MDF First Annual Strategic Plan: Putting the Facility on the Road

Annual Strategic Plan 2011-2012

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Market Development Facility

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LIST OF ABBREVIATIONS

CIT	Country Implementation Team
CPT	Core Program Team
FJD	Fiji Dollar
MDF	Market Development Facility
M4P	Making Markets Work for the Poor
NGO	Non-Governmental Organization
ODA	Official Development Aid
STA	Short-term Technical Assistance
USD	US Dollar

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1. INTRODUCTION TO THE MARKET DEVELOPMENT FACILITY AND THE FIRST ANNUAL STRATEGIC PLAN

1.1. The Purpose of this First Annual Strategic Plan

The contract between AusAID and Cardno Emerging Markets USA Ltd for the Market Development Facility (hereafter *MDF* or *Facility*) was signed 24 June 2011 for the period until 30 June 2013, with a four year option period.

The Core Program Team (CPT) mobilized to Fiji in July and has established MDF operations, recruited and trained five business advisors and one results measurement specialist for the Fiji Country Implementation Team (CIT), and commenced Fiji sector studies.

Work has been planned and budget revised to enable the Facility to commence working, given a reasonable response time, in Timor Leste or other interested countries once the necessary agreements have been signed and contracts amended. The Facility is focusing on Fiji until notification is given for subsequent countries.

This First Annual Plan is about 'putting the Facility on the road', which entails:

1. **Establishing an organization that can work in multiple counties**. This requires a sufficiently staffed and technically qualified CPT to provide clear strategic direction, all-round technical support, and suitable management structures to guide national CITs.

2. **Recruiting and training CITs to analyze socio-economic conditions** in their respective countries to identify the root causes of persistent economic poverty and identify *innovative, commercially sustainable solutions*. 'Producing' innovate, commercially sustainable—and often sector-specific and even partner-specific solutions—to address economic underperformance and poverty is MDF's 'core business' and forms the basis for achieving its ultimate goal:

   To create additional employment and income earning opportunities for the poor and underprivileged in rural and urban areas through broad-based and sustainable pro-poor growth (see Fig. 1).

3. **Developing a *deep insight* into the functioning of selected economic sectors** for each MDF country through comprehensive assessments. These assessments identify constraints to economic growth and potential private and public partnerships in 'support systems' around core sectors for the development of innovative, commercially sustainable and 'constraint reducing' solutions.

   Deep insight into what works, what does not, and why, is an essential precondition for the Facility's core business. Only on this basis can the right strategic partner be identified to work on innovative and commercially sustainable solution to unlock critical constraints that generate the most pro-poor growth. This 'insight' is translated into sector growth strategies, which outline how the Facility will:

   Increase competitiveness of key rural and urban sectors — measured by increased productivity, sales, market share, and innovation of target enterprises (see Fig. 1).

4. **Design interventions with strategic partners** based on comprehensive agreements and action plans to create commercially sustainable innovations and trigger systemic change.

   Sector competitiveness is shaped by the extent enterprises have sufficient access to production inputs, services, information, skills, infrastructure, and regulatory environment. Where these support systems (ie government, banks, education, supply chains, etc), do not reach enterprises or fail to be relevant for them, competitiveness suffers and growth slows.

   Innovative solutions are intended to trigger lasting improvements in the volume, quality, and innovative nature of interaction between target enterprises and relevant support systems, with the purpose of making them more productive and competitive. This relates to improvements in business models, marketing strategies, supply chain management, technical capacities, regulatory procedures, research capacities, etc. The outcomes of systemic change — the 'uptake' by target enterprises — are also the outcomes the Facility should generate:

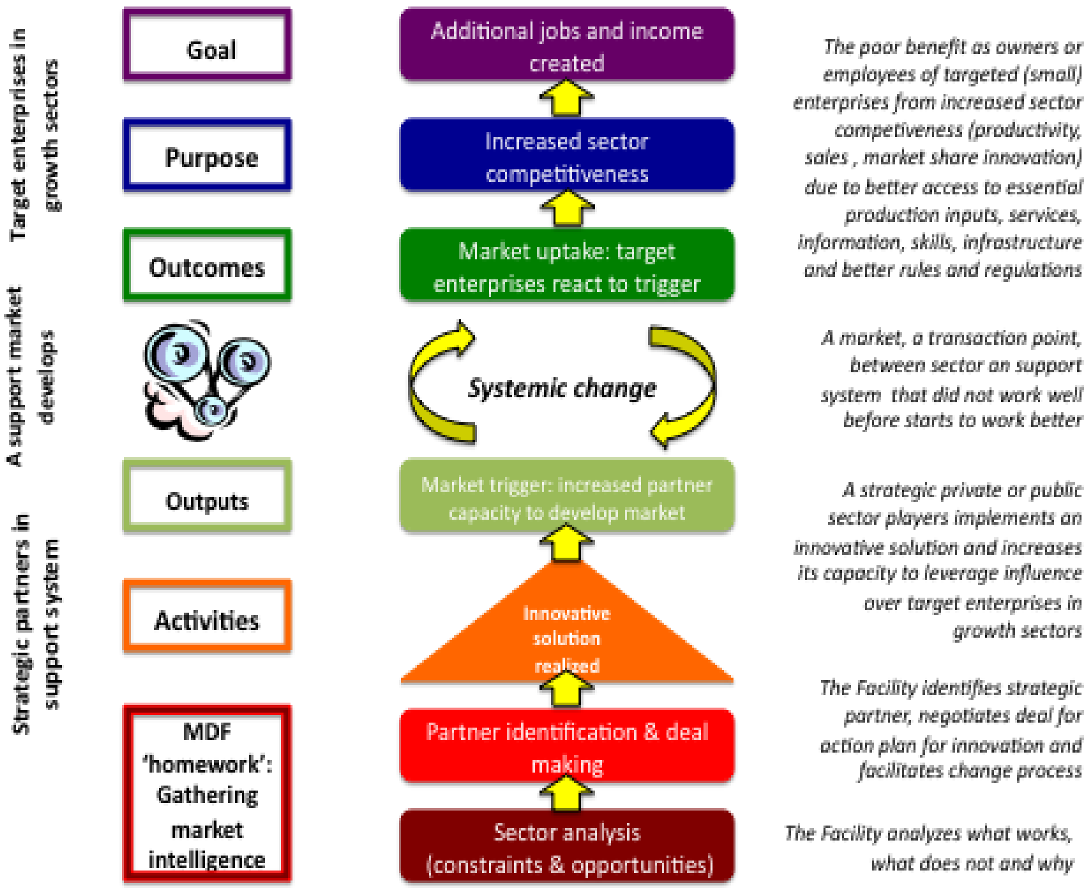
> Improved service delivery of relevant support systems—measured in better access to production inputs, services, information, skills, infrastructure, or more appropriate rules and regulations—to target enterprises in key rural and urban sectors (see Fig. 1).

Outcomes are translated into measurable increases in competitiveness (as measured within enterprises). Thus, the Facility outputs can be defined as:

> Increased capacity of strategic private and public sector players in relevant support systems to service target enterprises in key rural and urban sectors (see Fig 1).

The Facility's activities will include training programs and exposure visits, undertaken in with strategic partners to develop and implement the innovative solutions necessary to increase their capacity and trigger systemic change (see Fig 1).

Figure 1: The Facility's Impact Logic



5. **Establish a *near real-time results measurement system*** to assess the sustainability and pro-poorness of results and report on these results in a timely manner. Results are essential for demonstrating the value of the Facility, continuous learning, and updating sector growth strategies.
6. **Commence developing a *portfolio of sectors and inventions*** that will yield results within two years and shows a pipeline of ideas to justify an extension with another four years.

Making Markets Works for the Poor *(or 'M4P')* is the guiding principle for the Facility. This approach emphasizes tailor-made interventions with a large variety of partners to ensure *sustainability, effectiveness, efficiency, and neutrality* in development assistance.

This First Annual Strategic Plan builds on the Market Development Facility Project Design Document. It should be noted that the First Annual Strategic Plan is due before the Facility has completed country economic assessments necessary to determine where it can work most effectively. This influences the detail in the country-specific sections below. Thus emphasis is placed on *how the Facility will work*. The Second Annual Strategic Plan, due 31 March 2012 will build on the First Annual Strategic Plan will emphasis *what the Facility will do* — based on sector analyses outcomes and subsequent sector growth strategies.

At the time of writing of this First Annual Strategic Plan, the Fiji Country Steering Committee and the Independent Advisory Group were still being formed. It is envisioned that in the future both (and also Country Steering Committees in other countries) will play an advisory role when it comes to the Facility's overall and country-specific strategies.

1.2. The Content of the First Annual Strategic Plan

- Chapter Two describes the Facility’s work plan for 2011 – 2012.
- Chapter Three details the budgetary requirements based on the work plan.
- Annex One goes into more contextual detail and describes the development challenges in each of the countries where the Facility is or probably will be active.
- Annex Two outlines the key development principles and M4P approach underpinning the Facility's response to these development challenges and the approach that it subsequently implements.
- Annex Three outlines the program management systems for achieving systemic, sustainable development at scale.

2. FACILITY WORK PLAN 2011 - 2012

The Second Annual Strategic Plan will outline the Facility's achievements in the First Year—what worked and what requires additional work—as a basis for planning ahead for the next year. For the First Annual Strategic Plan, the development challenge and approach in responding, as outlined in the Annexes, are directly translated into a plan of action for the upcoming year.

As each country will be characterized by different development challenges, a 'tailor-made' country strategy will be developed. The Facility will maintain its principles, approach and management systems (logical framework, implementation, results measurement, organizational set up), but will vary sectors, timelines, preferences for potential partners, and CIT composition, depending on the country context. There will always be a recognizable Facility approach taking a slightly different shape in each country.

2.1. The overall Facility

Since inception, the Facility has put the following systems in place, relevant for the functioning of the overall organization:

-Operations manual for the imprest account.
-Operations manual.
-Fraud prevention strategy.
-Security plan.
-Risk management plan.
-Procurement procedures and forms.
-Corporate identity—in line with new AusAID visibility guidelines—to have a uniform and recognizable face across countries.
-Job profiles for the business advisor and results measurement specialist positions within the CITs.
-Important themes like sustainability, poverty, gender equality and disability, environmental and social sustainability were further elaborated in this First Annual Strategic Plan.
- Independent Advisory Group visit Nov 2011.

During the remainder of the year the following needs to be added to this:

1. *Rethinking the CPT structure.*

   Depending on the speed of the Facility's expansion to other countries, the CPT might struggle to provide sufficient backstopping to each country. As mentioned above, CITs need to be groomed in terms of the Facility's approach to development, initially very hands on, later more hands off. Both technical CPT members can at the most oversee one CIT aside from their regular work. This means that once a third country joins the Facility, the CPT will also be face 'shortages' on the technical side.

   The process is underway to consider how either the CPT can be resourced to support CITs in multiple countries, or how to best structure CIT teams to ensure operational management systems are in place than can be supervised by the CPT.

2. *Developing procedures and forms for the allocation of the Facility's imprest account.*

   The Facility's imprest account funds will mainly be used to leverage the funds of strategic partners to innovate, for research purposes, and for monitoring and results measurement. Funds to strategic partners will be made available as grants (investments) from the side of the Facility into credible action plans to produce innovative, commercially sustainable solutions to trigger systemic change. Each country has a separate imprest account in which a 'business innovation fund' will be established to disperse grants in line with the sector growth strategies (more details are provided in the Operations Manual for the Imprest Account). The Facility will work off and fine-tune the examples provided by similar AusAID-funded programs.

3. *Fine-tuning and, where possible, making more efficient the Facility's management procedures.*

   The Facility needs procedures that meet AusAID requirements yet allows the Facility to work at the speed of the private sector in order to be a credible partner in the eyes of the private sector. This is an area reviewed by the Independent Advisory Group's first mission. Since sector growth strategies and interventions are yet to be developed, that first mission is likely to focus on 'how the Facility works'. The Facility will invest in finding the right balance here.

4. *Setting up a results measurement system in line with DCED guidelines.*

   This system needs to be established in sync with sector analysis and designing the first set of interventions. Sector analysis triggers the need for a sector growth strategy format. Sector selection triggers a need for baseline measurements (part of which happens during the sector assessment, when key data is collected). Intervention design requires a proper intervention plan format. Beyond this, the Facility needs procedures for an auditable results measurement process 'auditable'. A manual will be developed for this purpose.

   The terms of reference of the Manager Results Measurement and Communication, the business advisors and the results measurement specialists are already in line with DCED guidelines.

5. *Developing a communications strategy.*

   The Project Design Document emphasis the need for strong communication to create more awareness about the Facility's M4P approach and make this approach more insightful within AusAID, within in the countries in which the Facility is active, as well as beyond.

   Part of the communications strategy will be to establish a website; another part will be—in a more specific, targeted manner—to develop different communication formats for different audiences.

   Both results measurement and communication are a priority for the Facility.

6. *Writing the Second Annual Strategic Plan, writing the semester reports.*

The work plan 2011-2012, including parts relating to Facility management is summarized in Table 1 (below).

2.2. Fiji Islands

To be relevant in Fiji, the Facility needs to work on solutions that strengthen Fiji's most important growth engine (tourism and related industries), create employment for urban (light) blue collar workers, connect agricultural production to urban and international markets and capture alternative opportunities in (semi-)commercial agriculture (either for export or import substitution), and foster other initiatives that diversify the economy, making it less import dependent and offering more locally affordable and perhaps even internationally competitive goods and services.

This is in line with the AusAID Fiji Islands country delivery strategy.

The First Annual Strategic Plan emphasizes the timeline and steps to arrive at sector selection and what immediately follows. This section will be updated in the Second Annual Strategic Plan, once the initial sector assessment phase is completed, once the sector growth strategies have been drawn up. It will focus on what the Facility aims to achieve within the sectors selected and the sector growth strategies defined for them.

The process laid out, with minor variations, is likely to be repeated in other countries where a CIT will be established.

1. *Establishing the Fiji Country Implementation Team and preparing for sector assessment*

Period: September – October 2011 (two months)

STA required: 0

Training required: introduction to M4P, provided in-house; more training is needed in time

This step has been nearly completed. Six Fijians—five business advisors and one results measurement specialist—have been recruited to form one team, the Fiji CIT. This team is sufficiently large to be able handle the initial sector assessment needs and, later on, interventions in two to three sectors.

A country strategy in line with an imprest account of around AUD 900,000 is likely to span work in at least four sectors. The experience gained in the first year will inform the second year.

In October the Fiji CIT commenced with a weeklong introductory training on M4P followed by deployment to the field. Quick deployment is important to continue the learning process by developing understanding of (sectors within) the Fijian economy and on opportunities for Facility investment.

During fieldwork technical members of the CPT and two international M4P specialists with experience in implementing M4P will accompany the Fiji CIT. This will serve as a form of peer learning to help them to ask the right questions, see the right things, reach the right level of rigor, and develop the right manner of approaching businesses.

