<p>Facilitating change</p>	<p><i>Have activities been consistent with this view of the future? (i.e. are current actions 'in line' with a future view?)</i></p> <p>Given the absence of a clear strategic framework and an explicit focus on systemic change, as well as the uncertainties around a vision for sustainable change, interventions ranged from a service provider role to a more facilitative role. CLIP's direct role in providing training on IPDM to lead farmers and other solutions has put it into a position that the cocoa market system cannot do without in the meanwhile. This goes back to a lack of vision on who should provide these services</p>

	<p>in the future. Other interventions had a more facilitative character – in floriculture for example the program stimulated SIFA to play a more valid role in organising floral art shows, and CLIP is now supporting exporters to develop better market linkages and perhaps develop improved relationships to cocoa farmers. Clearly ALP had been an innovative program and started doing the right things in terms of a more facilitative role; this reflects also current international thinking in the wider development community.</p>
Assessing change	<p><i>Did the approach to monitoring and evaluation focus on measuring at the systems level and provide a realistic link to higher impact levels? (i.e. do we know enough about the changes that are being brought about?)</i></p> <p>While the early M&E methodology was based on a Sustainable Livelihoods Approach and overly focussed on measuring activities and intermediate outputs, recent efforts of ALP in the course of transitioning to RLP have been more strongly focussed on creating plausible attribution between interventions and final goals. This was done by introducing a system of intervention-specific results chains that measure changes also at enterprise/sector and rural household levels, and make use of clearly defined indicators. This is in line with current best practice and is based on the DCED standards for results measurement.</p>
Overall impact	<p><i>What was the overall impact of the program in terms of net benefits and their sustainability?</i></p> <p>In terms of overall outcomes there has likely been a modest impact so far in terms of improving agricultural livelihoods. Some projects and interventions have realised very good returns but the overall scale of the benefit has been less than expected in project designs and outcomes with respect to sustainability are mixed, although there are clear signs of success for some sectors. Returns and sustainability could have been higher with more time for the intervention and clearer strategic framework based on market development.</p>

Recommendations

The key recommendations that have emerged from the evaluation are set out below.

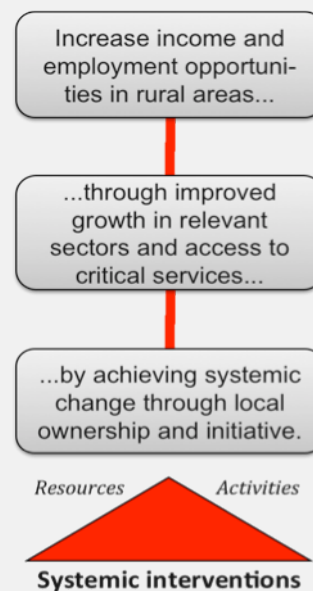
Recommendation 1: AusAID should consult with the Solomon Islands government and reach agreement on policies and an implementation strategy to support rural development.

AusAID needs to give high priority to consultation with and reaching agreement with the Solomon Islands government on appropriate policies and an implementation strategy to support rural development. The fact that this has not yet been done, has compromised the RLP design process and led to confusion on behalf of key partners in government. Any further programming therefore needs to be preceded by a completed and signed intervention strategy. Also as explained in relation to recommendation 4, there needs to be understanding and agreement of the value of a market development program that achieves an appropriate degree of independence from government.

The current draft of the implementation strategy does not provide the degree of clarity required for generating wide support and should therefore be scrapped in favour of a completely revised and more comprehensive document. More specifically, this would include:

- a careful drafting process led by one person familiar with the market development M4P approach (AusAID could buy-in support from outside for this purpose). It is important that this process finds an appropriate balance between generating local support and ownership of government and AusAID and an efficient process with a short and clear output document.
- a clear definition of AusAID's objectives and indicators for the rural livelihoods component. Ideally this would consist of a hierarchy of objectives oriented along the strategic framework of a market development approach⁹ (as shown in Figure 2 on the right). It is important that objectives remain simple and straightforward and have a clear focus on achieving systemic change.

Figure 2: What is the strategic framework for the rural livelihoods component?



- guiding principles for the bilateral partnership more widely (while the programs are independent, government is involved in design process and advisory committees;

⁹ See DFID and SDC (October 2008): The operational guide for the making markets work for the poor (M4P) approach, Module 1, Bern. Available from www.m4phub.org

programs are aligned to government priorities; programs adhere to principles of good governance (transparency, accountability, non-discrimination, participation, efficiency), as well as more narrowly guiding principles and frameworks for program implementation (i.e. AusAID's objective to build local ownership and capacity through system change, using a market development approach)).

- A specific program portfolio which would be headed by a new market development program, and could include also provide relevant support to (local) NGOs (civil society) such as Kastom Gaden Association.

Recommendation 2: The AusAID Solomon Islands program should join the planned AusAID multi-country market development facility.

The AusAID Solomon Islands program should join the planned AusAID multi-country Market Development Facility (MDF)¹⁰. If recommendation 4 is accepted AusAID should ensure that a market development program in the Solomon Islands is able to make use of the expertise and services of the proposed multi-country market development facility. If recommendation 4 is not accepted AusAID should consider applying the proposed multi-country market development facility to the Solomon Islands.

