

Attachment 1 to RFT Capability Statement

April 2010

**Market Development Facility
(MDF):
Program Design Document (PDD)
RFT April 2010**

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1. Executive Summary

1. Market development approaches are new to AusAID, but are increasingly applied around the world to generate sustainable benefits for large numbers of poor people. This document proposes the design of a multi-country facility to support implementation of contextualised market development programs in Fiji, East Timor and Solomon Islands. The intention is for this facility to support market development programs in other countries in due course.

2. Because it is innovative for AusAID, management of the facility is centralised to some degree to enable a corporate approach to risk management, but also to ensure experiences are shared between countries and disseminated more widely. Another notable aspect is the intensity of effort invested in monitoring and evaluation; a consistent focus on evolving results, and program responsiveness to the dynamics of market systems, is core to the market development approach. M&E therefore has to be conducted in real time and inform all stages of the program cycle, effectively transforming M&E from an event to a process. Considerable effort has also been placed on integrating cross-cutting issues into the design, particularly gender and environmental considerations; the indirect and facilitatory methods in market development mean donors exert less direct control than in other programs, so a series of process and governance mechanisms have been devised to ensure these issues are explicitly addressed.

3. The facility seeks to generate sustainable increases in income and sustainable new jobs for poor people in both rural and urban areas. Based on scoping work to date, an investment of AUD14million over a three year period is expected to generate an approximate 15 per cent increase in sustainable income for 40,000 poor farm families and create in the region of 2,500 sustainable jobs.

2. Introduction

4. In May 2009 the Australian government approved funding for the pro-poor development of market systems. AusAID has been tasked to design and implement these programs in a number of partner countries.

5. A series of scoping missions to Fiji, East Timor and Solomon Islands in 2008-09 explored the feasibility and likely effectiveness of market development programs. These missions identified opportunities for pro-poor market development in a range of sectors. They concluded that such approaches were a potentially highly effective means to improve the livelihoods of the poor at a reasonable scale and make a significant contribution to Millennium Development Goal One of reducing poverty and hunger and increasing employment amongst the poor. A Concept Peer Review in February 2009 endorsed these conclusions and recommended the design of a Market Development Facility to support country-specific market development programs in Fiji, East Timor and Solomon Islands. The Review also noted important management challenges and risks that needed addressing in design. This document proposes that design.

3. Analysis and Strategic Context

6. Globally there is a rapidly growing interest in, and experience of, development approaches that harness the potential of market systems for the benefit of poor people. Programs adopting this approach recognise that poor people depend on market systems to survive. As consumers, poor men and women rely on markets to meet their needs for food and essential services – even in subsistence economies informal barter and exchange is an essential part of life. As employees or producers, they sell their labour or products in markets; and because many poor people live in places with limited state provision of health, water and education services, they must rely on private markets for these too. However, with weak informal networks and weak links to government patronage, poor men and women face particular difficulties accessing these markets, which are often uncompetitive and dominated by powerful groups or individuals.

7. Market development programs seek to address these development challenges by making markets more competitive and accessible to poor men and women, which enables them to find their own way out of poverty by providing more choices and opportunities. They seek to address the underlying causes - rather than symptoms - of why markets exclude or are unfair to the poorest. Sustainability is at the heart of market development programs; that is, ensuring that the benefits generated – be they increased incomes, new jobs, non-cash benefits, or access to beneficial goods and services – continue to be offered to and consumed by the poor beyond the period of the intervention or program. Rather than attempting to create and sustain new structures within partner systems, market-based approaches aim to understand the incentives for different players to act. Using this understanding, the approach seeks to leverage systemic change in how markets work by changing incentives to act and allowing players to fulfil different roles. This offers the potential for impact at significant scale.

8. Major market development programs exist in Africa, Asia and Latin America that are generating development results which continue to be sustained and scaled out by market incentives. In Asia, the Katalyst program in Bangladesh¹ for example has intervened in vegetable, fisheries, plastics manufacturing and advertising market systems (amongst others) since 2003. Katalyst has robust data confirming that by end 2006 it benefited 167,000 farmers and businesses, and by end 2009 it will have created 183,000 sustainable full time jobs. Most of these jobs have been for unskilled men and women previously living on less than \$1 per day. By the end of its second five year phase it expects to benefit 1.8m farmers and businesses and create 550,000 sustainable jobs. In Vietnam, the Prosperity Initiative Mekong Bamboo Program estimates that through interventions in the bamboo market since 2002 they have already lifted 30,000 people above the poverty line at an intervention cost of US\$50 per person².

9. In Africa, FINMARK intervened in financial markets by establishing a new financial information service provider and supporting innovation which contributed to an additional 2.3m poor people using bank services and an increase in the population with access to bank services from 39 to 46.5 per cent. A series of interventions by ILO in the radio industry in Uganda has resulted in a third of the commercial FM radio stations running (on a solely commercial basis now) at least one small business-

¹ See <http://www.katalystbd.com>

² See <http://www.prosperityinitiative.org/>

focused radio program, where none had existed prior to intervention. Audience research showed that 74% of adults were regular listeners to one or more of these programs; a total audience of 7 million people across the country; 96% of these listeners stated that programs benefited their businesses, enhancing access to knowledge and information and influencing policy, legal and regulatory processes. Work by ApproTEC in Kenya to develop markets for treadle water pumps suitable for smallholders led to the creation of 50,000 new small businesses, at a cost of around US\$340 per new job created. Interventions by the Shell Foundation have led to the creation of 2,000 new jobs and improved incomes for 14,000 poor people. In Latin America, market interventions by the Shell Foundation have resulted in 263,000 people in Mexico City travelling more sustainably every day. DFID's global Business Linkages Program that takes a more structured approach to market intervention through a challenge fund estimated that it had created (or helped to retain) 107,000 jobs at a cost of US\$200 per job³.

10. All of Australia's partner countries have national development strategies that aim to achieve pro-poor growth. The Cairns Compact lists broad-based private sector led growth as its first principle for driving development in the Pacific region. Most of Australia's Pacific Partnerships for Development prioritise private sector-led growth, employment generation, and economic livelihood development. Market development programs are an important pro-poor complement to the array of other measures necessary to achieve growth. Whilst macro-economic stability, access to international trade, security, rule of law, and transparent property rights are necessary, they are not sufficient for poverty reduction. Market-based approaches explicitly recognise this and that markets and basic services must also work in favour of the poor. Thus, whilst it is appropriate for a donor like AusAID to have programs that work directly with government – building the capacities of Ministries of Agriculture and Environment to regulate and set standards for example – it is also appropriate to work with market systems. AusAID has made market development programs a priority where these align with partner government strategies promoting broad based and equitable development. Each of the following countries has development strategies that seek to attain pro-poor growth; and scoping missions in each country have identified opportunities by which this can be achieved using a market development approach.

11. In Fiji, consistent with the Australian program's priority on rural enterprise development, the mission identified four sectors with growth potential and specific market facilitation opportunities. Realising these opportunities could increase sector competitiveness and generate livelihood benefits for an estimated additional 20,000 people below the poverty line. Examples of potential opportunities include: working with fruit and vegetable wholesalers to increase the proportion of locally sourced fruit and vegetables for the hotel trade; encouraging agro-exporters to expand supply chains through sector-based extension and supplier organisation; supporting public and private hospitality training institutions to better provide the skills required by industry; and partnering with the Fiji Arts Council to develop a viable business plan to establish 'Labels of Origin' that would secure rural livelihoods, particularly for women in the outer islands, in the craft sector. Unique issues to consider in Fiji are unforeseen threats to sectoral growth associated with political instability, the

³ Further details of similar programs in Africa, Latin America and Asia can be found at the following websites: www.m4pnetwork.org; www.finmarktrust.com.za/; www.commark.org; www.propcom.org; www.value-chains.org/dyn/bds/docs/725/DairyArmeniaDec08.pdf; www.bsmdp.org/.

sensitivities surrounding the bilateral relationship, and the reputational risks to Australia posed by some potential partners in the private sector (see Annex 8.3).

12. In East Timor, markets were found to be generally weak and less-developed than those in Fiji. While there are significant constraints to market development these are offset by an abundance of under-utilised productive land and resources and potentially good access to Asian markets. Market development opportunities were identified in the beef, small livestock, and coffee sectors and potentially in financial services, input markets and other niche sectors such as seaweed and vegetables. The Government of Timor Leste has prioritised the development of agribusiness and employment creation in its 2009 National Priorities, and private sector-led growth is expected to be a key focus of the forthcoming National Development Strategy. Initial ideas included partnering with agribusiness around new processing technologies and strengthened links with agricultural research; and support to farmer organisations and traders to improve information flows through the value chain. Specific issues to consider in initiating market development activities include the fragile, post-conflict state of the country, political concerns around rising youth unemployment and underemployment, and a cash rich government eager to spend in ways that might limit market development, coupled with a relatively 'thin' and underdeveloped private sector (see Annex 8.4).

13. In Solomon Islands the recent mission confirmed the potential of a market development approach to make a key contribution to the Economic Livelihoods priority outcome of the Solomon Islands Australia Partnership for Development, the existence of strong potential partners, and significant developmental opportunities. Potential opportunities are envisaged in a number of agricultural sectors including coconut products, cocoa, domestically marketed food (including betel nut), niche agricultural commodities and small livestock, as well as in financial services and the transport and communications sector. Some early ideas include working with agricultural buyers and input supply companies to improve information flows to growers; supporting SI Broadcasting Corporation to develop a commercial business model for radio shows focused on the information and other demands of rural communities; and working with commercial cocoa buyers to develop commercial cocoa nurseries that can help replace old planting materials and varieties. Specific country considerations include the very weak capacity of government, the extent and depth of market failures across the country, the sensitivity of land issues, the need for conflict-sensitivity and particularly recognition of the drivers of past conflicts, and the strong opportunities to influence other aspects of AusAID's rural, infrastructure and public expenditure management programming.

14. AusAID's Solomon Islands Program has elected to separate the design of their market development program (Solomon Islands – Australia Rural Livelihoods Program) but retain strong links with this Facility that will provide team-building, monitoring and evaluation, and specialised technical support to the Solomon Islands Program (see Annex 8.5).

4. Key lessons

15. A number of common key lessons are emerging from the growing breadth and longevity of market development programs around the globe. The following messages are drawn from program reviews, multi-donor workshops and conferences convened over the last four years to extract and disseminate lessons learned. This

global learning process is set to continue via the Making Markets Work for the Pool (M4P) network (www.m4pnetwork.org) supported by a multi-donor M4P Knowledge Management Facility.

a). Flexibility and responsiveness: Dealing with markets that are dynamic and unpredictable, and trying to understand and facilitate sustainable change in those markets, requires programs which are analytical, agile and opportunistic. In this respect programs cannot always be planned completely either in sub-sectoral focus, timescale or expenditure. It may be necessary to reappraise targets and strategy annually.

b). Tailored implementation approaches: Local operating environments, particularly regarding the size of government and the availability of different business and NGO partners, are important determinants of local implementation approaches. The role and status of women, local environmental issues, and the extent and nature of corruption are also important factors shaping each intervention.

c). Sustainable change: In contrast to direct interventionist and subsidised approaches, market-based approaches focus on changing market behaviour so that benefits continue to be realised by the poor beyond the period of intervention. This takes time and relies upon gradual learning, opportunism, availability of partners and the degree of entrepreneurialism in the private sector. The ability of programs to develop relationships and credibility in the market place is also important.

d). Consistent focus on results: While some interventions are likely to impact the poor directly, large scale benefits to poor men and women often occur indirectly, through changes higher up the value chain. Therefore, maintaining a clear and consistent focus on results and target beneficiaries is imperative. Successful market development programs have strong monitoring and evaluation systems embedded into daily operations.

e). Risk management via portfolio approach: Given market unpredictability it is reasonable to expect that some interventions will fail. Maintaining a portfolio of interventions in each program is a powerful way to manage both up- and down-side risks. Closing down market interventions which are heading 'off track' and expanding those that are exceeding expectations is an essential part of engaging with markets to achieve development outcomes.

f). Unique skill sets: The skill sets required for implementing successful market development programs differ from other development projects, with a premium on market understanding and insight, as well as credibility with a diversity of stakeholders, including private business.

g). Cross cutting issues: the market development approach is built around the coincidence of interest between aid/development and market/private sector objectives, but there can often be tension between the two. The interest and level of attention given to issues of gender, environmental sustainability and the inclusion of marginal groups – such as the disabled – as beneficiaries will often differ between AusAID and private enterprise. Sustainability can only be assured if due consideration is given to environmental, economic and social impacts of interventions. Program implementation needs to ensure that not only are women, the disabled, or the environment for example not any worse off as a result of market interventions, but that opportunities for especially positive outcomes in these areas are sought and realised.

5. Rationale and justification

16. In considering the best way for AusAID to implement market development programs in initially three – and potentially more – countries the following considerations are uppermost:

a).Need for an AusAID-wide perspective: Market-based approaches are new for AusAID and there is considerable potential for cross-learning between country programs. Such innovative programs in-country need to be supported by new business processes, policy direction and guidance as needs arise.

b).Manageable country specific responses: Implementation must be country-specific; however manageability will be a key challenge. Market development programs require close supervision and support, new business processes, and new ways of thinking about program delivery and managing risk, all of which imply higher transaction costs for Posts.

c).Accommodating existing players: In each country there are several donors and donor programs that seek to promote incomes and enterprise development. The basis for decisions about when to partner directly with these, when to fill gaps, and when to operate relatively independently of these requires open and transparent negotiation with host governments and donor partners.

d).Support for implementation approaches: Implementation features of market-development programs include specialist skill sets, a relatively slow start up and slow spend in proportion to staffing costs, a strong emphasis on monitoring and evaluation using specific methods, and a relatively high degree of autonomy and flexibility delegated to program staff. This approach needs nurturing within an operating paradigm and management framework, so that the country-specific activities are not overly ‘project-ised’ by existing donor management systems.

e).Perception of risk: There is a perception that market development programs have inherent risk, related to the lack of defined activities and outputs, the relative freedom in decision making, engagement with a broad range of new stakeholders, and the potential for corruption from working with private sector players ‘doing deals’ in a loosely structured framework. This perception of risk should take into account the development benefits of working in a new manner, and be seen in light of the more obvious but well accepted risks of current project and program approaches which may bypass the market and key stakeholders in the development process. The implementation model would therefore benefit from a commonly agreed risk management approach across programs that receive corporate AusAID endorsement.

f).Alignment with Aid Effectiveness agenda (Paris/Accra): The Accra Agenda for Action calls for working ‘within country systems’ of which the private sector and markets are a major component, and for broadening participation in development efforts. Market development programs need to operate with the most significant *market* players which may include government (e.g. public agencies responsible for regulatory and policy functions) but will also include the private sector and wider civil society who are part of country systems. The programs can also further the Paris agenda by broadening and deepening the engagement of non state actors in development processes, and acting as a nexus between government and non-governmental systems.

17. Consideration was given to a range of implementation options including: having separate and independent market development projects in each country; relying entirely on existing donors and their enterprise programs to promote market development with additional financing from AusAID; embedding a market development program within broader livelihood and rural development programs that are typically focused on capacity building with government; and establishing a multi-country facility providing implementation support to contextualised country-level activities.

18. The proposed approach is the establishment of a Market Development Facility, with a coordinated management and governance structure to support three (and potentially more) market development programs tailored in each country to suit the specific context. The rationale for this includes:

- the ability to obtain AusAID-wide corporate support for risk management, contracting, and monitoring and evaluation across all participating countries;
- the opportunity to promote corporate and cross-country learning, encouraging feedback into broader programming;
- the transaction cost and staffing savings that can be realised from a multi-country facility;
- related to this the increased chance of attracting high calibre strategic management and M&E expertise to the AusAID market development program effort;
- the ability to more easily protect the market development philosophy and approach in each country whilst still enabling positive experiences to inform other aspects of AusAID programs;
- and ensuring cross-fertilisation of ideas and lessons between countries and programs.

19. This approach also permits a clear and unambiguous design with clearly articulated outcomes and accountabilities across the whole program; this simplifies reporting for the 2009 Food Security budget measure and associated Thematic Reporting. The potential weaknesses of this approach vis a vis other models considered – namely the challenge of ensuring strong links with Country Strategies and other AusAID-funded programs, and the likely slower start-up than if AusAID simply funded other similar programs – have been adequately addressed in this design and are outweighed by the benefits.

6. Program Description

20. The design for this program is represented by a flow chart that links the underlying conceptual approach with key management and governance mechanisms (see Annex 8.11). The design is underpinned by a set of *underlying principles* and an *approach* which is critical to success of the program. The *management and governance structures*, and *monitoring and evaluation mechanisms*, are designed to support the approach. The diagram represents the linkages and relationships between these design concepts.

6.1. Principles

21. The implementation of the Market Development Facility has been designed on the basis of the following core principles:

22. *Indirect and facilitatory approach*: providing direct support to beneficiaries may be relatively simple to define and manage, but can only ever reach small numbers and is not sustainable; so the core of the approach involves influencing intermediaries and the incentives they face in their interactions with the ultimate beneficiaries.

23. *Take time to understand, then build on local systems*: poor people's lives and the systems around them are complex; understanding and working out how to intervene in these takes time but is crucial for sustainable outcomes.

24. *Brokering relationships between stakeholders*: by bringing different stakeholders together and helping them identify, then realise, common interests, a donor agency can help facilitate sustainable, pro-poor change.

25. *Appropriate partnership with government stakeholders and other donors*: recognising that government has a valid interest in sectoral change and an important role in enabling pro-poor growth, the program needs effective relationships with government and other donor agencies and will partner with these as appropriate.

26. *Adopting an entrepreneurial culture*: recognising that market systems are in continuous flux and react to intervention in sometimes unforeseen ways requires an incremental experimental approach. This implies a high degree of operational flexibility, and puts a premium on real-time analysis and monitoring over long and detailed ex-ante analyses.

27. *Integrating environmental and social sustainability*: recognising that environmental and social, particularly gender, considerations are vital to sustainability and provide a building block for pro-poor economic growth, environmental and gender considerations will be integrated throughout the program.

28. *Real time learning*: real time monitoring and learning systems are imperative to enable adaptation of activities to maximise successes and to enable continuous development of the implementation team.

29. *Portfolio approach*: a portfolio of interventions is appropriate to ensure substantial net success.

30. *Paradigm shift*: recognising that market development is a new approach for AusAID that will require new methods of engagement and action, reflection, and on occasion 'out of the box' thinking to find management solutions.

6.2. Outcomes and Impact

31. The overall goal of the Program is to sustainably increase employment and incomes for poor women and men in rural and urban areas (*which will be measured by national growth, poverty and employment statistics*).

32. The outcomes of the Program will be:

- Increased competitiveness of sectors and industries that involve poor and marginalised women and men; *this will be measured by increased*

productivity, market share, and business performance in the sector, including the social and environmental performance of businesses;

- Poor and marginalised women and men in these sectors benefit disproportionately from sector or industry growth; *this will be measured by changes in poor and marginalised men and women's (formal and informal) employment and income or non-cash benefits (that will be sustained) relative to wealthier groups;*
- Select market systems able to adapt to maintain competitiveness and sustain benefits for the poor into the future; *this will be assessed by the scale and extent of systemic change – that is changes in the rules and supporting functions of those markets that make it more effective, sustainable and inclusive – in those sectors or industries.*

33. An estimate of the potential benefits of the Program was based on market development program experiences elsewhere in translating dollars invested in the approach – including into interventions and overheads – into sustainable income benefits and jobs. Calibrating these by the context of the three countries – including the scale and dynamism of their market systems – it was estimated that a program investment of AUD14million over a three year period could generate an approximate 15 per cent increase in sustainable income for 40,000 poor farm families and create in the region of 2,500 sustainable jobs⁴.

6.3. Strategy

34. The approach requires insightful and continuous analysis of sectors with prospects for long term growth where poor people live and engage. A team including staff with experience of market development alongside staff with local business knowledge and networks, or the aptitude to make perceptive analyses of market systems, will explore relevant sectors seeking to identify market failures facing poor people and opportunities to intervene and correct these. They will interview relevant stakeholders (e.g. women farmers, traders, exporters, radio stations, NGOs, government regulators) and may conduct rapid surveys to ascertain patterns and trends in the sector, and to gain a sense of the scale of opportunity. They may also draw in relevant short term technical specialists (e.g. in cocoa processing, vegetable disease control, handicraft marketing) to help establish an informed 'picture' of the market system.