2. Sector assessment

Period: November 2011 – January 2012 (three months)

STA requirements: ± 180 days

Training required: introduction to sub-sector analysis, provided in-house

Starting point for the sector assessment is the work done three years ago during the scoping mission. Figure Two gives the 'indicative Fiji country strategy'. Figures Three and Four give indicative strategies for tourism and horticulture and agro-export below. The scoping mission also looked into urban activities and saw more opportunities in food processing and retailing than, for instance, in car repair and engineering (but without arriving at a concrete indicative strategy). The scoping mission also suggested including a crosscutting sector such as communication, transportation services, education, or land markets.

Figure 2: Indicative Fiji Country Strategy

Suggested sectors and indicative strategies	
1. Tourism and support sectors and services Vision: To sustain growth in tourism and increase the local multiplier effect of tourist spending by: (I) increasing skill levels [*hospitality*] and increasing local sourcing [fresh food stuff]; (II) expanding tourist activities [*various*] and spending [*handicrafts*]; and (III) better wider sector coordination **Potential partners** Associations related to the hotel and tourism sector, hospitality training institutions (public/private, national/international), frozen food importers, hotels, farmer collectives, local area-based associations (harbor fronts, shopkeepers, *etcetera*), Fiji Art Council, tour operators	**2. Horticulture and agro-export** Vision: To increase commercial agriculture and access to key markets by: (I) supporting development of market linkages and sector-based extension services [*exporters, importers, Nature's Way Cooperative*] and market coordination mechanisms [*various, see also 4*]; (ii) introducing better cultivation techniques [*various*]; and (III) better access to agricultural inputs [*all]* **Potential partners** Exporters of root crops, importers of frozen food, Nature's Way quarantine treatment facility, fruit and vegetables exporters association, seed importers, seed producers, farmer collectives, chemical input companies
3. Food processing and retailing Vision: To support growth food related activities by: (I) creating markets for (cheap) food stalls; (II) support sourcing of agricultural produce [*backward linkages*]; and (III) and technical/packaging/health standards for (international) market access (NB: If food processing/retailing appears less promised after more detailed assessment, mechanical engineering and car repair services can be considered instead) **Potential partners**	**4. Cross-cutting: communication, transportation, education and land markets** Vision: To make these markets work better by: (I) improving communication between producers and markets [*mobile, IT*]; (II) Reduce transportation costs [*efficiency, bulking, infrastructure*]; (III) appropriate skill courses to increase employability and productivity [e.g., *technical*] and (IV) increase transferability of land [*legal low-cost leasing*] **Potential partners** Telecom/ICT companies, traders, transporters, village

Municipalities, local associations, food processors, food exporters, packaging industry	shop keepers, training institutions, government (land)
Expected outcomes: Outreach 20,000; additional income and employment generated for those living below the poverty line; increased competitiveness (productivity) in the sectors selected; better functioning markets offering individuals and communities more options and better informed choices to build more resilient livelihoods.	

This indicative strategy needs validation, three years after it was put on paper, and hence will be the starting point for a more comprehensive assessment that will also include other sectors as per AusAID preferences (see below).

Outreach figures are indicative and based on a 'normal' four-year program and an implementation team of six to eight business advisors and one coordinator. Figures need to be validated and adjusted for the short two-year first phase of the Facility. The Facility will give impact projections per country strategy. Updated projections for the Fiji country strategy will be provided at the end of the assessment phase,

Figure Three gives a indicate strategy for tourism and related support sectors and services.

Figure 3: Indicative Strategy for Tourism and Related Support Sectors and Services

Vision: To sustain growth in tourism and increase the local multiplier effect of tourist spending by: (I) increasing skill levels [*hospitality*] and increasing local sourcing [*fresh food stuff*]; (II) expanding tourist activities [*various*] and spending [*handicrafts*]; and (III) better wider sector coordination	
Intervention areas	**Intervention ideas**
Hospitality services *Improves value offer of hotels and resorts* *Improved employability for up to 20,000 (see report mentioned above)*	- Facilitate the establishment of public-private platform to coordinate training demand and supply (volume, quality, practical relevance/exposure) - Facilitate training institutions to improve modules through exposure to international best practices (module design or international franchise) - Facilitate training institutions to diversify training portfolio (different levels, full-time/part-time) - Facilitate the hotel sector to better position/brand themselves to attract better students
Fresh food stuff sourcing *Improve value offer of hotels and resorts; local produce might add to the 'Fiji experience'* *Additional income for 250 to 750 farmers*	- Facilitate traders to source specific fruits and vegetable more locally by developing better backward linkages, the ability to provide extension services to farmers, provide seeds, and perhaps develop fully-fledged contract farming - Facilitate other interested 'entities' than established traders to access hotels by creating more clarity on hotel requirements (volume, quality) and help to address specific constraints they might have (e.g. specialized dairy farmers) - (Explore previous failures and potential of fruit juices) - (Explore potential of meat sector and fisheries)
Expanding tourist activities *Authenticity adds to 'Fiji experience'; variety of activities to customer satisfaction* *Additional income for 2,000 to 20,000 artisans, farmers and shopkeepers*	- Facilitate coordination between the hotel sector and local associations to develop joint area development plans (of harbors, of bay areas, of towns) or, if this does not work, facilitate local associations to develop plans that locks them better into the tourist trade (specific activities will depend on association and locality) - Facilitate operators to venture into new activities such as eco-tourism - Facilitate the Fiji Art Council to 'hive off' a viable business entity to develop business around the Label of Origin
Sector coordination *For a Fiji experience without blemishes*	- Facilitate joint meetings, a common vision, a common agenda, common actions

There are signs that over the past three years the tourism sector initiated activities in line with the above-mentioned strategy. There is an ongoing review of the Fiji tourism strategy, including initiatives to have hotels work more closely together with educational institutions. Hotels are also investing in their own growing stations for fresh vegetables. This could mean that the Facility can support many initiatives or that a lot of the necessary invests have already been done and the Facility should consider focusing (mostly) on other sectors, or other parts of the tourism sector, such as tourism in new locations (e.g., Vanua Levu), or previously less explored areas (e.g., lamb, duck, beef) and fish (e.g., fresh water fish, prawn).

Figure Four gives the indicative sector strategy for horticulture and agro-export.

Figure 4: Indicative Sector Strategy for Horticulture and Agro-Export

Vision: To increase commercial agriculture and access to key markets by: (I) supporting development of market linkages and sector-based extension services [*exporters, importers, Nature's Way Cooperative*] and market coordination mechanisms [*various*]; (ii) introducing better cultivation techniques [*various*]; and (III) better access to agricultural inputs [*all]*	
Intervention areas	**Intervention ideas**
Market linkages & sector-based extension *Improves linkages between market (trader) and farmer* *Additional income for 5,000 – 10,000 farmers*	- Facilitate the quarantine treatment facility Nature' Way (and the exporter's association) to influence all necessary national and international stakeholders to establish sensible quarantine protocols - Facilitate the quarantine treatment facility Nature' Way (and the exporter's association) to set up a cost-effective extension program to reach more farmers, increase quality of production, and diversify production (timing, variety) in line with market demand - Facilitate root crop exporters to set up/expand cost-effective sourcing and expand from purse sourcing to providing inputs where necessary - Experiment with community-based or mobile phone-based coordination mechanisms to create more market transparency and viable volumes - Experiment with small mobile traders and shopkeepers (and their logistics) to see if markets and farmers can be better connected (bundling of services)
Introducing better cultivation techniques *Increases trade volume and value (more vegetables, more high margin niche crops)* *More year-round income for 250 farmers*	- Facilitate quarantine treatment facility Nature's Way to experiment with new vegetables, varieties and seasons (demonstration plots to test crops and influence farmers) - Facilitate vegetable traders to experiment with new vegetables, varieties and seasons (demonstration plots to test crops and influence farmers)
Better access to agricultural inputs *Better quality, less rejection, higher price* *Higher productivity and income 1,000 – 2,500 farmers*	- Facilitate seed importers and growers to expand their portfolio and engage with government on issues such as testing, multiplication and being able to source from a larger number of countries - Facilitate quarantine treatment facility to source new seed varieties - Facilitate vegetable traders to source new seed varieties - Facilitate chemical inputs companies or retailers to train farmers or expand their product range or product reach where necessary

Agricultural diversification increasingly is going beyond fruits and vegetables to include potatoes, rice, and ginger (next to the beef, sheep and dairy).

Other development programs are also active in this area, including the AusAID-funded Pacific Horticultural & Agricultural Market Access Program (PHAMA); ACIAR Pacific Agribusiness Research for Development Initiative (PARDI); the European Union-funded alternative livelihoods/agricultural diversification program; and a number of programs implemented by the South Pacific Council. The Facility will liaise with the programs to avoid overlaps and coordinate where possible.

The Facility will also seek to align to the work of relevant Ministries.

Finally, there are a number of other AusAID preferences either raised in the Project Design Document or verbally. These include, amongst others, investigating the potential of Virgin Coconut Oil (perhaps relevant for the Outer Islands); handicrafts (women); markets for environmental enterprises; the feasibility of providing follow up to the Fiji Textile Clothing and Footwear Sector Training and Productivity Support Program (an important source of urban and female blue collar employment); working with micro-nurseries (to ensure thee availability of planting material); soil fertility; and replicating successful agricultural models such as Tutu Rural Training Centre.

In general there is a wish to ensure outcomes are relevant for poor and vulnerable groups, in particular women and less developed parts of Fiji. Although Facility will not be able to meet all expectations, it will seek to develop a portfolio of sectors and interventions that maximizes sustainable, effective, and efficient results for a variety of stakeholders in a variety of locations.

The Fiji portfolio will develop over time. The Facility will incorporate as much as possible of what is mentioned above in its initial sector assessment phase. However, where this is not possible or simply becomes too much, follow-up work will be done later in the year. Developing a 'deep insight' into the workings of the economy is not a one-off event, but a continuous learning process.

The Facility will receive quarterly feedback from the Country Steering Committee regarding the relevance of its work.

The drafting of at least <u>two sector growth strategies</u> will conclude the assessment phase. At the same time, the private and public sector stakeholders met during this phase and the data collected should provide a starting point for the commencement of negotiating and designing interventions, and establishing the results measurement system.

If an opportunity arises during the sector assessment, the Facility will not artificially 'wait' until the end of the assessment phase before negotiating an agreement.

Note: Table 1 below details specific steps taken within the sector assessment phase.

3. *Setting up and managing the results measurement system*

Period: November – May 2012

STA required: 0

Training required: Introduction to the DCED guidelines for results measurement, sourced externally for two persons; more training will be needed in time.

Coinciding with assessment phase the Facility should set up the results measurement system. This begins with making sure that during the assessment phase useful baseline data on the sectors are collected, and continues with developing formats for the final sector growth strategies and intervention plans compliant with DCED guidelines. Key strategic discussions on sector choice must be documented to ensure a paper trail in line with DCED guidelines.

Once sectors are selected, missing baseline data is identified collected. Co-currently, interventions will commence and the regular intervention plan-based monitoring and results measurement work starts. The whole 'system' needs to be captured into a proper manual guiding the CIT through the process of results measurement and research.

Two CITs will be sent to an international training program to become more familiar with how to implement the DCED guidelines on results measurement.

4. *Implementation of interventions*

Period: February – June 2012 (five months remaining in year one; continuing in year two)

STA required: ± 30 days

Training required: depending on the sectors chosen there might be a need to send CIT members to national and international seminars, conferences, or trade shows to increase sector knowhow or sector contracts.

During the assessment phase, the Facility will identify opportunities to invest in and perhaps even already start working on turning these into interventions. Once the sector growth strategies are drafted and the conclusions from field are drawn this process will intensify.

The Facility aims to initiative in its first year of operation approximately <u>seven interventions</u>, divided over/in line with two sector growth strategies.

STA will be used for targeted follow up research on a particular sector, where needed.

Figure Five explains the steps during the process for developing and implementing interventions. Each intervention will go through these steps. In some cases, this process proceeds in a straightforward manor, but more often the CIT will have to go back and forth among the steps in order to ensure effective deals with a strategic partner. The process of arriving at a mutually acceptable and effective deal can take less than a month but also can take several months. From February to June (and beyond), the CIT will be fully engaged in this process.

5. *Strategic studies (poverty, gender, etc)*

Period: March – June 2012.

STA required: ± 60 days

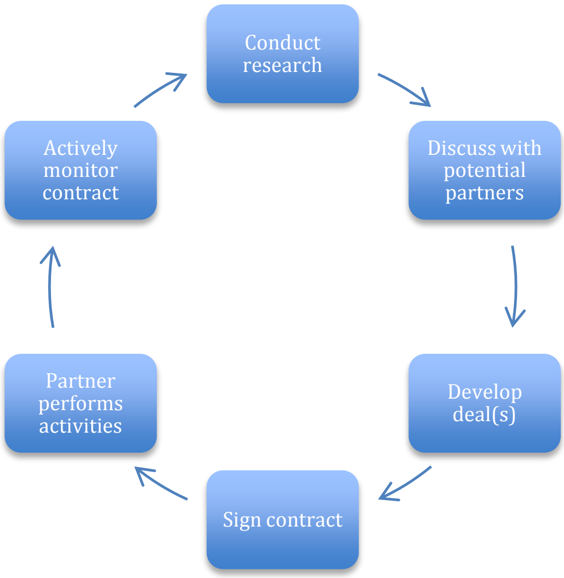
Training required: preferably to be provided in-house, as part of the research efforts; if this is not possible they will be outsourced

When the intervention process is underway the Facility will decide on what additional research is most urgently needed to guide its implementation work. The Facility plans to have two key strategic research efforts (either poverty, or gender, or environment) completed in its first year in operation.

6. *Interact with the Country Steering Committee on a regular basis once established*

The Facility will receive quarterly feedback from the Country Steering Committee regarding the relevance of its work.

Figure 5: Process for Developing and Implementing Interventions



2.3. Second country

A similar approach will be adopted in subsequent MDF countries. Since it is difficult to simultaneously manage recruitment and research efforts in two countries, the Facility's roll out should be staggered, with the Facility being ready mobilize a second country around February 2012, and a third country at the start of its second year.

2.4. More countries

In its current form, the CPT with two technical persons will struggle to backstop more than two countries, as it is unlikely a CIT will mature fast and start working independently or that in-country M4P experienced staff would available.

Table 1: Summary work plan 2011 – 2012

Activity	Completion Date	Completed
The overall Facility		
Fraud prevention strategy	July	√
Security plan	July	√
Risk management plan	July	√
Operations manual for imprest account	August	√
Operations manual	August	√
Corporate identity	September	√
Office established	September	√
Procurement procedures and forms	October	√
Further elaborated strategy for sustainability	October	√
Further elaborated strategy for poverty	October	√
Further elaborated strategy for gender equality and disability	October	√
Further elaborated strategy for environmental and social sustainability	October	√
Log frame and indicators defined	October	√
Write First Annual Strategic Plan	November	√
First mission IAG	November	√
Rethinking CPT structure	December	
Write First Semester Report	December	
Developing procedures and forms for the allocation of the imprest account	January	
Fine tuning management procedures	February	
Write the Second Annual Strategic Plan	March	
Second mission IAG	April	
Results measurement system with staff guide	May	
Communications strategy	June	
Write Second Semester Report	June	
Fiji Islands		
CIT job profiles developed and CIT recruited	September	√
CIT trained in M4P introduction	October	√
CIT trained in introduction to sector analysis methodology	October	√
Collecting secondary data related to poverty and promising sectors	October	√
Meeting key stakeholders in promising sectors	November	√
Post constitutes Fiji Country Steering Committee	November	
Develop detailed sector map	December	
Validate and add depth to finding	January	
Two staff trained on Results Measurement	January	
Write two sector growth strategies	February	
Initial interventions developed	February-June	
Approximately seven interventions initiated	June	
Appropriate strategic, cross-cutting studies	June	
Other Countries	TBD	

3. BUDGET

The Facility will work in different countries. The following gives breakdown of the costs per country.

