

Market Development Facility Phase II Investment Design **DRAFT 5.0**

7 November 2016

ACRONYMS	
ACIAR	Australian Centre for International Agricultural Research
AFS	Agriculture and Food Security Section
AG	Advisory Group
AMT	Additional Market Transactions
BIF	Business Investment Facility
CAVAC	DFAT Cambodian Agricultural Value Chain Program
CLT	Core Leadership Team
CR	Country Representative
CT	Country Team
DCED	Donor Committee for Enterprise Development
DFAT	Australian Department of Foreign Affairs and Trade
DFID	UK Department for International Development
DTL	Deputy Team Leader
EOP	Economic Opportunities for the Poor
FAO	Food and Agriculture Organisation
FEC	Fiji Export Council
FTE	Full Time Equivalent
GBV	Gender Based Violence
GDP	Gross Domestic Product
GoSL	Government of Sri Lanka
GoTL	Government of Timor Leste
ICT	Information and Communications Technology
IFC	International Finance Cooperation
IG	Intervention Guide
KM	Knowledge Management
LES	Locally Engaged Staff
LTA	Long Term Adviser
M4P	Making Markets Work for the Poor
MC	Managing Contractor
MECAE	Coordinating Ministry for Economic Affairs
MEDA	Mennonite Economic Development Associates
MDF	Market Development Facility
MOU	Memorandum of Understanding
MRM	Monitoring and Results Measurement
MSD	Market Systems Development
MTR	Midterm Review
M&E	Monitoring and Evaluation
NGO	Non-governmental Organisation
OECD	Organisation for Economic Cooperation and Development
PFIP	Pacific Financial Inclusion Program

PHAMA	Pacific Horticultural and Agricultural Market Access Program
PMF	Program Managers Forum
PNG	Papua New Guinea
PRISMA	Promoting Rural Income through Support for Markets in Agriculture
PSDI	Private Sector Development Initiative
PXB	Private Sector, Infrastructure and Agricultural Development Branch
RD	Regional Directors
RM	Results Measurement
SDC	Swiss Agency for Development and Cooperation
SDG	Sustainable Development Goals
SDP	Strategic Development Plan
SIDA	Swedish International Development Cooperation Agency
SME	Small and Medium Enterprises
STA	Short Term Advisers
TL	Team Leader
TVET	Technical Vocational Education and Training
TOMAK	To'os ba Moris Di'ak (DFAT Timor Leste Farming for Prosperity Program)
UNDP	United Nations Development Programme
WEAMS	Women's Empowerment and Market Systems Framework
WEE	Women's Economic Empowerment

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Further Annexes yet to be prepared, are likely to include:

- Statement of Requirements and Pricing Schedule

VERSION CONTROL NOTE:

The following draft of the MDF Phase II investment design document has been prepared for DFAT following peer review. This iteration represents the final contributions of the Palladium design team.

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1. Executive Summary

The Market Development Facility (MDF) was one of DFAT's first market systems development programs. It was designed and structured to enable multiple country programs to trial a new approach to development with centralised technical and risk management support from a Canberra hub to promote institutional learning across countries and within DFAT.

The expansion of MDF from Fiji in 2011 to Timor-Leste (2012), Pakistan (2013) and PNG and Sri Lanka in 2015 is evidence of its success and growing importance to DFAT. This is due in part to MDF's strong alignment with Australia's Aid Policy - evidenced by the Foreign Minister's statement in 2014 that MDF was *'at the very heart of Australia's new aid policy which seeks to achieve better development outcomes in partnership with the private sector'*. MDF has helped give practical meaning to DFAT strategies including the Gender Equality Strategy, 'Creating Shared Value through Partnership' and country Aid Investment Plans.

Phase II seeks to maintain the excellent start, build on MDF's strengths, and update MDF's governance to better fit with the DFAT of today and tomorrow. MDF has learned many lessons, started to achieve results and is now poised to deliver systemic change. Maintaining continuity is important; continuity of both the MDF staff – who have been carefully recruited and trained – and of the MDF partnerships that have been nurtured in Phase I. A key strength of MDF has been its capacity as a program to evolve and adapt as circumstances demand, and this must be sustained and fostered going forward.

The key changes in Phase II include an increased emphasis on systemic change and striving for results at scale, clearer communication about how MDF addresses gender issues, and more robust efforts to drive learning in DFAT about the approach MDF employs. Governance and management has also been strengthened with the creation of a Program Managers Forum where all country programs are represented and able to collectively discuss and resolve strategic and operational issues in the program. Clear processes by which country programs can join or leave the MDF have been established, along with more explicit links between MDF and country financial contributions and their strategic priorities. Importantly, additional staff positions for the MDF implementation team have been created to maximise the likelihood of continued MDF success and even closer alignment to DFAT policy priorities.

2. Overview and Context

2.1. Development Context

2.1.1. Markets Systems Approaches and Development

While the poor are typically not influential market participants, they depend on markets for their livelihoods as both consumers and producers of market goods and services. Donors, including the Australian Department of Foreign Affairs and Trade (DFAT) have recognised that significant opportunities exist to reduce poverty through programs which improve the way the poor are able to connect and transact within markets. Using market systems to assist the poor requires a strong understanding of how the poor operate with markets and within the broader economy. The poor often lack access to growing markets and the inputs, services, skills development and information that would enable them to reach these markets either as producers or as workers. In short, they are not able to take advantage of the economic growth sectors in their economies.

Globally there has been a shift towards development policies and approaches that more explicitly embrace economic growth that is accessible by the poor. This is clearly articulated in the Agenda 2030 Sustainable Development Goals (SDGs). The SDGs call for an end for poverty in all its forms everywhere (SDG 1) and for sustained, inclusive and sustainable economic growth, employment and decent work for all (SDG 8) and a (reduction in) inequality within and among countries (SDG 10).

Markets are strongly influenced by the private sector. The SDGs and the related Financing for Development Agenda recognise the critical role played by the private sector in the creation of income and employment. As

a consequence, partnerships with the private sector through markets systems approaches are an increasingly important part of the development agenda.

2.1.2. Australian Aid Policy

Market systems approaches align closely with ***Creating Shared Value through Partnership*** (August 2015), the Australian Foreign Minister's Statement on engaging the private sector in aid and development, as well as the ***Strategy for Australia's aid investments in private sector development*** (October 2015).

Two of the three strategic objectives of the Private Sector Strategy are embedded within the broad objectives of market systems approaches, these are:

- Supporting growth in specific markets. For example, facilitating new business opportunities and removing barriers to efficient market operation, creating market incentives, improving the functioning of value and supply chains, supporting provision of key economic infrastructure through technical expertise and risk management, and providing anchor funding for market builders.
- Maximising the development impact of businesses. For example, partnering with businesses to implement business models that serve the poor as consumers, producers or employees.

MDF also aligns with DFAT's ***Gender Equality and Women's Empowerment Strategy*** (February 2016). The program's focus on considering gender issues and promoting women's economic empowerment in all of its activities (see section 4.7) are strongly aligned with DFAT strategic priorities in this area.

MDF is implementing the Government's ***Strategy for Australia's Aid Investments in Agriculture, Fisheries and Water*** (February 2015) which outlines three objectives for agriculture, water and fisheries sectors including to: increase their contribution to national economic output; increase incomes of poor people; and enhance food, nutrition and water security. It notes that three areas including Strengthening Markets will be pursued to meet these objectives.

In addition the program reflects the intent of the ***Indigenous Peoples Strategy*** (June 2015) that DFAT will strive to deliver international programs that improve outcomes for indigenous peoples and Ethnic Minorities. MDF's reporting systems include analysis on the impact of interventions on indigenous peoples and minority groups (see section 4.4).

2.1.3. MDF Phase 1

The Market Development Facility Phase 1 is a multi-country aid program that began in Fiji in 2011 and then expanded to Timor-Leste (2012), Pakistan (2013) and PNG and Sri Lanka (2015). The program is managed by DFAT's Private Sector, Infrastructure and Agricultural Development Branch (PXB) in collaboration with relevant country programs. It is implemented across all countries by a single managing contractor.

MDF Phase 1 was one of DFAT's early market systems programs and as such was structured enable institutional learning about private sector development and to spread the risk of using a new approach across (then) AusAID. Market development programs, the aim of which is make market systems more competitive and inclusive, follow a different trajectory to aid modalities that focus on service delivery by the public sector or civil society organisations. Designing the program to span multiple countries allowed for information flows between DFAT managers and allowed an informal community of practice to be established where knowledge could be exchanged. These goals, of knowledge transfer and contributing to DFAT's institutional understanding of market systems, will continue to be important in implementing the development agenda.

2.1.4. MDF Phase II

MDF Phase 1 is scheduled to end in June 2017. Following a mid-term review of Phase 1 and consultation with relevant DFAT country program areas, there is support for an MDF Phase II.

Phase II will build upon the lessons learned from Phase 1 but has also be designed in a way that allows it to respond to the dynamic nature of the economies in which it is currently operating and the broader development context. It is anticipated over the life of Phase II, that new Country Programs will join the facility and that existing Country Programs may alter how MDF operates within their country or may exit the facility, thus the design is intended to allow that flexibility.

Any development focused market systems approach commencing in 2017 and operating five years until 2022 and potentially a further 5 years beyond that, has the potential to make a meaningful contribution to the achievement of the SDGs within the sectors and countries in which it is operating. The Phase II design with its emphasis on system wide change, is therefore intended to support sustainable and large scale improvements in the way the poor can benefit from participation in markets.

Finally, under Phase 1, considerable expertise has been built within the various country teams and valuable partnerships have been developed by the country teams. A key consideration in the Phase II design is retaining and building upon that expertise and those partnerships and sharing that expertise with other market systems programs within DFAT.

2.1.5. Working with the private sector to support equitable and inclusive growth

The five countries in which MDF currently operates (Pakistan, Sri Lanka, Timor Leste, Papua New Guinea and Fiji) are diverse in their geography, populations, and economic bases, forms of government and levels of development. However, in all of these countries, a significant proportion of the population struggles to escape from poverty. Poor women and men are typically marginalised or precluded from fully benefitting from economic growth by a range of factors including gender, ethnic or religious discrimination, cultural norms, geographic isolation, ill-health and disability; their lack of buying power also leads businesses to overlook them as a target market. As a result, product, service and labour markets are often not well adapted to the needs of the poor.

Influencing parts of the economy to be more competitive, grow more and grow in a more inclusive manner needs to be achieved by working in partnership with the actors that make up the economy, i.e. the private sector as well as parts of the public sector. Nudging change to increase the rate of innovation, investment and the degree of inclusivity needs to be based on a real understanding of incentives, and what feasible and commercially sustainable. The Making Markets Work for the Poor (M4P)¹ approach which MDF follows is an approach that has emerged in order to analyse the economy for its potential for inclusive growth and partner with actors in the economy to influence their behaviour (market outlook, product, business model, ability to invest and innovate) in a manner that is commercially sustainable and generates inclusive, pro-poor outcomes. The poor rely on markets for their livelihood as producers, workers and consumers. Through brokered partnerships with businesses and other market actors, MDF facilitates business expansion and new business models that are commercially sustainable, deliver better products and services and increase incomes and employment for the poor.

2.2. Regional contexts

MDF currently covers a strikingly large geographical range, working in five countries across two regions. While the countries can be grouped in either region, they each have unique geographies, poverty profiles and challenges to inclusive growth.

2.2.1. South Asia Regional Context

With 190 million people, **Pakistan** is a large country with varying levels of poverty across its diverse regions. Incidences of poverty reach 90% in rural areas, with high levels of vulnerability to climatic and economic

¹ Also known as market development, market systems, or market systems development approach

shocks whilst urban centres tend to be far wealthier. Over 60% of poor women and men rely on agriculture for their livelihoods, however limited access to resources and markets, in addition to large family composition and small landholdings, make farming difficult and costly. Economic prospects for women are often worse than for men with many rural women socially constrained in their ability to work outside the home.

Sri Lanka, having recently ended its 30 year internal conflict has seen in recent years close to a 15% decrease in poverty and has a rapidly growing middle class. One third of the 22 million population remains in poverty, living on less than \$2.50 a day. The country is seeing a rising trade deficit and waning public and private investment that risks slowing the economic progress of recent years. Despite new economic opportunities in service industries like tourism, exclusion from employment and physical distance remains a significant obstacle to reducing poverty.

2.2.2. Pacific Regional Context

Fiji's poor population live primarily in urban or peri-urban areas of the island nation, yet subsistence farming remains a significant segment of the agricultural sector for poor women and men. Sugarcane and Copra have historically been key exports however in recent years declining profitability has led to increased urban migration. This has created labour shortages in some rural areas and unemployment in the cities. The two main ethnic groups, Indo-Fijians and indigenous Fijians, have traditionally played different roles within the economy and have very different social structures, however women in both groups face constraints to their mobility and employment opportunities.

With a nascent economy, **Timor Leste** has seen significant growth since its independence due to large scale foreign assistance and income from oil and gas revenues. Yet this income has failed to improve the livelihoods of the vast majority of Timor Leste's 1.2 million people. Over 40% of the population remains under the poverty line, with figures higher in rural areas. The country has significant rates of stunting with 58% of children suffering from poor nutrition. Women in Timor Leste have limited opportunities for formal employment outside of agricultural labour.

Papua New Guinea is the most populous country in the South Pacific with 7.6 million people and has the largest economy in the region of USD14 billion GDP. Despite this, much of the country remains disconnected from its urban centres and poor due to limited infrastructure and employment opportunities. Approximately 2.8 million people live in poverty in PNG with higher rates of poverty in remote areas. While women are active in many markets, security concerns and a high prevalence of gender based violence remain significant challenges to further inclusion and poverty reduction within the economy.

More detailed profiles, country strategies and progress to date can be found in **Annex 1**.

2.3. MDF Phase I progress to date

Phase I ends in June 2017, with the total expenditure across five countries projected to be just over AUD45m by that time. The Facility has demonstrated that it is possible to apply a consistent analytical, systems-oriented approach to market development, but it has to apply this approach creatively to adapt to the different contexts of each country. Operating across and adapting to such a wide range of countries has not been without its challenges and setbacks, but the Facility has cultivated a strong culture of team collaboration and constructive internal criticism, to ensure appropriate lessons are recognised and addressed along the way. Although the integration of gender evolved over time in MDF (as it did in the global community of practice), over the last few years the program has made significant progress in relation to Women's Economic Empowerment (WEE). This integration of WEE within MDF is increasingly being recognised as cutting edge by the MSD international community.

MDF's standardized systems include: market, poverty and gender analyses; sector strategy design; intervention management; systemic change pathways, inclusivity and WEE frameworks, monitoring and results measurement; communications, learning and knowledge management and reporting; operations; and finance. These standardized systems provide for consistent templates, information flows and reporting across the five countries.

2.3.1. Results to date

In each country, MDF negotiates partnerships with strategically positioned private and public sector organisations. Each partnership is comprised of a tailor-made package of activities that enables the partner to innovate, invest and/or undertake reforms in such a manner that small farms and firms benefit from better access to production inputs, services and end markets. This makes them more productive and helps them grow, which in turn creates jobs and increases income for poor women and men.

The following table illustrates how the progressive establishment of these partnerships enabled an increasing number of market innovations to be introduced, as MDF became better established in each country, and as new countries were introduced to the program.

Table 1: Number of partnerships signed to date

Country	2011-12	2012-13	2013-14	2014-15	2015-16	Total
Fiji	1	8	14	14	14	51
Timor Leste		1	5	9	5	20
Pakistan			4	10	11	25
Sri Lanka					6	6
PNG					3	3
Total	1	9	23	33	38	105

The actual impacts resulting from these partnerships on poor women and men are then monitored using common indicators based on the DCED Results Measurement Standard. MDF reports on three of the DCED 'Universal Impact Indicators'. The following table summarises those results realized through MDF supported interventions by 2015.

Table 2: MDF headline results achieved by end 2015

	Fiji		Timor Leste		Pakistan		Total
	Male	Female	Male	Female	Male	Female	
Effective Outreach ² (including jobs)	2,950	2,980	1,160	1,790	2,400	2,350	13,630
Additional Jobs (FTE)	83	108	30	22	85	30	358
Additional income (USDm)	1.234	1.296	0.135	0.210	1.878	0.531	5.284

Table 3: MDF headline results projected to be achieved from existing partnerships

	Fiji		Timor Leste		Pakistan		Total
	Male	Female	Male	Female	Male	Female	
Effective Outreach (including jobs)	12,330	13,400	2,920	9,600	8,500	7,010	53,760

² Effective outreach in MDF's results management system is the number of working adults who experienced a real, tangible, measurable change in income either through improved economic activities or more or better-paid employment.

Additional Jobs (FTE)	507	693	63	30	1,279	190	2,761
Additional income (USDm)	5.017	5.379	0.920	1.887	6.593	1.196	20.992

These estimates can be considered conservative, since they do not include results from partnerships established after December 2015 or partnerships from Sri Lanka or PNG. MDF has estimated that all expected Phase I partnerships across the five countries will in time result in increased employment equivalent to over 11,900 additional full-time jobs and increased incomes totalling USD\$68 million.³

2.4. Evidence base/lessons learned

2.4.1. International lessons learned in market development programs

Market systems development (MSD) (sometimes referred to as Markets for the Poor – M4P), is an approach that emerged between 2000 and 2005, based on lessons from donor experiences with enterprise development and business advisory services programs in earlier decades. The approach was initially embraced by donors such as DFID, Swiss Agency for Development and Cooperation (SDC) and Sida, but is increasingly being used by other donors.

Intended to promote inclusive growth in targeted sectors and economies, the approach has continually evolved, based on the lessons of experience from projects such as Katalyst⁴ in Bangladesh; PropCom Mai-

Case Study: Poor women and men gain access to information on fertiliser use in Cambodia

In Cambodia, poor farmers have traditionally been poorly served by input markets that failed to offer quality products and information that suited their needs. In particular, their limited access to knowledge on how to effectively use fertiliser has limited potential yield, which in turn limits income earning opportunities.

Beginning in 2010, the DFAT funded Cambodia Agricultural Value Chain Program (CAVAC) took advantage of a rapidly growing market for fertiliser by working with seven retailers and fertiliser producers to support farmers to get access to up to date advice on the use of fertiliser.

By providing technical support to these firms to develop farmer training/outreach programs, CAVAC managed to change working practices in at least one-third of the Cambodian fertiliser market (600,000 customers). Over the duration of CAVAC the national use of fertiliser is estimated to have tripled and fertiliser companies and retailers have become the main external source of information for poor farmers.

By 2017 an estimated 168,000 households will have benefited from improved farming practices due to increased information services from these fertiliser companies.

³ MDF Results Estimates For Five Countries 2011–2017 September 2015

⁴ Currently in its third and last phase (2013-2017), Katalyst has been funded by Cida, Danida, DFID, Sida, EKN and SDC.

karfi⁵ in Nigeria; CAVAC⁶ in Cambodia; and Samarth⁷ in Nepal. An example of an intervention from the CAVAC program is provided in the adjacent box.

Three of the key lessons to emerge from these early programs are summarised below.

Preserve Flexibility: In MSD programs, implementers must be allowed flexibility regarding project activities and budget allocations to achieve successful outcomes. Programs which have flexibility in choice of sectors and interventions and the permission to drop or select sectors during the course of program implementation, tend to succeed more than those that are set in their design from the very beginning. This kind of agile responsiveness not only allows programs to seize opportunities and build on successes, but also to bring unsuccessful interventions to an early close.

Invest in People: Costs for staff resources are usually considered ‘overheads’ in development programs, but in MSD programs, they often form a large proportion of program expenditure. In other development programs, the focus tends to be on recruiting staff with strong technical know-how, often recruited from other development agencies or programs. However, the MSD experience shows that successful programs require a staff base with mixed skill sets, most important of which include strong analytical skills and entrepreneurial thinking. While technical know-how is important, the ability to broker partnerships and co-create innovative and scalable solutions in complex markets have more importance. The most successful MSD programs have been built on recruiting the best and the brightest local staff, and paying good salaries to attract and retain them. This is often matched with strong staff training and mentoring in the MSD approach.

Patience: Innovating and bringing about lasting changes at scale requires time. MSD programmes must be allowed enough time, 5-10 years, to ensure lasting impact. MSD is about triggering systemic change by facilitating behavioural changes of market actors and adoption of new practices by large numbers of people. All of this requires time.

2.4.2. MDF lessons learned

Many lessons have also been learned from five years of implementing MDF. Some of the key lessons so far include:

The MSD approach can be successfully adapted to small Pacific countries: At the time that MDF was initiated, it was not known whether the ‘MSD’ methodology could be successfully applied outside of the large, vibrant Asian economies where it had originated. MDF’s experience shows that the approach can indeed be

Lessons from MDF’s operations in smaller island economies:

Many businesses in Fiji and Timor-Leste are first generation family owned enterprises and the enabling environment offers few business services. As a result, **MDF’s partnerships in these countries must typically be longer and more intense** than might be found in market systems development programs in larger and more robust economies.

Small island markets are small and many businesses are risk averse, so **MDF cannot rely on “crowding in” of additional businesses copying MDF partners’ innovations to achieve systemic change. Instead, a more creative approach is required** with a greater emphasis on multiple partnerships to demonstrate and support core innovations and efforts to foster a variety of responses to partner’s innovations, which strengthen the country’s economic fabric and embed improvements in market systems.

⁵ Funded by DFID (2012-2017)

⁶ Funded by DFAT (2010-2015)

⁷ Funded by DFID (2012-2017)

adapted to the more difficult environments of small, isolated economies in the Pacific Region. However, more technical and commercial support is often needed for partners and the aggregate impact is likely to be much more modest than in larger countries. In addition, results can take longer to emerge in Pacific economies, the lag between MDF interventions and credible attribution of impact may need to be up to 4 years. During that time, there are however outcomes being achieved and a key lesson has been in better defining what can be expected in the “start-up” years of an MSD program.

There are benefits in a multi-country approach:

- Attracting and retaining skilled and experienced international staff has been easier with a large multi-country program than it would have been if multiple bilateral projects were established in small, isolated economies of the Pacific region. Nevertheless, attracting strong candidates for Country Representative positions continues to be challenging.
- The multi-country structure has enabled MDF to achieve a critical mass of internal market development expertise across the five countries. In this way, the program has been able to minimise the need for expensive short-term technical inputs by external specialists. This is a much less expensive model than individual bilateral projects, each of which would have to develop such a critical mass internally, or rely heavily on external consultant support.
- The Facility has also been able to increase the effectiveness of each country program by sharing operational systems, quality assurance processes, staff training and development and sharing lessons between countries through an active internal community of practice. However, the lesson-sharing has been easier amongst MDF team members, than amongst DFAT staff in different MDF countries due to agency constraints (e.g. staff turn-over and the multitude of competing priorities).

In order to successfully expand MDF into new countries, there must be **matching growth in internal management and analytical capacity**. In part due to the difficulty of recruiting appropriately experienced Country Representatives, MDF has resorted to senior managers taking on double duties as acting Country Representatives. This ability to share resources between country teams is one of the great successes of the multi-country approach, but the doubling up of duties hindered implementation of the program in new countries, most markedly in the case of simultaneous mobilisation in Sri Lanka and PNG in 2015. In future, it will be vital to ensure that the MDF Team has the ability to build its capacity to manage the challenging processes involved in new country mobilisation and the flexibility to fill unavoidable staffing gaps.

Gender equality and Women’s Economic Empowerment outcomes can be effectively pursued by carefully designing each partnership so that there is a sound business case behind innovations that include women to a greater extent in the economy and overcome barriers to WEE. If the innovations are of benefit to the company, then the benefits for women are more likely to be sustainable. MDF has also taken the novel approach of appointing two members of the Core Leadership Team with full-time responsibility for both Women’s Economic Empowerment and Results Measurement. WEE has thus been fully integrated into intervention management and MRM processes, so that these officers lead and mentor staff in both concerns simultaneously. Ownership of WEE has been built into each of the program staff’s core responsibilities, therefore mainstreaming a WEE lens throughout the entire organization.

2.4.3. Mid-term review findings

An independent Mid-Term Review of MDF was conducted in late 2015 and made many recommendations for adjustment to the program. Some of its key conclusions were:

- Like other market development programs, MDF had taken some years to establish itself and build up a skilled and capable team. As a result, the outcomes of the program have emerged quite slowly at first, but are now gathering pace. Overall, the MTR concluded that MDF is broadly achieving what was anticipated in the original design; in the coming years, there are very good prospects for impact at scale.

- MDF's results measurement system is impressively thorough and has been highly rated in independent audits by the DCED. It found that the system was somewhat conservative in estimating program benefits and could be improved in that respect.
- The MDF Framework for gender equality and Women's Economic Empowerment provides a sound basis for deepening impact and understanding how to engage with WEE within a market-focussed program. It has now been mainstreamed into MDF's operational and results measurement systems and could be further strengthened through additional attention to institutional and structural dimensions of gender equality.
- The Review examined the current management arrangements within DFAT and concluded that the current cross-regional, multi-country structure would be the best option to take the program forward into Phase II. It recommended that the Agriculture and Food Security (AFS) section, now part of the Private Sector, Infrastructure and Agriculture Branch (PXB) in DFAT Canberra retain a coordination role.
- MDF had demonstrated the value of the multi-country approach, using the established operational systems and existing staff capacity to help set up MDF programs in new countries. However, the Core Leadership Team is already stretched and consideration should be given to expanding the capabilities of the MDF management team.

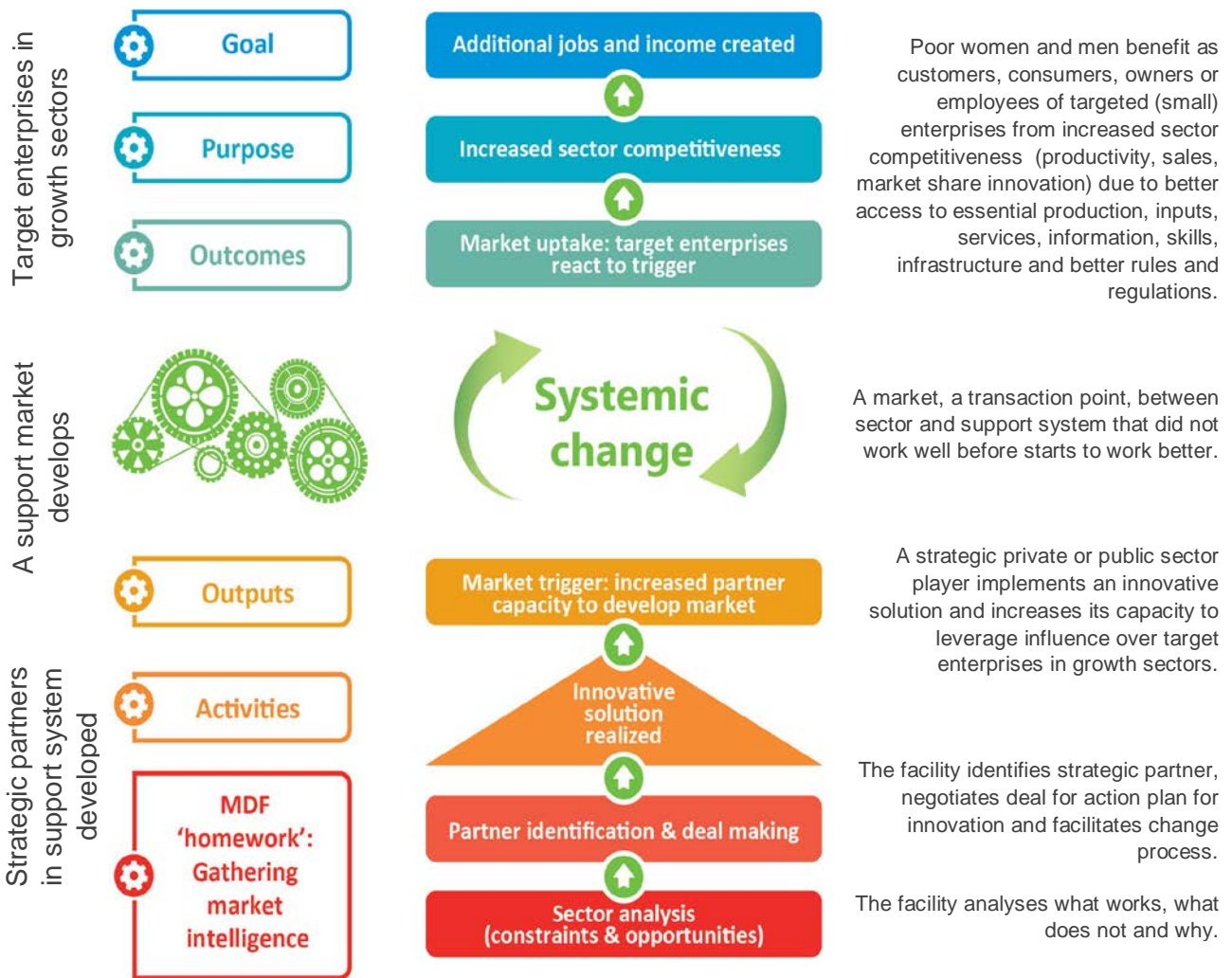
The MTR team concluded that, since MDF had good leadership, very well developed operational systems and a highly capable team, it had no hesitation in recommending that MDF be extended into a second phase.

Since the MTR there has been extensive discussion and debate among stakeholders of both the MTR recommendations and the best way forward for MDF Phase II. The Design process included further consultations, including a three-day workshop in Canberra for all stakeholders in September 2016. The final Program Design Document will reflect the conclusions and agreements reached through those discussions on the various design considerations.

3. Investment Description

3.1. Program logic and expected outcomes

The Theory of Change for the Market Development Facility is summarized in the diagram below. MDF's Framework for Gender Equality and Women's Economic Empowerment which is further elaborated in 4.7.1, overlays this:

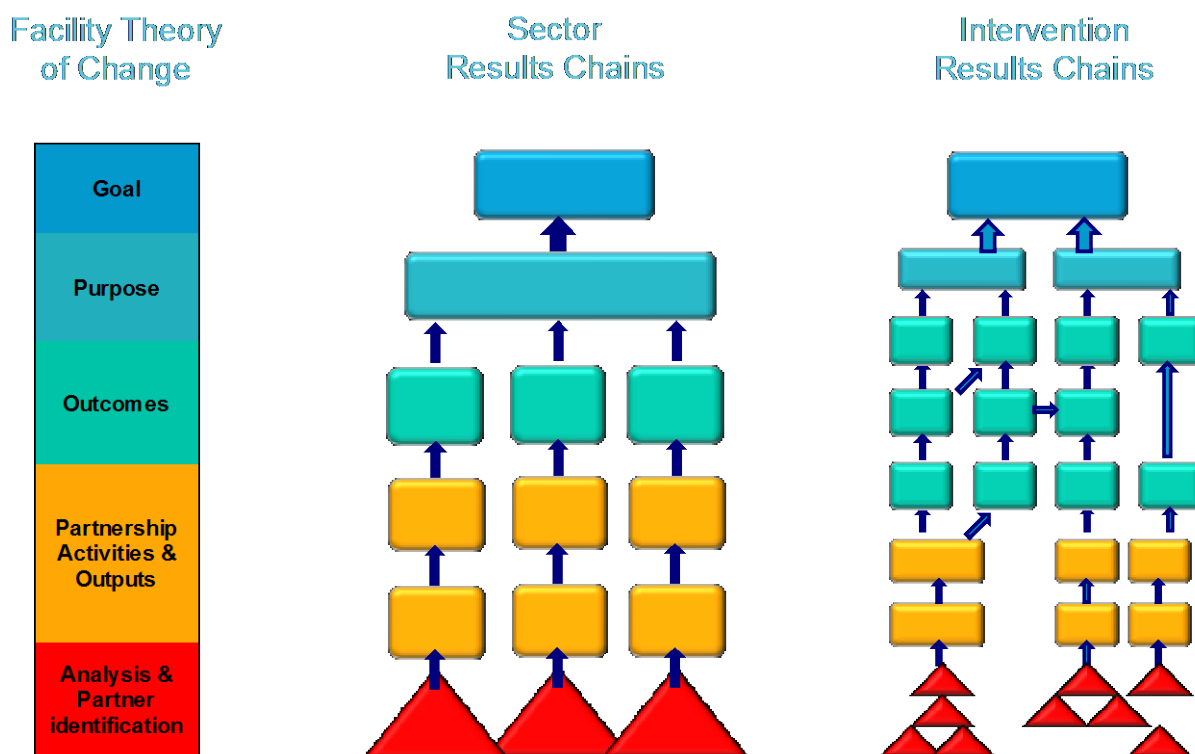


The left column shows the different levels in the program logic with the overall goal at the top. The lowest level involves MDF collecting and analysing market intelligence, disaggregated by gender, which then leads to identification of underlying constraints in the market systems, opportunities and strategic partners with whom the program co-creates innovative solutions to kick-start a change process. These result in outputs manifested in increased partner capacity which in turn brings about systemic change resulting in greater number of transactions by target enterprises consuming the new and/or improved services. This leads to enhanced enterprise and sector performance, ultimately resulting in the creation of more jobs and incomes in the sector for the target enterprises and populations. At all levels - analysis, vision for change, partner identification and detailed intervention design – gender dimensions and dynamics are systematically considered and addressed, so that the impact of MDF’s activities on women and men is clearly anticipated.

The right column indicates the results emanating from various steps of the logic. At the goal level, in tandem with the Gender Equality Framework, this captures impact such as jobs and income for poor women and men, women’s access to services and improvements in women’s agency resulting from MDF interventions. In MDF’s results measurement system, key gender disaggregated indicators are elaborated which relate to these results statements, by which the program measures success of its activities. These are outlined in more detail in the section on Monitoring, Evaluation and Learning in the next Chapter.

This theory of change informs and guides the whole of MDF’s operations. For example, detailed results chains are elaborated for every intervention MDF supports with partners. These, and the indicators they contain, are then carefully monitored throughout the intervention as a basis for active management of the intervention, but also to form a rigorous basis for reporting through MDF’s results measurement system (described in the next chapter). In between the overall theory of change and the intervention level results chains are sector level results chains, which help to plan and monitor the aggregate effect of a set of

partnership interventions in a particular sector or theme. As illustrated in the diagram below, this allows for systematic monitoring, aggregation and reporting of results across all levels at which the Facility operates.