Linking aid activities in the Solomon Islands to the multi-country market development facility would provide good access to current thinking and discussions in the wider development community on the effectiveness of development aid, as well as being able to provide projects with more concrete strategic guidance for implementation.

Such strategic guidance would clearly fill a gap that is not covered by current bilateral agreements or AusAID guidelines. This may require some adjustment to the specific implementation plans for the MDF.

Recommendation 3: AusAID needs to invest more strongly in its own staff capacity – particularly with regard to the role for and application of the market development approach.

It is also recommended that AusAID staff responsible for rural development, including any rural economic livelihoods component (and perhaps also other components) be given more time, responsibility and training to provide programs with more and better strategic guidance for implementation and to have a better understanding of the status of the program. This would include participation at international training on role for and principles and frameworks relevant to the market development (M4P) approach, as well as active participation through sharing and learning in the multi-country market development facility.

¹⁰ See AUSAID MDF program design document as per April 2010 draft.

Recommendation 4: AusAID should consider the implementation of a new market development program with the goal of improving rural livelihoods.

This ICR has found that a) many of ALPs and CLIPs interventions in specific market systems were innovative and generally went in the right direction, and that b) if AusAID had provided a more consistent and longer timeframe, impact could have been more significant and generated larger and more sustainable returns. There are currently no other donor-funded programs that apply a systemic market development approach and take a sector-specific approach to rural livelihoods development.¹¹ The closure of ALP therefore leaves behind a gap in an area of technical assistance that is essential for the promotion of income and employment growth opportunities in rural areas.

Given AusAID's experience with ALP and CLIP, the fact that both programs have been innovators in market development, as well as the current discussions on a multi-country Market Development Facility (MDF) under AusAID leadership, AusAID is comparatively well positioned to lead on a market development program in the Solomon Islands.

The ICR therefore recommends that AusAID should consider the implementation of a new market development program with the goal of generating income and employment opportunities in rural areas. AusAID would have to take into account the following in designing the new program:

- The current design document for a new Rural Livelihoods Program (RLP) is difficult to understand and does not have the necessary support of both AusAID and the Solomon Islands government. The development of a new market development program would therefore require a new and more effective design process with a program document as output that is very accessible, reflects AusAID's and the Solomon Islands government's objectives in rural economic livelihoods, builds on a market development approach and has the support of all major stakeholders.
- The new program should focus on a range of sectors that are relevant to income and employment creation in rural livelihoods but not prescribe the sectors in advance. This might include not only agricultural sectors, but also services, forestry, fisheries and small industry sectors. It is important not to prescribe the sectors at the start of the program, but to allow the program to select sectors itself, based on clearly defined criteria (e.g. relevance, growth potential, sustainability). AusAID might consider an opening portfolio of three sectors, but should allow for more in the course of the implementation phase. It should also be noted that a systemic approach to market development might require the

¹¹ They either focus on macro-level reforms (infrastructure, public services, policies and regulations etc.) mainly through government, or on community projects with very limited outreach and impact.

program to intervene in interconnected market systems that pose a critical constraint to a selected sector (e.g. training, finance, quality standards, regulations).

- The program should operate with a clear strategic and operational framework that guides decision-making and ensures it achieves its objective of systemic change and remains in a facilitator role. Making use of the MDF, the ICR suggests that this strategic framework should be based on the market development approach, as well as the DCED standards for monitoring and evaluation.¹² AusAID would be well advised to build in a backstopping function into the new program that would provide it with strategic advice and guidance. Such a backstopping function could be performed directly by the MDF, AusAID staff or international consultants with experience in applying a market development approach.
- It is absolutely critical that the new market development program remains independent from government, other national stakeholders as well as AusAID (though strategic guidance should be provided to some extent, AusAID should refrain from interfering too much into operational details). The program should work with a multitude of public/private, formal/informal players, building local ownership mainly by stimulating players to take on more valid roles that address underlying systemic constraints that effect the performance and growth of the rural sector. Government support for the program is important, but it equally needs to understand the value of a more neutral facilitator role for the program.
- The contracting for the program should be for a clear and have a relatively long-term timeframe, i.e. 4-5 years. The contract should be awarded to one single contractor, rather than attempting a splitting up of contracts per sector or sub-contracting. The contract should be for the full implementation period from the very outset, thus enabling the program to develop appropriate long-term implementation strategies for selected sectors, based on sound analysis and a robust monitoring and evaluation system.
- In summary, the program needs to have both significant analytical expertise and the flexibility to be opportunistic in its interventions, provided the underlying principles of facilitation and sustainability are adhered to.
- A suggested approach to the design of a new market development program is provided in Box 3 below.

¹² See Donor Committee for Enterprise Development (DCED, July 2010): A 'walk through' the DCED standard for measuring results in private sector development, Cambridge. Available (along other relevant documents) from www.enterprise-development.org/page/measuring-and-reporting-results

Box 3: Suggested approach for the design of the new market development program:

1. AusAID drafts and publishes a **tender document** with the support of an international consultant that is well experienced with a market development approach. This tender document would clearly outline AusAID's objectives and establish market development principles as the underlying rationale for the new program. It is absolutely critical that this is done well.
2. A **bidding process** would lead to the selection of an implementing organisation (possibly an international contractor company) that has the capacity to recruit qualified staff.
3. The implementing organisation would be contracted for a **five month design phase**, during which it would conduct sector scoping and selection, in-depth analysis of three sectors, strategy formulation for an opening portfolio, as well as establish the basis for a monitoring and evaluation system (results chains and indicators for each sector). The output would be a comprehensive design document with logframe to be submitted to AusAID for approval.
4. If the design is completed to the satisfaction of AusAID, the organisation would be contracted for a **full implementation phase of 4-5 years with possible extension**. There should be no sub-contracting for whole sectors, but all sectors should remain within the program (only specific interventions/activities should be sub-contracted).