Fiji Islands

Fiji is the only country for which a budget can be developed. This budget is for a twelve-month period (July 2011 – June 2012). The Fiji budget includes expenditure for the Fiji CIT and the CPT (since the Fiji office is the Facility's HQ).

Table 2: Fiji Islands Budget 2011 - 2012

Item	Amount (AUD)
CIT	**207,900**
Operating cost ▪ Incl. initial office setup, vehicle purchase	**368,435**
Travel ▪ Incl. travel to start work, set up office in other countries	**381,543**
STA ▪ Based on 270 days, see above	**147,000**
Imprest account ▪ Grants out of the Fiji Business Innovation Fund to approximately seven strategic Fijian partners. ▪ Research companies to conduct studies on two key cross-cutting issues ▪ Establishing a website and developing communication materials for the Facility ▪ Baseline surveys in sectors chosen ▪ Training fees for up to six staff to further groom their skills in results measurement and M4P ▪ Venue hire and meeting expenses for preparatory meetings with potential partners ▪ International conference participation and travel for MDF staff.	**212,022**
TOTAL	**1,316,900**

NB: given the fact that the Fiji office is the Facility's headquarter, cost related to the Core Program Team are included in the Fiji operating and travel costs. This means that that travel and operating costs of the Fiji office will always be higher compared to other offices.

Timor

For Timor no realistic budget can be developed at this point in time, since the starting date for activities is unknown. A specific Timor budget will be developed once this is clear. The budget will be within the framework budget as agreed upon between AusAID and Cardno.

Other countries

The first country in which the Facility will become active might be Pakistan. However, no overall budget is given yet. A detailed budget will be developed once the overall budget is and the starting date are known.

ANNEX 1: THE DEVELOPMENT CHALLENGE

Each country and each economy represent specific development challenges, economic dynamics and regulatory environments to which the Facility needs to respond. Since this First Annual Strategic Plan is due before the Facility has been able conduct a detailed, fieldwork-based analysis of each country and economy, the pictures below have to be painted with a broad brush. Part of putting the Facility on the road is filling in these pictures over the year(s) to come.

1.1. Fiji Islands

Although classified as a Lower-Middle-Income Country, with a per capita income of around USD 4,400, and having one of the most developed Pacific island economies, poverty is a persistent and quite widely prevalent feature of Fijian society. Being dependent on imports for many day-to-day necessities—be they foodstuffs, manufactured items or energy—and being faced with high transportation costs, Fiji literally imports a high cost of living and doing business.

Only his high cost level combined with a—compared to this—low level of productivity can explain the high poverty percentages presented below in a country still relatively well off.[1] *In other words, Fiji is less well off than it could be because there is an imbalance between the 'luxury' of importing too much and too expensively, and the 'laziness' of producing too little. Fiji would be rich if its assets, in particular land, would be used more productively, and existing market demand, sometimes for existing products, would utilized better, see more below.*

POVERTY

The 2011 World Banks poverty assessment draws the <u>lower poverty line</u> (covering the cost of food and a basic non-food allowance) at FJD 1,830 / USD 1.032 per capita per year for rural adult and FJD 2,349 / USD 1,325 per capita per year for urban-based adults (based on 2008/9 figures).[2] Whereas the actual cost of living might still be higher—the Cost of Basic Needs approach tends to underestimate these—based on this lower poverty line 35.2% of the population classifies as poor (World Bank 2011).[3] Despite an economy, which is perceived to be sluggish in the wake of the 2006 coup and increased economic insecurity, poverty reduced by 4.6% over the last six years, from 39.8%, based on 2002/3 figures.

More interesting than the aggregate figure is the geographical and economic-occupational spread of poverty and the recent trends therein, as this tells the story of what is happening in the Fijian economy, the story to which the Facility needs to respond. It should be noted that the <u>incidence of poverty (poverty head count ratio)</u>, i.e., the ratio of the poor on the total population of a given area, can be seen as a measure of that area's economic (under-) development. The <u>poverty head count</u>, i.e., the absolute number of poor in a given area, indicates where the poor are concentrated. Both are relevant for determining where the Facility should aim to be effective, but the final choice will also depend on where growth opportunities can be found that can be unlocked.

- Fiji's Northern Division, comprising of Vanua Levu and Taveuni, has the highest incidence of poverty with 54% of the population living below the poverty line. Second is the Western

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[1] Another explanation would be extreme inequality, i.e., 'the country is rich but the people are poor', but that does not seem to be the case. Another explanation would be that the data are incorrect and grossly overestimate poverty. This cannot be ruled out. However, for the moment the Facility's thinking is based on the picture presented here.

[2] This means FJD 5 or USD 2.82 per capita per day for rural adults and FJD 6.43 or USD 3.63 per capita per day for urban adults.

[3] Note that the lower poverty line represents a very strict definition of poverty, as it is only based on the cost of a basic diet and a minimal non-food allowance (for basic non-food needs). A more realistic poverty line is the <u>upper poverty line</u>, which is based on the same Cost of Basic Needs Approach, but allows for a higher non-food allowance, factoring in the need for education, basic medical care, *etcetera*. The implication is that the poverty picture presented in the World Bank report might actually <u>underestimate</u> the prevalence of poverty in Fiji. In this light it is important to note that the World Bank report notes that a 20% increase in the poverty line would push up poverty to 58%: a considerable number of Fijians are just getting by.

Division, comprising of Western Viti Levu and smaller island groups off the coast, with 40%.

These two divisions form the sugarcane heartland, once an important engine of the Fijian economy, providing livelihoods to roughly one-third of its population, mainly Indian-Fijians, but now crumbling under the combined weight of low margins (the loss of preferential access to the EU market, poor industry management, poor yields) and expiring land leases (with experienced farmers losing their land).

Especially Vanua Levu suffers from a little diversified economy and is heavily dependent on sugarcane farming and subsistence-oriented root crop farming (dalo, cassava, yagona). Western Viti Levu's western edge has the advantage that it harbors the bulk of Fiji's tourist resorts and Fiji's most developed commercial agricultural zone, the Sigatoka Valley—both growing and increasingly important sectors for Fiji's economy.

At the same time, the rural areas in the Northern Division show the biggest drop in rural poverty (5.6 percent point, followed by the rural areas in the Western Division (2.6 percent point), with other rural being stable or seeing increases. For the Western Division could be explained by the factors mentioned above. For Northern Division, however, this is more complex. The urban areas in the Northern Division are the only urban areas showing show no drop in poverty, whereas urban areas in the rest of the country show considerable drops (Central/Eastern and Western both 9 percent point). This points towards substantial rural-urban migration.

- The Eastern Division, comprising of several smaller 'outer' island groups, has a less high incidence of poverty between with 33% of the population living below the poverty line.

  The outer islands scenario probably represents well what is labeled 'affluent subsistence', the fact that the I-Taukei, the indigenous-Fijian population, have access to abundant natural resources such as land, proximity to the sea, to meet most basic subsistence needs - dalo, cassava, kava, fish, pork, etcetera - but have limited access to economic opportunities beyond this.

  Roughly a similar scenario would apply to the interior of Viti Levu and the southern half of Vanua Levu, although the incidence of poverty tends to vary substantially between provinces and tikinas (districts), see below.

  The Eastern Division overall shows the smallest drop in poverty of all Divisions (2 percent point; the rural areas of the Eastern Division and the Central Division show increase in poverty (2.8 percent point each).

- The Central Division, comprising of Eastern Viti Levu, including Suva, is Fiji's least poor division with only 23% of the population living below the poverty line.

  Overall urban areas have seen a considerable eight percent point drop in poverty from 35% in 2002/3 to 26% 2008/9, whereas rural areas remained stagnant at 44%, most likely heavily influenced by the factors mentioned above: the decline in sugar cane, expiring land leases and continuous limited access to economic opportunities.

  In relation to this, whereas urban areas have seen a considerable increase in output (especially services), agricultural output declined. This proves the premises on which the Facility is founded: the strong relation between economic growth and poverty reduction: "the sub-national poverty trends mirror... patterns of economic growth" (World Bank, 2011, p.1). The reason that the rural contraction did not result into an increase in rural poverty probably simply is that poor, landless farmers are moving towards the city: the urban areas absorb rural poverty: most of the decline in poverty was largely driven by the growth of non-agricultural sectors in urban areas" (Ibid).

- The poverty head count adds more focus to the picture and is useful to get a better idea of the dimensions, how many poor does the Facility need to reach to make a difference:

  The Western Division, being populous and poor, accounts for an estimated 42% (121,190) of all poor in Fiji (estimated at 286,947). The Central Division, being the least poor but the most populous, follows with an estimated 27% (75,812). The Northern Division, despite being much less populous, has virtually the same number of poor (estimated at 75,337) and accounts for 26%.

The Eastern Division has the lowest number of poor (estimated at 14,559) and accounts for only 5%.

- Zooming in to provincial and *tikina* (district) level shows even more clearly where poverty is concentrated:

  Ba Province in the Western Division, in the heart of Viti Levu's sugarcane belt, accounts for an estimated 29% (83,579) of all poor in Fiji. Naitasiri Province, being the 'spillover' area around Suva in the Central Division, accounts for an estimated 13% (38,665). Macuata Province in the Northern Division, in the heart of Vanua Levu's sugarcane belt, accounts for an estimated 12% (35,181). The provinces coming after this are Cakaudrove (26,470, 9%) and Nadroga/Navosa (23,054, 6%)—see Figures Six and Seven.

Figure 6: Incidence of Poverty per Province in Fiji (head count ratio) (World Bank 2011)

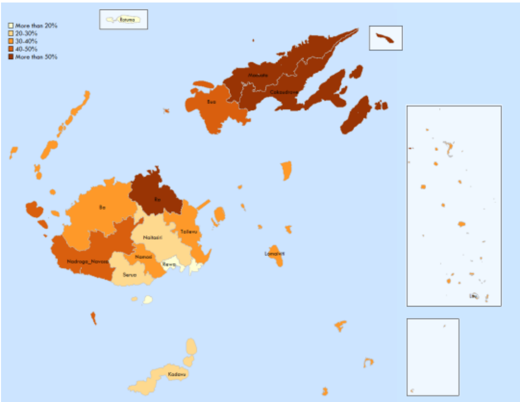
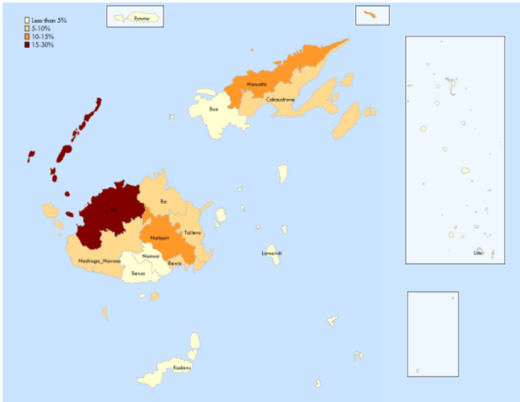


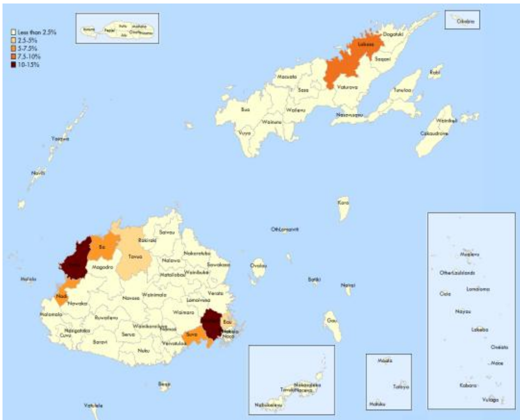
Figure 7: Poverty Head count per Province in Fiji (World Bank 2011)



At *tikina* (district) level the concentration of poverty is even more pronounced. The picture of the incidence of poverty at *tikina* level is in line the picture at provincial level; the head count poverty picture, however, illustrates even more clearly how much the poor are concentrated in three 'pockets': the area around Labasa in the heart of the Vanua Levu sugarcane belt, the area around Lautoka and Nadi in the heart of Viti Levu sugarcane belt, and the Suva urban agglomeration (see Figure Eight).

However, it should be noted that the Facility will not necessarily work in the pockets were poverty is concentrated: it is about connecting the poor the opportunities for growth, where these opportunities are most feasible.

Figure 8: Poverty Head count per *Tikina* in Fiji (World Bank 2011)



- Finally, it is important to note that poverty levels are virtually the same for Indian-Fijians and I-Taukei, with poverty among the latter about being 3.4 percent point higher.
- Female-headed households are not poorer than male-headed households.

Poverty research is inherently difficult and hence one needs to be careful in drawing conclusions, but the following picture emerges:

- Poverty is concentrated in the economic heartland of Fiji, its main population and economic centers and is more a function of the decline in established economic activities—the sugar cane belt mentioned above, but also for instance the decline in textiles and footwear manufacturing as a source of mass employment around Suva— than of issues related to isolation and lack of access per se (this would have given a different picture with a more pronounced 'peripheral' poverty pattern).

Thus, whereas isolation and lack of access are important factors, especially for understanding the situation on the outer islands, Vanua Levu and the interior of Viti Levu, the issues around access to land (expiring leases), lack of agricultural alternatives for sugarcane farmers, and the lack of alternatives for urban (semi) unskilled labor seem the more determining factors when it comes to the volume and dept of poverty in Fiji.

- Poverty mainly has rural causes, but with urban consequences. Agriculture provides employment to a little of over one-third of the population, but its share in the GDP shrank from 16% in 2002 to 14% in 2009. Services, tourism, utilities, construction and finance were the main areas of growth during the same period—all urban-based activities.

  Thus, whereas the rural areas produce poverty, the urban areas are partially able to absorb and converse this poverty into something better, probably in a way that only an urban economy can, namely in the form of creating jobs that were never there before, ranging from yoga instructor to cappuccino maker to part-time model and designer. Poverty rates in urban areas are dropping, but at the same time squatter settlements around the urban areas are among the poorest areas in the country (from 38% in the Central Division going up to 47% in the Western Division and 53% in the Northern Division).

Economic Constraints

The reasons why Fiji faces this situation are quite understandable from a historical point of view. Fiji 'inherited' an almost colonial, and to a degree artificial economy, whereby an export-oriented, commodity-based industry, and to a lesser extent an export-oriented manufacturing industry, were 'planted' op top of a subsistence-oriented farming and fishing economy. Abundant natural resources were made productive by a largely 'imported' work force. While it worked, Fiji did well. However, now that the ties with the traditional export markets have weakened, these sectors are struggling. In addition to this, the institutional arrangements governing this system have proven to be beyond their expiry date.