3.1.1. Key expected outcomes

While the Goal of MDF is to create additional jobs and income for poor women and men, it is not possible to predict with precision the likely results of Phase II. However, drawing on the five years of experience from MDF I and from international experience in similar programs, the MDF management team has prepared estimates of likely results from a further five years of implementation of the program. These estimates, by country, are included in **Annex 1**. In summary, it is estimated that the following outcomes could be expected against the key MDF results indicators:

- **Additional income for poor women and men:** USD138,500,000
- **Additional jobs for poor women and men (FTE):** 16,000
- **Value of Additional Market Transactions (AMT):** USD153,500,000
- **Effective outreach:** 303,000
- **Investment leveraged:** USD19,200,000
- **Number of Market Innovations and regulatory reforms:** 400

3.2. Delivery approach

3.2.1. Core principles underpinning the market development approach

The design and implementation of MDF to date has been guided by a set of core principles, which have emerged over the last decade or so from the experience of M4P/MSD projects around the world. Together, they underpin a distinct delivery approach which marries the objectives and accountability requirements of

donors with the flexible and entrepreneurial operating culture that underpins the success of private sector enterprises. Some of these principles are summarized below:

Indirect and facilitatory approach: providing direct support to beneficiaries may be relatively simple to define and manage, but can only have limited reach and is often not sustainable; so the core of the approach involves influencing intermediaries and the incentives they face in their interactions with the ultimate beneficiaries. The aim is for MDF to catalyse change, but MDF should not itself become an actor in the market or set up parallel systems to serve the poor. This 'light touch' approach requires that MDF keeps its financial contribution to a partnership to the minimum that will enable the innovation to be successfully introduced.

Take time to understand, then build on local systems: poor women and men's lives and the systems around them are complex; understanding and working out how to intervene in these takes time. Strong analysis and good understanding, including understanding different factors of exclusion such as the different factors influencing women and men's interaction with the systems, the incentives for change and how much change is feasible, are crucial for sustainable outcomes.

An entrepreneurial, flexible culture: market systems are in continuous flux and react to interventions in often unforeseen ways, so an incremental, flexible approach is required that is able to seize opportunities as they arise. This implies a high degree of operational independence, and puts a premium on real-time analysis and monitoring rather than long and detailed ex-ante analyses.

Negotiate partnerships with strategic local private and public sector actors, based on a genuine sharing of costs and responsibilities, which ensure that ownership and the ability to manage the change process remain with the local partner. **Integrating environmental and social objectives:** recognising that environmental, social, and particularly gender considerations are vital to sustainability and provide a building block for pro-poor economic growth, enhancing opportunities for Women's Economic Empowerment is a priority in all participating countries.

Continuous learning: consistent monitoring and learning systems are imperative to enable adaptation of activities to maximise successes and to enable continuous development of the implementation team.

Implement a strong in-house monitoring and results measurement system in line with the DCED Standard for results measurement in private sector development, which can be externally audited.

Portfolio approach: due to the experimental, entrepreneurial nature of the approach, some partnerships will not work, while others might exceed expectations. A portfolio of interventions is therefore appropriate to manage risks and ensure substantial net success.

Systemic change: interventions clearly demonstrate they have a vision beyond individual partnerships towards the broader goal of making broader market systems work more efficiently and inclusively.

MDF supports systemic change in the dairy sector in Pakistan

Smallholder farmers comprise nearly 80% of the dairy sector in Pakistan. A key constraint to their growth is the inconsistent milk yields, particularly in the drier months, when their cattle do not have access to nutritious food. Silage, a storable fodder that provides critical nutrients to cattle, is only 3% of the agricultural inputs market, with most of it being sold in large bales to commercial dairy farms. MDF has recently partnered with rural entrepreneurs in Southern Punjab who are now selling silage in smaller, 70kg bales for only USD6. The fodder can be stored for up to four months and in addition to increasing milk yields, its use has also reduced the burden of cutting, collecting and carrying fodder, which largely falls to women. Though MDF initially partnered with Pioneer, a seed company, that intervention has stimulated a good deal of crowding in and product innovation among the other large companies including Engro Pakistan, ICI and Maxim International. The Government of Southern Punjab is beginning to invest in small bale silage, in addition to equipment manufacturers who are now moving into the market as they have seen an increase in demand for silage machinery. The MDF team is now looking to scale up this approach by partnering with financial institutions and central production facilities in addition to finding women entrepreneurs who can begin to sell the product in other regions of Pakistan.

Manage and report against strategies and sustainable outcomes, not activities: the success of the program should be measured against its ability to implement strategies, make partners achieve sustainable outcomes (grow markets, create pro-poor growth) and, ultimately, achieve sustainable changes beyond individual partnership at systems-level ('systemic change').

These principles are now deeply embedded in strategies, operational approaches, skill sets and operational systems which have been built over the last five years within MDF. They will similarly shape the implementation strategy for Phase II.

3.2.2. Multi-country program structure

For a DFAT program, MDF has a very unusual structure, as a cross-regional, multi-country program. DFAT management responsibility is shared between the Private Sector, Infrastructure and Agriculture Development Branch (PXB) in Canberra and five country Posts. This requires collaborative management of the tensions that arise from time to time between the emergent priorities of individual country programs and the broader objectives and requirements of DFAT and MDF as a whole.

When MDF was originally designed, it was recognised that introducing such an innovative approach to partnering with the private sector would be challenging for the Australian aid program. The multi-country structure was therefore chosen as the best vehicle, for the following reasons:

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

The 2015 Mid-Term Review (MTR) explored the best structure for managing the program in Phase II with stakeholders. In particular, the following two alternatives were explored:

1. Separate some or all of MDF into country-specific programs
2. Divide the program up into two smaller, regional multi-country programs

Country-specific programs would enable country program managers to have clear responsibility and authority over the program in their country, with greater flexibility to tailor the program to evolving bilateral program requirements. Overall however, this option would be more demanding of DFAT staff time, as each country-specific project would require its own design, quality assurance, tendering and contract negotiation processes. There may also be significant transition costs and risks, as each new program would need to go through the process of team establishment, capacity building and developing operations. Post program managers were not attracted to this option.

Substantial internal consultations within DFAT in response to the MTR led to agreement among all the participating parts of DFAT to proceed with Phase II based on the same cross-regional, multi-country structure. The Design TORs nevertheless tasked the Design Team to improve the functioning of this arrangement, by:

- Improving country program ownership by a contractual arrangement where country programs sign up to a country specific sub agreement of an umbrella contract; and

- Improving the governance and management arrangements for the program including allowing for the further expansion of the MDF to other countries, should that be required, as well as the potential exit for countries from the program.

The Design incorporates responses in both of these areas, which are outlined in the following chapter.

3.2.3. Common support functions

MDF should not be considered as a normal project or even a set of projects, but rather as a set of interlinked, continuously evolving, country specific programs, guided and supported by a set of common functions provided by a MDF Core Leadership Team (CLT). These common functions include:

Leadership and strategic management of the MDF as a whole: ensuring that MDF is an efficient and effective organisation, which reflects international standards of good practice in international development, achieves results and meets the needs of DFAT. Support the launch of new Country Teams or the winding down and exit of Country Teams, where requested to do so by DFAT.

Evolution of the Program: Over the course of any development program, the economic situation may change within a sector or a country, the priorities of partner governments may change as may the priorities of DFAT. The CLT needs to have the ability to assist country teams to manage change in a way which still retains the strengths of the MSD approach. Examples of change might include the need to focus on resilience building for sectors potentially affected by natural disasters or the need to focus on nutrition for particular groups who are facing challenges in accessing nutritious foods.

Capacity building and Technical back-stopping: Building the capacity of the Country Team staff, supporting the appropriate application of MDF's systems approach: supporting the Country Teams by providing ongoing mentoring, training and technical support to strategy development, intervention design, and deal making with the private sector. Cross-posting of MDF staff from one country to another is also supported, to fill temporary gaps, promote cross-learning, help establish new country programs and provide a vehicle to develop middle-level staff into leadership positions.

Specialist Expertise: Providing specialist expertise as and when required to support Country Teams to go into new partnerships and new sectors.

Operations: The Operations Manager leads a small team of locally engaged staff who focus on finance, procurement and security. Together they backstop country accountants, country operations administrators and more generally the Country Representatives in managing the country offices.

Monitoring & Results Measurement: A consistent MRM platform is applied across the whole of MDF, which supports rigorous, internationally audited results measurement and reporting by country teams. The system is based on the DCED Standard for Results Measurement and is continuously evolving, based on the lessons from MDF's experience and latest developments in the international community of market development programs (See section 4.4).

Gender and Women's Economic Empowerment: Over the period of Phase I, MDF's approach to gender and women's economic empowerment has been greatly strengthened and fully integrated into the results monitoring and measurement system. Two members of the CLT now have full time responsibility for assisting country teams to implement a consistent approach to gender and results management throughout the program. The two WEE-RM managers lead two working groups consisting of locally engaged specialists and international advisers on WEE and RM embedded in the country teams.

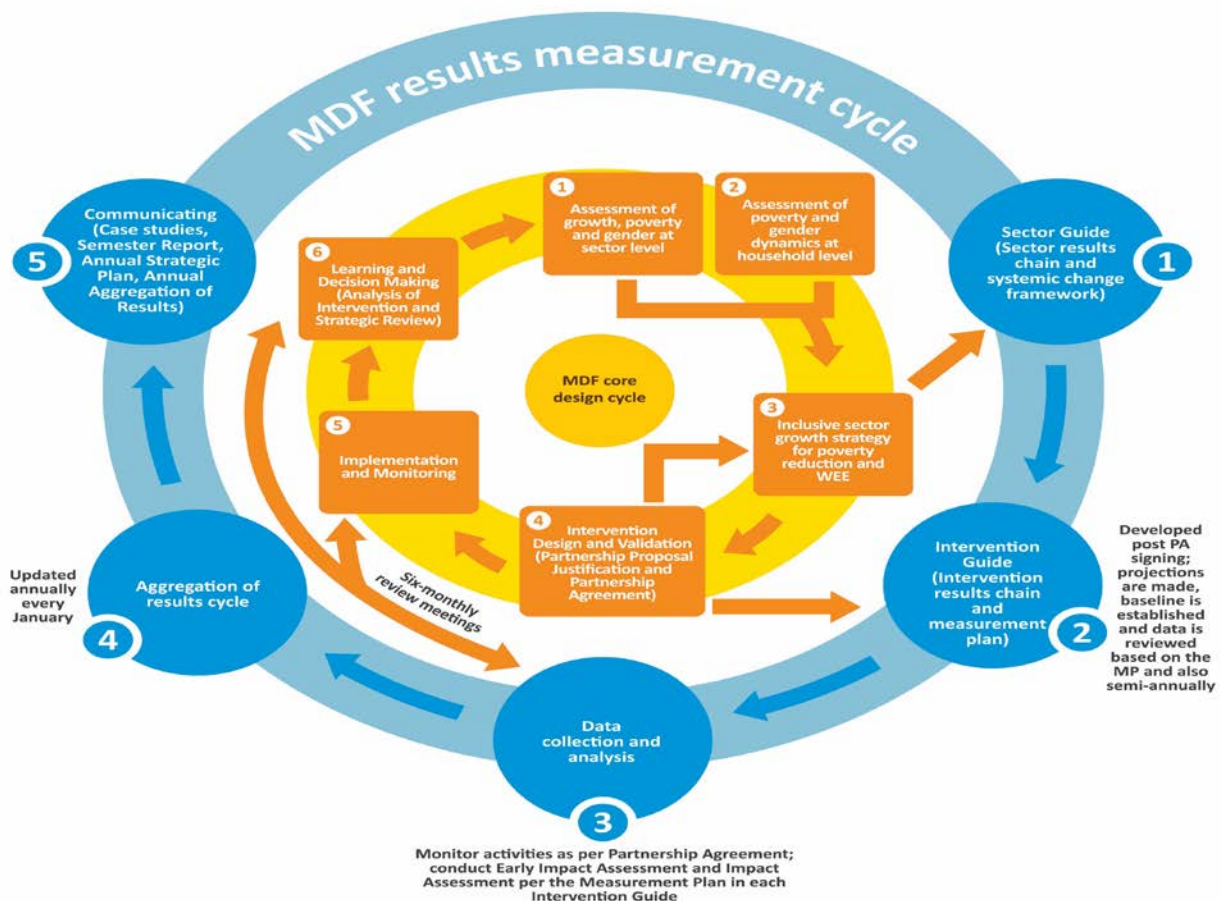
Communications: The Communications Manager leads the communications working group, consisting of locally engaged specialists embedded in the country teams. Support is provided for both internal and external communications, including an integrated information management and Learning platform (MangoApps), the MDF website, preparation of public communications materials and technical reports.

These functions and more generally how it is proposed MDF could be organised in Phase II are summarised in the **Organisation Chart** included in **Annex 2**.

3.2.4. Adapting to country context

While the principles and operational systems are common across the portfolio, the market development approach must then be adapted to suit the particular circumstances of each individual partner country and the DFAT policies and strategies for that country.

For this and other reasons, MDF typically commences operations in each country with no set geographical or sectoral focus or list of specific activities to implement. The program in each country is determined through a process of analysis and stakeholder engagement to identify potential for economic growth, the most promising regions, industry sectors and target populations that fit with the particular DFAT strategy for the country and where partnering with the private sector is likely to produce the greatest impact on poor women and men. Further analysis on the poverty and gender profiles of the beneficiaries within those sectors are then conducted. This process is informed and progressively shaped by an adaptive management approach which requires active and regular reflection on what is working and what is not. Country and sector strategies are continuously adapted to build on successful activities and to discontinue those which are not producing results, and to apply the lessons of those experience to the development of future partnerships and approaches. The reflective program cycle is illustrated in the following diagram.



MDF's experience to date has demonstrated the challenges in recruiting local team members with relevant market development experience able to apply this analytical learning process (as MDF is often the first program in a country applying the approach). MDF has therefore tailored its recruitment, team composition and capacity development processes to ensure that local advisers are recruited on a competency-based approach, with significant on-the-job training in country. They are also exposed to other country programs through participation in research efforts, placements and a Leadership Development Program. This day-to-day on-the-job learning-by-doing capacity building is led by the Country Representatives, supported by the wider CLT.

Guided by DFAT's particular country strategy objectives and focus, an initial Scoping Mission explores different sectors, seeking to identify their potential for broad-based, inclusive growth for poor women and men as well as the underlying causes of market failures. To get a sense of this, the MDF team may conduct interviews with relevant stakeholders (e.g. women farmers, traders, exporters, NGOs, government regulators) and may conduct fieldwork to ascertain patterns and trends in a sector. Once MDF is mobilised in a country, this rapid assessment is followed up with a more robust analysis by the newly recruited members of the country team so that they develop an in-depth first hand understanding of the sector, including causes of poverty and exclusion, drivers of change and potential partnerships. Even while research is on-going the team will seek to negotiate some early partnerships, as implementing these will foster further learning. The outcomes of this sector-level analysis and a subsequent household-level study of poverty and gender dynamics are summarised in a country engagement strategy.

Table 4: Country Engagement Strategies for Phase II

Country Engagement Strategies	
Fiji	Will focus on export-led growth, tourism and inclusive business development (regional, ethnicity) in a more competitive business environment.
Timor Leste	Will focus on making agriculture more productive and rewarding, and stimulating investment in local industries to increase domestic competitiveness, diversify the economy, and create off-farm employment
Papua New Guinea	Will focus on emerging industries and services able to connect farmers and SMEs to markets, consumers to essential services, increase domestic competitiveness and create local employment
Pakistan	Will focus on the diversification and reach of local inputs, services and value chains to include small farmers and borderlands, increase product quality and production efficiency and compete in domestic urban and international markets
Sri Lanka	Will focus on export-led growth with a focus on tourism and related sectors to support growth, spread and diversification in tourism, stimulate exports of Sri-Lanka made goods and services and create opportunities for women and ethnic minorities and in lagging areas

Further details of MDF's strategies for each country of operation can be found in Annex 1.

3.2.5. Partnerships Approach

Partnerships often emerge from the many consultations MDF holds with in-country stakeholders during the analytical and strategy development stages of establishing a new country program, but they also emerge from MDF's deepening engagement with the local economy as the program becomes more established.

MDF partners are most likely to be private sector organisations. These may be large, incorporated businesses or small, family owned enterprises. Alternatively, they might be representative bodies, such as peak industry bodies, boards of commerce or chambers of industry. However, as demonstrated above, partnerships are not limited to the private sector, and can include government organisations, community organisations or non-profit organisations, where these groups play an important role in inclusive growth in markets.

Drawing on many years of experience, market systems development programs have developed a particular approach to engaging with private sector partners. It is important for the partner to retain ownership of the proposed innovation and take full responsibility for implementation of the agreed intervention. It is also important that business advisors act in a business-like manner in their dealings with partners, build trust over time and ensure that MDF is able to offer a sound value proposition.

Many partnerships aim to leverage investment and encouraging business innovation, for example:

- partnerships to venture into a new or underserved market (e.g. agricultural lime in Fiji, food testing in Timor-Leste, shoe lasts in Pakistan);
- partnerships to invest in a new product or business model (e.g. commercial seedling production in Fiji, packaged local rice in Timor-Leste, a new prawn supply chain in Sri Lanka);
- promoting first-of-their-kind investments to demonstrate the feasibility of the business and break down established ideas of what can and cannot work (e.g. commercial mud crab cultivation in Fiji, the Balibo Fort Hotel in Timor-Leste, and commercial silage production for small farmers in Pakistan).

Other partnerships work with the public sector or focus on public sector reform. In Fiji for example, MDF worked on broadening a duty suspension scheme to stimulate exports, and working with the relevant authorities and local sector bodies to promote more diverse destination marketing for Fiji tourism.

Finally, some partnerships are signed to break down barriers of exclusion, for instance by investments in day care in Fiji and women-only work places Pakistan.

Regular and frequent monitoring and updating of the 'projections' of what each intervention will lead to is a core feature of the approach. This involves the use of detailed results chains encapsulating the program's expectations of how a partnership will lead to changes in the market and then to changes in opportunities for poor women and men. MDF also implements safeguards in its monitoring system to mitigate negative externalities which may arise with economic growth (eg. violence against women arising from an increase in women's income). It is vital that the team has the skills and the authority to respond rapidly and flexibly to opportunities and risks as they arise.

3.2.5.1 Exit strategy for unsuccessful partnerships

Whilst the partner identification and deal negotiation process generally ensures that MDF only enters into partnership where that is a strong business case and therefore a relatively high likelihood for success, the reality is that some partnerships will fail over the course of Phase II implementation. As in Phase I the program must be ready and prepared to rapidly exit partnerships, manage any negative publicity associated with these exits, and ensure that learning from that failure is fed back into program management and development of future partnerships.

Failure may be caused by new business models proving to be unviable, poor management or through the partner breaching the terms of their partnership agreement. Whilst the MDF partnering approach is always predicated on the partner having significant 'skin in the game' and therefore strong incentives to withdraw if the new business model is unlikely to succeed, on occasion this may not occur. Thus, the MDF partnering approach will also include a clear understanding by all parties concerned of the basis on which MDF will exit a partnership.

3.2.6. Systemic Change

Section 3.2.4 above summarises the approach taken by MDF in establishing the strategy for a new country program. The initial country strategy is developed around specific 'sectors' (eg. horticulture, tourism) or 'themes' (eg. improving connectivity, or greenfield industries) where there are judged to be the most promising opportunities to facilitate inclusive growth that specifically targets poor men and women. Each sector or thematic engagement strategy gradually evolves as the program develops experience and becomes more established in-country. Lessons are learned from each suite of partnerships and wider connections are developed with more stakeholders throughout the economy. A deeper understanding is gradually accumulated of the key constraints to inclusive growth and the opportunities to support interventions to overcome them.

As each program becomes better established, the strategic focus increasingly shifts from establishing individual partnerships to achieving structural changes in the markets in which MDF is working, hence achieving scale. This is referred to as 'systemic change'.

How MDF chooses pro-poor sectors:

MDF has two criteria for sector selection. Sectors must exhibit the potential to grow and that growth must be relevant to poor women and men. Sector assessment and sector growth strategies detail constraints and opportunities. These reports outline initial findings on the scope and scale of poverty. MDF then undertakes separate studies to gain a deeper understanding of the poverty, gender and ethnic dynamics within identified sectors. These country specific studies use qualitative and quantitative methods to answer questions such as, 'who are the poor?' and 'what are the choices and strategies they use to move out of poverty', and 'what prevents this from happening normally?' These studies also identify gender roles, norms and any ethnic differences. All this information is integrated into MDF's strategies to help the Country Teams tailor interventions that actively target poor producers, workers and consumers.

'Systemic change' is change in the underlying causes of market system performance that can bring about a better functioning market system, for the benefit of poor women and men.⁸

Unlike impact such as jobs, income and outreach, systemic change is qualitative, more complex and multi-dimensional. Scale is one dimension of systemic change – but beyond that systemic change is about the quality of change. It is about a) sustainability, b) resilience in the face of shocks, c) the inclusion of both women and men, and d) change that is ultimately owned, managed, and driven by local actors.

In Phase I MDF developed its own framework for analysing and communicating systemic change, because it felt that the available frameworks and tools could not do justice to the very diverse, often thin and small markets in which MDF operates. MDF conceptualises systemic change as a pathway: driving sustainable change for poor women and men at a systems level will be a combination of private and public partners and influencing a wider audience with market intelligence, demonstrations and learning, but the strategy for this (sequence, type of partner and influencing event) will differ between market systems and cannot be fully foreseen beforehand. By monitoring the process against a pathway, MDF decides on which partnerships or influencing activities should be next to push the system to sustained, inclusive growth – see the Fiji example below.

Market systems are comprised of buyers, sellers and institutions, such as private sector players, government agencies, business membership organisations, community based organizations, consumers, traders and producers. Amongst these actors, there are large pockets of poor women and men who are either disconnected or excluded from the formal market due to a variety of obstacles. A lack of information or access to markets and resource constraints mean that the cycle of poverty continues without a clear pathway out. MDF's role is to encourage sustainable behaviour changes among market players who have the will and ability to explore innovative business models. This push then drives the sector as a whole to

⁸ For further details of MDF's approach to Systemic Change, see *Achieving Change in Markets: MDF Framework for Defining and Populating Pathways to Systemic Change. Strategic Guidance Note No 3, MDF 2015*

recognise a more efficient, pro-poor and inclusive ways of operating. At times the changes required can be minor, such as the introduction of a new function in the market, and at others these can be major, such as changes in norms in the community at large which allows excluded groups, for example women, to take on new roles or responsibilities. Ultimately, market actors should begin to see poor men and women as integral to their business, either as customers, employees or suppliers, and continue to work with them. Systemic change is the gradual institutionalization or 'normalization' of these improved behaviours, sustained by the market incentives faced by each of the market players.

Typically, a suite of synergistic partnerships is required to address existing market failures, each one seeking to address weaknesses in one or more parts of the market system. The following example, from MDF's work in Fiji, illustrates how a group of partnerships collectively help to build a pathway to systemic market change:

Fiji: Promoting Systemic Change in Agricultural Input Supply

In Fiji there are about 65,000 farmers, the majority of whom are poor and subsistence oriented. One of the biggest problems farmers face is the lack of regular access to affordable inputs, namely: seeds, agricultural lime, information and other agro-inputs. Only a handful of companies are involved in importing and distributing agro-inputs; there are a number of nurseries but few operate in a fully commercial manner. With Standard Concrete (SC), MDF is promoting the availability of local agricultural lime which will help tackle the problems of Fiji's acidic soil; this has shown good uptake. Under seeds and seedlings, MDF's work with Devesh and KK Hardware is beginning to bear fruit. Devesh has produced multiple batches, selling seedlings to different groups of farmers. KK hardware has been given approval by Biosecurity of Fiji to commercially import and distribute seeds; this will be a significant improvement to the competitiveness of the agro-inputs sector resulting in more options and potentially lower costs, since previously there was only one company importing seeds. To have wider scale impact, MDF is also working with an input retailer in the north to set up a distribution system; already 17 retailers have started receiving/retailing agro inputs for the first time thanks to this initiative. Further, the partner input retailers have organised numerous farmer orientation programs based on MDF support. With a better functioning market, poor farmers are seeing the benefits, using an increased number of products and ultimately seeing higher yields.

Crucially, these 'pathways to systemic change' will vary from one systemic change area to the next, from one sector or market system to the next, and from one country to the next. In some sectors and countries, especially those with a large pool of relatively mature market players and no significant entry barriers, additional companies are encouraged to replicate innovations that have been demonstrated to work by an early adopter ('crowding in').

In other sectors and countries where entrepreneurs' skills or (financial) capacity may be minimal, a more autonomous approach may not be appropriate and other pathways to systemic change may need to be considered. Working with business membership organisations to encourage Governments to introduce regulatory changes, or improving business support services through nudging a variety of banks or product certification companies to change existing business models can create reverberations through a market, altering the status quo and spurring inclusive growth. In some contexts close engagement with partner governments as change agents may be appropriate and necessary to deliver systemic change. Improvements in government policies, regulations or programs that support new business models, such as changes in import or export regulations or new agricultural extension services may need to be driven through direct partnership with government.

With the move into Phase II, the opportunities to support and encourage systemic change will grow, thereby providing more potential for MDF to deliver sustainable and large scale change for poor men and women.

3.2.7. Accession of new countries to MDF and Exit from MDF

The challenges encountered in simultaneously initiating programs in PNG and Sri Lanka during 2015 threw up a number of important lessons for the program. Perhaps most importantly, it revealed issues with:

- how thinly the management team had been stretched as MDF has grown from one to five countries;
- the challenge in recruiting Country Representatives to new countries;
- the need for clearer processes when seconding current MDF staff to new Country Teams and;
- the importance of managing the pace of MDF expansion.

For Phase II, a strengthened and more resilient management structure will be required, so that MDF can better handle the establishment and potentially, exit of programs in specific countries, without adversely affecting other Country Teams.

In 2016, DFAT agreed to the addition of two additional positions to strengthen the Core Leadership Team: a new Deputy Team Leader position and a second WEE-RM manager. These positions will help to shore up the program for the remainder of Phase I as well as in Phase II, but the design for Phase II includes additional measures to strengthen management of the Program to allow expansion into new Country Programs.

In order to ensure that the future accession of new countries to MDF proceeds smoothly and efficiently, it is proposed that the following guidelines form the basis of new protocols to be followed when new country programs are considering the establishment of an MDF Country Team. It will be essential that there is sufficient lead time in any proposed expansion to allow proper resourcing:

1. The commencement of MDF programs in new countries must be approved not only by the relevant DFAT country program delegate, but also by the Program Managers Forum (PMF). DFAT should wherever possible avoid introducing more than one new country program a year.
2. Country programs seeking to mobilise an MDF Country Team in their country would need to commit an agreed minimum amount of funding per annum to the program and commit to operate for at least five years.
3. A set of principles underpinning successful program delivery would need to be endorsed by DFAT program managers seeking to establish MDF in new countries. These principles would be incorporated into the MDF Head contract and define MDF's nature, working and purpose. The list of principles outlined in section 3.2.1 of this document will form a starting basis for this.
4. DFAT program managers responsible for mobilising a new MDF Country Team will participate in a training module on the principles of market development, MDF operational systems, and approaches to partnering with the private sector.
5. The training would be followed by a mobilisation workshop. It would explore the potential role of MDF in the country program, based on the outcomes of scoping missions and stakeholder consultation, DFAT's priorities and MDF's position within the Aid Investment Plan as well as relations with and expectations of national governments. This workshop would develop a joint country-specific roadmap between DFAT and MDF, which builds on the MDF principles in the Head Contract and outlines country-specific requirements.

Managing expectations: Indicators of success 12-18 months after accession

A key challenge in the first 12-18 months of implementation of any market development program relates to navigating between donor expectations of 'quick-wins' and the realities of start-up in a new country. Even with the sort of high quality backstopping provided by the CLT and cross-country systems of MDF, accession requires significant amounts of time to recruit, build the capacity of a team and develop the networks required to form and sustain effective partnerships.

The proposed DFAT program manager training would help establish and judge proxy indicators for success in the first 12-18 months of implementation in a new country. This would include ensuring that the program has an enthusiastic, questioning and market savvy team, evidence of rich market insights, well thought through sector strategies and a small number of well-considered partnerships in a late stage of development.

The DFAT-MDF joint country roadmap should be considered a living document that can be revisited as and when needed. Regular AG visits, particularly in the early stages, would be important for assessing progress against, or to make changes to, this joint country roadmap.

In some country programs, the Post may opt for a more formal partnership brokering process, with the road map and partnership recorded in the form of a Memorandum of Understanding between the Post and MDF. The development of Country Roadmaps or brokered partnerships should be piloted in one or two countries, to assess their efficacy before being rolled out to all interested countries.

In the case of a Country program exiting, the following guidelines would be adopted:

1. An exit plan would be developed by the DFAT and MDF in consultation with the relevant national government. That plan would include the management of partnerships and deployment of country level staff following the exit from MDF. This plan may include the transition of the partnerships and/or staff to another organisation who could continue to undertake an MDF-type role.
2. DFAT Country Program Managers would be responsible for managing relationships with the relevant national government.
3. MDF Country Team would be responsible for the hand-over or hand-back of assets, information, intellectual property and the wind-up of leases etc. MDF CLT will be responsible for re-assessment of the leadership roles and functions and whether any adjustment are required in response to an exit.

3.3. Government engagement

While the primary partners for MDF interventions are often from the private sector, the program also interacts with government in a range of ways. National governments in each of the countries in which MDF operates have vital roles to play in market development, such as ensuring appropriate business regulation, enforcing contract law, setting appropriate import and export protocols, product quality and safety standards, etc. National government ministries and other bodies are also typically key national counterparts for various parts of the Australian aid program.

MDF's experience to date indicates that MDF's engagement with government needs to be contextualised in the particular circumstances of each country and MDF's sectoral focus in each country. It also needs to be considered within the broader pattern of the Australian Government's relationship with each partner government.

MDF's most productive engagements with host governments to date has been when these are developed as an integral part of MDF's strategy in a particular sector. This has taken a variety of forms. For example, in Timor Leste, MDF regularly participates in sector working groups, such as the National Seed Council, the Horticulture Working Group and Coffee Working Group, since these are important stakeholder engagement groups for the market innovations MDF is seeking to promote.

In other cases, MDF may support innovations more directly involving a Government agency, to support reforms or regulatory changes that can unlock inclusive market development (see the adjacent example on tariff reform in Fiji).

Case Study: Customs and the Fiji Export Council

MDF supported the Fiji Export Council (FEC) to analyze the revenue and policy implications of broadening the current duty exemptions available to exporters who import inputs necessary for their businesses. Currently only companies that export 100% of their production are eligible for duty suspension on imports. The FEC, working in collaboration with Customs, engaged a consultant to analyze the impact on Government Revenues were companies exporting less than 100% (ranging from 50% to 90%) to be given access to the Duty Suspension Scheme. After due consideration of this analysis, Customs drafted a policy change that (among other things) would see the threshold reduced to 70%.

In Sri Lanka, the emerging MDF country strategy has led to a more substantial engagement with Government. MDF's strategy was modified to better align with an emerging DFAT partnership with the GOSL

Ministry of Tourism Development and Christian Affairs. As a result, the portfolio in Sri Lanka focuses on Tourism and Related Sectors.

In Phase II, MDF will continue with this approach of tailoring government engagement to the particular circumstances in the country and the particular requirements of the country strategy.

3.4. Resources

In view of the solid progress to date of MDF and the long-term nature of MSD programs, the second phase of the Facility will be structured as a ten-year program, with a stop-go point at year 5, following a major independent review. The findings of the review and DFAT’s response to its recommendations will determine whether the Facility will continue into the subsequent five-year period and what shape that might take.

The final cost of this second phase of MDF will depend on whether, during implementation, additional country programs decide to establish country teams or existing Country programs choose to exit. It will also depend on how the five participating country programs decide to adjust their levels of investment over time. This design is therefore based on initial upper level indicative planning figures from each of the participating DFAT programs. These are detailed in the table below for the first five years of MDF II.

Table 5: Indicative Financial Contributions from DFAT Programs (AUDm)

	2017-18	2018-19	2019-20	2020-21	2021-22	Total
Fiji	3.5	3.5	3.5	3.5	3.5	17.5
Timor-Leste	2.1	2.1	2.1	2.1	2.1	10.8
Pakistan	3	3	3	3	3	15
PNG	3.4	4.0	4.1	4.2	4.3	20
Sri Lanka	2.5	2.5	2.5	2.5	2.5	12.5
PXB	1.0	1.0	1.0	1.0	1.0	5.0
Total	15.5	16.1	16.2	16.3	16.4	80.5

A detailed program budget is included at **Annex 3** outlining how program funds will be allocated between the costs of Country Teams and the requirements of common functions. Each participating country program would contribute funds to cover operational costs in their country and also an equal share of agreed common functions and management fees. This will include:

- Country Implementation Team personnel costs and CT operational and travel costs
- Equal share of Core Leadership Team fees (incl 20% of Country Representative costs) and CLT support costs
- Equal share of other Facility-wide (LES) roles supporting core functions (e.g., Central Facility Accountant)
- Equal share of fixed management fees (currently 80% of total management fees)
- Equal share of performance-based milestone payments (currently 20% of management fees)

In addition, the Private Sector, Infrastructure and Agriculture Branch (PXB) of DFAT in Canberra will support common functions that are most closely aligned with its mandate and which may be beyond the operational requirements of the participating country programs. It will also support activities and functions which facilitate collective action, program-wide governance and decision-making and help to maintain the cohesion of the program. The PXB contribution will include support for the following:

- Cross-learning and communications activities which go beyond the immediate needs of country programs and help support the development of a community of practice in market systems development for DFAT staff and other stakeholders.

- Technical support and advisory services in market systems for DFAT staff, beyond the immediate needs of the MDF program.
- Independent reviews and other short-term consultancies (separate to Managing Contractor contract)
- Meetings and teleconferences of the Program Managers Forum and any learning events associated with those meetings
- The Advisory Group (separate to Managing Contractor contract)

In addition, PXB will facilitate cross-DFAT decision-making with respect to performance-based milestone payments for management fees and certify payments for those invoices. However, in Phase II, those payments will be funded collectively by the participating country programs.

3.5. Value for money

3.5.1. Heavy dependence on a skilled team

Unlike in most other DFAT development programs, a high proportion of MDF program expenditure relates to staffing and operational costs of the implementing team. Like other MSD programs, a relatively modest proportion is expended on supporting market interventions with partners. At first glance, this might appear inefficient (since few aid dollars are being received by in-country partners), but needs to be understood in terms of this particular modality. MDF operates not by delivering services to the poor, but by facilitating changes in markets so that they better serve the poor. So the main contribution of MDF to pro-poor growth comes in the form of market analysis, brokering partnerships between market actors, assisting companies to formulate new business models, and supporting and mentoring companies taking risks to achieve market innovations. The main inputs for all of these catalytic activities are highly capable and well-trained staff.

The approach also requires restraint in the amount of funding provided to partners. If too much financial support is provided to partner companies, the program would risk becoming too closely enmeshed in business enterprises, distorting business investment decisions, reducing the ownership by the partners of the innovations and putting the sustainability of the intervention at risk. In other words, to ensure sustainability, it is vital that MDF makes only modest financial contributions - partners should remain in the driving seat.

