



SYNTHESIS REVIEW OF DFAT- FUNDED MARKET SYSTEMS DEVELOPMENT INITIATIVES

Part I – Main report

Abstract

This paper reports on the findings of a synthesis review of DFAT's Market Systems Development initiatives.

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Abbreviations

AAER	Adopt-Adapt-Expand-Respond
ACIAR	Australian Centre for International Agricultural Research
ACR	Activity Completion Report
ADR	Aggregate Development Results
AFS	DFAT's Agricultural and Food Security Section
AIP	Aid Investment Plan
AIP-Rural	Australia-Indonesia Partnership for Rural Development Program
AMENCA	Australia Middle East NGO Cooperation Agreement Program
APG	Aid Programming Guide
AQC	Aid Quality Check
ARISA	Applied Research and Innovation Systems in Agriculture
AusABBA	Australia Balochistan Agribusiness Project
BEE	Business Enabling Environment
CAVAC	Cambodia Agricultural Value Chain
CoP	Community of Practice
CPIA	Country Policy and Institutional Assessment
DAC	Development Assistance Committee
DCED	Donor Committee for Enterprise Development
DFAT	Department of Foreign Affairs and Trade
DFID	Department for International Development
FAO	Food and Agriculture Organization
FWUC	Farm Water User Committee
GDP	Gross Domestic Product
GLAM	Global Learning for Adaptive Management Initiative
GREAT	Gender-Responsive Equitable Agriculture and Tourism Program
INGO	International Non-Government Organisation
LDP	Learning and Development Platform
LIFT	Livelihoods and Food Security Fund
LMIC	Lower Middle Income Country
M4P	Making Markets Work for the Poor
M&E	Monitoring and Evaluation

MDF	Market Development Facility
MELF	Monitoring, Evaluation and Learning Framework
MRM	Monitoring and Results Measurement
MSD	Market Systems Development
MTR	Mid-Term Review
NGO	Non-Government Organisation
ODA	Official Development Assistance
PHAMA Plus	Pacific Horticultural and Agricultural Market Access Plus Program
PPA	Partner Performance Assessment
PRISMA	Promoting Rural Incomes through Support for Markets in Agriculture Program
SAFIRA	Strengthening Access to Finance in Rural Agriculture
SBC	Social Behaviour Change
SDC	Swiss Agency for Development and Cooperation
SMART	Specific, Measurable, Achievable, Realistic and Timebound
TIRTA	Tertiary Irrigation Technical Assistance
TOMAK	To'os Ba Moris Diak Program
TOR	Terms of Reference
UMIC	Upper Middle Income Country
VfM	Value for Money
WEE	Women's Economic Empowerment

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The review team would like to thank the many people who gave generously of their time and knowledge during the course of this review, and were willing to revisit some of the debates surrounding the conceptualisation and operationalisation of the Market Systems Development approach. This included DFAT staff who manage or have managed MSD programs, past and present team leaders, advisory group members and staff from programs covered by the review as well as experts in the broader Market Systems Development community.

The team especially wishes to thank Julie Delforce, the review manager, for her forbearance, constructive feedback and understanding and thoughtful management of a challenging review.

Executive Summary

This report presents the findings of a synthesis review of investments made by the Department of Foreign Affairs and Trade (DFAT) applying a Market Systems Development (MSD) approach, which is described in DFAT's (2017) Operational Guidance Note. DFAT's first such investment was made in 2009, and the most recent in 2019, and the Department has contributed over \$500 million to this part of its aid portfolio.

DFAT's adoption of the MSD approach originated in reflections on the:

- limited performance of conventional direct delivery approaches to supporting rural development;
- all-pervasive role of markets in the people's lives;
- potential of systemic approaches to the underlying reasons why markets were not offering poor people better opportunities to enhance their lives.

The findings in this report must be read with an appreciation of the limitations of the review process, based on desk review of literature and short conversations with key informants. Programs have evolved considerably over time, there has been significant turnover in program personnel and DFAT managers, and there is a large body of documentation, little of which deals directly with some of the review questions.

Findings

The DFAT MSD programs covered by this review, and the approaches they embrace, are highly consistent with the Government's aid priorities.

- However, older programs have had to work to adapt to the evolving constellation of priorities; and programs are not all yet reflecting recognition or demonstrating compliance with elements of DFAT's emerging framework for private sector engagement, such as additionality, or satisfying all expectations with respect to gender.
- MSD programs develop notable insights into how the incentives for investment and doing business are shaped by political and economic drivers, and how policies, regulations and the institutional underpinnings of market exchange work in practice. This could be very useful information in DFAT's policy engagement work. This potential is under-exploited.

By location, sector and intervention choice, most programs are quite effectively benefitting poor men and women.

- No programs in the portfolio target the very poor, but that does not mean that these groups do not benefit. Programs are developing good strategies for pursuing women's economic empowerment based on good analysis: but implementation is variable.

DFAT's portfolio provides a good test of the adaptability of the MSD approach across a wide variety of country contexts - this has required considering how to frame key concepts such as systemic change and strategies for pursuing it in different contexts.

- It has also required adapting expectations of what can be achieved and how best to demonstrate achievements. DFAT has not, however, put in place good mechanisms for learning from this large experiment.
- As well as conceptual adaptations, DFAT's MSD portfolio incorporates a range of programming adaptations, including: embedding MSD approaches in programs that also include application of other approaches such as community engagement or direct delivery of resources to beneficiaries, regulatory and administrative reform; and multi-country (as distinct from regional) programming. It is hard to tell if programming innovations like hybrids *necessarily* deliver better results than classical applications. There are complex issues of how, in

adaptive programs, to combine elements that embody radically different ways of engaging with markets.

Many of the challenges that programs face are not unique to MSD programs. However, some are serious and programs have often taken considerable time to address them.

- Recruiting, training and retaining staff to build the requisite team and leadership capabilities is a frequently mentioned problem.
- Getting stakeholders to appreciate the MSD approach, especially in countries used to direct delivery and subsidisation programs can take time.
- Dealing with turnover in DFAT management, and lost institutional memory is a frequent challenge for programs.
- In a period of budget and staffing constraints in DFAT, it can be hard to make available the capacity to manage such programs for maximum impact.

MSD programs are achieving results, but are not consistently showing that they are facilitating systemic change and tackling the underlying causes of poor market performance to make a sustainable contribution to more inclusive growth.

- It is easier to broadly understand the breadth of quantitative results. Cross-program comparisons are difficult since implementation contexts differ greatly, reported information is variable and where programs are measuring the same or similar indicators what is counted differs.
- It is hard to tell from program documentation how effective programs are in pursuing and achieving systemic changes that address underlying causes of poor market performance and inclusivity. Generally, there is a perception that programs are achieving more than what is being reported. Programs find it difficult to communicate progress and performance information that balances quantitative and qualitative information related to market system change.

The MSD approach makes monitoring and evaluation a central element of programs, and most programs make effective use of the analysis of results to inform adaptive management processes and decision making.

- DFAT staff have a wide range of information needs for accountability, learning, public and economic diplomacy. Programs are better able to meet DFAT's needs for aggregated quantitative 'headline' of beneficiary impacts. Only some programs present portfolio-level information, while intervention level information is normally presented in reports as short positive case stories. Meetings between programs and posts enable programs to communicate more in-depth nuanced information.
- The conceptualisation, assessment and reporting of systemic change is problematic. Market system level analysis is a 'missing middle' in the pathway from changes at the intervention level, to the market level and to sustainable inclusive growth. Beneficiary impacts are used as a proxy for systemic change, which risks undermining the MSD approach as it may lead to an increased focus on short term changes.

Programs are not able to convincingly demonstrate that they are achieving value for money.

- Programs and DFAT have differing understandings of value for money and how to assess it.
- Factors affecting this include the lack of guidance from DFAT, including how they would like programs to assess value for money (across economy, efficiency, effectiveness), and how DFAT will use this information.

Programs are creating useful links with other aid initiatives: but continued DFAT engagement is needed to optimise collaboration given the incentives built into the aid contracting system.

- There is considerable scope for linking MSD programs with other initiatives, especially where MSD interventions need to be underpinned by changes at the government or community level to lock in systemic changes and minimise potential negative consequences. But ensuring this occurs requires DFAT country portfolio managers – and perhaps contractual and grant arrangements – to incentivise interaction across program implementers.

Suggestions

The terms of reference for this review ask for suggestions as to measures to further strengthen the development benefits from DFAT's MSD programs. The review has suggestions regarding:

1. Continued evolution of the portfolio

DFAT should continue to invest in MSD programs, but needs to build stronger structures to learn from the portfolio; strengthen institutional understanding of the MSD approach; and build internal capabilities for staff and management to engage with and draw from MSD programs.

Specific suggestions include:

- Build a more formal mechanism to learn from the portfolio – with a more structured approach guided by specific learning objectives and a feasible research plan developed in consultation between DFAT, current programs and individuals familiar with these programs.
- Foster development of a community of practice (CoP) that can share experience, contest ideas, and support DFAT staff and management to better appreciate MSD and the broader types of systemic engagements for the aid program. This could aim to help address DFAT's need to improve institutional memory about individual programs and the overall approach. A CoP needs to be more than a loose and shifting coalition of interested people. It needs a strategy and program of events, processes and products (such as the research proposed in the previous point) – and resourcing.
- Strengthen orientation programs for DFAT staff with upcoming responsibilities with respect to MSD programs.
- Update the 2017 guidance note on MSD programs to reflect learning since it was drafted.

2. Strategic intent, additionality and systemic change

Work with programs to improve the articulation of strategic intent to help stakeholders better understand how they are targeting systemic change.

In particular:

- Request greater clarity in formal and informal reporting with respect to programs' understanding of the specific causes of the underperformance of markets, which causes programs choose to work on, and the implications of not addressing other causes.
- Bolster consideration of the notion of additionality (e.g. a business would not have taken the risk now or in the near future or to the same extent with program support) at strategy and intervention choice stages, and encourage impact analyses to undertake ex-post assessments of additionality.
- Work with programs to develop pathways to manage tensions between delivery of quantitative results, additionality and systemic change at intervention, sector and program levels.

3. Monitoring, evaluation, VFM and reporting

Devote time and resources to the development of cost-effective M&E approaches to best meet various program and DFAT needs.

- Commission collaborative action research and analysis to design ways of monitoring and evaluating systemic change across different contexts – developing alternative approaches and testing them across different programs, especially where headline indicators cannot convey the depth and richness of systemic change achievements.
- Develop a clearer articulation of what kinds of formal reporting DFAT needs, and how best to deliver it, recognising that:
 - strong relationships and frequent and honest communication may be a more effective way of meeting many needs than formal, periodic reporting that is also expected to meet diplomatic and headline reporting requirements;
 - M&E systems for adaptive programs that seek systems change are more resource intensive, and require greater levels of capability, than direct delivery programs.
 - It is also important to consider trade-offs and what programs might be asked to stop doing or do less of.
- Clarify what DFAT needs from programs to meet its institutional need to demonstrate value for money: recognising that currently used metrics convey very little information about the key drivers of value for money at a program level, and there are no clear benchmarks against which to compare these metrics.

4. Adaptations, additions and making best use of MSD programs to achieve broader DFAT objectives

DFAT should do more work to understand, and find ways of dealing with, the challenges of hybridisation and exploiting the synergistic potential of MSD programs.

In particular:

- Actively consider the very different intellectual, professional and ‘team culture’ mindsets that underpin MSD and other approaches that may be included in hybrid programs; and how best to manage these differences across teams.
- Actively consider ways to promote cross-program collaboration. There are models where active portfolio management has brought about effective interactions between programs dealing with different elements of the challenge of getting low-capability or marginalised groups to benefit from market systems development.
- Explore ways of making better use of MSD program’s nuanced understanding of the business enabling environment to support policy engagement and economic diplomacy.

The following table shows where in the report the specific questions posed in the review terms of reference are addressed.