Fiji in a sense is a fairly young and still little diversified economy that now has to go through a <u>transition phase</u> to build an economic base less dependent on historical ties and more grounded in where its true competitive advantage really lies. The emergence of tourism and the success of 'Fijian' brands such as Fiji Water are signs of this re-orientation.

Fiji is a place where ginger growers turn millionaires, where people who start off mowing lawns end up owning hardware retail chains─one can really 'make it' in Fiji; but it is also a place where land adjacent to the main economic corridor lies unutilized (or has some sheep on it); where the price difference between vegetables sold along the road and in supermarket is fifteen-fold (and factoring in the quality difference even more, for a distance that can be crossed by foot); where very few people can easily afford genuine car spare parts, but no one makes local parts; and where most souvenirs for tourists are imported from Asia. In general, one is welcomed to Fiji with the stories of the big business deals that never came through, the land that before were used for this or that, but now lies idle, and the unpleasantly high occurrence of theft and home invasions by those who feel entitled to doing so.

Both the self-made millionaires and the underutilized lands, the undersupply and the price gaps point towards the same phenomenon, <u>weak markets</u>, where demand and supply struggle to meet; and it is because markets are so weak that those who find a solution to 'crack' them become so rich so quickly. Weak markets hold tremendous opportunities, because demand is unmet and margins are high. To conclude that there are no opportunities in Fiji is absolutely wrong; but it is absolutely right that to say that unlocking them is apparently not easy.

Similar to many other countries, market demand is not the issue in Fiji—markets are there; it is about how to tap into them and utilize the opportunities they offer.

There are established ideas on why doing business in the Pacific is so difficult, often referring to land (entitlements), geography (transport cost, supply time) and to the fact that an 'entrepreneurial culture' is missing. All this is true, to a degree, but perhaps should be interpreted in a less absolute manner than is usually done. Entrepreneurs are not born; they are nurtured in time in an environment with real role models, sufficient stability, real opportunities with sufficiently low thresholds, and no easy alternatives. Business solutions to overcome obstacles, costs and risks are developed in time. The institutional arrangements (e.g., the transferability of land titles) that shape the business-enabling environment are fine-tuned in time. Economies, business and competitiveness develop in time.

- In Fiji it is not the Facility's task to turn every dweller in the settlements in to an entrepreneur or to make every landowner a commercial farmer. There should be recognition of the fact that a culture with strong communal practices that could be (nearly) self-sufficient due to its access to natural resources does not turn overnight a society based on individual entitlements and exchange as a means to make a living. This is a process of generations. However, social systems are never as 'binary' as technical ones. Even where communal ownership seems dominant, there will be institutional arrangements for more private ownership; even where collective action seems prevalent, there will be room for individual activities; and even where the general orientation is towards subsistence, there will be always some interest in trade, albeit perhaps not at the pace the market would like to see.
- It is also not the Facility's task to stimulate business development build on weak fundamentals, either because some of the underlying constraints cannot be addressed (e.g., secure access to land) or potential beneficiaries cannot meet market requirements (in terms of volume, quality, consistency).
- Instead, in Fiji it is the task of the Facility to identify what works and what could work better, the potentially real entrepreneurs and the potentially really feasible business solutions and the institutional arrangements that can open up or grow sectors, if a stepping-stone is provided. It is about partnering with those actors in sectors where continued growth is feasible and relevant for those in need of jobs and income. It is about making a critical distinction between real reasons for business or market failure and 'ghost stories', between problems the Facility can help solve and those it cannot, and between 'it would have been nice if…' and real growth opportunities—and in this way help shape and deepen Fiji's new economic base, founded on a 'deep insight' into that economy.

When going through the process of identifying the real opportunities, entrepreneurs, and business solutions in Fiji, the following 'key issues' will need to be taken into consideration:

- *Opportunities can only take root where entitlements to land and assets, and the proceeds of these, are secure.* Entrepreneurs of all walks of life—foreign and domestic, I-Taukei and Indian-Fijian—will invest there where the fruits of their labor are most guaranteed. Sharing of proceeds does not need to be a problem if deemed sufficiently fair and predictable; and the institutional arrangements managing this can vary from full landownership to formal lease agreements to more informal agreements—as long as they provide real security. However, collective bodies are typically poor entrepreneurs.
- *Opportunities can only take root where supply behavior is in balance with market demand.* Different economic actors have different economic priorities and strategies, ranging from fully commercial specialization to near self-sufficient selling of surplus only, but in nearly all cases, unless there exists a state of autarky, markets do play a role in livelihood strategies. Also, less market exposure does not necessarily mean less significance: a semi-commercial farmer might exchange less on the market than a fully commercial one, but if the proceeds earned from this pay for education and medical bills, they are still essential to the household's overall wellbeing. Market development is not about forcing more market onto those who do not need it, but to create opportunities for those who are in search of them—in whatever form that is in agreement with

their overall livelihood strategy.

- Opportunities can only take root where market coordination, the supply of goods to the market, can be done in a sufficiently efficient manner. The thinner markets are in terms of volume, and the more costly the distance that needs to be covered, the easier markets break down, and the more market information (transparency) is needed as well as proper wholesaling, storage and retailing channels to make markets work.
- Opportunities can only take root where opportunities are known and understood, where there is access to information on opportunities and best practices to capture them. In an economy in transition, with old sectors going down and new ones coming up, the absence of information and models for 'how it ought to be done' may be a serious impediment.
- *Opportunities can only take root where sufficiently capital is available to finance next steps*. Most business innovation is typically funded from within the enterprise. Where funds are insufficient fund seekers need to be known to capital providers—not necessarily bansks!—and the latter also need to be able to weigh the opportunity against the innovation risk. Where relations are weak this unlikely to happen.

OPPORTUNITIES

The 2008 Scoping Mission identified a number of new or potential growth engines, areas potentially rich in opportunities that could determine the shape of Fiji's new economic base:

1. Fiji's pure, untouched paradisiacal image, which provides a very strong basis for the branding a variety of products and services ('untouched' water, 'pure' cosmetics, 'exotic' spices, organic agriculture, tourism, *etcetera*).
2. Fiji being a suitable holiday location for tourists from Australia and New Zealand to catch the 'winter sun', and in the future perhaps increasingly also for Asian (e.g., Chinese) holiday seekers, which creates a local demand for all kinds of inputs and services (fresh produce, trained manpower, materials and maintenance).
3. More diversified agricultural production for export, based on to the same difference in season that attracts tourists (the 'winter window'), but also for high quality organic agriculture (building again on the Fiji brand), and the demand from Fijians overseas.
4. More diversified agricultural production for the domestic market based 'new' demand from the tourism industry and efficient import substitution.
5. The growing demand for 'urban' services related to urbanization, especially the growth of the Suva urban agglomeration.
6. Fiji as a hub, a 'central place' in the Pacific, e.g, for services and the fishing industry.
7. Left out during the scoping mission but should have been included, the 24-hours time difference with Europe which, in combination with good command of English, creates favorable conditions for outsourcing of back office functions.
8. Finally, a relatively cheap production base for niche products. Fiji cannot compete with China when it comes to bulk production, but can offer better value for money for smaller-batch, more specialized production - this forms the basis for the survival of the remaining industries in the textiles and footwear cluster.

Opportunities are there, where the constraints and issues discussed above can be overcome.

Note that the Facility cannot simply continue where the 2008 scoping mission left off. Three years is a long time in a changing economy. For instance, there are signs of new initiatives in the tourism industry in terms of the supply of fresh produce and skilled labor, that indicate that the scoping mission was perhaps on the right track, but also that some of the 'low hanging fruit' has been plucked since then.

Thus, the Facility's task should be to support Fiji's economic transition as described above:

- By stimulating the diversification of the rural and urban economy away from the traditional 'inherited' export sectors.
- By unlocking the growth potential of emerging sectors with true international competitive advantage (small economies need exports; these are the bigger sectors).
- By unlocking the growth potential of emerging sectors with import substitution potential (these will smaller as the local market is small; their relevance lies in bringing down local cost of living and doing business, increasing international competitiveness).
- By addressing or circumventing the key issues listed above for Fiji overall and the specific key constraints identified per sector.

More details will be provided in the sector growth strategies drafted upon completion of the analysis.

1.2. Timor Leste

The discussion on Timor Leste needs to be short at this point in time. Timor Leste represents a scenario that in some respects is very different from the Fijian scenario, but there are also striking similarities.

Timor Leste is a Low-Income Country, with an average capita income of USD 569 per capita per day (in 2008), and ranking 120 (out of 169 countries) in the 2010 Human Development Index. Coming from a very low base, it is now catching up with the rest of the Asia-Pacific region.

Still, the overwhelming majority of its population, perhaps as much as 80%, is dependent on subsistence-oriented agriculture; and yields for most crops are very low. Farmers are just moving in sedentary agriculture (away from shifting cultivation); their knowledge of agricultural practices and the use of inputs is rudimentary. The distribution channels through which these inputs should be made available are virtually absent; where they exist they are side-businesses of retailers more knowledgeable about shampoo and batteries. The agricultural extension service was recently revamped and expanded, but the quality of its officers is a question mark. Government funds pouring in from oil revenues seem to be used for heavy-handed 'one-off' show case hand outs such as tractors, instead of for developing sustainable, market-based mechanisms. Road access is an issue in parts of the country. In general there seems to be little in the form of rural value-added processing (see also the 2008 scoping mission report).

At the same time, Timor Leste seems well integrated in the Indonesian Archipelago's trade networks. Indonesian traders come to source soybean, peanuts, candlenut, and beef cattle. These are all growing sectors—some perhaps more promising than others, this is what needs to come out from the analysis—but overall this means that Timor Leste does not necessarily need to diversify into new crops or focus too much on local value-added processing right now. For most of its farmers the essential next step that would make a lot of difference is to increase productivity—get higher returns for their labor, from their land. This applies to both cash crops and food crops. For instance, the productivity of an important staple such as maize is seriously hampered by a problem as controllable as weeds—*if* machinery to 'deep-plough' the land would or herbicides would be available.

In addition to this, there might be some room for agricultural diversification, for instance in rice cultivation and horticulture, to meet local market demand. However, given the weak state of agriculture in Timor Leste, small steps forward in existing crops seem more feasible then stepping into new crops, because the steps involved in the latter will always be bigger and more complex.

Weak market systems offer challenging circumstances, but also easy gains—if the right next, manageable, affordable, applicable, small steps are identified. This is likely to be the Facility's task in agriculture in Timor Leste:

1. Identify growing agricultural sectors, either for export for domestic food security.
2. Identify feasible next steps in these sectors, given the weak nature of market systems, with a

likely focus on increasing productivity.

3. Identify business models, working perhaps with very small businesses, which allow inputs, services and information to penetrate thin, scattered markets and reach badly informed customers.

The urban scenario bears more similarities with Fiji—the picture of a little diversified urban economy, heavily dependent on imported goods, in which young, less educated people struggle to find a job, because virtually the only thing that is going on, except for government and professional business services (banking, *etcetera*), is trading and retailing. Lacking a real manufacturing base, sizeable numbers of jobs can only be found in the security services industry, construction and maintenance-related services. However, even in the latter two categories these opportunities cannot be fully utilized because of a lack of locally available skills. There is a veritable cottage industry of Non Governmental Organizations (NGOs) giving short technical skill courses, but the business owners complain these are not good enough to create truly employable workers.

As is the case with Fiji, the picture described here makes sense from an historic point of view. Timor Leste's farmers are still settling into a new, sedentary way of agriculture so very different from 'depleting the land and moving on'. Dili is still settling into being a capital rather than being a provincial town as it was in the Indonesian era. Again, Timor in that sense is a very young economy, albeit one with very old colonial roots. In time a rural infrastructure, both physical and institutional, needs to emerge that can support more productive, more rewarding agriculture. In time also, a more diversified urban economy will emerge, driven either by increasing domestic demand (from better-off farmers, the oil boom or tourism perhaps) or by the emergence of export-led production. Also here, what is essential is to identity suitable next steps and niches for local (and international) businesses to venture into.

This means that the Facility's task in urban Timor Leste is to:

1. Identify and strengthen the growth capacity of emerging urban sectors of the economy, for instance by supporting the emergence of sustainable mechanisms for supplying essential inputs such as skills. This could take the form of working with small businesses that could tap into these niches.
2. Identify niches for the diversification of the urban economy, by attracting foreign businesses *or* working with local ones—which means they could be very big in size, possibly also very small an nascent—to set up local ventures that help reduce import dependence and create local employment. Manufacturing for export could be considered, but requires investigation.

Given its challenging business enabling environment, in Timor Leste it is the task of the Facility to identify feasible (small) next steps forward, identify concrete market niches, and to make business (models) work—this is the key to real results, not unrealistic expectations of massive scale, sector-wide change or a dramatic economic upsurge.

More detail will be provided in sector growth strategies drafted upon completion of the analysis.

1.3. Other Countries

When other countries join the Facility, for each country a separate assessment will be done. Each newly formed Country Implementation Team will walk through the process as outlined in Section 4.3

Effective development practice is about learning. Societies and economies are complex and cannot be understood by studying them from the outside. This means that the Facility's insight will deepen in time as it starts to work in these economies. As this happens, the this chapter will be updated.

ANNEX. 2: DEVELOPMENT PRINCIPLES AND APPROACH IN RESPONDING

2.1. Too often...

Intervening in societies and economies to create lasting change that benefits those who are poor or underprivileged is a complex and often underestimated process, and much of the recent debate on aid effectiveness finds its cause in a genuine lack of understanding of what good development practice is about.

- *Too often development assistance is equated with charity or social care, giving something to someone in need (or at least perceived to be in need).* While there are situations in which this is fully justified—extreme circumstance such as the threat of starvation, disasters, war, or where persons have hit rock bottom, being left without assets, without skills, without any real opportunity to create a livelihood—in many other situation donations can be dehabilitating; they can make dependent, and potentially can destroy functional institutional mechanisms (this is the myth of giving is good).
- *Too often socio-economic reality is oversimplified, in the sense that too little distinction is made between the extreme poor, in need of our help, and the entrepreneurial poor busy building a livelihood and on the way to work themselves out of poverty*. These entrepreneurial poor possess (some) assets and skills; what they need is an environment around them that enables them to utilize these assets in a more productive, more rewarding, less costly, and less risky manner, and improve their skills where necessary to make this happen. Of course this differs from country to country and region to region, but whereas the general perception is that most poor are in need of our help, in reality most poor can help themselves, are entrepreneurial, are moving up, and will be able to do so faster and more efficiently, with less incidences of losing it all again and less falling back into poverty, if the world around them starts to work better. More often then not the rock bottom poor are the exception rather than the rule (this is the myth of the needy poor).
- Too often socio-economic reality is also oversimplified in the sense that there is a belief that the world around the poor is 'empty'; there are no intermediary institutions or delivery mechanisms for basic (productive) needs to build on, and those that are there are either dysfunctional or exploitative. In reality economies, and in particular the so-called simple 'under-developed' ones, are often very complex, with many different layers of economic activity, organized by many players—often more than initially can be gauged. If something is profitable and makes sense to do, more often than not someone has turned it into a business; and more often than not where such a business fails to deliver a good product or a good service to the poor, this is caused by 'managerial-technical' capacity-related issues—issues with production, issues with distribution, issues with the business model to keep business profitable—or unawareness about the potential of opportunities missed, but not by malicious intent or the result of uneven power relations (the myth of the bad middleman). The world around the poor should not be ignored or bypassed but can be made to work better.
- *Too often also project design is simplified as a result of this oversimplified view of socio-economic reality.* Without fully appreciating the complexity and dynamics of the world around the poor it is easy to reduce the design of a project that lasts for years and costs millions to a one or two month design phase implemented by a flown-in consultant touring the area and producing a set of pre-programmed activities. Without a real understanding of what are the problems of the poor in terms of building a livelihood and working themselves out of poverty, and without properly understanding what does not work in the world around the poor and why, it is easy to 'pick' a single development tool such as group formation or micro-finance and to 'pick' a institution or agency for capacity development and leave it at that (the reality that if you have a hammer every problem looks like a nail).
- *Too often the effective results measurement is missing to show what worked, what did not and*

why, so we don't learn...