35. Where market failures or blockages are identified, the team will explore options for unblocking these. Examples might include: encouraging a business to try out a different business model with the help of a risk-sharing grant; convening a meeting between two stakeholders with different information and interests around a common problem; or demonstrating how similar problems have been overcome in similar countries. At the same time, and before any action is taken, the team will articulate the proposed intervention logic. This will comprise a light touch but logical, if-then causal chain articulating what the proposed intervention will do, what direct effects it will have, and what secondary effects can be expected, including the scale of these effects and the beneficiaries. If approved, the intervention proceeds with the logical model being regularly verified, and if necessary updated to guide further intervention to maximise impact. This forms the basis for the real time monitoring that is so essential for effective program implementation (how this will happen in

⁴ Country-specific targets will be established during the Inception Phase.

practice is elaborated in Annex 8.7). If the initial intervention is successful the team's efforts turn to scaling this up by facilitating others to replicate or new market actors to realise similar opportunities. If the initial intervention fails, the team withdraws to reassess, and identify alternative opportunities. Implicit in this strategy is the requirement that the team selects a limited number of market systems for focused attention. By so doing, the program will be able to influence a wider set of actors in each system (known as 'crowding in') and generate large scale system-wide change. A failure to focus in this way would lead to a scatter of small scale interventions with limited overall impact. Annex 8.11 is a diagrammatic representation of the program design framework and strategy.

36. A demonstration of this strategy in practice is drawn from the vegetable sector in Bangladesh⁵ where low productivity was identified as primarily due to a lack of knowledge and information amongst input retailers and farmers about input use. This intelligence was gathered through key informant interviews and from secondary survey data. The team in this case approached the major input supply companies (Syngenta, East-West, Bayer) with the idea of training input retailers so they could give farmers better information and advice. East-West and Bayer were not interested, but Syngenta was so the team struck a deal in which they contributed two thirds of the costs of a 3-day training program for 480 input retailers across 16 districts. Farmers buying inputs from trained retailers experienced more efficient input use and substantial yield increases; input retailer's (and Syngenta's) sales rose as they attracted new farmer customers, leading Syngenta to replicate the training course across Bangladesh at their own expense; now East-West and Bayer are doing the same.

6.4. Scope and Activity Types

37. The proposed design aims to be as liberal in its scope as possible whilst enabling AusAID Posts to veto certain partnerships, sub-sectors or geographical areas. The intent is to permit the program implementation team the freedom to explore opportunities for pro-poor outcomes as widely and imaginatively as possible and then select the most promising sectors to focus on, but within clearly defined boundaries explicitly stated by Post.

38. The following areas are deemed 'off-limits' to the program across all countries:

- Any illegal activity
- Any activity in, or related to, the tobacco sector, alcohol or gaming;
- Any activity that defies the EPBC Act⁶ or undermines environmental sustainability in the country concerned.

39. The following issues have been considered by each Post in determining the detailed implementation arrangements in-country and any additional areas that would be 'off-limits' (see Annexes 8.3, 8.4 and 8.5):

- Partnerships with any specific actors that would pose a reputational risk to the Australian government (e.g. corporations known to be engaged in illegal activities; NGOs that may have been established as cover for illegal activity);

⁵ For full details refer <http://www.katalystbd.com/casestudies/vegetables>

⁶ In practice, the implementation team will prioritise activities that generate positive environmental impacts over those that do not, in addition to ensuring 'no harm done'.

- Regions that are conflict-prone or emerging from conflict (unless an adequately conflict-sensitive approach can be demonstrated ex ante, and approved by AusAID Peace and Conflict Advisers);
- Regions in which the poor, women, or the disabled are extremely unlikely to benefit from market development activity;

40. The design proposes the following criteria are explicitly used to determine the priorities applied by the program implementation team to activity selection⁷:

- Scale of impact on poor people;
- Proportion of beneficiaries that are marginalised (e.g. women, disabled);
- Ratio of benefits for poor people vis a vis the benefits accruing to the non-poor;
- Extent of environmental (and climate change) benefits;
- Extent of synergy between the activity and the AusAID country strategy in general, and AusAID-funded programs in particular.
- Although a CIT will not be set up in the Solomon Islands, their market development activities (under the Solomon Islands Rural Livelihood Program) will retain strong links to this MDF to provide team building, monitoring and evaluation, and specialist technical support (see Annex 8.5).

6.5. Governance and management

41. Market-based approaches require flexibility and responsiveness in a rapidly changing environment. To allow effective implementation of the Program, the implementation team (as the market development specialists on the ground) will have a relatively high level of autonomy and flexibility to implement the Program within the agreed scope and strategic direction.

42. The centralised governance and management of the Program, with Assistant Director General/Minister Counsellor/Adviser level engagement, will provide the corporate support and endorsement of implementation approaches, bring an AusAID-wide perspective, and facilitate learning and linkages across country programs. This Multi-Country Management Group (MCMG) will be the key decision making body and locus of accountability for the Program. The MCMG, with support from the AusAID Activity Manager based in the Sustainable Development Group (SDG) in Canberra, will manage the Program, through the Implementation Contractor.

43. Country Steering Committees (CSCs), with representation from AusAID Post, the Partner Government, private sector, civil society and other donors, will facilitate broader stakeholder engagement in the Program and ensure relevance to the country context and coherence with AusAID and other donor programs.

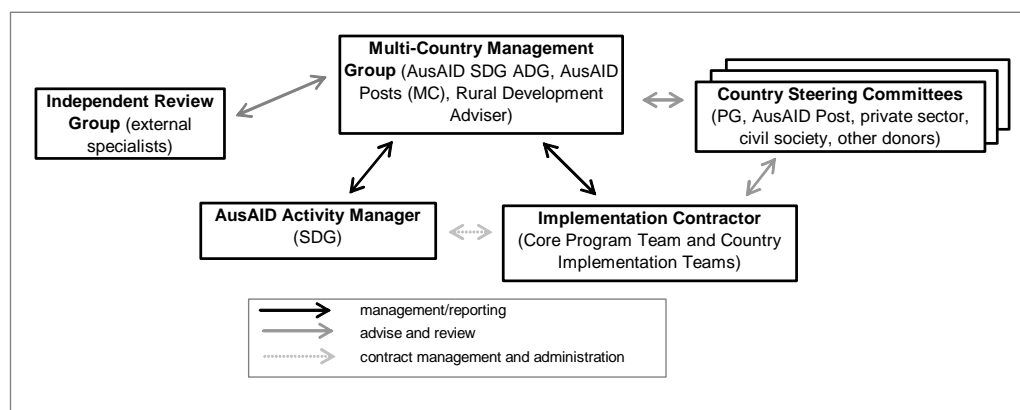
44. AusAID Posts, through their participation in the CSC and interactions with the implementation team, will play a key role in guiding implementation. The centralised management of the Program will allow Posts to focus their resources on strategic context setting and monitoring. To help enable Posts and CSCs to play their roles effectively, training in market development approaches will be provided by the Implementation Team. During the program inception period, this will also enable

⁷ These criteria are to help the implementation team prioritise feasible activities. It is taken as given that any intervention must be in a sector where there are strong prospects for sustained and pro-poor growth, and that all interventions are technically feasible; where either of these conditions do not hold, the implementation team will not consider intervening.

local management and communication arrangements in each country to be tested and refined.

45. Figure 1 below illustrates the governance structure for the Facility. Annex 8.6 details the purpose, accountabilities, decision making functions, membership and meeting frequency of the key management and governance bodies.

Figure 1. Governance Structure.



46. AusAID will commission independent expertise to undertake annual reviews of the Program. The Independent Review Group (IRG) will fulfil a quality assurance function, and contribute to performance assessments of the Program and the Implementation Contractor. The IRG will monitor the systems and processes of the implementation teams, the quality of decision making and management, their alertness to potential political or reputational risk issues, the quality of output and outcome reporting, and the effectiveness of governance arrangements. Terms of Reference (ToRs) for IRG reviews will be drafted annually, reflecting key issues and interests identified by the MCMG and CSCs. The IRG will report directly to the MCMG. It is anticipated that one or two experts will form the core of this team to provide consistency – with one expert drawn from the Rural Enterprise Expert Panel and one appointed by Posts – supplemented as required by other expertise based on the ToRs for each review.

6.6. Implementation Team⁸

47. The Contractor's implementation team will consist of a Core Program Team (CPT, to be based in one of the countries of implementation at the discretion of the Contractor) and Country Implementation Teams (CITs). These teams will have access to additional short term specialist expertise if required.

48. The CPT will be specified in the tender process to include:

⁸ It is important to distinguish the role of the Implementation Team from traditional technical assistance (TA). The Implementation Team will play the role of an external catalyst to market systems whilst avoiding becoming a part of those systems. In contrast, traditional TA is typically embedded inside a host organisation which is part of the system. The Implementation Team seeks to catalyse changes in the capacities of the market system to sustain pro-poor outcomes into the future but without ever becoming a part of that system; thus the role and function of the Team can justifiably be maintained as long as there are market systems that can be changed; this is in contrast to traditional TA where an explicit handover and exit strategy is always desirable. The Implementation Team can be expected to develop a cadre of local market development experts, that could continue this external catalytic function wherever the long term institutional home for such a function lies.

- Program Team Leader; and
- Monitoring and Evaluation Specialist

Suggested other members of the CPT may include:

- Finance and Procurement Coordinator/Manager
- Administration Support

49. Members of the CPT will provide leadership and support across all implementation countries. The CPT's responsibilities include multi-country coordination, planning, oversight, analysis, ensuring effective integration of social and environmental considerations, monitoring and evaluation, procurement, sub-contracting, finances (including management of an Imprest Account), reporting, administration, and relationship management (detailed Terms of Reference are at Annex 8.9).

50. Country Implementation Teams are to be based in-country, in East Timor and Fiji (not Solomon Islands) and will be jointly selected by the Contractor, MCMG and AusAID Post. The Managing Contractor shall mobilise specialist expertise as required. The extent and nature of these technical inputs will be dependant on the type of market interventions in each country.

51. Suggested Membership of the CIT include:

- Lead Specialists (one per country)
- Business Analysts (three per country)
- Monitoring and Evaluation Officer (one per country)

52. The responsibilities of the CITs include: identification of market failures and opportunities; engagement with relevant stakeholders; market research; development of partnerships; setting priorities for action; developing activity designs/proposals; ensuring effective integration of social and environmental considerations; activity implementation; oversight; and monitoring and review. Members of any one CIT may on an exceptional basis be tasked to support Program implementation in another country.

53. Personnel that make up the CITs will be selected following the award of the contract, to ensure the tender process does not limit options for sourcing the most experienced and qualified candidates. The MCMG and Posts will be involved in the selection of these personnel.

54. Program implementation will be guided by Annual Strategic Plans, which will be developed by the Contractor (in consultation with the CSCs) for endorsement by the MCMG. These will define the market systems selected for focused attention, and specify country-specific annual objectives. The Contractor will manage a flexible funding mechanism (Imprest Account) to fund activities that are within the scope of the Annual Strategic Plan. The Contractor will report six-monthly to the MCMG and CSCs on implementation progress.

6.7. Reserved

6.8. AusAID oversight and management

55. Within AusAID, the Program will be managed centrally by Economics, Rural Development and Infrastructure (ERDI). Funding from each of the Country Program areas will be channelled to ERDI and will form one Aidworks Initiative managed by ERDI. The Assistant Director General (ADG) of ERDI will take AusAID executive level responsibility for the Program.

56. The total amount of funds available for the Market Development Facility for the two countries is approximately \$14m. Funds from each Country Program will remain earmarked for implementation of the Program in that country. Scope to include other countries at a later stage will be maintained. The country specific allocations are estimated as follows:

Funds	Total
Country (Aud/million)	
East Timor	8.70
Fiji	4.00
Solomon Islands	1.10

6.9. Monitoring and evaluation

57. A consistent focus on results and responsiveness are critical for Program effectiveness. The Monitoring and Evaluation (M&E) system is the key mechanism to operationalise the necessary focus on results and to ensure ‘real time learning’ – whereby results on the ground are regularly analysed and fed back into decision making at all levels of Program management. The intent is for the M&E system to inform all stages of the Program cycle, enabling managers to use information about results to choose sectors, to set and revise priorities, and to improve interventions (or shut them down) during implementation. This integration of M&E into all stages of the Program cycle effectively transforms M&E from an *event* to a *process*. Annex 8.7 details how the M&E system will be structured, implemented and managed to support Program accountability, learning and decision-making. In summary, the M&E system will focus on three aspects of the Program’s performance: the direct and indirect results of Program activities both within sectors and on the sector or industry as a whole; the aggregation of these activity results to assess the impact of the Program as a whole, with a focus on core Program indicators; and the quality of Program implementation processes. Together with the country-specific annual objectives, the availability of ‘live’ information on these aspects will enable Posts to fulfil AusAID reporting requirements including Quality At Implementation reports and Annual Program Performance Reports.

58. The Program is expected to make multiple interventions in several sectors in each country. In assessing the results of each Program activity a series of steps will be followed, the first of which are heavily dependent on a clear analysis of the market system. Before intervening, the team will have to clearly articulate the specific impact logic, that is the anticipated causal chain from the actions taken by the

program towards the desired results⁹. This will include not only the direct results for a specific firm or firms and the immediate value chain and its beneficiaries (disaggregated by gender), but also the indirect effects on others and wider systemic changes that the intervention is anticipated to have (for example, changes at different points in the value chain, to supporting service markets, or to wider regulatory reforms that are catalysed by the intervention). This analysis will guide the choice of market systems for the team to focus on. Several sample impact logics drawing on market development programs elsewhere are included in Annex 8.7. Impact logics cannot be elaborated at this stage of design because they depend on the choice and analysis of target sectors. Instead they will be elaborated throughout the course of the Program, as promising sectors are identified and new interventions initiated. The impact logics will be used to identify appropriate indicators to assess each type of expected change along the causal chain, and baselines for these indicators will be established. These impact logics and their indicators will either be the same as, or directly relate to, the Program outcomes and indicators outlined above. A key step is then to make ‘best estimate’ predictions of the amount of change in each indicator that may be expected from the intervention. Once this is verified, the implementation team will design and implement a plan to collect data to monitor and assess performance, and proceed to analyse the information generated to understand results, assess the effectiveness of the intervention, pinpoint gaps, and identify lessons learned. This analysis will be fed into the day to day management and decision-making of the Program, and both internal and external reporting and external communications.

59. The M&E team will maintain a database of information on the Program including not only projections and data on results, but also the impact logics and supporting documentation for each sector and intervention, intervention reports and sector progress reports. This database will provide the basis for Program reporting (including Quality At Implementation and Annual Program Performance Reports) and will crucially serve as the institutional memory for the Program that will smooth staff transitions and provide a basis for learning both within and outside the Program. The database will provide a powerful basis for communications with external development actors – such as donors, NGOs, projects, government – and increase their awareness of interventions that might undermine the program.

60. While this activity based monitoring is important, further analysis is needed to monitor Program impact as a whole. The M&E system will provide the Program managers an overall view of the progress of the project toward its objectives by aggregating impact data from all target sectors annually. Crosscutting dimensions of Program impact (e.g. on gender, or environmental outcomes) will be presented as part of this overall picture of Program impact. This aggregation will be achieved by ensuring that sector and intervention level data is entered into a project database and updated regularly as additional information is gathered. The aggregation will rely on the latest figures for each of the interventions and sector level data. Aggregated impact will be reported on an annual basis and also serve as the basis for an annual strategy review which includes analysis of the sectors targeted and the main implementation strategies.

⁹ It is noted that the poor tend to be less involved with the formal economy, so desired results will explicitly include informal employment and non-cash benefits as well as cash income and formal jobs.

61. In addition to quantitative data, the Program will gather qualitative data on impact through a portfolio of case study evidence. The Implementation team will develop a case study methodology and employ local independent specialists to undertake data collection and analysis. The impacts on women and men, households and communities will be the primary focus of the case study analysis. Depending on the scale and number of activities in the overall portfolio, one in five activities will have a case study analysis prepared. This will ask deeper questions than a simple causal logic can address, including the spin-off and flow on effects from interventions, and the use and benefits accruing to individuals and communities from the intended immediate results of the activity.

62. Critical to the overall design are the principles of the market development approach, including its live market awareness, responsiveness, and learning. The analytical, relationship management and judgement skills of the implementation team are vitally important to generate the desired results. Thus the third aspect of the M&E system will concern the quality of Program implementation processes. One key aspect of this is the extent to which the implementation team is learning and improving its implementation approach (including the effectiveness of Program governance mechanisms, demonstrations of live market awareness, responsiveness to local priorities and political sensitivities, the quality of internal critical analysis, and the effectiveness of external communications for example). The other critical aspect is the extent to which the management systems perform, learn and improve (including the effectiveness of team development and management, the value-addition of governance committees, the efficacy of systems to monitor gender, environmental and financial performance, and the appropriateness of contract management systems for example). These aspects of implementation performance will be routinely monitored by the CPT M&E Specialist together with the CIT M&E Officers, and will be assessed annually through an Internal Quality Audit conducted by the CPT M&E Specialist along with the Independent Review Group. This will ensure a cycle of continuous learning within the program implementing teams, but will also enable benchmarking against broadly similar programs to contribute to wider learning. The Quality Audits will involve a series of key informant interviews with program staff and stakeholders, including Post, Partner government, private sector participants and beneficiaries, as well as the tracking of a range of internally agreed performance metrics to address the range of concerns listed above.

63. In addition, a system of staff and governance committee performance appraisals will be an integral part of the program performance measurement system which will address the effectiveness of management arrangements and recommend changes where appropriate. The Independent Review Group will oversee these performance appraisals. Finally, incentives to foster a culture of critical reflection and debate within the team will be included and assessed

64. At the mid term (2 years) and end of program (4 years) separately managed evaluations will be prepared by AusAID. The evaluation missions will draw on the activity, quality and impact evidence collected throughout implementation, and will use structured interview processes with key stakeholders to verify findings and conclusions.

7. Feasibility Analysis

7.1. Risk

65. This design proposes an implementation approach that is new to AusAID. The organisational challenges inherent in applying novel approaches are addressed by coordinating and, to some degree, centralising Program management and governance to obtain AusAID-wide corporate support for risk management. The proposed Program design and management structures, and particularly the heavy emphasis on real time M&E systems, are established to effectively manage implementation risks. The key contextual and operational risks to the Program, and the means by which they will be managed, are outlined below and in Annex 8.10.

66. External events leading to increased political instability or even conflict in the countries concerned would jeopardise the operations and outcomes of the Program. Political instability would likely result in increased macro-economic instability that could undermine the prospects for growth in sectors important to the poor and marginalised. This is deemed to be a moderate risk that will be partially mitigated by consideration of such when selecting focal sectors.

67. A further external risk is that host governments could regulate in selected sectors in ways that diminish opportunities for increased competitiveness and growth, and therefore opportunities for the Program to catalyse pro-poor changes. A related risk is that other donor or NGO programs undermine the Market Development Facility by, for example, providing free handouts in a sector that disables market development. This is a high risk that will be partially mitigated by Post-led policy dialogue, by Post eliciting from government and other stakeholders topics suitable for deeper research and analysis by the Implementation Contractor that may lead to reduced market interference, and by the Program's selection of sectors least susceptible to such unsustainable interference. The positive impacts of market development interventions is also explicitly intended to influence other government and donor interventions over time – and the Implementation Contractor is expected to play a pro-active external communication and influencing role in this regard – reducing this risk further.

68. A key operational risk is that there may be a disconnect between AusAID Canberra and AusAID Posts, given the centralised governance and management of the Program. This could result in Post either lacking effective oversight of the Program or being overwhelmed with its detailed monitoring. It could lead to a lack of Post ownership of the Program and a failure to realise synergies between this Program and other country strategy objectives. It could also result in a loss of operational flexibility for the implementation team. These risks will be managed through the proposed governance and management arrangements, by ensuring regular communication between stakeholders, and through regular review of governance arrangements. Recent detailed discussions with Posts have generated a shared understanding of the Program and its required *modus operandi* in each country, further reducing this risk.