Another key cost-effectiveness consideration for MDF are the significant cost savings made as a result of the multi-country model. While additional transaction costs are incurred in coordinating such a geographically dispersed program, there are also considerable economies of scale. If instead, five individual bilateral programs were to be designed, contracted and implemented, the costs of establishing fully operational country programs, each with its own systems for analysis, staff training, partnering, results measurement and reporting, would be much higher. The additional workload for DFAT would also be significant.

3.5.2. Benefits in relation to costs

Based on existing financial commitments from the five participating country programs, together with contributions centrally from the PXB branch, the estimated budget for the first 5 years of Phase II is AUD80.5 million. The estimated outcomes of Phase II outlined in Section 3.1.1 provide a starting point for considering whether the investment in another phase is merited. For example, the estimated additional income likely to be generated by Phase II, at just over USD138 million (or approximately AUD186m), compares favourably with the estimated cost of AUD80.5 million. Over 300,000 men and women are expected to benefit from a tangible increase in their incomes (including over 16,000 (full-time equivalent) jobs that are expected to be created). The program is also expected to stimulate additional market transactions to the value of USD153 million, which not only contributes to economic growth, but also to secondary effects, such as increased Government revenues.

However, there are a range of other development benefits expected from the program which are less tangible and more difficult to place a monetary value on. These include the benefits of enabling previously

excluded or marginalised groups from engaging in the economy, redressing gender inequality and providing greater opportunities for Women's Economic Empowerment. It also includes MDF's expected contribution to restructuring the economies of partner countries, such as improved export competitiveness, economic diversification and contributing to beneficial policy or regulatory changes through providing business intelligence and building the evidence base for change.

4. Implementation Arrangements

4.1. Governance and management arrangements

4.1.1. Managing Contractor

As in Phase I, it is proposed that the implementation of MDF Phase II be delivered by a Managing Contractor (MC). This approach provides the flexibility and responsiveness necessary to mobilise and recruit a highly skilled team and implement a market systems program of the complexity and scale of MDF. The Managing Contractor will need to ensure an adaptive management approach is applied, which is crucial in a program like MDF that encompasses a range of countries, activities and sectors.

This investment design does not specify exactly which, and how many partnerships, sub-contracts and other activities will best allow MDF Phase II to meet the program outcomes, but the Org Chart in **Annex 2** gives an indication of the volume of partnerships and influencing activities that should be expected, based on available resourcing and expectations for results. The MC would have responsibility for undertaking market analysis, design interventions, negotiate partnership agreements and determine the investment applicable to each intervention in close consultation with DFAT and other relevant stakeholders. Where partnerships are not delivering expected results, the MC would have the responsibility to withdraw from them. The MC would also be responsible for ensuring close engagement and policy alignment with DFAT country programs and broader DFAT strategy and policies.

The MC will be responsible for all financial, procurement and administrative requirements of the Facility as well as the delivery of training, results measurement, communication and knowledge management. The MC will prepare an annual work plan for approval by the Program Managers Forum as well as six monthly reports to DFAT posts and to PXB.

4.1.2. Governance

4.1.2.1 Program Managers Forum

The multi-regional, multi-country, but centrally managed structure of MDF is unique within the DFAT aid portfolio. As the Facility has grown, and DFAT posts have assumed greater responsibility, there has been increasing acknowledgement that a joint management/learning/exchange/policy forum would be beneficial to guide MDF in Phase II. Accordingly, the key decision-making and coordination body for the second phase of MDF will be the Program Managers Forum (PMF). The Forum will build on the recent experience of program managers meetings and be composed primarily of DFAT representatives from PXB in Canberra and from each of the participating country programs. DFAT activity managers would normally participate in PMF meetings, but Counsellors may also participate where the agenda items are of sufficient importance.

In rare circumstances in which the PMF is unable to come to a consensus on critical decisions, a meeting of relevant Senior Executive Service (SES) level representatives from posts may be convened by PXB. This might be due to conflicting country level objectives, for example relating to the accession of new country programs and associated redistribution of existing MDF resources.

Although some discussions would be limited to DFAT officers only, the PMF is intended to underpin a spirit of partnership between stakeholders, where regular communication helps in dealing with program management issues in a relatively informal manner. For those reasons, members of the CLT, MC and AG would commonly be invited to participate in meetings.

The PMF would:

1. Meet via teleconference on a regular basis: The agenda for the virtual meetings will generally focus on administrative, financial, contractual and operational issues.
2. Meet physically every twelve months. The agenda for the physical meetings will focus more on planning, strategy, learning and sharing of outcomes. The meeting should be timed to fit with the annual planning cycle. The AG, Core Leadership Team and Managing Contractor would normally be expected to participate in physical meetings. These meetings also offer opportunity to engage broader DFAT stakeholders.

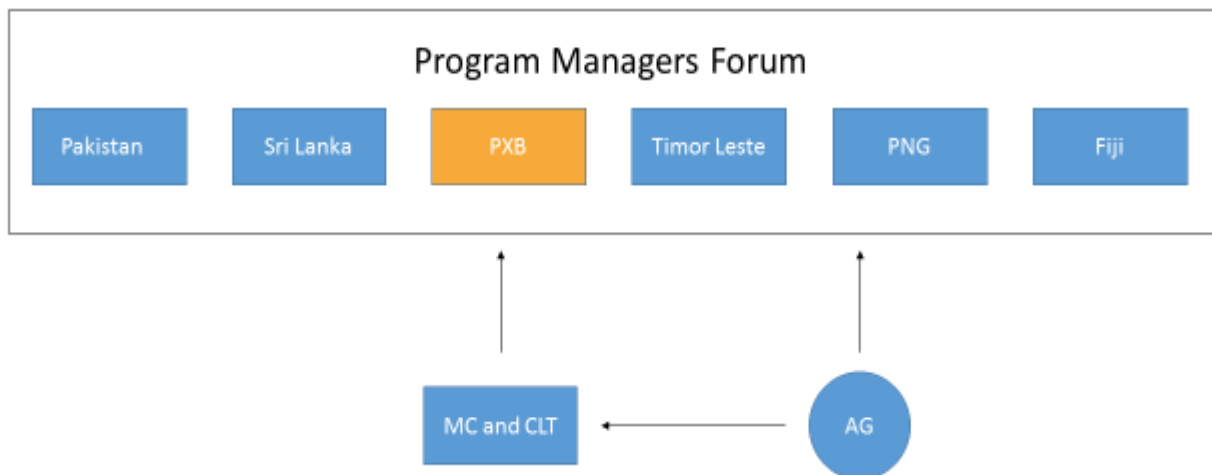
MDF will provide secretarial support for the PMF, including:

- arranging and hosting physical meetings and some teleconferences
- preparing the agenda, in consultation with DFAT stakeholders and the AG;
- preparing and circulating any meeting records that are required.

While the roles of the PMF can be expected to evolve over time, its responsibilities are likely to reflect and support the role of PXB in ensuring coordinated DFAT oversight of the Facility. PXB will have formal responsibility for the following functions with the support of the PMF:

- Ensure effective coordination between the various parts of DFAT supporting the program and discuss and address financial and management issues as they arise;
- Review and approve the draft MDF Annual Work Plan;
- Approve proposals to include new country programs in MDF, and ensure that adequate support is provided for effective mobilisation of such new programs;
- Discuss and coordinate inputs in the Aid Quality Check process;
- Discuss, share inputs to the Performance Assessment Framework process;
- Approve proposals for MDF learning activities and events from the PXB budget;
- Commission external or independent reviews of MDF or any other short-term consultancy inputs required outside of the MC contract.
- Coordinate the inputs of various parts of DFAT into the annual Partner Performance Assessment process relating to the Management Contractor.
- General oversight of the Advisory Group and considering any AG proposals or recommendations which relate to the MDF as a whole.

As is currently the case, PXB will act as a coordination point for these issues. PXB will liaise with the MC, CLT and AG, in order to prepare documents to support discussion and decision-making and seek inputs from other PMF members for decisions to be taken between meetings. PXB will manage the MDF Head contract as well as the contracts with the AG members. A diagram of the governance structure is below.



4.1.2.2 Country Roadmaps

As MDF has grown to encompass more countries, the MSD approach has been adapted to meet the particular needs of each country, so that there is considerable variety among the country programs. Not only are the countries themselves quite heterogeneous, but Australia's interests and DFAT policies and strategies vary considerably between countries. The MDF implementation team has done an admirable job in tailoring the MSD approach to the needs of these various requirements, but this has not been without its challenges and tensions.

In Phase II, Country Roadmaps will be piloted in interested countries to help establish the ground rules, processes and priorities for how DFAT and MDF should engage and collaborate in each country. These Country Roadmaps should be live documents that can be updated on a regular basis. The Country Strategies provided in Annex 1 will form the foundation of the Country Roadmaps.

In some country programs, the Post may opt for a more formal partnership brokering process, with the road map and partnership recorded in the form of a Memorandum of Understanding between the DFAT Post and MDF. PXB will also be a party to each Country Roadmap or MOU, to ensure that the agreements are consistent with the program design and the agreements reached by the PMF on how the program as a whole should be managed.

The intention of these agreements would be to ensure that the relationship between each Post and MDF is conducted in the spirit of cooperative partnership, with full and mutual understanding of the roles, responsibilities and expectations of each party. The contents of each agreement will be tailored to the needs of each country, but may include the following:

- Relevant roles and responsibilities of key personnel in both DFAT and MDF
- The broad sectoral, thematic or geographic priorities for MDF's operations
- A roadmap to results: how implementation will progress in time, through which steps, and what kind of results can be expected by when ('what does success look like').
- Expected processes for communication, discussion, and joint decision-making.
- Expected processes for preparing Aid Quality Checks, Performance Assessment Frameworks.
- Expectations of both parties with respect to financial management

The intention is not for the Country Roadmaps or MOUs to be legally binding. The resulting agreements would not be attached to the Head contract, but there would be references in the contract to the development of CRs and MOUs, to ensure that such agreements are not contrary to the contractual requirements of the MC.

4.1.3. Program implementation team

The capacity of the implementation team and the MC supporting them has been, and will continue to be, the key success factor for MDF. Phase II will continue to try to influence a range of markets, which will require a variety of technical skills. In addition to applying the proposed market systems approach, the program will need a large team capable of conducting rigorous analysis in multiple sectors, in multiple country, poverty and exclusion environments, formulating strategies, negotiating partnerships and monitoring progress. The team will need to be capable of doing this whilst ensuring close and continuous engagement with DFAT Post priorities and policies. This kind of work is resource-intensive, and staff cannot be seen as an overhead whose cost and numbers should be kept to a minimum. Rather, a strong team is the foundation upon which success will be built.

As with Phase I the MC's implementation team will consist of a Core Leadership Team (CLT) and Country Teams (CTs). These teams will have access to additional short term specialist expertise.

4.1.3.1 Core Leadership Team

The CLT will be required to provide technical leadership and guidance in MSD across all implementation countries, broader development leadership and guidance, stakeholder engagement as well as standard setting and guidance in results management, inclusive growth and women's economic empowerment.

The CLT's responsibilities include multi-country coordination, planning, support in applying and appropriately adapting the MDF approach to the local context, analysis, ensuring effective integration of social and environmental considerations, developing and coordinating an engagement, influencing and learning agenda, monitoring and evaluation, knowledge management, communications, procurement, finances, reporting, administration, security and relationship management (detailed Terms of Reference are at **Annex 4**). Over Phase II, the CLT may be further expanded and strengthened, to accommodate a more robust engagement, influencing and learning agenda (see below) and the potential expansion to additional countries. The CLT will also provide a valuable role in building capacity across the Country Teams.

The exact make-up of the CLT will be left open for potential tenderers to suggest the best approach, particularly given the need to be able to expand the CLT in response to the entry of other Country programs.

The CLT is likely to include:

- Overall MDF Team Leader (or MDF)
- Other Core Leadership Positions which may include Deputy Team Leader and/or Regional Directors – potentially one for South Asia and one for the Pacific region.
- Results Measurement Managers, to cover Results Measurement, Inclusion and Women's Economic Empowerment
- Communications Manager
- Operations Manager
- Country Representatives (one for each country – these are also the leaders of the relevant Country Teams)

In order to avoid a recurrence of the problems encountered during the simultaneous expansion of the program to PNG and Sri Lanka, any plans to expand the program would trigger the strengthening of the CLT. Depending on the nature of the expansion a Regional Director (RD) position could be established, potentially in the Pacific and/or South Asia. These RD would support the capacity building of Country Representatives

and Country Teams, through mentoring, on-the-job training and advisory support on market systems methodology and program quality assurance. They would provide 'surge capacity', to support the program expanding to new countries when required. Depending on the staffing structure they might also temporarily fill positions which become vacant. Indicative terms of reference for these positions can be found in **Annex 4**.

During the design process for Phase II, it became clear that there was significant demand in DFAT for additional services from the MDF team, beyond the immediate operational requirements of the MDF program itself. As discussed in section 4.2 below, various DFAT stakeholders expressed interest in drawing on the market systems development expertise of the MDF team, either to help introduce the MSD approach to other programs they are managing, or to help inform DFAT's Private Sector Development policy, or to support professional development of DFAT staff and others in market systems development.

During the September 2016 Design Workshop, there was widespread agreement that additional resources should be allocated to these communications, learning and engagement functions, but no clear consensus on how the MDF team should be structured to support these activities. It was concluded that this question would be left open to potential tenderers to suggest the best approach. The budget for Phase II therefore includes allocation for these activities and for additional MDF staff resources.

Results measurement and monitoring, particularly in the areas of ensuring strong results in inclusive development and women's economic empowerment, is a key strength of Phase 1 and a strength that needs to be carried into Phase II.

4.1.3.2 Country Teams

Country Teams are the engine room for MDF implementation in each country. The responsibilities of the CTs include: close liaison and communications with Post, identification of market failures and opportunities; engagement with relevant stakeholders; market research, research on poverty, gender and social exclusion; development of engagement strategies at the sector or thematic level, development of country strategy, design of interventions and development of partnerships; ensuring effective integration of social considerations, including gender and other country specific inclusion targets, and environmental considerations; engagement and influencing, oversight of activity implementation; knowledge management, and ongoing monitoring and results measurement. On a needs basis members of any one CT may be tasked to support Program implementation in another country.

MDF Country Representatives in each country lead the CT and are responsible for Post engagement and support as well as MDF technical quality in each country. Country Representatives are also members of the Core Leadership Team and 20% of their time is nominally costed through the CLT budget in recognition that they play important program-wide roles, as well as leading their CT.

4.1.4. Advisory Group

The Advisory Group (AG), historically known as the Independent Advisory Group (IAG) supports DFAT in Canberra and at Posts, the Managing Contractor and the CLT. The AG and its activities have grown as MDF has expanded to more countries, and its tasking has evolved as new issues have emerged, but the underpinning philosophy has been consistent. The overall goal of the AG is to help MDF maximize its sustainable and long term positive impacts – income and jobs for poor women and men. To achieve this, it has three objectives:

1. Help MDF continually improve – technically and managerially
2. Help DFAT manage MDF effectively
3. Help DFAT learn from MDF

Phase II, will see individual MDF Country Programs evolve from their start-up phase. The role of the AG and how it can best support both DFAT and the CLT will also evolve.

The AG will visit each Country Implementing Team as required to review the program and provide advice and recommendations on how the program can best meet its objectives. The scope of each visit depends on tasking, but could include:

- systems and processes of the implementation teams;
- quality of decision making and management;
- alertness to potential political or reputational risk issues;
- quality of output and outcome reporting;
- staffing performance and requirements;
- the effectiveness of governance arrangements;
- the effectiveness of MDF program activities
- alignment of operations to the program design and MDF procurement agreement; and
- consistency of MDF with best practice in the Making Markets Work for the Poor approach and the Donor Committee for Enterprise Development Standard for Private Sector Results Measurement.

In addition, the AG may be asked to participate in key program development, monitoring and review activities outside of the regular schedule of country visits, and provide ad-hoc advice to DFAT, the CLT and the MC on request. The AG may also play a role in helping define MDF's Engagement, Influencing and learning agenda and could contribute to particular products (papers, events, exposure visits, discussions, and training programs) that emerge from this.

The AG will be directly contracted by PXB and is accountable to PXB, with tasking notes approved by individual country programs and any strategic or performance management issues to be addressed through the PMF.

4.2. Transition from Phase I to II

Since it is the second phase of an existing program, existing arrangements that are well functioning will need to be carefully transitioned if program coherence is to be maintained and Phase II results targets are to be met.

The transition period should begin, at a minimum, three months before the end of Phase I, allowing for a three-month handover period with the incumbent MC. It is anticipated that the transition period will continue after the 3 month handover in order to ensure partnerships and relationships with key stakeholders are not disrupted and that the skills and capacity of the existing Country Teams are maintained.

New approaches to program implementation, restructuring of the program leadership or revisions of country and cross-cutting strategies will be either phased in or implemented after the transition period. The length of the transition period will be determined by DFAT prior to this Design going out to full tender.

The following section identifies key activities specific to the MDF Phase I-II transition that will need to be considered during the tender process and actions to be taken by DFAT and MDF before a Phase II contract is signed. The MDF Phase I MC will need to ensure a smooth handover of applicable assets and systems as agreed with DFAT. These will be documented in the Phase I Handover Plan. During mobilisation the MDF Phase II MC will also need to develop a detailed Transition Plan outlining their proposed approach to ensuring a smooth mobilisation in all MDF countries.

4.2.1. Contract

It will be important to ensure there is no gap between contracts for the delivery of Phase I and Phase II in order to maintain momentum and retain key staff. As mentioned above, at a minimum the Phase II contract

should commence three months before the end of Phase I, allowing a period of overlap to transfer information, systems, processes, staff, partnerships, offices and equipment to the Phase II contractor.

4.2.2. Staff

DFAT through MDF has spent significant amounts of time and money investing in its team both at the CT and CLT levels. The loss of this team during transition represents a major risk to MDF maintaining momentum and delivering results in Phase II.

4.2.2.1 Country Teams (CT)

MDF was the first MSD program to operate in Timor Leste, Sri Lanka, PNG, Fiji and Pakistan. MDF has therefore had to train staff with little or no previous MSD experience, there has been a slow building up local team's capacity and heavily backstopping them through the CLT. This approach has been successful, with staff in all country programs slowly developing the comprehensive skillset associated with the MSD approach and strong relationships and networks with business in their respective countries.

Since MDF commenced, a small number of other MSD programs have emerged in these countries, but most are still in the very early stages of implementation. In almost all of the countries that MDF is operating there is still no pool of potential staff who could easily replace the MDF CTs. Wholesale replacement of the existing team would mean MDF effectively has to restart the 12-18 month capacity building process required in each country. Recruitment would also take significant time and energy given the lack of candidates in some locations. Not only would this be a very costly process, but it would also significantly stretch a Phase II CLT, putting any activities and partnerships straddling Phase I and Phase II in jeopardy.

Given this situation it is recommended that all CT personnel be retained and that arrangements be put in place to allow the successful Phase II contractor to engage all CT personnel. The details of these arrangements will be finalised by DFAT prior to going out to full tender.

4.2.2.2 Core Leadership Team (CLT)

The existing MDF Core Leadership Team is made up of highly trained MSD professionals who have driven the development and management of MDF in Phase I. There is also a strong case to be made for transitioning the CLT to the successful Phase II contractor. The CLT have unique insights into what it takes to manage both a) a multi country and multi region MSD program and b) an MSD program in the Pacific. Arrangements for the CLT during the transition will be finalised by DFAT prior to going out to full tender.

4.2.3. Partnerships

A number of MDF's partnership agreements straddle Phase I and Phase II. While financial commitments within these partnerships are bound by the end of the Phase I contract, activities have been planned beyond this date, and the relationship with partners carefully managed to ensure an understanding of the contract limits, scenarios around contractual transition and MC change. It is critical to MDF's positioning with these partners, to MDF's reputation in each country and to maintaining program momentum that these agreed, planned activities be upheld and formally included in Phase II partnership agreements issued by the Phase II MC. To ensure continuity, the MDF Phase I team will specify those partnerships that need to be carried forward into Phase II, including the individual activity and funding schedules, by the end of Q1 2017. These specified partnerships will then be handed over during the handover period with new partnership agreements being drawn up by the Phase II contractor.

4.2.4. Monitoring and results measurement systems and processes

The MRM systems of MDF Phase I are fully compliant with the DCED Standard. Phase I underwent a full audit by a qualified DCED external auditor and achieved very strong results. Phase II of MDF will need to continue to ensure it aligns with the DCED Standard and will subject itself to a full audit during Phase II. It is important the existing monitoring and results measurement tools, processes, files and databases be retained and that the intellectual property for these is securely transferred to the Phase II MC. Collecting and

analysing results for partnerships signed in Phase I must continue in Phase II up to 2021 in order to develop a complete picture of the effectiveness of the program in its first phase.

4.2.5. Office Space, equipment, vehicles and other assets

All MDF offices should reflect a modern working environment – one that conveys the professionalism of an effective business. Much thought has already gone into the layout, functionality, and image of MDF's existing offices based on this premise and it is expected that these offices will largely be maintained into the second phase.

The Phase I contractor will facilitate discussions with landlords to confirm interest in potential lease extensions in advance of the overlap period. During the three months of overlap the Phase II contractor will conduct a review of all MDF country offices, confirm viability and negotiate lease arrangements or, where deemed necessary, develop plans for moving to new office spaces.

During the first 12 months of implementation, the Phase II contractor will determine the viability of establishing an additional MDF coordination/ DFAT engagement office in Australia and consider relocation of specific members of the team. Details of the exact functions and set up of this office are to be determined by tenderers.

4.2.6. IT systems

The MC of Phase II will need to set up and maintain adequate Information and Communications Technology (ICT) to support effective implementation. Best-practice information management is critical for a program like MDF. MDF Phase II will generate large volumes of research and analytical data, many strategies, many contracts/agreements, reams of monitoring data and a myriad of payment documentation. So that knowledge is effectively captured and available to the whole team, modern data storage systems must be used. Financial and information systems must match, particularly so that staff can effectively track both activity and financial data within an integrated system.

As part of the 3-month crossover the Phase I MC will transfer management of the MDF MangoApps knowledge management (KM) system to the Phase II MC. During the first 12 months of the program the Phase II MC will undertake a review of the MangoApps system to determine if it fully meets MDF's KM and ICT needs as outlined above. Depending on the findings of the review the MC will then, determine whether to develop a new integrated MIS solution for the program or retain MangoApps for the remainder of Phase II.

Any relevant program documents external to those available on MangoApps along with management of the MDF website, will also need to be transferred to the Phase II contractor as part of the handover process and as outlined in the Phase I MC's Handover plan.

4.2.7. Financial systems and in-country corporate establishment

A new Phase II MC would need to set up a new program accounting and financial management system aligned with its own internal systems in the first 3 months of the contract. In addition to transitioning the relevant Program level systems and process, the Phase II contractor will also need to ensure all relevant corporate registrations/ arrangements are in place to facilitate any transitioned local staff employment, transitioned LTA visa arrangements, and meeting local procurement and tax obligations.

4.3. Procurement arrangements

MDF Phase II will need to conduct a large number of procurements using a variety of methods. Procurement of aid-funded assets, analytical and program delivery services would be the responsibility of the Managing Contractor. The Managing Contractor is required to follow Commonwealth Procurement Rules and Commonwealth Grant Rules and Guidelines to ensure value for money in all financial expenditure. DFAT at its discretion may undertake an audit to ensure these rules are adhered to.

MDF partnership agreements codify contractual relationships between MDF and its partners, specifying financial and in-kind contributions of both parties. The process of developing these partnerships should be understood as a procurement or grant-making process. As in the first phase of MDF, MDF Phase II must have an approach to partnership that is both compliant with Commonwealth Guidelines and allows for the flexibility required to rapidly co-finance partnerships with business. As highlighted in section 3.2.5 comprehensive market scanning or a managed partnership process is the preferred approach to the identification and selection of partners. During the transition phase of the program, the Managing Contractor will review the MDF partnership template, to ensure it is compliant with Commonwealth rules and guidelines. This should take account of the experience of MDF Phase I, PRISMA in Indonesia, CAVAC in Cambodia and any other relevant programs.

MDF Phase II partners would be responsible for provision and procurement of partner inputs specified in the negotiation of agreements. MDF partner contributions may be in-kind, for example, staff. In this case, rather than formal contractual partnership agreements, it would be anticipated the Managing Contractor could develop simplified Memoranda of Understanding. Ensuring that all program team members are adequately familiar with the different requirements of contractual-granting-co-investment models to negotiate these 'in kind' deals, will help ensure the program continues to invest effectively and with a neutral eye to the market.

In order to mitigate risk, MDF Phase II should structure agreements in a way in which businesses have a significant amount of commercial 'skin in the game' related to the success or failure of the contracted activities. This provides a powerful incentive to avoid renegeing on commitments by partner businesses.

4.4. Monitoring, results measurement and learning

4.4.1. Monitoring and Results Measurement (MRM)

A focus on results is at the core of MDF's approach. In order to operationalise this focus, MDF Phase I created an effective results measurement (RM) system that continues to support learning and decision making at the intervention, sector, country program and Facility level.

MDF's results measurement system is characterised by the following:

- **Thorough:** the RM system examines program results at different levels of change including partners, market systems, sectors and poor women and men as workers, farmers, producers and micro-entrepreneurs. It also incorporates progress in WEE and other key cross-cutting issues.
- **Integrated:** all MDF staff are responsible for results measurement which means the RM system is integrated across the program's management and implementation.
- **Consistent:** monitoring and results measurement is a core function in MDF that provides regular information to staff and managers for decision making. The system is also organized to match DFAT's reporting cycles so the program can provide Posts and Canberra with current information.
- **Practical:** the results measurement system is manageable within the overall program structure; staff choose cost-effective methods for information gathering and explicitly identify ways to achieve economies in studies conducted.
- **Credible:** the results measurement system complies with the Donor Committee for Enterprise Development (DCED) Standard on RM, which outlines field-tested and peer-reviewed minimum quality standards for private sector development programs.⁹

⁹ In an audit of MDF's results measurement system by the DCED in 2014, the Fiji program scored 96% on the Must criteria and 98% of the recommended criteria and the Timor Leste program scored 94% on the Must criteria and 90% on the recommended criteria. The audit report can be viewed at: <http://www.enterprise-development.org/measuring->

Currently, results measurement in MDF is led by two Results Measurement and Women's Economic Empowerment Managers who provide support to each of the country teams, ensuring WEE is integrated across the program. MDF's broader organisational culture encourages daily conversations about field observations and findings on results and their implications for intervention tactics. It is common for the teams to review all interventions and sectors every six months in order to integrate recent findings into intervention plans and sector strategies. The Facility also has an internal group with representation from all countries that works to improve the results measurement system and integrate innovations across the program.

MDF uses a mix of methods to assess results qualitatively and measure results quantitatively. Results are monitored during each intervention and measurement of results continues for 2-3 years after its completion. Additionality at the level of partners is assessed both before and after a partnership and attribution is taken into account in the measurement of impacts.

MDF uses formal tools like the Progress out of Poverty Index (PPI) to improve understanding of the poverty profile of beneficiaries.¹⁰ The tool, developed by the Grameen Foundation, uses ten survey questions developed on a country by country basis to identify the likely percentage of poor people in the beneficiary population. This allows MDF to develop an understanding of the extent to which its interventions reach and benefit women and men who are poor or vulnerable to poverty.

MRM, Indigenous Peoples and Ethnic Minorities

Many of the countries MDF operates in are ethnically diverse. While MDF does not currently disaggregate results based on indigenous or ethnic groups due to the potential for creating artificial and distortionary targets, analysis of different communities is embedded within the design of interventions. This is particularly relevant in Fiji where indigenous community cultural dynamics have a major impact on ways of doing business. In Phase I MDF engaged in research on rural Indigenous Fijian communities to better learn how women and men within the community spend their time, allocate their resources and interact with the formal and informal economy. This research will be used to find potential entry points and strategies for businesses to more effectively engage with these communities. Similarly, In Sri Lanka, where there has been recent conflict relating to ethnic cleavages, MDF has contributed significant time and resources to understanding and capturing the ethnic/religious profiles of different communities. Particular focus has been in the North where the research has looked at how conflict has created increased displacement and disruption to traditional family economic units.

The program produces an "Annual Aggregation of Results" report which comprehensively describes results to date for the Facility overall and for each country in which it operates. The report provides updated results and projections for key headline and intermediate indicators across the Facility and for each country and also describes progress in each sector for each country with an analysis of the implications for future strategy. MDF also produces semester reports for DFAT and a range of communication products including case studies of partners, beneficiaries and country programs, videos, blogs, a newsletter, and presentations at events.

MDF will further improve several aspects of its results measurement system in Phase II, as follows:

- **Monitoring systemic changes:** MDF has developed a systemic change framework and is working to operationalize the use of it in each country program. As the program matures, it will be important for MDF to further develop its monitoring and assessment of systemic change in each target sector,

[results-the-dced-standard/auditing-the-monitoring-system/](http://www.enterprise-development.org/measuring-results-the-dced-standard/introduction-to-the-dced-standard/) For more information on the DCED Standard for Results Measurement, see: <http://www.enterprise-development.org/measuring-results-the-dced-standard/introduction-to-the-dced-standard/>

¹⁰ For more information on the PPI, see <http://www.progressoutofpoverty.org>

focusing not only on quantifying results but on qualitatively assessing the program's contribution to long-term inclusive growth in each sector.

- **Further operationalizing WEE within results measurement:** During Phase I, MDF developed a WEE framework and integrated it into its RM system. During Phase II, MDF should further embed WEE into partnership monitoring and the assessment of systemic change.
- **Integrating other aspects of inclusion:** In addition to gender, there are other factors that drive exclusion in the economies where MDF works, such as ethnicity, disability and geographic location. MDF will embed assessment of progress for relevant excluded groups in each country into its results measurement system in Phase II.

During Phase II, DFAT will organize one external review of MDF. The PMF and PXB will determine the timing and key questions for the review based on the inputs needed for learning and decision making in DFAT.

Further details of MDF's monitoring and results measurement system are in **Annex 6**.

4.4.2. Engagement and learning agenda

MDF's unique structure as an established cross-sectoral, multi-regional program presents DFAT and the MDF team with a tangible opportunity to facilitate learning within DFAT on market systems/ M4P approaches. The MDF team has been successful in establishing an internal community of practice between the practitioners in all five countries with approaches, information, staff and business contacts shared with great success. Joint training programs and inter-country working groups, facilitated by MDF's cloud-based information sharing platform, MangoApps has also contributed to MDF's internal capacity.

However, learning within DFAT has been less effective and consistent. High staff turnover, limited resources heavy workloads, and ad hoc activity manager meetings within DFAT means that staff at Posts are intermittently engaged and awareness of MDF among Canberra based DFAT staff is relatively low. Therefore, in Phase II, a more intentional and structured Engagement and Learning Agenda for DFAT staff will be established and funded by the program. Developing and driving this Engagement and Learning Agenda could be the responsibility of a CLT member or a resource supporting the CLT. Potential tenderers will be invited to propose an approach. The same resource could also be instrumental in performing the secretarial support to the PMF.

It is expected that the PMF acts a first 'clearing house' for questions about the Facility and the broader market systems approach, but the PMF is limited to just a few DFAT officers. A broader Learning Agenda would generate various papers and products and support learning events and workshops with MDF staff, the AG and external advisors sharing their experiences and challenges in managing MSD programs.

Under its mandate, the Learning Agenda would link DFAT to global groupings like the BEAM Exchange and SEEP Network, in addition to facilitating learning from other DFAT MSD programs, like PRISMA and CAVAC 2. The Engagement and Learning Agenda should also serve as a way to introduce new DFAT staff to the MSD approach, MDF as a multi-country program and how it fits with the Department's strategic policies such as Economic Diplomacy. Events should be planned around the physical meetings of the Program Managers Forum to foster continuous learning and supplement the regular virtual activity managers' meetings between Posts.

The Engagement and Learning Agenda could address questions such as:

- What are the practical challenges to managing a market systems development program? Are they the same across countries/ regions? What should newcomers to this approach be most cognisant of?
- What is an appropriate mix of inclusive economic growth programs in economies with different characteristics? How can a market development program support, complement and work with other approaches in an inclusive economic growth portfolio?

- How does MSD fit into the broader field of private sector development? How does it fit into DFAT's economic diplomacy strategy?
- Should a market development program be customised to function effectively in different socio-economic contexts? How does it integrate different country-specific factors of exclusion, such as gender, ethnicity, and poor nutrition?
- How can a market development program reach communities that are transitioning from a primary focus on subsistence?
- How does a market development program increase the integration of poor communities with a growing formal business sector?
- How can a market development program facilitate the inclusion of people with disability in growth sectors?

As part of the Engagement and Learning Agenda the program will also feed lessons from the program to better inform policy development within DFAT. The MDF engagement resource will either develop, or facilitate the production of relevant inputs into DFAT policy discussions.

Finally the Engagement and Learning Agenda should drive MDF to consider how it can more actively support other DFAT programs where appropriate; where resources permit MDF may help *'infect'* other programs with a market systems approach. This could take the form of MDF staff in PNG supporting the Governance Facility with developing their Private Sector Engagement strategy or supporting the Sri Lanka post in the development of a suite of new market based programming in other sectors.

Given the challenges seen in Phase 1, it will be important that whatever form the Phase 2 Learning Agenda takes its impact is properly measured. Defining exactly how success is quantified will need to be developed in parallel to the Agenda. Examples might include the number of times MDF is cited in new DFAT program designs or policy documents, or where elements of the MDF approach are evident in new DFAT policies and programs.

The MDF Engagement and Learning resource will work closely with the CLT as well as the AG and other international experts to generate lessons, insight, examples, and course material relevant for the Engagement and Learning Agenda.

Creating and maintaining an effective Engagement and Learning Agenda along these lines requires dedicated and sustained effort, therefore Phase II of MDF would need additional resources. The nature of the output should be varied and depend on the needs of current and new activity managers. The PXB team will assist in communicating knowledge gaps however the Managing Contractor should be responsible for the agenda and organising all activities, which should reduce the overall PXB workload.

In Phase II DFAT at all levels will be encouraged to engage more regularly and directly with the MDF team, express their needs and ensure that the MDF team are adequately informed to respond to them. Given that much of this agenda involves cooperation with DFAT in Canberra, consideration might be given to establishing a small MDF office somewhere in Australia, to facilitate regular interaction with DFAT staff.

4.5. Communications

Ensuring that program stakeholders are fully informed of successes, developments and problems at the right time, through the right channel and in the right format for consumption is a challenge in any complex development program. Effective communications between internal MDF stakeholders including the DFAT country programs, the MC, CLT, CT and PXB and external stakeholders including partner governments, business, other programs and the broader development community will be core to the success of MDF in Phase II.