- *Too often, therefore, development assistance takes the form of a too simple 'one size fits all' approach that unloads a predefined (sometimes desk-defined, sometimes politically defined) and pre-planned solution, rolled out over the beneficiaries heads onto this complex and dynamic socio-economic reality; generous grants help everyone join in; those who don't are called 'conservative', 'resistant to change', or 'risk adverse' and need to be 'motivated'.*

As a result there is a debate on aid effectiveness...

2.2. Making Markets Work for the Poor

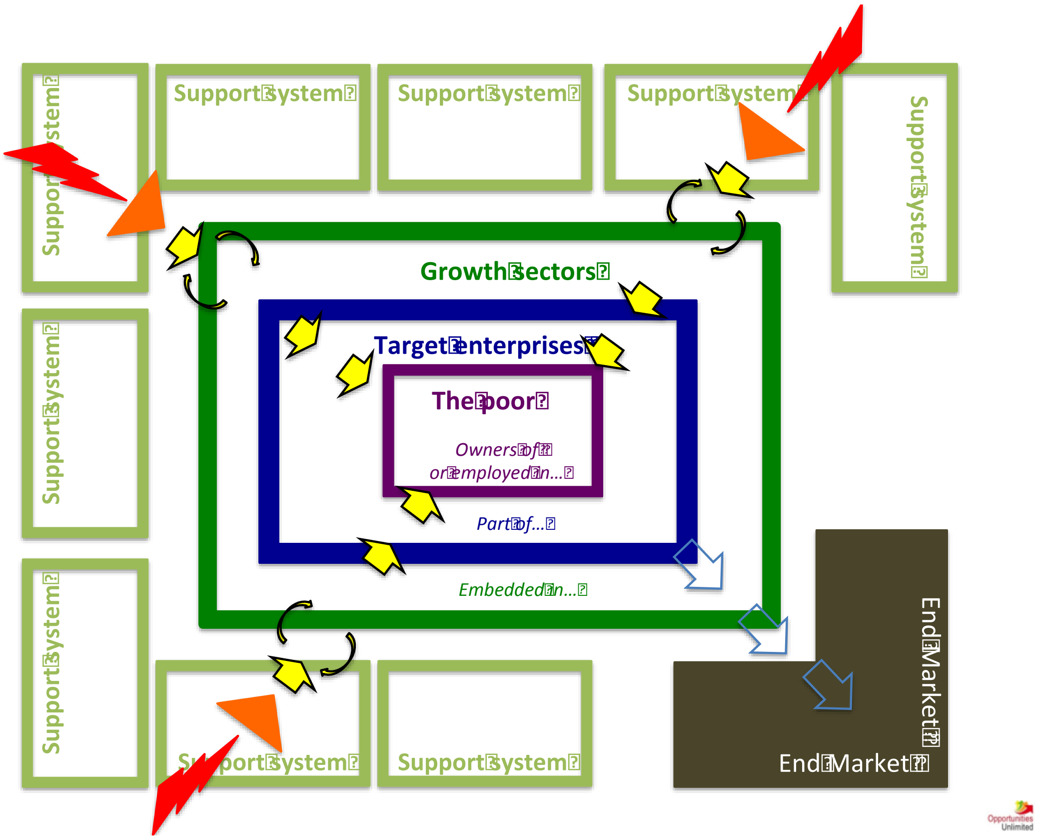
The Making Market Work for the Poor (M4P) approach basically turns this aid delivery process around: it is not about the rolling out of pre-programmed, pre-defined solutions and pre-set pace, but about searching, a predefined process of analysis, identification to arrive at flexible, tailor-made, commercially or politically viable solutions, implemented by the most self-motivated, most capable, most strategic private and public sector players, at their pace, building on their capacity and incentives, while addressing their specific shortcomings.

Figure Nine provides a strategic framework for this approach. The poor—or any other target beneficiary, a social group, a growth sector, a region—are put in the middle. Around the target beneficiary, on the basis of analysis, their world is constructed, the support systems (here in light green) on which they depend for being competitive and being able to tap into end markets, where they sell and their income is earned (here in brown). Also on the basis of analysis it is determined which of these support systems does not service the target beneficiary well, causing a key (growth) constraint (here the support systems with a results chain drawn in). Again on the basis of analysis it is determined who is best positioned within the support system (or in a support system to this support system) to improve service delivery and hence contribute to reducing the key constraint. If negotiations work out well, this becomes a strategic partner for a facilitator like the Facility for an intervention (here the red flash and the orange triangle at the base of the results chain). Finally, to be sustainable and effective, another market, a support market—the market between the support system and the target beneficiary—needs to start work better to improve service delivery (here the two yellow rounded arrows). Again, analysis AND local insight from the strategic partner will determine how the innovative, commercially sustainable solution will look like to make this market work and create systemic change.

Thus, when compared to the approach to development described above, M4P is more like 'precision engineering' for lasting pro-poor change: specific activities with specific partners resulting in specific outputs (triggers in support systems: capacities, business models, regulatory processes, linkages, products, services, policy papers), resulting in specific outcomes (uptake by the target enterprises: the response, acceptance, transaction, purchase following these), resulting in specific improvements for target enterprises (higher productivity, additional sales or market share, more innovation), resulting in specific pro-poor impact (additional income, additional jobs)—instead of mass awareness, mass training, and long-term capacity building without being clear on how this leads to ultimately achieving higher-level development goals (see Figure Nine, see also Figure One).

M4P is a not a neo-liberal approach that embraces markets versus governments—it is about 'appropriate roles for appropriate players'—but it does want to challenge conventional perceptions of the poor and the world around them, and it does believe that building on the capacity and incentives of local players and their insight into how the world around the poor works to find local solutions to make it work better, in many cases generates more lasting pro-poor change than the blue-print approach described above.

Figure 9: A Strategic Framework for the Making Markets Work for the Poor Approach



M4P is about:

1. Reaching the target beneficiaries, the poor <u>indirectly</u>, by improving the functioning of the world around them, i.e., by creating systemic changes, rather than bypassing this world through artificial, subsidized and typically not lasting aid delivery channels.

2. Identifying concrete, feasible, <u>incremental change</u> steps for target beneficiaries to invest in, rather than propagating 'grand' visions. These change steps should be related to real essential <u>key constraints</u>, so that target beneficiaries will have a real willingness, a real incentive to invest in a solution.

   Who will react to those change steps is determined by self-selection rather than 'we have to motivate our stakeholders to…'. It is the responsibility of the Facility to identify critical and feasible change steps and make sure these reach target beneficiaries through the system; it is the responsibility of target beneficiaries to decide for themselves if they wish to react to these.

3. Building on the local insight, capacity and incentives of existing private and public sector players and grasping the opportunities they offer to develop tailor-made innovative, commercially (or politically) sustainable solutions to address key constraints in such a way that overall system resilience increases (ability to deal with future changes, increases in demand, *etcetera*) and target beneficiaries really benefit.

   Again, which private or public sector players will take part in this is driven by self-selection, who is most willing and ready for change, offering the best deal to the Facility.

4. Packaged in strategic interventions with a clear sight on impact, comprising of by a <u>comprehensive time-bound set of activities</u>, supported by <u>concrete deal</u>, defining light-touch support based on <u>cost sharing</u> to avoid donor dependence and including an '<u>exit strategy form the start</u>' for the facilitator.

While implementing the M4P approach the Facility will categorically uphold the following four principles defining good development practice: sustainability, effectiveness, efficiency and neutrality (see Figure Ten). Also, although indirect in nature, the M4P approach can also be relevant for contributing to social and environmental needs, albeit in a particular manner.

2.3. Sustainability

Lasting change is the only acceptable outcome of development assistance, but one that is not easy to generate.

Lasting change is <u>not</u> about giving a farmer seeds and, if he carefully preserves seeds after each harvest, he can work of the same stock for at least five years before it gets old, because what happens after five years, and what happens if long before the crop ceases to be profitable to grow and he actually needs to switch crop (and seeds)? Instead, lasting change is about giving the farmer access to a continuous supply of seeds that changes and is improved in reaction to changing circumstances (crop demand, variety demand, soil conditions, diseases, climate)—without donor support being continuous.

- Lasting change rarely can be achieved at the individual/community (micro) level, because that would presuppose that at this micro-level, e.g., the farmer level, all the information, skills and resources are available to respond to changes of any kind. Such an autarkic view on reality is not realistic.
- Lasting change can be achieved through macro-level policy reform, if the policy drafting institution is well informed about what is needed and is able to translate this in to effective policy. However, macro-level framework conditions in themselves are often not enough to trigger change: a good export policy is a healthy precondition for stimulating exports, but does not turn every producer into a successful exporter if they do not know how to produce at international quality standards for instance.
- *Lasting change is therefore often about meso-level institutional changes in capacities, practices, techniques and models applied within organizations, or exchanged in relations between organizations, so as to be able to continuously improve the output of goods and services and inform, supply and influence the target recipients of those goods and services. This then results in better-networked, more dynamic and innovative, more resilient social systems (economies, sectors) with more intensive levels of interaction and integration between the various parts of the system. <u>Systemic change</u> is therefore less about 'system-wide' change per se, but more about the <u>strategic and continuous</u> nature of change in relation the challenges faced by the system. M4P can work on macro-level systemic framework changes but often needs to focus on meso-level systemic institutional changes.*

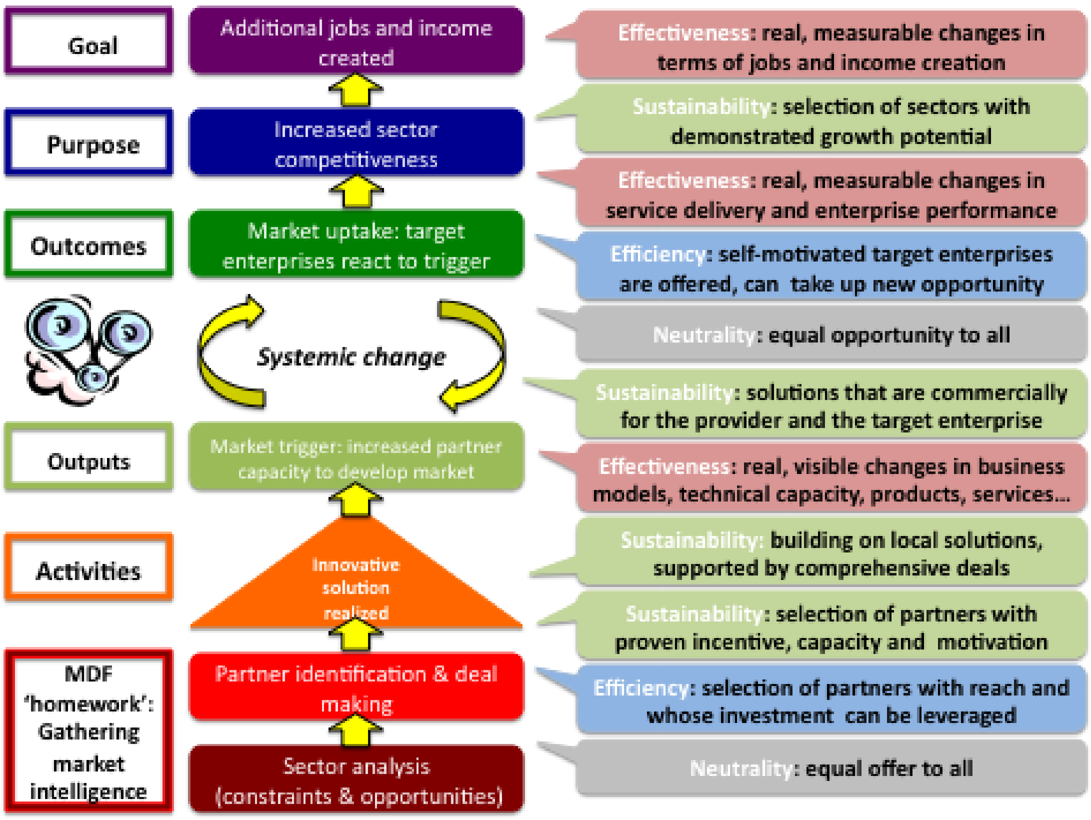
Considerations to ensure sustainability and continuous systemic change are at the core of every step in the Facility's implementation process (see also Figure Twelve):

1. The Facility will <u>select sectors of the economy with clear growth potential</u>, in which target enterprises—owned by or employing target beneficiaries, the poor and underprivileged—have the room to grow and in which their business set up (size, location, skill-level, product range) is appropriate and in principle competitive.

   Growth sectors, in which demand outstrips supply, and in which margins are relatively higher, provide incentives for innovation and investment to ‘occupy’ space; saturated sectors, in which supply meets demand, and margins are relatively smaller, additional growth needs to be 'conquered' at the expense of someone else, provide incentives for some to upscale up and become more efficient, and for many others to disinvestment and drop out.

   Growth sectors are typically younger sectors that face 'growing pains': the demand is there, but the skills are not available, or essential inputs are not available, or inputs are available but no one knows how to use them, etcetera. This in turn influences the productivity of the sector (lower than needed) and the growth speed of the sector (slower than needed). Growth sectors hence typically

Figure 10: Sustainability, Effectiveness, Efficiency and Neutrality in the Facility's Impact Logic



offer clear room for improvement and innovation; mature sectors can force small producers into a low-cost, low quality, low margin corner from which it is difficult to escape.

Too often private sector development is geared towards saving the poor in these 'sunset' sectors, fighting an uphill battle, whereas growth sectors can really offer enterprises a medium term horizon of sustained growth; this together with the growing pains mentioned and the room for improvement justify development assistance.

Picking the right sectors to work in increases the likeness of finding the right partners to work with and producing lasting pro-poor impact.

2. In these growth sectors, the Facility will <u>select the most self-motivated, most capable, most strategic private and public sector players to partner with</u>—those who have the clearest incentive, and need to make smallest change step, and hence need the smallest development 'push' to create the most sustainable pro-poor outcomes.