Table 1: Key review questions

Review questions	Page
1. To what extent are current MSD approaches consistent with Government's aid priorities? In particular:	7
a. Is the additionality principle being applied to partnership interventions?	8
b. Do investments support policy dialogue and help achieve policy influence?	9
2. To what extent, have partner government's accepted MSD as a valid approach in the aid program?	11
3. To what extent are MSD programs explicitly attempting to reach specific target groups, especially the poor (and the poorest), women, smallholders, people with disability?	13
4. What results (both quantitative and qualitative) can reasonably be attributed to MSD programs?	22, Annex E
a. Which of these results show specific vulnerable groups are benefitting?	22; Annex D
b. Are programs addressing gender issues effectively, including women's economic empowerment?	14
c. Which of these results relate to sustainability and systemic change?	24, 26, Annex D
d. What conclusions can be drawn about whether, and how, the MSD model is contributing to results?	25
5. Do monitoring and results management systems provide credible and defensible data to support internal adaptive management and DFAT's accountability and communication needs?	22, Annex E
a. Does adherence to the results measurement standard of the Donor Committee on Enterprise Development assure that monitoring and evaluation systems meet internal adaptive management and DFAT's accountability and communication needs?	21-22
6. Do Australia's MSD programs represent value for money?	21, Annex D
a. How are programs measuring value for money? Are the measures adequate for the purpose to assess value for money?	26, Annex E
b. Is there a minimum level of resourcing that is needed to enable achievement of intended outcomes?	28-30

7. Does DFAT's portfolio indicate that MSD approaches are adaptable to different country contexts?	16
a. To what extent, is the MSD approach suitable to different country contexts?	17
8. Have any significant challenges regarding the MSD approach arisen? Have they been addressed effectively?	28
a. Have programs encountered difficulties with getting an appropriately skilled staff and team leaders?	28
9. Can common elements be identified across the portfolio that contribute to success or failure?	30
10. Are there existing or potential innovations that might strengthen the practical application of the model?	16,33
a. Have programs pioneered innovations?	16,33
11. What conclusions can be drawn on the strengths of the MSD programs relative to global MSD or 'effective aid' benchmarks?	2
a. Are these benchmarks aligned with conceptualisation of success or failure?	2
12. Are Australian MSD programs creating effective links with other Australian (or other donor) aid initiatives, and how is complementarity being identified and pursued?	10
a. What helps and hinders the creation of effective links with other programs?	10

1. Introduction

This report presents the findings of a synthesis review commissioned by the Agricultural Development and Food Security (AFS) section within the Department of Foreign Affairs and Trade (DFAT) of the Department's Market Systems Development (MSD) programs.

The **primary purpose** of the review is to assess the extent to which DFAT's MSD programs remain relevant, offer value for money (in terms of both efficiency and effectiveness), and are meeting DFAT's expectations of household and market system impacts that benefit poor and excluded men and women. The review also explores the extent to which MSD approaches can achieve impact across different contexts and whether there are certain pre-requisites contributing to success or failure.

The **primary audience** is DFAT staff involved in current MSD programs, or considering options for new or follow-up investments where MSD approaches may be appropriate; while a secondary audience is DFAT's implementing partners, including managing contractors, NGOs, governments and private sector organisations; as well as the global MSD community of practice, including other donors.

Structure of this report

This report is structured in the following way.

- The rest of this chapter briefly describes the review's methodology and introduces DFAT's conception of the MSD approach and the programs covered by the review
- Chapter 2 addresses the consistency of programs with the Government's aid priorities, their linkages with other aid programs and the extent to which they are attempting to reach specific target groups.
- Chapter 3 considers the adaptability of the MSD approach to different country contexts and innovations that programs have made
- Chapter 4 addresses the programs' monitoring and results measurement systems and the measurement and achievement of value for money.
- Chapter 5 considers the challenges programs have faced, and factors shaping success and failure.
- Chapter 6 presents a discussion of issues arising from the review, and presents suggestions for DFAT with respect to future MSD programming.
- A set of annexes (contained in a separate compendium) presents the review's methodology, and information on the Government's aid priorities, elements of the MSD approach, the portfolio, results measurement and value for money, and documents consulted for the review.

Methodology

Annex A outlines more fully the methodology used for this review.

Overall approach

The review is desk based with data collection consisting of a review of well over 200 program documents and around 40 interviews with key informants such as DFAT program managers (past and current), program implementing organisations, members of technical advisory groups, and members of the broader MSD community that have been involved in evaluating MSD programs and the overall MSD approach. Program documentation was reviewed in two stages. The initial suite of documents reviewed provided information relevant to some of the questions and a further collation

and review of further documents was required. Interviews were also completed during this second phase of document review.

Data was collated according to review questions and analysed to support efficient and effective analysis.

Limitations

The MSD portfolio consists of a heterogeneous set of programs. This presented several challenges. Key limitations are:

- **Conceptual clarity:** there is extensive literature on MSD (and its precursor, the Markets for the Poor - M4P - approach). While there is a broad consensus about the higher level characteristics of the approach, there is no clear agreement on how to define and operationalise some of its most important concepts in a way that allows comparisons across programs.
- **Benchmarking:** a related challenge is that there are no agreed global benchmarks for MSD program practice. Broader 'effective aid' benchmarks are too high level to help with assessing a subset of Australia's aid portfolio. This means that it is not easy to compare the performance of DFAT's MSD programs to other programs; or to find a causal link to results to the MSD approach or to other factors like the program design, program implementation or the implementation context. This review tried to develop a summary of characteristics of MSD approaches to help with benchmarking DFAT's programs, but considers that it needs much more work and consultation before it could be used for this purpose¹.
- **Time and resources:** the review timeframe has limited the quantity of program documentation that could be reviewed and thoroughly analysed. It also limited the number and range of people who could be interviewed: time was not available to speak to a broader range of international and national program staff, beyond the team leader; and it was not possible to get a thorough set of views on some of the contested issues that the review has had to deal with.
- **Judgments:** the review depended primarily on rapid qualitative methods of inquiry, was dependent on program and DFAT documentation for evidence on program intent, approach and performance, and relied heavily on the professional judgment of the review team to interpret and triangulate stakeholder perspectives.

The MSD approach and DFAT's portfolio

DFAT's deployment of MSD programs, and its articulation of the approach

A key driver of Australia's adoption of the MSD approach was an appreciation of the limitations of traditional approaches to agricultural and rural development, a central concern of the aid program. As expressed in a report on Australia's rural development assistance (AusAID 2012), there was a realisation that the then 'conventional' approach to rural development needed to shift away from smaller project-based activities directly delivering services and resources to the rural poor or focusing solely on research. Rather, dynamic programs that recognised the critical role of markets and the private sector and targeted underlying causes rather than symptoms were more likely to achieve sustainable improvements for the rural poor.

DFAT was able to draw on the experience of other donors that were developing and implementing programs designed to help make markets work better for poor people, and in 2009 launched its first MSD program, Cambodia Agricultural Value Chain (CAVAC) Program (Phase 1). This was followed in 2011 by the Market Development Facility (MDF), intended, among other things, to test the

¹ The summary is presented in Annex A.

applicability of the MSD approach in a range of country contexts and support institutional learning about market systems. And in 2013, the Australia Indonesia Partnership for Rural Development (AIP-Rural) became the third program in the MSD portfolio.

The MSD approach is concerned to find ways to tackle the underlying causes of poor pro-poor performance of market systems. It embraces programmatic features that support the search for underlying causes and for effective ways of addressing them, or their manifestations in specific market systems, localities or communities.

Drawing on its own and international thinking and experience concerning MSD programming, DFAT, in a 2017 operational guidance note, presented its perception of the key characteristics of the MSD approach². The note states:

MSD is not a mechanism or a modality of aid delivery. It is an international body of knowledge, guidance, good practices and lessons learned from the experience of delivering aid activities (including DFAT's own aid activities).

Furthermore, the note states that MSD programs seek to 'develop market systems so that they function more effectively, sustainably and beneficially for poor people, building their capacities and offering them the opportunity to enhance their lives'.³ Five important features of MSD are outlined:

1. **A systems perspective.** MSD recognises that market actors such as businesses, functions such as policies and regulations, and rules such as cultural norms do not operate in isolation of each other but are part of an interacting system. It recognises that aid interventions need to understand and respond to this system if they are to be effective and lasting.
2. **Large scale or systemic change.** Throughout the program cycle of an MSD program, the focus is on the markets surrounding the poor that have potential to improve the lives of many. MSD programs aim to develop a strategic set of interventions that change the way industries and whole sectors of the economy work for the poor. Interventions may start small, grounded in real market issues and targeting specific market actors, but will be part of a broader strategy to make markets work better for large numbers of poor people.
3. **Sustainability.** The focus is on the continuation of market services to the poor rather than just the sustainability of individual market actors within that market system
4. **Facilitation.** MSD programs aim to facilitate change that improves the way markets work for the poor rather than directly delivering solutions. They aim to stimulate change in the market system without becoming part of it
5. **Adaptive management.** Market systems are complex and do not always respond as expected. MSD programs monitor their interventions closely and measure results frequently. Based on the findings they refine their vision for market system change, improve their strategies and adjust their intervention portfolio. The aim is to be pragmatic, building on what works and changing what does not so that the program maximises long term results with the time and money available.

A central feature of MSD programs, and a crucial rationale for using development assistance funds to finance them, is that they target the *underlying causes* of market system performance to bring about a better-functioning, more pro-poor market system - so-called systemic change⁴. However, as will become apparent in this review, there no universally agreed definition of what comprises a systemic change, and there is considerable variation in the way in which systemic change are conceptualised in individual programs, and in turn how it is pursued and assessed.

A recent blog (Lomax 2019) observed made the following observation:

2 DFAT (2017)

3 The Springfield Centre (2009).

4 Donor Committee for Enterprise Development (2017)

We have seen more than a decade of market systems development (MSD) programmes with the explicit goal of ‘systemic change’. Yet there remains no precise definition as to what systemic change really is.

This is not an infrequent observation. Cunningham and Jenal⁵, in an earlier study commissioned by the United Kingdom’s Department for International Development (DFID), argued that:

Practitioners typically combine desirable outcomes – particularly scale, sustainability and, more recently, resilience – with various systemic change frameworks that have been developed from experience. However, the problem with using attributes such as scale, sustainability and resilience to define systemic change is that they only define the outcomes of systemic change but keep the actual characteristics of what makes change ‘systemic’ in the dark.

This is a significant issue for MSD programs – if there is no clear specification of what systemic change is, it is hard to target. And it is hard to tell if it has been achieved.

The portfolio

This portfolio review covers eleven programs (see Table 2)⁶.

In summary,

- The earliest program (CAVAC Phase I) commenced in 2009 and the most recent (PRISMA 2) in 2019;
- They range in value from \$5m to over \$120m;
- Most are single country programs, although 2 operate in 9 countries between them;
- Most combine interventions using an MSD approach with interventions based on non-MSD approaches;
- Most are managed by managing contractors although NGOs play significant roles as implementers (either as lead, consortium members or grantees) across about half of the portfolio.
- Most programs focus on Asia.
- Most focus primarily on smallholder agriculture, although some are working in manufacturing, tourism and services
- Most focus on improving the incomes of target groups and women’s economic empowerment, but some address other aspects of well-being such as nutrition

⁵ Cunningham and Jenal (2016)

⁶ The terms of reference for the review also included the Investing in Infrastructure (3i) program. 3i was removed from the review since although it work with and through the private sector it uses output-based financing.

Table 2: DFAT's program using a market systems approach included in this review

Program	Country	Period	Value (\$ million)	Implementing organisation
AIP-Rural (incl. PRISMA I)	Indonesia	2010-19	112.0	MC plus AGA
AMENCA3	Palestinian Territories	2014-21	28.4	INGOS plus MC
CAVAC I	Cambodia	2010-15	46.0	MC
CAVAC II	Cambodia	2016-21	93.5	MC
GREAT	Viet Nam	2017-21	33.7	MC
LIFT	Myanmar	2009-24	42.3 ⁷	UN
MDF I & II ^a	Fiji, PNG, Timor Leste, Sri Lanka, Pakistan	2011-22	121.8	MC
PHAMA Plus	Fiji, PNG, Solomon Islands, Vanuatu, Tonga, Samoa	2018-22	32.0	MC
PRISMA 2	Indonesia	2019-23	95.0	MC
Strongim Bisnis	Solomon Islands	2017-20	up to 14	MC
TOMAK	Timor Leste	2015-21	25.0	MC plus INGO

^a MDF is a multi-country program under a single contract

Notes: INGO – International Non-Government Organisation, MC – Managing Contractor, AGA – Australian Government Agency.