Recommendation 5: AusAID should fold CLIP into the new market development program to allow for better synergies and improved performance.

The ICR recommends that if AusAID plans to go ahead with a new market development program, it should merge CLIP with this program under one single contract, rather than implementing CLIP separately. The reason is that any new market development program does not make sense without including cocoa in its overall portfolio, given the sector's relevance as source of income for rural livelihoods. Furthermore – and most importantly – CLIP would in this way also benefit from a more systemic approach that would form the underlying strategic rationale of the new market development program.

This recommendation is to recognise that CLIP has over its period of implementation found innovative ways of bringing about a substantial increase in income of cocoa farmer households. In particular, it shows signs of moving from a direct delivery approach to a more systemic approach – for example by promoting a model of embedded services in which better knowledge and information on production practices and technology are provided to farmers by exporters. This can potentially lead to sustainable impact on a large number of rural households. It is therefore logical to allow CLIP more time to follow-through on its key interventions and achieve more systemic change. This could be achieved most effectively under the guidance of the new market development program.

More specifically, areas of improvement for CLIP include the following:

- CLIP should review its current role and delivery model for IPDM training solutions: the sustainability and effectiveness of its lead farmer model seems questionable. Only where farmers perform additional functions such as processing or trading/export or they are predominantly providing training services as a business (which is unlikely) do they

possess the incentives to further spread information on improved farming practices to other farmers. Currently, training is also highly dependent on CLIP staff itself. The program should therefore change its own role from being a service provider towards a more facilitative role, which could involve partnering with exporters to develop a more sustainable embedded services model that is based on commercial incentives (something which CLIP has recently started doing).

- CLIP needs to strengthen its analytical capacity and conduct more in-depth analysis of the cocoa sector as a whole (e.g. a value chain analysis), but also of more specific systemic constraints (e.g. through small studies, surveys etc.). Such analytical capacity is critical in order to develop a better understanding of causes for underperformance, incentives and capacities of players before designing solutions. It will enable CLIP also to develop a more credible vision of sustainable change in the medium to long-term, and in defining its own role in stimulating such change.
- Frequent short-term extensions, the lack of a longer planning horizon, as well as changing contracting situations have undermined CLIPs ability to perform better. AusAID should therefore extend CLIP and allow for a longer time period, which will enable CLIP to develop a more credible vision of sustainability and scaling-up, based on good analysis and a valid M&E system. As mentioned under recommendation 3 above, such extension would ideally emerge as part of a new market development program.
- CLIP needs to improve its monitoring and evaluation (M&E) system in order to allow for more effective decision-making and better reporting of impact towards AusAID and other stakeholders. The ICR suggests CLIP adopt the DCED standard as results measurement – i.e. measuring change across different levels of an impact chain that links interventions with final impact. It is important that CLIP measures not only at the activity level, but also appropriately captures changes at farm/enterprise and household income levels in order to assess the effectiveness of interventions. The monitoring and evaluation system should not be census like in its approach but rather focus on the contribution of activities to increasing incomes from cocoa farming and processing.
- CLIP requires clearer implementation guidelines to provide it with an overall strategic framework, principles and frameworks for engagement in the cocoa sector. This would help its officers think through intervention models and sustainability of change, their role as facilitator of more systemic change, as well as achieving larger scale impact. The market development approach provides such guidance and would ideally be delivered to CLIP as part of the new market development program and also by AusAID staff in the context of involvement with the new multi-country market development facility.

- In summary, the program needs to have both significant analytical expertise and the flexibility to be opportunistic in its interventions, provided the underlying principles of facilitation and sustainability are adhered to.

Recommendation 6: AusAID should invest in capacity building of KGA to deliver more effectively on development outcomes as well as fund-raising to help ensure sustainability. Significant or sudden reductions in support are not recommended.

There is clearly a role for grassroots organisations like KGA as part of a wider effort to build an indigenous culture of civil society engagement and social action. Such organisations often provide important services to remote communities – services that would be difficult to access and unviable through more formal and/or commercial channels. Furthermore, AusAID needs to recognise that withdrawing funding completely and abruptly would at this stage lead to a collapse of these services, and leave the 10 KGA partner communities in a worse off situation (not to mention the reputational damage that would be done to AusAID itself).

Support to KGA cannot be rationalised based on the sustainability and scalability components of a standard market development approach to rural development. However, it may be rationalised based on specific social objectives including progress towards certain millennium development goals in isolated rural communities. It also helps with gaining public support for AusAID's wider interventions. In addition KGA seems to be a well motivated and reasonably well managed NGO with good objectives and an effective delivery mechanism.