69. A further risk is the failure to attract and retain suitable expertise to implement the Program. Expertise in this field is limited, and attracting that expertise to Pacific locations is expected to be a challenge. Without experienced market development experts to groom local implementation teams, the Program will struggle to consistently apply the principles, recognise intervention opportunities, and generate

results. This risk is mitigated through the facility approach whereby expertise can be shared across countries and experts have greater choice in where they reside. The proposed procurement strategy and encouraging known experts to consider tendering for the Program will also be important to manage this risk.

70. The potential lack of suitable partners for a market development Program is deemed to be a moderate to low risk. Scoping work to date suggests significant opportunities exist to catalyse market-driven change in all three countries. Whilst in some sectors there may be limited numbers of actors with which to partner, or there may be limited interest in the Program ‘offer’, the Program strategy is designed to seek ‘win-win’ scenarios as the basis of all partnerships and ensure that ‘just enough’ support is offered to partners to catalyse sustainable change. Monitoring the implementation of this aspect of the strategy will be important to managing the related risk of perceptions of unjustifiable partner bias.

71. The risk that the Program partners with undesirable market actors, creating reputational hazards for Australia is judged to be moderate. The Contractor is required to conduct appropriate due diligence as a pre-cursor to any partnership, to pro-actively identify and discuss such risks with AusAID during the process of market analysis and scoping of opportunities, and to regularly seek advice from Post regarding the risks posed by significant new partners (as set out in Annexes 8.3 and 8.4). Together these will limit this potential risk to an acceptable level.

72. The risk that cross-cutting issues are not appropriately considered and effectively integrated during Program implementation is deemed moderate. Failure to incorporate all aspects of sustainability, particularly social and environmental issues, would fundamentally limit the potential impact of the Program and could in the worst case expose AusAID to reputational risk. This issue is elaborated in section 7.2 below and in Annexes 8.1 and 8.2, where process and governance mechanisms to mitigate this risk are detailed.

73. Ensuring cross-learning amongst the initial three implementation countries, and beyond these to other country programs, will be a challenge. Without explicit efforts to ensure this takes place, the valuable experiences and lessons could be lost resulting in reduced Program effectiveness. The prospects for cross-learning are promising however, with a single Implementation Contractor operating across countries, strong Program management links into the Thematic Group that is charged with disseminating lessons, and strong demand from stakeholders within and beyond AusAID for results from this aspect of the 2009 Food Security Budget Measure. Together these will create and maintain strong incentives to distil and share lessons widely.

7.2. Cross Cutting Issues

74. A fundamental aspect of the market development approach is its indirect, facilitatory way of working, and its dependence on partnerships with intermediaries. Unlike other approaches that are more direct, management therefore exerts less direct control over the activities that it catalyses others to undertake. Typically those partners may be businesses that do not necessarily share a donor’s interests in pro-poor outcomes, or inclusive development, or in realising potentially positive environmental externalities or gender outcomes that may arise. As a custodian of public funds, it is imperative that these issues which reflect the wider public interest

are properly and consistently addressed throughout Program implementation. Several things have been put in place for this to happen.

75. Firstly, the implementation team must be able to recognise that often a coincidence of interest does exist between private and public stakeholders in market development programs. For instance, eliminating the use of dangerous pesticides is necessary for the long term viability of a vegetable value chain; similarly, ensuring female farmers are able to access technical information may be crucial for new technology uptake and sales. The team will appreciate these as opportunities to be realised.

76. Secondly, Program implementation will be governed by mechanisms that consistently and appropriately ensure the wider public interest is served whilst protecting the need for flexibility and responsiveness. This will be addressed in several ways: firstly, by ensuring that the environmental and social analyses conducted as part of this design (see Annexes 8.1 and 8.2) are kept up to date so as to inform wider market analyses and interventions throughout implementation (and by similarly ensuring conflict analysis is conducted where appropriate and used to inform intervention approaches); secondly, this design has put in place mechanisms to ensure the interventions pursued do not worsen the situation with respect to women or the environment for example, and where opportunities to achieve exceptional outcomes present, these are realised where feasible; and thirdly, the implementation team will be incentivised at Post's discretion to pursue specific interventions that will generate positive outcomes with regards to gender, the environment, disabled groups, or anti-corruption for example.

77. The major effort to address cross-cutting issues is concerned with integrating appropriate consideration of these issues in the day to day operations of the implementation team. A series of mechanisms are in place to do this including: incorporating expertise in cross-cutting issues into the Core Program Team; including gender and environmental advocates on the Country Steering Committees; explicitly incorporating social and environmental aspects of sustainability into the process of identifying and selecting interventions; establishing specific tools to ensure social and environmental aspects of each intervention receive appropriate consideration; and including social and environmental expertise in the Independent Review Group. The Implementation Contractor is required to ensure the whole team has a strong appreciation of the context they are working in, with particular respect to the role of women in key sectors, the nature of intra-household dynamics, the drivers of violence against women; the local legal and regulatory system for environmental management; the EPBC Act and its implications; and potential sources and drivers of corruption.

78. In terms of pursuing specific interventions that will generate outcomes around anti-corruption or gender for instance, this will be determined by Post through the agreed criteria for determining the scope of activity. It may involve researching and then selecting sectors with a high number of female workers or owners, or products that benefit disabled people for example. It might also involve scoping opportunities in environmentally sensitive locations or sectors, with a view to establishing a more sustainable basis for environmental protection measures, or simply involve Post setting a minimum number of interventions with explicitly environmental or gender outcomes for instance. In determining the appropriate approach and level of proactive interventions, it will be important to outline the explicit costs and implicit opportunity costs involved.

79. Detailed analyses of the specific contexts with respect to gender and the environment in each country are at Annexes 8.1 and 8.2, along with specific mechanisms to ensure these are appropriately integrated into Program implementation.

7.3. Sustainability

80. Sustainability is central to the market development approach at both the activity and systems level. At the activity level, the indirect and facilitatory nature of interventions leading to changes that are sustained by the incentives of relevant stakeholders beyond the period of the intervention means the activity and its benefits will be sustained. By pursuing activities and subsequent interventions that can lead to system wide changes in the rules governing how particular market systems work, and the capacities to evolve those rules over time, sustainability becomes more fundamentally embedded in the approach of the Program.

81. The Program outcomes, management arrangements, implementation strategy and monitoring and evaluation framework reflect this. The extent to which the Program is proving true to these principles will be a key element of the MCMG and CSC meetings, IRG ToRs, and AusAID evaluations.

82. One ongoing challenge for the Market Development Facility is where its long term institutional home might be located. Assuming the Program is successful in catalysing sustainable change in a number of market systems during the Program's life, it is likely that other and new market systems will remain that do not work in favour of the poor, and could benefit from similar interventions. One solution might be to continue donor funding of such a Facility; another option would be to simply stop the program at the end of the funding period, leaving behind sustainable benefits; another might be to gradually work towards a self-financing Facility model; or a further alternative could be to seek host government funding of such a Facility and possibly locate it within government structures, or elsewhere within partner country systems. Given the potential influence of the Facility over wider AusAID development programming, these are issues that the MCMG, Post, CSCs and the Implementation Team should contemplate from the outset. Proposals regarding the long term institutional home for the market development function should be developed – with support from other donors through the multi-donor M4P Knowledge Management Facility – for consideration at the mid-term review. Regardless of whether or not a long term institutional home is found, the sustainable benefits generated by this Facility during its funded period justify the approach being taken.

8. Annexes

8.1. Gender Analysis and Integration Plan

Introduction

During the design of the Market Development Facility extensive consideration was given to how gender considerations would most effectively be incorporated throughout the Program. The key challenge facing the design team was the indirect and facilitatory nature of the market development approach, that limits the direct control an implementation team can exert over activities. Therefore it was critical to devise systems and mechanisms to ensure gender was being considered at all stages of the implementation cycle – from analysis, through the crafting of interventions and the monitoring of these, through to evaluation – and throughout the management and governance arrangements.

A Gender Specialist was contracted to work with the design team for this purpose. The Specialist's role was to inform the design team of the key gender considerations in the countries concerned, to synthesise literature and the lessons around gender and market development, and to propose governance and management mechanisms that would ensure gender was fully integrated into Program implementation. An iterative approach was taken whereby the design was continually revised and updated to incorporate suggestions from the Gender Specialist. This annex sets out in detail how gender considerations have been integrated.

Background

AusAID Policy on gender equality

Gender equality is a guiding principle of the Australian aid program and is integral to all Australian Government aid policies, programs and initiatives. It means that women and men have equal opportunities to realise their individual potential, to contribute to their country's economic and social development and to benefit equally from their participation in society. Gender inequality restricts a country's economic growth.

The AusAID policy, “Gender Equality in Australia’s Aid Program – Why and How” (2007) sets out what Australia aims to achieve through the aid program. Its goal is to reduce poverty by enhancing gender equality and empowering women. Relevant to market development programs, one of its aims is explicitly to, ‘improve the economic status of women’ as “economically engaged women are primary actors in addressing extreme poverty and are able to ensure their children are educated”.¹⁰ It also seeks to promote equal participation of women in decision-making and leadership, including in fragile states.

There is a growing body of evidence linking gender equality to aid effectiveness and development more broadly. Gender equality and women’s empowerment are central to the achievement of all Millennium Development Goals (MDGs). The World Bank has also demonstrated that activities that take gender equality into account tend to achieve their objectives more often than projects that ignore them¹¹.

¹⁰ AusAID 2008a

¹¹ *ibid*

Why gender equality matters for market development

Markets are an important part of women's lives – particularly for productive and economic reasons – and markets are reliant upon women's participation for growth and stability. Yet women are often excluded from markets, or included on unfair terms. This inefficiency reduces growth and the benefits that women can gain through equitable participation. Market development activities can encourage markets to work better through gaining fuller benefits from and for women through the market mechanism.

Planned market development activities will have different impacts on men and women – it is not a 'level playing field' for women and men in Timor-Leste, Solomon Islands and Fiji Islands with respect to markets.

Emotional, physical, sexual and economic abuses are also all forms of Violence Against Women (VAW) that impact on women across these countries and the region. This high incidence, combined with the culture of fear it generates, reduces women's participation in political, social and economic life.¹² Across Timor-Leste, Solomon Islands and Fiji, many rural women also are less literate than their male counterparts, and have a triple-role¹³ (productive, reproductive and community-based) resulting amongst other issues in significant time poverty. Special considerations need to be factored in about appropriate forms of women's participation through market development activities.

Positively, studies and programs show that pro-poor, broad-based economic growth offers the opportunity to capture a missing section – that of women – across the productive economies in the Asia-Pacific region. The partner countries – Timor-Leste, Solomon Islands and Fiji Islands – also have commitments to gender equality as signatories to the United Nations Convention on the Elimination of Discrimination Against Women (CEDAW), the Pacific Plan, and their own national legislation. These can be supported through enhancing women's economic development.

Given that, "economic activity has been a crucial means by which women, particularly poor women, have gained access to finance, markets for goods and services, capital and labour"¹⁴, it is critical that market development activities are gender-aware. More than this, the important role that women play as parts of chains of production across Timor-Leste, Solomon Islands and Fiji Islands needs to be recognised through the Program.

Women are engaged at all levels - whether buying and selling food for families at local markets, working in urban centres, micro-enterprises or large factories. These women also sustain livelihoods for families and are responsible for family food production, whether tendering food and subsistence crops in gardens, inshore and river fishing, gathering forest products, and raising domestic animals.¹⁵

These factors contributed to the apt gender goal of the similarly modelled market development program, Katalyst I and II in Bangladesh, namely: "Empowering women to participate more effectively in markets"¹⁶.

¹² AusAID 2008b. The AusAID Gender Framework for Action Strategy can also be applied to market development

¹³ Moser 1993: 27-29, 31, 34

¹⁴ UNIFEM 2009: 54

¹⁵ UNIFEM Pacific 2008: 4

¹⁶ Katalyst 2008a

Gender equality considerations for Program countries

Timor-Leste¹⁷

Gender equality is important to the Timor-Leste Government. Twenty-five per cent of Parliamentary Members and public sector staff are women, the Timor-Leste Government is a signatory to CEDAW and has a Gender Mainstreaming Policy in its National Development Plan (2002).¹⁸ The Secretary of State for the Promotion of Equality (SEPI) is another main governance mechanism - an advisory body set up in the Prime Minister's Office that delegates to all Ministries responsibility for gender mainstreaming in planning and programming.

Overall, women in Timor-Leste have been badly affected by the 1999 crisis and conflict in 2006. They are poorly represented in the labour force and lack equal economic opportunities. 93% of the labour force is in the informal economy and women dominate low-value areas due to limited access to credit, a lack of skills, poor mobility, domestic responsibilities and cultural factors.

Women are also disadvantaged more than men by Timor-Leste's weak legal and regulatory system for doing business and view it as 'highly corrupt'. Women instead rely on informal means and ways of addressing legal disputes.

Statistics do not always disaggregate by gender. For example, while Timor-Leste is ranked 170 out of 181 countries in the World Bank (WB) Doing Business Indicators (DBI) 2009 report, this does not reflect women's particular obstacles – whether they are operating in the formal or informal sectors.

The majority of rural women and men are involved in agriculture (subsistence farming), but discrimination against women in owning productive resources (land and capital) means they have relatively limited means to take advantage of agricultural market opportunities¹⁹ even though greater productivity in agriculture is needed.

Rural women in the informal economy need access to credit (such as through integrated service provision of microfinance, financial services), business and technical skills training, and market opportunities. In gaining finance for activities in agriculture and the marketplace, rural women indicate that savings facilities and products are unavailable, inappropriate or hard to access. However, Moris Rasik is an example of a well-functioning Micro-Finance Institution lending to many women in rural Timor-Leste – these loans help to facilitate women's entry into the marketplace through agriculture.

Given this context, the Program in Timor-Leste should consider:

- Making efforts to address the lack of information and training in basic business acumen for women that is constraining their access to markets.
- Factoring into market development activities women's poor access to means of communication²⁰ and hence their reduced ability to benefit from, for example, SEPI's planned training on women in business through radio and TV broadcasting.

¹⁷ Drucza K., and Hutchens, A. for AusAID/IFC 2009

¹⁸ UNIFEM 2005: xii, 13.

¹⁹ Ireland Aid 2002

²⁰ In 1998, Timor-Leste had only eight telephone lines per 1000 people, and only a third of the population has radios while less than 10 per cent has a television. (UNIFEM 2005: 9)

- Acknowledging that its activities will not – without design – generate equal benefits for women. Women have a lack of access to markets and knowledge to compete with imported foods/crafts, comparative to men. There are few partnerships with fair traders to overcome this. For example, women are often bypassed or not represented in the value-chain that links the farmgate or agricultural producers through fair trade organizations to the end consumer. Accessing regional value-added markets through fair/ethical traders could assist rural women with a supply chain to market.
- The resourcing levels, limited outreach and representation of women in forums or associations, when targeting or seeking to engage with women. There are a range of mechanisms and associations available for women, such as the active 2008-established Women's Business Association in Dili.

*Fiji Islands*²¹

The Fiji Government's Strategic Development Plan 2008–2011 states the commitment to '... enable women to participate fully in the socio-economic development of the country.' Also in Fiji, the Women's Plan of Action aims to, 'allocate additional resources to develop women's micro-enterprises and encourage financial institutions to review lending policies to disadvantaged women ... who lack traditional sources of collateral' (Ministry for Women, Social Welfare and Housing).

Overall, women still remain a largely untapped resource in Fiji's economy. Women make up only 31 per cent of the economically active population in Fiji, and their formal unemployment rates are higher than men's (6.5% versus 3.5%)²².

While Fiji is ranked 39 out of 181 countries in the World Bank (WB) Doing Business Indicators (DBI) 2009 report, this does not explicitly reflect women in the informal sector and their obstacles.

It is estimated that women make up 36 per cent of those engaged in informal sector activities.²³ Fiji has only 19 per cent of registered businesses in women's names – mostly in hotels and private education sectors.²⁴

Most women in Fiji are excluded from inheritance rights in customary land, and do not receive rents from land. These lack of land rights - particularly important to women in rural areas - also contribute to women's poor access to finance (via lack of means for collateral).

There remains a need for finance by women at Small and Medium sized Enterprise level despite an increase in women receiving microfinance loans – such as through ANZ Bank, the National Centre for Small & Micro-Enterprises Development (NCSMED), or the Women's Social and Economic Development Program, run by the Ministry of Women, Social Welfare and Housing (MWSWH).

Given this context, the Program in Fiji Islands should consider:

- Factoring in the poor information and telecommunications, internet infrastructure that particularly isolates women, into any activity interventions, timing and consultations with women.

²¹ Bowman C., and Cutura, J. for AusAID/IFC 2008

²² Narsey 2007

²³ Booth 1999, in ADB 2006

²⁴ IFC 2003. The IFC's SME Survey included 301 respondents (58 female), whose businesses focused on manufacturing, services and trade.

- Seeking to lessen, not heighten the burden on women as a result of traditional views of a woman's lower social status and cultural norms in Fiji. Women often have large families and significant responsibilities and time burdens placed upon them.
- Ensuring activities improve information to women, and engage women in the value/supply chain. In Fiji, women's poor access to knowledge on business success and for example in the handicrafts industry, lack of product development, pricing, and export markets knowledge, is constraining economic productivity.
- Working with some of the number of civil society organisations (CSOs) that work with and represent women. For example, Fiji Women in Business are seeking to expand outreach beyond Suva, others are advocating for women's issues in general, but generally women in business are less well organized than their male counterparts.
- Coordinating with a number of other donor initiatives that support gender issues in Fiji, though note that many of these programs do not necessarily target women in business (formal or informal sectors). Some of these donors and programs include: EU (PSD component of its grant program); ADB (review of legislation affecting women, Country Gender Assessment); and UNIFEM (gender rights program).

Solomon Islands²⁵

The Solomon Islands Government has committed to promoting gender equality in national, regional²⁶ and international²⁷ development policy frameworks, yet the country performs poorly on gender equality - ranking 129 out of 177 countries on the Gender-related Development Index (GDI). Women's economic empowerment is a neglected issue in national development policy. There are also no specific laws in Solomon Islands that address equal opportunity for women and men, equal pay, or sexual discrimination/harassment at work.

Overall, rural women in the Solomon Islands have not benefited from stronger national economic growth in recent years.²⁸ For example, logging provides high employment and export earnings (70 per cent) yet three-quarters of all women do not do any paid work.²⁹

Women are also under-represented in the labour force. In 2002, 65% of the population was employed in mainly village-based micro-enterprises, though only 54% of women are 'economically active' (formal/informal), (but earning half the average male wage).³⁰

Solomon Islands is ranked 89 out of 181 countries in the WB DBI 2008 report. However this does not reflect women in the informal sector and their particular obstacles.

Food and handicraft markets hold particular socio-economic significance for women. 91% of people depend on selling food at markets, and 70% (mostly women) rely on

²⁵ Bishop, S. and Hutchens, A. for AusAID/IFC 2008

²⁶ Including the Pacific Islands Forum (PIF) agenda and the PIFs-endorsed Pacific Plan.

²⁷ Includes, but is not limited to, CEDAW, MDGs.

²⁸ AusAID 2006a

²⁹ AusAID 2008c: 27; AusAID 2006b. The logging sector is also expected to decline as soon as 2009.

³⁰ UNDP, 2002: 64. The percentage would be much higher if the informally active were included.

income from handicrafts and baskets.³¹ However this sector, and hence a key avenue for women's livelihoods - lacks investment from government or other sources. Women in the Solomon Islands need pro-poor livelihoods initiatives that work in sectors where they are most active – such as food and handicrafts – and are 'pro women'.

While domestic food and handicraft markets are a primary source of income for rural women, these women have become increasingly vulnerable to political influence including as a result of their 'informal' status in the economy. Recently, the five markets in Honiara – primary locations for women to sell goods and earn income – have been reduced to just one, with a range of health and other issues associated with women's work in the marketplace.