⁷ This represents DFAT's contribution to a total of USD505m (end of 2018)

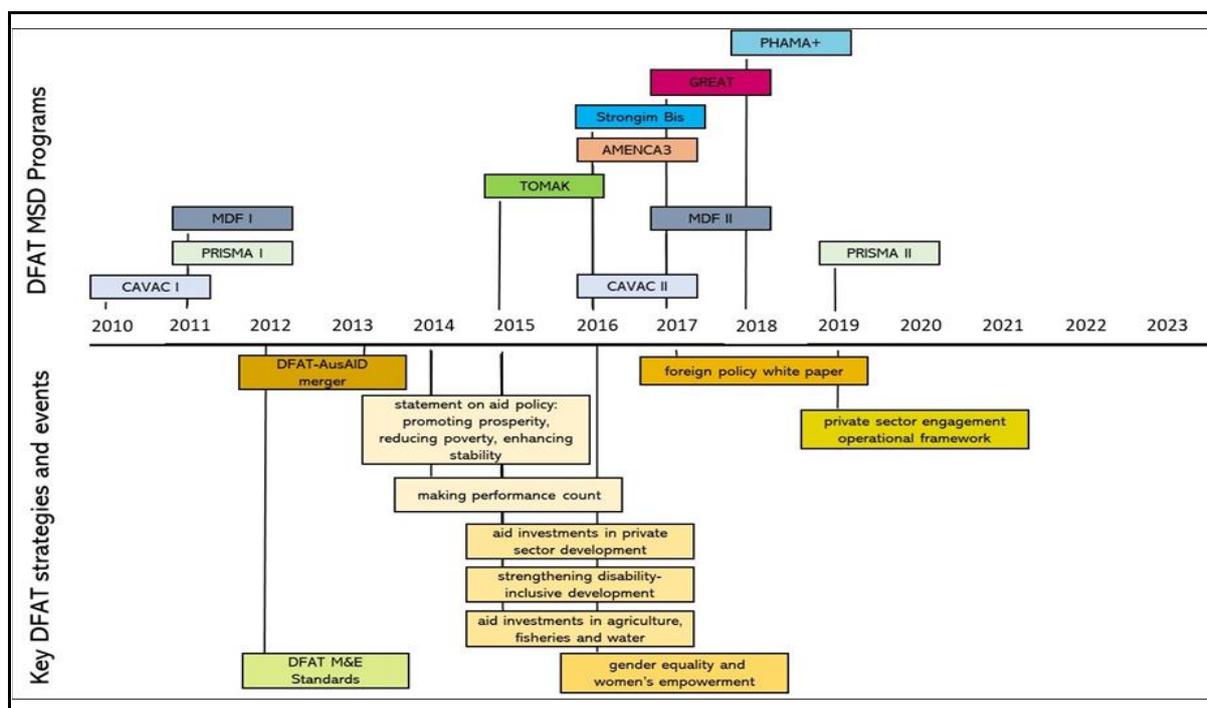
2. Relevance and targeting

This chapter considers the extent to which DFAT’s MSD programs are aligned with and delivering key priorities of the Australian aid program – applying the additionality principle and supporting policy dialogue, achieving partner government acceptance, and explicitly trying to reach specific target groups.

Over the life of DFAT’s MSD portfolio, there have been important developments in the Government’s priorities for the aid program, the specification of how the over-arching objectives are to be met, and the institutional and operational frameworks for managing the program.

As Figure 1 shows, key events in the evolution and articulation of the architecture for aid occurred after some of the largest MSD programs began implementation. This has meant that existing programs have had to adapt to conform with expectations and directives associated with these events, and designs for newer programs have had to develop approaches to pursue these priorities and the changing institutional environment.

Figure 1: DFAT’s MSD programs and key events in Australia’s aid policy environment



Annex B discusses the key priorities of the aid program, as articulated in the 2014 statement on aid policy⁸, the departmental framework for performance management⁹, the strategies for investments in private sector development, private sector engagement and aid investments in agriculture, fisheries and water¹⁰, strengthening disability inclusive development, gender equality and women’s economic empowerment¹¹, as well as the 2017 Foreign Policy White Paper¹² and the recent operational framework for private sector engagement¹³.

⁸ DFAT (2014a)

⁹ DFAT (2014b)

¹⁰ DFAT (2015 a, b and c)

¹¹ DFAT (2016)

¹² Australian Government (2017)

¹³ DFAT (2019)

Relevance of MSD programs to Australian and partner governments' priorities

Key points:

- Completion and mid-term reviews and AQCs all conclude that MSD programs are highly relevant to the Government's overall priorities.
- DFAT has chosen to require MSD (and many other) programs to pursue multiple priorities, even when they are not well equipped to do so. The absence of a 'country portfolio' approach to pursuing DFAT's priorities may cause considerable diffusion of effort: but this is the context in which programs must operate.
- MSD programs are strong elements of the Governments approach to the role of the private sector in development. However, the framework for private sector engagement is still maturing, and there is some confusion regarding the distinction between working to improve market systems as opposed to working with the private sector. Programs' compliance with the additionality (and the fairness) principle is variable and not always prioritized.
- The lack of clarity with respect to the interaction between aid and DFAT's economic diplomacy agenda has potential to create mixed expectations for MSD programs.
- The increasing focus on policy engagement and thinking politically, perhaps most usefully articulated in country level strategies, is still work in progress, especially with respect to demands for capability, within DFAT as well as programs. However, most programs have examples of successful engagement on policy – as well as examples of lack of traction.

Overall, the MSD portfolio appears to be highly consistent with the Government's aid and foreign policy priorities outlined in the Foreign Policy White Paper and other documents¹⁴. Many MSD programs work in the Indo-Pacific region; nearly all have a focus on agricultural productivity; all are engaging with the private sector and its ability to deliver inclusive growth, including building institutions to support private sector growth. Most partner governments prioritise inclusive growth and identify a clear role for the private sector.

Overall relevance

MSD programs – where specifically rated – have scored highly in Aid Quality Check (AQC) ratings for relevance (over the period 2015-2018, the average AQC rating for MSD programs with respect to relevance was 5.3, compared to 5.0 for non-MSD programs).

Alignment with aid priorities

Some MSD programs (CAVAC I and MDF) have been highlighted as exemplars of the aid program's approach to private sector engagement¹⁵. On average, MSD programs rated better on gender in AQCs over the period 2015-18 than non-MSD programs. However, not all programs have been assessed in review and AQCs as working effectively towards the Government's goals with respect to gender and disability.

Programs designed before DFAT's 2016 Gender Strategy was developed focused less on women's economic empowerment (WEE). CAVAC I was strongly criticised for its lack of engagement with gender issues¹⁶. More recently designed programs have a stronger WEE focus. For example, GREAT is specifically focused on WEE while Strongim Bisnis has a very strong focus on WEE in its design and implementation. Some earlier programs have subsequently adapted their programming or the

¹⁴ Annex C presents a brief summary of key Government of Australia aid priorities.

¹⁵ DFAT (2015a and 2019)

¹⁶ CAVAC Phase One completion evaluation (DFAT, 2017b).

designs for subsequent phases have an increased WEE focus. Results of these changes seem mixed. For instance, MDF used support from DFAT's Gender Equity Fund to develop a facility wide WEE engagement strategy, and has received reasonably positive assessments in AOCs. In contrast, CAVAC 2 was criticised for its lack of progress on gender, despite producing a women's economic empowerment strategy¹⁷.

Additionality and systemic change

While MSD programs are not targeting private sector development or the use of businesses¹⁸ to deliver aid objectives, they often work with the private sector – co-investment with businesses is a frequently used instrument. As such, they need to align with Government policy towards the provision of public subsidies to for-profit businesses.

As part of its evolving strategy for greater engagement of the aid program with the private sector, the Government has laid out a number of issues that have to be considered to avoid creating market distortions, including tests of additionality, fairness (or neutrality), transparency, sustainability and transparency¹⁹.

The consideration of additionality with respect to co-investment with businesses across programs is variable. Only one program, PHAMA Plus, has emphasised additionality in its design. Several programs, such as AIP-Rural, PRISMA2 and MDF, have incorporated consideration of some or all of these tests in operational guidance manuals and instruments.

The variable consideration of additionality manifests itself in a lack of clarity regarding the extent to which businesses are undertaking changes that they would not otherwise have implemented, or not in the same timeframe. Some programs' guidelines for co-investing with businesses include questions related to additionality, but it is hard to determine from the evidence considered by this review how rigorously these questions are pursued. Few, if any, programs appear to undertake ex-post assessments of additionality, although guidance from the Donor Committee on Enterprise Development indicates that this would be desirable²⁰.

The issue of additionality is closely related to the concept of systemic change, which is a central objective of the MSD approach. As stated in chapter 1, MSD programs are supposed to target the *underlying causes* of market system performance to bring about a better-functioning, more pro-poor market system - so-called systemic change. Few programs *clearly* report the *specific underlying* reasons why the market systems they work on are not delivering inclusive opportunities for poor and excluded people, and how interventions and strategies are expected to address those reasons or their manifestations in the programs chosen domains of engagement. Programs typically work in situations where there are multiple constraints to inclusive market growth in play. Market enabling institutions may not work well for poor people, or may not have emerged to help manage cost and other barriers to market exchange across family, tribal, ethnic, religious and geographic boundaries. Further, prevailing norms and customs may not allow for the economic participation of all people, and government policy, and how it is implemented, and the exercise of administrative and political power may all be in play.

¹⁷ Draft CAVAC Mid-term review (2019). The strongest criticism was for one of the components (irrigation) that was not implementing an MSD approach. However, the MSD component was judged to have made limited attempts to empower women or transform gender power relations.

¹⁸ The term 'business' is used in this report and refers to for-profit private organisations regardless of characteristics such as size, ownership and legal structure.

¹⁹ DFAT (2015a) and DFAT (2019).

²⁰ Heinrich (2014)

According to the standard paradigms of the MSD approach, programs should map and analyse these constraints, make informed judgments as to which are binding and which are susceptible to the instruments at their disposal, and make assessments of the consequences of not being able to deal with constraints outside of their reach. But beyond initial sectoral scoping and analytical work, many programs do not report on this analysis and how experience is shaping programmatic choices. While strategic and intervention level documents all identify constraints, in many cases the constraints are more in the nature of symptoms of underlying causes, rather than the causes themselves.

This leaves external stakeholders unable to properly assess the strategic intent of programs, and their potential for facilitating market systems change, and in turn the extent to which they have brought about changes that might not otherwise have occurred.

Policy engagement

MSD programs' work with businesses can help develop powerful insights into how policy and regulation shapes the business environment, in ways that 'top-down' analyses may miss. These insights can and should be valuable inputs into policy development, and MSD programs often work directly with government or via 'influencers' such as business, sectoral associations and individuals to pursue policy change. Some MSD programs are already engaging with governments on policy issues where these are identified as impediments to change in sectors, value chains and market functions where they are operating. For instance:

- MDF in Fiji worked on improvements to the duty drawback scheme and seed import protocols, and has worked closely with the government on policies and strategies towards tourism, and in Pakistan triggered changes in agricultural finance policies
- AIP-Rural worked to bring remove prohibitions on importation of shallots seeds, a change which brought significant benefits to poor farmers.
- CAVAC I worked successfully to bring about changes in policies towards pesticides and along with AIP-Rural had significant impact on government attitudes and policies towards the role of the private sector in agriculture.
- PHAMA Plus intends to work through public-private sector working groups on bio-security or other regulatory aspect of market access, and to facilitate exploitation of resulting opportunities.

At the same time, programs that were expected to work on the broader business enabling environment (BEE) seemed to be unable to gain much traction. CAVAC I had a BEE component that was discontinued. In some cases, DFAT Posts worked to achieve interactions between MSD programs and other initiatives (such as policy support programs implemented by multi-lateral development agencies).

It is clear that there is still work to be done to resolve how MSD programs can contribute more effectively to DFAT's policy engagement strategy. For instance:

- DFAT leadership on policy, and the degree to which DFAT gives programs a 'license to operate' on policy issues
 - The range of economic and social policy issues that MSD programs may encounter in countries is wide ranging, making it impossible for DFAT to have the full capabilities necessary to engage in all possible policy domains. Even when using policy-relevant insights derived from MSD programs, this creates some challenges when DFAT takes responsibility for or oversees policy engagement²¹.

²¹ It is interesting to note that the business enabling environment component of CAVAC, which was discontinued because it failed to gain traction, was to be driven by the Cambodian government and DFAT Post.

- DFAT’s recent review of facilities observed DFAT’s own ability to take carriage of policy dialogue required strengthening²²
- Largely, MSD programs have not been designed and resourced for policy engagement interventions. Long-term staff capabilities tend to focus on business and facilitation skills rather than policy skills. Additional long-term staff are likely needed whether engaging directly with government or via secondary organisations and individuals.²³
- Program designs could provide for the possibility of policy engagement:
 - Designs should be clear about expectations, but give implementing organisations flexibility with respect to how to meet needs for direct engagement, or how best to support DFAT with insights or contributions to the department’s policy and economic diplomacy interactions.