Specific recommendations in relation to KGA are as follows:

- Generally, AusAID should consider continued financial and technical support of KGA – but with a longer term objective of a lower level of funding. In doing so, expectations towards KGA need to be adjusted to recognise KGA interventions have limited prospect of achieving large-scale impact.
- If AusAID decides to reduce funding, it should avoid a sudden, significant change until there is reasonable assuery that alternative funding is available.
- If AusAID scales down support for KGA, it should do so similarly for other NGOs that follow a similar approach of direct delivery to communities.
- If AusAID reduces funding it should first invest in capacity building of KGA to conduct effective fund-raising in order to sustain itself as an organisation.
- KGA needs to further diversify its funding sources in order to avoid a collapse of important services to remote communities when a funder withdraws support.
- In order to become a more effective organisation, KGA should familiarise itself with principles and frameworks of a market development approach, and use these to think

through its own role in community development, the sustainability of services it provides, and the wider system in which communities are engaged in.

- In this context, KGA needs to build up analytical capacity in order to move from a mere identification of symptoms of underperformance towards a better understanding of root causes in the wider system, incentives and capacities of relevant players involved within that. This is important for the design of effective KGA interventions.
- In order to more effectively raise funds from alternative sources, and to provide guidance for effective decision making on intervention strategies, KGA urgently needs to implement a credible monitoring and evaluation system that links interventions with final goals (increased income, better health etc.). The ICR recommends that KGA follows the DCED standards on results measurement and receives capacity building support from AusAID for this purpose.
- In this regard, KGA should also consider the write-up of case studies and success stories (supported by credible data and information) that demonstrates its effectiveness in delivering community development outcomes. This would target potential donors (i.e. as a fundraising mechanism), national stakeholders (such as government, intervention partners) but also the wider development community (sharing learning and experiences).
- KGA would also benefit from a sharpening of the focus of its portfolio to make best use of its strengths. It should aim to develop a unique selling point that it can market effectively to donors as part of a comprehensive fund raising strategy but avoid trying to do too many things to fit in with donor priorities.

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Annex 1 The Origins of ALP

In 2000, AusAID established the Community Peace and Restoration Fund (CPRF) to provide rapid-response, small-scale, high impact, direct assistance to communities for activities that promoted peace, reconciliation and reintegration of communities in the Solomon Islands (Hassall and Associates 2010). Intended as a six-month initiative, the CPRF commenced in November 2000 and operated continuously with short-term mandates of varying lengths until February 2005 when it was replaced by the Community Sector Program (CSP).

CSP had two key elements: small-scale, demand driven and practical support to communities; and support for analysis and strategy development in the areas of capacity building, rural livelihoods and community planning. The ALP program was integrated into CSP in October 2008. CSP, except for ALP and the road rehabilitation and maintenance (RRMWP) activities in Malaita were closed in January 2010.

The ALP program arose out of a separate initiative in the form of the transitional support to agriculture program (TSAP) (ALP 2010 Annex 1) managed under the RAMSI Governance Support Facility. TSAP included a number of projects identified by the AusAID-funded Solomon Islands Smallholder Agriculture Study (SAS) in late 2004. The SAS provided an extensive list of subsector technical recommendations in support of restoring rural livelihoods in the wake of the civil crisis. The SAS became an important reference document for guiding interventions during the implementation of TSAP and subsequently ALP.

TSAP was designed to provide management and technical support to 6-7 agriculture projects of limited scale (\$750,000), and duration (3 years). The independent appraisal report (February 2006) recommended against TSAP becoming functionally embedded in the Ministry of Agriculture and Livestock (MAL), considering it premature for AusAID to undertake capacity building with the MAL until its willingness and effectiveness to work with partners was tested. An interim assistance phase of TSAP started in March 2006.

A 3 year TSAP Implementation Plan (2006 to 2009) was finally approved in February 2007. By May 2007, and given the lack of momentum and expected inactivity on RDP into mid-2008, RAMSI/AusAID extended TSAP into 2008 and allowed the program to work within the Planning Division of MAL up until the time it merged with the Community Sector Program (CSP) in September 2008.

From early 2008, concern over TSAP being a portfolio of small projects within AusAID led to a rethink of the strategic intent of its support to rural livelihoods going forward; this time driven conceptually by a new Rural Livelihoods Program (RLP) to be designed in mid-2009 based around Sustainable Livelihoods Approaches and Making Markets Work principles (see AusAID 2009).

A review of the TSAP design and its implementation performance in mid 2008 recommended against the re-drafting of the existing PDD, and instead recommended the integration of TSAP with CSP to form a new component 3 called Agricultural Livelihoods. This change was also consistent with the recommendations of the CSP TAG review mission (January 2008) to minimise further delays to program implementation).

ALP was merged with CSP in October 2008. All agricultural projects in the merged entity were designed to emphasise staged implementation approaches (with regular progress checks), local contribution of ideas and inputs (including cash where considered appropriate), partnership arrangements, a focus on skills development (rather than 'donor dependency'), and broader market chain perspectives (rather than concentrating on specific technical issues in isolation).

In March 2009 a desk review of the implementation performance of Component 3 confirmed that all sub-projects had progressed according to plan. However, the report also noted that:

Component 3 had three major risks:

1. Limited absorptive capacity of partner institutions and beneficiary groups;
2. Technical and managerial capacity amongst partners limiting the effectiveness of activity implementation; and
3. All projects were designed to continue beyond the life of CSP; that is, 31 January 2010.