   Motivation shows in ownership over the process of change and innovation that triggers the systemic change that in turn enables targets enterprises to be more productive and grow. Ownership in turns must translate in the commitment to invest time, energy and resources into this process, including where possible substantial financial resources.

   Capability shows in being (largely) able to manage and drive this change process, with the Facility only needing to contribute specific inputs to the process.

   Strategic positioning shows in being able to influence large number of target enterprises and being a source of continuous good management and innovation to wither future problems.

   Incentives show in the form of a clear-cut business case supporting each change and innovation process that a partner invests in. If these investments make commercial sense—or, in the context of public administration, make political sense or relate to policy goals—it is more likely that change will last.

The Facility will not work with every player in a given sector but only with those really committed and capable. This means that potential partners help select themselves: if they show themselves to be really committed and capable, they might be in; if they don't, the Facility will not offer more support; on the contrary, they will be out.

The Facility will prefer to build on the ideas, pilots, and the (kernels of) solutions developed by local partners to address a key constraint. The smaller the change step, the more likely it is that the partner can manage this solution without additional support. The more locally informed the solution, the more likely it is that it will work in the local context.

Picking the right strategic partner, the right entry point to influence the sector, and the right commercially sensible, 'homegrown' business model increase the likeness of systemic change and lasting pro-poor impact.

3. With these strategic partners the Facility will negotiate a comprehensive deal around how to go about implementing change steps to do things differently (innovate) and arrive at a commercially/politically sustainable solution to the problem at hand. This deal is time-bound, defines each step, and defines the responsibilities in terms of who does what and who pays for what per step. This means that from the start of the intervention it is clear where the Facility will contribute and when it will exit (the exit strategy from the start).

   The Facility will not work on the basis of open-ended arrangement and unsubstantiated promises.

   Negotiating a comprehensive deal with clear commitments, a time-bound set of activities and a clear 'exist strategy from the start' reduces the likeness of partner becoming 'donor-dependent' and increases the likeliness of partners driving change and making it last.

4. Finally, the outcome of systemic changes must be beneficial for the target enterprises. Clear benefits will translate in a good response, which in turn will strengthen the business case mentioned above and the incentive to continue drive this change.

   Target enterprises will again select themselves; they are the ones most dynamic and most ready for change. This will again increase the likeliness that change will be properly picked up and last.

Thus, for the Facility sustainability is not something in the distance, on the horizon, something to worry about and work towards in years to come, when the program work needs to be handed over to a local entity. Instead, sustainability is immediate, built into every deal with every partner, and every intervention has a clear line of sight on lasting pro-poor impact, supported by a clear-cut business case.

The longer it takes to make change sustainable, the higher the probability that in the end the change step proves to be too big to handle and the intervention/change process fails. Sustainable change is not something that one can work towards, that will develop in time; its contours need to be there from the start, and the question should not be whether one can reach there at all, but whether once one has reached there it will hold in the face of changing, possible adverse societal circumstances and managerial neglect.

2.4. Effectiveness

The Facility is committed to trigger effective, 'real' change.

Effective real change is always related to key growth constraints, not to 'nice to have's'. Effective real change is also always very concrete. Effective real change is not about 'sharing ideas', 'fruitful discussions', 'having a better insight', 'being more aware', 'having a productive workshop', but what comes next, the RESULTS of these. And when the results of these would be carefully analyzed, one would often find that the idea, the exchange, the workshop was not enough, that something more is needed. In the words of the former CEO of Royal Dutch Shell: "having a good idea is five percent of the work."

Ideas need to be translated into concrete changes in the field: setting up a department of field agents to supervise agricultural production; developing a new distribution network to sell unadulterated fertilizer; developing a new financial product to sell tractors; applying new finishing techniques for a more modern furniture look for tapping into a new market segment; investing in new machinery for better quality, *etcetera*. To become concrete, tangible and effective in the field, often a number of change steps are needed to reach there, i.e., a comprehensive plan of action.

The Facility will develop a portfolio of interventions each based on such a comprehensive plan of action to address a key constraint to result in real, concrete, tangible changes, which in turn will results in real, measurable pro-poor impact (see also Figures One, Nine).

2.5. Efficiency

Efficiency is essential when providing development assistance, because Official Development Aid (ODA) is insufficient to address poverty in a meaningful manner. This implies that:

- ODA must leverage additional funds, from recipient governments, civil society and the private sector.
- Providers of development assistance cannot afford to bypass the real world but must build on existing, efficient, diversified and strategic delivery mechanisms in order being able to reach large numbers of poor, especially given their numbers, the diverse nature of their economic activities, and the often dispersed locations where they life.
- Self-selection in terms of who benefits from the reach of these diversified delivery mechanisms helps to reduce investments per beneficiary. Adopting a village and working there intensively and long-time with all stakeholder might be very valuable, and in certain extreme cases unavoidable, but in other cases it might also be a drop in the ocean.

The Facility is committed to leveraging the resources of its partners, and it to build as much as possible on their (potential) delivery mechanisms to create as many as possible opportunities for target beneficiaries to positively influence poor livelihoods. This will make the Facility efficient and ensure maximum leverage and outreach.

However, it should be noted that in in small (island) economies, sectors could comprise of dozens instead of thousands, and the most strategic partner might turn out to be a retailer/wholesaler instead of large business. This has implications for scale that can be reached per interventions and the manner in which sectors are defined (to stack out a sufficiently large working area to focus on). This is one of the areas in which Facility must carefully adapt the M4P approach to make it work in the local context.

The Facility is equally committed to be an efficient organization itself, in which 'form follows function'. Organizational hierarchy, staff profiles, procedures and implementation approach will be constantly reviewed and changed where necessary to ensure efficiency in implementation.

2.6. Neutrality

The Facility is the custodian of public funds; when investing these in solutions that will develop support markets and trigger systemic change, the Facility must ensure transparency in operations and equal opportunity for equally placed contestants for funds while minimizing negative, distorting side-effects caused by the injection of 'free' public money into market systems. Risks will be minimized by:

- Offering support in a transparent manner.
- Focusing on sectors where there is room for growth for all rather than more mature sectors in which growth for one group of actors goes at the expense others.
- Be clear on the potential positive impacts AND negative side effects at the start of the intervention (based on thorough analysis) so that an informed trade off can be made.

- Monitoring interventions closely, continuously, so that unintended negative side effects are noticed early and mitigating action can be taken.

The Facility is committed to being a neutral development partner.

2.7. Gender Equality and Disability

Engaging women in rewarding economic roles is important for the reduction of (extreme) poverty. Committed to the development principles of sustainability, effectiveness, efficiency and neutrality the Facility will always work in an indirect manner and therefore will always need to search for win-win situations between the strategic partners' commercial or governance objectives and particular development goals, whether they relate to poverty reduction or promoting gender equality. This means that the Facility cannot 'enforce' gender upon a sector or a partner—the Facility is not a gender advocacy project. Instead, what the Facility will do is to weave gender into the fabric of its day-to-day functioning and managing for results—in a manner very similar to poverty—so that it can search out and touch pockets of the economy in which women are or could be (more) economically active, and do this in such a way that reaches them and is relevant for them.

Like with poverty, the Facility's gender relevance will be determined by a deep understanding of the economy, and the role of women therein, and choosing the right sectors to work in to reach women in their economic roles and create additional job and income earning opportunities for them. In cases where the Facility cannot contribute to gender equality, it will make sure it will do no harm.

Mainstreaming of gender will take place in the following manner:

1. The Facility's core strategy documents are the sector growth strategies. Every sector growth strategy includes an assessment of how and how much the sector will be of relevance from a gender perspective. Selection of sectors, partners and interventions will be influenced by the sector analysis and the gender assessment as part of this.

2. The Facility's core operations documents are the intervention plans. Based on the insight gathered during the sector analysis, and supported where necessary by additional research, every intervention plan includes a projection of gender-specific results.

3. Parallel to the sector-specific gender assessments the Facility will develop a country-specific gender and disability strategy. These country-specific strategies should not be developed immediately, but once the Facility has found its way on the ground and there is a better idea of in which (type of) sectors the Facility is likely to achieve most. The country-specific gender strategies should provide a deeper insight into the roles women play in the household and the economy, which roles the Facility should seek to strengthen and how this could be done—very much in line with notions of empowering women by recognizing and strengthening their economic roles and fostering female change agents (see Project Design Document). Such insight would help further inform sector-specific gender activities and overall portfolio management.

4. Every sector, partner and intervention is different when it comes to its relevance for pro-poor growth, gender or other development goals. At the same time no sector, partner or intervention is 'prefect' in the sense that all boxes are ticked equally. This means only a portfolio management approach will allow the Facility to meet its various development goals. Gender is one of the key criteria when developing this portfolio.

   Of course, the Facility must work in a businesslike, economically rational manner when it comes to the selection of sectors, partners and interventions to achieve sustainability, effectiveness and efficiency in results. At the same time, by making the right trade offs, the Facility will try to ensure that as much of possible of these results are relevant for and within the reach of women.

5. Strategies and portfolio management will be championed within the CPT and the CITs. Cross-cutting themes will be a specific responsibility of the Manager Results Measurement and Communication, as part of a larger 'research for strategy' portfolio. Within each CIT one business advisor will take ownership of the country-specific gender strategy and will have a

special responsibility for sector-specific gender activities.

6. Strategies and portfolio management will be proofed by gender experts residing in the Country Steering Committees and the Independent Advisory Group.
7. Per intervention results will be measured taking into account gender-specific differences where necessary. Universal impact indicators such as effective outreach and additional jobs and income created will be broken for gender.
8. *Per country, per sector and per intervention the Facility will indicate how many women it intends to reach and how they will gain from that reach in terms of additional jobs and income earning opportunities. The Facility will report on these aggregate figures broken down for gender.*
9. In additional, for 'special' interventions more elaborate case studies will be developed capturing secondary results of market development on the position and well-being of women and their families.
10. Finally, the Facility will work with AusAID's operating principles for gender equality as spelled out in the Project Design Document.

Reaching persons with a disability will be a real challenge for a Facility working indirectly through partners on enterprise performance relates issues. This means the Facility must work in a very opportunistic manner here and expectations must be modest.

Within the chosen sectors, the Facility is committed to an eye out for opportunities that fall within its market development mandate and can further the economic participation of persons with a disability. Sector growth strategies will indicate where opportunities might be there. Where results are achieved, intervention plans will highlight these. The CIT gender champion will also champion this cause.

2.8. Environmental and Social Sustainability

Environmentally and socially responsible businesses are a precondition for lasting pro-poor growth. Depletion of resources and changes in climatic conditions, as well as unsustainable social conditions for that matter, or a lack of disaster preparedness, will almost by definition negatively impact on long-term economic development. Whereas gender is about the distribution of results, locking women in, this crosscutting theme is about preconditions for results, at least in the long run. What makes gender difficult is reaching women; what makes environmental and social sustainability and disaster risk preparedness difficult is whether entrepreneurs are ready to invest in changes that might bring results only the long run.

Like with gender the indirect facilitating way of working limits the Facility in terms of 'enforcing' such investment decisions upon them. However, there are four obvious ways in which the Facility can contribute to increased environmental sustainability:

1. By stimulating introduction or propagation of technologies into the market that are commercially feasible and address environmental degradation (e.g., soil testing techniques and compost for balanced fertilizer application, reducing soil depletion) or prevent disaster related losses.

   Where value is lost automatically a market emerges for corrective measures stemming that value loss. This market might be small initially, as awareness about the (longer-term) damaging effects and the availability of a solution for this might be low, but this is exactly an area where the Facility can try to make a difference.

2. By addressing loopholes in regulatory frameworks leaving environmental degradation or other unsustainable practices unpunished.

   Where governments are genuinely concerned about these matters, but the technical expertise to define the problem and prescribe a solution in missing, the Facility can partner with the responsible department or agency to address this issue.

3. By strengthening the regulatory and technical capacity of industry bodies to enforce sustainable

business practices in the longer-term interest of the sector.

For instance, the leather sector and the chemical sector are often relocated to industrial parks so that effluent treatment can be done collectively. The installations for this need to be managed and enterprises need to adhere to certain rules in terms of how to make their effluent available, how to pay for the treatment service, etcetera. The Facility could partner with the industry bodies responsible for this in order to make their service delivery more effective.

4. Finally, by doing no harm in all circumstances where achieving positive effects on the environment is not relevant or out of reach.

   In the end there are only good or bad practices, good or bad technologies, good or bad regulation; the Facility can never be seen supporting the 'bad' ones and should try to support the 'good' ones. Sustainability is core to all the Facility's operations.

Unlike gender, the Facility's relevance for environmental sustainability is less determined by the choice of sectors, and more by promoting commercially, environmentally and socially sustainable solutions within the growth sectors chosen, and by carefully considering the technologies and regulatory frameworks in use in those sectors chosen and see if they cause an 'loss' that can be addressed. Where the latter is the case the Facility can start additional interventions on top of those related to the key constraints that form the core of its sector growth strategy. Where very substantial and strategic environmental results can be achieved outside the sectors chosen the Facility will consider picking these up as well.

Integrating environmental sustainability into the Facility will be done in the following manner:

1. Every sector growth strategy includes an assessment of where genuinely unsustainable practices occur in the sector and how the Facility could seek to stem this loss. Selection of sectors, partners and interventions will be influenced by the sector analysis and sustainability assessments.
2. Based on the insight gathered during the sector analysis, and supported where necessary by additional research, every intervention plan defines where environmental or social gains will be made if the intervention is successful (if there would be a danger of creating environmental loss, how this would be mitigated).
3. Environmentally and socially responsible business will be championed within the CPT and the CITS. As mentioned, crosscutting themes will be a specific responsibility of the Manager Results Measurement and Communication, as part of a larger 'research for strategy' portfolio. Within each CIT one business advisor will take ownership of this theme and, with the Manager Results Measurement and Communication will take the lead in additional research or reporting efforts where required.
4. Where necessary additional technical expertise will be hired to investigate larger areas of work where environmentally or socially responsible business practices would be of strategic significance to the growth sectors chosen (e.g., soil fertility for agriculture, effluent treatment in industries or 'sustainable tourism' or 'decent working conditions for better quality production').
5. For every intervention environmental and social good practices will be reported.
6. Special case studies might be developed where the Facility was able to achieve great environmental or social gains through innovative solutions and in this manner securing the longer-term growth potential of an important economic sector.
7. Per country, all environmental gains will be complied in an environmental and social responsible business report detailing the problems addressed, the mechanism for addressing it (partner, solution), and the gains made. This will be part of program-wide aggregate reporting of results.
8. The Facility's activities will be vetted by the Country Steering Committees and the Independent Advisory Group.
9. The Facility will act in line with relevant AusAID policies and guidelines.

ANNEX 3: MANAGING FOR RESULTS

The development principles from the previous section are translated here in a functional methodology and an organizational setup up for implementing it. This is how the Facility will look like and how it will work to give hands and feet to the analytical, flexible, entrepreneurial, 'searching' approach to development outlined in the previous section.

3.1. The MDF Logical Framework for Results

As a first step it is important to define the strategic direction, the goal and purpose of the program and the machinery implementing it, and the outcomes and outputs that are needed to get there. The basic implementation logic was already explained in Chapter One. What is needed here is to relate that basic logic to clear indicators so as to be able to measure and report on results and a means of verification, see Figure Eleven.