It also seems that programs are reluctant to report on how they engage with the political economy of change in the countries, locations and markets where they are operating. While there may be reasons for not becoming too explicit about specific political economy factors, programs need to analyse and develop strategies to deal with constraints to inclusive market functionality that lie in the way in which commercial and political power is exercised. There is scope for mutually profitable engagement with DFAT on political economy analysis, that may also aid DFAT’s understanding of the MSD approach, including adaptive management, and the degree to which MSD programs can affect changes in structural factors, institutional rules, norms and values that create incentives and influence different actors’ behaviours.²⁴

Linkages and collaboration with other programs

Many of DFAT’s country portfolio strategies (such as Aid Investment Plans) emphasise linkages between programs, or with other donor programs. MSD programs are, in principle, well placed to form links and to benefit from collaboration, and DFAT’s MSD programs do this. The interactions can vary from sharing information through to operational collaboration. Examples include:

- TOMAK and MDF collaborate quite closely in Timor Leste: this is specified in the design of TOMAK, but interviews suggest that it took some time to become effective.
- MDF and Strongim Bisnis collaborate with PHAMA Plus (and its predecessor PHAMA) in supporting uptake of market access opportunities. (Although again interviews suggest that there were examples of competition and perceptions of ‘claim-jumping’ between MDF and PHAMA)
- Most programs have a range of links with ACIAR’s work in country: the extent of this varies, but given MSD programs’ strong engagement with agriculture, access to ACIAR’s research projects work can help identify innovations that MSD programs can prioritise. MSD programs can help promote adoption of innovations that ACIAR has developed, especially since in practice, much of the MSD programs work is establishing a role for the private sector in agricultural extension. In Pakistan, a DFAT funded ACIAR program appointed a coordinator specifically charged with promoting interaction with other programs in DFAT’s Economic Growth Portfolio.
- In Pakistan, MDF was tasked with playing a central role in collaboration across DFAT’s economic growth portfolio, and there was close collaboration (including co-location) with the FAO

²² The review recommended that ‘To strengthen policy dialogue capability, incorporate expectations and requirements for external partnership (policy dialogue, engagement) into internal DFAT performance appraisal systems (for country/regional programs, work teams and individual staff) – this should be backed up with mentoring, guidance notes and possibly some formal training’ (DFAT 2018b).

²³ DFAT’s experience with governance programs has shown that short term technical assistance inputs may not be all that useful in helping governments address policy challenges, unless they are commissioned and managed by people with long term engagement and shared understandings with policy makers and analysts in Government

²⁴ McColloch et al (2017); ESID (2015)

implemented community development project, the Australia Balochistan Agribusiness project (AusABBA).

Collaboration and a portfolio approach to dealing with constraints to inclusive market system growth could in principle enhance DFAT's impact. MSD programs' analytical work should identify a complex combination of causes of poor market performance, not all of which they may be well placed to address. This may include binding constraints (for example infrastructure or regulation) or the deeply embedded structures that fundamentally shape the broad character of economic and political systems and are slow or impossible to change. Program's efforts may need to be reinforced by other approaches (for example where WEE initiatives need to be complemented by initiatives targeting community attitudes) or expectations about the level, type and timeframe of change moderated.

However, promoting effective collaboration across programs requires dealing with some complicated incentive issues. These include:

- All programs need to demonstrate that they are generating results, and collaboration creates problems of attribution: for example, the design of GREAT proposed to not pursue a delivery model that involved co-financing with other donors since it would create challenges for distinguishing 'Australia's specific contribution from the program's overall achievements'.²⁵
- Programs may operate with very different time scales and have different purposes – for example ACIAR's research programs may take years to develop and prove innovations which MSD programs might incorporate into interventions.
- Logistical issues may constrain active and continued communication if programs are in different parts of a country, or if management is not in-country at all.

Because of these incentive issues, strong leadership from DFAT program managers is required to ensure optimal linking.

Acceptance by partner governments

Aid programs that aim to improve the growth prospects of the private sector, or that use businesses to deliver aid are a common part of many aid portfolios. However, most developing partner governments are used to having a significant degree of control over how this aid is allocated either because it is channelled through the public financial system, or because of their role in approving designs. MSD programs can pose a challenge to past understandings regarding control because they are adaptive (so designs do not specify how the aid will be allocated) and because programs choose who they will co-invest with using substantially different criteria than many traditional approaches²⁶. In addition, MSD programs are intended to subvert the status quo to break past patterns of private sector decision making and create opportunities for marginalised people. This may not always be well accepted by commercial elites with strong political connections – or political structures with strong commercial interests.

In these circumstances – and also perhaps because the MSD approach is not simple to describe, and demands a degree of faith that it will deliver benefits given time and a license to experiment – DFAT's MSD programs (and their DFAT managers) have sometimes had to work hard to establish their credentials with partner governments. In some cases, this has also involved working to promote an understanding of the central importance of allowing programs to select domains of

²⁵ GREAT investment design document (2016: 63)

²⁶ The completion evaluation for CAVAC I (2017), for example, observed that the ability of the program to change sector, interventions and activities without being restricted by its governing structure brought challenges for government (and DFAT) members of the steering committee set up for the program.

engagement and partners without political or bureaucratic oversight²⁷. In some countries – for example, Indonesia, Government ministries are reported to have been sufficiently enamoured of the MSD approach to consider developing programs of their own.

Across the portfolio the degree of government acceptance and participation in programs seems to vary – for some programs it has also varied over time.

- GREAT works very closely with and through provincial and district authorities, in addition to working with NGOs and businesses. As the Government of Viet Nam manages aid funding closely, there is likely little alternative to involving the government in implementation.
- Other programs incorporate government agencies in their operational frameworks (for example, the Market Access Working Groups of PHAMA Plus), or in the conduct of specific activities (for example, Strongim Bisnis and the Central Bank of Solomon Islands).
- At the other extreme, CAVAC I was expected to establish a clear separation of its MSD activities from Government.²⁸ The program completion evaluation for this phase observed that senior government officials viewed the role of government from a ‘command-and-control’ approach and expressed suspicion about the program’s decision to operate through a more holistic, market-based approach (DFAT 2017b). However, there is evidence from AQCs that CAVAC II has demonstrably improved relationships with Cambodian government partners (CAVAC II 2018 AQC).
- At times, MDF’s Fiji program experienced considerable push back from the Government of Fiji during a difficult time in Fiji-Australian relations, especially when it tried to participate in policy matters – but now it has also been invited to play a role in government policy forums.

Issues concerning the pursuit of alignment with government aid priorities

One important feature of the evolution of the priorities for Australian aid is that while new priorities are introduced, old ones are seldom explicitly eliminated. This means that programs are often required to demonstrate – and devote resources to making the demonstration credible – that they are actively pursuing an increasing number of priorities, even when some may not be well aligned to their capabilities and ‘core’ business.

For MSD programs, this can often require implicitly internalising trade-offs between priorities. It may be reasonable to ask if some of those trade-offs are better addressed at the country portfolio level. Sometimes priorities can be complementary in that the pursuit of one contributes strongly to the pursuit of another. But sometimes they can be competing: the more internal resources devoted to one, the less contribution is made to others. It may not be efficient to have every program instrument required to aim at every policy target: at the portfolio level, it may be possible to get better aggregate outcomes across all priorities if some programs are more and others are less required to aim at contributing to particular priorities. And it may contribute to the efficiency of aid resource allocation if the trade-offs are made more explicitly at the country portfolio level than implicitly by programs trying to judge how best to allocate resources across competing objectives.

²⁷ Some programs, such as AIP-Rural and PRISMA2 have provided training in the MSD approach to officials in Ministries with a program coordination or oversight role.

²⁸ The CAVAC 2 (draft) mid-term review observed that CAVAC I experienced challenges because it was seen to be a private sector focused program that in large part ‘worked around’ government, causing some scepticism and frustration within the Cambodian government.

Targeting specific groups

Key points:

- Nearly all programs have a stated intent to reduce poverty, and target poor people by choosing locations, sectors and interventions that have a high probability of benefitting poor people.
- The widespread focus on small-holder farmers, and the choice of livelihoods and production activities to target is informed by an intention to benefit poor people.
- No programs select the poorest of the poor for particular attention, some choose to focus on people who do not fall into this category, and others are concerned to have a mix of beneficiaries in different income classes to address community dynamics affecting the uptake of new opportunities.
- However, at least one program reports on the proportion of beneficiaries who can be classified as poor and as very poor.
- New programs build gender considerations into their core objectives and strategies, while older programs have made a significant transition from do-no-harm to more proactive approaches to pursuing women's economic empowerment and dealing with issues of agency. Many programs have undertaken gender studies that inform intervention selection and planning. But some programs have been criticised for using this work to improve household adoption of innovations rather than to specifically improve women's agency and economic engagement.
- At least two programs target youth in their designs and operational systems, but few if any have discernible strategies to address disability.

All DFAT's MSD programs have strong agricultural elements and target - by design and operationally - smallholder farmers based on the assumption that they are more likely to be poor. Most have a clear focus on the poor and have developed strategies to focus on women. However, there are some important considerations:

- MSD initiatives typically achieve a focus on poor people and women by choices about the locations and sectors or market systems where they work, and about the interventions they develop (Box 1 describes the approach to poverty targeting in MDF and PRISMA 2). This does not mean that non-poor and men do not or should not benefit.
- While the economic rationale for inclusive market systems, that is including the very poor, women and disabled in all economic opportunities, may be powerful, the financial rationale for an individual business may not be as strong in all cases. Therefore, ability to leverage private sector investment and consideration of the sustainability of benefits are important considerations. In the context of MDF it has been argued that 'while MDF can deliver results on cross-cutting issues of gender and disability, it can only make progress if there is a business case for increasing opportunities. MDF typically does not work with governments to mandate inclusion, and it does not offer long-term subsidisation, so its initiatives have to be predicated on commercial viability.' (DFAT 2018a).

Box 1: Poverty targeting in MDF and PRISMA 2

The PDD for MDF Phase I proposed that criteria for activity selection would include: scale of impact on poor people; proportion of beneficiaries that are marginalized (e.g. women, persons with disabilities); ratio of benefits for poor people vis a vis the benefits accruing to the non-poor

The design of PRISMA 2 indicates that the program's orientation towards poverty will be achieved through four implementation principles:

- Selecting areas of operation where the incidence of poverty is high;
- Choosing sectors that are important to the poor (men and women);
- Within these sectors, searching for pro-poor opportunities for income growth; and
- Designing interventions with partners that specifically address the constraints of the poor.

Targeting the poor and very poor

Looking across the programs, several aspects of poverty targeting are apparent.

- Some programs have concluded that given the political and social dynamics within communities, it is not possible or feasible to exclude some non-poor people from benefitting from programs, and it may be necessary to ensure that local elites do benefit.²⁹ This in addition to the recognition that the owners of business with which programs work are unlikely to be poor and would not engage if they did not benefit.
- PHAMA Plus does not differentiate amongst farming households who may benefit from the program. GREAT also does not differentiate amongst its women beneficiaries by income or other measures of poverty, since it has already -pre-selected provinces to work in based on their socio-economic conditions and thereby assumes it reaches groups that are poorer and have less access to markets and capital.
- No programs *explicitly* target the poorest of the poor, operationally or otherwise. This is not unusual across MSD programs globally.
 - CAVAC I chose to target farmers with capacity to produce a marketable surplus.
 - Some programs (AIP-Rural, AMENCA 3) have targeted landless poor.
 - Some hybrid programs implement interventions to 'lift up' targeted groups, such as the very poor or women, to improve the potential for them to engage with market opportunities.
- DFAT decisions to confine programs to specific sectors, such as tourism in the MDF program in Sri Lanka, means that it may be difficult to ensure that a significant proportion of beneficiaries are poor.

Of the 11 programs covered by the review, five (AMENCA3, MDF, AIP-Rural, LIFT and Strongim Bisnis) report on the number of poor people benefitting from program activities, while PRISMA 2 will do so. The thematic and locational selection made by GREAT and TOMAK can probably be used to infer that most of their beneficiaries are poor. AIP-Rural disaggregated beneficiaries according to their estimated level of poverty using poverty lines that distinguish between non-poor, poor and very poor households

Women

DFAT's MSD programs are increasing their targeting of women as influenced by DFAT's thinking and expectations that programs should aim to be effective instruments to promote gender equality and women's economic empowerment. Overall:

- Most programs³⁰ now have WEE or gender strategies and most have undertaken analytical work to understand women's roles in economic activities and household decision making in their inception periods or later during implementation³¹.
- The approach of some programs initiated before the publication of DFAT's gender equality and women's empowerment strategy has evolved from doing no harm to a focus on trying to develop gender-sensitive interventions using gender disaggregated data (DFAT AIP-Rural FAQC)

²⁹ This appears to be true for some hybrid programs that include direct delivery capacity building activities, such as AMENCA3.