Towards the end of 2009 all agricultural livelihood activities became the subject of intense reviews, focusing on market development approaches being promoted under a proposed new Rural Livelihoods Program (RLP) was developed but was not implemented. ALP was intended to transition to RLP at the end of January 2010. The ALP was extended by another nine (9) months to 31 October 2010, in a transition phase, requiring ALP to develop a new analytical framework for screening and re-modelling all ongoing projects around Making Markets Work (MMW) principles and implementation tools and introducing a more relevant results-based management approach. There was an indication of an extension to mid-2011. The intention at the time was to evolve ALP into the RLP that was being developed but this did not occur.

ALP was closed with 6 weeks notice in October 2010 but continuing support is being provided to two components – Cocoa livelihoods improvement project (CLIP) and Kastom Gaden Association (KGA) – until mid-2012.

Annex 2 Description of ALP Projects

CLIP

CLIP started in July 2009 as a component of the ALP. CLIP is currently being funded until June 2012. CLIP activities have included: the provision of training to farmers to help rehabilitate existing farms and improve yields (including integrated pest and disease management (IPDM)), training in record keeping and basic financial literacy, training to processors, traders, exporters and government extension offices, basic information and a 75 per cent subsidy to purchase specified tools and small driers (current unsubsidised cost is SBD 15,000). Efforts are also being made to improve the efficiency of the cocoa marketing system. The subsidy component of the program has been discontinued.

The original goal of the CLIP remains to facilitate substantial increase in rural incomes through increased cocoa production and improved cocoa quality. The main objectives or targets are as follows:

- Increase of cocoa exports to 10,000 tonnes in five years and 15,000 tonnes in ten years;
- Reduction of the differential between Solomon Islands and PNG Free-on-Board (FOB) bulk cocoa prices to 25 per cent in five years, and 75 per cent in ten years.

The tonnage target refers to overall national production and not the increment attributable to CLIP.

KGA

KGA is a grassroots NGO which provides a wide range of services directly to remote communities (groups). KGA activities all have some component associated with smallholder agriculture, with an emphasis on more remote communities. KGA was primarily supported by ALP but does receive some support from other donors.

The Program components are: (partner) capacity building & networking; food crops and organic farming; small livestock; marketing & value adding (including food processing); women & nutritional health; youth in agriculture; information services; and management & organisational development.

The program objective is:

- To strengthen family food security and income generation through a livelihoods approach.

Market buildings and facilities

The market buildings and facilities component referred to in Table 1 largely comprised expenditure for building market infrastructure including roofed areas and storage facilities. It reflected the continuation of an original CSP activity.

Value chains enterprise development (VCED)

VCED activities have focused on markets and marketing from a whole-of-chain perspective. The VCED project sought to take a largely facilitative approach to improving the efficiency and effectiveness of value chains with an aim of increasing smallholder incomes. Most of the activities have entailed studies and advisory services. There has been direct assistance to increase and secure sales with better marketing and contracts. The VCED project also tried to build private sector capacity in selected commodities to provide quality market information and was based on assuring the sustainability and the scalability of project interventions.

VCED entailed interventions in coffee, flowers, fruit and vegetables, fruit and nut trees, peanuts, processed food and vanilla.

Peanut production

The peanut production project had the objectives of enhancing peanut productivity for household food security, nutritional improvement and income generation. A value chain analysis drew attention to the need for developing peanut seed systems, improving crop husbandry practices, post-harvest handling and marketing and providing better information on agronomic practices.

The project required the importation of small quantities of seed and bulking up the seed to build a base for subsequent production, which takes considerable time. The stocking up had not been completed when the project closed and the uptake assumed in the project design did not take place.

The development of a 200 to 300 tonne roasted peanut industry in the SI was seen as a realistic prospect resulting from the intervention proposed under VCED. The minimum annual value of such an industry was estimated to be approximately AUD250, 000 to AUD 400,000, based on a world peanut price of around AUD 1,300/tonne.

Fruit and nut tree production

The purpose of the fruit and nut tree project was to increase production for household consumption and sale. The activities included distribution of fruit and nut tree varieties; training for people to establish commercial nurseries and the provision of information.

A successful pilot phase was completed but subsequent uptake did not occur following the closure of the project.

The PDD did not provide an accurate estimate of expected benefits but provided indicative returns of 22 to 32 per cent based on reasonable assumptions about net margins and assuming total expenditure of \$840,000 over a 3 year project period.

DME Virgin Coconut Oil

This project involved assistance in the selection of communities and sites for the placement of a kit that can extract coconut oil from coconut mash and a subsidy of 80 per cent of the cost of the kit (current cost is SBD 75,000). Communities were required to contribute 20 per cent of the cost of the kit and build a drier and shed prior to funds being released.

Kokonut Pacific has a patent for the kits which are made in Australia and imported duty free with an aid exemption. Kokonut Pacific buys the coconut oil from the communities which meets requirements for organic certification and provides technical support to help ensure consistent volumes and quality and then exports the oil.

There was no information provided on the expected returns from the project.

Vanilla

The objective of this project was to boost agricultural incomes through better production, curing, distribution and marketing of premium quality vanilla. The activities included providing existing and potential farmers with information on where the crop could be correctly established, how it could be successfully grown, and how it could be successfully cured. There was a focus on identifying and helping lead farmers in a nucleus model. The design also provided for small businesses or lead farmers to establish central curing facilities where standardised procedures are followed to give the industry a competitive advantage.