In the Solomon Islands, women also have disproportionately less access to collateral compared to men ((i.e. access to land, income, National Provident Fund (NPF) savings) against which up to 30% of value can be borrowed). This reduced access to finance – a key means of capital and support for their families' livelihoods – combined with a lack of financial literacy (basic savings) makes women's role in the marketplace particularly difficult.

Given this context, the Program in Solomon Islands should consider:

- Giving careful consideration to enhancing women's financial literacy and access to finance through activities. Take particular note of the fragility of micro-finance schemes in the Solomon Islands context, which can be undermined for women due to significant cultural and family obligations and a lack of follow-up support to women or groups of women to assist with savings and repayments
- Ensuring the Program sensitively engages and consults with women through consultation on issues including land as part of its activities. It should note the particular difficulty for women in registering land and property, and dealing with the Ministry of Lands. Even if it is matrilineal land, foreign operators often bypass women in Solomon Islands.
- Building in training or capacity building in skills areas specific to women. Rural women's lack of technical, business, and other skills reduce their competitiveness of their endeavors in the marketplace. Market development activities should facilitate the market to enhance these skill areas for women. The Implementing Team should seek ways to enhance women's skills, making them more competitive in the marketplace.
- Engaging with women participants through various groups representing or working with women, noting however that many groups neglect focus on women's economic issues and often have limited resources/capacity. These include the National Council of Women (NCW), (focused on women in politics), the Honiara-based Women in Business Association, and the Ministry for Women, Children and Youth Affairs that has income-generation projects for rural women.

Integrating Gender Considerations into Design

The potential for the Program to bring about both positive and negative gender outcomes is considerable. To address this, the design takes an integrated approach to

³¹ *ibid*

gender considerations, ensuring that key mechanisms are built into the design and that gender equity principles guide the implementation of the Program as a whole.

Gender Principles to Consider

AusAID's operating principles for achieving gender equality through programs can be applied equally to the Program, including seeking to:

- Strengthen partner ownership and support country-driven priorities on advancing gender equality
- Engage with both men and women to advance gender equality
- Strengthen accountability mechanisms to increase effectiveness, such as through engaging women and their considerations appropriately within its governance mechanisms, and its monitoring and evaluation processes
- Collect and analyse information to improve gender equality results.

A review of the 10 principles for good international engagement in fragile states and situations³² provides further guidelines on gender considerations within the operations of the Program, including to:

- Ensure representation from women in decision-making including within the governance structure (whether informal at activity levels, via more formal associations or representation on the CSC, and in the IC team skills composition)
- Provide for women's access to some ongoing mentoring/contact with the Program, for example from activity level through to CSC and the MCMG
- Build in ongoing conflict and governance analysis in monitoring and evaluation – per country/sector and for different target audiences of women.

Lessons relating to gender equality from private sector development programs were also relevant considerations for the Program including:

- The desirability of taking a 'Gender and Development' (GAD) as opposed to a 'Women in Development' (WID) approach, that can help shift the focus from women in isolation to unequal gender relations between women and men. It aims to empower women and gain an equal voice for women through recognition of their knowledge, experience, activities and productive and reproductive labour.³³
- Seeking to identify 'Strategic Gender Needs', for example by involving women as agents of change, principally as entrepreneurs.
- A focus on addressing gender needs through an emphasis on the 'productive' roles of women. The focus on productivity can also contribute to initiatives of women-owned enterprises (majority of these are in agriculture and manufacturing).
- A focus on 'women entrepreneurs' and 'women as consumers' within the Program in addition to 'female employees' to optimise opportunities for empowering women to participate effectively in the markets.

Integrating Gender more Explicitly in Program Goals

The overall goal for the Program is revised to explicitly focus on both men and women. Further, the inclusion of gender (both men and women) in the expected outcomes of the Program has increased the likelihood that both men and women will gain an equitable share of the benefits from activities (whether access to resources,

³² Summary and review/application of: OECD DAC 2007; OECD DAC 2008.

³³ March et al 1999: 9; Moser 1993: 3

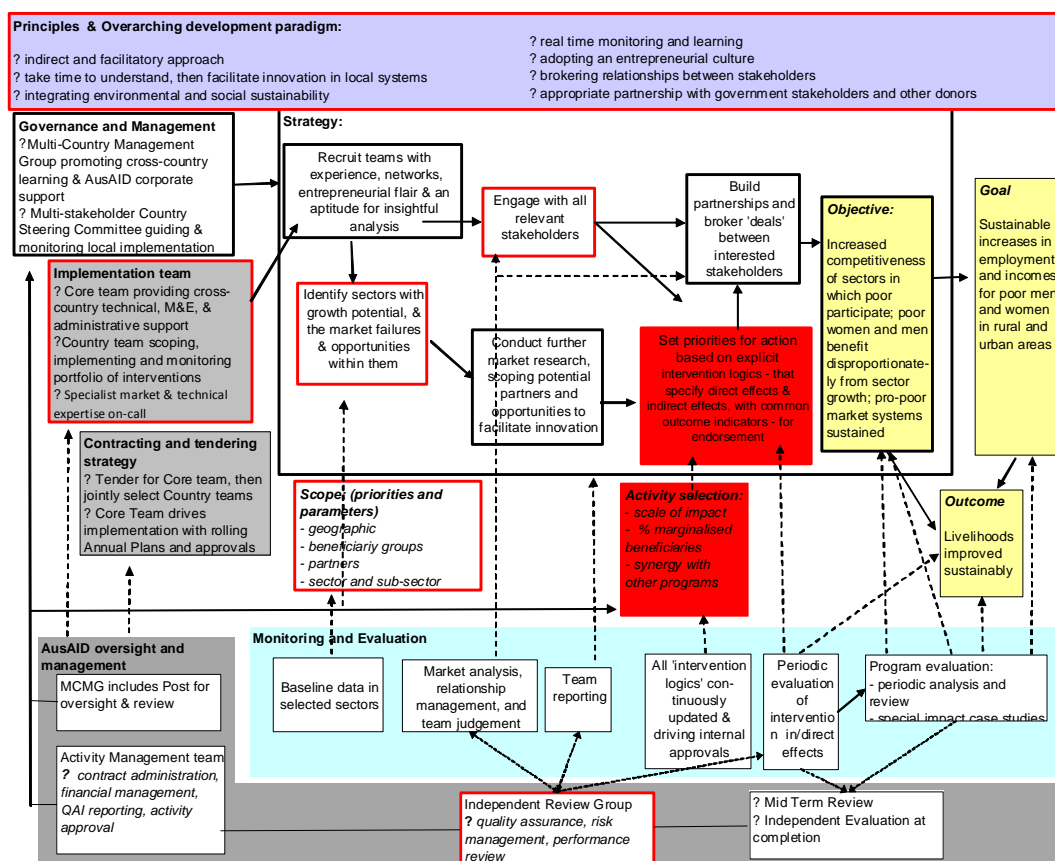
decision-making, rights or local institutional capacity in gender equality considerations).

Integrating Gender into Program Management and Governance Mechanisms

As a flexible facility mechanism influencing and enabling other actors, the Program cannot directly control the operating environment with respect to gender considerations. However there are certain aspects that the program can control and will prioritise, namely: focusing on markets and sectors where women are already participating or can potentially participate to a greater extent and on better terms; and applying a gender-lens systematically throughout the sequence of interventions from initial market analysis, to visioning the proposed intervention logic, through to monitoring the intervention as it plays out, modifying it as appropriate to realise opportunities to improve gender outcomes. The Program will also systematically consider the longer-term implications of how women can more fully participate in and benefit from markets, even if the Program cannot achieve this outright in its current scope.

The seven (7) key checkpoints below are fundamental aspects to this underlying, long-term goal of improving women's participation in and benefit from markets, and also in the shorter-term ensuring the Program goals are met with respect to men and women. In the Program Design Framework and Strategy Diagram below (Figure 1), the key decision-making points where gender issues will be considered, and where specific mechanisms will be applied, are highlighted.

Figure 1. Program Design Framework and Strategy Diagram



Key to diagram:

	Decision making points where gender considerations should be factored in		Develop a mechanism to ensure gender analysis is undertaken
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To encourage **management processes** that ensure gender will be ‘mainstreamed’ across the Program, the Program has incorporated the following³⁴:

1. Implementation team: Responsibility for gender considerations are contained within the Core Program Team (for the overall Program), and each Country Implementation Team.
2. Identifying market failures/opportunities: Gender analysis will be undertaken when selecting activities or industry sectors. Consideration will be given to including sub-sectors with relatively higher percentage of female involvement, which will offer more opportunities and long term benefits to women in terms of their Strategic Needs
3. Engage with all relevant stakeholders: Team will ensure women affected by activities are identified and engaged through consultation process, including consideration of any representative associations and women in counterpart government agencies for the activity.
4. Scope (priorities and parameters): Screening criteria that favour service provider/partners who are positively focused towards targeting female clients and employing women will be employed. Where possible, a certain number of women will be selected as service providers to enhance participation of women in mainstream project activities.
5. Independent Review Group: Gender expertise will be incorporated as part of this group to provide Program-wide oversight, and backup expertise to the CPT and CIT.
6. Activity types: The implementation team will develop checklists and selection criteria to ensure gender considerations are analysed and reflected in prioritised activities and their monitoring and evaluation. Gender sensitivity will be promoted in training activities, and particular efforts made to ensure that women entrepreneurs gain information and access to training and other business services where appropriate.
7. Set priorities for action: The implementation team will develop a Gender Tool to help test intervention logics and identify both primary and secondary impacts on women.

Gender considerations will be integrated in the **governance framework** as follows:

Multi-Country Management Group (MCMG)	The MCMG will consult prior to its 6 monthly meetings with a member of the Independent Review Group on the gender aspects of the Program (progress and recommendations for upcoming 6 months).
Country Steering Committees (CSCs)	A gender advocate will be included in the CSC. This could be drawn from: a counterpart government department, a civil society or women’s association, or a Gender Specialist in-country. In addition, at least one woman will be represented on each CSC.

³⁴ Informed by Katalyst 2008b

Expert Review Panel / Independent Review Group	Gender expertise will be included in the Independent Review Group to ensure review of gender considerations and practical suggestions for improvements within the Program.
Implementation Contractor	<p>Within the Core Program Team:</p> <ul style="list-style-type: none"> ○ The TORs of the Program Manager (Team Leader) will include responsibility for gender considerations and integrated learning across the Country Implementation Teams ○ The short term Monitoring and Evaluation specialist will be responsible for applying a gender-lens to their work across the Program <p>Within each Country Implementation Team:</p> <ul style="list-style-type: none"> ○ One of the three Lead Specialists in each country will be tasked to become a gender champion, and the point person for the Independent Review Group

Integrating Gender into Monitoring and Evaluation

The Program will include gender indicators that will help to measure both direct and indirect gender effects and outcomes from activities. A gendered perspective to the M&E approach and framework will enable the Program to assess if both women and men have benefited equitably from an activity or whether an activity has exacerbated existing gender inequalities.

At the activity level, the intervention logic will consider both direct and indirect effects on women and men. In developing this the implementation team will consider the following:

- An analysis of gender roles and needs in the market system concerned, including household resource allocation, and intra-household dynamics for example;
- How a gender-lens should be applied throughout the full activity cycle. For example, this could include gender-sensitive participation and consultation of women and men in planning and implementation, governance processes including women and men, means to make the activity in its implementation more gender aware, and consideration of any additional work necessary to gain gender disaggregated data.

Data collected at the activity level will include information, where appropriate, on the scale of outreach (quantitative numbers of men and women reached); additional net income (survey men and women as a result of Program activity); and additional, net FTE jobs created per year (men and women).

At the program level, gender dimensions of aggregate impact will be explicitly presented as part of the overall picture of impact. This will be achieved by collating the gender-disaggregated information from activities, and also applying a strategic gender lens across the aggregated impact data. In addition, qualitative analyses will be conducted using selected case studies to discern, amongst other things, the pathways to indirect impacts on women and men, as well as impacts on wider gender relations.

A key aspect of the M&E system is the extent of Program responsiveness and learning. An explicit aspect of this will include the effectiveness of the governance

and management mechanisms in integrating gender considerations. This will be routinely monitored by the CIT M&E officer and the CPT M&E Specialist, and formally reviewed as part of the annual Internal Quality Audit. In addition, the Independent Review Group will include gender expertise to allow these Program quality aspects to be explored and improved. Some potential gender-specific indicators that the implementation team might use include the proportion of:

- activity interventions that were screened for risks and opportunities to both men and women;
- gender issues that were identified during market analyses and then later incorporated into the sub-sector strategy and action plan;
- intervention screening criteria for the selection of service provider/partners and activities included gender considerations

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8.2. Environmental Analysis and Integration Plan

Introduction

During the design of the Market Development Facility considerable thought was given to how the issue of environmental sustainability should best be incorporated throughout the Program. As with gender and other cross-cutting considerations, the key challenge facing the design team was the indirect and facilitatory nature of the market development approach, that limits the direct control an implementation team can exert over activities. Therefore it became critical that systems and mechanisms be devised to ensure that the environment and environmental sustainability was being considered at all stages of the implementation cycle – from analysis, through the crafting of interventions and the monitoring of these, through to evaluation – and throughout the management and governance arrangements.

AusAID's Environment Adviser worked closely with the design team to help achieve this. Through an iterative process of exchange and redrafting of the design document, environmental issues were practically considered and effectively integrated. This annex sets out in detail how environmental considerations have been integrated.

Background

AusAID Policy on environment

In the 2009/10 Budget the Australian Government renewed its commitment to an aid program focused on delivering poverty reduction and sustainable development. As part of this commitment greater emphasis has also been placed on accelerating progress towards the Millennium Development Goals, of which environmentally sustainable development is one.

The Australian Government also explicitly acknowledges in its new strategy on 'Securing a Sustainable Future' that sustainable development must incorporate the environment as a key element to sustainability. The strategy recognises that the environment is a core building block for pro-poor economic growth and that it can not be considered as separate, or an afterthought, to development goals.

The vision of the multi-country market development program is sustainable and pro-poor economic growth. It is for this reason the program has built into its design, principles and mechanisms that will ensure the environment is part and parcel of this vision.

The economics of why the environment matters in market development

Economic theory suggests that, all things being equal, goods will be supplied and consumed optimally, at the right quantity and quality, where there is an effective and undistorted *market* for their provision. Yet the reality in many developing countries is a complex array of market failures, which result in ineffective and distorted markets that do not favour poverty reduction. The concept of this Market Development Facility is to change the incentives that the market system provides to participants so that markets work better and more fairly for the poor.

A common form of market failures are negative externalities – an externality exists when a person makes a choice that affects other people that are not accounted for in the market price. For instance, a firm emitting pollution will typically not take into account the costs that its pollution imposes on others. As a result, pollution in excess of the 'socially efficient' level may occur. The problem with negative externalities is that eventually the true cost will be incurred but it will be met by the person who suffers from the negative impact (which are often the poorest and most marginalised in society) or by the state (thereby diverting public resources away from other poverty focused interventions). For example pollution of water courses results in increased water borne diseases, which leads to poor health, inability to work (which in itself has a negative cost to the economy) and ultimately a cost to the health sector to rectify. Ensuring negative externalities do not happen as a result of the program, will be essential to ensuring the vision of sustainable and pro-poor growth.

Poor environmental health and safety issues in the workplace are another example of negative externalities that market development programs need to consider. Box 1 highlights this rationale as presented by the Katalyst program design team in Bangladesh.

Box 1: Why environmental health was an important consideration in the Katalyst program

Poor working conditions are an integral aspect of poverty. A lack of safety translates into high occupational risks and hence, in the long run insecurity of income. For these reasons there is a legitimate and essential role of the state to guarantee safe working conditions and ensure more sustainable economic growth. Entrepreneurs and farmers often do not perceive a direct link between environmentally and socially responsible business and profits. Moreover in Bangladesh they face neither legal or regulatory sanctions nor social pressure for not taking these issues into consideration.

Source: Katalyst Phase II Project Document

The environment also offers market opportunities for the poor. The environment and natural resources in a country contain much of its wealth that if sustainably utilised can support poverty reduction, increase livelihood security and result in economic growth. It is also the main resource that the poor have available to them to due to it being a public good. Correcting market failures in resource allocation for example such as securing land tenure rights for the poor, can result in increased productivity and thereby opportunities to better engage in the market. Ensuring value addition to natural resource products, such as processing of coffee and preservation of food items can also lead to engagement in markets so the poor have more choice, increased incomes and are better able to manage risk.

Key environmental considerations for Market Development Program countries
Timor-Leste³⁵

Timor-Leste is a market economy, democratically governed, and richly endowed with natural resources – primarily oil and gas. Gross national income (GNI) per capita is more than \$1,600³⁶ however non-oil GNI is less than \$400 which gives a better perspective of living standards facing most Timorese. Much of its nature – world class coral reefs, untouched forests and scenic vistas – remains relatively unspoiled and is considered to be a viable basis for a future thriving tourism sector.

³⁵ In April 2009 the World Bank completed a Country Environmental Analysis (CEA) for Timor Leste. Although not formally approved by the Government of Timor Leste yet much of the information for this section is drawn from this CEA.

³⁶ US dollars

Both the constitution and the current government of Timor-Leste (GoTL) have recognised the importance of environmental protection. However the country lacks a comprehensive environmental management framework in terms of legislation, regulation and adequately resourced institutions. The existing environmental legislation is a legacy of the past and not well recognised in current day Timor-Leste. Draft laws have been made on environmental impact assessment and pollution control and these have been brought together under the draft environmental license system however this is still awaiting final government approval.

Human capital with skills in environmental management is considered to be quite scarce and insufficient information is perceived to make environmental management in Timor-Leste a formidable task. The World Bank's Country Environmental Analysis (2009) highlights indoor air pollution, lack of appropriate sanitation, outdoor air pollution and natural resource management for land, forestry, coastal and marine resources as the priority environmental concerns in the country.

Agriculture is currently the main employer in Timor-Leste with 75% of the population living in rural areas, whilst oil production is the main growth sector. Ensuring the sustainable management of natural resources is seen as a major but vital challenge for Timor-Leste due to the dependence of the population to its natural wealth. How effectively and efficiently natural wealth is managed and transformed into financial assets, produced assets and human capital is a key to its future.

Given this context the Program in Timor-Leste will need to:

- Ensure negative environmental externalities do not occur as a result of any investment. Given the lack of a legal environmental framework and lack of an environmental regulatory authority in Timor-Leste the program can not rely on the country system to pick up and correct these failures. Therefore the program will build in adequate mechanisms to capture and avoid any possible negative externality.
- Explore the huge growth potential that the environment and natural resources in Timor-Leste are seen to offer, whilst ensuring sustainable management of these resources is at the centre of any investment.

Solomon Islands³⁷

The principal national government agency charged with environmental management and monitoring responsibilities is the Environment and Conservation Division (ECD) of the Department of Forest, Environment and Conservation (DFEC). In 2005, only three of the division's prescribed thirteen staff positions, were filled. The annual budget allocation for the division is roughly \$57,000³⁸. There are insufficient resources to allow the division to handle its mandated responsibilities across a country comprising six major island groups in nine provinces.

The principal environmental legislation is the Environment Act of 1998. The Act defines the responsibilities of the ECD and establishes a framework for an environmental impact assessment (EIA) process. The Act provides for a two-tiered EIA process, and adopts the "precautionary principle" to "maintain the health,

³⁷ Information for this section comes from the ADB 2007 Country Environmental Analysis. The EU will be undertaking a Country Environmental Profile later this year.

³⁸ US Dollars

diversity, and productivity of the environment for future generations." These conditions imply a strong commitment to safeguarding environmental values for the long-term benefit of the nation's citizens.