³⁰ It may be that some programs have gender or WEE strategies that have not been identified.

³¹ For instance, TOMAK examined the role of women in its examination of on-farm productivity of selected agricultural and livestock businesses (2016) and conducted research on women vendors' voices and aspirations for change (2018). AIP-Rural and PRISMA2 carried out research which identified the key role that women play in household decision-making, and structured knowledge transmission interventions around that understanding

- There is evidence that suggests some programs have not always been able to develop context-aware approaches to gender equality, nor found ways to pursue gender equality objectives in the face of unsupportive broader community attitudes or different ways of perceiving the distribution of power and women's economic engagement. For instance,
 - The CAVAC II MTR (draft) observed the program has drawn on excellent analysis to target MSD interventions by gender but mainly to increase the adoption of innovation rather than to empower women or transform gender power relations.³²
- Some more recent programs have a very strong gender focus:
 - GREAT's overarching objective is women's economic empowerment.
 - The design of Strongim Bisnis lays out specific gender-related outcomes to be pursued both as a cross-cutting imperative and through highly targeted activities.³³

Youth, persons with disabilities and indigenous people

Overall, MSD programs focus less on youth, persons with disabilities and indigenous persons as target groups. However, a few programs target all or some of these groups. For example:

- Strongim Bisnis and AMENCA 3 formally address youth engagement in program design and implementation.³⁴
- Strongim Bisnis identifies persons with disability as a target community. Some hybrid programs include activities related to people with disabilities in non-MSD components. For instance, GREAT plans to deliver activities such as awareness training on people with disabilities, and TOMAK considers the key determinants of exclusion (gender, age, status, disability and ethnicity) in the analysis and design of all activities³⁵. The AMENCA 3 MTR recommended further research on the exclusion of persons with disabilities from markets.
- AQC's for GREAT and LIFT highlight the relevance of targeting of indigenous persons and/or ethnic minorities. GREAT is working in geographic regions in Viet Nam with high proportions of ethnic minorities (and plans to disaggregate beneficiary data by ethnic group) while some LIFT projects in Myanmar work in minority ethnic states. AIP-Rural explicitly targeted indigenous people in its work in West Papua and Papua.

³² Both CAVAC I and CAVAC II have been strongly criticised in end of program and mid-term reviews for their perceived lack of focus and performance with respect to gender.

³³ The design of Strongim Bisnis envisaged that the program would include a component on women's participation in the formal economy to be implemented under an agreement with the International Finance Corporation, as well as having a cross-cutting gender focus. This component is now implemented independently of Strongim Bisnis.

³⁴ Examples across other programs were not identified in program documents.

³⁵ To date, this principally seems to have focused on ensuring implementing NGOs under the nutrition component mainstream disability e.g. ensure outputs such as training includes disability issues. One implementation partner delivering training has also developed guidance for trainers on accessibility options for trainees.

3. Adaptability of the MSD approach

This chapter considers the evidence from DFAT’s experience on the adaptability of the MSD approach to different country contexts, and the challenges that have been encountered in programs implementing the approach³⁶.

Key points:

- There is no obvious reason in principle why the MSD approach should not be applicable in a wide range of countries – but adaptation to specific contexts would always be needed.
- DFAT has tried to implement an MSD approach in a wide range of country contexts: the portfolio comprises a valuable experiment in the applicability of the approach. Of those programs where reviews or AQC assessments are available, none are characterised as failures.
- There has been considerable modification of the ‘classical’ approach: to meet demands of particular country contexts (conceptual adaptation); to achieve multiple or more specific inclusion objectives (logical hybridization), or to meet institutional imperatives and manage the contract management load on DFAT staff (multi-country programs and activity bundling).
- Each adaptation has met challenges, but none – if AQCs are any guide – are judged to have ‘failed’, but some programs are perhaps too new to assess, and some are hard to characterise as resounding successes at this point in time.
- It is hard to pin down innovations made by DFAT’s programs that are unique to the portfolio, but it seems that work done to apply the MSD approach in shallow markets has been quite innovative. The multi-country model for applying the approach across a number of small country programs is rather unique.

Evidence of adaptation

DFAT’s MSD programs are implemented in a wide range of countries (at least 14), with very different economic, political and social characteristics. They include very large and very small economies, some of which are fragmented collections of islands or face other geographic barriers to connectivity. Some have quite recently experienced – or are still experiencing - internal conflict and political instability. In some, state capacity is quite high, in others limited. The depth and maturity of the formal private sector also varies considerably, and in some countries natural resource extraction, and the passage of domestic earnings from these activities through government revenues has a large impact on incentives for entrepreneurial activity (Table D.1 in Annex D summarises some of the characteristics of these countries).

DFAT’s approach to MSD programming has evolved over time, primarily it seems due to the context in which the programs are being implemented and perceptions about the level, depth and maturity of markets and the ability to target specific groups to engage in markets. Earlier programs might be considered ‘classical’ MSD, while some more recent programs are ‘hybrid’ MSD programs. Hybrid programs³⁷ include components that are expected to complement each other in pursuing common outcomes or combine relatively unrelated components working to a common high-level purpose in a common sector or location.

³⁶ Annex D provides selected information on the MSD programs covered by this review.

³⁷ Most are under a single contractual umbrella, although DFAT has multiple contracts or grants with the AMENCA 3 NGOs.

Some programs appear to have evolved into hybrids after implementation commenced: although in some cases the review struggled to get a single agreed view as to original intent and/or early evolution. According to implementing agencies interviewed for this review, AMENCA 3 was initially intended to be a 'classical' program, but implementing agencies successfully made a case to make it a hybrid³⁸. LIFT is a multi-donor fund which finances a wide range of activities under a single financing and management umbrella. It was not designed to include MSD activities, but has increasingly included MSD components under the influence of market systems specialists working for the fund.

The design of some of the 'classical' programs - AIP-Rural and CAVAC I - envisaged that they would take an MSD approach across several different components. However, as programs were implemented, some components adopted a different approach, and some were dropped. For example:

- The design of CAVAC envisaged applying an MSD approach across four intermediate outcome areas in agribusiness development, water management, research and extension and business enabling environment³⁹. By the time of the 2012 mid-term review, the work on the business enabling environment had been discontinued because of failure to get traction with the government, the research activities, implemented through ACIAR were removed from the program given challenges created by different institutional priorities and perspectives (with extension activities being integrated into the agribusiness component), and the water management work shifted towards proof of concept work around a new approach to irrigation design, construction and operation⁴⁰.
- AIP-Rural had four complementary programs aiming to improve farmers' incomes, to be implemented using an MSD approach – working on agribusiness (PRISMA – the largest in terms of financing and staff), financial inclusion (SAFIRA), irrigation (TIRTA) and applied agricultural research (ARISA). After a mid-term review in 2016, the focus shifted to the work of PRISMA to achieve outreach numbers, and to providing proof of concept for the other elements. The follow up to AIP-Rural, PRISMA 2 only retains the agribusiness component, but with an expectation to engage more on policy issues.

Annex D further defines classical and hybrid programs.

Four types of adaptation

DFAT's implementation of the MSD programs across a wide range of country contexts presents a good test of the adaptability of the MSD approach.

In principle, it is hard to identify country contexts where non-humanitarian aid is feasible and where the elements of the approach - systems perspective, large scale or systemic change, sustainability, facilitation and adaptive management - would **not** be applicable. The question is, in what ways do the various elements need to be characterised and operationalised to make the application useful in different contexts? And, are additions or variations needed to enhance program usefulness?

DFAT's programs show evidence of four broad types of adaptation. They are: using a unique multi-country model to implement an MSD approach in multiple countries under one contract; changing the approach to address the challenges of working in small fragmented economies with shallow

³⁸ The story is not entirely clear, since the design describes the program as adopting a 'market-based' approach, and some interviewees claim that the program was pushed towards being more of a classical MSD program after implementation began.

³⁹ According to some interviewees, however, CAVAC I was not originally intended to be designed as an MSD program, was pushed towards adopting an MSD approach, but confined the MSD approach to the agribusiness component, with separate teams and modalities for the main irrigation component.

⁴⁰ DFAT (2017b)

markets and multiple, mutually reinforcing constraints to growth; extending the approach to sectors other than agriculture; and embedding MSD components in programs using multiple approaches and serving a range of DFAT objectives – so-called hybridisation.

Multi-country model

MDF was designed as a multi-country program because this structure was perceived to enable incorporation of the - at the time relatively new - Market Systems Development (MSD) approach into a number of country programs at significantly reduced transaction costs. Sharing operational and technical support functions was expected to lead to lower on-going costs for each country compared to a set of stand-alone bilateral programs. And cross-country collaboration was intended to provide a readily accessible pool of real-life implementation expertise to support country teams, especially in the early stages of program development in a country.

A review of management arrangement for MDF concluded that:

The Facility has been able to realise many of the benefits of the multi-country approach, and over time has found ways of dealing with some of the inherent weaknesses. But it is clear that significant management and coordination challenges are associated with the approach, and management structures, staffing, philosophies and cultures need to be reassessed from time to time to ensure that they are fit for purpose and calibrated to the evolving circumstances and maturity of the Facility.

Adaptation for shallow markets

The 'classical' applications of the MSD approach developed in large countries like Bangladesh had a characterisation of systemic change, and strategies for pursuing it that were built around a model loosely described as 'pilot-to-scale' in which a small number of innovations could cascade through a market system, with systemic change occurring through copying and crowding in (see later section and Annex C for a more detailed discussion of the various conceptions of systemic change used in MSD programs). In economies like Fiji, Timor Leste and to a lesser degree Papua New Guinea, markets are small and fragmented, and the political economy situation is quite complex. As such the opportunities and pathways to change differ from countries like Bangladesh. Copying and crowding in is unlikely to occur to any degree, and the likely scale of impact from any one intervention is very small. The Market Development Facility therefore revised the pilot-to-scale view of systemic change to reflect the expected pathways through which it might unfold, and strategies that involved targeting multiple constraints at much the same time to unblock potential for inclusive growth.

The mid-term review for MDF Phase I observed that MDF had developed an approach to market development which: recognised that small markets are a reality and that the number of beneficiaries of MDF interventions will in many cases be modest; and accepted that in many cases, partners would need more support, for a longer period than might be the case in larger, more developed markets. As a result, the approach appeared more interventionist than has been the case for market development programs in larger countries elsewhere. Partners were more likely to be emerging businesses, in nascent markets, so needed a greater degree of corporate support and a higher share of cost sharing for agreed interventions (Tanburn et al, 2016).

Sectors outside of agriculture

DFAT's early MSD programs were aimed at smallholder farmers, and nearly all of the current programs retain a strong focus on agriculture and rural livelihoods. While other donor programs had been targeting urban beneficiaries and people with non-agricultural livelihoods, it was really only with the implementation of MDF that DFAT's MSD programs began to examine the potential for

other sectors to generate inclusive market opportunities. Now a number of programs are working in tourism (MDF, GREAT and Strongim Bisnis), and MDF has engaged with manufacturing and service sector activities (such as clothing and footwear and outsourced services). While this is not a new development as far as the global MSD community is concerned, it has moved DFAT's portfolio away from sectors where it had accumulated a lot of knowledge and experience, and requires coming to grips with a new set of production activities, more complex drivers of competitiveness, and different sociological drivers of exclusion and opportunity.

Hybridisation

Eight of DFAT's MSD programs do not seem to follow a classical, tightly focused MSD approach. Some involve closely linked components involving MSD and direct delivery (AMENCA3) or engagement on policy and institutional reform PHAMA Plus, with a clearly defined logic and set of related outcomes (logical hybrids).

Others have an MSD approach alongside components with less connected outcomes and using different approaches. Some were designed this way (Strongim Bisnis, TOMAK, CAVAC II) and some evolved over time (CAVAC I).

The underlying reasons for hybridisation would appear to be varied.

This review surmises that the DFAT wide institutional imperative for consolidation, as announced in the statement on performance management may have been one factor, alongside a view that it is easier for DFAT staff to manage coordination challenges within single contracts. However, for programs like PHAMA Plus and AMENCA3, there is a strong expectation that pairing an MSD approach with other approaches would be an effective way to optimise achievement and expand the scope of results.

Have the adaptations been successful?