The PDD considered that it was feasible for the Solomon Islands to be exporting approximately four tonnes of vanilla valued at SBD 250 per kg within five years of the project start up.

Annex 3 Outline of the Economic Rationale for the Role of Government in Economic Development

This annex provides an outline of standard economic thinking in relation to the role of government in economic development. The main economic rationale for the role of government is based on improving market mechanisms to facilitate economic development. This rationale is based on widely accepted welfare economics foundations that focus on improving the overall welfare of the population from an economic efficiency perspective.¹³ An economic efficiency perspective essentially involves identifying situations where market outcomes do not maximise the overall income of the population. This approach leads to identification of situations of 'market failure' and whether and how to rectify them. The main examples of market failure are presented below.

However, it is also well recognised in the economics profession that the role of government entails more than just interventions focussed on addressing specific market failures. In order for markets to work effectively in the first place there are a number of broad, core functions that government has to undertake. In addition a government has to be concerned about the distribution of income and associated social and equity objectives.

An emphasis on market-oriented development became the predominant economic development strategy recommended by international institutions and professional economists in the development field from around the late 1980s.¹⁴ This approach included a number of recommendations creating an appropriate 'enabling environment' for private sector development that entailed getting the basics right for markets to operate effectively and creating a competitive environment for businesses. However, this approach did not necessarily entail an approach that meant market-oriented development at all costs. An example of the application of an approach that required an appropriate balance of government and markets was presented in the AIDAB economic report: Papua New Guinea: the Role of Government in Economic Development (Economic Insights 1994, pp. xvii-xviii):

"Markets require considerable legal, political and physical infrastructure to work effectively. Government has an important role to play in ensuring that these basic requirements are in place. Important cultural, equity and environmental issues also justify strong state action. Such action does not have to be inconsistent with market-oriented development, but neither should it contribute to a situation where incentives to be involved in productive economic activity are weakened and distributional activity is increased to the detriment of the economy as a whole.

¹³ See Stiglitz (1988, chapter 3) and the Eatwell et al (1998, pp.326-329).

¹⁴ See Williamson in Serra and Stiglitz (2008).

Key foundations for well functioning market are:

- A stable and credible macroeconomic regime.
- Clear enforced property rights.
- Openness of markets-unhindered entry and exit of people and firms into economic activity.
- Adequate and well maintained physical infrastructure.
- Ample market information on prices, quantities and qualities for products and factors of production.

Even when all these conditions are present there will still be market failures in the form of public goods, natural monopolies and externalities that may justify additional government action. However, great care needs to be taken to ensure that such action will bring net benefits to the community.”

These principles are still considered relevant for economic development generally, including for the Solomon Islands. However, there is now more explicit recognition amongst economic development economists of the need: to build institutions (e.g. the legal system and civil society); give more explicit consideration of equity concerns; and take more specific account of different circumstances in different countries.¹⁵

In terms of more specific market failures the main market failures (some of which are related) can be categorised as follows¹⁶:

- Public goods. There are some goods and services that will not be supplied by the market or supplied in insufficient quantity. Technically public goods are not goods that of general benefit to the public in a merit good sense but rather goods where it is difficult to charge people or firms directly for the benefits that arise from a good or service and yet they still enjoy the benefits. Defence and law and order are good examples of public goods.
- Missing and incomplete markets. Where markets do not exist or fail to provide a service even though the costs of provision are less than the benefits, there is market failure. Missing and incomplete markets can arise because of information and coordination problems and associated transactions costs that prevent effective markets from developing. There may be potential demand but a supplier is not able to verify whether demand will be sufficient to justify the cost of supply. Similarly there may be coordination or initial investment costs that can be covered by market demand but there is no market mechanism to ensure this occurs. Missing and

¹⁵ See Williamson, Krugman and Stiglitz in Serra and Stiglitz (2008).

¹⁶ See Stiglitz (1988, chapter 3).

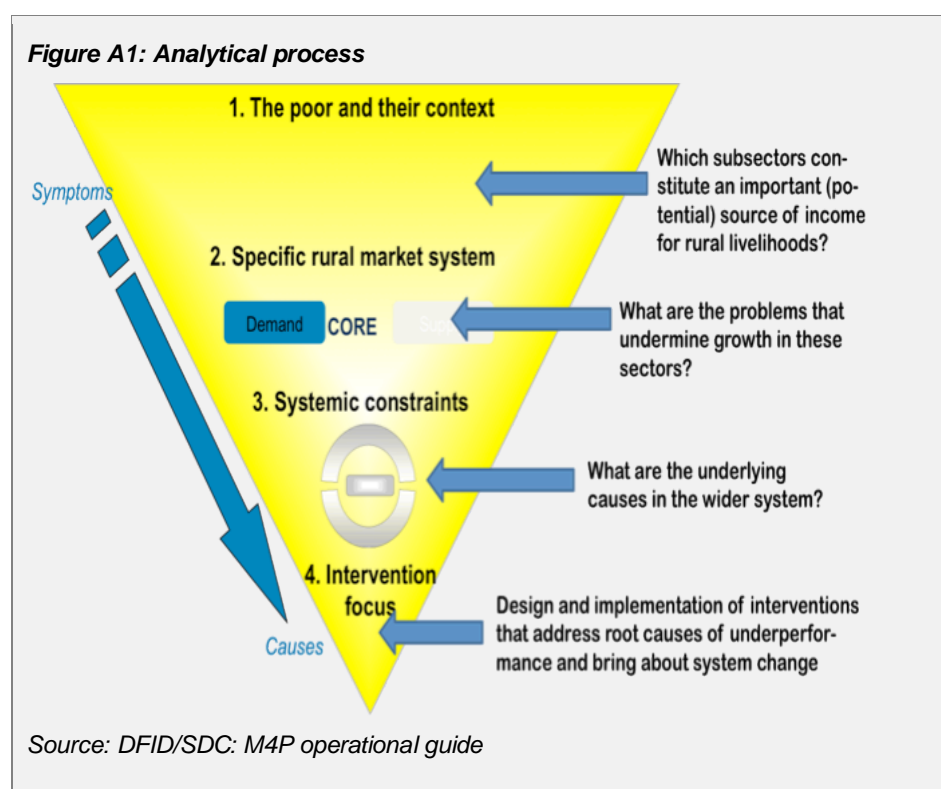
incomplete markets provide an important rationale for the market development approach because there is a role for a facilitator to provide an organizational or information revelation role to address the missing or incomplete component.