In Phase I MDF developed a clear strategy and protocols for DFAT and external communications. The program managed communications between country programs and Public Diplomacy representatives at

DFAT Posts providing them with relevant materials for distribution. In Phase II, communication strategies will continue to evolve and create new products and services in tandem with the Engagement and Learning Agenda.

Whilst much of the responsibility for delivering communications outputs depend on the MDF team's ability to understand DFAT and external stakeholders needs and develop outputs aligned to these, communications is a shared responsibility.

4.6. Sustainability

The political and economic situations in the host countries for MDF present many challenges to promoting inclusive growth. The commitment to inclusive growth varies considerably among the partner governments. Policy and regulatory settings, the level of economic development in each country, the level of control by economic elites, as well as the rate of economic growth, will be major factors determining the extent to which growth might be inclusive of the poor and how well gains for the disadvantaged can be sustained. In several of the partner countries, the possibility of return to civil conflict will remain a risk to program outcomes for many years.

While sustaining the development outcomes of MDF will always be subject to these broader contextual factors, MDF does have a number of features which help to underpin the likelihood that program benefits will be sustained beyond the duration of program interventions.

Sustainability is a foundational principle for the MSD/M4P approach upon which MDF is based and this is expressed at a number of levels in the way the program operates:

- Apart from the operations of the MDF team itself, MDF works entirely through local systems and does not create parallel structures or systems for delivering services or products. All interventions are led by and implemented by local partner organisations – in most cases, private businesses.
- Interventions are designed from the outset to be of relatively short duration – typically one to three years, after which MDF's level of engagement will typically be reduced to monitoring the outcomes of the intervention (although MDF may develop further interventions with the partner, if further opportunities are identified).
- MDF limits its financial contribution to partnerships to ensure that the main costs of introducing market innovations are borne by the businesses concerned. Companies will only invest in such innovations if they see a strong business case and the potential for durable gains in profitability or market share. Sustainability of the changes in market systems are in this way driven by the business incentives of the partners involved, rather the prospects of continued donor funding.
- Changes in the pattern of economic engagement by MDF's target groups (poor women and men) are similarly driven by their own financial and welfare interests, be it improved employment, or making use of better products and services. The benefits they derive from MDF are based on changes to the markets they engage with, which are likely to endure much longer than the period of MDF intervention.

However, markets are by their nature quite dynamic and it should be expected that in many cases, the pro-poor changes in markets facilitated by MDF interventions will over time be overtaken by subsequent developments. Products and services are continually evolving and individual businesses come and go. For these reasons, in estimating the benefits of interventions, MDF makes only modest assumptions about how many years those benefits are likely to last.

In order to consolidate and broaden its impact beyond that of individual partnerships, MDF aims to build on initial partnerships to facilitate sector or market-wide effects, often referred to as 'systemic change' and outlined in Section 3.2.6. MDF has developed a Strategic Guidance Note to guide staff in devising such

sector or market-wide strategies.¹¹ Typically, this involves strategic positioning of a series of partnerships, each reinforcing the other to break down specific barriers to pro-poor growth. The aim is to not only broaden the impact of market changes, by encouraging change across all businesses involved in that market, but also to entrench market changes to make the benefits more sustainable. Systemic Change is expected to become an increasingly important focus of MDF's work in Phase II, as the Facility's engagement in key markets deepens.

4.7. Equity and inclusivity

Inclusive growth is increasingly moving to the forefront of the economic development lexicon. UNDP's chief economist, Thangavel Palanivel, has proposed that: *"growth is inclusive when it takes place in the sectors in which the poor work (e.g. agriculture); occurs in places where the poor live (e.g. undeveloped areas with few resources); uses the factors of production that the poor possess (e.g. unskilled labour); and reduces the prices of consumption items that the poor consume (e.g. food, fuel and clothing)."*¹² In most countries, the poorest segments of the population are those who are marginalized, whether by tradition (caste, ethnicity), geography (remoteness), gender, disability, etc. These are also often the segments which struggle most to engage economically and are least likely to benefit from economic growth. As a program seeking to benefit poor women and men, MDF seeks to target marginalized groups where possible, to ensure the benefits of growth are inclusive. Depending on the country, the factors of marginalization will be different. The focus of inclusive growth should, therefore, be country specific (e.g. geography is a contributing factor of marginalization in PNG, ethnicity is significant in Sri Lanka and nutrition is key to reducing poverty in Timor Leste).

MDF has actively worked on integrating gender into its activities, from analysis to partnership development and results measurement. In phase two, MDF will gradually move towards a broader Inclusion approach expanding the factors of inclusion it will take into consideration throughout the project life cycle, while maintaining a focus on gender. As gender is consistently a factor of exclusion, and women represent over 50% of the population, an inclusion approach would have to maintain gender at its core, but would provide the flexibility to systematically identify and include other forms of exclusion based on each country's specific circumstances. In the early stages of phase two, MDF can explore how some of the concepts in the WEE framework can be used as an initial guide to address other forms of exclusion. Within 12-18 months, broader frameworks, such as disability economic inclusion, could be developed, although MDF should always maintain a focus on the business case and avoid a situation where a plethora of frameworks have to be applied to every intervention. The following principles will be adopted in phase two:

- MDF Phase II will articulate WEE as a permanent dimension of inclusive growth across all countries.
- MDF Phase II will integrate other Inclusion aspects at a measured pace and in a more selective way, taking into account country specific scenarios. It will continue to build on work initiated in MDFI which addressed factors of exclusion as appropriate and captured these through the results monitoring framework.
- MDF Phase II will maintain a focus on the pro-poor business case in all interventions, yet will be opportunistic when country specific factors of exclusion that inhibit growth, including nutrition and climate change, can be addressed.

¹¹ *Achieving Change in Markets: The MDF Framework for Defining and Populating Pathways for Systemic Change.* MDF Strategic Guidance Note No 3, 2015

¹² UNDP. *What does inclusive economic growth actually mean in practice?* Accessed from:

<http://www.undp.org/content/undp/en/home/blog/2015/7/31/What-does-inclusive-economic-growth-actually-mean-in-practice-.html> on 09/08/16

4.7.1. Gender Equality and Women's Economic Empowerment

The case for engaging women as economic actors has repeatedly been made, from the OECD which has shown that economic involvement of women leads to stronger economic growth (2012), to UN Women which estimates that agricultural output could increase by 34% globally if women had the same access to productive assets as men (2013). Understanding how to effectively integrate women into market based programming has, until recently, been ad hoc and experimental. In the past 3-5 years, there has been a shift in the economic development sector and donors are now requiring that women be actively integrated into all programming, and frameworks have emerged that help programs take a more systemic approach to Women's Economic Empowerment (WEE).

In February 2016, the Australian government published a new gender equality and women's empowerment strategy that identifies women's *economic* empowerment as one of its three priorities. The strategy states that Australia aid programmes will *"integrate gender equality in our aid for trade, economic diplomacy and trade efforts, recognizing that women's economic empowerment is a driver of economic growth and prosperity."*¹³ With specific reference to aid programming, Australia has committed to integrate gender equality across all sectors and all investments.

The integration of WEE into MSD programs has had a slow start globally. The first influential WEE in MSD framework was published in 2012¹⁴, two years after the first MDF design documents were written. Since then, the pace of research, learnings and new approaches has rapidly accelerated with new resources coming on board almost monthly (e.g., BEAM Exchange papers on gender norms in market systems and women's care work and its impact on economic empowerment). The MSD WEE framework has recently been upgraded to a Women's Empowerment and Market Systems (WEAMS) framework¹⁵ that builds on the work of DFAT funded projects such as MDF and PRISMA in Indonesia, as well as other market systems programs including those implemented by CARE, MEDA, Swisscontact and others. It promotes the five WEE 'domains' or dimensions as non-negotiables and suggests the inclusion of other economic and non-economic indicators, while considering not only economic but also social factors (see **Annex 6** for more detail).

In continuing to focus on gender integration in phase two, MDF will adopt the following principles:

1. MDF II will ensure that 80% of its investments address WEE issues, an increase from MDF's targets of 60%. This aligns with DFAT requirements as laid out in the recent DFAT Gender Equality and Women's Empowerment Strategy (February 2016).
2. The existing version of the WEE framework will be kept for the first 18-24 months of MDF II. Due to the recent publication of the framework and the rapid pace of learning, more time is needed before an update to the framework should occur.
3. Key lessons on integration methods used for WEE may also be relevant to other aspects of inclusion, but MDF's approach to those other perspectives on inclusion should be developed separately from the WEE framework during this initial period. The program will then develop a Strategic Guidance Note on its suite of inclusion strategies.

¹³ Department of Foreign Affairs and Trade (2016) *Gender Equality and Women's Empowerment Strategy*. Government of Australia <http://dfat.gov.au/about-us/publications/Pages/gender-equality-and-womens-empowerment-strategy.aspx>

¹⁴ Jones, Linda. *How can the Making Markets Work for the Poor Framework work for poor women and for poor men?* The Springfield Centre for Business in Development. (2012).

¹⁵ Jones, Linda. *Women's Empowerment and Market Systems*. The BEAM Exchange (2016)

4. The program will continue to include gender throughout all analyses, designs and implementations, but will now expand its focus to analyse and understand the systemic change potential of the work; therefore bridging the gap between individual interventions and the broader theory of change.
5. MDF II will seek to test and integrate new learnings in the field of WEE, and will articulate its effort to integrate institutional aspects of gender, allowing it to learn from and contribute to the community of practice, both internal and international. This flexibility is necessary to stay abreast of this rapidly evolving field.
6. MDF II will increase the communication of its work in WEE and Inclusion. This will be done within existing reporting frameworks, while ensuring WEE and Inclusion are an integral component, not an add-on, as well as with the broader community of practice. Each country should be able to demonstrate how their decision-making was influenced by WEE and Inclusion. Cross-country learning, diversified impact documents and participation in internal and external communities of practice should be strengthened to ensure stakeholders understand MDFII's commitment and work within these two topics.
7. MDF II will broaden its efforts to collaborate (through supporting partnerships) with organizations working on advocacy and other social aspects of women's empowerment which MDF, as an MSD program, may not be well positioned to address directly (i.e. Timor Leste program learning from, and exploring partnerships with The Asia Foundation implemented, DFAT funded violence against women and girls program).
8. MDF II will maintain the newly introduced model of gender resourcing. This includes combining Results Measurement (RM) and WEE responsibilities with two managers within the Core Leadership team, staffing an RM and WEE officer at each country level and designating a WEE focal point. This allows various aspects of WEE, from the development of business cases to the measurement of impact and monitoring of safeguards to be appropriately resourced.
9. The program will ensure enough capacity is available at the CLT RM and WEE level to provide support to country offices. There has recently been a second WEE-RM appointed. Further expansion of the WEE working group will be initiated if workload justifies this.
10. Sufficient resources need to be allocated for (a) continued capacity building of local staff on evolving Inclusion and gender approaches and strategies and (b) participation in international communities of practice.
11. Short term technical assistance resources will be allocated to support the Inclusion and gender component, helping infuse the project with strong technical expertise where needed.

4.7.2. Disability Inclusiveness

In May 2015 DFAT articulated a strategy for strengthening disability-inclusive development in Australia's aid program called *Development for All 2015-2020*. DFAT has positioned itself as a leader in aiming to reduce poverty among people with disabilities. These are the largest and most disadvantaged minority in the world, making up 15 percent of the global population¹⁶. Disability also has a strong gendered component, where women and girls are typically the primary care givers to family members with disabilities (typically unpaid care), and further limiting women's ability to be economically active. Furthermore, women and girls with disabilities face a double burden of marginalization.

MDF recognises that disability has a wide definition and can include challenges around vision, hearing and physical and intellectual abilities. Furthermore, some of these challenges can arise from other issues, like poor nutrition, that create further issues in a community's productivity, health and capabilities. While the

¹⁶ World Bank and World Health Organization, World Report on Disability. (2011).

disability field is relatively new, particularly in market based programs, MDF is in a unique position to drive learning and understanding on this issue. MDF Phase II will look at disability as a cross cutting issue that has varying degrees of prevalence across countries and populations. When prevalent, this will factor into countries teams' analysis and intervention design.

4.7.3. Safeguards

MDF1 to date has improved its awareness of risk factors to women or excluded populations, such as visibility of money, power relations, sensitive sub sector selections, etc. Although some monitoring to avoid negative externalities is occurring, this aspect should be strengthened in MDF Phase II. Gender Based Violence (GBV), reputation risks, risks linked to social shifts etc. should be understood in the intervention contexts and monitored throughout the partnerships.

4.8. Risk management

The Australian aid program emphasises a rigorous approach to identifying, mitigating and monitoring risk across all investments. Having already operated for five years, MDF and its staff have developed a nuanced understanding and robust principles and procedures for identifying, mitigating and managing all forms of risk. Phase II will continue to build on this.

The main risks and accompanying mitigation activities for the program are written below and expanded upon further in the risk matrix in **Annex 7**.

4.8.1. External and Environmental Risks

The Market Development Facility currently operates across five countries, each with its own unique and rapidly changing political and environmental risks. Fiji's political situation is currently relatively stable, however the 2016 cyclone caused widespread damage and a period of macro-economic instability that is still affecting some program activities. Operating in large sections of Papua New Guinea and Pakistan still constitutes a significant security risks for MDF teams there. In spite of these challenges MDF has managed to continue operating successfully through careful planning and successfully operating through local partners.

Another risk for MDF is that its activities will adversely affect the environment. Mitigation of these risks will be addressed through the environmental management strategy and country-specific environmental checklists which have already been established.

4.8.2. Technical Risks

A clear risk for Phase II is the loss of, or inability to find, key staff with appropriate technical and management capabilities. Phase I had at times, struggled to replace or find the right senior staff to take on country representative or senior management roles. Without this expertise the program will struggle to deliver sustainable and scalable results.

In order to mitigate this risk MDF Phase II will need to widen its search and broaden its networks in order to find stronger candidates for key roles in MDF. MDF should also continue to maintain its flexible staffing structure to allow for ease of movement of staff between country programs to fill technical gaps while also developing internal staff to fill senior positions in the long term. Maintaining this flexibility in staff structure should be reflected in the Head contract for MDF II.

4.8.3. Fiduciary

Corruption and fraud is a major challenge in aid programming. MDF Phase I has succeeded in mitigating many serious risks of fraud or corruption through robust procedures. MDF will continue to wherever possible minimise direct provision of aid funds to partners and always ensure that partners have adequate '*skin in the game*' to discourage any renegeing on partnerships.

4.8.4. Reputational Risks

While the MSD approach is not new, its results curve remains unusual compared to other aid investments. This can mean investments are mistaken for being ineffective. To mitigate this moderate risk for Phase II, additional efforts will be made with MDF's Engagement and Learning Agenda to assist in the dissemination and understanding of market development approaches. This refocus, along with associated additional learning events will help DFAT understand how the program fits into its wider economic diplomacy strategy, showcase the results and modus operandi of MSD approaches and create broader buy in.

4.8.5. Management Risks

There is a significant risk that the transition plan from Phase I will not be smoothly or effectively managed. The fallout from this could be the loss of key staff and institutional knowledge, the disruption of key program activities and the elongated start-up of Phase II. Tenderers will need to be clear on their plans to ensure there is a smooth transition process. DFAT will also help mitigate this risk by ensuring that the procurement process is properly handled and all significant deadlines are met in order to keep the transition progress on track.

4.8.6. Resettlement

The Market Development Facility is a multi-sectoral program and it is difficult to therefore to specify the exact risks of resettlement, however the nature of most of the partnerships in Phase I would suggest a low risk of it occurring. Where this might be an issue, the DFAT Resettlement Policy will be adhered to.

4.8.7. Child Protection

DFAT renewed its Child Protection Policy in 2013. Its goal is to protect children from exploitation and abuse of all kinds in the delivery of Australia's overseas aid programme. Phase II will need to continue to ensure full compliance with the DFAT Child Protection Policy and that all staff, subcontractors and project partners fully abide by it. In addition to ensuring staff are trained and proper safeguards are in place MDF Phase II may have the opportunity to directly improve child welfare through its interventions; for example partnering with businesses to offer day-care services for children of factory workers.

4.8.8. Gender based Violence

Women's economic empowerment has, in some settings, been linked with an increase of Gender Based Violence (GBV). This is often related to a shift in the balance of power between men and women in the household and/or the community. This should not lead to a reduction in efforts towards WEE, but should be mitigated in programs which address women's participation in the economy. An understanding of the risk factors leading to Gender Based Violence (GBV) and actions to address the corresponding social norms and behaviour, often through supporting partnerships, can be integrated to mitigate this risk.

Annex 1: Country Profiles and Strategies

Timor Leste

Introduction

This annex outlines the strategic direction for Phase II of MDF in Timor-Leste. It takes into account: MDF documents, the findings of the MDF mid-term review, IAG mission reports, and consultations with the DFAT Post and MDF country team(s). It provides a brief overview of: the Timorese context; the results and lessons derived during Phase I; the strategic focus proposed for Phase II; and the staffing and resourcing anticipated for Phase II.

Overview of MDF in Timor Leste

DFAT funds MDF in Timor-Leste to stimulate broad-based private sector growth in ways that promote poverty alleviation and inclusive growth.

Poverty and Inclusion

Timor Leste has a population of 1.2m people and an estimated GDP of USD1.5 billion. The country has experienced significant growth since independence, financed primarily through external donor assistance in the early years and subsequently by the Government's sovereign oil and gas revenues invested in the *Petroleum Fund of Timor-Leste*. Despite Timor Leste's relatively high growth rates, the majority of Timorese have so far benefitted little from the country's development. 41.8% of the overall population lives below the poverty line¹⁷, and this rises to 47.1% in rural areas. Furthermore, much of the population not currently classified as poor, remains vulnerable to poverty. In addition, over 58% of children under five can be categorized as stunted, and a quarter of young mothers are malnourished. Hence households - particularly rural households - need to be able to eat more, and eat better.

Women's economic empowerment

Women in Timor Leste engage in a variety of economic roles, most of which are in the informal sector. Only 16% of formal businesses are run by women. Women are not excluded per se from these markets. However, they mostly keep within the household sphere, and within networks with other women. Overall, women have less education, literacy and public contact than do men. Women also struggle to balance work and childcare responsibilities - products, services and markets are rarely tailored to their needs. Nevertheless, within the subsistence and commercial agriculture sectors, women are either jointly engaged with their partners in livestock and agricultural production, or take the lead role. Men often play the dominant role in product marketing. Household money is pooled, with women most often making the decisions regarding expenditure for daily, health and education needs. However, men generally have more say over expenditure for larger purchases.

In the non-agricultural sectors, there is a much lower female participation in the labour force, with very few manufacturing facilities providing job opportunities to women. If women's prospects are to improve in Timor Leste, a better understanding is needed of women as consumers, producers and potential employees.

Economic Challenges

The challenge for Timor Leste is that its post-independence growth is unsustainable in the long term, and thus new avenues will need to be explored and nurtured if the country is to have a stable and sustainable economic future. The many challenges facing the Timorese economy include:

¹⁷ Consumption based poverty line – GoTL (2016) Poverty in Timor Leste 2014

1. **An over reliance on large capital investments by the public sector as a key driver of economic growth:** Public expenditure, fuelled by petroleum revenues, have fuelled a ballooning public sector, as well as specific sections of the economy such as construction, wholesaling (imports) and retailing. However, private sector investment accounts for a mere 4.6% of GDP with investment concentrated in these booming sectors. Petroleum revenues are now decreasing and there is a critical need to stimulate private entrepreneurship and investment in the non-oil economy.
2. **Lack of economic diversification, value addition and local manufacturing:** Over-reliance on imports, combined with the absence of local manufacturing and value-addition, results in poorly functioning local value chains. In Timor-Leste there is a need to rebuild the economy by stimulating investment in businesses that are not dependent on public expenditure.
3. **Disconnection of rural districts from urban demand:** Farmers primarily aim for self-sufficiency with limited investment in inputs. Demand from Dili is unpredictable, with difficult transport access, while sales in district markets fetch low prices. Better market access would generate income for investment in inputs and household necessities; better yields and more disposable income would improve nutrition intake and make rural households more resilient during the lean season.
4. **Limited employment opportunities outside of agriculture:** High unemployment levels are aggravated by limited opportunities for a fast-growing population; 15,000-20,000 young Timorese join the work force annually and compete for very few jobs. There is a need for more (foreign) investment and a more conducive business environment to generate the economic activity needed to absorb this labour.

MDF's Focus in Timor Leste

In Timor Leste, MDF focuses on making agriculture more productive and rewarding, and stimulating investments in local industries to diversify the economy and create off-farm employment.

Specifically, MDF aims to:

- Diversify away from the oil and gas sector;
- Expand sources of income through the diversification of agricultural options and provision of alternatives to agriculture;
- Improve both the internal and external connectivity of Timor Leste (e.g. markets, goods, services and people); and
- Promote value addition of local raw materials through local processing.¹⁸

The Government of Timor Leste is committed to achieving strong, sustainable economic growth that is inclusive and equitable for all Timorese. The Timor Leste Strategic Development Plan, 2011-2030, identifies improved agricultural production as a driver of inclusive growth. The Coordinating Ministry for Economic Affairs (MECAE) is particularly interested in improving the operating environment in Timor Leste, thus allowing Timorese businesses to flourish. The ministry's focus is on the agriculture, tourism and manufacturing sectors, as well as on topics - such SME financing - that pertain to these sectors. MDF is engaged in conversation with the ministry on all of these topics.¹⁹

In Timor Leste, DFAT's aim is to support inclusive growth as a means of poverty reduction. ***The Aid investment Plan Timor Leste 2015-16 to 2018-19*** has three strategic priorities:

1. Improving Livelihoods;
2. Enhancing human development; and
3. Strengthening governance and institutions.

¹⁸ MDF (2016). Annual Aggregation of Results.

¹⁹ MDF (2015). Timor Leste Systemic Change: Agricultural Processing and Rural Distribution.

In addition, the AIP aims to ensure that nutrition, women's economic empowerment, and disability-inclusive development are integrated across its portfolio.

MDF contributes directly to these priorities by improving livelihoods and women's economic empowerment. Furthermore, within DFAT's Governance and Economic Growth portfolio, MDF contributes to both Australia's and Timor Leste's priorities through its work developing the competitiveness of key sectors, and by enabling poor women and men to better participate in, and benefit from, the resulting growth. DFAT values MDF's work with partners and stakeholders in the Timor Leste economy, its role in analysing Timor Leste markets, and as a sounding board and advisory mechanism on issues related to inclusive economic growth and private sector development.

Achievements and Lessons from MDF Phase I

MDF commenced in Timor Leste in mid-2012. As of June 2016 it has implemented 14 partnerships (including three that were terminated) – a modest portfolio that was constrained by budget availability. Increased resources during 2016/17 may, however, result in up to 12 additional partnerships.

MDF's work in its two target sectors²⁰ has already begun to lay a foundation that will underpin inclusive growth in the long term. MDF has supported a variety of innovations that are helping companies in Timor Leste to reach new markets, compete more effectively in the global marketplace, purchase from more suppliers, and hire more workers. Even with the modest portfolio in place by December 31 2015, the programme had leveraged almost USD1.4 million in investment from partners, and sustainably improved the lives of 1,790 poor women and 1,160 poor men, in measurable ways. 52 sustainable FTE jobs (22 for women) had been created, while additional incomes from wages and sales had reached USD345,000 (USD210,000 for women). Furthermore, these partnerships will continue to deliver even better results for quite some time, as it takes time for partners to ramp up new operations, and for producers and workers to respond to new opportunities. As such, MDF estimates that by 2021, the current 14 partnerships will provide over USD1.15 million in additional income for approximately 8,670 women and men, including approximately 340 new full time equivalent jobs, benefiting almost 24,710 household members.²¹

Key lessons learned during Phase I of MDF include:

- Because many businesses in Timor Leste are first generation, family owned enterprises, and because the enabling environment offers few business services, **MDF's partnerships in Timor Leste must typically be longer and more intense** than is usually the case in market systems development programs in larger and more robust economies.
- Despite the small private sector and shallow markets, there are **business partners with capital resources that are actively seeking ways to invest in new ways in their country** but lack the confidence and linkages. Hence new venture business start-ups need the mentoring and support to take on the challenge. In addition, business confidence must be built by demonstrating successful business models in 'frontier' investment sectors.
- Many of Timor Leste's small businesses suffer from common business management issues (e.g. realistic management of cash flow issues). Hence **businesses need local support to help address such management issues and expand more effectively.**
- Limited specialised and technically skilled workers are available. Hence **significant investment in 'in-house' training is needed by employers** until capable training service providers begin to emerge - a service sector whose emergence MDF is looking to support.
- **Payback periods in Timor-Leste are longer** than expected due to higher capital, labour and operating costs, as well as the lead time necessary to establish a consumer base in a market geared

²⁰ Greenfield Industries (Tourism and Manufacturing); and Agribusiness, Processing and Rural Distribution.

²¹ Market Development Facility (2016). Annual Strategic Plan 2016-2017, and Market Development Facility (2016). Annual Aggregation of Results 2015.

to imports. Hence, MDF partnerships in Timor Leste are delivering **slower and lower results than similar investments in other economies.**

- **Getting agri-inputs into rural households is as much about good communication** as it is about distribution. Giving farmers access to a product is not sufficient in itself. Farmers must also be made aware of its uses, and must also be allowed to experience the benefits for themselves. Promotion and information support in parallel with a product's supply is therefore critical to that product's success.
- Subsistence farmers and emerging commercial farmers alike lack commercial awareness, hence agri-processing enterprises need to **invest heavily in building relationships with local communities** and **building backward linkages to ensure the on-going supply of quality produce.** This has often been an impediment to the Timorese business case in the past, and is one of the primary reasons for the establishment of DFAT's *To'os ba Moris Di'ak* (TOMAK) program.
- The Timorese Government has sometimes engaged in the agriculture sector in ways that have distorted the market opportunities for the private sector (e.g. through free input distribution or commodity price setting). Private sector entrants need to be **aware of the business environment, and careful communications needs to be established with the public sector if intermittent interference is to be avoided.** The industry has found it beneficial to establish dialogue with government, and explain the long-term incentives needed for effective market functioning.
- Timor-Leste's markets are small and many businesses are risk averse. Hence **to achieve systemic change, MDF cannot rely on the "crowding in" of additional businesses that copy MDF partners' innovations. Instead, a more creative approach is required,** with an emphasis on multiple partnerships that demonstrate and support core innovations, and on efforts to foster a variety of responses to those partner innovations that strengthen Timor Leste's economic fabric, and embed improvements in its market systems.

Evolving Strategic Engagement Areas for MDF Phase II

During Phase II, MDF will be building on its work from Phase I, through a continuation of its focus on two strategic engagements that underpin diversified and pro-poor growth, and that are also in line with the development priorities of both DFAT and Timor Leste:

1. **Greenfield Industries (Tourism and Manufacturing);** and
2. **Agribusiness, Processing and Rural Distribution.**

In addition, MDF plans to introduce a new systemic engagement broadly focused on **promoting investment and local entrepreneurship.**

The primary focus of Phase II will be on broadening and deepening Phase 1's portfolio. The broadening of the portfolio will involve more "core" partnerships that can support innovations in line with the expected systemic changes. In this way, a critical mass of businesses can be created using successful and relevant pro-poor business models. The deepening of the portfolio will involve more partnerships that support those complementary changes needed to lower the barriers to the adoption of the successful and relevant pro-poor business models. Deepening the portfolio will also enable the target sectors to be more adaptable and resilient to shocks.

It is expected that MDF's systemic change pathways will evolve over the coming years. MDF has still only a handful of partnerships in its sectors, which are themselves at an early stage of development, especially the manufacturing sector. As MDF gains more understanding of the potential of these sectors, and as the sectors themselves develop, it can more tightly define the systemic changes that may be expected, as well as the sorts of partnerships and activities needed to stimulate these changes.

MDF has outlined 'systemic change pathways' for each of its target sectors over a ten-year span, beginning from when it initiated interventions in these sectors. These pathways summarise:

- opportunities and constraints;
- how poor people (and particularly women) are involved in each sector;
- particular opportunities for sector growth;
- the number and types of partnerships expected over the ten-year period; and

- the impact expected over the ten-year period.

The systemic changes identified are as follows:²²

Agribusiness, Processing and Rural Distribution

- **More inputs to farms and more farm products to markets:**
 - Agri-traders are introducing inputs and modern farming methods through backward linkages with farmers that enable the sourcing and marketing of local fresh produce to consumers;
 - Businesses are making informed investment decisions (provided by feasibility studies);
 - Agri-input businesses are establishing commercial networks for the distribution of agri-inputs to farmers.
- **More local agricultural raw materials processed, with added value:** Positive examples for agri-processing are being provided by:
 - Businesses investing in new or existing models to add value to local products through the introduction of more efficient sourcing mechanisms;
 - Specialised services testing raw materials for food safety;
 - Quality management systems ensuring quality control of the raw materials sourced;
 - Skilful marketing and promotion.

Within the Agribusiness sector, MDF's close collaboration with DFAT's new TOMAK engagement will be an important focus for its Phase II. This collaboration will improve regional market development, especially in potential high growth areas. While TOMAK will help ready communities to initially engage with markets, MDF will leverage this investment by linking the communities with input, purchasing, processing and distribution companies. The cooperation between MDF and TOMAK will enable both programs to reach greater scale and sustainability than they could possibly achieve by themselves.

Greenfield Industries

- **Increased investment in novel manufacturing ideas:**
 - National and international investors are investing more to cater to domestic demand, and to expand in a timely manner into relevant export markets;
 - Relevant government departments, and representatives of the private sector, plug gaps in regulation, and resolve conflicts in the business environment, through evidence-based policy discussions and reforms.
- **Increased investment in tourism facilities, activities and marketing:**
 - Investments in good quality tourism facilities (hotels, guesthouses and restaurants) combined with extensive information packages on activities in tourism sites;
 - Marketing of attractive travel packages to international markets.

Promoting Investment and Local Entrepreneurship

- Business support networks develop that are able to guide investors and aspiring local entrepreneurs to set up commercially sustainable businesses.

These systemic change pathways emphasise the productivity growth of businesses, farmers and micro producers, as well as the linkages and interaction that is needed among businesses in the non-oil sectors to foster learning, cooperation and synergies. While the specific pathway for the manufacturing sector explicitly includes the interaction of government and the private sector to resolve constraints related to regulation, this aspect of systemic change is playing an increasing role in all pathways.

Across the board, MDF is helping women by helping retailers/traders, entrepreneurs and business owners to:

- better include women in agriculture, while at the same time making their agricultural tasks easier,

²² MDF Presentation 2016 and MDF Annual Strategic Plan FY 2016-2017

- open the manufacturing sectors to women by creating roles for them as employees and businesspeople, and
- enable businesses to better understand the needs of women both as employees, and particularly as consumers (of both agricultural and non-agricultural products).

Deepening Stakeholder Engagement

MDF is currently (2015 to 2017) in the process of developing its role as a business intelligence hub in Timor Leste. This is a unique role in the country's development space, not currently undertaken by any other programme or organisation. MDF has found that, despite the smallness of the country, there are barriers to interaction between groups (e.g. between government and SMEs, or between different ethnic groups in the business community) that can be attributed to a post-conflict environment. MDF connects businesses to each other, and links businesses with farmers and also with banks (specifically: the ANZ Bank). It also facilitates business-to-government discussions (through the development of associations and working groups, as well as the facilitation of one-on-one discussions between businesses and the ministries). During Phase II, a key role for MDF will be to continue fostering connections and productive interaction within and between the private sector, government and the development community.

This engagement will require, however, a creative and tailored approach. MDF has formulated a strategy that can better engage its stakeholders, using Phase I's experience in Timor Leste to inform this process²³. During Phase II, MDF will operationalize this strategy on two levels:

- By strengthening collaboration with the public sector in Timor-Leste;
- By influencing systemic change in its target sectors.

Strengthening collaboration with the public sector

Faced as it is with an ongoing decline in oil revenues, the Government of Timor Leste has given increased profile and resources to initiatives that stimulate local private-sector investment. The most important of these initiatives are:

- the Coordinating Ministry for Economic Affairs (MECAE);
- TradeInvest, a one-stop export promotion and investment agency; and
- IADE, the Government's business development support initiative.

Within the slowly changing economic landscape of Timor Leste, MDF has increasingly become a 'network facilitator' for both business intelligence and business linkages. Through its activities, both MDF itself, and the emerging businesses it supports, have gained an increased profile with the functional agencies. In particular, it has established deeper linkages with TradeInvest and IADE.

That said, MDF Phase I's profile has remained somewhat limited with Government agencies, with decision makers, and with broader stakeholders. As such, during Phase II, MDF will increase both its own profile and that of the emerging businesses it supports through:

- Increasing the flow of news, updates and technical information, especially that available in Tetun; and
- Influencing sector-specific government regulations and programs, by facilitating an increased dialogue on key issues of concern between Government and the emerging business sectors, while continuing to build the capacity of key groups (e.g. ANSA-TL and TradeInvest).

Influencing systemic change

²³ MDF Independent Advisory Group (2016). See Annex D *Draft Guidance Note on Engagement in Timor Leste* from the *Independent Advisory Group – Report on Mission to Timor-Leste: 29th June to 5th July 2016*.

During Phase II, MDF aims to influence systemic change within its target sectors by:

1. Increasing the flow of information and learning in its target sectors;
2. Influencing sector norms e.g. by promoting the acceptance of new business models and technologies;
3. Reducing barriers to businesses, by improving their abilities to understand and effectively comply with government requirements, and by enabling businesses to access relevant services;
4. Opening opportunities for linkages between Timor Leste's current businesses, as well as opportunities for new business deals; and
5. Contributing to the improvement of Timor Leste's confidence in a non-oil economy.

DFAT and Development Partner Alignment

MDF in Timor Leste is part of DFAT's integrated portfolio of programs in the country that are focused on inclusive economic growth. Other initiatives in this portfolio include:

- TOMAK: MDF envisages that it will develop between six and eight substantial Partnerships focused in Maliana and Baucau that are directly relevant to TOMAK - an investment on MDF's part of approximately AUD1.5m to AUD2.0m. Other Partnerships within its agribusiness portfolio will also contribute to the links between MDF and TOMAK.
- M&E House: MDF already has a robust, externally audited, monitoring system that is consistent across five countries. Hence, it is not envisaged that MDF's M&E functions will need to be adjusted following the commencement of the M&E House. However, during Phase II, MDF and the M&E House will need to consider how MDF reporting contributes to the AIP and associated performance frameworks.
- ACIAR has developed low-cost agricultural technologies for the Pacific, and conducted useful research in sub-sectors including livestock, watershed management and food-crop cultivation. ACIAR and MDF are discussing opportunities for collaboration, such as having an MDF partner commercialize one of the newly developed agricultural technologies.