Across the MSD portfolio, AQC ratings for effectiveness, efficiency and sustainability have been similar to or higher than for non-MSD programs, which could be interpreted as a conclusion that MSD programs have not been failing across the various contexts in which they operate. Closer inspection of documentation would suggest that MSD programs have not yet demonstrated that they can gain much traction in really challenging environments such as Timor Leste and Papua New Guinea. Some programs have faced considerable difficulties in becoming fully operational, with significant turnover in key staff – this may point to problems of adaptability, but it may be a symptom of the difficulty of the market context.

The extension of sectoral focus outside of agriculture is not generating the same kind of impact results. There may be several reasons for this, to do with scale, relative homogeneity of production and enterprise models, and the existence of a body of proven technology that could improve the productivity of small-holder farming. A large number of the successful interventions of programs such as AIP-Rural, CAVAC I and MDF I and II have involved persuading suppliers of modern inputs and proven technologies to see small-holder farmers as a viable market, and to develop ways of helping these farmers gain the requisite knowledge to use these inputs and technologies. Because there are (relatively) many farmers involved in the same cropping and livestock activities, it is not hard to get significant outreach, productivity and income benefits once the underlying myopia of suppliers has been overcome. The same opportunities are not so readily available in other sectors: there are likely to be multiple constraints, different production technologies and other constraints to diffusion of innovations.

As noted above, the reasons for hybridisation are varied, which may influence the degree to which programs are successful. PHAMA Plus has a strong logic behind the different components and how

they contribute to outcomes– but the program has not yet found a satisfactory way to marry the MSD approach to a regulatory and administrative reform initiative.

It is not easy in all cases to determine that hybridisation has added to or detracted from the application of the MSD approach, and perhaps this is not really a useful question. The more pertinent question is whether bundling together of different components has facilitated pursuit of sustainable systemic changes. The review observes that programs that were not designed as hybrids adopted a hybrid approach over time, and that non-hybrids sometimes used direct-delivery style interventions to complement more facilitative approaches.

4. M&E and value for money

This chapter considers the performance of monitoring and results management systems, and issue of the value for money represented by MSD programs.

Key points

- Longer running programs within the portfolio have resulted in positive outcomes for beneficiaries, have recorded some examples of systemic change in very different market contexts, and are viewed as providing value for money by MTR and evaluation teams. Overall, M&E systems are seen to produce credible data on headline indicators of success, such as increased income for target groups.
- DFAT has a range of needs for information on results and program progress. MSD programs are meeting some of these needs. Largely, DFAT is satisfied with information provided on headline and ADR indicators, and more informal 'market intelligence' and insights into how the private sector works within countries. Generally, DFAT staff are less satisfied with progress reports because they feel they do not capture the full range of outcomes achieved; and they do not present information in a way that meets the needs of a wide range of DFAT stakeholders.
- As DFAT's portfolio matures, DFAT is increasingly interested in understanding market systems changes. Defining systemic change is a challenge, as is assessing it. Overall, there are few examples reported, despite these changes being at the heart of the MSD approach, and being necessary to realise sustainable benefits for target groups. Use of quantitative indicators related to beneficiary impact as a proxy for systemic change risks undermining the MSD approach by skipping over assessing systems change.
- All programs report on at least some elements of value for money. DFAT does not provide clear guidance on its requirements for VfM assessments, leaving programs to interpret what they think DFAT wants or will be satisfied with. Programs use a variety of approaches, most which relate to illustrating how they are managing for value for money or using information to improve program performance. Some programs are uncertain about the importance placed on VfM assessments by DFAT or how the information is used and, therefore, the value of doing more. Even though various aspects of programs can be counted or measured, this does not necessarily lead to meaningful or usable information.
- There are significant expectations that MSD program M&E systems can generate credible information on program performance: at different levels (headline indicators, portfolio, systems change, intervention); different breadths and depths for a wide range of audiences within DFAT (i.e. succinct synthesised information for senior managers and indepth information for Post program managers); and for different purposes – accountability, learning and public and economic diplomacy. These may not be realistic and needs should be prioritised and resources allocated appropriately.

Information needs

DFAT and individual programs have a range of information needs, some of which are articulated in Department policies, such as *Making Performance Count*⁴¹, and assessment processes such as annual investment AQCs and partner performance assessments (PPAs). Expectations regarding investment M&E systems are spelt out in DFAT's M&E Standards⁴². Several programs use the DCED Standard⁴³ to guide the development and implementation of their M&E system. Using the DCED Standard can help programs assess relevance (to some extent), effectiveness, impact and sustainability. It does not seek to assess efficiency, nor cost-effectiveness. Some newer programs using the DCED Standard

⁴¹ DFAT (2014b)

⁴² DFAT (2017c)

⁴³ DCED (2017)

have expanded their M&E system beyond the requirements of the Standard to meet DFAT's needs. For instance, PHAMA Plus, Strongim Bisnis and TOMAK M&E Plans and PRISMA II (design) all include evaluation questions. LIFT already undertakes evaluations of interventions, while PHAMA Plus and Strongim Bisnis plan to include interventions. These features illustrate the broader adoption of DFAT's own M&E Standards and integrating it with the DCED Standard.⁴⁴ The DCED Standard also includes some elements not captured in DFAT's M&E Standards, but which are considered good practice. For instance, the DCED Standard requires senior staff being familiar with sector and intervention-level results chains (or theory of change) and stipulates that the results chain should be reviewed at least annually.⁴⁵

DFAT needs information on progress against high-level indicators to meet internal and broader accountability requirements; as well as a range of additional information (other results, successes, challenges, and value for money) to meet a variety of accountability, performance management, learning and communication needs.

MSD programs meet with DFAT posts regularly. Overall, DFAT staff see such meetings as valuable. They provide DFAT with 'market intelligence' and insights into how the private sector works. Programs provide written progress reports either quarterly, six-monthly or annually. Generally, DFAT staff are less satisfied with the progress reports they receive. This dissatisfaction, in part, seems to come from a perception that programs do not capture the full range of outcomes achieved. Reports often also do not explain how market systems are changing.

DFAT's evaluation of investment monitoring systems⁴⁶ identifies the most important features that distinguish higher-quality monitoring systems: outcomes focused; feedback generated early enough to inform changes in implementation; systems and data are quality assured; information is effectively used⁴⁷. M&E systems of MSD programs include these features and based on its limited examination of available reports and reviews, this review concludes that the results reported seem broadly credible. MTRs and evaluations are usually positive about the quality of the M&E systems and credibility of data. Some programs, CAVAC I, MDF and PRISMA, have been independently audited against the DCED Standard for Results Measurement and been assessed as having met the Standard. Audits can help DFAT understand the robustness of programs' M&E systems. Audits are not, however, a verification of results reported. Audit reports highlight strengths and weaknesses regarding the quality of a 'pragmatic approach' to data collection and analysis and therefore provide insights into the credibility of results reported. The audit reports, beyond the audit score, can be valuable tools for programs and DFAT.

Programs have a range of internal information needs to be able to manage adaptively including progress towards and achievement of results, challenges, identification of new opportunities, and learning. Different levels of formality, style and depth of information are needed for different purposes. Programs collect, record, analyse and share information internally and externally in a variety of ways. Day-to-day management for DFAT and programs requires less formal information, e.g. verbal discussions, whereas more formal written information is required for structured accountability processes such as the AQC and PPAs. Various program reports and documents illustrate that programs use information generated through their M&E systems. It is used, for instance, to improve or terminate interventions (AIP Rural) and increase the inclusivity of business models and partnerships (MDF Pakistan).

⁴⁴ The DCED Standard for Results Measurement was developed before DFAT's M&E Standards.

⁴⁵ Dart, J (2016).

⁴⁶ DFAT (2018)

⁴⁷ MSD programs may refer to systems by different names. This review will use the term monitoring and evaluation (M&E) that covers monitoring, evaluation, learning, results measurement.

Results reported

MSD programs report progress and results on a quarterly, six-monthly or annual basis. Reporting periods differ by program, although six monthly reporting cycles are most common. Most programs report more on the breadth of outcomes for beneficiaries rather than the depth of outcomes for beneficiaries or changes to market systems and/or the degree to which market constraints have been addressed, and their impact making markets more inclusive. All programs report quantitative impact at the beneficiary level, such as increased income; while some programs also report summarised progress information for the entire portfolio of interventions using tools such as rating scales (e.g. red, amber, green). Some intervention level progress may also be reported via short descriptive case stories to illustrate the human dimensions of programs efforts – TOMAK, AMENCA 3 and MDF do this. Some programs also publish longer case studies, normally as separate reports. Given failure is considered a normal part of the MSD approach, it is surprising that more progress reports do not capture more information about where things have not worked and why. The sustainability of MSD programs outcomes cannot be determined from the reports reviewed. This is something that program MTRs and evaluations have also found challenging.

Programs collect a lot more information than is captured in progress reports. This suggests that programs could provide deeper coherent understandings of change, change pathways, success and failures. However, given the complexity of programs, the breadth of interventions and activities, programs are unable to examine depth across an entire portfolio or components. Additional costs associated with additional analysis, reporting and use need to be considered against the perceived value in using this information.

Annex D provides further information relating to the results achieved by MSD programs in the portfolio, along with examples of market systems change and a summary of value for money assessments. The following sub-sections focus on the assessment of headline results, systemic change and value for money. Annex E provides more detailed information on each of these areas as well as information related to program M&E (including value for money) systems, approaches, strengths and weaknesses.

Headline results

Outcomes or impact are normally defined by quantitative ‘headline’ indicators. All programs also report against selected DFAT’s Aggregate Development Results (ADR).

Some quantitative results have been reported to date by programs. The volume of results may differ according to country context and period of implementation. Details can be found in Annex D.

For some programs, it takes some considerable effort to comprehend the information presented in reports and longer to understand results for the same or similar indicators across programs. Original targets, budgets and expenditure variances are not always included in progress reports and therefore it is often challenging to assess differences between planned and actual outcomes using the headline indicators⁴⁸.

There are varying opinions about the effectiveness of numerical targets. For some programs (i.e. GREAT, PRISMA), these are set at the design or inception stage and are not changed throughout

⁴⁸ DFAT is likely to receive separate financial reports or financial reports are removed before reports are made public, as some progress reports are. It is also unclear how total investment is tracked, particularly when additional funding is sourced within DFAT. For instance, the MDF I was allocated additional monies from the Gender Equality Fund managed directly from DFAT Canberra.

implementation, while other programs (i.e. MDF, Strongim Bisnis) adjust their targets, or 'projections', periodically to reflect a realistic estimation. Some perceive that set targets to be an incentive that positively drives performance; while others perceive that this practice have led to PRISMA being overly focused on numbers at the expense of a focus on sustainable market systems changes. Similarly, the AMENCA 3 MTR observed that the program's focus on 20, mostly quantitative, indicators may:

- distort market selection and engagement by pushing implementing organisations to focus on interventions that deliver short-term quantitative impacts; and
- de-prioritise some of the more fundamental investments needed to establish critical market functions or to improve inclusion.

Projections can be useful to manage donor expectations, although the difference between targets, projections and actuals has caused some confusion among DFAT staff new to MSD programs. Additionally, where direct delivery programs may be able to achieve notable quantitative results in a short amount of time, e.g. number of men and women with access to safe water, the quantitative results normally attached to MSD programs, that is increased income and jobs created, take longer to achieve. Further, in the initial phases of MSD programs, considerable effort is spent on conducting market analysis and developing relevant partnerships. While the differences and their consequences (relative to direct delivery programs) are understood, some DFAT staff feel the MSD timeframe does not fit well with DFAT's current organisational systems and expectations.

Other challenges to understanding reports relate to differences in what is counted for the same or similar headline indicator, and the use of averages, which masks a great deal of variation in performance within programs. Beyond the headline indicators, MSD programs normally monitor a range of other indicators. Only a selected few are usually reported.

Assessing systemic change

Assessing systemic change represents a 'missing middle' in the M&E of MSD programs. DFAT expect programs to be able to clearly communicate their strategic intent, achievements against this and, as the MSD portfolio matures, DFAT increasingly seeks evidence on changes to market systems. Long-running MSD programs have recorded some examples of systemic change in very different market contexts (Annex D includes some examples). Yet overall programs are not effectively reporting progress toward achieving systemic change, and few programs report on the underlying causes of market system performance and describe what has changed. This challenge affects MSD programs beyond those in DFAT's portfolio - many MSD programs struggle to provide a consistent and coherent conceptualisation of the 'consequential' changes or market system change that provides the *raison-d'être* of MSD.

Commentators⁴⁹ have noted that despite more than a decade of MSD programs there is not precise definition of what systemic change is, while the use of the attributes of scale, sustainability, and resilience to define systemic change means that practitioners focus on, and measure these, rather than focusing on what makes change 'systemic'.