Major environmental issues in the Solomon Islands as identified by the ADB's Country Environmental Analysis (2007) are: (i) unsustainable logging practices that result in widespread adverse environmental impacts (e.g., soil erosion, and sedimentation, water quality impacts, loss of habitat and biodiversity, and loss of future opportunities for alternative sustainable livelihoods); (ii) inappropriate land use practices due to slash-and-burn and steep-slope farming systems that accelerate land degradation (e.g., soil erosion, siltation and loss of soil fertility); (iii) unsustainable fishing practices that are depleting valuable and fragile coastal and marine resources; and (iv) increased risk from extreme weather events due to climate change (e.g., increased intensity and frequency of cyclones, El Niño Southern Oscillation (ENSO) effects, extreme droughts/floods) that increase vulnerability, especially posing a threat to food security.

Given this context the Program in the Solomon Islands will need to:

- Explicitly recognise that environmental sustainability is a government priority in the Solomon Islands but that capacity at the national, provincial and community level to effectively incorporate this priority in decision making processes is extremely weak. Thus the Program will build into its decision making processes mechanisms for ensuring this analysis takes place and influences decisions in the Program.
- Ensure that the Environmental Act is adhered to, and that EIA legislation and the precautionary principle are followed at all times in the implementation of the program. Engaging ECD in these processes will help to build capacity in the division. Finally, being able to demonstrate compliance to the Act should be a component of the Program monitoring process.

Fiji³⁹

The state of the Fiji environment is said to have deteriorated over the past decade and remains highly vulnerable. Increasing population pressure, urbanisation and urban drift and external shocks such as globalisation, HIV/AIDS, climate change and most recently increased fuel prices are said to have all contributed to this deteriorating environment. Equally the environment is said to be under increasing pressure from a range of natural and development pressures including tourism development, cultivation on steep lands, and poor solid and liquid waste management. The EU suggests that priority for improvements is needed in ensuring secure and safe water supply and sanitation, developing access to affordable renewable energy resources and ensuring food security from fishing and agriculture.

Fiji's National Environment Management Strategy (NEMS) was published in 1994 and efforts have been made to develop an appropriate legal and regulatory framework through the Environmental Management Bill, however this is yet to be effectively implemented. The government acknowledges that environmental considerations are inextricably linked across its national development planning efforts, but that there is a

³⁹ Information for this section came from the EU Country Environmental Profile for Fiji (2006)

need to strengthen these interlinkages to ensure improved decision making supports efforts to achieve environmentally sustainable development.

Given this context the Program in Fiji will need to:

- Clearly identify what the current environmental challenges and opportunities in Fiji are, establish whether environmental regulations are now in place, and whether capacity exists to implement these regulations.
- Establish mechanisms in the program to ensure negative environmental externalities are avoided and wherever possible environmental opportunities are sought and realised.

What environmental issues may look like in a market development program

The table below outlines a hypothetical example of the environmental risks and opportunities associated with agricultural markets.

Opportunities that improve the efficiency and competition in retail and consumer markets that affect poor people:		
Possible intervention	Environmental consideration	Poverty impact
Increased competition in textile products i.e. tanneries and leather products	Wastewater discharge	Untreated toxins in water can cause human health problems such as diarrhoea – generally it's the poor who use and live near unprotected water sources so will be most adversely affected
	Atmospheric emissions	Can cause respiratory problems particularly for those working in the industry (as unskilled labour often the poor) and affect their ability to continue working.
	Environmental health and safety issues	If environmental health and safety standards are not met and workers are exposed to harmful chemicals and are not given protective safety clothes, then they may suffer health problems. This then affects their ability to work and reduces their income earning potential capturing them in a negative poverty cycle.
Increasing sale of agrochemicals and fertilisers	Need to make sure that production adheres to : Air emissions at safe levels, Waste water managed effectively, Hazardous materials handled correctly	These need to be at safe and appropriate levels as again can severely affect human health (and the ability of the poor to work) if not regulated can enter environment and cause downstream pollution affects
Retail - such as food outlets	Waste disposal	Inappropriate disposal may result in spread of disease, pests etc affecting

Opportunities that improve the efficiency and competition in retail and consumer markets that affect poor people:		
Possible intervention	Environmental consideration	Poverty impact
		human health
	Wastewater discharge	Will contain organic food material which if in sufficient quantities could contaminate water courses
	Hygiene	again for obvious human health reasons

Integrating Environmental Considerations into Design

The potential for the program to bring about both positive and negative environmental change could be considerable. To address this the design takes an integrated approach to environmental management. This integrated approach includes building *mechanisms* into the design of the program to ensure environmental issues are considered at key decision making points, and applying a set of clear *principles* to guide the implementation of the program as a whole.

Learning from earlier market development programs highlight⁴⁰:

- That market development is driven by the need to ensure sustainability of impact and this impact will only be sustainable if due consideration is given to environment, economic and social impacts of the interventions.
- Market development is an approach that can ensure environmental sustainability by promoting technologies and business models that combine environmental gains with a commercial motive.
- Undertaking environmental assessment to ensure economic progress is sustainable is an essential aspect to market development programs.
- By addressing the underlying government or market failures that are the cause of markets not functioning efficiently or fairly, the change it can bring about will be sustained if they integrate economic, social and environmental outcomes in markets contributing to sustainable development.

Environmental Principles that will be applied throughout the management framework

The program design document (PDD) outlines a clear rationale and justification for the approach taken. This approach will be governed by a number of principles which allow flexibility but will ultimately shape the final selection of interventions. To keep the program in line with its vision and incorporate learning from other market development programs an *integrated* approach to environmental management will be taken. To embed this integrated approach the principle of integrating environmental (and social) sustainability is explicitly stated as a Program principle. This recognises

⁴⁰ <http://m4pnetwork.org/>

that environmental considerations are core to achieving sustainability and provide a building block for pro-poor economic growth.

Integrating Environment into Program Management and Governance Mechanisms

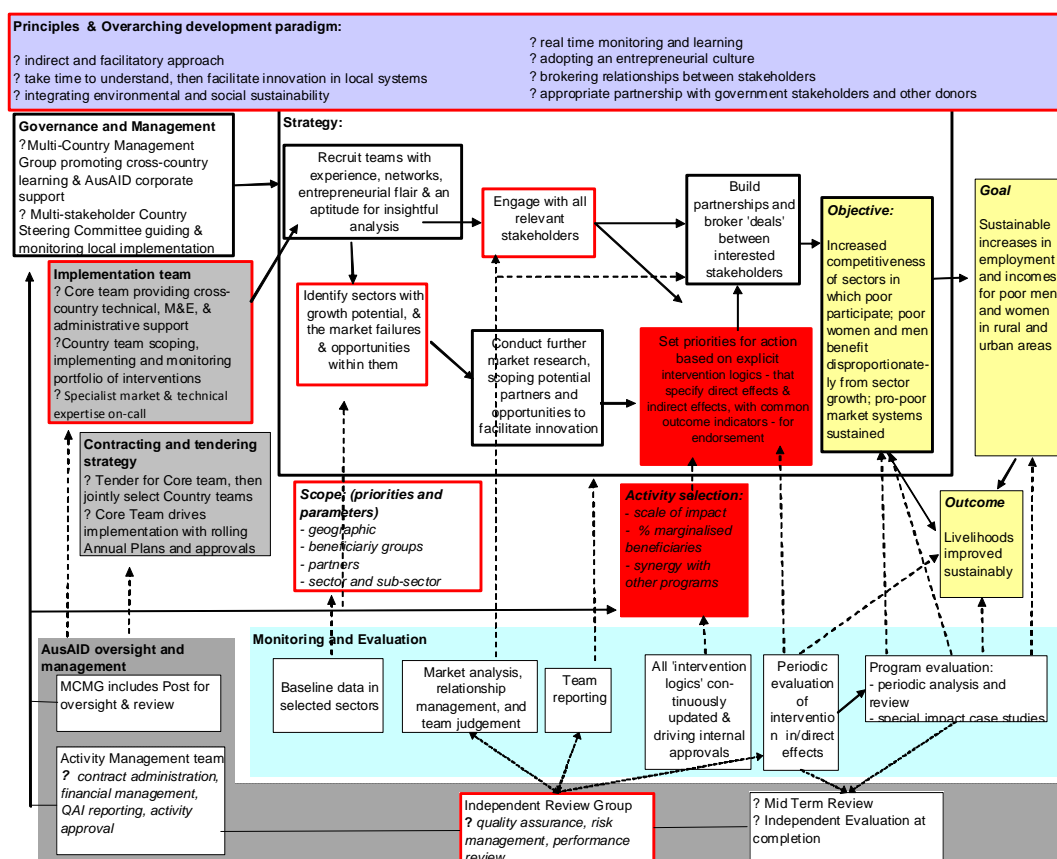
Two forms of mechanisms have been developed to ensure environmental sustainability is institutionalised within the program. The first are process mechanisms. These mechanisms are merged into the Program Strategy to ensure the environment is appropriately considered. These mechanisms will be monitored and provide the program with a way of tracking how the environmental considerations have been integrated into decision making. The second are governance mechanisms that will ensure environmental capacity is incorporated within the governance framework of the program. This will provide strategic oversight on ensuring sustainability is being effectively integrated across the program.

Process mechanisms

In applying appropriate environmental integration mechanisms, it is critical that the design does not undermine other key principles of flexibility and responsiveness. Ensuring that the implementation of the program is not slowed down by unnecessary processes and bureaucracy will be essential for success. Recognising this, and recognising that each country has very different environmental governance frameworks in which they are operating, the design now identifies the key decision making processes that need environmental mechanisms in place. During the inception phase of the program the implementation team in collaboration with the Country Steering Committees will oversee the development of appropriate mechanisms that ensure environmental considerations are affectively integrated within the country program. These will include well-established environmental management tools including environmental checklists, cost-benefit analyses, environmental audits, regulatory impact analyses, environmental impact assessments, or strategic environmental impact assessments for example.

In the Program Design Framework and Strategy Diagram below (Figure 1), the key decision making points where environmental implications will be considered by the program are outlined as a red box. Where specific mechanisms will be established to ensure a systematised and monitorable process, the box is highlighted in red.

Figure 1. Program Design Framework and Strategy Diagram



Key to diagram:

- Decision making points where environment needs to be considered
- Will require development of a mechanism to ensure environmental analysis undertaken

1. Implementation team - at least one environmental expert will be included on the implementation team to oversee and ensure integration of environmental sustainability throughout the program as a whole.
2. Identifying market failures – possible environmental risks and opportunities in market analysis will be considered
3. Engage with all relevant stakeholders – team will ensure stakeholders in the environment sector, such as the relevant environment ministry and regulatory authority and environmental NGOs, are engaged in the consultation process.
4. Scope (priorities and parameters) – team will ensure consideration of environmental opportunities and risks are incorporated within the scope, for example, are there potentially environment and natural resource sectors where greater opportunities to maximise returns exist if market failures were corrected?
5. Independent Review Group – will include environmental expertise to provide strategic oversight on environmental integration.
6. Activity types – mechanisms developed to ensure that environmental considerations for activities are analysed and reflected in the activities and selection criteria.
7. Set priorities for action – environmental sustainability is included as part of the intervention logic.

Governance mechanisms

The inclusion of technical environmental capacity and responsibilities within the Program governance framework will provide strategic oversight to ensuring integration of environmental sustainability. The table below identifies where those capacities will be located.

Multi-Country Management Group (MCMG)	No additional capacity required. TOR explicitly acknowledges the groups role to ensure environmental considerations are being effectively integrated throughout the program.
Country Steering Committees (CSCs)	Steering committee membership will include an environment advocate within the group. This could be drawn from: the Ministry of Environment (or equivalent) an environmental NGO an environment professional from within the country
Expert Review Panel / Independent review group	Environmental expertise will be included in the Independent Review Group to ensure systematic review of environmental performance within the program. TOR for specific/independent reviews will include reviewing environmental performance as a core component.
Implementation Contractor	Country Implementation Teams will include at least one team member with environmental expertise. TOR for this position includes: responsibility to ensure environmental peer review to all proposed interventions is undertaken the requirement to work across all 3 countries to ensure effective integration of environmental considerations ensuring learning on integrating environmental considerations in the Program is captured and disseminated
Activity Manager, SDG	No additional capacity required.

Integrating Environment into Monitoring and Evaluation

If environmental issues are identified during intervention scoping, market analysis, and the development of intervention logics, then the activity monitoring system will develop indicators to appropriately monitor these aspects.

For example, where an intervention is identified as having possible negative environmental impacts and subsequently modified to minimise this impact, indicators will be developed to ensure the logic and related assumptions still hold true, and that no negative impact occurs as a result. As part of the intervention logic and monitoring plan, appropriate timeframes will be devised to ensure that if any negative impact

begins to emerge it would trigger a review of the intervention. Equally where an intervention will enhance the use of the environment to ensure greater benefits to the poor, this sustainability enhancement will be captured in appropriate indicators as part of the monitoring plan.

At the program level, environmental sustainability dimensions of aggregate impact will be explicitly presented as part of the overall picture of impact. This will be achieved by collating the environmental data collected from specific interventions, and by applying a strategic environmental lens across the aggregated impact data. In addition, qualitative analyses will be conducted using selected case studies to discern, amongst other things, how indirect impacts on the environment arise, how environmental opportunities are being monitored, and more generally how sustainability issues are being addressed. Potential research issues for the implementation team or IRG to commission might include the extent to which environmentally responsible business is seen as an opportunity or threat by program beneficiaries, and how the Program is influencing this.

The monitoring of Program performance will be a key area in which environmental performance of the program is tracked and progress measured. Ensuring quality processes through the monitoring system will be the main way in which the program minimises negative environmental impacts and maximises environmental benefits. The extent to which environmental mechanisms are being utilised, are effective, and are guiding Program implementation will be a core task of routine monitoring by the CIT M&E officer and the CPT M&E Specialist, and formally reviewed as part of the annual Internal Quality Audit. In addition, the Independent Review Group will include environmental expertise to ensure these aspects of Program quality are explored and continuously improved.

8.3. Specific Implementation Arrangements in Fiji

Introduction

Background and Context

Fiji faces an uncertain future after the military takeover of the elected civilian government in December 2006. This was the fourth coup in Fiji in 20 years. Each coup has resulted in long lasting political and social upheaval, and has eroded the capacity and independence of key institutions. Since the 2006 coup there have been significant reverses in accountability, human rights, and the rule of law. On 27 January 2009, Pacific Islands Forum (PIF) Leaders met to consider whether Fiji had met its obligations to make credible progress toward holding elections in 2009. Forum Leaders announced that the Interim Government had until 1 May 2009 to begin serious preparations for elections by the end of 2009. These steps were not taken and Fiji was suspended from the meetings and events of the Forum from 2 May. As of 1 September 2009, Fiji has also been fully suspended from the Commonwealth as a direct result of the regime's refusal to meet the reasonable deadlines and conditions set out by the Commonwealth Ministerial Action Group (CMAG).

The Australian Government strongly condemns both the most recent abrogation of Fiji's Constitution on 10 April 2009 and the military's unconstitutional removal of Fiji's elected government in 2006. Public Emergency Regulations now prohibit public assembly, restrict media freedom, and confer extensive power to the military and police. On 1 July 2009, Commodore Bainimarama announced a 'road map' for Fiji. The roadmap states that elections will not take place until 2014 and work will not begin on a new constitution until September 2012.

The Asian Development Bank estimates that Fiji's economy grew by just 0.2 per cent in 2008, and forecasts that it will contract by 0.5 per cent in 2009 (Asian Development Bank, Pacific Monitor, May 2009), as key revenue sources such as tourism, remittances and sugar continue to decline. The 2006 coup greatly reduced investor and business confidence. Fiji is experiencing deteriorating physical infrastructure, growing squatter settlements, unproductive farms, and rising unemployment. Although access to health and education is reasonably good by Pacific standards, the quality of services is poor, especially in rural areas. Already about one third of people in Fiji live below the poverty line, with rural Indo-Fijians and women particularly vulnerable. Fiji is showing signs of decline against some of the Millennium Development Goals, particularly those related to health.

Australia's aid continues to adhere to our original response to the 2006 coup: we will support the ordinary people of Fiji by maintaining programs to improve economic opportunity, but suspend assistance where the actions of the Regime render our programs ineffective or compromised.

The Australian aid program focuses on mitigating the economic and social hardship resulting from Fiji's political instability and the global recession. Consistent with Australia's broader response to the global recession, Australia supports programs that generate employment and economic development, support delivery of essential services, and help those groups most vulnerable to the impacts of the recession.

The aid program's priorities are:

- Rural enterprise development and financial inclusion programs to generate local employment, promote better access to financial services, and improve livelihoods;
- Ensuring continued delivery of core health and education services;
- Partnering with Ministries of Health and Education and civil society organisations to provide targeted services to vulnerable groups, in particular women and children.

The Market Development Facility, with its focus on market value chains, in particular private sector relationships and engagement, is an appropriate compliment to other current and planned enterprise development and microfinance/financial inclusion initiatives, within the constrained environment in Fiji. These include: the Pacific Horticultural and Agricultural Market Access (PHAMA), which is intended to enhance export of horticultural and agricultural products; the ACIAR-led Pacific Agribusiness Research for Development Initiative (PARDI) that will focus on market-driven research needs underpinning the competitiveness of selected agriculture, fisheries and forestry products; technical support to enhance the productivity and viability of the textile, clothing and footwear industry; and working with the UNDP Pacific Financial Inclusion Program to enhance rural community access to - and reduce the transaction costs of - financial services, through more effective use of available technologies.

Consultations were conducted with key stakeholders in Fiji from 23-24 July 2009 to finalise the design and management arrangements for the Market Development Facility and ensure these were fully adapted to the current Fiji context. Meetings with AusAID Post, the Government of Fiji, non-government organisations, the private sector, donors and other development partners, have led to the following additions, clarifications and modifications to the governance and management arrangements set out in the Program Design Document (PDD). The following is a summary of the modifications agreed during the mission.

Implementation Arrangements

a) Additional clarification of the roles and responsibilities of Post

- Post will hold regular briefing meetings (quarterly, or when required) with the MDF Country Implementation Team (CIT). The primary purpose of these meetings will be to ensure the CIT is abreast of political developments in Fiji of interest or concern to Australia. The meetings will also provide opportunity for the CIT to identify potential program partners and ensure that these will not pose reputational risks to Australia. Post will also be seeking briefing on the status of various interventions at these meetings. Any other practical implementation issues arising can be dealt with in these meetings also.
- The Counsellor (Fiji Program) will sit on the Multi Country Management Group (MCMG) and provide regular updates to the Minister Counsellor, Suva.
- The Australia Head of Mission and Minister Counsellor will be kept abreast of key program developments and activities by Post.

- Post will assist in the selection of the CIT, and ensure an appropriate gender balance in the CIT.
- Post will assist the CIT maintain an awareness of all relevant development initiatives, both within AusAID (e.g. Fiji ECF activity) and from other donors. Post will also assist the CIT to ensure communications with other donors are consistent – i.e. that Australia is not in ‘business as usual’ mode and that its programs are in response to the global economic crisis and supporting initiatives that target the most vulnerable groups affected by the crisis.
- There will be one QAI completed for the whole MDF that will be collated by the Activity Manager. Post will feed country specific information into the single QAI.
- Post, Fiji Desk and the Activity Manager will liaise closely when developing program briefs (and the Activity Manager will ensure related briefs are distributed to all parties).
- Post will seek a set of Fiji-specific MDF outcomes and targets from the CIT within the first six months of implementation, and once priority sectors/markets have been determined.
- Post will clear all appointments to the Country Steering Committee.

b) Criteria for selecting activities

The Fiji CIT should overlay the following considerations on the key intervention selection criteria set out in the PDD:

- Targeting poor and vulnerable groups is the top priority in Fiji;
- The CIT must endeavour to identify activities outside Viti Levu and in remote regions (but is not precluded from seeking out opportunities on this island);
- The CIT must endeavour to identify activities that have strong gender outcomes (e.g. the handicraft sector and textile industries provide some promise in this regard);
- Activities may generate benefits in both rural and urban areas;
- Activities involving partnerships with organisations linked to the military regime must be avoided;
- The CIT should seek to maximise synergies with other AusAID and donor programs.

c) Other Fiji-specific implementation issues

The Country Implementation Team must:

- consult with Post when negotiating with Government on key issues;
- seek briefing from Post (e.g. Trade Commissioner) on any potentially illegal business activities, so as to ensure no partnerships are developed with actors that pose a reputational risk to Australia;
- provide Briefs to Post on activities being implemented when requested (whilst it is acknowledged that such requests must be within reason so as not to unnecessarily burden the CIT);
- proactively identify and create ‘public diplomacy’ from successful activity interventions in consultation with Post;
- proactively develop an awareness of all other relevant donor activities in the sectors/markets it is investigating (with assistance from Post); this should include

continuously reviewing the potential linkages and collaboration opportunities with the PHAMA and PARDI programs, such as their sectoral analysis, technical expertise, and research capacities.