DFAT anticipates convening regular meetings of the programs included in the portfolio to facilitate appropriate information exchange and coordination. MDF will participate in these meetings, sharing information and lessons from its endeavours, and using the information gained to improve its own effectiveness. MDF will also cooperate directly with the individual programs in the portfolio, building on the opportunities as discussed above.

In addition to the programs in DFAT's portfolio, MDF will actively exchange information and coordinate with the relevant programs of other development partners in Timor Leste. MDF will also cooperate on specific activities wherever it makes sense to do so. Current examples of such cooperation include:

- **The Asian Development Bank (ADB):** As part of its support to the implementation of Timor Leste's Strategic Development Plan (SDP), 2011–2030, the ADB is providing strategic guidance to the coffee sector, by identifying sector constraints, and by developing industry recommendations, including the recommendation to form a National Coffee Board or Coffee Association. MDF, in collaboration with the ADB, UNDP, and MECAE is engaging with stakeholders to assess the feasibility of forming such an association.
- **The Asia Foundation:** The Asia Foundation is supporting Timor Leste's Ministry of Tourism to develop a Destination Brand, a Strategic Marketing Plan and a National Tourism Roadmap, that will enable the Ministry to engage in marketing activities that encourage tourism. MDF is exploring opportunities to collaborate with The Asia Foundation on the development of a tourism information portal, which can be endorsed and later managed by the Ministry of Tourism.
- **AVANSA:** In addition to an exchange of ideas and learning, MDF has been collaborating with USAID's AVANSA programme in the formation of two major business member organisations:
 - an Agro-Input Business Association; and
 - a Horticulture Association for Timor Leste.
- Once a calendar of activities is finalised, MDF and AVANSA will jointly coordinate the initiatives.

- **International Finance Corporation (IFC):** The IFC plays a critical role in attracting large private sector investments to Timor Leste. However, given its growing need to focus on medium and small-sized businesses, IFC is gathering local business intelligence to feed into its larger policy level reform discussions from MDF. Similarly, MDF is drawing on the IFC's expertise, and its network with the relevant government agencies, to support the promotion of its private sector interests.
- **UNDP:** MDF works in close collaboration with UNDP's Social Business wing in several areas, including:
 - support to Timor Global in the establishment of an aflatoxin testing facility;
 - establishment of a coffee association; and
 - exchange of learning and ideas surrounding issues of access to finance for SMEs.

Expected Results from Phase II in Timor Leste

During Phase II, MDF in Timor Leste will focus on embedding and expanding the systemic changes discussed above within Timor Leste's market systems. As such, MDF will monitor and report on the progress of each anticipated systemic change, through the use of its systemic change framework.²⁴ This monitoring information will be used regularly to adapt/evolve strategies so that MDF can maximize its contribution to the targeted systemic changes in Timor Leste.

It is expected that MDF will implement approximately 35 partnerships and 10 formal influencing events over the 5 years of Phase II in Timor Leste. This body of work is expected to roughly yield the following results upon maturity – typically 2-4 years after the work is completed:

Indicator ²⁵	Estimated Result
Number of business innovations and regulatory reforms	60
Investment leveraged	USD2.8 million
Value of additional market transactions	USD13.5 million
Effective outreach	36,000 people
Additional jobs for poor women and men (full-time equivalent)	550 FTE jobs
Additional income for poor women and men	USD11 million

It is more important for MDF's focus in Timor Leste to remain on fostering the systemic changes that will underpin long-term inclusive growth, than on the provision of quantitative results.

Resourcing for MDF Phase II in Timor Leste

DFAT anticipates a budget for MDF Phase II in Timor Leste of approximately AUD10.5 million over five years. It is expected that the budget will be expended roughly equally across each year in the phase.

MDF Phase II will likely require a modest expansion in the human resources needed to implement the program. It is expected that the MDF team will include:

- 1 country representative;
- 1 senior market development adviser;
- 1 adviser focused on WEE, Inclusion, and Results Measurement;

²⁴ See Market Development Facility (2015) Achieving Changes in Markets at http://marketdevelopmentfacility.org/?type=publication&posting_id=5264

²⁵ For the definitions of these indicators, see Annex 5 on Monitoring, Evaluation and Learning

- 2-3 local coordinators;
- a team of business advisers;
- a team of support staff covering operations, administration, finance and drivers.

To effectively and efficiently meet the needs of the program, flexibility will be needed as to the exact numbers and make-up of the human resources complement. The Timor Leste team will, however, be supported by the Facility-wide Core Leadership Team.

Pakistan

Introduction

This annex outlines the strategic direction for Phase II of MDF in Pakistan. It takes into account: MDF documents, the findings of the MDF mid-term review, IAG mission reports, and consultations with the DFAT Post and MDF country team(s). It provides a brief overview of the Pakistan context, the results and lessons derived during Phase I, and the strategic focus proposed for Phase II, as well as its anticipated staffing and resourcing needs.

Overview of MDF in Pakistan

Both poverty and women's economic empowerment are critical issues in Pakistan. DFAT funds MDF in Pakistan to stimulate broad-based private sector growth in ways that promote poverty alleviation and inclusive growth.

Poverty and Inclusion

Pakistan has a large population (190 million), an estimated GDP of USD247 billion, but growth that is significantly lower than other key South Asian economies. An estimated 30% of the population is poor, and a further 45-50% of people survive on incomes that are less than twice the poverty threshold. Poverty levels vary widely between geographic regions, and between rural and urban environments. The incidence of poverty is also dramatically higher in remote rural areas (up to 90%), although there are strong variations caused by differences in climate and the availability of cash crops. Nevertheless, the remote areas with a high poverty incidence generally have low populations, and thus the bulk of the poor still live in the densely populated Punjab, Sindh, and in and around the bigger cities.

Of the rural population 60% is dependent on agriculture and 80% of farmers have very small landholdings or are landless. 60% of Punjab farmers have access to canal irrigation infrastructure, but suffer from irregular supply.

Distillation of key documents shows that there are five root causes of rural poverty in Pakistan. These are:

- Inequitable access to critical but finite natural resources, primarily land and water;
- large family size causing population pressure on a limited resource;
- limited access to off-farm income;
- low productivity from the available crop and livestock options; and
- poor connectivity between remote regional areas and the major markets.

While poverty incidence is somewhat lower in urban areas, numbers are growing due to a significant rural to urban population drift. Poor men and women in urban areas tend to work in informal supply chain activities, and there is a need to further develop employment opportunities.

Finally, because the poor in both rural and urban areas are vulnerable to climatic and economic shocks, there is a need to improve the resilience of poor households.

Women's Economic Empowerment

Most poor women in Pakistan's rural areas participate in economic activities within the confines of the household, and have a say in expenditure decisions. While many poor women work on the land, or in low skilled employment, most tend to gradually withdraw from doing so as household incomes improve. Major challenges include: societal restrictions on the mobility of women, and the prestige associated with having women in a household who do not work, and do not interact with men.

Nevertheless, women's participation varies depending on regional social/cultural specifics. In more conservative areas, women participate to a lesser extent whether or not a household is poor. In more liberal areas, women have more latitude as economic actors, some even working as lead farmers. For example, in

Gilgit Baltistan the majority of fruit farmers are women, who both work on the land, and sell the produce into markets.

The majority of poor in urban areas work in informal workshops. Women are particularly disadvantaged in formal workplaces, as there is a cultural reluctance (felt by both genders) for women to work alongside men, with few businesses providing suitable working conditions. Women are, however, employed as outworkers on detailed tasks, particularly for small to medium, informal enterprises.

Current discussions with industry indicate that there is growing interest in employing women in factories. Yet before this can happen on any scale, there is a need to make shop floor environments more amenable to women, by catering to the cultural and infrastructure demands posed by the needs women have for segregation and security.

Hence if development initiatives are to have any impact at all, they must take into careful account the prevalent norms and attitudes within Pakistan's complex working environment.

Economic Challenges

The Pakistan Government is currently making efforts to strengthen its economy, helped by lower international oil prices, and the implementation of the IMF's reform program, with the GDP growth for 2015/16 being estimated at 4.5 per cent. If realised, large-scale Chinese investment in the China-Pakistan Economic Corridor over the coming years will improve infrastructure, lift energy capacity, and underpin further economic growth. Yet for the moment, Pakistan's trade as a percentage of GDP stands at around 31 per cent, which is well behind the average across South Asia (around 50 per cent).

Part of the reason for Pakistan's economic sluggishness is its two-tier economy. The first tier consists of a small number of large, listed, private companies that are well-integrated, and that participate in both the domestic and export markets. The second tier is the traditional economy, populated by an enormous number of SMEs serving the domestic market. The large formal companies are well-connected and have a presence in rural areas as buyers or suppliers, however maintaining these supply pathways is a significant business cost. Conversely, the largely informal SMEs, servicing vast swathes of the country outside the major urban centres, are less connected with technical expertise and investment, but are better able to maintain purchase and supply relationships with rural customers.

There are opportunities within this picture to grow the economy – and to do so in an inclusive manner. Yet for the most part, advancements in manufacturing, urban services, and agricultural value addition are currently being stifled by the under-development of local ancillary services in the value chains, such as locally made components and parts, and by poor connections to markets.

A lack of connectivity to markets means that the agriculture sector - which is the backbone of the economy for 45% of the population, and accounts for 21% of GDP – is unable to match demand for high quality produce in the urban centres and overseas. Improving the connectivity between rural producers and markets would also help to mitigate the growing rural-urban poverty drift.

With agricultural innovations limited to the few large farmers, the small farmers cultivating the bulk of the agricultural produce are forced to rely on outmoded and inefficient market mechanisms. Information provision in the agriculture sector is also poor, and the sector's overall performance has thus been well below average.

To unlock the sector's potential for growth, supply chains therefore need to be strengthened in ways that enable them to reach small farmers and distant regions, while farmers also need vastly improved connections to the lucrative markets found in cities and abroad.

In the urban sectors (manufacturing and urban services) there is a need to improve export competitiveness through innovation, and by enabling production that meets international standards.

MDF's Focus in Pakistan

MDF Phase I has been working in three sectors - Dairy and Meat, Leather, and Horticulture. The agricultural sectors (dairy/meat and horticulture) are connecting rural and regional households to demand in cities and overseas, while the urban manufacturing focus on leather is creating opportunities for large numbers of poor men and women to acquire skills and formal employment.

Specifically, MDF's aims in Pakistan are to:

- Promote rural and regional inclusiveness;
- Increase export competitiveness;
- Broaden the entrepreneurial base; and
- Create opportunities for women.

The Government of Pakistan's *Vision 2025* includes the aim of achieving sustained growth in agriculture through interventions in production, and pre- and post-harvesting. *Vision 2025* also emphasises: private sector and entrepreneurial growth, gender empowerment, investment, innovation, and capacity building through training and skills development. MDF's sectors and focuses in Pakistan are thus well aligned with *Vision 2025*.

In Pakistan, DFAT's aim is to support inclusive growth as a mechanism for reducing poverty. The ***Aid Investment Plan Pakistan 2015-16 to 2018-19*** has two strategic priorities:

4. **Generating sustainable inclusive growth and employment** through improved agricultural productivity and market development, increased trade and investment, and water resources management; and
5. **Investing in Pakistan's people** through health and education.

In addition, the AIP aims to ensure that women's economic empowerment, stability and improved governance are integrated across its portfolio.

MDF contributes directly to sustainable growth and employment, and women's economic empowerment. Within DFAT's Economic Growth Portfolio, Australia is contributing technical assistance and funding that stimulates economic growth, and increases opportunities for employment and income generation, particularly in rural communities. As part of that portfolio, DFAT expects MDF to contribute to both Australia's and Pakistan's priorities through developing the competitiveness of key sectors, and by enabling poor women and men to better participate in, and benefit from, the resulting growth. In addition to its work with partners and stakeholders in the Pakistan economy, DFAT values MDF's roles as a partner in analysing Pakistan markets, and as a sounding board and advisory mechanism on issues related to inclusive economic growth and private sector development.

Achievement and Lessons from MDF Phase I

MDF commenced in Pakistan in late 2013, and nearly three years on, has a maturing portfolio of activities - as of August 2016, 27 partnerships were being implemented, with the expectation that by June 2017 this will have grown to 42 partnerships.

Already, MDF's work in its three target sectors in Pakistan is laying a foundation that will underpin inclusive growth in the long term. Through its partnerships, MDF has supported a variety of innovations that are helping companies in Pakistan reach new markets, compete more effectively in the global marketplace, purchase from more suppliers, and hire more workers. By December 31, 2015 (only two years after mobilisation), its 16 Partnerships had already leveraged almost USD1.12 million in investment from partners, and had sustainably improved the lives of 2,350 poor women and 2,400 poor men in measurable ways. 115 sustainable FTE jobs had been created (30 of these for women), and additional incomes from wages and sales reached USD2.4 m (USD0.5m for women). Furthermore, these partnerships will continue to deliver even greater results, as it takes time for partners to ramp up new operations, and for producers and workers to respond to new opportunities. As such, MDF Phase I predicts that its partnerships (both current and in the pipeline) will by 2021 have provided over USD43.9 million in additional income for approximately 168,000

women and men, including approximately 7,800 new full time equivalent jobs, benefiting almost 571,200 household members.²⁶

Key lessons learned during MDF in Pakistan Phase I include:

1. **Different types of partners in both tiers of the economy need to be taken into account for change to be effected in a market system:** All players are important, and the kind of partner MDF works with can also change over time. 'Formal economy' businesses are often comfortable and risk averse. By sticking to what is tried and tested, they tend to miss opportunities to improve profitability and market share. The smaller, often informal businesses, on the other hand, often seek innovation, and thus a good experience can persuade them to make heavy investments.
2. **Working with small-scale or regional businesses requires significant advisory support to reach the scale and quality control necessary to achieve brand recognition:** To establish sufficient scale and quality control for brand recognition, businesses in the remote regions of Pakistan require both more and longer support in: procurement systems; business operations; market development and forecasting; and planning. Understanding a business's capacity in each of these areas is crucial to ensuring that its activities progress as per plan, and for support to be extended where/when needed.
3. **Manufacturing businesses benefit by hiring more women, but conducive work environments and support services are important if more women are to be attracted into the sector:** Hiring women is beneficial for businesses in many ways (including: women workers tend to be more committed, and tend to deliver more consistent quality, particularly where detailed work is required). However, segregated work spaces, dedicated transportation, and day-care, are just some of the factors that need to be encouraged if female employment is to rise. Where women have been forced by economic necessity to take up such work in the absence of these facilities, job retention and upward mobility have been adversely affected.
4. **Most training in manufacturing occurs on-the job:** Most skills uptake happens as new workers learn from more senior workers, and formal trainings are rare - mentoring is thus a key aspect of skills learning in the manufacturing sector. This needs to be kept in mind when designing skills training programmes for companies – such on-the-job training cannot be replaced with more 'traditional' skills training (i.e. more theoretical training, disconnected from actual workplaces), which often proves ineffective.
5. **The impediments to market-based development of jobs and opportunities for the poor extend well beyond weaknesses in the formal business-enabling environment.** Experimentation is required to find ways of overcoming or working around constraints that are based in a skewed distribution of political and economic power, continued threats to security, and factors that inhibit the development of networks of trust that must underpin market transactions.

Evolving Strategic Areas for MDF Phase II

During Phase II, MDF will broaden and deepen the work of Phase I, by continuing its focus on three strategic engagements that underpin diversified and pro-poor growth, and that are also in line with the development priorities of both DFAT and the Government of Pakistan²⁷. These areas and their associated systemic pathways are:

1. Dairy, Meat & Livestock products

²⁶ Market Development Facility (2016). Annual Strategic Plan 2016-2017, and Market Development Facility (2016). Annual Aggregation of Results 2015.

²⁷ MDF Presentation 2016 and MDF Annual Strategic Plan FY 2016-2017

- a. Small livestock farmers²⁸ have access to the inputs and services that enable them to produce the quality and quantity of milk, wool and meat required by domestic/urban and export markets.
- b. Mid-tier and high-quality processors of pasteurised milk (or other products) invest in more formalized supply chain arrangements that enable the sourcing of product of the required quality and quantity.
- c. Meat processors invest in more formalized supply chain arrangements that enable the sourcing of more traceable, standard quality animals.

2. Leather

- a. Leather manufacturers invest in capacity and skills, and have access to the inputs and services needed to expand in domestic and export markets.

3. Horticulture

- a. Businesses invest in their capacity to retail inputs, services and information to small horticulture farmers in all provinces in Pakistan.
- b. Exporters and processors invest in more formalized supply chain arrangements to enable the sourcing of the quality and quantity of produce required for domestic/urban and export markets.

The primary focus of Phase II will be on broadening and deepening Phase I's portfolio. The broadening of the portfolio will involve more "core" partnerships that support innovations in line with the expected systemic changes. In this way, a critical mass of businesses can be created using successful and relevant pro-poor business models. The deepening of the portfolio will involve more partnerships that support the complementary changes needed to lower the barriers to the adoption of the successful and relevant pro-poor business models. Deepening the portfolio will also enable the target sectors to be more adaptable and resilient to shocks.

In addition, MDF will further explore two new areas for potential engagement during its second phase in Pakistan: sustainable technologies and enabling business services.

4. **Sustainable technology:** Business investment results in increased household access to sustainable technologies that improve the efficiency of use of water, energy and other scarce household resources.
5. **Enabling business services:** Public and private providers invest in business services that help streamline business operations and increase competitiveness.

It is expected that during Phase II MDF's systemic change pathways will evolve - as MDF gains more understanding of the potential of its target sectors²⁹, and as the sectors themselves develop, it can more tightly define:

- the systemic changes that may be expected;
- the sorts of partnerships and activities needed to stimulate these changes;
- other actors capable of addressing constraints that it cannot deal with.

The emphasis of the systemic change pathways is on the productivity growth of businesses, farmers and micro producers, and the need for linkages to foster learning, cooperation and synergies.

Across the board, MDF is helping women by helping retailers/traders, entrepreneurs and business owners to:

- better include women in agriculture by providing them with access to inputs, information and services, while at the same time making their agricultural tasks easier,
- open the manufacturing and processing sectors to women by creating workplace environments appropriate for them, and

²⁸ Primarily cattle and buffalo, but potentially sheep in dryer areas, especially Balochistan.

²⁹ Including policy and regulatory constraints.

- better understand the needs of women as producers, employees and consumers.

Deepening Stakeholder Engagement

Australia's Economic Growth Portfolio Team (DFAT, ACIAR and AusTrade) is seeking to establish a formal engagement with Pakistan's key national agencies that allows for discussion of Australia's Economic Growth Portfolio as a whole. Yet while this will be an important dialogue for MDF to support, the focus for MDF's stakeholder engagement will be at the private sector and provincial agency levels – on the establishment of a range of informal networks, formal Partnerships, and formal dialogues aimed at driving its systemic agenda. As part of this engagement, MDF will conduct up to 15 formal influencing events during its second phase (i.e. up to 3 per year).

MDF is providing an increasingly rich pool of on-the-ground experience through which Australia can better understand private sector issues and concerns in Pakistan, and thereby become a more effective partner to Pakistan in addressing the challenges of pro-poor growth.

DFAT and Development Partner Alignment

Australia is making a significant contribution to Pakistan's economic growth and employment through the varying approaches and activities of DFAT (both politically and developmentally), AusTrade, ACIAR and CSIRO. MDF is a valuable tool in Australia's Economic Growth Portfolio in Pakistan, having evolved for itself a unique role that complements, enhances, and helps to network between other investments. Examples include:

- MDF has met regularly with both ACIAR (ASLP/AVCCR) and AusTrade to discuss its initiatives, including those with the Ali Akbar Group (AAG) in mandarins, Shakarganj in dairy, Pioneer Seeds in silage, and FDP in Rhodes Grass.
- MDF's horticultural processing, seed production and market access initiatives in Gilgit Baltistan and KPK have linked with SRSP, and particularly AKRSP.
- MDF is working closely with AusABBA to develop networked investments in vegetables (with the Ali Akbah Group) and dates (with Baloch Trading) in Balochistan.

MDF also has potential to complement emerging areas of bilateral interest and strategic concern through its two new strategic engagement areas – sustainable technologies and enabling business services. Innovative opportunities are also available that complement DFAT's South Asia Regional *Sustainable Development Investment Portfolio*, with its focus on the sustainability of the water and energy sectors in Pakistan.

DFAT anticipates convening regular meetings of the programs included in the portfolio to facilitate appropriate information exchange and coordination. MDF will participate in these meetings, sharing information and lessons from its endeavours, and using the information gained to improve its own effectiveness. MDF will also cooperate directly with the individual programs in the portfolio, building on the opportunities as discussed above.

Expected Results in Phase II in Pakistan

During Phase II, MDF in Pakistan will focus on embedding and expanding the systemic changes discussed above within Pakistan's market systems. As such, MDF will monitor and report on the progress of each anticipated systemic change, through the use of its systemic change framework.³⁰ This monitoring information will be used regularly to adapt/evolve strategies so that MDF can maximize its contribution to the targeted systemic changes in Pakistan.

³⁰ See Market Development Facility (2015) Achieving Changes in Markets at http://marketdevelopmentfacility.org/?type=publication&posting_id=5264

It is expected that MDF will implement approximately 60 partnerships and 15 formal influencing events over the 5 years of Phase II in Pakistan. This body of work is expected to roughly yield the following results upon maturity – typically 2-4 years after the work is completed:

Indicator ³¹	Estimated Result
Number of business innovations and regulatory reforms	100
Investment leveraged	USD5.0 million
Value of additional market transactions	USD88.0 million
Effective outreach	144,000 people
Additional jobs for poor women and men (full-time equivalent)	10,500 FTE jobs
Additional income for poor women and men	USD70 million

It is important that MDF’s focus in Pakistan stays on fostering systemic changes that will underpin long-term inclusive growth, rather than on any particular quantitative result.

Resourcing for MDF Phase II in Pakistan

DFAT anticipates a budget for MDF Phase II in Pakistan of approximately AUD18.0 million over five years. It is expected that the budget will be expended roughly equally across each year in the phase.

MDF Phase II will likely require a modest expansion in the human resources needed to implement the program. It is expected that the MDF team will include:

- 1 country representative
- 1 deputy country representative
- 2-3 local coordinators
- a team of business advisers
- a team of support staff covering operations, administration, finance, security and drivers.

To improve the efficiency and effectiveness of delivery, DFAT has agreed that MDF should consider the feasibility a subsidiary office in Karachi, which is Pakistan’s business, finance and export hub. This will be assessed and agreed prior to the start of Phase II. In addition, MDF will expand its team of local coordinators to assist with the monitoring and mentoring of established partnerships. These new coordinators may often be co-located with other programs where mutual benefits are clear.

To effectively and efficiently meet the needs of the program, flexibility will be needed as to the exact numbers and make-up of the human resources complement. The Pakistan team will, however, be supported by the Facility-wide Core Leadership Team.

³¹ For the definitions of these indicators, see Annex 5 on Monitoring, Evaluation and Learning.

Sri Lanka

Introduction

This annex outlines the strategic direction for Phase II of MDF in Sri Lanka. It takes into account: MDF documents, the findings of the MDF mid-term review, IAG mission reports, and consultations with the DFAT Sri Lanka Post and MDF country team. It provides a brief overview of the Sri Lanka context, the achievements during Phase I, and the strategic focus proposed for Phase II, as well as its anticipated staffing and resourcing needs.

Overview of MDF in Sri Lanka³²

With a GDP of approximately USD78 billion and a population of approximately 22 million, Sri Lanka is one of the most prosperous countries in South Asia. Since the conclusion of a three decade long civil war in 2009, the economy has grown around 6% per annum and poverty rates have fallen from over 20% in 2002 to 6.7% in 2013. Nevertheless, the country faces several challenges. Growth was stimulated by post-war public investments in infrastructure and increased consumer spending, but mounting private and public debt and a weak fiscal base makes this unsustainable. The country also has a significant trade imbalance with its deficit running up to 11% of its GDP (USD8 Billion). Labour force participation for women is half that of men. While extreme poverty has reduced on average, pockets of deep poverty still exist. In addition, approximately a third of the population are still vulnerable and live below USD2.50 per day (based on 2005 Purchasing Power Parity). Women and particular ethnic groups are more likely to be in poverty than others.

The Government of Sri Lanka is leading three major areas of reform: constitutional reform, transitional justice and economic reform. There is a recognition that, although economic growth has been strong, there has been no positive shift in equity over the last ten years and the gap between the rich and the poor continues to widen. While there are economic opportunities, access to them is strongly influenced by class, ethnicity, geographic location, gender and post-conflict issues. Concerns remain that conflicts could reignite if significant inequality persists or increases.

Sri Lanka aspires to become one of the strongest economies in Asia and an upper-middle income country with a diverse middle-class population. The further growth and job creation to drive this economic transformation needs to come from an expansive export-led strategy, to better market and connect Sri Lankan products and services to the outside world. The economy is currently in transition from a reliance on natural resources and low-cost labour to a value adding economy built on efficiency and, particularly, innovation. Though a significant proportion of Sri Lanka's rural population still depends on agriculture, the sector is declining both in terms of employment creation and as a share of GDP, while the service sectors are expanding. Traditional export sectors such as tea, rubber and apparel are losing their vibrancy, whereas opportunities in tourism, digital capabilities and premium value exports of Sri Lankan made goods are emerging. To ensure more economic and social equity, economic growth in lagging areas also needs to be stimulated.

In Sri Lanka, DFAT's aim is to support inclusive growth as a mechanism for reducing poverty. The ***Aid Investment Plan Sri Lanka 2015-19*** has two strategic priorities of relevance to MDF:

- Objective 1: Expand economic opportunities for the poor
- Objective 3: Increase gender equality

In Sri Lanka, MDF focuses on **Tourism and Related Sectors**. Tourism is one of Sri Lanka's fastest growing sectors and job creators and pivotal to economic transformation. Tourism and Related Sectors is an ideal platform for MDF to engage the Sri Lankan economy and drive socially inclusive growth, investment, innovation and reform. Tourist numbers are growing and there are still many untapped opportunities for

³² This section is taken from two Market Development Facility documents: MDF in Sri Lanka (2016) and MDF Annual Strategic Plan for FY 2016-2017.

increasing Sri Lanka's appeal as a tourist destination. Tourism and related sectors reaches across the nation and has synergies with other key drivers of future economic growth such agricultural exports and ICT. The sectors provide opportunities for poor women and men both as workers and as producers. They also offer the potential to empower women economically and can reach different ethnic groups in Sri Lanka.

A focus on tourism and related sectors also aligns tightly with Australia's bi-lateral partnership and strategic focus in Sri Lanka as well as the priorities of the Government of Sri Lanka. Bilateral grant aid is now a very small part of Sri Lanka's economy, and Australia's contribution is modest compared with most other donors. As such, it is important for DFAT to focus its support on areas where it can add significant value. Given the importance of tourism to Sri Lanka and Australia's industry expertise in tourism, DFAT has established a productive relationship with the Ministry of Tourism and aligned much of its economic support towards this sector. (DFAT's portfolio in tourism is discussed in more detail in Section 5 below.) The Government of Sri Lanka has recognized tourism as a key sector for inclusive economic growth. While the Government of Sri Lanka remains significantly involved in many aspects of the economy, the Ministry of Tourism has committed to an approach led by private sector investment and development.

In short, tourism and its related sectors holds a central, pivotal space to promote increased income opportunities for both women and men across the country in a sustainable manner.

Achievements from MDF Phase I

MDF mobilized in Sri Lanka during the second half of 2015. Thus, the program has only been in operation for just over one year. During its first year, MDF established an office in Colombo, set up its operational and financial systems and hired a local team to implement the program, led by an expatriate country representative. Supported by the MDF Core Leadership Team and business advisers from other MDF offices, the Sri Lanka team carried out sector assessments. These involved secondary data reviews and extensive, nation-wide field-level consultations with a large number of value chain actors spread across different economic areas and activities. The sector assessments culminated in an extensive consultation with DFAT to outline four strategic engagement areas for the program within an overall focus on Tourism and Related Sectors.³³

The team also conducted a study on Poverty, Gender and Ethnicity. This study examined factors that contribute to poverty and exclusion in Sri Lanka and potential pathways out of poverty, particularly related to MDF's targeted sectors. The study also provided additional insights into how MDF can promote WEE within its targeted sectors in Sri Lanka. The findings are being used in the development of strategies and partnerships. The team also undertook an environmental assessment which yielded a simple and effective checklist to ensure environmental compliance of all partnerships in Sri Lanka with both the Sri Lankan government and Australian government environmental guidelines.

By the end of July 2016, MDF had signed eight partnership agreements in tourism and related sectors. It is expected that this will grow to approximately 17 by the end of Phase I in June 2017. MDF has also established its monitoring and results measurement system in Sri Lanka as well as its systems to integrate WEE into the intervention management cycle. Work in communications has started and is expected to increase over the remainder of Phase I.

Evolving Strategic Engagement Areas for MDF Phase II

As MDF is still relatively new in Sri Lanka, Phase II will continue to focus on the strategic engagement areas established in Phase I. Flexibility will be maintained to evolve the focus based on emerging opportunities for inclusive growth and the priorities of DFAT and the Government of Sri Lanka. However, significant changes are not anticipated, and would not be appropriate, until well into Phase II.

³³ Market Development Facility (2016). MDF Annual Strategic Plan for FY 2016-2017.

The continued success and growth of tourism and its related sectors – and export-led growth more generally – is dependent on business investment and innovation in four strategic engagement areas. This investment and innovation will not only improve the tourism experience and international perceptions of Sri Lanka, it will also create more inclusive and diversified economic growth – increasing resilience to external shocks, such as fluctuations in the prices of natural resources, fluctuations in currency, changes in government and global economic changes. The strategic engagement areas follow. The broad interpretation of Tourism and Related Sectors is deliberate to allow MDF to maximize its contribution to inclusive growth in Sri Lanka.³⁴

Encouraging diversification of tourism in Sri Lanka: Expanding tourism to new destinations helps make Sri Lanka a more varied and appealing destination. MDF supports tourism product development, promotion, better access to locally made products and increased connectivity to community and experiential tourism providers. MDF envisions that the new investments in tourism and services under this area will make Sri Lanka's tourism offer more attractive, diverse and sustainable.

Stimulating business activity in lagging areas: Tourists prefer to visit destinations that are thriving and bustling, and in which their demand for a range of goods and services are met. Diversifying the Sri Lanka tourism experience depends on increasing a broad range of business activities in areas currently identified as lagging. MDF supports the establishment, development and promotion of businesses and entrepreneurship in lagging regions – particularly those affected by the civil war. MDF envisions that new investments in businesses in lagging areas will provide support to, and benefit from, the diversification of tourism activities and services.

Improving 'Sri Lankan-made' products for international consumers and markets: Supporting the growth of high quality products (such as horticulture and aquaculture) to drive export revenue for the country reinforces perceptions of Sri Lanka as a dynamic destination with a rich heritage and good quality products and services. MDF also stimulates better information flows to farmers and improves backward linkages for better market access for companies, and to reduce post-harvest losses. MDF envisions that new investments in production capacity and product quality under this area will increase sales to the tourism sector and export markets.

Supporting Sri Lanka's digital capability: International visitors and customers require information on, and the ability to transact with Sri Lankan destinations, activities, products and services. ICT services can support an export-led growth strategy, tourism diversification and the creation of new jobs. MDF targets niche opportunities including promotion, product development, access to better HR skills and a more conducive business environment for international visitors and customers such as exporters. MDF envisions that new investments in Sri Lanka's digital capability under this area will support the growth and diversification of the tourism sector and exports of Sri Lankan-made goods and IT services.

As MDF gains a greater understanding and more experience in the strategic engagement areas above, it will develop and refine systemic change pathways in each of the areas. These will be used to guide the development of the partnership portfolios in each area and to monitor progress towards embedding resilient improvements in Sri Lanka's market systems.

During Phase II, MDF will integrate a number of themes across its work in the strategic engagement areas outlined above. These themes will support, not replace, MDF's focus on inclusive growth. The themes follow.

Women's Economic Empowerment: While this is a theme across the entire Facility, a particularly consistent and innovative focus on WEE is required in Sri Lanka due to the extent of marginalization women face and the particular challenges to gender equality and WEE in the country. As in other countries, MDF's approach focuses on finding the nexus between WEE and business success in the varied value chains and socio-economic contexts in which the program works. To find these intersections in Sri Lanka, MDF will need to continually develop its understanding and evidence base on how household dynamics and

³⁴ This paragraph and the descriptions of the strategic engagement areas are taken from two Market Development Facility documents: MDF in Sri Lanka (2016) and MDF Annual Strategic Plan for FY 2016-2017.

workplace interactions interrelate. MDF will also need to consider pathways for women's advancement over time so that work in the strategic engagement areas significantly improves women's economic empowerment in Sri Lanka's challenging context. Violence against women and security for women are significant issues in Sri Lanka. MDF must have a solid approach in place to consider these issues when developing partnerships, to monitor for any negative impacts of its interventions and to address negative impacts if they arise. MDF will need to continue developing its relationships with women-focused organizations in order to continue building the knowledge and understanding of its staff on gender-related issues and to cooperate in addressing gender-related issues that are beyond MDF's mandate and skill-set.

Inclusion: The issues related to economic inclusion in Sri Lanka are complex. While many people have been lifted out of poverty as a result of Sri Lanka's economic growth over the last ten years, those that have not are constrained by often interconnected issues related to gender, ethnicity, religion, geographic location, class, disability and traditional systems of ownership and trade. MDF must navigate this space carefully and target poverty and inclusion with some precision. As with WEE, MDF must find the intersection between economic inclusion and business success. This requires continually deepening staff members' understanding of the various issues related to inclusion and well as developing creativity and entrepreneurialism in seeing and communicating the potential for inclusive growth in the sectors and locations where the program works.

Peace building and transitional justice: Australia's AIP for Sri Lanka mainstreams reconciliation, a key element of which is the need to reduce inequity by increasing the social and economic inclusion of women and men in a rapidly growing economy. MDF's aim in Sri Lanka is inclusive economic growth that increases incomes and provides jobs for poor women and men. As such, its primary contribution to peace building will be the promotion of economic inclusion. However, there are also other aspects to peace building and private sector development of which MDF must be cognizant. These include issues such as trust in trading relationships, potential for exploitation of producers and representation in sector-based bodies. MDF staff members need to have an understanding of these issues and to work in a conflict-sensitive manner. In addition, MDF staff must be aware that some populations have been traumatized by years of war and this will affect how they are able and willing to interact with others in markets. As with WEE, MDF must have a solid approach in place to consider these issues when developing partnerships, to monitor for any negative impacts of its interventions and to address negative impacts if they arise. In addition, MDF will look for opportunities that make sense in terms of inclusive growth and are also likely to have a positive influence on peace building.