Figure 11: MDF Logical Framework for Results

Level	Definition	Indicators	Means of verification
Goal	To create additional employment and income earning opportunities for the poor and underprivileged in rural and urban areas through broad-based and sustainable pro-poor growth	Net additional income Net additional Full-time Equivalent (FTE) jobs	Results measurement system as per DCED guidelines
Purpose	To increase the competitiveness of key rural and urban sectors	Productivity Net additional sales Net additional market share Innovativeness	Results measurement system as per DCED guidelines External reports, if any
Outcomes	Improved service delivery of relevant support systems to target enterprises in key rural and urban sector	Net additional transaction value or usage Increased knowledge	Results measurement system as per DCED guidelines External reports, if any
Outputs	Increased capacity of strategic private and public sector players in relevant support systems to service target enterprises in key rural and urban sectors	No of innovative, commercially sustainable solutions developed Net additional investment in relevant service delivery	Results measurement system as per DCED guidelines

- Outputs relate the increased capacity of the strategic private and public sector players, with whom the Facility decided to partner because of their relevance (strategic position in the system, leverage, reach) for addressing a key constraint as identified in a sector grow strategy AND their capacity and incentive AND their commitment, their readiness to invest in change and innovation to create systemic change.

  If the Facility does her 'homework' well and it understands the root causes of key constraints and has a proper idea of in which direction a solution can be found and is able to measure up potential partners correctly and, in discussion with them, is able to design and negotiate a sufficiently robust action plan to create real and commercially sustainable innovation, then outputs will be 'produced'.

  It should be noted that in terms of implementation or facilitation, this is as far as the Facility will go; outcomes are strictly dependent on whether the partner utilizes its increase capacity correctly and how the market, the target enterprises in a specific growth sector react to this change.

  The Facility will keep records of the 'old' practices of the partners and comparable private and public sector players, which cause systemic break down, and what is changed to make it work better.

The Facility will also keep records of the additional investments leveraged by the Facility in the production of the innovative solution.

It is not expected that such specific and detailed information would be available in external reports, hence a reliance on the Facility's internal results measurement system.

- Outcomes, as mentioned, are dependent on whether the Facility's partner uses its increased capacity appropriately and how the 'market', the target enterprises in the designated growth sector react to the improved service delivery triggered by the innovative, commercially sustainable solution. This in turn is dependent on whether the solution and the improvement it brings is appropriate (affordable, timely, user friendly, *etcetera*) and whether it really 'hits a nerve', whether it really addresses a constraint so critical and provides a solution so good that target enterprises are willing to react to it, invest scarce resources in it, and see the commercial benefit in this.

  Thus, outcomes are beyond the control of the Facility; here markets are developed and their dynamics determine the outcome. The Facility only monitors. Of course, if the Facility has done her homework well, it has a concrete idea of what is likely to happen.

  The Facility will track the increased 'flow' of interaction between the support system and target enterprises in the designated growth sectors, either in the value transacted (of products and services) or the usage (of public infrastructure, or rules, etcetera) or, where the nature of the exchange is less tangible, increased knowledge. This is systemic change.

  The Facility will also monitor if wider systemic change occurs in the form of crowding in. Learning from the innovative, commercially sustainable solution applied by the Facility's partner, or seeing the increased demand for a certain input or service to the groundbreaking work supported by the Facility, other private or public sector players might decide to enter the same market—without Facility support. This is an indirect impact attributable to the Facility's work and hence will be included in the intervention results chains and the aggregate Program-level reporting.

  Note that in small economies with few players the amount of crowding in might be limited: the market is only big enough for few players.

  The Facility's results measurement system is expected to be the primary source of data on this market flow (representing direct or indirect impact), but occasionally external reports (secondary sources, government statistics, consultancy reports) might be available to support the Facility's in-house findings.

  Note that baseline surveys and other outsourced research efforts are included in the Facility's in-house results measurement system.

- The Facility's purpose relates to the effect of the improved service delivery on the performance of target enterprises in designated growth sectors. This increased performance can be measured in different ways depending on how growth is best captured. If enterprises are generally unproductive (inefficient) or need to switch to a new product or service (a different value proposition) productivity is good way to measure. If companies need to invest not in a change in production but in capacity, sales or market share are more appropriate. If enterprises depend on rapid product development or changes in product mix innovativeness could be considered an indicator.

  Note that sector competitiveness must be measured within target enterprises: if these enterprises become more competitive, sector becomes more competitive. Measuring sector competitiveness at an aggregate level is nearly impossible. *The higher the level of aggregation, the more exogenous factors influence the indicators against which one tries to measure, the more unclear the outcome gets and the more it is justified to speak about an attribution gap. Conversely, the more focused* *the measurement, the more it is possible to exclude exogenous factors, the more change can be attributed with certainty to particular activities - even for higher level impact.*

Note also, again, that the proper utilization by target enterprises of the improved service delivery entirely depends on the interaction between the service provider and the enterprises—the Facility only monitors. Of course, if the Facility has done her homework well, it has a concrete idea of what is likely to happen.

The Facility will also monitor here another form of wider systemic change: the copying of best practices brought into the sector through the Facility supported delivery mechanism to other enterprises within the sector (or even beyond). This is another form of indirect impact attributable to the Facility's work and hence will be included in the results chains in the Facility aggregate-level reporting.

The Facility will compare target enterprise performance before and after improved service delivery. The Facility's results measurement system is expected to be the primary source of data on this, but occasionally external reports (secondary sources, government statistics, consultancy reports) might also be available to support the Facility's in-house findings.

- The Facility's goal relates the effect of the improved performance of target enterprises in terms of increased profitability and hence additional income for (poor) owners or in terms of additional employment for poor workers.

  Additional income will be measured as additional net income, taking into account additional investments that were needed to earn this additional income or loss of other income sources in order to focus on earning this additional income.

  Additional employment will be measured as additional net employment, and with be calculated in man-days aggregated into Full Time Equivalents (FTEs).

  Again, how better enterprise translates into additional income and jobs is beyond the control of the Facility—the Facility only monitors. Of course, if the Facility has done her homework well, it has a concrete idea of what is likely to happen.

  The Facility will report aggregated figures on effective outreach, net additional income generated and net additional employment generated, broken down for gender and country, on an annual basis. In addition to this it will report on environmental gains as indication in Section 3.6.

  Measurement and systems will be in line with the Donor Committee for Enterprise Development Guidelines (DCED) guidelines on results measurement.

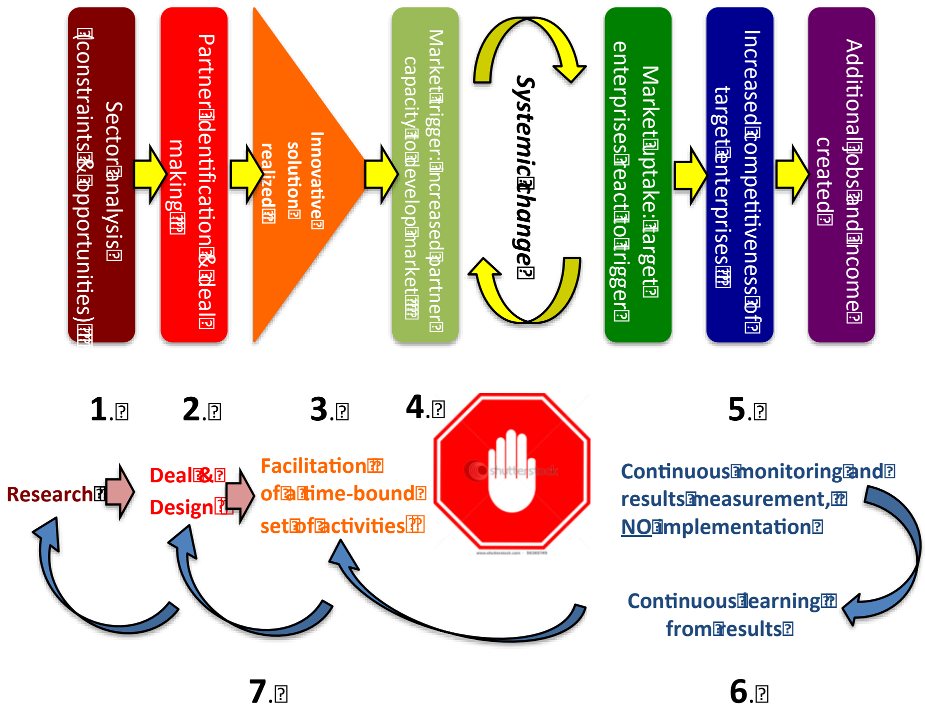
3.2. Managing for Results: the Implementation Process

The M4P approach, its key features and the key development principles underpinning it were described in Chapter Three. This section will explain how all of this is operationalized in a process that is *flexible, entrepreneurial, opportunistic, 'searching' in terms of the outcomes, i.e. sectors, partners and innovative solutions identified, yet rigorous in terms of process, i.e., the constraint analysis, deal making and intervention design, the do's and don'ts of facilitation, results measurement and, finally, learning from results measurement.*

Figure Twelve lays out the different steps in the process.

1. As mentioned, M4P starts off with a deep insight into how a sector works. Only on the basis of this insight it is possible to identify the real key constraints a sector faces (instead of a long list of everything that 'could be better'); the reason why these constraints persist (real key constrains cause economic loss so there should be market forces at work to solve them; the Facility should step in where this is not sufficiently happening); and how a solution could look like and who could provide it (e.g., if the quality of seeds is bad due to bad packaging, how could better packaging techniques be introduced to the industry so that it switches over to using this better technique).

Figure 12: The Steps of the Implementation Process with Results Measurement and Learning Loop



The answers to these questions do not emerge from a half-day long 'stakeholder consultation workshop', but require extensive fieldwork and extensive discussions with large numbers of private and public sector players. Some will give badly informed and biased answers, some will have deep and detailed insight, and it will be up to the Facility to make sense of it. Also, kernels of solutions are often already being contemplated or tried out by someone—sectors are always more diverse than what meets the eye; finding this 'exception to the rule' type entrepreneur who does what no one else is doing and building on that idea and incentive is an important factor for a facilitator's success.

The sector analysis is captured in a sector growth strategy, which details sector size, sector growth, how the sector is organized, how the poor and women are involved, environmental and social sustainability issues, an analysis of key constraints, why they are there and possible solutions, and concludes with a clear growth objective and clear constraint areas which the Facility will be focusing on.

A sector growth strategy serves as a compass for all work in a sector and will be regularly updated; all Facility activities in a sector will be linked to either developing (research) or executing a sector growth strategy.

2. Deep insight is not very useful without good intervention design and good deal making. Partners need to be guided through a change process the outcome of which they can handle and for this they—not the facilitator— need to implement it, and struggle in the process, and learn. Also, partners need to be guided through a change process the outcome of which they can afford to maintain and for they need to be able to bear the recurrent cost of whatever the proposed innovative, commercially sustainable solution is. Thus, the partner must 'do' and the partner must pay, and the facilitator's role must be limited to helping think through how to 'do' in the best possible manner, thereby reducing the chance of failure, reducing the innovation risk, as well as to reducing the costs related to innovation by cost-sharing non-recurrent costs involved in the process.

Facilitation is not about doing what the partner should be learning to do, but it also not about 'massaging shoulders'. A facilitator must be a credible 'sparring partner' for private and public sector players, and this is only possible if the facilitator has a sufficiently deep insight into the workings of a sector.

Also, nothing is easier for a facilitator than to do what in fact a partner should be learning to do and to pay for what a partner should be able to pay. It speeds up the process, perhaps reduces the risk of failure, and makes the aid effort more visible for the outside world to observe. However, doing so takes away the one real chance to see whether the partner is truly committed to change and truly capable of carrying it forward, and hence whether change will truly be lasting change. Changes dependent on the facilitator to make them work are not sustainable and can never count as results.

In terms of what needs to be done, there must be <u>clear line of sight on results</u>, on being able to make a market work, trigger systemic change. This means that an intervention must be a strategic 'package' of all the activities necessary to make this possible: to have solution in place that is actually able to influence the performance of target enterprises. An intervention can be defined as a <u>time-bound set up of activities</u> and what is included will vary from intervention to intervention and from partner to partner.

Interventions are always related to the key constraints identified in the sector growth strategy, but take shape by detailed discussions between facilitator and potential private and public sector partner, based on the partners ideas, capacities and incentives, and the facilitator's development goals and both views of what is needed to develop an innovative, commercially sustainable solution that is able to trigger systemic change.

Once there a '<u>deal'</u> is reached on what needs to be done, and who does what and who pays for what, then:

- Externally this design/deal is captured in a detailed agreement, often a contract.
- Internally this design/deal is translated into an <u>intervention plan</u>, which details the rationale for the intervention, the expected results, gender or environment related impacts, *etcetera*.

Most of the facilitator's time is used for developing a deep insight into the economy, reaching deals and, as will be explained, for monitoring whether the intervention works—not implementing the intervention. It is the partner who at all times must be in the driver's seat.

3. Once the deal is signed, the partner starts implementing the plan. The facilitator keeps its part of the bargain, discusses with the partner whether things are going in the right direction and helps troubleshooting where this would be necessary. If the partner shows to be completely incompetent or not willing to live up to its commitments, the facilitator at no point should take over the partner's role to 'save the intervention'. If this situation arises the, chances of achieving lasting change are nil and the intervention should be abandoned. If the partner simply needs more time, then the facilitator should give more time, and if the intervention plan needs to be changed for good, unforeseen reasons, then that flexibility should also be given—as long as the partner remains in the driver's seat and makes it work.

4. Once the intervention plan, the activities have been implemented and hence the innovative, commercially sustainable solution 'produced' and the partner's capacity to trigger the market, to trigger systemic development is 'there', the intervention goes over from the implementation to the results measurement phase. The facilitator will stop influencing—from here on the market must do the work—and will only measure if the projected results at achieved, and if not why not.

   Again, if results do not show, if the market is not triggered by the innovative, commercially sustainable solution provided by the partner, then the facilitator will not step in 'to help things along'—this would not count as results—but will analyze why the market still does not work and feed the learning back into better intervention designs.

3.3. Managing for Results: Results Measurement and Learning

For the effective measurement of results and learning from them Implementation and results measurement should be integrated into one management information system. Physically, this integration takes form in the intervention plan. Here the logic of the intervention—how a particular change in a private or public sector player's capacity should be able to trigger systemic change, which should result in particular changes in the performance of target enterprises, which result in additional job or income creation—is translated into a results chain. For each intervention a results chain is developed.

A results chain defines key change steps that need to take place in order to be able to attribute in intervention activities to higher-level impact (increases in productivity, sales, market share, jobs and income). Results chains also project how much impact is expected for each change step, and provide a timeline, i.e., when that impact is likely to occur (e.g, after one agricultural season, between three months of launching a new product, *etcetera*). Results chains also project how much indirect impact, due to wider systemic change, might be expected. This total picture makes the results chain the backbone of the results measurement system and, in the same line, the program's near real-time management information system.