- provide Post with Fiji-specific MDF outcomes and targets within the first six months of implementation, and once priority sectors/markets have been determined;
- ensure the team has an appropriate gender balance;
- undertake to utilise business experience from other countries in the region and beyond the three countries in the MDF (e.g. value chain project in the Solomon Islands);
- have a contingency plan that will permit in-country operation in case visas for staff are withheld.

The Independent Review Group (IRG) must:

- Consult with the Fiji Country Steering Committee (CSC) as part of any review of MDF activities in Fiji;
- Advise AusAID on the extent to which the wider AusAID portfolio of projects and programs is consistent with the market development approach and fundamental principles of sustainability; in consultation with Post the IRG should determine the appropriate timing, scope and methodology of a wider review of AusAID activities to determine the extent of market distortion and wider sustainability.

The CIT is encouraged to consider the following sectors and markets as it scopes intervention opportunities:

- Sectors that employ a high proportion of women (e.g. handicrafts, textile industries);
- Sectors and opportunities identified in the August 2008 scoping mission report;
- The potential of interventions in the Virgin Coconut Oil markets in outer islands;
- Opportunities to facilitate the development of markets for environmental enterprises and environmental services and products (e.g. carbon trade; possible Clean Development Mechanism opportunities)
- Horticultural seed production; furniture; and local food sourcing for the hotel industry (although the CIT should be mindful of the array of activity already underway in this field);
- Suggest avoiding the sugar industry, but consider the need for alternative livelihoods for those leaving the sugar industry in the near future, and be aware of potential new business models emerging in that sector.

Budget profile

- No change to the existing budget in the PDD, but Post will consider increased allocations to the MDF in future years.
- Activity Manager to provide Post with regular information regarding the level of MDF expenditure allocated against the Fji Program, and expenditure breakdowns as appropriate.

Representatives from the following institutions are suggested as potential CSC members:

- Government

- AgTrade
- MPI
- NCSMED
- Chief Economist, Ministry of National Planning
- Fiji Islands Trade and Investment Bureau
- Private sector
 - Fiji Australia Business Council (business connections)
 - FRIEND (pro-poor angle and understands business)
 - NCSMED (enterprise development angle)
 - Prominent businessman/philanthropist
 - Fiji Arts Council (handicraft, tourism and outer island experience)
 - Fiji Hotels and tourism association (assuming this will be a priority sector)
 - Fiji Women in Business (gender and business angle, currently conduct training for business women)
 - Fiji Employees Federation (member association promoting trade, commerce, economic development)
 - Fiji Water (successfully run business)
 - Pure Fiji (successfully run business)
- Donors and development partners
 - UNDP
 - UNDP Poverty Team Leader
 - Foundation of South Pacific Islands International (FSPI)

Potential sources from which to recruit CIT members:

- Leadership Fiji Program
- USP and graduates with business training and skills
- Fiji Youth Council
- PIPSO
- Fiji Australia Business Council
- Australian Business Volunteers
- Australian Volunteers International
- Fiji Women in Business
- Conduct open advertisements

Current development programs of relevance to MDF:

- AusAID TVET
- AusAID PHAMA
- ACIAR PARDI
- FAO Value chain
- ACIAR PARDI
- UNDP FIP
- NCSMED Financial literacy
- FRIEND Marginalised groups
- WWF Handicrafts
- EU/SPC FACT
- EC Linkages Program with PATA - TIDES
- UNCTAD/SPC/AgTrade - Market Information
- ITC/SPC Fruit and Veg Strategy
- Taiwanese Technical Mission, Sigatoka

- Foundation of South Pacific Islands International (FSPI) – Food Program, Tourism Programs

8.4. Specific Implementation Arrangements in Timor Leste

Introduction

Consultations were conducted with key stakeholders in Timor Leste from 4-6 August 2009 to finalise the design and management arrangements for the Market Development Facility (MDF) and ensure these were fully adapted to the Timor Leste context. Meetings with AusAID Post, Ministries of Economy and Development; Tourism, Commerce and Industry; Agriculture and Fisheries; Finance; and Office of the Prime Minister, non-government organisations, the private sector and other development partners, have led to the following additions, clarifications and modifications to the governance and management arrangements set out in the Program Design Document (PDD). The following is a summary of the modifications agreed during the mission.

a) Alignment with national and AusAID priorities

The consultations confirmed strong alignment between the current Government of Timor Leste (GoTL) national priorities, AusAID's draft Country Strategy 2009-14 and the expected outcomes of the MDF. Proposed outcomes correspond strongly with the 2009 National Priorities for Rural Development (that specify the development of agribusiness and employment creation for men and women), and AusAID's emphasis on employment generation through increased agricultural productivity and wider private sector development. With respect to food security GoTL places most emphasis on increasing domestic supplies of food to attain food self-sufficiency. The MDF will contribute directly to food security, potentially through increasing the supply of available staples but predominantly by improving incomes amongst the poor, and thereby their access to food.

There were strong indications that private sector led growth will be a significant focus in the forthcoming GoTL National Development Strategy. Whilst GoTL is still searching for appropriate mechanisms to effect private sector development – and consultations indicated divergent views within government – there was widespread in principle support for AusAID to support market development. The likely prominence of private sector led growth suggests that the practical demonstration effect of the MDF could be highly relevant to GoTL strategy and add value to current donor efforts in this field.

Consultations with a range of small and medium scale firms revealed a consistent pattern of strong domestic and international market demand in many agricultural sectors, but challenges in the organisation and realisation of sustained, quality and quantity of supply. Specific examples included: a local firm struggling to establish reliable and quality peanut supply to service strong demand for processed peanut products; a women's cooperative looking for business planning support to establish quality assurance, and potentially certified organic, labelling; a cattle exporter with strong demand from West Timor but facing a number of challenges including how to feed and water cattle in transit, increasing transport costs largely due to poor roads but also the use of inefficient old trucks; another local firm with strong demand for seaweed from Philippines but unable to effectively

communicate price, quality and quantity requirements to intermediary suppliers, and also facing the challenge of Timor Leste products being associated with low quality; a vegetable exporter struggling to find ways to export *kangkung* (local spinach) to Darwin. This further confirmed the likelihood of MDF finding opportunities to facilitate pro-poor market development. However, given the nascent nature of these firms and markets, and the challenges other donors have faced, expectations should remain modest.

Strong complementarities were identified between the MDF and existing AusAID programs – including Seeds of Life, English Language Training, TVET, IFC PEP, PDT, and planned ACIAR research into the beef sector for example – as well as other donor programs, particularly those of the Portuguese, Germany, USA, and potentially the European Commission.

Implementation Arrangements

a) Additional clarification of the roles and responsibilities of Post

- The Minister Counsellor will be a member of the Multi Country Management Group (MCMG) and participate in all MCMG meetings.
- Post will participate in the selection of the Timor Leste CIT. .
- Post will be available for regular oral briefings from the Country Implementation Team (CIT) initially at fortnightly intervals, then monthly for:
 - an update of program activities, expected outcomes, and identification of any potential reputational or political risks as identified in the Risk Matrix;
 - an update on any implementation risks, such as changes in policies and the wider enabling environment, micro or macro-economic issues, or issues concerned with implementation by third parties;
 - notification of prospective partnerships involving other donors or government;
 - notification of opportunities generated by the program for Post to develop further and realise (for example, business environment issues to raise with GoTL or other donors).
- Post will support the program to address specific, selected business environment constraints identified through program interventions, by engaging in and supporting dialogue with government and other donors. In some cases, additional data collection may be required to substantiate particular business environment issues, and Post may request assistance from the program to provide this.
- Post will provide input to the MCMG on all aspects of Contractor performance, including the Contractor's judgement regarding when to raise issues posing political or reputational risks to Australia.
- Post is keen to use the experience of the MDF to gradually promote sustainability more widely across the AusAID portfolio. Post will help to facilitate this by negotiating with the MDF the appropriate timing and resourcing of such inputs.

- Post will assist the CIT maintain an awareness of all relevant development initiatives, both within AusAID and from other donors.

b) Criteria for selecting activities

The Timor Leste CIT should overlay the following considerations on the key intervention selection criteria set out in the PDD:

- The principle of conflict sensitivity is paramount in guiding the geographical and sectoral focus of MDF in Timor Leste; by the time of program inception an updated Conflict Analysis should be available, which will provide further detailed implementation guidance to the CIT.
- The program should maintain a nationwide geographical focus, ensuring that the majority of beneficiaries are outside Dili; the CIT should also be mindful of the need for a geographical balance of beneficiaries across Timor Leste to minimise potential conflict stimuli caused by a regional concentration of program beneficiaries;
- The program should prioritise activities in upland Timor Leste where possible, as this is where the majority of the poor reside;
- The majority of activities are expected to be rural, but interventions in the urban markets of Dili and other centres are permissible;
- The CIT should seek to realise specific gender or environmental outcomes through market-based interventions as they arise.

c) Other Timor Leste-specific implementation issues

The Country Implementation Team must:

- Provide regular oral briefings to Post as described above and provide Post with access to the MDF M&E database so they can easily gain ‘a picture’ of the status of different interventions;
- Proactively seek to advise Post whenever issues of potential reputational or political sensitivity arise (the timeliness and judgement around what might be sensitive will be a key contractor performance criterion to be monitored by MCMG and the Independent Review Group (IRG));
- Provide Post with Timor Leste-specific MDF outcomes and targets within the first six months of implementation, and once priority sectors/markets have been determined; note that Post is particularly keen to identify tangible but sustainable results within the first year of implementation to help build confidence in the Program, as well as planning for wider systemic changes that will inevitably take longer.
- Proactively develop an awareness of all other relevant donor activities in the sectors/markets it is investigating (with assistance from Post);
- Support Post to engage in selective dialogue with government and other donors around specific business environment issues, including by conducting additional data/evidence collection and analysis where appropriate;
- Limit the amount of written reporting provided to Post, instead relying on regular oral briefing, the six-monthly progress reporting to the Country Steering Committee (CSC), and ‘exception reporting’ as required.

The CIT is encouraged to consider the following sectors and markets as it scopes intervention opportunities:

- Agricultural sectors including staple crops, horticulture, livestock (small stock, as well as beef), tree crops (including coffee);
- Supporting service sectors including transport services and market information (noting work being undertaken by Peace Dividend Trust);
- Non-agricultural sectors including the construction industry;
- Revisit the sectors and opportunities identified in the April 2008 scoping mission report, and consider the analysis currently being conducted by the World Bank on rural development and food security policy;
- Consider whether to intervene or not in the heavily distorted rice sector, and the opportunities to instead offer policy advice on rice.

Engagement with Seeds of Life (SOL) program:

- The SOL program is considering how best to ensure improved crop varieties are accessible to poor growers. SOL will continue to work with government and NGO programs to distribute varieties. An analysis of formal and informal seed systems in Timor Leste is planned and could lead to closer involvement with private and informal actors to distribute seed. The CIT should review this analytical work and consider (with the SOL Implementation Team) the potential for innovative partnerships with the private sector and informal actors in seed distribution systems, including the scope for MDF interventions. MDF is not bound to pursue opportunities in the seed sector, but should complement the seed system analytical work of SOL with a wider market system assessment. If MDF chooses not to pursue opportunities in the seed sector, CIT should suggest opportunities and approaches that SOL might pursue to achieve sustainable outreach of new varieties at scale.

Engagement with, and potential co-financing of, other donor programs:

- Other donors, including Germany, Portugal and the European Commission are seeking to develop sustainable rural enterprises in Timor Leste. AusAID Post has bilateral Memoranda of Understanding and is eager to cooperate with these donors. In addition to ensuring a coordinated donor effort on market development, the CIT should also consider opportunities to provide direct financing – subject to Post approval – to other donor initiatives where these are consistent with the operational principles of the MDF.

Representatives from the following institutions are suggested as potential CSC members:

- Government (at least two of the following Ministries)
 - Economy and Development
 - Agriculture and Fisheries
 - Tourism, Commerce and Industry
- Private Sector
 - Institute of Business
 - ANZ or other Bank
 - Forum dos Empresarios de Timor-Leste
 - East Timor Development Agency
 - Representatives from businesses in rural districts, outside Dili
 - Women in Self Employment

- NGO
 - Peace Dividend Trust
 - Alola Foundation
- Donor
 - IFC
 - Portugal

The payment of sitting fees to CSC members was considered and rejected.

Potential sources from which to recruit CIT members:

Well-informed local stakeholders advised that suitable local candidates for a market development facility could be found. The strong suggestion was to use both informal local networks to identify candidates, as well as open advertisement. Some likely sources include:

- Institute of Business
- Existing PSD projects
- IFC and business networks
- Diaspora
- Look to train individuals and build a team
- Advertising, ensuring you can reach non-English speakers

8.5. Specific Implementation Arrangements in Solomon Islands

The details below are provided for general information only and will be the subject of a separate tender in the future.

AusAID Solomon Islands Program has elected to conduct a separate design process for their market development program that will be closely linked to the Market Development Facility. The Solomon Islands – Australia Rural Livelihoods Program is guided by principles, and adopts an implementation approach, very similar to those of the MDF.

A Solomon Islands Team will report solely to Honiara Post, and the Market Development Facility will have no management responsibility for implementation in Solomon Islands. However, the Solomon Islands – Australia Rural Livelihoods Program will look to the MDF for the following support:

- Training, mentoring and assisting in the ongoing professional development of a Solomon Islands team;
- Technical support in establishing and operationalising harmonised monitoring and evaluation (M&E) systems across the three countries. In addition to supporting and mentoring a Solomon Islands team to build their M&E system, links with the MDF will provide opportunities for cross visits and short-term placements to share experiences and generate learning across the three countries.
- Specialised technical expertise to supplement a Solomon Islands team.

8.6. Roles & Responsibilities of Key Management and Governance Bodies.

<i>Multi-Country Management Group (MCMG)</i>	<i>Country Steering Committees (CSCs)</i>	<i>Implementation Contractor (IC)</i>	<i>Activity Manager, SDG</i>
<i>Purpose</i> Provide corporate support for an innovative operating environment, promote learning and linkages across country programs	Ensure relevance to country context and coherence with AusAID and other donor programs	Plan, manage, monitor, review and report on implementation	Facilitate stakeholder interaction and undertake program administration; ensure all stakeholders informed of progress and issues
<i>Accountability</i> Ensure funds are utilised for purposes to which committed, achieving budget measure outcomes and quality oversight Compliance with FMA Act and other AusAID/GoA policies Analysis of risk, policy, and political considerations to guide implementation	<i>(Post)</i> As Australia's in-country representative, responsible for monitoring social, political and financial risk to the country program Ensure country allocated funds are used for agreed purposes <i>(Stakeholders)</i> Ethical, moral, social and legal obligations to operate in general interest of others	Work in accordance within obligations and requirements of the agreed Contract. Operate within the policy and strategic directions outlined by the MCMG and advice provided by the CSCs. Operate in accordance with country-specific management arrangements specified in Annexes 8.3 and 8.4. Operate within the Strategic Plan and budget parameters approved annually	Ensure compliance with the Contract Fulfil obligations of the FMA Act and other APS requirements Compliance with mandatory requirements for 'Initiative Management' in AidWorks
<i>Decision making role</i> Approve the arrangements for implementation (including financial, planning, decision making and reporting mechanisms) Annual budget allocations and financial arrangements Endorse the strategy and scope of implementation (sectors, types of intervention and selection criteria)	Advise IC through MCMG on implementation arrangements (sectors, types of intervention and selection criteria) appropriate to specific country Review program performance through six-monthly reporting from implementation team Monitor context and stakeholder environment to provide feedback to the implementation Contractor and	Apply the selection criteria within strategy and scope (as set out in the design document and Annexes 8.3 and 8.4) approved in a transparent, accountable and contestable manner Management decisions to assure quality and effectiveness throughout implementation, monitoring and review processes	Support and administer decision making and advice of the MCMG and the CSCs.

	MCMG.		
Functions			
Strategic oversight and policy direction	Context and stakeholder analysis	Analysis	Administer the contract
Risk management	Endorse and advise	Planning	Monitor implementation
Performance management	Monitoring and review	Intervention management	Internal AusAID financial management and forecasting
		Real time monitoring and learning	Relationship management
		Review	Secretariat for MCMG
Membership			
Chair – ADG Sustainable Development Group	Partner Government	Core Program Team	
Minister Counsellor representing AusAID Posts ⁴¹	AusAID Post	Country Implementation Teams	
Rural Development Adviser	Private sector		
	Civil society		
	Other donors		
	<i>(Chair and representatives to be determined appropriate to the country context)</i>		
Frequency			
Six monthly	Quarterly	Ongoing	Ongoing

⁴¹ This position will represent and advocate for all Posts involved in implementation of the Program.

8.7. Monitoring & Evaluation Framework and Implementation Plan

Introduction

As discussed in the Program Design Document, lessons from market development projects around the world show that a consistent focus on results is a key element of program effectiveness. An effective M&E system is critical to operationalising this focus on results, in terms of both accountability and learning. The Program Design Document highlights the importance of responsiveness in market development programs. This responsiveness is underpinned by “real time learning” in which results on the ground are regularly analyzed and the lessons fed back into decision making at all levels of the program. This annex describes how the monitoring and evaluation systems of the Market Development Facility will be structured and implemented in order to support the program accountability, learning and decision-making.

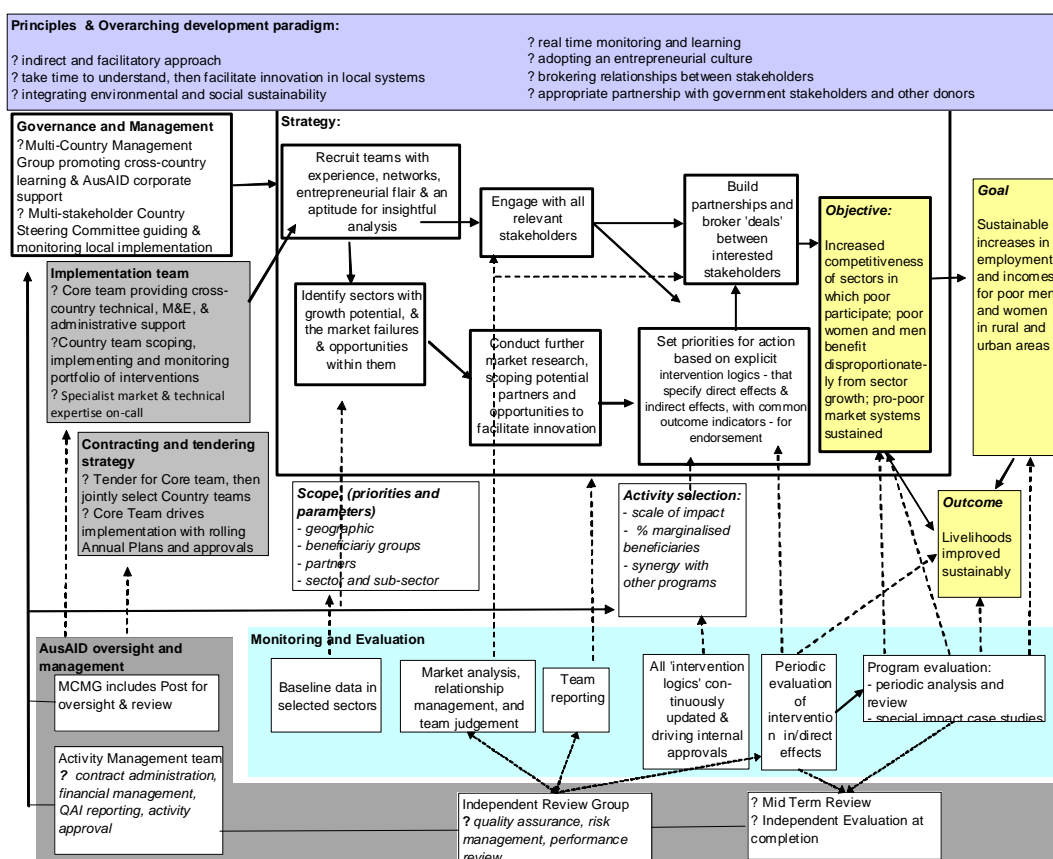
Key principles that will underpin the M&E system for the program include:

- **Thorough:** the M&E system will examine program results at different levels of change including partners, market systems, sectors and poor men and women; the M&E system will also provide feedback on the quality of implementation and provide an overview of the progress of the program and its impacts.
- **Integrated:** the M&E system will be integrated with the management and implementation of the program so that information gathering responds to the decision-making needs of field staff and management, and results are used to inform decision making at all levels of the program.
- **Timely:** the M&E system will support real time learning and information-based decision-making; information gathering and analysis will be appropriately timed so that M&E outputs are available when decisions need to be made.
- **Practical:** the M&E system will be manageable within the overall program structure; M&E staff will choose cost-effective methods for information gathering and explicitly identify ways to achieve economies in studies conducted. The M&E system will be streamlined with operating procedures.
- **Credible:** the M&E system will draw on thinking and methodologies developed by other projects and codified by the Donor Committee for Enterprise Development (DCED) in its Results Measurement Standard, which elaborates field-tested and peer-reviewed minimum quality standards for M&E of market development programs.⁴²

As shown in the Facility Design Framework Strategy (Figure 1), monitoring and evaluation play a critical role at all stages of the iterative program cycle. This integration changes monitoring and evaluation from an event to a process. It enables managers and staff to use information on results to help choose sectors, to set and revise priorities and to improve interventions during implementation.