Improving the business enabling environment: MDF will contribute to improving the business enabling environment on two levels in Sri Lanka. First, as in other countries, the program will address sector specific policies, regulations and issues as appropriate to its strategies and the particular constraints identified through its analysis and experience with partners. Second, MDF will provide business intelligence and an evidence base to DFAT for use in its broader policy dialogue with the Government of Sri Lanka.

As in Phase I, MDF will implement a careful screening process for partners. Business in Sri Lanka is often intertwined with politics and the interests of elites. In this environment, careful selection of partners as well as on-going management of partnerships is essential to ensure that MDF's partnerships avoid reputational risk and contribute to inclusive growth.

Stakeholder Engagement

In Sri Lanka, MDF's engagement with government and other key stakeholders will occur at several levels:

- DFAT has proposed to the Sri Lankan Ministry of Tourism that DFAT convene a Consultative Committee to provide a venue for DFAT and the Ministry to discuss Australia's engagements in tourism and related sectors including, but not limited to, activities under MDF. It is envisioned that the Consultative Committee will include representation from the Ministry of Tourism, DFAT, related

government ministries and agencies, and the private sector.³⁵ The Consultative Committee will provide an important venue for DFAT and MDF to engage national level stakeholders.

- Sri Lanka has a number of autonomous institutions that focus on studying poverty and gender equality. MDF, with assistance from DFAT, has reached out to a number of these organisations, including The Centre for Poverty Analysis, The Institute of Policy Studies and The Centre for Women Research. Additionally, MDF has been in discussions with various business chambers on exploring ways through which to improve the ability for small and medium businesses to mobilise and have a stronger 'voice'.³⁶ MDF will continue to interact with these stakeholders and explore collaboration where there is a clear intersection of MDF's strategies with specific organizations' mandates.
- As in other countries, MDF will engage intensively and consistently with a range of stakeholders in the sectors in which it operates, not only to develop partnerships, but also to gather information, get feedback on its strategies, raise awareness of innovations and promote behaviour changes in line with targeted systemic changes. In addition to regular interaction, MDF will hold a number of formal events with stakeholders in tourism and related sectors over the course of Phase II.

In addition to the risks outlined in the main document, there are several risks specific to MDF's work in Sri Lanka in tourism and related sectors, as follows:³⁷

- **Downturns in tourism:** It is possible that tourism in Sri Lanka could experience a downturn as a result of external factors either within Sri Lanka, such as a natural disaster, or outside of Sri Lanka, such as a global tourism trend towards other destinations. This risk will be managed by MDF maintaining a broad interpretation of tourism and related sectors so that it can balance any downturn in tourism with an increased focus on related sectors such as export of Sri Lankan-made goods and ICT related services.
- **Political regime change:** The ongoing evolution of the Sirisena government is uncertain. Should political instability, regime change, or consolidation of Ministries occur, then DFAT and MDF will need to immediately consider the implications for the program.
- **Ministerial or Secretary appointments and inter-government relations:** While the current leadership is supportive of MDF's broad portfolio, a change of the Minister or the Secretary within the Ministry of Tourism could have implications for the continuity of both MDF's strategic intent and its operations. Any new Minister or Secretary will therefore need to be carefully briefed on MDF – if expectations are found to differ, then DFAT and MDF will need to plan accordingly. It is also possible that other Ministries may not appreciate that a program under the banner of the Ministry of Tourism is also working in related sectors. This risk will be managed by including related Ministries on the Consultative Committee and by actively maintaining support for MDF's broad focus across a range of Ministries.
- **Development Partners crowding in:** Tourism enjoys considerable attention and involvement from both the government and other development partners. While this can be a strength, it can also distort private sector incentives and suppress private sector investment. DFAT Colombo Post is well placed to monitor the involvement of government and development partners in tourism and work with MDF to adjust the program, if necessary, to mitigate any adverse effects of strong government and donor involvement in tourism.

DFAT and Development Partner Alignment

In Sri Lanka, MDF is part of a portfolio of work and programs focused on inclusive economic growth. The portfolio includes the following:

- **Skills for Inclusive Economic Growth:** This program is just starting and will pilot a flexible, market-oriented, technical vocational education and training (TVET) approach in tourism and related

³⁵ DFAT (2016). MDF Project Outline submitted by DFAT to the Ministry of Tourism and Christian Affairs Sri Lanka.

³⁶ Market Development Facility (2016). MDF Annual Strategic Plan for FY 2016-2017.

³⁷ Market Development Facility Independent Advisory Group (2016). Independent Advisory Group Mission to Sri Lanka, 3rd to 10th April 2016.

sectors in one province of Sri Lanka. Analysis and communication of successful strategies will be used to inform the development of TVET approaches at the national level.

- **Women and Work:** This program, managed by the IFC, will focus on women’s economic empowerment and gender equality in the workplace.
- **Tourism Policies and Strategy:** DFAT is working directly with the Ministry of Tourism and the Prime Minister’s Office to support the development of Sri Lanka’s vision document and implementation strategy for the tourism sector.

MDF will be expected to coordinate with these programs in Phase II and to develop specific collaborative activities with individual programs where it makes sense for both programs. In addition, DFAT expects MDF to act as a resource on market analysis and issues related to private sector development in tourism and related sectors for all the programs and work across the portfolio.

In cooperation with DFAT, MDF will also network and coordinate with relevant development partners to ensure that efforts are not being duplicated and that potential synergies are realized. There are a number of development partners working in tourism and related sectors in Sri Lanka, including the IFC (a tourism initiative in Eastern Province), FAO (particularly in agriculture and aquaculture), Vega Biz (a USAID initiative providing enterprise support), Care Sri Lanka (related to women’s employment) and the World University Service of Canada (WUSC) (activities to build an Eastern Tourism Forum under Canadian government support for skill building). Through engagements and discussions with these and other development partners, MDF will aim to build a broader development consensus and collaborate where appropriate opportunities arise.

Expected Results from Phase II in Sri Lanka

In Phase II, MDF in Sri Lanka will focus on fostering key systemic changes in each of the strategic engagement areas discussed above. As such, MDF will monitor and report on the progress of each systemic change outlined using its systemic change framework.³⁸ This monitoring information will be used regularly to adapt strategies so that MDF maximizes its contribution to the targeted systemic changes in Sri Lanka.

It is expected that MDF will implement approximately 44 partnerships and 12 formal influencing events over 4 years in Sri Lanka. This body of work is expected to yield the following approximate results in Sri Lanka, once it has had time to mature – typically 2-4 years after the work is completed:

Indicator ³⁹	Estimated Result
Number of business innovations and regulatory reforms	70
Investment leveraged	USD3.5 million
Value of additional market transactions	USD21 million
Effective outreach	37,000 people
Additional jobs for poor women and men (full-time equivalent)	2,100 FTE jobs
Additional income for poor women and men	USD18.5 million

It is important that MDF’s focus in Sri Lanka stays on fostering systemic changes that will underpin long-term, inclusive growth, rather than on any particular quantitative result.

³⁸ See Market Development Facility (2015) Achieving Changes in Markets at http://marketdevelopmentfacility.org/?type=publication&posting_id=5264

³⁹ For the definitions of these indicators, see the Annex on Monitoring and Results Measurement.

Resourcing for MDF Phase II in Sri Lanka

DFAT anticipates a budget of approximately AUD10 million for MDF in Sri Lanka over four years in Phase II, with roughly equal expenditure of AUD2.5 million in each year. As MDF is part of the broader Economic Opportunities for the Poor (EOP) program that runs through June 2019 with a possible extension through June 2021, future budget allocations for MDF will be determined as part of the overall consideration of the EOP program.

In Sri Lanka, MDF will likely require a modest expansion in the human resources implementing the program. It is expected that the MDF team will include:

- A country representative
- One senior market development adviser and/or Inclusivity, Women's Economic Empowerment and Results Measurement adviser
- specialists in Results Measurement and Women's Economic Empowerment, Communications, and Influencing and Engagement
- a team of business advisers
- a team of support staff covering operations, administration, finance and drivers

Flexibility will be maintained in the exact human resources complement to effectively and efficiently meet the needs of the program. The Sri Lanka team will be supported by the Facility Core Leadership Team.

Introduction

This annex outlines the strategic direction for Phase II of MDF in Fiji. It takes into account: MDF documents, the findings of the MDF mid-term review, IAG mission reports, and consultations with the DFAT Fiji Post and MDF country team. It provides a brief overview of the Fiji context, the achievements during Phase I, and the strategic focus proposed for Phase II, as well as its anticipated staffing and resourcing needs.

Overview of MDF in Fiji

Poverty and Inclusion

Fiji has a population of 886,500 people and is one of the wealthiest island countries in the Pacific with an estimated GDP of USD4.5 billion. Economic growth has been strong in recent years, reaching 3.6 percent in 2013, 5.3 percent in 2014 and an estimated 4 percent in 2015, which is significantly above the 2 percent average for the period 1980 and 2012.⁴⁰ Despite the overall level of development and moderately high average incomes, 28% of the population lives below the poverty line.⁴¹ There is a significant number of poor people living in peri-urban areas as well as in the Northern and Western Divisions, which are sugarcane farming areas.⁴² Fiji is vulnerable to natural disasters including droughts and cyclones, which jeopardize rural livelihoods and can impact severely on poor people as well as those vulnerable to poverty.

Key factors contributing to poverty in Fiji include:

- Traditional crops for export, such as sugarcane and copra, have become less profitable. The domestic market for food crops is mostly saturated. Farmers grow a variety of crops in small quantities largely for subsistence consumption and tend not to be very specialised. Yields are low. To address these causes, there is a need for new markets for agricultural crops.
- There is rural-urban drift, which results in urban unemployment, and, in places, a rural labour shortage. Urban services have been expanding, but not enough to absorb all the available labour. Employment in manufacturing and processing has been shrinking and only recently started to grow again. To address these causes, there is a need for employment opportunities outside of agriculture, particularly for lesser-skilled workers.⁴³

There are two main ethnic groups in Fiji: Indigenous Fijians and Indo-Fijians. Poverty is present at similar levels among both groups, but each are affected differently, based on their traditional roles in the economy and access to assets. While women are engaged in the economy as producers, workers, entrepreneurs and decision-makers in their households, they often face more constraints in their roles than men do. Women of both ethnicities are subject to social norms that outline what types of economic roles are deemed appropriate for them and often also face a higher double burden of household and economic roles than men do. Women in Indo-Fijian households may also face social constraints to their mobility. While women often have joint authority for decision-making in their households, that authority may be more limited in communities and value chains. Legally, Fiji has made considerable strides in addressing gender inequality, but constraints to women's economic empowerment based on social norms and, in some cases, education, still persist.⁴⁴ As

⁴⁰ Fiji Ministry of Economy.

⁴¹ Fiji Household Income and Expenditure Survey 2013-14.

⁴² Market Development Facility. MDF in Fiji; Fiji Household Income and Expenditure Survey 2013-14.

⁴³ Market Development Facility (2015). Systemic Change Pathways.

⁴⁴ Market Development Facility (2013). Study on Poverty, Gender and Ethnicity in Key Sectors of the Fijian Economy.

such, in 2011 only 47 percent of women aged 15 and above were economically active in the labour market, compared to 80 percent of men.⁴⁵

Economy

Fiji remains a developing country with a large subsistence agricultural sector, despite being one of the more developed economies in the South Pacific. It relies very heavily on its sugar industry, as well as its tourism and fishing industries. Sugar exports make up one third of the country's industrial activity, and, along with a growing tourism industry, are Fiji's major sources of foreign exchange.⁴⁶

With the decline in traditional export crops, in which the state has a strong presence, new growth needs to come from new entrepreneurs and/or new markets. Growth is constrained because:

- Domestic markets are small. Therefore, growth needs to be export-led.
- The local entrepreneurial base is small; indigenous-Fijian businesses are underrepresented.
- Small, often first-generation businesses have limited access to bank finance and other specialized support services; entrepreneurs need to perform many business functions in house, while their financial and managerial capacity may be limited. Skilled labour is in short supply. Fiji ranks poorly (167 out of a possible 189) on the World Bank *Doing Business* index for starting a new business.⁴⁷

MDF Focus in Fiji

In Fiji, MDF focuses on encouraging export-led growth (agricultural, non-agricultural), tourism and inclusive business development (regional, ethnically) in a more competitive business environment. Specifically, MDF aims to:

- Encourage diversification and commercialization in agriculture (mostly export-led but also tourism-led);
- Create off-farm employment for those who have left the land (in tourism, manufacturing and processing);
- Support local entrepreneurship in niche markets;
- Develop better business services; improve aspects of the business enabling environment; and
- Encourage geographic and ethnic inclusion.⁴⁸

The Government of Fiji is committed to achieving strong, sustainable economic growth that is inclusive and equitable for all Fijians. To support this, the Government of Fiji plans to shift focus from public to private expenditure and embrace longer term structural reforms, including state-owned enterprise reform, public sector reform and streamlining business regulations. The Government of Fiji is also prioritizing green growth and disaster risk reduction to improve resilience in the face of natural disasters.⁴⁹

In Fiji, DFAT aims to support inclusive growth to reduce poverty. The ***Aid Investment Plan Fiji 2015-16 to 2018-19*** outlines two strategic priorities:

1. Increased private sector development
2. Improved human development.

MDF contributes primarily to the first strategic priority and is part of a portfolio of programs focused on inclusive economic growth. In this portfolio, Australia is contributing technical assistance and funding for programs that improve the enabling environment for inclusive economic growth and increase opportunities

⁴⁵ Fiji Bureau of Statistics. 2011-12 Employment and Unemployment Survey.

⁴⁶ Market Development Facility. MDF in Fiji.

⁴⁷ Market Development Facility (2015). Systemic Change Pathways; Work Bank Group Doing Business, Ease of Doing Business in Fiji, DB 2016 Rank <http://www.doingbusiness.org/data/exploreeconomies/fiji/>

⁴⁸ Ibid.

⁴⁹ Australian Government, DFAT. Aid Investment Plan Fiji 2015-16 to 2018-19.

for employment and income generation. Besides MDF, DFAT's economic growth portfolio covers working with the Government of Fiji on priority economic reforms, building trade capacity, attracting greater private sector investment, and increasing financial inclusion. (This portfolio is discussed in more depth in Section 6.)

Within the inclusive economic growth portfolio, DFAT expects MDF to contribute to both its own and the Government of Fiji's priorities through developing the competitiveness of key sectors and enabling poor women and men to better participate in and benefit from the resulting growth. In addition to its work with partners and stakeholders in the Fijian economy, DFAT values MDF's roles as a partner in analysing Fijian markets and a sounding board and advisory mechanism on issues related to inclusive economic growth and private sector development.

Achievements and Lessons from MDF Phase I

MDF started in Fiji in the second half of 2011. MDF now has a mature portfolio. As of June 2016, 33 partnerships were being implemented and eight partnerships had been completed. As of December 31 2015, the programme had leveraged almost USD2.6 million in investment from partners and sustainably improved the lives of 2,980 poor women and 2,950 poor men in a tangible, measurable manner. 191 sustainable FTE jobs (108 of these being for women) had been created and additional incomes from wages and sales reached USD2,530,000 (USD1,296,000 for women). The results of the current and past partnerships are still emerging, as it takes time for partners to ramp up new operations and for producers and workers to respond to new opportunities. It is expected that partnerships implemented in Phase I will provide over USD20 million in additional income for approximately 28,400 women and men, including approximately 1,400 new full time equivalent jobs and benefiting almost 67,000 household members by 2021.⁵⁰

MDF's work in three target sectors in Fiji has also begun to lay a foundation that will underpin inclusive growth over the long term. Through its partnerships, MDF has supported a variety of innovations that are helping companies in Fiji reach new markets, compete more effectively in the global marketplace, purchase from more suppliers and hire more workers. Evidence is emerging that market systems in Fiji are changing and competitiveness is increasing. MDF partner exporters have expanded exports of dalo and horticulture produce to new and premium markets in Australia, New Zealand and Europe. This has important implications for addressing consistency in the quantity and quality of produce that is needed to supply these new markets. In the tourism sector, MDF has contributed to a desire by all stakeholders to move together in the same direction and promote an inclusive vision of tourism in Fiji. MDF partner innovations are starting to draw tourists to different locations and activities in Fiji. The Fiji Ministry of Tourism is starting to include previously overlooked regions in its efforts to market the country to tourists. Lastly, exporters are seeing policy changes, such as changes in import duties targeted by MDF partner, The Fiji Export Council, that govern the way they do business, which may help them become more competitive. Exporters are also starting to make improvements in their operations that can increase their international competitiveness and enable them to sustainably hire more workers. The majority of MDF's partnerships in Fiji address women's economic empowerment, thus helping businesses to interact with women as workers, suppliers and consumers in a mutually beneficial manner.⁵¹

Key lessons learned during Phase I of MDF include:

- Because many businesses in Fiji are first generation, family owned enterprises and the enabling environment offers few business services, **MDF's partnerships in Fiji must typically be longer and more intense** than might be found in market systems development programs in larger and more robust economies. Because many of Fiji's small businesses suffer from common business

⁵⁰ Market Development Facility (2016). Annual Strategic Plan 2016-2017, and Market Development Facility (2016). Annual Aggregation of Results 2015.

⁵¹ Market Development Facility publications above and MDF Independent Advisory Group (2015). Report on Mission to Fiji October 2015.

management issues, **over the longer term, there needs to be local support to help businesses address management issues and expand more effectively.**

- Because Fiji's markets are small and many businesses are risk averse, **MDF cannot rely on rapid "crowding in" of additional businesses copying MDF partners' innovations to achieve systemic change. Instead, a more creative approach is required** with a greater emphasis on:
 - multiple partnerships to demonstrate innovations to those in related sectors who may copy aspects of innovations over time;
 - partnerships that support core innovations by improving or initiating provision of supporting products and services; and
 - efforts to foster a variety of responses to partners innovations, which strengthen Fiji's economic fabric and embed improvements in market systems. For example, MDF is using the intelligence it has gathered through interactions with the private sector to influence banks to adjust products to meet local business needs.
- In order to sustainably include poor people in economic growth, **businesses need to learn to better engage traditional communities.** MDF has found that a mismatch of incentives between businesses and communities can lead to a breakdown of relationships. Enabling businesses and communities to understand and work with each other's incentives is essential to sustainable and mutually beneficial relationships.
- Fiji's economic system includes many stakeholders besides traditional businesses and government, including **community-based businesses, NGOs, and faith-based organizations. These organizations can, in some cases, play a valuable role in fostering inclusive growth.**

Evolving Strategic Engagement Areas for MDF Phase II

As in Phase I, MDF's portfolio is expected to gradually evolve over the course of Phase II based on emerging opportunities for inclusive growth and DFAT and the Government of Fiji's priorities. Nevertheless, the broad directions have been set based on experience and lessons from Phase I as well as DFAT's and the Government of Fiji's current priorities.

In Phase II, MDF will build on its work from Phase I with a focus on three areas of strategic engagement: export processing, tourism and related industries and services, and enabling business services and infrastructure. MDF is also adding one new strategic engagement area in the last year of Phase I in preparation for expanding it in Phase II based on the learning from the initial research and partnerships. These areas are summarised below.⁵²

Export Processing: While agriculture as a whole is on the relative decline in Fiji, horticulture and other selected crops are growing and have significant potential in export markets. In urban areas, the export processing sector can be made more competitive, capture niche export markets and create employment for the urban poor, particularly for poor women. MDF's work in export processing focuses on supporting local entrepreneurship in niche markets where Fiji can be competitive in regional and global markets. The key change envisioned: Both agricultural and non-agricultural exporters are able to source raw materials and manufacture products able to compete profitably in export markets.

Tourism and Related Industries and Services: In Fiji, local tourism operators, service providers and producers struggle to effectively capitalize on their unique Fijian offerings and provide activities that will cater to travelers looking to explore more of what Fiji has to offer. MDF's work in the tourism sector spreads the "tourism dollar" to other destinations across Fiji and spurs employment. The key changes envisioned are:

- Mainstream tourism-related providers (operators and activity organizers) develop and promote their services, encouraging more tourist visits to less visited sites and places in Fiji.

⁵² Market Development Facility (2015). Systemic Change Pathways; Market Development Facility (2015) MDF in Fiji; MDF internal documents.

- Fijian-based goods manufacturers and providers develop, improve and promote their offers to tourists to increase local spending.
- Vendors, suppliers and processors improve and increase their local sourcing of agricultural produce to supply more to the hotels and resorts of Fiji.

Enabling Business Services and Infrastructure: This area responds to the imperative to increase the available solutions and business support services within Fiji's economy to support farmers and entrepreneurs, and to increase competitiveness. Partnerships in Phase I included agricultural inputs, agricultural mechanisation, logistics, financial services and business advisory services. In Phase II, MDF will expand work on enabling business services and consider investments in appropriate, small infrastructure projects that are not being assisted through other projects and that are essential in addressing key business constraints identified in the overall country strategy outlined above. When facilitating work on infrastructure, MDF will need to carefully coordinate with the relevant agencies of the Government of Fiji. The key changes envisioned in this area are:

- Farmers have access to the inputs and services that enable them to cultivate in a more productive and commercial manner for domestic (tourism) and export markets.
- Local businesses have access to public and private business services and infrastructure facilities that enable them to be internationally competitive and/or compete with imports.

Business Incubator Networks: This area responds to the imperative to increase the entrepreneurial base in Fiji and to the lack of existing support for new small enterprises to address common management and other issues. It also responds to a priority of DFAT to reach smaller businesses and enable them to become more significant players in Fiji's inclusive economic growth. The business incubator networks have a particular emphasis on enabling women and indigenous Fijians to start and grow profitable enterprises. The key change envisioned in this area: Business support networks develop that are able to help communities, women and aspiring indigenous entrepreneurs set up commercially sustainable businesses. It is recognized that this area is experimental and thus is likely to evolve considerably during Phase II.

As Phase II progresses, MDF will refine the expected systemic changes in each area to reflect both where the team is getting traction with market players and what changes will be most beneficial to long-term inclusive growth.

Based on the successes and lessons from Phase I, MDF will also integrate several themes across its portfolio (in addition to those outlined in the main design document). These themes will support, not replace, MDF's focus on inclusive growth.

Integrating communities into markets: As outlined in Section 2 above, effective partnerships between businesses and communities are essential to inclusive growth in Fiji. In the last year of Phase I, MDF is conducting tailored research to better understand the work patterns, expectations and incentives in Fijian communities. During Phase II, MDF will use the findings of this research, as well as on-going learning from partnerships, to help businesses and communities forge mutually beneficial and sustainable relationships. This will help MDF to ensure that poor women and men in Fijian communities are integrating into markets on terms that support their overall livelihoods (including social and cultural needs) and not just their access to additional income.

Engaging with non-traditional partners: Related to the theme above, MDF will continue to work with some non-traditional partners in Phase II, such as community-based businesses and selected faith-based and civil society organizations. This will not be a separate stream of work but pursued as part of MDF's strategic engagement areas, where it makes sense to do so. Specifically, MDF will engage with these types of partners where they are an important part of Fiji's market systems and are better placed than other potential partners to address specific opportunities or constraints.

Fostering economic resilience: Cyclone Winston and other natural disasters during Phase I have underlined the importance of building economic resilience into Fiji's market systems. Through its strategies in each strategic engagement areas, MDF will contribute to building the resilience of partners and market systems so that both individual enterprises and trade as a whole can survive in the face of longer-term events, such as droughts, and rebound as quickly as possible after shocks. There are few, if any, proven strategies in this regard. MDF will work with partners and others to explore what is most practical and useful

in fostering economic resilience. For example, MDF may work with partners to introduce resource conserving inputs such as micro-irrigation or water harvesting technology in drought prone areas and to introduce business infrastructure that can better withstand cyclones. MDF may also work with partners like the Fiji Crop and Livestock Council to improve data on farmers, which can both be used by businesses to find suppliers and by the Council and others to reach out with information and assistance related to natural disasters.

Stakeholder Engagement

Fostering systemic change in Fiji requires a creative and tailored approach. In the last year of Phase I, MDF is developing a strategy to better engage the range of stakeholders involved in its strategic engagement areas and the economy more broadly in Fiji. During Phase II, MDF will operationalize this strategy with a particular emphasis on strengthening collaboration with the public sector in Fiji.

The Government of Fiji is currently developing a 5-year and 20-year National Development Plan that will update sectoral development strategies and priorities. Through its engagement with government, MDF is expected to both contribute to and support the implementation of relevant sectoral strategies during Phase II. During Phase I, there have been several examples of MDF using its understanding of the private sector gained through partnerships and interactions with businesses to engage with the Government of Fiji. (See Box below for an example.) It is expected that MDF will further build its engagement with the Government of Fiji in Phase II.

MDF will also employ a variety of activities to engage stakeholders in order to gather information, get feedback on its strategies, raise awareness of innovations and promote behaviour changes in line with targeted systemic changes. MDF will hold a number of formal events with stakeholders in its various strategic engagement areas over the course of Phase II.

Example of MDF Engagement with the Government of Fiji in the Tourism Sector

Based on MDF's work to help cyclone affected tourism regions get back on their feet and to attract visitors to Fiji with innovative regional and digital branding, the Fiji Government invited MDF to be part of its discussion group that includes all key tourism stakeholders to develop plans for the future, inclusive branding of Fiji. MDF focuses its work with the Ministry and other tourism stakeholders on ensuring outer regions and smaller businesses are included in Fiji-wide marketing campaigns and the government's efforts to help the industry recover from natural disasters. In the past, smaller businesses have had difficulty using the Fiji Made brand due to a lack of clarity around the compliance processes. MDF is working with the Ministry to enable more and smaller businesses to use the Fiji Made brand, making the businesses more competitive and contributing to Fiji's image as a source for a diverse range of products.

DFAT and Development Partner Alignment

Within DFAT, MDF is part of a vertically integrated portfolio of programs focused on inclusive economic growth. Other initiatives in the portfolio that are related to MDF include:

- DFAT-IFC Fiji Partnership focused on increasing small-medium enterprise performance, building Fiji's international trade competitiveness and stimulating private investment in large scale projects. MDF complements this program by working on a range of constraints to inclusive growth in particular areas of the Fijian economy typically at the micro and meso levels. MDF and the IFC are already in discussions about potential collaboration in the tourism and agri-business sectors, and will need to work closely together in practice.
- The Private Sector Development Initiative (PSDI) focuses on improving the enabling environment for businesses in ADB's Pacific developing member countries, through structural reforms, improving access to financial services and economic empowerment of women. MDF complements PSDI's work on the enabling environment by working on sector-specific constraints to inclusive growth and women's economic empowerment.
- The Pacific Financial Inclusion Program (PFIP) Phase II aims to ensure that poor people have access to banking and financial services and increased knowledge and understanding of financial

information.⁵³ While PFIIP focuses primarily on consumer finance, MDF focuses on business finance.

- The Pacific Horticultural and Agricultural Market Access (PHAMA) program provides practical and targeted assistance to help Pacific island countries manage regulatory aspects associated with exporting primary products.⁵⁴ In Phase II PHAMA plans to work more holistically in export value chains. MDF and PHAMA are in discussions about opportunities for collaboration to assist businesses to increase exports.
- Pacific Women Shaping Pacific Development aims to improve the political, economic and social opportunities of Pacific women; one of three objectives is to expand women's economic opportunities to earn an income and accumulate economic assets.⁵⁵ While Pacific Women has a broad mandate, its aims overlap with MDF's particularly in the area of women's economic empowerment. There are opportunities for collaboration between the programs, and with other stakeholders such as the Women Entrepreneurs Business Council, around policy issues in formal work for women, such as those concerning maternity leave. Pacific Women can also help MDF to understand and mitigate potential risks associated with women's economic advancement, such as violence against women.
- ACIAR has developed low-cost agricultural technologies for the Pacific and conducted research in sub-sectors including cocoa and fruit cultivation. ACIAR and MDF are discussing opportunities for collaboration such as MDF partners commercializing newly developed agricultural technologies.

DFAT anticipates convening regular meetings of the programs in this portfolio to facilitate appropriate information exchange and coordination among them. MDF will participate in these meetings, sharing information from its work and using the information gained to improve its effectiveness. MDF will also cooperate directly with individual programs in the portfolio, building on the opportunities discussed above.

In addition to the programs in DFAT's portfolio, MDF will actively exchange information and coordinate with relevant programs of other development partners in Fiji. MDF will also cooperate on specific activities where it makes sense to do so. Two examples of such cooperation are provided in the accompanying box.

Expected Results from Phase II in Fiji

In Phase II, MDF in Fiji will focus on embedding and expanding the systemic changes discussed above within Fijian market systems. As such, MDF will monitor and report on the progress of each systemic change outlined using its systemic change framework.⁵⁶ This monitoring information will be used regularly to adapt

Examples of MDF Cooperation with Development Partners

FAO: As part of the new phase of programming (through EU funds), MDF is in discussions with the FAO country office members and the Ministry of Agriculture to see if the Market Systems Development approach can be introduced to the agribusiness units of the Ministry.

EU Coordination Unit and Impact Partners Fiji: MDF is working with IPF and the EU coordination unit to promote the use of Aglime (locally produced agricultural lime) to sugarcane farmers in order to facilitate appropriate recovery and rehabilitation of old or damaged sugarcane farms.

⁵³ Australian Government DFAT (n.d.). Development assistance in Fiji; Increased private sector development. <http://dfat.gov.au/geo/fiji/development-assistance/Pages/increased-private-sector-development.aspx>

⁵⁴ Australian Government DFAT (n.d.). Development assistance in the Pacific; Pacific Regional – Economic growth and private sector development. <http://dfat.gov.au/geo/pacific/development-assistance/Pages/economic-growth-and-private-sector-development-pacific-regional.aspx>

⁵⁵ Australian Government DFAT (n.d.). Development assistance in the Pacific; Pacific Regional – Empowering women and girls. <http://dfat.gov.au/geo/pacific/development-assistance/Pages/gender-equality-pacific-regional.aspx>

⁵⁶ See Market Development Facility (2015) Achieving Changes in Markets at http://marketdevelopmentfacility.org/?type=publication&posting_id=5264

strategies so that MDF maximizes its contribution to the targeted systemic changes in Fiji.

It is expected that MDF will implement approximately 65 partnerships and 12 formal influencing events over the 5 years of Phase II in Fiji. This body of work is expected to yield the following approximate results in Fiji, once it has had time to mature – typically 2-4 years after the work is completed:

Indicator ⁵⁷	Estimated Result
Number of business innovations and regulatory reforms	100
Investment leveraged	USD5 million
Value of additional market transactions	USD18.5 million
Effective outreach	48,500 people
Additional jobs for poor women and men (full-time equivalent)	2,250 FTE jobs
Additional income for poor women and men	USD26.5 million

It is important that MDF’s focus in Fiji stays on fostering systemic changes that will underpin long-term inclusive growth, rather than on any particular quantitative result.

Resourcing for MDF Phase II in Fiji

DFAT anticipates a budget of approximately AUD17.5 million for MDF in Fiji over five years. It is expected that the budget will be expensed roughly equally across each year in the phase.

In Fiji, MDF will likely require a modest expansion in the human resources implementing the program. It is expected that the MDF team will include:

- A country representative
- One senior market development adviser or WEE, inclusion and results measurement adviser
- 2-4 local coordinators
- specialists in Results Measurement and Women’s Economic Empowerment, Communications, and Influencing and Engagement
- a team of business advisers
- a team of support staff covering operations, administration, finance and drivers

Flexibility will be maintained in the exact human resources complement to effectively and efficiently meet the needs of the program. The Fiji team will be supported by the Facility wide Core Leadership Team.

⁵⁷ For the definitions of these indicators, see the Annex on Monitoring and Results Measurement.

Papua New Guinea

Introduction

This annex outlines the strategic direction for Phase II of MDF in Papua New Guinea. It takes into account: MDF documents, the findings of the MDF mid-term review, IAG mission reports, and consultations with the DFAT PNG Post and MDF country team. It provides a brief overview of the PNG context, the achievements during Phase I, and the strategic focus proposed for Phase II, as well as its anticipated staffing and resourcing needs.

Overview of MDF in Papua New Guinea⁵⁸

PNG is the largest economy in the South Pacific, with an estimated GDP of USD14 billion. It also has the largest population in the region, 7.6 million people. Population density is low, with thousands of diverse communities separated by difficult topography – PNG is mountainous, with dense tropical forests and comprises numerous islands (some large and up to 600 smaller ones). Much of the country remains disconnected, or connections are limited, resulting in challenges in moving both people and goods.

The country depends on sizeable mineral exports for revenue, however, this dependency has made the economy highly vulnerable to external shocks. For instance, PNG's GDP was projected to grow by 16% in the year 2015, but its actual growth was less than 7% due to plummeting international oil prices. Furthermore, typical of many resource-dependent economies, the revenue from extractive industries is not 'shared' in an inclusive manner, while the impact on foreign exchange rates adversely affects competitiveness in other sectors of the economy. There has been no recorded decline in poverty since 1996.

Approximately 2.8 million people in PNG live in poverty with the highest proportion of the poor living in rural areas. Poverty is concentrated in the Highlands region and the incidence of poverty is highest in remote provinces with poor agricultural soils and few economic alternatives. The majority of the population still depends on semi-subsistence agriculture for their livelihoods, and for many, there is little outside of agriculture from which to earn an income. Remoteness is a leading cause of poverty in PNG. Communities who live at least 60 minutes away from major roads are twice as likely to be poor and poor connections restrict access to services, inputs and markets.

Incidence of poverty is lowest in the National Capital District, but accelerating rural-urban drift, particularly by young people in search of a job, is growing. Population growth is strong and local job creation is insufficient to absorb the over 10,000 people joining the workforce each year.

Although women are active economic agents in PNG, safety concerns are a serious impediment to greater participation and mobility. Household dynamics often limit women's decision making power and violence against women in the household is a widespread problem. Businesses often do not consider women's needs as suppliers, workers or consumers. As a result, women often face higher transaction costs or additional impediments to economic interaction compared to men.

PNG's extractive industries and economic growth, as well as population growth are driving an increase in domestic demand. PNG is a major exporter of agricultural, fisheries as well as forestry products, yet the value it receives from these exports is small because local value addition is limited. Local business has been unable to keep up with rising domestic demand, resulting in an economy that is increasingly imbalanced. Raw materials are exported; final products are imported. There is significant room for local businesses to serve domestic markets through local processing and manufacturing, and to create the jobs that would make the economic boom a more inclusive one.

⁵⁸ This section is taken from three Market Development Facility documents: MDF in Papua New Guinea (2016); MDF Papua New Guinea Country Strategy (draft 2016) and MDF Annual Strategic Plan for FY 2016-2017.