Results measurement does not take place at the end of a program, as the conclusion reached by an external evaluator whether the program was successful or not, but is a continuous process, where results are measurement as they emerge. This makes results measurement more accurate: if one waits too long, too many other factors could have influenced the final change observed and hence there are problems with attribution—one simply cannot tell anymore what was due to the program and what was due to other factors. Also it makes results measurement more useful: timely availability of results, good and bad, allows one to learn from them.

For each results chain a measurement plan will be developed to guide this continuous measurement. The measurement plan defines per change step in the results chain how the actual changes taking place in the field will be measured, with the help of which research tools (survey, in-dept interviews, *etcetera*) and who will do it (in-house, outsourced).

1. The measurement plan contains assessment criteria for the implementation of intervention activities (step three) and how the 'end result' should look like (step four) and from there on guides the whole monitoring and results measurement process. For each key change in the intervention results chain, whether related to market up take, changes in enterprise performance or the additional jobs and income following from that—in terms of when to measure, what to measure, how to measure, who should do it, and when necessary even where to measure. This guarantees a continuous stream of data 'from the field' and an up to date as possible picture of whether the intervention is achieving the expected, projected results.

   The measurement plan will be jointly executed by the results measurement specialist and business advisors responsible for the intervention. For an outsider not very familiar with the technical details of the intervention and how change exactly should look like in the field it is often very hard to capture the correct impact picture. Not having this technical/contextual background means it is easy to ask the wrong question or use the wrong terms and it is very hard to check whether answers might be accurate or amount to wild guesses.

   Results measurement is never as simple as "how many kg of fish did you catch this year and how much more is this than last year". To arrive at accurate, triangulated figures one ends up asking about how many months fish what caught, the number of baskets per time, the number of fish per basket, size of the fish, size of the pond, how many ponds, how many fingerlings were released, mortality and diseases, feeding—what and how often, any problems with the oxygen level in the water, etcetera. An outsider easily gets lost here!

   Having results measurement specialists and business advisors working together as part of the same team ensures accuracy in measurement. Having the whole process externally audited, as per DCED guidelines, ensures that appropriate methods were followed in the process, which in *turn lends credibility to the final results.*

2. A continuous stream of data is not much use without proper analysis: what do we see, is it different from what we expected, if so why, did we miss something in the analysis, or was the partner not up to the task, or should we use a different solution to influencing the market, and what does this mean: do we need a follow-up intervention, a different partner, a different business model?

   Influencing market systems is complex, because the factors influencing whether or not a product or service is accepted, invested in, and properly used are manifold, most of which should come out in the sector analysis, but surely some of which will be overlooked, and some of which that can be addressed within the realm of what a well-designed intervention, but with others being clearly beyond its scope. This simply means that is impossible to predict with hundred percent accuracy how a market will react to an intervention—there is always an element of experimenting, trial and error in there, albeit one that can be reduced with a proper analysis beforehand. This is turn means that interventions never work out expected (sometimes worse, sometimes better, often also different) and that there is always something to learn on what worked and what should have worked better.

   This analysis will be institutionalized in the Facility's management process in the form of <u>management cycles</u>. Every six months the team of business advisors and results measurements specialists responsible for a sector will review the data available and draw lessons from that in terms of the validity of the sector growth strategy (are we targeting the right key constraints?), the logic of particular interventions (are we influencing the market in the right manner?) and sector insight (do we know enough, aren't we missing something?)

3. This learning will to feed back to research (and sector growth strategy), intervention design and intervention management.

   With this the process has come full circle. This is implementing for results in a learning organization.

LEARNING, COMMUNICATION AND REVIEW

Finally, 'monitoring for results' has three functions within the Facility:

1. <u>Learning for lasting change</u> and increased effectiveness and efficiency in triggering markets and reaching the target enterprises and target beneficiaries.

   This is predominantly an internal management function—as described above.

2. <u>Communication of results</u>, to demonstrate what the Facility has achieved, but also how it was achieved, and in this manner contribute to a better understanding of the value of a systemic approach to development.

   This is predominantly an external function, relevant for audiences within AusAID—the M4P approach is relatively new to AusAID—as well as the wider development audience.

   Different communication formats will be developed as part of a <u>communications strategy</u> to suit the needs of different audiences (website, case studies, aggregate Program reporting of results, technical notes, etcetera).

3. Review of management systems and institutional arrangements in and around the Facility and procedures to be followed by the Facility.

   This is an internal and an external function. Aside from the internal systems just described, the Facility is embedded in a tailor-made governance structure including the Multi-Country Management Group, Country(-specific) Steering Committees, and an Independent Advisory Group to create the right balance between centralized management (CPT) and decentralized operations (CITs) to ensure consistency and quality in M4P implementation of mitigate risks associated with implementing this relatively new and flexible approach.

The Manager Results Measurement and Communications, together with the Independent Advisory Group will develop a method to assess the appropriateness and effectiveness of systems and procedures in and around the Facility to make it an effective facilitator.

The Facility is committed to the implementation process as described here, including the steps and documents referred to, and will ensure the integration of implementation and results measurement for effectiveness, learning, communication and review.

3.4. Managing for Results: Portfolio Management and Risks

Facilitating changes in growth sector in an indirect manner, by working through strategic public and private sector partners who are 'enabled' to trigger market changes that in turn will lead to an increase in enterprise performance, jobs and income means that results cannot be 'pre-programmed' in a similar manner as that schools can be built. If one is serious about working in a sustainable manner, then the partner, not the facilitator, must determine the speed of moving forward, and the speed will vary per partner—some partners are simply more capable than others. The speed will also vary per intervention—some interventions are simply far more complex than others. The speed will also vary per sector—some sectors are simply far more complex than others.

Speed aside, sectors also have different characteristics in terms of who occupies them (the ratio between poor and non-poor actors, between male and female actors), the size of the sector (how many target beneficiaries can be reached), the risk of intervening in the sector (susceptibility to external shocks, government intervention) and, for instance, the space to intervene in the sector (presence of other donors).

This means there are no 'perfect' sectors that will 'give' the Facility all it needs to meet it objectives. Instead, in reality there is a lot of variance in timeline, risk and developmental benefits per sector, and the best way to effectively manage this variance is to develop a portfolio of sectors (and per sector again a portfolio of interventions).

The Facility is therefore committed to develop a portfolio of sectors per country based on a '2 + 4' timeline. The Facility will set itself up to develop a portfolio of work that can serve as a basis for a 6-year program, but will seek to show results within 2 years.

Figure Thirteen shows how sector growth strategies provide direction for flexible interventions (each with a different scope and timeline, and each consisting of different activity packages) and how portfolio management serves to balance out the different impact profiles emerges from that to met program objectives.

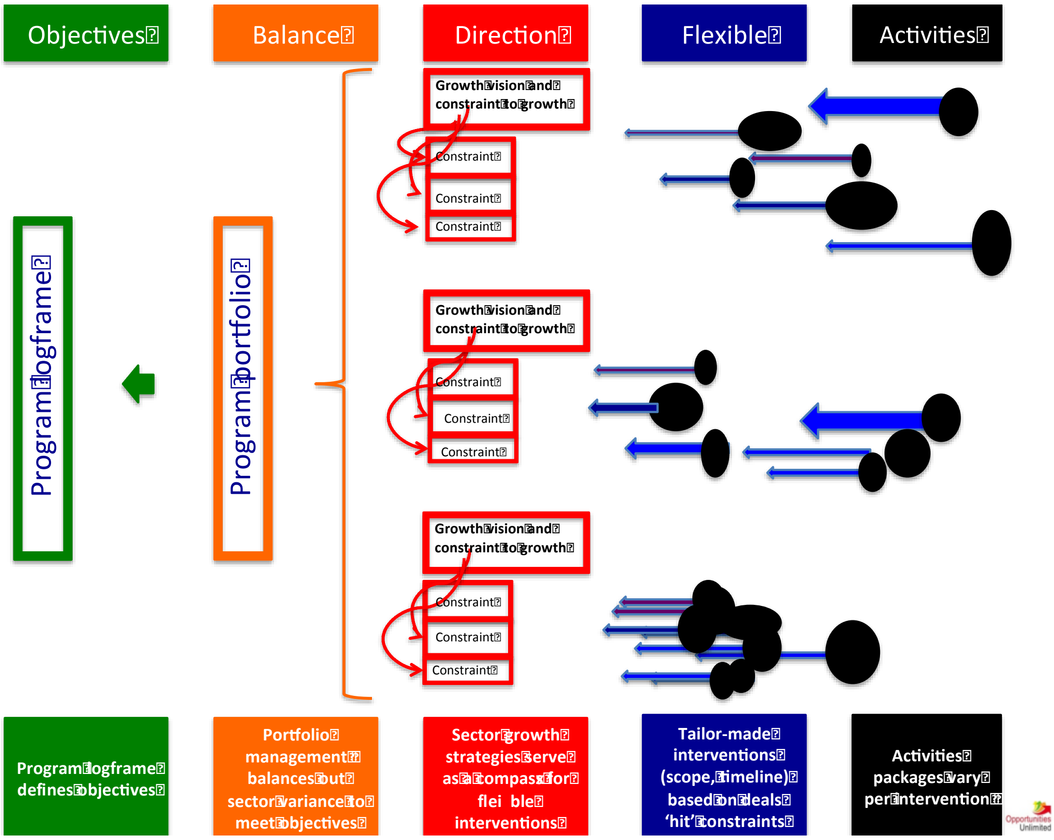
3.5. Managing for Results: Organization and Human Resources

The core business of the Facility is, as mentioned, to produce innovative, commercially sustainable solutions in collaboration with strategic partner, and this 'production' is based on, or at least informed by, a process of analysis in terms of what works, what does not and why, and a search for the most promising local ideas and partners to build on. Essentially, this is a creative, critical, analytical process, because:

- *The solution is not known beforehand.* Whereas most development projects are built around a given solution, here the solution needs to be recognized, worked out, and discussed: 'why was this not tried before', what made it fail previously, *etcetera*.
- *The strategic partner is not known beforehand.* Whereas most development projects know their 'constituency', here the partner, the delivery mechanism and whom it finally will reach depend on whom the Facility 'finds' and with whom she can reach a credible deal around a credible solution.

  Learning is essential. Since the Facility's *raison d'être* is to stimulate business innovation, (by reducing the costs and risks related to it) and innovation implies that something has not been tried in that form before (there would be no justification for the Facility paying businesses to move along proven profitable tracks), there is always an element of wading into unchartered territory in

Figure 13: The Relation between Logframe Objectives, Portfolio, Sector Growth Strategies and Interventions



what the Facility does and a likeness that parts of an intervention work and other parts work less.

- This does not mean that the Facility cost-shares interventions 'blindly'—an intervention is only justified if there is a credible 'impact logic' based on the Facility's own sector insight—but an element of uncertainty is always there and the Facility should not be afraid take risks here. <u>One cannot understand the internal workings of a sector by studying it only from the outside and one cannot fully predict how people will react to change</u>. Instead, the Facility must experiment and critically learn from doing.

This way of working does not thrive in hierarchical organizational set up in which everyone is supposed to execute pre-defined tasks: a person 'ordered' to find the solution for an economical problem is not likely to find it on its own. Instead what is needed is room for discussion, for facts can be interpreted, disregarded or embraced, and for ideas to be rejected or considered on their merits. In such an environment, not dissimilar from other professional services, solutions take shape in <u>interaction</u>.

Thus, this way of working requires:

- A flat organization in which people are comfortable with challenging each other;
- Flexible, shared, task-based work loads so that several persons can genuinely contribute to a discussion;
- A free, creative way of working guided by a clear methodological framework (the M4P approach) and clear strategies (what do we aim to achieve); and
- A critical check of results achieved; integration of implementation and results measurement into one management information system.

The Facility is organized in such a way to allow this professional culture take root, whereby the Core

Program Team (CPT) is the 'enabling' structure, and the Country Implementation Teams are the 'generating' creative units.

The CPT:

- Ensures a consistent and correct application of the M4P approach (including cross-cutting themes) in line with the principles outlined in Chapter Three adapted to the context of the countries in which the Facility is active. This includes providing day to day technical backstopping and training to the CITs, being involved in sector assessments and other strategic studies, and signing off on sector growth strategies and intervention deals.

  The Facility should have a recognizable, uniform approach across countries.

- Ensure a consistent and coherent, integrated results measurement system/management information system in line with DCED guidelines, so that the Facility has this centralized near real-time database that provides overview of its portfolio and serves as a basis for learning, strategic management and communication of results.

  The Facility should have a recognizable style of communication, speak with one voice and present a uniform body of results.

- Ensure exchange of learning between countries.

  The Facility should be one learning community.

- Ensure an integrated financial-administrative management system compliant with AusAID and Contactor requirements yet conducive to working in multiple countries in a flexible manner. This means that AusAID and Contractor requirements are translated in such a manner that on the ground this does not hamper implementation.

  The Facility should provide an enabling management structure for the CITs to work within.

- Manages relations with the governance structure around the Facility: Multi Country Management Group, Country Steering Committees, and Independent Advisory Group; ensure alignment with AusAID guidelines, priorities and country strategies.

  The Facility should provide one discussion point for AusAID.

All this should ensure quality and consistency across operations thereby minimizing the risks associated with a relatively new and flexible implementation approach.

The CITs:

- Develop a deep insight in the economies of the respective countries.
- Develop a deep insight into the development challenge in the respective countries in terms poverty, gender equality and disability, environmental and social sustainability.
- Develop a well-development network of private and public sector players within and outside the sectors in which the Facility will be active.
- Search for strategic partnerships with relevant private and public sector players and find develop innovative, commercially sustainable solutions to trigger systemic change and address key constraints for target enterprises and target beneficiaries.
- Manage interventions.
- Analyze results, critically reflect and learn.
- Share insight into the development challenge, the workings of the economy and development practice with AusAID, other AusAID-funded programs and other stakeholders in development.
- Contribute to AusAID country strategies within the mandate of the Facility.

The CITs will be staffed with 'smart generalists': persons with the capacity to analyze and think through a range of different constraints and solutions (instead of those trained to view reality through a very particular pair of spectacles; this would not work because every sector is different, constraints are different and solutions are different depending on where and whom you work with; one size really does not fit all).

Short-term Technical Assistance (STA) will be called in to help these generalists with very specific technical problems ('what is the most cost-effective production line for furniture'), complex development problems (e.g., a proper poverty or gender analysis) and, at the start o of the program, to gain speed and digest large amounts of sector-specific information.

However, it should be noted that well-trained, well-informed, versatile CITs form the key to the Facility's success. This means that CITs will not contract STA to do work 'for them'; it will always be about doing work together with them, seeing what they see and learn from them. The CITs should be well integrated into the realities of the sectors they are working in, develop networks in them, 'be out there', speak their language, and in that sense from the bridge between the Facility and its development goals and private and public sector players and their struggles and interests.

These CITs cannot be taken 'ready-made' off the shelf; they need to be groomed and this takes time. For this reason CITs will start off as flat structures, in which technical CPT managers play a temporally coordinating management role for CIT. As CITs mature responsibility for day-to-day management shifts towards the CIT. Arrangements might differ between countries based on who is available to work in which country and what is most workable.