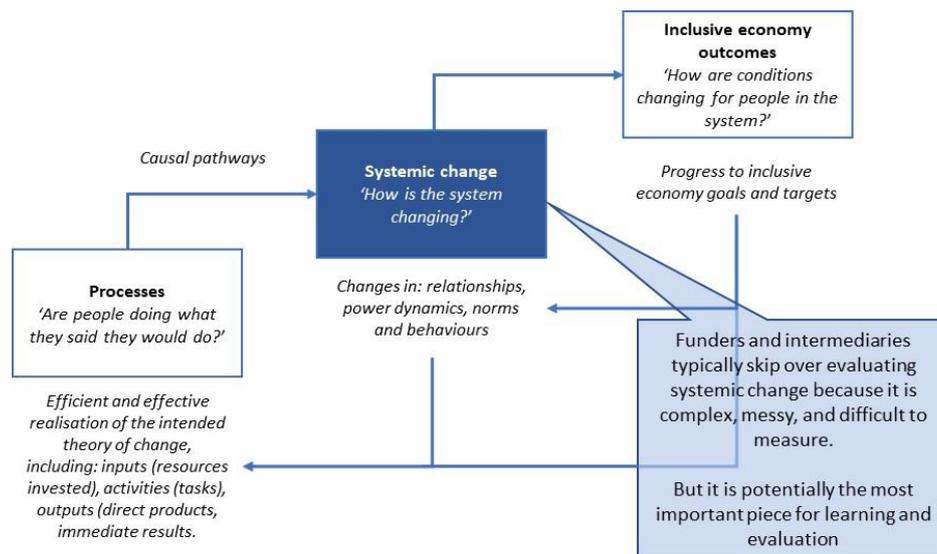
For instance, changes in beneficiary income is used as a proxy for systems change, but this may be a short-term result and not reflect a fundamental shift in how the market operates in a more inclusive manner. Funders and intermediaries often skip over evaluating systems change because it is messy, complex and difficult.⁵⁰ One program offered the following analogy: the program has a good street-

⁴⁹ Cunningham and Jenal (2016); Koh (2014); and Lomax (2019)

⁵⁰ Koh, H et al (2016).

level view, we are down on the street, working with and around pedestrians, potholes, cars etc. The program doesn't have a higher-level view of what is happening at the map-level.

Figure 1: Elements of an adaptive monitoring and evaluation system for inclusive markets⁵¹



Most programs use the Adopt-Adapt-Expand-Respond (AAER) framework,⁵² with varying degrees of success. The framework has yet to be refined to increase its applicability across a wider range of circumstances – such as shallow markets and advocacy interventions. MDFI developed an alternative framework to assess systemic change but found it challenging to operationalise.

There is a need for a better articulation of systemic change in specific contexts, development of M&E approaches and methods to capture the depth and breadth of market systems changes. Closely linked to the notion of systemic change is sustainable change, another key characteristic of the MSD approach. The uptake of a new product or service cannot be considered systemic change unless it alters the fundamental system structure or creates a 'new normal'⁵³. Overall the sustainability of MSD outcomes (whether at an intervention level or market systems level) cannot be determined from the reports reviewed. The MTRs and evaluations on individual MSD programs have also found assessing sustainability difficult.

Assessing value for Money

DFAT's expectations regarding the purpose of and approach to VfM assessments is unclear and as such MSD programs use a variety of approaches to assess VfM. Few programs have plans to systematically collect and analysis information across all aspects of VfM to support an overall judgement of VfM.

Most programs in the MSD portfolio do not present a clear understanding of value for money or articulation of what value for money looks like for their program, and on which to base a judgement about the extent to which the program is delivering value for money. Only some programs make explicit judgements about a program's or interventions' value for money during implementation or ex-post. For example, various VfM-related indicators are reported but no interpretation or conclusion is provided, so that judgement seems to be left to the reader.

⁵¹ Koh, H et al (2016).

⁵² Nippard D et al (2014)

⁵³ Ripley (2019) and Taylor (2016)

Three common purposes of value for money assessments are⁵⁴:

- Putting the right management processes in place to enable managing for value for money
- Comparing value for money to drive improvement and inform decision-making
- Demonstrating value for money through evaluation.

DFAT's *Making Performance Count*⁵⁵ and VFM principles⁵⁶ emphasise managing for VFM and comparing VFM for decision-making. Most programs understand VFM as either comparing VFM to drive improvement and inform decision-making or demonstrating value for money through evaluation. Programs within DFAT's MSD portfolio are conducting some assessments of value for money. For instance, ex-ante assessments are made during intervention design and selection processes. Programs assess budget and likely effort to deliver expected returns (e.g. expected number of beneficiaries and/or increased beneficiary income) as part of their decision-making processes.⁵⁷

A few in-depth assessments of cost-effectiveness have been undertaken where program components lend themselves to more typical economic and/or financial analysis. The CAVAC II irrigation component impact study, for example, used quantitative and qualitative methods – although must be recognised that this component does not apply a market systems development approach.

A range of issues appear to affect current practices across the portfolio. These include:

- DFAT has not provided clear guidance on its expectations, the specific value for money questions DFAT would most like programs to answer, the quality of assessments expected, and the amount of time and resources that programs should be devoting to them.⁵⁸ This poses a significant challenge for programs and their DFAT managers.
- Few DFAT investment managers are making demands on programs to do more than they are currently doing, therefore providing little or no incentive to do more.
- DFAT already regulates most costs through the regulation of procurement (goods and services, including consultants).
- Implementing organisations consider managing for VFM is part of management and they do not see the value of additional frameworks designed to help ensure they manage for VFM and are able to demonstrate how they do so.
- Implementing organisations consider VFM indicators as a compliance requirement and/or do not see more thorough mid-implementation or ex-post VFM assessments as beneficial. Increased VFM requirements would be seen as an additional burden and cost that does not add value⁵⁹.
- DFAT and programs are uncertain how to assess 'value for money' through a process that brings the different VFM elements together to make an overall assessment. In the absence of such a process, VFM assessment defaults to most easy to measure economic dimensions.
- Mid-term reviews and evaluations are undertaken in limited timeframes. VFM is not the core of these evaluations and there is limited time to assess VFM thoroughly.

⁵⁴ Based on Bond's (2012) articulation of VFM assessment purposes.

⁵⁵ DFAT (2014)

⁵⁶ DFAT (2015e)

⁵⁷ Detailed guidance documentation was not reviewed across all programs. However, from documents reviewed and interviewed this is considered typical across projects. It is not possible to determine the degree of rigour applied to ex-ante assessments during the timeframe of this review.

⁵⁸ A generic question such as 'what is the value for money' does not provide sufficient guidance to programs.

⁵⁹ For financial and human resources

Expectations of M&E systems

There are a lot of expectations of what M&E systems and teams can deliver and achieve and these need to be moderated as to what is reasonable and cost-effective.

A range of factors need to be considered:

- There are practical trade-offs between accountability and learning and demands for accountability will come at the expense of internal program and external learning.⁶⁰
- Different approaches to monitoring and evaluation are also needed for different parts of MSD programs (e.g. dealing with MSD and non-MSD components, measuring headline indicators and assessing systemic change), and these may not always be complementary. For instance, performance monitoring of outputs and outcomes, including headline indicators is more compatible with non-complex interventions.
- M&E for adaptive and complex programs needs to put learning at the centre to enable flexibility and responsiveness to changing contexts and needs. It requires bigger, and more adaptive, M&E budgets; greater strategic thinking skills within M&E teams; and the careful selection of evaluation approaches⁶¹.
- Given the centrality of systems change to the MSD approach, further work on the assessment of market systems change is warranted. DFAT's program portfolio provides an excellent opportunity to explore and test cost-effective approaches relevant to different contexts (e.g. shallow markets), building on data and information already collected by programs. Sharing experiences across programs is expected to provide valuable learning opportunities for programs, DFAT and the broader MSD community.
- Assessing sustainability requires a broader focus than on just beneficiary income – it requires analysis at the market or sub-sector level, partner (e.g. business, government) and beneficiary level. The type of analysis would also depend on the market constraints being addressed and the types of interventions. Aggregated quantitative indicators on increased beneficiary income do not provide insights into the sustainability of income for the more mature program interventions.
- Lastly, better communication of progress, results and lessons from MSD programs for a variety of audiences is important. There is also a need for analysis to be communicated in ways relevant to different audiences. This does not negate the need for technical analysis and reports, but there is also a need for summary findings, lessons and conclusions to be communicated in laypersons language.

All these considerations will likely have resource implications for programs.

⁶⁰ Reinersten, H., Bjorkdahl, K, and McNeill, D. (2017).

⁶¹ Pasanen (2017) and Simister, N (2019)

5. Challenges and elements contributing to program success

This chapter discusses challenges encountered by programs, and draw some tentative conclusions that seem to be related to program success and failure.

Challenges

Key points:

- Some challenges experienced by DFAT's MSD programs are not unique – they are a part of the broader problem of managing contractual relationships for adaptively managed programs. In a period of budget and staffing constraints in DFAT, the capacity to manage such programs for maximum impact can be hard to make available.
- Recruiting and retaining capable staff is a challenge encountered by all programs: not only for locally sourced business advisors but for suitable experienced leadership. Staff turmoil has affected several programs quite severely: a problem that has also occurred with program transitions.
- Dealing with DFAT staff turnover is a challenge for many programs, but it can be acute for MSD programs, and programs have not found easy ways to convey what they are doing and their strategic intent.

A number of common challenges, that are not specific to individual interventions are raised in various program documents, and were also raised during the course of interviews conducted for this review. While some challenges may be relatively unique to MSD programs and unfamiliarity with the approach, others may be more a result of challenges in the contracting model for delivering programs embracing adaptive management.

Program staffing

Nearly all programs reported concerns about recruiting, training and retaining staff – for business advisor and leadership positions. There is a common view that 'development professionals' do not easily adapt to the requirements of working on an MSD program, and that there is a limited pool of people with the necessary experience and skills to lead a program. Given the diversity of program sizes, types and implementation contexts it is not possible to specify a minimum level of resourcing for a program. Some programs have experienced debilitating staff turnover, which has crippled performance as the search for appropriate personnel unfolds. Some hybrid programs have found it difficult to manage differences in professional cultures and ways of operating.

The way in which MSD programs have typically tackled the staffing issue is to recruit relatively young people with business related qualifications and experience, and to build their capacity over time to carry out the analytical, relational and deal-making functions that the approach requires⁶². This can add to the lead-times before programs become fully functional, and also place heavy burden on team leaders to manage the capacity building process as well as program delivery.

Transitions between phases are often very disruptive, especially, but not only, when a change in implementing organisation is involved. This may not be unique to MSD programs, but implementing organisations and DFAT managers seem to underestimate the challenges involved, and programs have gone into periods of near-paralysis and have dissipated hard-won credibility with stakeholders.

⁶² Kershaw and Warner (2019)

Governance and management arrangements

Some programs have reported difficulties with original governance and management arrangements. AIP-Rural's original arrangements (involving a DFAT recruited team leader managing teams employed by a managing contractor) were changed after a critical mid-term review. MDF's multi-country structure - with six DFAT units (five posts and one central Canberra unit) as funding stakeholders and a central program leadership function - brings challenges as well as considerable cost savings and efficiencies. For some programs, establishing an appropriate role for partner governments in overall program oversight has sometimes raised issues.

DFAT staff turnover has been a continuing challenge for programs: understanding of the MSD approach and its implications for program managers is still evolving, and programs devote considerable time to making DFAT program managers comfortable with the way that MSD programs operate. Poorly managed turnover can lead to mistrust, reinterpretations of a program's objectives and ways of working, and difficulties in aligning short-term agendas of a three-year posting and the need for programs to have a longer-term strategic focus. The difficulty that some programs have found in articulating strategic intent and the meaning of systemic change has exacerbated this problem.

Some of the specific challenges identified by this review include:

- Misalignment of short-term contract periods and ambitions to change systems. Even when there are five + five year arrangements, stop-go clauses may constrain adaptive management in the longer term.
- Low tolerance of risk and discomfort with failure – a problem for programs that are expected to have interventions that fail but contribute to program learning.
- Designs that predefine sectors may set up a path dependency whereby programs are less able to take advantage of greater opportunities to strengthen inclusive market systems. DFAT processes, such as the ability to change outcomes during implementation, support adaptive management but may not be known by DFAT staff or implementing organisations.
- Designs that do not fully reflect the nature of the MSD approach.