In summary, PNG's key development challenges are as follows:

- The economy largely depends on extractive industries, which are not generating significant numbers of jobs nor providing much positive spill over to the rest of the economy. It is critical to diversify the economy to stabilize growth and increase economic inclusion.
- The population is dispersed and the infrastructure is weak, which affects communication between market actors and increases the delivery costs of goods and services. Women face additional barriers to participating in economic interactions. It is important to promote regional connections and facilitate access to services, inputs and markets for both women and men.
- Income earning opportunities in rural areas are limited. Creating alternative sources of income for poor people outside of agriculture can help to reduce poverty and energize the rural economy.
- The limited sources of cash income in the rural areas is leading to a growing rural to urban drift, where urban areas are not able to accommodate this inflow of young people. Investment in local value addition will enable regional businesses to service growing demand, providing new opportunities in both rural and urban areas. Improving perceptions of PNG as an investment and tourism destination can also increase opportunities for employment and non-agricultural incomes in diverse areas.

In response to the challenges, MDF in PNG:

- Focuses on economic growth that is driven by increasing domestic demand for products and services;
- Supports growth through products, services and technology that makes transport of goods and people and communication between markets and people easier and cheaper;
- Works on capturing more value through processing local raw materials and creating jobs and alternative sources of income for poor women and men;
- Focuses on expanding distribution networks to promote agricultural input to farmers that can cut production costs, cut use and waste of resources like water and labour, and prepare farms better to supply to higher value domestic markets;
- Promotes a positive image of PNG as a growing tourism and investment destination; and
- Works to enhance safety and security of women to improve participation of women in work and business.

MDF is not working within established sectors of the PNG economy (such as the extractive industries), but is focusing instead on four inter-related strategic engagement areas. The four strategic engagement areas are organised under the umbrella of 'Emerging Industries and Services,' and are: 1) logistics and ICT, 2) local value addition, 3) rural input services, and 4) tourism and hospitality. The four emerging industries and services are the key drivers of future growth, particularly in the non-extractive sectors. Key attributes to enable growth are evident in these areas, such as the presence of private sector partners with an interest and willingness to invest in new ideas and business models through which to introduce innovations.

MDF's focus aligns with DFAT's partnership with Papua New Guinea. As outlined in the ***Aid Investment Plan PNG 2015-16 to 2017-18***, DFAT is expanding its investment in private sector-led growth and aid for trade, which will be increased to 30% of Australia's aid program for PNG. Greater use of partnerships with the private sector is an important part of the Plan and MDF was introduced to the PNG program as one of the measures to give effect to the new strategy. In DFAT's *Private Sector Development Framework for PNG*, MDF has been considered part of Pillar 2, relating to 'Agriculture, Rural Development, Markets and Trade'.⁵⁹ MDF's overall focus on emerging industries and services, as well as its specific strategic engagement areas, contributes to DFAT's aims for this Pillar.

⁵⁹ Market Development Facility Independent Advisory Group (forthcoming). Independent Advisory Group Mission to Papua New Guinea, 18-22 September 2016.

Achievements from MDF Phase I⁶⁰

MDF mobilized in Papua New Guinea during the second half of 2015. Thus, the program has only been in operation for just over one year. During its first year, MDF established an office in Port Moresby, set up its operational and financial systems and hired a local team to implement the program, supported by expert international managers and an international country representative. With help from the MDF Core Leadership Team and business advisers from other MDF offices, the PNG team carried out sector assessments. These involved secondary data reviews and extensive, nation-wide field-level consultations with a large number of market actors spread across different economic areas and activities. The sector assessments led to the choice of four strategic engagement areas for the program within an overall focus on Emerging Industries and Services.

The team will conduct a study on Poverty and Gender later this calendar year. The study will examine factors that contribute to poverty and exclusion in PNG and potential pathways out of poverty, particularly related to MDF's targeted engagement areas. The study will also provide additional insights into how MDF can promote WEE within its targeted engagement areas in PNG. The findings will be used in the development of strategies and partnerships. MDF has also engaged an environmental specialist to customize its environmental strategy to the PNG context.

By the end of August 2016, MDF had signed five partnership agreements in emerging industries and services covering all four of the strategic engagement areas. It is expected that this will grow to approximately 12 partnerships by the end of Phase I in June 2017. MDF has also established its monitoring and results measurement system in PNG as well as its systems to integrate WEE into the intervention management cycle. MDF has recruited a communications specialist to work with the PNG team on consistently delivering communications materials to a diverse range of stakeholders both in and outside PNG.

Evolving Strategic Engagement Areas for MDF Phase II

As MDF is still relatively new in Papua New Guinea, Phase II will continue to focus on the strategic engagement areas established in Phase I. Flexibility will be maintained to evolve the focus based on emerging opportunities for inclusive growth and the priorities of DFAT and the Government of PNG. However, significant changes are not anticipated, and would not be appropriate, until well into Phase II.

Within the broad theme of Emerging Industries and Services, MDF's work in PNG focusses on four strategic engagement areas:

ICT and Logistics: This area covers both physical (transportation and infrastructure) and non-physical (telecommunications and technology driven) connections. A lack of connectivity between markets and sellers and between different parts of the country is at the root of PNG's economic growth bottleneck. Greater connectivity will mean a variety of raw materials can reach processors in various parts of the country, more support can reach farms to enable them to become more productive, more locally manufactured products can reach local customers, and more tourists can visit the myriad of tourism sites that PNG offers. MDF aims for investments in ICT and logistics to help connect farmers, businesses and consumers to key markets and services.

Local value addition: PNG is a major exporter of agricultural products as well as forestry products and fisheries. However, the exports are mostly in their primary form, with little or no value addition. There are significant opportunities for local companies to sell processed or manufactured products in domestic markets. More value addition locally will also act as a significant driver of additional formal employment, particularly for women. MDF aims for investments in local value addition to help connect local raw materials

⁶⁰ This section draws on the following: Market Development Facility (2016). MDF Annual Strategic Plan for FY 2016-2017 and MDF PNG Presentation for the IAG Mission, September 2016.

to domestic markets, to provide appealing and needed products to PNG consumers and to create employment.

Rural input services: Rural PNG is greatly under-served when it comes to accessing appropriate agricultural inputs for local farms. The vast potential of PNG to cultivate a variety of produce is left unrealised. The challenge of transporting produce to markets also acts as a disincentive for farmers to look for appropriate inputs. As a result, agriculture in PNG is stagnant at best, and declining in some cases (such as specific cash crops). An effective input supply system catering to scattered rural populations with appropriate tools and inputs can make farms more productive, farming more competitive, and transportation to distant markets more likely. MDF aims for investments in rural input services to give farmers access to the inputs, services and information needed to cultivate in a more productive and commercial manner and to meet the quality and quantity needs of traders, processors and exporters.

Tourism and hospitality: A small, yet emerging area of PNG's growth is Tourism and Hospitality. Despite its modest size, the industry provides more employment than the forestry sector, for instance. Tourism and hospitality include the hotels, resorts, restaurants and homestays in remote areas as well as urban centres. Although currently small, tourism in PNG has the potential to grow, thus providing an opportunity for more foreign currency (through tourists) to flow into remote locations translating to more jobs and incomes for people, particularly women. Tourism also can provide an income source in areas where there are few alternatives. MDF aims for investments in tourism and hospitality to create additional jobs and promote regional inclusivity.

These strategic engagement areas are an interconnected sphere of work. Improving connectivity between the varied regions and islands of PNG through ICT and logistics solutions lays the groundwork for raw materials to reach local value addition centres. The same connections help improve agricultural input supply to rural areas and make farming more productive. Better connections mean more visitors can travel into and within the country more cheaply, safely, and easily. Interventions in these strategic engagement areas also contribute to a diversified economic base and create additional incomes through jobs and better market access.⁶¹

It is expected that MDF will review and refine its strategic focus during Phase II. As MDF gains a greater understanding and more experience in the strategic engagement areas above, it will develop systemic change pathways in each of the areas. These will be used to guide the development of the partnership portfolio and to monitor progress towards embedding resilient improvements in PNG's market systems.

During Phase II, MDF will integrate a number of themes across its work in the strategic engagement areas outlined above. These themes will support, not replace, MDF's focus on inclusive growth. The themes follow.

Community - Business Interrelationships: In PNG communities and Wantoks are an integral part of the economic system. Better understanding the interrelationships between communities and businesses will be critical to the ability of MDF to foster inclusive economic growth. Through learning from partnerships as well as, potentially, tailored research, the MDF team will learn what works and what does not to help businesses and communities cooperate to create successful enterprises and increase the incomes and well-being of community members.

Business Enabling Environment: Improving the Business Enabling Environment is an essential aspect of private sector development in PNG. MDF can contribute to improving the business enabling environment on two levels: 1) addressing sector specific policies, regulations and issues in cooperation with private and public partners; 2) providing business intelligence and an evidence base to DFAT and other programs for use in the broader policy dialogue with the Government of PNG. This aspect of MDF's work is discussed in more detail in Section 5 on Stakeholder Engagement.

⁶¹ This paragraph and the descriptions of the strategic engagement areas are taken from: MDF (forthcoming) Papua New Guinea Emerging Industries and Services Engagement Strategy.

Women's Economic Empowerment: While this is a theme across the entire Facility, MDF's approach to WEE in PNG will need to particularly take into account unique aspects of the PNG context. In PNG there is a strong interaction between social factors related to gender and women's economic empowerment as well as highly contextual constraints to women's participation in economic activities, such as those around safety and mobility. As in other countries, MDF's approach focuses on finding the nexus between WEE and business success in the varied value chains and socio-economic contexts in which the program works. To find these intersections in PNG, MDF will need to continually develop its understanding and evidence base on how household, community and business dynamics interrelate with the practicalities of women's participation in a variety of economic activities. Team members' understanding of the issues as well as creativity in addressing them will need particular focus. Violence against women and security for women are significant issues in PNG. MDF must have a solid approach in place to consider these issues when developing partnerships, to monitor for any negative impacts of its interventions and to address negative impacts if they arise. MDF will need to continue developing its relationships with women-focused organizations in order to continue building the knowledge and understanding of its staff on gender-related issues and to cooperate in addressing gender-related issues that are beyond MDF's mandate and skill-set.

Stakeholder Engagement

In PNG, DFAT has a large and complex portfolio of programs working on issues related to inclusive economic growth. There are a number of other donors working in this space as well. As such, MDF's interactions with other programs are a significant part of its stakeholder interactions in PNG. Throughout Phase II MDF will consistently network and interact with other programs to both share information and to identify appropriate areas for collaboration or complementarity. Key programs are elaborated in Section 6 below.

MDF's main interactions with government in PNG will be around addressing particular policy, regulatory or programmatic issues related to MDF's strategic engagement areas, in collaboration with private sector partners. Given significant regional differences, it is expected that MDF will work directly with regional/provincial authorities relevant to MDF's strategies and private sector partnerships. At the national level, MDF is expected to contribute to the regular dialogue that DFAT and key programs have with national government agencies through providing business intelligence and evidence from its partnerships and other interactions with a wide range of private sector actors in PNG's emerging industries and services.

As in other countries, MDF will engage intensively and consistently with a range of stakeholders in the strategic engagement areas in which it operates, not only to develop partnerships, but also to gather information, get feedback on its strategies, raise awareness of innovations and promote behaviour changes in line with targeted systemic changes. In addition to regular interaction, MDF will hold a number of formal events with stakeholders in emerging industries and services over the course of Phase II.

Links with Other DFAT and Development Partner Initiatives

In PNG, MDF is part of DFAT's large portfolio of programs focused on economic governance and private sector development. In this environment, it is critical that MDF networks and shares information with other programs to help ensure that programs complement each other rather than duplicating work. This is especially important with reference to potential partners. During Phase I, MDF has developed a thorough consultative process to get information and feedback from DFAT and relevant programs prior to signing new partnership agreements. It is expected that MDF will continue with this thorough consultation process in Phase II.

MDF will have three forms of cooperation and collaboration with other programs in DFAT's portfolio as follows:

1. Cooperation with other programs working at **industry level** to achieve outcomes directly with the private sector and sector-level regulatory agencies. Programs and agencies at this level include PHAMA, ACIAR and ADB's Pacific Business Investment Facility (BIF). Potential opportunities for cooperation include information sharing on industry related issues, referral of potential partners where another program may be better placed to work with a particular partner and collaboration to develop and commercialize specific innovations.

2. Information sharing with programs working at **cross-sectoral level** on improving the broader business enabling environment. Programs at this level include the IFC's Pacific Partnership, specific initiatives within the PNG Governance Facility and the ADB PSDI. MDF can share information from its partnerships and experience with the private sector with these programs as well as gain information from them related to broader developments in economic governance.
3. Information sharing and referral with **programs working on issues related to inclusive growth**. PacificWomen is an example of this type of program. PacificWomen both shares MDF's interest in women's economic empowerment and has a broader mandate around issues that affect women. MDF can share information with these programs on its approach to and experience with promoting inclusive growth, learn from them about related issues that impact its work and give or receive referrals of potential partners.

In cooperation with DFAT, MDF will also network and coordinate with relevant development partners to ensure that efforts are not being duplicated and that potential synergies are realized. There are a number of development partners working in private sector development in PNG, including the IFC, ADB, World Bank, EU, IFAD and MFAT. Through engagements and discussions with these and other development partners, MDF will contribute to the dialogue on private sector development and collaborate with or complement other programs where appropriate opportunities arise.

Expected Results from Phase II in Papua New Guinea

In Phase II, MDF in Papua New Guinea will focus on fostering key systemic changes in the strategic engagement areas discussed above. As such, MDF will monitor and report on the progress of each systemic change outlined using its systemic change framework.⁶² This monitoring information will be used regularly to adapt strategies so that MDF maximizes its contribution to the targeted systemic changes in PNG.

It is expected that MDF will implement approximately 40 partnerships and 10 formal influencing events over 5 years in PNG. This body of work is expected to yield the following approximate results in PNG, once it has had time to mature – typically 2-4 years after the work is completed:

Indicator ⁶³	Estimated Result
Number of business innovations and regulatory reforms	64
Investment leveraged	USD2.9 million
Value of additional market transactions	USD12.5 million
Effective outreach	37,500 people
Additional jobs for poor women and men (full-time equivalent)	600 FTE jobs
Additional income for poor women and men	USD12.5 million

It is important that MDF's focus in PNG stays on fostering systemic changes that will underpin long-term, inclusive growth, rather than on any particular quantitative result.

⁶² See Market Development Facility (2015) Achieving Changes in Markets at http://marketdevelopmentfacility.org/?type=publication&posting_id=5264

⁶³ For the definitions of these indicators, see the Annex on Monitoring and Results Measurement.

Resourcing for MDF Phase II in PNG

DFAT anticipates a budget of approximately AUD20 million for MDF in Papua New Guinea over five years in Phase II, with the budget increasing gradually over that time from approximately AUD3.4 million in FY2017-18 to approximately AUD4.3 million in FY2021-22.

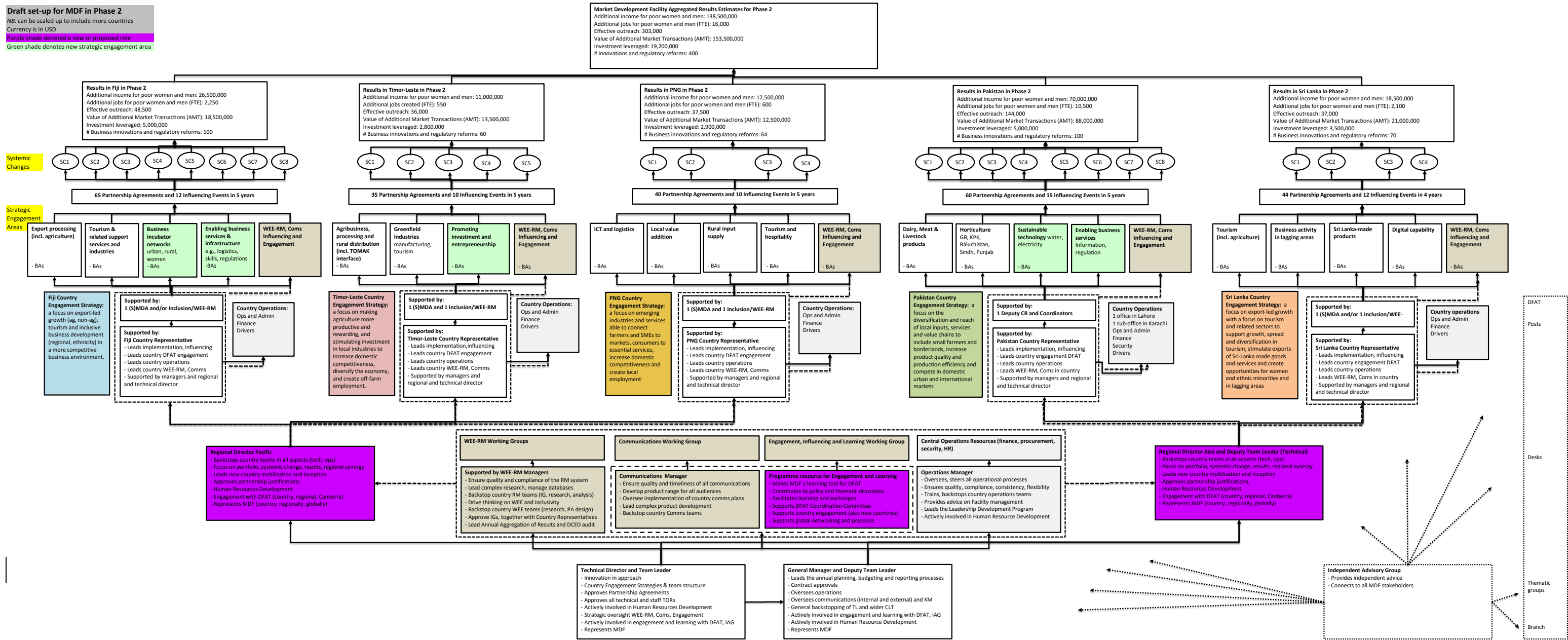
In PNG, MDF will require a modest expansion in the human resources implementing the program during Phase II. It is expected that the MDF team will include:

- a country representative
- one senior market development adviser
- one local coordinator
- one Inclusivity, Women's Economic Empowerment and Results Measurement adviser
- specialists in Results Measurement and Women's Economic Empowerment, Communications, and Influencing and Engagement
- a team of business advisers
- a team of support staff covering operations, administration, finance and drivers

Flexibility will be maintained in the exact human resources complement to effectively and efficiently meet the needs of the program. The PNG team will be supported by the Facility Core Leadership Team.

Annex 2: Organogram

Draft set-up for MDF in Phase 2
 NB: can be scaled up to include more countries
 Currency is in USD
 Purple shade denoted a new or proposed role
 Green shade denotes new strategic engagement area



Annex 3: Budget

TBI

Annex 4: CLT Summary Indicative TORs

Team Leader

DFAT Adviser Remuneration Framework Classification: D4

Summary:

Reporting to the MC Contractor Representative, the MDF Team Leader will be responsible for the overall management and technical direction of the program; driving and communicating innovation within MDF and beyond and ensuring a cohesive approach to all technical and operational facility components – Market Systems Development (MSD), portfolio and partnership development, Systemic Change Pathways, Inclusivity and Women's Economic Empowerment (WEE), Engagement, Influencing and Learning, Results Measurement (RM), Communications and Operations.

Key Responsibilities:

- Oversee the management and direction of MDF, including multi-country coordination and coherence, planning and financial management, HR, reporting, procurement and administration, environmental compliance and relationship management.
- Lead, guide and mentor Facility staff to ensure a flexible and dynamic learning culture that promotes teamwork, exchange of ideas and a style of working that is congruent with Facility partners.
- Ensure sound country portfolio and engagement strategies that are likely to yield results in accordance with the Facility's development objectives, Aid Investment Plans and relevant national and DFAT policies.
- Ensure gender and other inclusion issues are fully integrated throughout MDF's approach.
- Apply and translate MSD approaches, considering the socio-economic context of each country.
- Oversee RM in project implementation as per the DCED standard.
- Oversee the Facility's Engagement and Influencing agenda in each country and the Engagement and Learning agenda with DFAT.
- Ensure appropriate and timely responses to DFAT requests and AG recommendations.
- Provide training for Facility staff, DFAT Posts and other key stakeholders on MSD, approaches to inclusivity and WEE and RM.
- Represent the CLT and lead key discussions with DFAT, AG and external stakeholders.
- Develop and foster relationships with key public and private institutions and individuals involved in market development in the Pacific, South Asia and other areas as required.
- Oversee communication and engagement of the Facility externally, developing networks, promoting and sharing the Facility's work and achievements, and sustaining and expanding collaboration with DFAT and other key stakeholders.
- Maintain a responsive relationship with DFAT, by providing timely information and advice.
- Ensure consistency of and approve partnership agreements for all interventions.
- Drive innovation and learning through program activities.
- Oversee program Human Resources Development, including direct line management duties for the CLT (including Country Representatives), HR planning, approving staff TORs, and guiding capacity development processes.

Deputy Team Leader (Management)

DFAT Adviser Remuneration Framework Classification: D3

Summary:

Reporting to the MDF Team Leader, the Deputy Team Leader (Management) will provide leadership support to the CLT and support overall management of the Facility. The DTL will support the Team Leader and other CLT members in the oversight and quality of Facility-wide aspects (communications, the Engagement, Influencing and learning agenda, operations, HR, program planning and reporting). The DTL will backstop the CLT and/or Country Teams as required. The DTL will also work as a liaison between the program and DFAT, the AG and with Managing Contractor head office staff as appropriate.

Key Responsibilities:

- Support Facility-wide functions and processes which exceed the capacity of a single CLT member or in which a CLT member needs support; take lead as requested by the Team Leader.
- Coordinate regular CLT meetings (virtual and physical) and internal communications/collaboration if and when needed outside of these meetings.
- Support HR management and planning, recruitment, development of management capacity and leadership where required and as delegated by the Team Leader (performance management, mentoring).
- Work with the Team Leader and the Communications Manager to ensure MDF's communications and reporting materials are meeting DFAT requirements, and are understood.
- Work with the Team Leader and other CLT members to support effective, coordinated and responsive engagement with DFAT.
- Lead the implementation of the Engagement, Influencing and Learning agendas at the central and country level, both in terms of day-to-day implementation and in response to emergent needs and issues; plan and facilitate regular and targeted communications with DFAT, improving familiarity and understanding of the Facility and visibility of key personnel (in collaboration with the Team Leader and relevant CLT members).
- Work with relevant CLT members to build on and improve internal knowledge management tools and processes, including ensuring MangoApps is optimized in terms of information sharing and management.
- Provide oversight of Facility-wide expenditure and ensure timely and targeted updates to DFAT in conjunction with Head Office where required (i.e. country budget underspend/overspend, CLT budget monitoring).
- Work with the Operations Manager in areas of operational support, ensuring processes are aligned with both Facility-wide and country-specific needs.
- Work with the Team Leader and the Deputy Team Leader (Technical) on HR solutions that reduce vacancies in MDF and increase its ability to implement and expand.
- Support Country Representatives (CRs) and CLT members to deal with country-specific management responses. Proactively mitigate and/or manage emergent issues and risks as they arise, in collaboration with the Team Leader and broader CLT and Head Office as required.
- Support the development and implementation of responses to any external/client issues and/or recommendations (e.g. AG recommendations).

Regional Director <insert region>
DFAT Adviser Remuneration Framework Classification: D3

Summary:

Reporting to the MDF Team Leader, the Regional Director <insert region> will provide leadership support and direction to the <insert region> country portfolio, through: technical and management mentoring and oversight of Country Teams, particularly the Country Representatives (CRs); supporting technical planning, all aspects of implementation and monitoring (portfolio management, partnership design, systematic change, Inclusivity and WEE, Engagement and Influencing); HR, resourcing, budgeting and reporting quality; and working with the Team Leader and other CLT members to ensure overall coherence with the broader Facility. The Regional Director will also contribute the Facility's wider stakeholder engagement and the learning agenda with DFAT.

Key Responsibilities:

- Provide backstopping to Country Teams across all technical and operational functions.
- Support the implementation and contextualization of Facility systems, tools and techniques to ensure that implementation is stable, learns from lessons elsewhere in the Facility yet at the same time is sufficiently locally embedded.
- Coordinate Facility-wide personnel inputs in countries, support the CR where needed.
- Coach and mentor CRs in implementation, team leadership and management, and donor and stakeholder engagement and representation.
- Support CRs to, in turn, build the capacity of their teams, particularly Business Advisers and the middle-level management roles (LES and/or LTA).
- Advise and guide Country Teams on appropriate application of MSD in the country context, portfolio building and management, systemic change, Inclusivity and WEE, Engagement and Influencing, RM, the implementation of AG recommendations, and reporting, and identify and build on regional synergies across country programs.
- Support the Team Leader and broader CLT to ensure coherence and quality across <insert region> in terms of all Facility-wide aspects (approach, WEE-RM, Engagement, Influencing and Learning, communications, operations).
- Lead the scoping, mobilization and inception of any new country programs within the region.
- Support Country Representatives in their engagement with DFAT Posts, understanding and responding to DFAT's priorities within each country and be available to participate in or contribute to discussions with individual Posts as needed.
- Support the Team Leader and broader CLT to engage with DFAT and other development partners, at the country, regional, central or global levels, as part of the Facility's Engagement, Influencing and Learning agenda.

Operations Manager

DFAT Adviser Remuneration Framework Classification: C3

Summary:

The Operations Manager will provide overall coordination of the administrative, logistical (including security and IT), financial management, procurement, and human resource management functions necessary to provide a stable, uniform and integrated operational platform for technical activities across all MDF countries that is conducive to its implementation approach. The Operations Manager will continuously monitor the MDF operational systems to ensure they remain flexible and responsive to the needs of country teams and are conducive to a flexible program implementation approach. The Operations Manager will also provide capacity development support to Country Team and Facility-wide operations personnel.

Key Responsibilities:

- Provide overall coordination of and increase the effectiveness and efficiency of the administrative, logistical (including security and IT), financial management, procurement, and human resource management functions.
- Monitor financial processes to ensure a uniform and integrated day-to-day financial management of program activities and operations across all MDF countries, applying consistency in accounting policies and procedures in accordance with international accounting standards.
- Ensure compliance with all administrative and financial requirements of the head contract in collaboration with the MC, CRs and Country finance and admin teams.
- Ensure that activity financial management and reporting, including budget management, estimates of expenditure, acquittal and invoicing processes are timely, accurate and of a high standard.
- Coordinate the annual Facility-wide annual budget planning and ongoing review processes.
- Oversee the coordination and activities of internal and independent auditors and, in collaboration with Head Office, review and respond to audit reports and ensure auditors' recommendations for improvement are implemented.
- Monitor the MDF procurement system to ensure it is clear, comprehensive and consistent with Australia's Commonwealth Procurement Guidelines and conducive to a flexible program implementation approach and oversee the procurement of goods, services and works at both country and facility-wide levels.
- Oversee ongoing management of MDF country office asset registers and assets, including documentation of required maintenance and disposal for all MDF offices.
- Monitor HR systems including documentation and communication of guidelines and processes, coordination of MDF's Learning and Development Program, and support for performance management to ensure uniform and integrated day-to-day HR management across all MDF countries.
- Provide first-line information and advice to CLT members with regard to HR administration and management.
- Work proactively with colleagues to ensure effective coordination, management, planning and monitoring of logistics in support of travel and event management.
- Monitor MDF security systems, including documentation and communication of guidelines and processes, to ensure comprehensive day-to-day security management across all MDF countries. MDF's operating environments in all locations are regularly assessed and any changes that impact operations are reported.
- Where required, lead the establishment of new fully functional offices in advance of country team arrivals in MDF countries.

Communications Manager

DFAT Adviser Remuneration Framework Classification: B3

The Communications Manager will be responsible for the quality and frequency of MDF's external communications with a range of stakeholders and audiences (DFAT, the wider development community, partners and host governments) via a range of communication formats, in print and online. Working with the Team Leader, the Communications Manager will ensure that all MDF communications materials are in line with key messaging, as set at both the country and Facility levels. The Communications Manager will also work with Country Team Communications Specialists (where applicable) and Communications Coordinators to ensure communications activities support and meet both country-level and Facility-wide requirements. The Communications Managers will also ensure that MDF's communications materials and associated messaging are aligned with DFAT's reporting and communications needs, as relevant to MDF. The Communications Manager is also responsible for knowledge management, ensuring that information is properly stored and shared and cross-country sharing and learning is facilitated.

Key Responsibilities:

- Under the guidance of the Team Leader, implement (and refine when needed) MDF's external communications strategy.
- Support Country Teams to develop and implement country-specific communications plans, ensuring key messaging is aligned with key stakeholder priorities, including DFAT and national governments.
- Attend field visits, launches and media events where needed.
- Ensure that all communications material produced, ranging from press releases to country narratives to technical notes to case studies, are effective, of sufficient quality, contain correct information and meet DFAT guidelines and procedures.
- Establish relationships with DFAT public diplomacy teams in MDF countries and provide MDF materials and content to these teams.
- Maintain an attractive, fresh, interesting and responsive website and social media presence.
- Lead or support the development of key communications materials, including story identification, data collecting, writing, final layout and design – across all countries; where needed edit these materials.
- Manage MDF's communications-related sub-contractors, when utilised.
- Support the development of key Facility reporting deliverables; format and edit these to ensure the highest level of professional presentation.
- Support the production of materials that support MDF's Learning, Influencing and Engagement agendas, in countries and centrally.
- Organize MDF representation at relevant conferences or other events in order to increase the Facility's public profile and contribute to international learning.
- Maintain the Facility's knowledge management system, 'MangoApps'.

Country Representative

DFAT Adviser Remuneration Framework Classification: D2-D3

The Country Representative will lead an MDF Country Team. Reporting to the Team Leader, the Country Representative is responsible for leading all aspects of country implementation in the in their respective country – technical, operational and the engagement with DFAT and other key stakeholders. The Country Representative drives portfolio management and partnership design, systemic change, Inclusivity and WEE, RM, the Engagement and Influencing agenda, communications, and provides daily direction to the Country Team. Where needed, the CR builds the capacity of the Country Team across these areas. The Country Representative also represents MDF to the relevant DFAT Post and other stakeholders within the country and is the key point of contact for all stakeholders. Country-specific operational oversight (finance, HR, admin, logistics, and security) is also the responsibility of the Country Representative.

Country Representatives also form part of the MDF CLT and as such will contribute to Facility-wide direction, management and coordination.

Key Responsibilities:

- Lead market systems analysis, develop a deep understanding of their functioning and identify constraints to pro-poor growth as well as opportunities to unlock this growth.
- Formulate engagement strategies and systemic change pathways and ensure that all interventions and other Country Team activities have a clearly demonstrated link to these strategies.
- Formulate a country-specific approach to Inclusivity and WEE (within the applicable MDF frameworks).
- Formulate a country-specific Engagement and Influencing agenda, which does justice to the country's needs and realities.
- Apply the MSD approach in a manner that does justice to the country context; oversee the technical quality of partnership identification, design and management.
- Manage a portfolio of partnerships to generate pro-poor growth in a sustainable, effective, and efficient manner to meet the Facility's development objectives Aid Investment Plans and relevant national and DFAT policies.
- Recruit, train and lead a country team, guiding their capacity development in all aspects of technical implementation.
- Oversee implementation of Facility-wide systems within the country program, ensuring cohesiveness with the Facility as a whole (approach, WEE-RM, communications, operations).
- Represent MDF in-country, including close liaison with DFAT Post, host governments and relevant development partners and programs.
- Serve as a member of the MDF CLT, including participating in virtual and physical CLT meetings, contributing to Facility-wide management and planning and supporting other MDF country programs and/or staff if and when required.

Women's Economic Empowerment and Results Manager (Country Implementation)

DFAT Adviser Remuneration Framework Classification: C3

The WEE-RM Manager (Country Implementation) is responsible for providing oversight and technical support to all MDF country teams in relation to WEE and RM; representing MDF to DFAT and other stakeholders, building understanding of MDF's approaches and progress in terms of WEE and RM; working closely with the WEE-RM Manager (Strategy and Planning) to ensure that country level monitoring and reporting of results is in line with and effectively feeding into MDF's aggregate data collection and reporting system.

The WEE-RM Manager (Country Implementation) works in partnership with the WEE-RM Manager (Strategy and Planning).

Key responsibilities:

- Together with the WEE-RM Manager (Strategy and Planning), manage implementation of MDF's WEE Framework and RM system.
- Guide MDF Country Teams to ensure RM systems are robust and relevant and that results are accurately and effectively captured, monitored, reviewed and reported.
- Oversee the capacity development of country teams in the areas of WEE and RM, providing technical backstopping support, advice and quality checks on the development of intervention guides and results chains, results measurement and reporting.
- Work with Country Teams to ensure that WEE elements of relevant partnerships are adequately considered and captured in all partnership design implementation and monitoring processes (Intervention/Sector Guides, Sector Strategies and systemic change pathway documents in addition to communicating the roles/responsibilities of all MDF staff in relation to WEE).
- Support the development and/or delivery of MDF's in-house WEE training programme whilst more broadly promoting informal learning on how WEE can be progressed through business channels (the 'business case approach').
- Manage, coordinate and chair the MDF RM working group and its meetings.
- Guide Country Teams in the monitoring and design and to undertake/manage research on outcomes relevant for WEE.
- When required, engage with DFAT (Posts or Canberra) to contribute to DFAT's understanding of MDF's WEE Framework and RM Strategy.
- Ensure the MDF RM System complies with the DCED Standard for Results Measurement and is integrated into the MDF's implementation and management processes.
- Provide training and advice to Country Teams in all aspects of RM and qualitative/quantitative research techniques, ensuring that good research practices are being used whilst guaranteeing the quality of research and data coming out of the RM system at the country level.
- Approve Sector Guides and Intervention Guides in MDF countries and update the RM system and RM manual as necessary.
- Support Country Teams to collate and report on results and projections while ensuring all Sector Strategies are reviewed/updated every six months based on the timely data collection.
- In collaboration with the WEE-RM Manager (Strategy and Planning), the Team leader and Country Representatives, develop results estimates and monitor progress against higher level indicators.

Women's Economic Empowerment and Results Manager (Strategy and Planning)

DFAT Adviser Remuneration Framework Classification: C3

The WEE- RM Manager (Strategy and Planning) is responsible for the implementation of MDF's WEE Framework; supporting and monitoring the consideration and implementation of cross-cutting issues by the Country Teams; technical advice and support to Country Teams in Results Measurement, monitoring and reporting; oversight of MDF's aggregate data collection and reporting, including the Annual Aggregation of Results; and donor and stakeholder engagement and representation on RM and WEE.