- Information failures. Imperfect information can lead to a number of market failures. Information in itself is often a public good and as suggested information problems can lead to missing and incomplete markets.
- Externalities. Negative externalities arise where the actions of one individual or firm impose costs on others for which there is no compensation. The pollution produced by economic activity is an example of an adverse externality. There can also be positive externalities where one person's actions benefit others for which there is also no recognition in terms of compensation. Education can lead to positive externalities. Activities where there are negative externalities need to be discouraged while activities where there are positive externalities need to be encouraged appropriately to increase overall economic welfare.
- Lack of competition. This problem can be particularly endemic in a small market where economics of scale mean that there is a natural monopoly.
- Disequilibrium and unemployment. High involuntary unemployment and widespread financial crises are examples of macroeconomic market failure. Problems of unemployment and disequilibrium can be related to one of the other market failures outlined above.

Annex 4 Outline of the market development approach

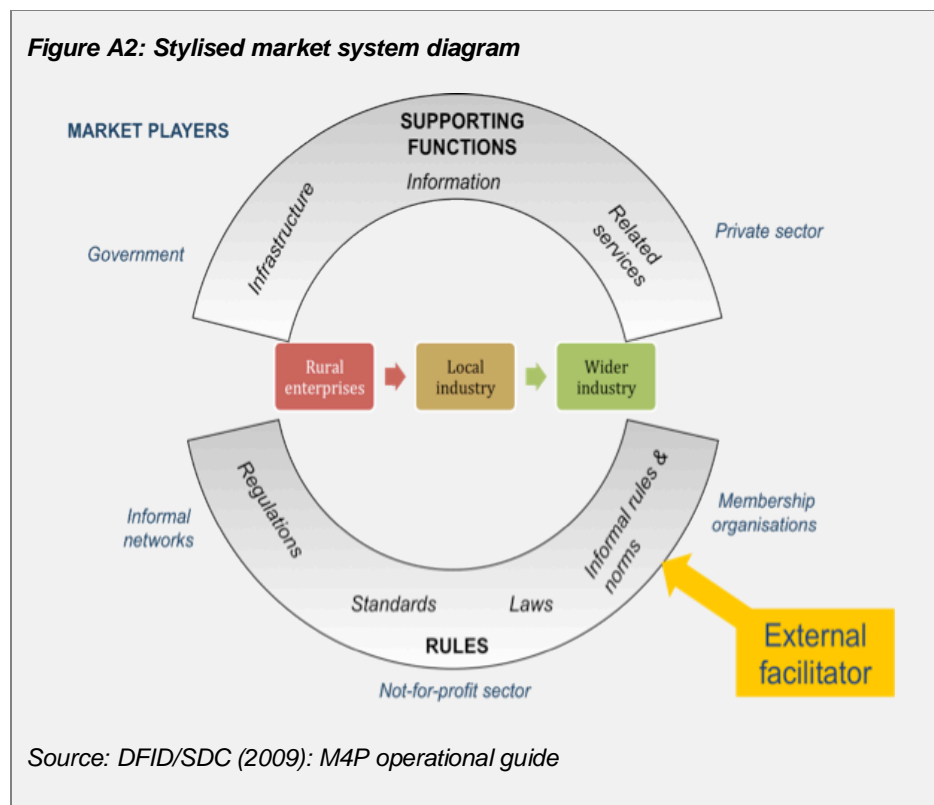
The market development approach (known more widely as the 'Making Markets Work for the Poor' (M4P) approach) is a practical approach grounded in best practice and guided by four underlying principles. Though varied and non-prescriptive in application, M4P programs are all consistent in their adherence to a set of **common principles**, defined below:

- Understanding of market systems with a systemic focus:** Understanding the disadvantaged position of the target groups to be the result of critical failings in how (market) systems function, and acting to correct such failings. This requires the program to develop an understanding of functions and players within **market systems** and how these can be strengthened in order to better serve the needs of the poor. There is a focus on identifying underlying causes of failures and weakness in market systems rather than reacting to symptoms of problems. As shown in *Figure A1*, this requires programs to have an analytical process that seeks to distinguish symptoms of underperformance from causes in the wider market system.