⁴² The DCED Results Measurement Standard is available at <http://www.enterprise-development.org/page/measuring-and-reporting-results>

Figure 1: Market Development Facility Design Framework and Strategy



As described in the Program Design Document, M&E will focus on assessing three aspects of the performance of the program:

- The (direct and wider systemic or indirect) **results of program activities** both within sectors and on the sectors as a whole.
- The aggregation of these activity results to assess the **impact of the program** as a whole, with a focus on core program indicators
- The quality of the **program implementation processes**.

These three are discussed in turn below.

Assessing the results of program activities

The program's approach to assessing the results of individual program activities comprises seven steps, the first four of which are heavily dependent on clear analyses of each market:

1. Develop impact logics⁴³ for each market system and related interventions in that market system.
2. Use the impact logics to identify appropriate indicators to assess each type of expected change among market players and the market system.
3. Establish a baseline for key indicators.
4. Predict at the beginning of an intervention the amount of change in each indicator that may be expected to result from that intervention.

⁴³ Also called results chains, causal models or impact chains.

5. Design and implement a plan for collecting data to monitor and assess performance.
6. Analyse the information generated to understand results, assess the effectiveness of interventions, pinpoint gaps and identify lessons learned.
7. Feed the analysis into regular decision-making within the program and report relevant results and analysis both internally and externally.

Step 1: Develop impact logics for each market system and related interventions in that market system, based on the overall program goal and outcomes.

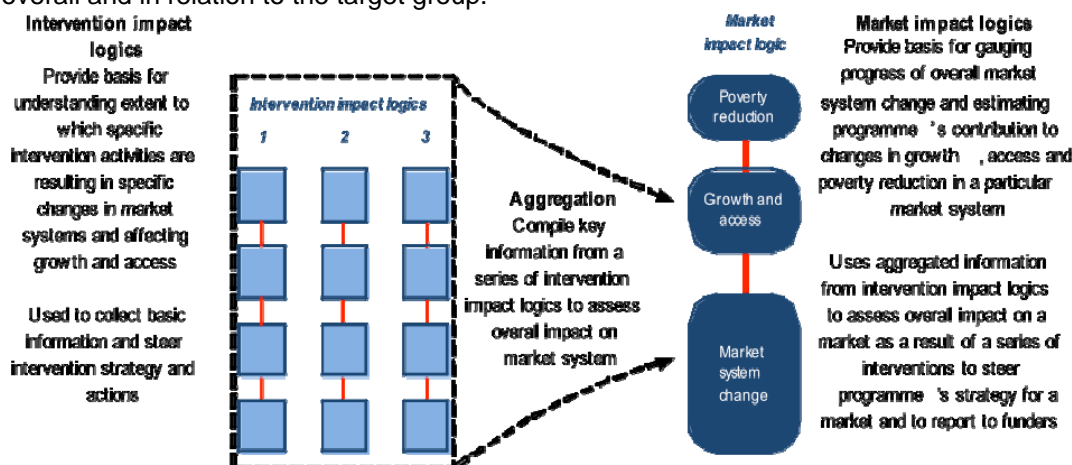
The Facility will make multiple interventions in each of the targeted sectors in participating countries. The overall program logic, therefore, needs to be broken down so that change can be effectively tracked as it happens. Experience with other market development programs has shown that impact logics are an effective tool for this tracking; they provide the basis both for “real time learning” and for the credible and practical assessment of program results. The DCED Standard on Results Measurement now mandates the development and use of impact logics.

The impact logics will clearly describe how program activities are expected to lead, through a series of changes in market systems, to increases in employment and income for poor men and women. Impact logics will be constructed at two levels. The first will be the targeted sectors or industries. These logics will summarize the program’s strategy for sustainably increasing the competitiveness of the targeted sectors and the benefits that poor and marginalized men and women experience in those sectors. These “market logics” will also summarize the systemic changes expected in target sectors. The second level will focus on specific activities within an overall sector strategy. These “intervention” impact logics will be more detailed, expressing the key changes expected in the behavior and performance of market players as a result of specific program activities, as well as the indirect effects expected to result from direct changes. These indirect effects are expected to contribute to the overall systemic change expressed in the market logic. See Box 1 for a discussion of how market and intervention impact logics fit together.

Box 1: Impact logics

Impact logics show the chain of causality through which a program's activities are expected to lead, through a series of changes, to poverty-reducing benefits. Each "intervention logic" describes the expected results of a specific intervention in detail. The expected results of all the interventions in a particular sector are summarized in a "market logic." Therefore, each target sector has a set of impact logics; one market impact logic and within that several intervention impact logics.

While both market impact logics and intervention impact logics map out changes expected or achieved, intervention impact logics provide greater detail on a program's activities, their immediate outputs and the expected direct and indirect changes in markets systems both overall and in relation to the target group.



The impact logics cannot be elaborated at the start of a Program because they depend on the choice and analysis of target sectors. Instead, they will be elaborated throughout the course of the program, as market focus and interventions are defined or new markets are entered and new interventions initiated in each participating country.

Step 2: Use the impact logics to identify appropriate indicators to assess the direct and indirect results of specific interventions

Each "link" in an impact logic expresses a change that is expected to result from the previous link. Clear indicators for each link enable the program managers and staff to track the extent to which each expected change has happened and thus, to know the extent to which an intervention is leading towards the desired results.

The types of indicators generally used in market development programs are described below:

- **Poverty reduction:** Indicators relating to the change in the target group's specific poverty condition (eg income, employment, assets).
- **Growth and access change:** Indicators relating to the growth and competitiveness of target sectors and the position and performance of poor men and women within those target sectors (eg productivity, market share, overall business performance – including social and environmental performance, access to goods or services, usage and satisfaction, vulnerability to risk).
- **Market system change:** Indicators relating to the nature and sustainability of changes (both direct and indirect) within core market transactions and supporting functions and rules:
 - Core: quantity and quality of transactions in the sector and outreach to target groups

- Supporting functions and rules: their effectiveness in supporting more pro-poor market performance (eg appropriateness of rules, the availability of ancillary services or processes or structures for innovation and representation).
- ‘Crowding-in’ of independent activity and investment.
- Development of market players in terms of:
 - Attitudes: awareness, understanding and behaviour in relation to desired changes.
 - Capacity and practices: ability to perform and continue to perform appropriate market functions.
 - Relationships and alignment: the nature and quality of relationships, mechanisms and underpinning institutions.
 - Incentives and ownership: recognition and realisation of incentives to change in relation to different market functions.

Intelligent selection of proxy indicators is important in market development. Some dimensions of change are inherently difficult to assess, so the Program will have to find more readily identifiable and measurable substitutes. Markets are about interdependence: what one player does affects another; one market function relates to another. This inter-dependence means that proxy indicators have extra significance in assessing impact.

As the Program develops the impact logics, it will also choose appropriate intermediate indicators. During the inception phase, the program may also choose to have some common indicators for sector performance such as aggregate sales. At the level of benefits for poor women and men, the Program will include the impact indicators mandated by the DCED Standard on Results Measurement:

- **Scale:** Number of target enterprises who realize a financial benefit as a result of the Program’s activities per year and cumulatively.
- **Net income:** Net additional income (additional sales minus additional costs) accrued to target enterprises as a result of the Program per year and cumulatively.
- **Net additional jobs created:** Net additional, full-time equivalent jobs created in target enterprises as a result of the Program, per year and cumulatively (“additional” means jobs created minus jobs lost).

Additional indicators at this level may be chosen during the inception phase.

Step 3: Establish a baseline for key indicators

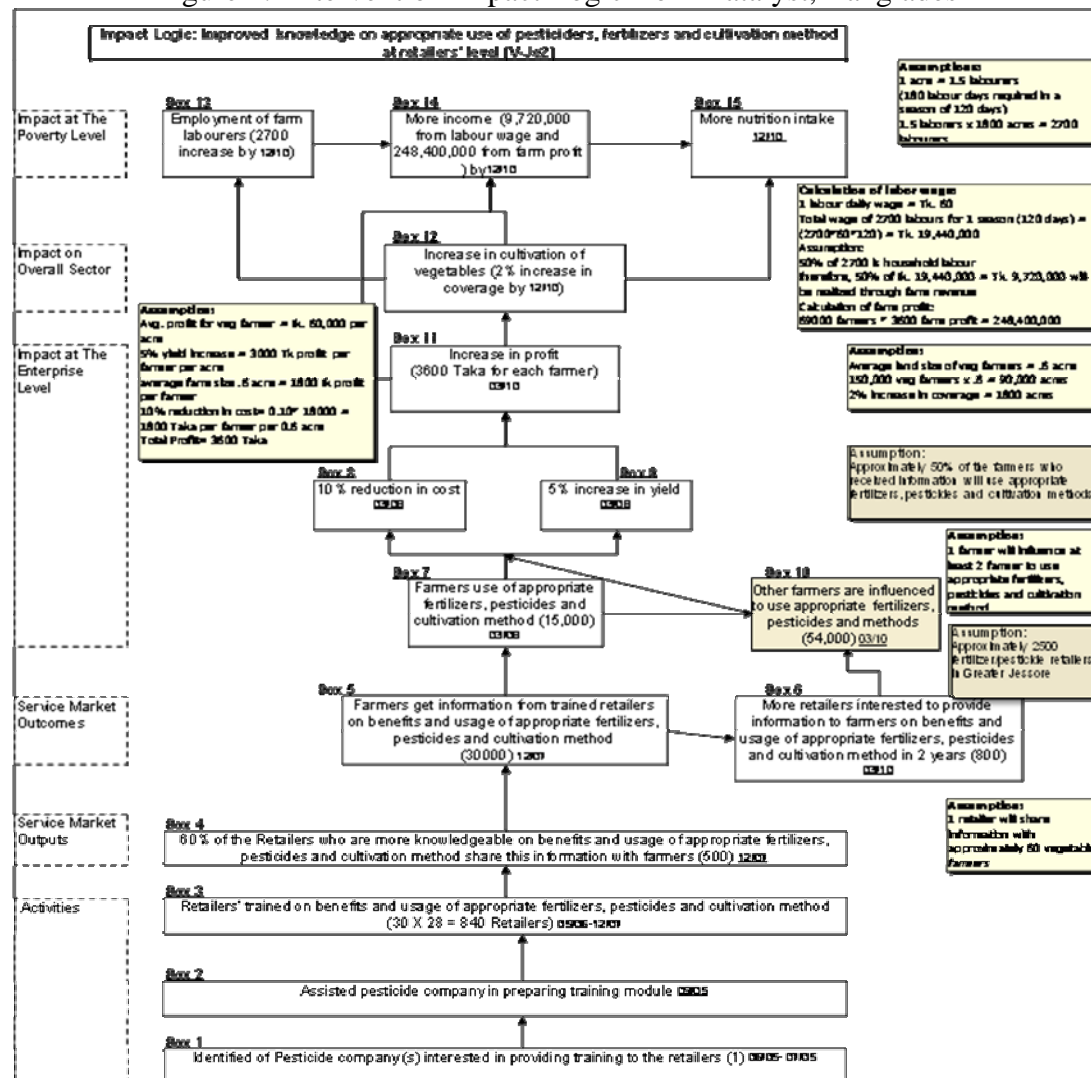
Baseline data on key indicators will be obtained from market assessments or as a result of preliminary interventions whenever possible. When additional data is required, specific baseline studies will be conducted.

Step 4: Predict at the beginning of intervention the amount of change in each indicator that may be expected to result from each intervention

Predictions will only be realistic ‘best estimates’ based on current information. Although such estimates can never be precise, they are important to give the Program a sense of something to aim for and to gauge whether interventions are likely to result in sufficient impact to justify expending resources. See Figure 2 below for an example of an intervention impact logic that includes indicators and projections.

Projections are based on information from the initial market assessment, sector benchmarks if available, previous studies, expert opinions and assumptions based on staff knowledge and experience. The assumptions are then verified during the information gathering.

Figure 2: Intervention Impact Logic from Katalyst, Bangladesh



Step 5: Design and implement a plan for collecting data to monitor and measure performance

The program will adopt a pragmatic approach to gathering information to assess the relationship between the observed changes and program interventions. For reasons of coherence and efficiency, market assessment and M&E need to be closely linked. Tools used for market assessment can also be used to provide evidence of overall market change and, in particular, of the specific dimensions of the market changed by intervention. Because the program will implement a variety of activities with various partners in different market systems, a variety of tools will be needed to assess results. These tools might include surveys, focus group discussions, observation, key informant interviews and established organisational assessment methods. The tools will be selected and adapted to assess different dimensions of the market system.

Quantitative information will need to be complemented by qualitative information. Qualitative information will help the Program to understand the reasons behind changes in quantitative indicators, to assess the sustainability of change and to estimate attribution.

Changes at higher levels of impact logics are a result of many factors and complex inter-relationships beyond a Program's control. The Program will not only need to know what changes have taken place over time, but also to what extent changes are a result of Program interventions as opposed to other factors. Estimating such attribution is never straightforward, but in simple terms the Program will:

- Assess the situation before the Program intervention.
- Assess changes after the Program intervention.
- Estimate the amount of change that would have occurred anyway without intervention.
- Compare actual changes that *did* happen with the estimate of what *would have* happened *without* intervention in order to isolate the results of intervention.

A mix of methodologies will therefore be required to estimate attribution. The methodologies will be drawn from those endorsed under the DCED Results Measurement Standard. They may include:

- *Quasi-experimental methods:* Comparative assessments (eg surveys) of affected and control groups will be used when practical and when the scale of intervention justifies the cost of assessment. Quasi-experimental methods allow for the comparison of changes between a target group affected by Program intervention and a group that has not been targeted. Differences in the level of change between these two groups can be used to estimate the degree of change resulting from Program intervention. Experience in market development programs has shown that this method can be effective at the pilot stage of interventions when it is applied to understand the causal relationships between 2-3 links of an impact logic. At this stage, it is critical to establish if a particular market system change is, indeed, beneficial to the target group and it is feasible to delineate affected and control groups.
- *Trend analysis:* The Program will compare change in areas where the Program is active with changes in other areas as well as national and historical trends. Again, any differences between the changes identified in Program areas and non-Program areas (or national and historical trends) can be used to estimate the change attributable to Program intervention. Experience has shown that this method can be effective when systemic change in a particular sector has started to take place but is limited to a particular geographic area.

The Program will also track other critical incidents that might cause changes such as macroeconomic factors, new infrastructure or regulations or climatic events. The effects of other aid Programs should also be taken into account. If such factors might also have influenced change, the Program will adjust its estimates of the degree of change which can be attributed justifiably to Program intervention.

- *Qualitative methods:* Qualitative methods are useful to investigate change processes (e.g. intermediate changes in terms of behaviour or practices).

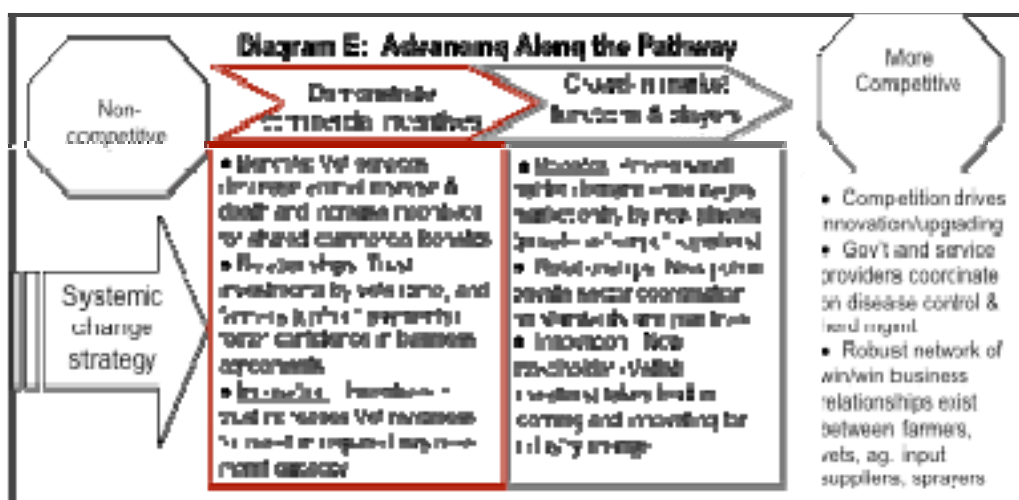
Qualitative assessment will help the Program understand how its interventions contribute to observed changes and identify other contributing factors unrelated to the Program. For instance:

- Field diaries of observations during staff field visits can be used to document what changes are really happening and why.
- In-depth interviews or focus group discussions can be used to capture the opinions of relevant market players in order to explore why changes have occurred and the factors that contributed to change, including the role of Program intervention in any change.

Assessing systemic change in sectors and the extent to which this change is attributable to the program is challenging because these changes tend to be influenced by program activities indirectly. Therefore, it is not feasible to track every individual market player and beneficiary who is affected. However, assessing change at this level is critical because it is this systemic change that can lead to widespread and sustainable benefits for poor men and women. To address this challenge, the program will specifically assess sector level systemic change in two ways: by tracking sectors' overall pathways towards enhanced competitiveness and pro-poor growth and by gathering data on overall sector performance. These M&E strategies will help the program managers and staff to understand to what extent systemic change in sectors is occurring and, therefore to learn and adjust implementation to increase effectiveness. The strategies will also help the program accurately estimate to what extent systemic change is a result of program activities.

Tracking sector pathways: During sector analysis and decisions on priority intervention areas, Program managers will lay out a vision for how the sector will become more competitive and more pro-poor. As stated above, this vision is summarized in a market results chain. Programme managers will complement this results chain with a detailed “sector pathway” which establishes milestones for the development of the sector. See Figure 3 below for an example from the work done to improve vet services for smallholder livestock farmers in the PROFIT project in Zambia.

Figure 3: The Pathway to Pro-poor Growth and Competitiveness – Veterinary services in Zambia⁴⁴



Regular assessments at the sector level will track to what extent each of these changes is actually occurring. Information gathering will use the same tools as tracking the indicators in the market impact logic and in most cases, information for the logics and the pathway can be gathered at the same time. If necessary, specific studies of the changes in sectors will be conducted in conjunction with the assessing overall sector performance (discussed below). Tracking these sector level changes is essential for providing Program managers with the information they need to be responsive and effective facilitators. It also helps the program plausibly attribute sector level changes to program activities.