It is also apparent that, as a counterpart to the staffing challenges faced by programs, DFAT faces challenges with respect to equipping program managers with the skills and resources to manage complex, adaptively managed, learning driven programs. (This is almost certainly not unique to MSD programs, but it is readily apparent across much of DFAT's MSD portfolio.) Informants interviewed for this review commented on the:

- Lack of enough staff in DFAT with knowledge, skills and experience in managing programs that apply adaptive management, market systems development (including hybrid approaches), and work with the long lead times that occur between program inception and visible results.
- The contribution that technical advisory groups can make in helping program managers, noting that this was not a complete substitute for in-house knowledge and support.

Expectations of MSD programs

DFAT's MSD programs - and their managers - are having to deal with some conflicting priorities. These include:

- Delivering measurable systemic or transformational change that justifies the subsidisation of private sector investments within a typical aid program timetable and contract cycle (e.g. five years). In reality, there are few fast solutions (that is 'magic bullets') so in most circumstances these types of results are more likely to be realised after the program has closed.
- Being held accountable to achieve outcomes and quantifiable targets while being an adaptive learning program working on complex problems in a context-sensitive manner. In many

circumstances, outcomes and/or targets may need to be regularly revised as the program evolves, raising questions of how to hold the program to account with respect to delivery of results.

- Responding to DFAT's increasing wish to increasingly to utilise programs to achieve its government and policy engagement objectives.⁶³ This may create tensions for programs working with the private sector to disrupt the status quo regarding rules of the game. There may sometimes be challenges in giving programs a 'license' to engage with government agencies on policy matters, while conforming with DFAT's desire to lead and manage policy engagement.

Factors associated with success

Key points:

- The documentation of lessons learned from DFAT's MSD programs identifies some common factors seen to contribute to success, related to staffing, anchored flexibility, program culture, contextual knowledge and relation building, and acceptance of time lags and the prospect of intervention failure.
- There are also key elements of DFAT's approach to broader issues such as private sector engagement and economic growth, as well as to institutional and staff capacities that play an important role in enabling (or constraining) MSD programs in achieving their potential.

As discussed in Chapter 3, reviews and AQCs have not considered any of the programs in the portfolio to be failures.

Many program designs and activity completion reports reflect on lessons learnt and present ideas of the requirements for successful application of the MSD approach. Some relate to aspects of program practice, and others to prerequisites with respect to resourcing and program design. Commonly occurring elements are⁶⁴:

- **Staffing and talent:** the MSD approach is seen to require a distinctive set of capacities such as analytical entrepreneurial, creativity, negotiation and change management skills. Different skill sets however may be needed at different stages from inception to closure and therefore flexibility is needed to resource appropriately at different times. Stakeholders also need to appreciate that staff time and skills are not overheads but essential elements of delivery of results.
- **Flexibility anchored by clear principles or results objectives:** MSD programs work in dynamic environments through market actors, developing tailor-made solutions to underlying causes of systemic under-performance. Programs require systems that support adaptive management and also provide accountability to DFAT. Interventions have to be embedded in a clear strategy that has identified systemic constraints to inclusive market performance, and the way in which program interventions will address them.
- **Supportive leadership and program culture:** MSD programs cannot operate with a command and control approach to leadership and management: leaders have to be able to shape a program culture that encourage creativity and foster continued learning and development.
- **Strong knowledge and relations:** programs that aim to influence systems and behaviour need to be immersed in the politics and culture of their environment and to be able to build relationships beyond funding specific interventions.
- **Time, patience, acceptance of risk and rigorous portfolio management:** MSD programs need time to build contextual and market system knowledge, and to develop effective co-

⁶³ This is broader than economic and commercial diplomacy agenda referred to in DFAT's PSE operational framework, and goes beyond promoting Australian business interests.

⁶⁴ This discussion draws heavily on the design for Strongim Bisnis and a think piece from AIP-Rural, as well as interviews with key informants.

investments. Some interventions with private sector partners will fail, and some strategies may prove to be unfruitful. A strong portfolio management approach is required to spread the bets, identify and act on signs of failure and a dedication to learning from failure. Some programs and their managers have indicated that advisory groups with MSD expertise can help in assessing if programs are on track, especially in their early stages⁶⁵.

Program success also depends on the quality of relationships with DFAT program managers, and the way in which programs can support DFAT to prosecute its broader economic and diplomacy agendas. Supportive factors include:

- DFAT's broader strong interest in economic growth, stability and opportunities for trade and investment.
- DFAT's commitment to working with the private sector, which may overcome some perceived suspicions about using aid to work with businesses.
- Trusting relationships between DFAT and program managers, which can reduce reversion to micro-management.
- Clear lines of accountability between DFAT, program management, and external advisory groups or advisors.

⁶⁵ It should be noted that for advisory groups to be most use, there is a need for clear determination of accountability with respect to their utilisation and the advice they provide.

6. Review findings and suggestions

The DFAT MSD programs covered by this review, and the approaches they embrace, are highly consistent with the Government's aid priorities.

- However, older programs have had to work to adapt to the evolving constellation of priorities; and programs are not all yet reflecting recognition or demonstrating compliance with elements of DFAT's emerging framework for private sector engagement, such as additionality, or satisfying all expectations with respect to gender.
- MSD programs develop notable insights into how the incentives for investment and doing business are shaped by the political and economic drivers, and how the policies, regulations and the institutional underpinnings of market exchange work in practice. This could be very useful information in DFAT's policy engagement work. This potential is under-exploited.

By location, sector and intervention choice, most programs are quite effectively benefitting poor men and women.

- No programs in the portfolio target the very poor, but that does not mean that these groups do not benefit. Programs are developing good strategies for pursuing women's economic empowerment based on good analysis: but implementation is variable.

DFAT's portfolio provides a good test of the adaptability of the MSD approach across a wide variety of country contexts - this has required considering how to frame key concepts such as systemic change and strategies for pursuing it in different contexts.

- It has also required adapting expectations of what can be achieved and how best to demonstrate achievements. DFAT has not, however, put in place good mechanisms for learning from this large experiment.
- As well as conceptual adaptations, DFAT's MSD portfolio incorporates a range of programming adaptations, including: embedding MSD approaches in programs that also include application of other approaches such as community engagement or direct delivery of resources to beneficiaries, regulatory and administrative reform; and multi-country (as distinct from regional) programming. It is hard to tell if programming innovations like hybrids *necessarily* deliver better results than classical applications. There are complex issues of how, in adaptive programs, to combine elements that embody radically different ways of engaging with markets.

Many of the challenges that programs face are not unique to MSD programs. However, some are serious and programs have often taken considerable time to address them.

- Recruiting, training and retaining staff to build the requisite team and leadership capabilities is a frequently mentioned problem.
- Getting stakeholders to appreciate the MSD approach, especially in countries used to direct delivery and subsidisation programs can take time.
- Dealing with turnover in DFAT management, and lost institutional memory is a frequent challenge for programs.
- In a period of budget and staffing constraints in DFAT, it can be hard to make available the capacity to manage such programs for maximum impact.

MSD programs are achieving results, but are not consistently showing that they are facilitating systemic change and tackling the underlying causes of poor market performance that then contribute to more inclusive growth.

- It is easier to broadly understand the breadth of quantitative results. Cross-program comparisons are difficult since implementation contexts differ greatly, reported information in

variable and where programs are measuring the same or similar indicators what is counted differs.

- It is hard to tell from program documentation how effective programs are in pursuing and achieving systemic changes that address underlying causes of poor market performance and inclusivity. Generally, there is a perception that programs are achieving more than what is being reported. Programs find it difficult to communicate progress and performance information that balances quantitative and qualitative information related to market system change.

The MSD approach makes monitoring and evaluation a central element of programs, and most programs make effective use of the analysis of results to inform adaptive management processes and decision making.

- DFAT staff have a wide range of information needs for accountability, learning, public and economic diplomacy. Programs are better able to meet DFAT's needs for aggregated quantitative 'headline' of beneficiary impacts. Only some programs present portfolio-level information, while intervention level information is normally presented in reports as short positive case stories. Meetings between programs and posts enable programs to communicate more in-depth nuanced information.
- The conceptualisation, assessment and reporting of systemic change is problematic. Market system level analysis is a 'missing middle' in the pathway from changes at the intervention level, to the market level and to sustainable inclusive growth. Beneficiary impacts are used as a proxy for systemic change, which risks undermining the MSD approach as it may lead to an increased focus on short term changes.

Programs are not able to convincingly demonstrate that they are achieving value for money.

- Programs and DFAT have differing understandings of value for money and how to assess it.
- Factors affecting this include the lack of guidance from DFAT, including how they would like programs to assess value for money (across economy, efficiency, effectiveness), and how DFAT will use this information.

Programs are creating useful links with other aid initiatives: but continued DFAT engagement is needed to optimise collaboration given the incentives built into to aid contracting system.

- There is considerable scope for linking MSD programs with other initiatives, especially where MSD interventions need to be underpinned by changes at the government or community level to lock in systemic changes and minimise potential negative consequences. But ensuring this occurs requires DFAT country portfolio managers – and perhaps contractual and grant arrangements - to incentivise interaction across program implementers.

Suggestions

The terms of reference for this review ask for suggestions as to measures to further strengthen the development benefits from DFAT's MSD programs. The review has suggestions regarding:

Continued evolution of the portfolio

DFAT should continue to invest in MSD programs, but needs to build stronger structures to learn from the portfolio; strengthen institutional understanding of the MSD approach; and build internal capabilities for staff and management to engage with and draw from MSD programs.

Specific suggestions include:

- Build a more formal mechanism to learn from the portfolio – with a more structured approach guided by specific learning objectives and a feasible research plan developed in consultation between DFAT, current programs and individuals familiar with these programs..
- Foster development of a community of practice (CoP) that can share experience, contest ideas, and support DFAT staff and management to better appreciate MSD and the broader types of systemic engagements for the aid program. This could aim to help address DFAT’s need to improve institutional memory about individual programs and the overall approach. A CoP needs to be more than a loose and shifting coalition of interested people. It needs a strategy and program of events, processes and products (such as the research proposed in the previous point) – and resourcing.
- Strengthen orientation programs for DFAT staff with upcoming responsibilities with respect to MSD programs.
- Update the 2017 guidance note on MSD programs to reflect learning since it was drafted.

Strategic intent, additionality and systemic change

Work with programs to improve the articulation of strategic intent to help stakeholders better understand how they are targeting systemic change.

In particular:

- Request greater clarity in formal and informal reporting with respect to programs’ understanding of the specific causes of the underperformance of markets, which causes programs choose to work on, and the implications of not addressing other causes.
- Bolster consideration of the notion of additionality (e.g. a business would not have taken the risk now or in the near future or to the same extent with program support) at strategy and intervention choice stages, and encourage impact analyses to undertake ex-post assessments of additionality.
- Work with programs to develop pathways to manage tensions between delivery of quantitative results, additionality and systemic change at intervention, sector and program levels.

Monitoring, evaluation, VFM and reporting

Devote time and resources to the development of cost-effective M&E approaches to best meet various program and DFAT needs.

- Commission collaborative action research and analysis to design ways of monitoring and evaluating systemic change across different contexts – developing alternative approaches and testing them across different programs, especially where headline indicators cannot convey the depth and richness of systemic change achievements.
- Develop a clearer articulation of what kinds of formal reporting DFAT needs, and how best to deliver it, recognising that:
 - strong relationships and frequent and honest communication may be a more effective way of meeting many needs than formal, periodic reporting that is also expected to meet diplomatic and headline reporting requirements;
 - M&E systems for adaptive programs that seek systems change are more resource intensive, and require greater levels of capability, than direct delivery programs.
 - It is also important to consider trade-offs and what programs might be asked to stop doing or do less of.
- Clarify what DFAT needs from programs to meet its institutional need to demonstrate value for money: recognising that currently used metrics convey very little information about the key drivers of value for money at a program level, and there are no clear benchmarks against which to compare these metrics.

Adaptations, additions and making best use of MSD programs to achieve broader DFAT objectives

DFAT should do more work to understand, and find ways of dealing with, the challenges of hybridisation and exploiting the synergistic potential of MSD programs.

In particular:

- Actively consider the very different intellectual, professional and ‘team culture’ mindsets that underpin MSD and other approaches that may be included in hybrid programs; and how best to manage these differences across teams.
- Actively consider ways to promote cross-program collaboration. There are models where active portfolio management has brought about effective interactions between programs dealing with different elements of the challenge of getting low-capability or marginalised groups to benefit from market systems development.
- Explore ways of making better use of MSD program’s nuanced understanding of the business enabling environment to support policy engagement and economic diplomacy.