- Impact at scale:** Aiming to affect change relevant to large numbers of people, for example, across a whole sector, rather than across just one village or a few individual enterprises. The programme therefore pursues an active strategy of crowding-in market players, ensuring that change goes beyond immediate intervention partners.

- **Facilitation:** Determining a temporary, catalytic role for the development agent which stimulates market players to adopt and perform functions necessary for the continued, successful operation of their market system, rather than become a market player oneself (as illustrated in *Figure A2*).



- **Sustainability:** Ensuring that the market players needed to supply relevant goods and services on a recurrent basis have the incentives and capacities to do so. The focus on systemic change also means that interventions address the underlying causes of underperformance rather than merely their symptoms – hence achieving greater sustainability.

For more information on the market development approach, please refer to the following documents published by DFID and SDC, 2009 (available from www.m4phub.org):

- A synthesis of the Making Markets Work for the Poor (M4P) approach.
- Perspectives on the Making Markets Work for the Poor (M4P) approach.
- An operational guide for the Making Markets Work for the Poor (M4P) approach.

Annex 5 Case study examples of successful application of the market development approach

- Promoting Pro-Poor Opportunities in Commodity and Service Markets (PrOpCom): forthcoming case studies on applying an M4P approach to the fertilizer and tractor markets. Publications will be available on www.propcom.org
- Katalyst (2006): Bringing knowledge to vegetable farmers – improving imbedded information in the distribution system. Available from www.katalyst.com.bd.
- Katalyst (forthcoming): Developing training systems for health workers in Bangladesh. Publication will be available on www.katalyst.com.bd.
- International Labour Organisation (ILO, 2009): The Enter-Growth Project Sri Lanka – Applying a market development lens to an ILO local enterprise development project. Available from www.ilo.org/empent
- Swiss Agency for Development and Cooperation (SDC, 2008): Developing markets for dairy production through service development and public-private partnerships in Armenia. Available from www.sdc-employment-income.ch/en
- Gavin Anderson and David Elliott (2007): The role and impact of radio in reforming the rural business environment in Africa. Available from www.springfieldcentre.com

Annex 6 Assumptions for calculating rates of return on AusAID ALP expenditure

Rates of return were calculated for ALP and CLIP expenditure on: cocoa, direct micro expelling of coconut oil, coffee, floriculture, fruit and vegetable marketing, fruit and nut tree production, peanut production and vanilla production.

The rate of return was defined as net incremental income (incremental revenue earned in the Solomon Islands less incremental costs, except for AusAID expenditure) for the year as a ratio of AusAID cumulative expenditure (adjusted for inflation in prior years) up to and including each year. Net incremental income allowed for the opportunity cost of labour and other costs where it was considered important, including for cocoa. The conclusions were not sensitive to the adjustments for opportunity cost.

Expenditure data was derived from Table 1 of this report based on ALP (2010a) with some minor additional expenses of \$A 113,432 for CLIP plus \$A 539,419 for CLIP (2011) for the period November 2010 to March 2011.

Expenditure data in \$A were converted to SBD using exchange rates from the Central Bank (2010). Figures for financial years were converted to calendar years using consumer price inflation rates from the Central Bank. The cost base for 2010 was indexed for estimated inflation and added to any 2011 expenditure to calculate the cost base for 2011.

The expenditure on VCED activities up to 30 June 2010 was allocated to coffee, floriculture, fruit and vegetable marketing, fruit and nut tree production, peanut production and vanilla production assuming each activity incurred 1/8th of the expenditure with the remainder allocated to food processing for which no rate of return was calculated. ¼ of the VCED expenditure for the period 1 July 2010 to 31 October 2010 was allocated to each of coffee, floriculture, fruit and vegetable marketing and peanut production.

For cocoa incremental production was assumed to be 350 and 560 metric tonnes for 2010 and 2011 respectively based on ALP (2010a). Export prices were based on prices received in 2010 documented by the Central Bank (2010) less a 10 per cent deduction for incremental costs. The opportunity cost of labour involved in producing cocoa was based on daily wage rates of SBD 25 and 27 for 2010 and 2011 (based on ALP 2010d and inquiries during the field visit). The opportunity cost of labour was deducted from export income in deriving the rate of return.

The incremental income for DME virgin coconut oil was based on ALP (2010c) but the labour component of incremental income discounted by 30 per cent to allow for opportunity cost of labour. The incremental costs take into account replacement costs for equipment and facilities over 10 years.

The incremental income for 2010 for peanut production was based on ALP (2010c) and for 2011 was assumed to remain the same as in 2011, but with both years discounted by 30 per cent to allow for opportunity cost. The incremental income for fruit and nut tree production for 2010 was also based on ALP (2010c) with a discount of 30 per cent to allow for opportunity cost and no estimate was calculated for 2011 as there was insufficient information.

The incremental income for food marketing was based on ALP (2010a, p.7) but with the estimate of sales discounted by 30 per cent to make an approximate adjustment for opportunity cost.

The incremental income for floriculture was based on ALP (2010a, p.6) but with the estimate of sales for the industry discounted by 40 per cent to reflect attribution and a further 30 per cent to make an approximate adjustment for opportunity cost.

The incremental income for vanilla was based on the value of wholesale beans and wholesale vanilla sold in ALP with a discount of 30 per cent to allow for opportunity cost (2010a, p.33).