Overall sector performance: On an annual basis, the program will prepare a short brief on the overall performance of each target sector. These briefs will draw as much as possible on secondary data including Partner government data, association data and other published literature such as multilateral donor studies. This data will provide the context for estimating to what extent the program has contributed to overall sector growth and competitiveness as well as the increased employment and incomes for poor men and women within the sector. Other market development programs have found this collection of sector level data very helpful in the triangulation of information necessary to generating credible estimates of impact.⁴⁵

Step 6: Analyze the information generated

The analysis of information will focus on the following questions:

- To what extent are expected changes taking place?
- How and why are changes taking place?
- To what extent are changes sustainable?
- To what extent are changes attributable to the program?

⁴⁴ Field, Michael and Marshall Bear "Managing the Process of Change: Useful Frameworks for M4P Facilitators," Draft, 2008.

⁴⁵ Miehlebradt, Alexandra "Practical Impact Assessment for Programs: A case study of Katalyst in Bangladesh," for Development Alternatives, Inc. Draft 2009.

Individually, any one source of data may be incomplete and some data may appear to contradict other data. Therefore the Program will use the diversity of data gathered to triangulate information, crosschecking individual data and deriving best estimates.

Using the analysis of these questions, program managers will determine if existing interventions are working and if, together, they are contributing to the desired sector-level change. This understanding will be regularly documented to aid decision-making.

Step 7: Feed analysis into regular decision-making and report progress

The Program will use the above analysis to update its understanding of market dynamics, adjust its vision of market development and review and revise interventions accordingly⁴⁶. Management will also review the overall portfolio of markets in which the Program is operating and whether the current market mix is generating sufficient impact to achieve Program objectives.

Experience in market development programs shows that there must be a clear system in place to foster use of information in decision-making.⁴⁷ Therefore the Program will establish a regular meeting cycle to review information gathered to date, analyze the findings and apply them to program improvement. While information will inform decision-making on a day-to-day basis as well, these formal meetings will give Program managers and staff an opportunity to step back and assess progress. This process ensures that the program remains responsive to the market and that information provides the basis for updating Program strategy and interventions.

The Program will also extract and present data and analysis that is relevant and accessible to its funders and external stakeholders. Reporting will be tailored to the specific requirements of different users. For example, while some stakeholders may want reports on progress in a specific sector, other stakeholders may only be interested in the overall progress and impact of the program (discussed below). The Program will also use this data and analysis to influence other development actors – such as donors, NGOs, projects, governments – and raise their awareness of market systems in general, and interventions that might undermine the Program in particular.

Estimating Overall Program Impact

The monitoring and evaluation system will provide the Program managers an overall view of the progress of the project toward its objectives by aggregating impact data from all target sectors annually. Crosscutting dimensions of Program impact (eg gender balance) will be presented as part of this overall picture of Program impact. This aggregation will be achieved by ensuring that sector and intervention level data is entered into a project database and updated regularly as additional information is gathered. The aggregation will rely on the latest figures for each of the interventions and sector level data. Aggregated impact will be reported on an annual basis and also serve as the basis for an annual strategy review which includes analysis of the sectors targeted and the main implementation strategies.

⁴⁶ This regular and ongoing review of interventions will include, amongst other aspects, an assessment of the efficiency – or cost per outcome – of different interventions and types of intervention.

⁴⁷ See, for example, Knopp, David “Striving Toward a Competitive Industry – The Importance of Dynamic Value Chain Facilitation” ACDI/VOCA, USAID, 2008.

In addition to quantitative data, the Program will gather qualitative data on impact through a portfolio of case study evidence. The Implementation team will develop a case study methodology and employ local independent specialists to undertake data collection and analysis. The impacts for households and community will be the primary focus of the case study analysis. Depending on the scale and number of activities in the overall portfolio, one in five activities will have a case study analysis prepared. This will ask deeper questions than a simple causal logic can address, including the spin-off and flow on effects from interventions, and the use and benefits accruing to individuals and communities from the intended immediate results of the activity.

Assessing the Quality of Implementation Processes

As discussed in the Program Design Document, the quality of the decision-making and implementation processes will be critical to the success of the program. To facilitate continuous improvement, there will be regular performance monitoring of these critical aspects of the program.

Assessing the quality of implementation processes will be focused at two levels:

- **Learning and improvements to the implementation approach:** the effectiveness of program governance mechanisms, the extent of live market awareness, the responsiveness to emerging local priorities, the prevalence of internal critical analysis, the efficacy of partnerships and relationship management processes, the effectiveness of external communication and influencing, the adequacy of judgement skills.
- **Learning and improvements to the management systems:** the effectiveness of HR management such as performance and training systems for staff, the level of functioning and value-added of Governance Committees, the appropriateness of partner contract management systems, the efficacy of systems to monitor and respond to fraud and weak transparency, the value of administrative and financial management systems.

These dimensions of implementation performance will be routinely monitored by the program M&E Advisor together with the in-country M&E units, and will be assessed annually through an Internal Quality Audit conducted by the M&E Advisor along with the Independent Review Group. This will ensure a cycle of continuous learning within the program implementing teams, but will also enable benchmarking against broadly similar programs to contribute to wider learning. The Quality Audits will involve a series of key informant interviews with program staff and stakeholders, including Post, Partner government, private sector participants and beneficiaries, as well as the tracking of a range of internally agreed performance metrics to address the range of concerns listed above.

In addition, a system of staff and Governance Committee performance appraisals will be an integral part of the program performance measurement system. The Independent Review Group will oversee these performance appraisals. Finally, incentives to foster a culture of critical reflection and debate within the team will be included and assessed.

M&E management

Monitoring and evaluation of the Program will be managed by dedicated M&E staff both in the Core Program Team (CPT) and in the Country Implementation Teams (CIT) and will be overseen by a high level manager in the core team. These managers and staff will work hand in hand with the implementation staff to ensure that the program maintains market responsiveness and a quick learning loop based on reliable information. This means that, although the M&E staff will handle the more technical functions related to M&E, all staff will be involved in M&E. The CPT will include a full-time M&E manager and each CIT will have an M&E officer. While the impact logics and projections will be developed by the implementing staff, the M&E staff will provide support in the choice of indicators, gathering baseline data and gathering and executing an information gathering plan both for individual interventions and for sectors. Analysis of data and applying it to decision-making will be done jointly with M&E staff supporting implementing staff.

The M&E manager will lead the development of detailed M&E plans per sector, provide oversight of M&E staff selection and training, maintain and upgrade the quality of the M&E system and ensure information is used as the basis for decision-making and external communications. The whole M&E team will be responsible for the annual synthesis of data on Program progress.

The M&E team will maintain a database of information on the Program. This database will provide the basis for Program reporting. Table 1 (from the Katalyst project) illustrates the types of outputs that will be kept in the database and their function. As such, the database will not only include projections and data on results, but also the impact logics and supporting documentation for each sector and intervention, intervention reports and sector progress reports. This will ensure that the Program maintains an institutional memory that will smooth staff transitions and provide a basis for learning both within and outside the Program.

Table 1: M&E System Outputs⁴⁸

Level	Document	Use	Frequency	AusAID Use & Reporting
Market	Market Plan	Planning market strategy and interventions	At initiation of interventions in the market; updated every six months if needed	MCMG, Post, CSC input into market system selection
	Market Report	Reporting progress in the market including estimated impacts	Every six months and at market closure	QAI, APPR reporting
	Mini-Cases	Reporting on processes of change and examples of impact	Several each year as determined by the market teams and division manager	QAI, APPR, ATPR reporting
Intervention	Intervention Plan	Planning intervention design and implementation	At initiation of activities; updated every six months if needed	Program Management Planning
	Intervention Report	Reporting what happened, immediate results and estimated impacts from the intervention	At end of intervention activities; updated after all M&IA information has been gathered and analyzed	QAI reporting
Whole Project	Business Plan	Planning the overall project strategy, markets and interventions for the next year	Annually in May	Program Management Planning
	Semester Report	Reporting overall progress on activities and estimated impacts on poverty reduction and in areas of special focus	Semi-annually	QAI, APPR, ATPR reporting
Selected Markets	Cases	Reporting on significant achievements and lessons learned	As suitable markets are identified – approximately once per year	QAI, APPR, ATPR reporting
	Special Studies	Reporting on specific issues	No fixed schedule; studies chosen by the M&E team and the managers	QAI, APPR, ATPR reporting

⁴⁸ Catalyst, "Impact Management System Manual," draft 2008.

8.8. Budget and Cost Estimates - removed

8.9. Responsibilities of and Selection Criteria for Key Staff Positions

The Facility, through the Implementation Contractor, will require staff for a Core Program Team (based in one of the countries of implementation or nearby) and for Country Implementation Teams (based in Fiji and Timor Leste, but not the Solomon Islands, at the discretion of the Contractor) as follows:

The CPT will include:

- Team Leader (one); and
- Monitoring and Evaluation Specialist (one).

Suggested other team members of the CPT include:

- Finance and Procurement Coordinator/Manager (one).

Suggested members of the CIT's include:

- Lead Specialist (one/country);
- Business Analysts (three/country); and
- Monitoring and Evaluation Officer (one/country).

This annex summarises the roles and responsibilities of all required and suggested team members, and includes selection criteria for CPT members.

Core Program Team

Team Leader

Responsibilities:

- Provide overall management and direction of the Facility's activities including multi-country coordination, planning, oversight, analysis, monitoring and evaluation, procurement, sub-contracting, finances, reporting, administration and relationship management.
- Lead, guide and mentor Facility staff (resident expatriates, short-term experts, trainees, and local staff).
- Provide training in market based approaches to AusAID Posts and CSCs.
- Represent the Core Program Team and lead key discussions with other bodies within the Facility (particularly the MCMG) and with external stakeholders.
- Develop and foster contacts with key public and private institutions and individuals involved in market development throughout the Pacific region
- Responsibility for developing annual strategic plans for endorsement by the MCGM and operating within them.
- Responsibility for communication of the Facility externally, developing networks, promoting and sharing the Facility's work and achievements, sustaining and expanding collaboration and seeking to lead development.
- Maintain a responsive relationship with AusAID, through providing timely information, advice and recommendations on all Facility matters.
- Responsibility to ensure integration of environmental sustainability throughout the program as a whole either directly, or by facilitating specialist expertise as appropriate (this responsibility could also be undertaken by the M&E Specialist).

- Responsibility to ensure integration of gender issues throughout the program as a whole, and ensure gender issues are being championed by the CIT's (this responsibility could also be undertaken by the M&E Specialist).

Selection criteria:

- At least three years experience implementing market development approaches.
- Proven capacity to build and lead highly motivated and focused teams.
- At least five years experience in facilitating private sector development in developing countries.
- At least five years experience managing programs for and working with an international development agency.
- Demonstrated ability to integrate environmental and or gender issues into development programs.
- Strong communication, writing, numeracy, analysis and networking skills.
- Preferably specific country knowledge of Timor Leste.
- Preferably an advanced degree in a relevant field e.g. business, development economics, enterprise development, rural development.

Monitoring and Evaluation Specialist

Responsibilities:

- Responsibility for the overall M&E architecture of the whole program.
- Responsibility for overseeing the Facility M&E database and determining the overall impact generated by activities across the whole program.
- Responsibility for overseeing and maintaining an M&E system at the activity level that predicts the impact of interventions, monitors changes from these interventions in real time, and measures the impact of changes.
- Responsibility to ensure CIT staff actively conduct M&E at the activity level in real time, including analysing information to determine what it means for program strategy and implementation.
- Responsibility for mentoring and building the M&E capacity of CIT staff.
- Responsibility to ensure M&E information is used as the basis for decision making (i.e. choice of sectors, sector strategies, choice of interventions, intervention designs, revising interventions and intervention strategies).
- Responsibility to ensure M&E information is used effectively to raise the market system awareness of external development actors – including donors, NGOs, projects, government – and influence them in ways that mitigate the risk of the Program being undermined.
- Provide technical input into the design of M&E tools/methodologies.
- Conduct analysis and synthesis of activities that contributes to the further development of concepts that can be used across the Program.
- Maintain a senior management/leadership role in the Facility and deputise for the Team Leader of the Core Program Team when required.

Selection criteria:

- At least five years experience in designing and implementing M&E, information analysis and impact evaluation in development programs, ideally in the field of private sector development.
- Demonstrated ability to implement M&E processes that influence program implementation.
- Preferably experience implementing market development approaches.
- Preferably an advanced degree in a relevant field e.g. business, development economics, enterprise development, rural development

- Demonstrated ability to integrate environmental and or gender issues into development programs.
- Strong communication, writing, numeracy, analysis and networking skills.
- Preferably an advanced degree in a relevant field – business, rural development, or livelihoods.

Finance and Procurement Coordinator/Manager

Responsibilities:

- Responsibility for financial and procurement accountability of the Program at the country level.
- Maintain financial management systems for the Country Imprest Account and for country related contractor costs.
- Provide assistance to the CIT on budget formulation and reporting requirements.

Selection criteria:

- Substantial managerial experience in financial administration and procurement practice, preferably with AusAID or another donor.
- Demonstrated capacity to establish robust financial systems and prepare high quality financial reports.
- Ability to communicate and work effectively in a team environment.
- Degree in accounting, finance or procurement.
- Advanced computer literacy.

Country Implementation Team

Lead Specialist

Responsibilities:

- Build and manage a ‘market-development’ competent and highly motivated CIT, that is maintained and developed through team mentoring and supervision, performance appraisal, capacity development, and planning.
- Responsibility to develop a portfolio of activities at the country level through identifying market failures and opportunities and develop interventions to address these via careful and insightful research and analysis across various sectors.
- Responsibility for overseeing the development of activity designs/proposals at the country level and implementing appropriate interventions through negotiation/deal-making with private or public partners to facilitate positive and systemic changes to markets.
- Provide ongoing training and awareness raising in market based approaches for AusAID Posts and CSCs.
- Responsibility for the real time monitoring of interventions, evaluation, reporting, and case studies that assess impact and identify lessons and options for further engagement in various sectors at the country level.
- Responsibility for building a strong relationship with AusAID Post, and conducting meeting briefs with Post on the status of activities as required.
- Responsibility to ensure integration of gender issues throughout the program in country.

Business Analysts

Responsibilities:

- Work closely with the Lead Specialist on the CIT’s to identify market failures (and opportunities) through careful research and analysis, and to devise, implement and monitor appropriate interventions to rectify these.

- Responsibility for conducting market research and analysis (economic, social, political economy, institutional) including through rapid reviews and surveys with relevant stakeholders, to develop strategies and intervention logics/policy recommendations for implementation.
- Responsibility to establish and cultivate relationships and networks with key market players.
- Provide regular and timely input into the M&E database of country level activities.

Monitoring and Evaluation Officer

Responsibilities:

- Manage the M&E database for activities at the country level to ensure the status of activities are maintained and their overall impact determined.
- Utilise the M&E database as a basis for activity reporting at the country level.
- Provide support to other members of the CIT in the choice of indicators, provision of baseline data and development of an information gathering plan for individual interventions and sectors.
- Ensure M&E information is used as a basis for intervention decision making, including being a 'sounding board' for the Business Analysts when devising, implementing and monitoring interventions.

8.10. Risk Management Plan

Key Risk/Consequence	Mitigation Strategies
<p>Increased political instability or conflict that would jeopardise program operations, and likely result in increased macro-economic instability thereby undermining growth potentials, including in sectors important to the poor.</p> <p><i>medium probability, high impact</i></p>	<p>Partial mitigation through:</p> <ul style="list-style-type: none"> •contingency planning by program team; •selecting sectors least vulnerable to macro-economic instability; •ensuring conflict-sensitivity embedded in program strategy.
<p>Other donor or NGO programs undermine market development and sustainable growth prospects in focal sectors by, for example, providing free handouts.</p> <p><i>medium probability, high impact</i></p>	<p>Program avoids sectors where such risks are insurmountable;</p> <p>Program influencing strategy to limit unsustainable practices through:</p> <ul style="list-style-type: none"> •Stakeholder engagement in Country Steering Committee; •Post-led dialogue; •Program interventions and M&E system; demonstrate pro-poor growth outcomes possible with a market development approach; •Specific studies/analyses commissioned to inform dialogue. <p>IRG has been requested to assist AusAID in Timor Leste and Fiji to review the existing rural development portfolio for consistency with market development and sustainability principles</p>
<p>The indirect, facilitatory approach of the program means cross-cutting issues are not properly considered and integrated.</p> <p><i>medium probability, high impact</i></p>	<ul style="list-style-type: none"> •Sustainability principles, including social and environmental sustainability, are embedded in program design; •Specific mechanisms to ensure appropriate consideration of cross-cutting issues are embedded at key decision points in the program strategy; •Implementation team is appropriately resourced; CPT and CIT have explicit responsibilities for integration of cross-cutting issues, particularly with respect to gender and environment. <p>Cross-cutting issues are prime considerations in program oversight, M&E, and reviews.</p>
<p>AusAID business processes and Post capacities do not enable effective program management, leading to inadequate program oversight, failures to realise potential synergies with other programs, and a loss of operational flexibility in the program.</p>	<ul style="list-style-type: none"> •Program governance and management arrangements encourage appropriate oversight by Post, and can be adjusted according to individual Post's capacity; •Ongoing support from OPS is committed to evolve AusAID business processes in the light of experience.

<i>medium probability, high impact</i>	<ul style="list-style-type: none"> •Regular briefings by CIT of Post will maintain shared understanding of required modus operandi. Recent missions and ongoing communications between SDG and Post will maintain a shared understanding of required modus operandi.
<p>Fraud or corruption by program partners creates unacceptable levels of reputational risk for AusAID.</p> <p><i>medium probability, high impact</i></p>	<ul style="list-style-type: none"> •CIT to conduct appropriate due diligence as a precursor to any partnership; •Implementation team to develop and apply ethical codes of conduct; •Post to advise CIT and veto and partnerships that pose unacceptable levels of reputational risk; specific management arrangements agreed with each Post to address this risk including regular briefings and the requirement for the CIT to be proactive in identifying and raising such risks with Post (see Annexes 8.3 and 8.4).
<p>Excessive government interference and or inappropriate government regulation in economic sectors that limits opportunities for increased competitiveness and growth.</p> <p><i>medium probability, medium impact</i></p>	<p>Program avoids sectors where such interference is critical;</p> <p>Influencing Strategy to reduce interference through:</p> <ul style="list-style-type: none"> •Government engagement in Country Steering Committee; •Post-led policy dialogue; •Program interventions demonstrate potential growth benefits of reduced interference or changed regulation; •Program commissions analysis on topics determined by government to garner interest and influence.
<p>The program fails to attract and retain suitable expertise to implement the program leading to dilution of the approach and weak program results.</p> <p><i>low probability, high impact</i></p>	<ul style="list-style-type: none"> •Multi-country facility design enables limited expertise to be shared across countries, and gives experts greater choice in where to reside; •Adviser and Expert Panel networks will help identify and encourage interest from experts; •Two step procurement strategy enables AusAID input into identification of local team expertise; •There will be strong incentives for the program to share experience, across countries and more broadly, opportunities that will help retain staff.
<p>A shortage of interested program partners limits the prospects for catalysing market innovation and leads to inappropriate partnerships, for example, with monopolists.</p> <p><i>low probability, high impact</i></p>	<ul style="list-style-type: none"> •Scoping work indicates sufficient numbers of interested partners; <p>The basis of the program approach is about ‘win-win’ scenarios, offering ‘just enough’ support to catalyse sustainable pro-poor change;</p> <ul style="list-style-type: none"> •Independent periodic reviews of partnerships will specifically focus on this issue.
Implementation and monitoring experience in one country fails to inform learning in other countries.	<ul style="list-style-type: none"> •Multi-country facility design ensures implementation contractor work across countries; •Strong management links into SDG and Rural

<i>low probability; medium impact</i>	<p>Development Thematic Network will ensure experience is shared beyond the initial implementing countries;</p> <ul style="list-style-type: none">• External demand to learn from this experience is reinforced by the market development focus of the Food Security Budget Measure.
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8.11. Design Framework and Strategy Diagram