The WEE-RM Manager (Strategy and Planning) works in partnership with the WEE-RM Manager (Country Implementation).

Key responsibilities:

- Together with the WEE-RM Manager (Country Implementation), coordinate Facility-wide WEE and RM strategy development and implementation and aggregate data collection and reporting.
- Develop MDF's in-house WEE training programme and manage its delivery across all countries, whilst ensuring broader learning and internal understanding of WEE.
- Manage, coordinate and chair the MDF WEE working group and its meetings. Collaborate with the WEE-RM manager (Country Implementation) and the Country Representatives to ensure that WEE statements in all MDF documents are correct and highlight its focus across the program.
- Oversee WEE specific studies and reports across each country.
- Represent and communicate MDF's progress as it relates to WEE and RM and provide updates in implementation and results to DFAT, thereby actively contributing to building a broader understanding of MDF's approach to WEE and RM.
- Develop, update and incorporate specific tools for cross-cutting themes (WEE, environment, Inclusivity) to ensure the MDF team gives appropriate consideration to these issues and adheres to any relevant guidelines or safeguards.
- Together with the WEE-RM Manager (Country Implementation), ensure the MDF RM System is built into MDF's entire implementation and management process and complies with the DCED Standard for Results Measurement to receive accurate information between monitoring and decision making.
- Oversee and manage Facility-wide data aggregation, results and progress against higher level indicators in addition to managing and developing MDF's Annual Aggregation of Results Report.
- Undertake quality assurance of research and data coming out of the results measurement system.
- Manage and/or support Household Level Poverty and Gender Studies in addition to case studies and other studies or reports that demonstrate MDF's impact.

Annex 5: Monitoring and Results Measurement in MDF

Introduction

This annex summarizes MDF's monitoring and results measurement (MRM) system.

The dual goals of MDF's MRM system are:

- to help the team learn from findings on results so that they can improve strategies and activities, and thus maximize the program's contribution to inclusive growth; and
- to enable MDF to assess and report results credibly.

MDF's MRM system complies with the Donor Committee for Enterprise Development Standard on Results Measurement for Private Sector Development.⁶⁴ The Standard is a field-tested framework for results measurement in private sector development based on industry good practices. In late 2014, MDF underwent an official audit of its MRM system according to the DCED Standard in Fiji and Timor Leste. MDF's system in both countries received high scores for compliance as outlined in Table 1.

Table 1: MDF DCED Standard Audit Results

Country	Must Control Points	Recommended Control Points
Fiji	96%	98%
Timor Leste	94%	90%

From the DCED Audit Report on MDF's Results Measurement System:

"The results measurement system in MDF is built into its implementation and management process. The key purpose of MDF's results measurement system is learning, which is why there is a very strong link between monitoring, measuring and aggregating results, learning and decision making, and revising intervention and sector strategies. This learning is used to maximise the results of the Facility. MDF uses its results measurement system to learn what works, what doesn't and why- making adjustments along the way to improve and maximise results for each country."

- Every year, MDF provides a summary of its results across the Facility and for each country in a public document, called the MDF Annual Aggregation of Results.⁶⁵ This document provides a summary of quantitative results to date as well as projected results for the Phase. It also provides an update on the program and describes qualitative results of the program. In addition, MDF uses information on results from its MRM system in reports for DFAT and a wide variety of communications materials, including newsletters, case studies and videos.⁶⁶

Integration of the MRM System with Program Management

Internally, the key purpose of MDF's results measurement system is to help staff learn and improve the program. MDF's MRM system is integrated into the management of the program at every level so that information on results informs decision-making. MDF's organizational culture encourages daily conversations about field observations and findings on results and their implications for intervention tactics.⁶⁷ The teams review all interventions (partnerships) and sectors every six months in order to integrate recent findings into intervention plans and sector strategies. Thus, MDF uses its results measurement system to learn what

⁶⁴ For more information on the DCED Standard for Results Measurement, see <http://www.enterprise-development.org/measuring-results-the-dced-standard/>

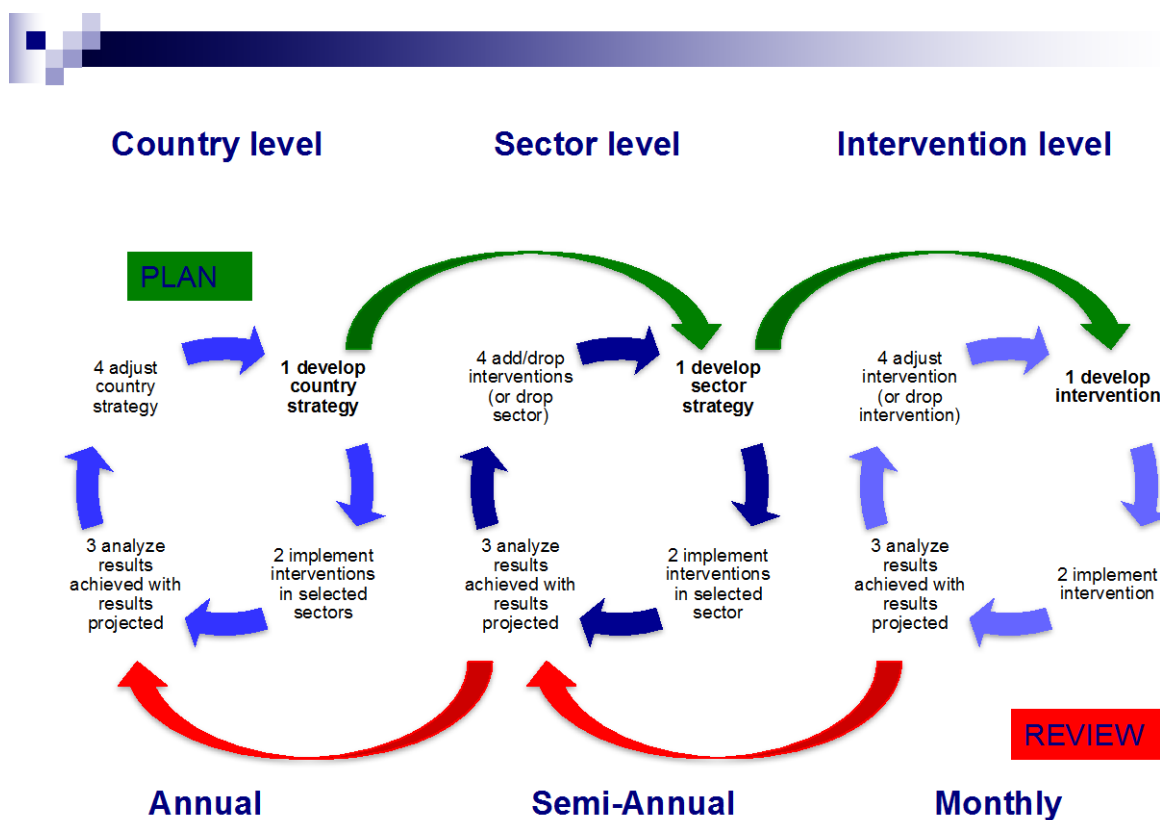
⁶⁵ MDF's Annual Aggregation of Results reports can be found at: <http://marketdevelopmentfacility.org/content/publication/?category=21>

⁶⁶ See <http://marketdevelopmentfacility.org>

⁶⁷ For a case study on MDF's learning culture, see: <http://www.enterprise-development.org/measuring-results-the-dced-standard/case-studies-and-examples/building-a-learning-culture-mdf-fiji/?id=2726>

works, what doesn't and why – making adjustments along the way to maximise the program's contribution to long-term inclusive growth in each country. (Figure 1 shows how the results measurement system is integrated with program management.)

Figure 1: MDF Integrated MRM and Management Processes



MDF' Levels of Analysis and Key MRM Tools

In each country, MDF develops an overall country strategy aimed at fostering inclusive growth. The team chooses appropriate sectors or strategic engagement areas on which to focus. The sectors or strategic engagement areas complement each other, addressing various aspects of inclusive growth important to the country. MDF studies each sector and develops a strategy to help the sector or strategic engagement area to become more competitive and more inclusive. Guided by these strategies, the MDF team focuses on identifying partners, and generating and designing intervention ideas that would increase competitiveness and stimulate growth – from which poor women and men will ultimately benefit as entrepreneurs, employees and/or consumers. MDF works with each partner to develop and agree a partnership agreement outlining each party's role and responsibilities and contribution brought to the partnership. Once the partnership is signed, the MDF team focuses on monitoring activities and measuring outcomes and impact. As work in the sector or strategic engagement area progresses, MDF also assesses the systemic changes of all partnerships taken together and analyses how MDF is contributing to those changes.

Thus, MDF's results measurement system has four key levels of analysis: interventions (partnerships), systemic changes in sectors or strategic engagement areas, country portfolios and the Facility as a whole. As described above, MRM is integrated with management. Therefore, the key tools that the Facility uses at each level have both a management function and an MRM function. Monitoring and Results Measurement of direct results takes place at the level of interventions. Assessment of systemic changes takes place at the level of sectors / strategic engagement areas. However, analysis of results to feed into decision-making occurs at all levels. Results at the levels of interventions and sectors / strategic engagement areas are aggregated, accounting for overlap, at the country portfolio and Facility levels to allow analysis at these levels. Table 2 below outlines the key tools MDF uses at each level to describe strategies, guide implementation, guide measurement and track and analyse results.

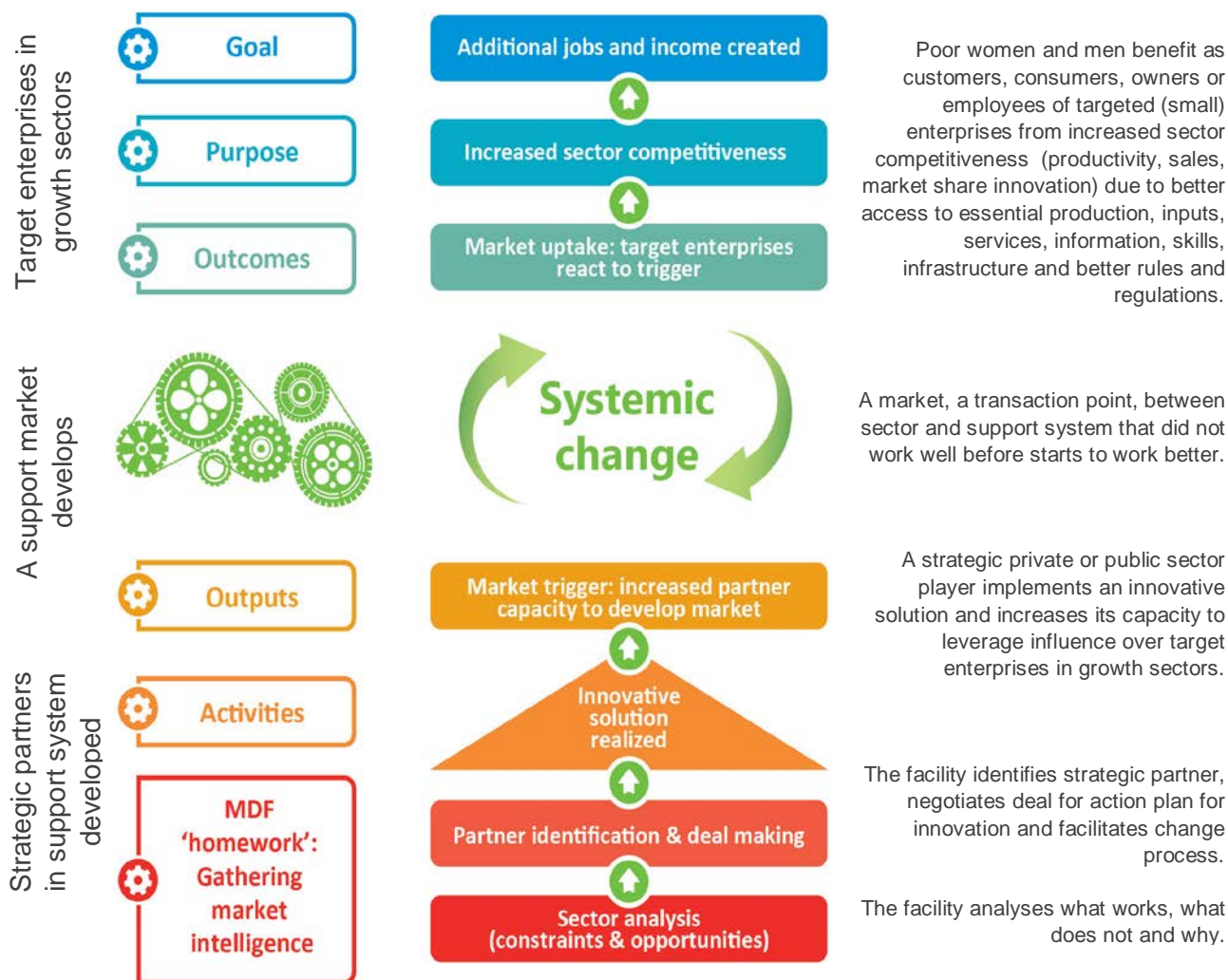
Table 2: MDF's Key MRM Tools

Level \ Purpose	Outline Strategy	Guide Implementation and Measurement	Track and Analyse Results
Intervention (Partnership)	<ul style="list-style-type: none"> Partnership Agreement Intervention Guide 	<ul style="list-style-type: none"> Intervention Guide 	<ul style="list-style-type: none"> Intervention Guide Weekly/Monthly Updates
Sector / Strategic Engagement Area	<ul style="list-style-type: none"> Sector Strategy Systemic Change Pathways 	<ul style="list-style-type: none"> Sector Guide Systemic Change Pathways 	<ul style="list-style-type: none"> Systemic Change Assessment Framework Semi-Annual Reviews
Country Portfolio	<ul style="list-style-type: none"> Country Strategy Annual Strategic Plan 	<ul style="list-style-type: none"> Country Strategy Annual Strategic Plan 	<ul style="list-style-type: none"> Annual Aggregation of Results Annual Strategic Plan
Facility	<ul style="list-style-type: none"> Facility Design Annual Strategic Plan 	<ul style="list-style-type: none"> Facility Design Annual Strategic Plan 	<ul style="list-style-type: none"> Annual Aggregation of Results Annual Strategic Plan

MDF Hierarchy of Objectives

MDF's approach emphasises tailor-made partnerships with a variety of partners. Although each partnership is unique, each follows the basic logic of MDF's overall theory of change (Figure 2).

Figure 2: MDF's Theory of Change



This logic is complemented by MDF's Hierarchy of Objectives, which translates this logic into objectives as outlined in Table 2. All partnerships should, if successful, generate a change at each level.

Table 2: MDF Hierarchy of Objectives

Level	Objectives
Goal	To create additional employment and income opportunities for poor women and men in rural and urban areas through sustainable and broad-based pro-poor growth
Purpose	To increase the overall competitiveness and inclusive growth of rural and urban sectors
Outcomes	Improved service delivery to rural and urban growth sectors; improved access to end markets
Outputs	Increased capacity of strategic private and public sector players to influence relevant support markets (to service rural and urban growth sectors for greater productivity, competitiveness and inclusiveness) or to influence end markets (connecting sectors to new sources of demand by improving supply, quality, the overall competitive offer)

A summary of the levels follows. Indicators and measurement approaches described here are broad. These are then tailored to each intervention in a specific plan.

Outputs

Outputs relate to the increased capacity of the strategic private and public sector players with whom MDF partners to improve their provision of goods and/or services to target enterprises or expand sales into end markets. Players at this level are those that the Facility partners with to increase or improve their 'support' or 'service' to enterprises within a sector in a manner that addresses the key constraints of the sector; or to connect the sector to lucrative end markets, for instance by investing in new processing techniques (for new or better products) or quality control systems (for better sourcing).

Indicators

Key indicators here are 'increased capacity of players in relevant support systems'; 'increased capacity of value chain players to tap into end markets'; 'number of innovative solutions adopted to address particular business opportunities or constraints' and 'investments made by partners to produce and implement the innovative solution(s)'. This information contributes to an understanding of whether the capacity of market players to cater to the needs of enterprises in the sector or connect the sector to lucrative end markets does increase because of MDF activities. So it provides a measure of whether partners have better capacity, are able to implement new innovative solutions and invest in implementing such solutions.

Where a partner should be able to reach, inform or employ women to influence, or grow into, a market, their readiness to do so is assessed – indicators are dependent on what should be assessed and could include 'appropriate infrastructure and management in place to employ females' (e.g., day care, separate toilets, pick up and drop services, female supervisors, opening bank accounts for women), 'information on products and services can reach female clients' (e.g., female extension workers, identifying locations, timing and extension methods suitable for women, producing information materials that can be brought home, using media to reach women), and 'products and services to be offered are suitable for women' (e.g., they are affordable, they are distributed in such a manner that women can buy them, they help reduce workloads).

Measurement

Information at this level is collected from the partners that MDF works with, or by MDF itself, and the collection is done while activities are being implemented or immediately after they have ended. Additionality is also assessed to determine if and to what extent changes in the partner are due to the partnership with MDF. Collecting information on partners early on helps the MDF team to monitor if the partnership is resulting in improved capacity of the market player and if they see any value in the improved capacity. It can also help MDF adjust the support it is providing to the player and improve the effectiveness of the partnership.

Outcomes

Outcomes relate to how the enterprises in the sector respond to the improved service delivery or introduction of the innovative, commercially sustainable solution triggered by the partnerships, or how end markets respond to the new product offer. This is dependent on whether the product, service or solution is appropriate (affordable, timely, and user friendly) and whether it really addresses a critical constraint or underserved demand so good that targeted enterprises and markets respond to it because there is a commercial benefit in doing so. Thus, results at this level reflect the responses of enterprises and markets to the new or improved solutions, services and products offered.

Indicators

The indicators measured at this point relate to responses of targeted enterprises and markets. It can be reflected by increased knowledge/awareness among targeted enterprises and within targeted markets on new products, services and solutions and increased in demand for the same.

Where a partner should be able to reach, inform or employ women to influence, or grow into, a market, the extent to which they are achieving that is assessed – see the discussion under outputs.

Measurement

Measurement at this level will take place after (raising awareness about) new products, services or solutions on offer had time to create an interest in the markets for which they were intended (but also in other markets if this would be the case). So the focus on is on reach, inclusiveness (suitable, appropriate, affordable) and interest/demand/understanding of benefits/value. In some cases, information collection at this level may be pushed back to when the targeted (female and male) clients have had the opportunity to buy the new product, service or solution so as to be able to also assess their satisfaction (as well as unintended effects, such as, in the case of women, the risk of increasing workloads or diminishing control over new products and services in the household, or being excluded from new rewarding opportunities).

Purpose

At the purpose level what the Facility aims to achieve and measure is improved productivity/ competitiveness of targeted enterprises and/or increased sales into end markets. Achievements at the purpose level are measured through the benefits that enterprises receive as a result of their response to the new product or services or their ability to increase sales to end markets as well as the extent to which benefits are inclusive. If the enterprises within a sector become more productive, competitive and inclusive, the sector grows inclusively.

Indicators

Increased competitiveness can be measured using different indicators depending on how the growth stimulated by MDF is best captured. If enterprises are generally unproductive or inefficient or need to switch to a new production technique (which may be more cost-effective, generate more output, or produce a new, higher-value product) – then productivity and sales are good ways to measure improvements to their competitiveness. If companies need to invest in their capacity rather than a change in the 'production function' – then sales or market share are more appropriate. If enterprises depend on rapid product development or changes in product mix, then innovativeness could be considered an indicator. In addition to quantitative results, MDF captures a wide range of qualitative information that enables it to understand the nature and depth of change among target enterprises or target beneficiaries and the inclusivity of change.

In relation to WEE, is it important to determine to what extent women benefit from better economic performance – do they benefit from better access to products and services, or better sales opportunities, directly (through sales, employment/wages, time saving innovations, having more decision making authority) or through the household (in which more resources are available that help improve diets, amenities, reduce toil). Also important is to assess potential unintended consequences, such as increases in workload and increased household/family struggles over resources.

Measurement

Measurement at this level will be carried out at the end of the first business cycle, as well as after several business cycles. Measurement is done through a sample study of the targeted enterprises to assess the benefits of better functioning support markets or end markets. Where relevant, male and female respondents should be interviewed separately. A counterfactual is also measured here to assess the actual attributable impacts experienced by the targeted enterprises.

Goal

The goal level objective of the Facility is impact on reducing poverty for women and men. The objective at this level is additional income for poor female and male producers and workers and additional employment for poor female and male workers. For some interventions, there are also non-financial improvements in wellbeing such as improved diets and housing, less school dropout/sending girls to school, improved access to (medical) services, and more income stability and household-level resilience, thus being less susceptible to external shocks (more complementary income streams).

Indicators

Additional income is defined as additional net income which is additional revenues minus additional costs. This takes into account additional investments or costs 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 is calculated in person-days aggregated into Full Time Equivalents (FTEs). MDF only measures sustainable employment, not temporary jobs. Where MDF benefits poor people as consumers, custom indicators are designed to assess the benefits. All figures are disaggregated for female and male beneficiaries.

Measurement

Data on additional income and jobs is collected and calculated at the same time that information on improved performance is collected and is also done via a sample study of target beneficiaries. Measurement of employment may be based on actual counting or calculated based on labour elasticity and multiplier effects.

MDF's Facility Wide Indicators:

To assess its impact on growth and poverty reduction, MDF measures and aggregates three **Universal Impact Indicators at the Goal Level**. These indicators are recommended in the DCED Standard for Results Measurement for private sector development programs. The universal impact indicators are measured across partnerships, sectors and countries. MDF defines these indicators according to the following points:

- ⦿ **Effective Outreach:** The total number of beneficiaries – small farms, firms and workers – that are able to increase their productivity and/or benefit financially from MDF's partnerships. This includes those beneficiaries with income from self-employment activities or those benefitting from additional employment. This indicator measures the scale of MDF's impact.
- ⦿ **Net Additional Employment:** Net additional employment created, calculated in person-days aggregated into Full Time Equivalents (FTEs), using 240 working days per year and 8-hour working days. This indicator measures the number of jobs generated as a result of MDF's partnerships.
- ⦿ **Net Additional Income:** Net additional income earned by beneficiaries, calculated as additional income minus additional expenses (converted from local currencies into USD for comparison). This indicator measures the amount of income generated as a result of MDF's partnerships.

Using these common indicators across its portfolio allows MDF to aggregate and compare its results across its sectors and countries.

As these impact indicators are dependent on a series of changes that take longer to achieve – sometimes more than two to three years – MDF also measures indicators to show the intermediate results of its

portfolio. These intermediate indicators are also measured across partnerships, sectors and countries and are aggregated for MDF's whole portfolio. They include:

- **Number of business innovations and regulatory reforms:** A business innovation can be the introduction of a new product, service, business practice or production method, or the targeting of new suppliers and customers. Innovations can be new to the business, the sector or even the country. A regulatory reform is a change in the rules and regulations of the economy that reduces transaction costs, stimulates investment and/or opens a market. Partnership Agreements may be signed, which introduce one or possibly multiple innovations and/or regulatory reforms.
- **Value of private sector investment leveraged (USD):** The amount of money the partner invests in the development and implementation of the innovations or regulatory reform. The investment can be made directly in partnership activities or in further improvements to products or services resulting from a partnership. The investment can be made directly by partners or additional investment leveraged by partners from private funding sources.
- **Value of Additional Market Transactions (USD):** The value of additional market transactions generated as a result of MDF's partnerships. This indicator shows how much market transactions are increasing as a result of MDF's partnership, representing increased economic activity, which contributes to pro-poor growth. The market transaction is unique to each partnership and depends on the nature of each partnership. The transaction measured can be between MDF's business partner and beneficiaries, or between MDF's business partner and its target market. It measures the payments made between the actors, covering the additional revenue generated from the product or service on behalf of either the partner or the beneficiaries. The indicator is measured at the partner level and measured as revenue, and so should not be confused with net income to beneficiaries or net income to partners.

Summary of MRM Processes for Interventions

Monitoring and results measurement is tailored to each intervention, so that progress can be effectively assessed and findings can be used for improving the intervention and contributing to other interventions and strategies. To streamline management of each intervention, all information regarding an intervention is included in an Intervention Guide (IG). The IG includes key information about the intervention, including strategy, results chain and monitoring and results measurement plan. Intervention Guides keep track of what is taking place in each intervention within a sector. They are internal working documents which are constantly updated with monitoring information and plans for future monitoring based on MDF's work and changes in the market. Information from these documents is also used in developing the Sector level and Facility level reporting documents.

MDF's processes for developing the IG and monitoring and measuring each intervention are as follows:

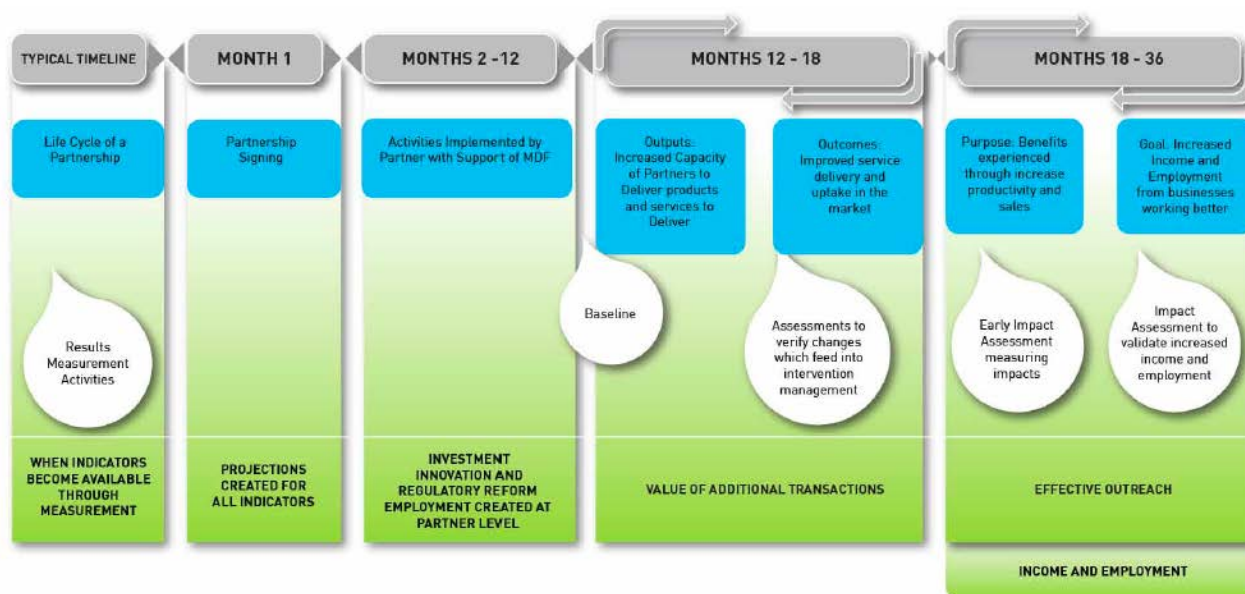
- 1 **Diagram the business model:** Each innovation with a partner is introduced through a business model that will enable the partner to sustainably adopt the innovation. The business model describes the sustainable provision of the improved product/service/solution in the market. Thus, the business model explains how changes can lead to lasting impacts. The same approach is followed if the innovation is more of a social than technical nature, for instance to find a means to reach female clients better.
- 2 **Articulate the intervention results chain:** The results chain is a thorough, logical and realistic flow-chart that maps out how a particular intervention is expected to lead to increased jobs and income for poor women and men. The purpose of the results chain is to help MDF's staff to think through and clarify the logic of each intervention by showing how activities will lead to outputs, outcomes, purpose and goal. It also helps staff to make projections and identify key assumptions that need to be verified. Result chains are the backbone of MDF's Result Measurement System. Indicators and Measurement Plans also follow the structure of the result chains.
- 3 **Define indicators of change:** With the exception of the Facility-wide indicators, MDF tailors indicators for each intervention. In order to be able to monitor progress closely and to assist in the assessment of attribution, MDF defines at least one indicator for each change in the result chain. However, for the key changes, there are more indicators, with a mixture of quantitative and qualitative, to sufficiently explore the nature of changes at each key level. The indicators help answer the following questions:
 - Has the expected change actually happened?
 - To what extent?
 - What is the scale of change (how many people)?
 - How and why are the changes taking place or not taking place?

- To what extent are the expected changes sustainable?
- 4 **Make projections:** MDF projects what results it expects for the key quantitative indicators for each intervention. The projections are based on information gathered from the potential partner as well as on the sector more generally. Projections help the team to determine if the intervention is likely to be worth the cost and to establish benchmarks for progress.
 - 5 **Outline a measurement plan:** At the beginning of an intervention, MDF outlines a plan to monitor progress and measure results at the different levels of the results chain. The plan includes how MDF will assess the attribution of changes to its activities at two levels – partners and beneficiaries.
 - 6 **Monitor and Measure Changes in Indicators:** In order to measure changes in indicators, MDF must know the value of the indicators before they have been affected by MDF activities. MDF assesses the baseline of the partner during the development of the partnership agreement. MDF measures the baseline status of beneficiaries either before they have had access to the improved product, service, information, employment or regulatory change or soon afterwards using recall. MDF monitors many changes as they happen. MDF also measures results at key levels of the results chain as scheduled in the Measurement Plan.
 - 7 **Analyse results and make decisions:** MDF regularly analyses the information on results coming in. For specific studies, analysis is done as part of the study process. Both monitoring information and findings from the measurement of results are analysed in formal reviews every six months. The analysis leads to decisions on how to improve interventions and sector strategies.

MDF's Timing for MRM

Figure 3 below shows the lifecycle of an MDF partnership and its typical timeline. It also shows at what points in time results measurement tasks take place and what indicators become available through those measurement tasks. As is demonstrated in the diagram, it can take anywhere from 18 to 36 months to create sustainable income earning and employment opportunities for poor women and men – MDF's goal.

Figure 3 - Lifecycle of a partnership and timeline of results



MDF negotiates comprehensive partnership agreements around commercially sustainable business cases (rather than supporting only particular parts of a business case, such as technical assistance). Depending on the number of activities or change steps negotiated in the agreement, implementation of the agreement can easily take up to twelve months. The first uptake by the market of the product or service emerging from these investments can take up to six months, depending on factors such as seasonality and/or the novelty and price of the new product or service. The impact of the new product or service on growth, employment and income takes at least a further six to twelve months to start, depending on business cycles. Typically, MDF measures two to four business or agricultural cycles after activities are complete. Thus, results start to become apparent about three years after signing a partnership agreement. This timeline is indicative and will

vary significantly between partnerships.

MRM Methodologies

MDF's MRM methodologies are theory based and mixed method. MDF assesses change both quantitatively and qualitatively at all levels of its results chains, including unintended results. Methods are tailored to the individual indicators being measured. While MDF uses secondary source information where available, the mainstay of assessment is primary information gathering because secondary sources are not sufficiently granular to assess results among partners and beneficiaries. MDF's primary information gathering methods include: observation, in-depth interviews, focus group discussions, surveys and examination of partner or other stakeholder records. The MDF team triangulates findings by gathering information from several sources. For example, MDF gathers information on transactions from both partners and beneficiaries and on employment from both employers and employees.

Assessment of WEE is integrated into every step of the MRM process. This can mean gathering information on WEE at the same time as gathering information on other aspects of change or it can mean separate information gathering exercises focused on WEE, depending on the context and the information required.

In order to assess change, MDF must know the baseline situation. MDF gathers baseline information for each intervention related to the various levels of the results chain, with a focus on partners and beneficiaries. Baseline information on partners is gathered as part of the partner assessment process. Baseline information on beneficiaries is gathered either before beneficiaries experience changes related to a new product, service, employment opportunity or regulation or afterwards using recall. Because the identity of beneficiaries is not known at the beginning of an intervention (it is determined by the partner and the poor women and men themselves as the innovation is implemented), baseline measurements are delayed until interaction between partners and beneficiaries starts. This allows for more precise measurements and a more credible assessment of attribution. At the sector level, MDF also regularly assesses key behaviours and variables (See Section 9 below on Assessing Systemic Change).

MDF's monitoring and results measurement is guided by the measurement plan outlined at the beginning of the intervention, and adjusted as necessary during the intervention. Monitoring and measurement at the partner level occurs throughout partnership activities and continues for 2-4 years after the innovation has been launched. To assess beneficiary level changes, MDF typically conducts an "Early Impact Assessment" after the innovation has been implemented for one business or agricultural cycle. MDF then follows this up with an impact assessment after several more business cycles to get a fuller picture of changes, both qualitative and quantitative.

In line with the DCED Standard on Results Measurement, MDF's assessment of attribution relies on two approaches. The first is a theory based assessment: measuring the occurrence and extent of each (expected) change between activities and end results and assessing qualitatively why those changes happened in relation to the previous change and other factors. The second is a comparison of actual changes with a counterfactual: assessing what actually happened compared to what would likely have happened in the absence of the intervention. Methods to assess the counterfactual are discussed below.

In practice, these two approaches mean that MDF focuses assessment of attribution at two key levels – partners and beneficiaries. Attribution at the level of partners is called 'additionality.' It assesses the extent to which changes the partner makes are due to the partnership activities with MDF. Attribution at the level of beneficiaries assesses to what extent changes and benefits among beneficiaries are due to the improved product, service, employment or regulatory change provided by the partner. Each of these are discussed below.

Additionality: MDF's most important assessment of additionality takes place ex ante, during the assessment of the partner prior to a partnership agreement. MDF assesses whether the partner would be able to make the desired changes in the same or similar manner without MDF's support. This takes into account the following characteristics of change: scope, scale, timing, speed and management of risk. It also takes into account the availability and nature of potential support from other sources, such as financial institutions and business advisory services. Each MDF partnership agreement is designed to provide support to the partner that the partner would be unlikely to get elsewhere or generate internally. This ex ante

assessment is complemented by the theory-based assessment during implementation. MDF tracks the activities in the partnership and the capacity and behaviour changes of the partner, MDF then analyses the relationship of the two, in light of other factors affecting the partner. This is complemented by participant and key informant opinion; MDF gathers information from the partner and others about why the partner made the changes they did. MDF also monitors the relevant market throughout implementation of a partnership to assess the changes in behaviour of other businesses, which can also shed light on additionality.

Attribution at beneficiary level: Using the theory based approach, MDF assesses the various changes expected among beneficiaries from the point of exposure to the product, service, employment opportunity or regulatory change provided by the partner through to the expected increase in income or employment. This measurement includes both behaviour changes as well as benefits. For example, MDF assesses both the ways in which women are interacting with the product, service, employment opportunity or regulatory change provided by the partner as well as the benefits (or harm) that they are experiencing as a result. MDF also checks for unintended results at each point in the change process. Using participant and key stakeholder opinions, as well as observation, MDF qualitatively assesses why changes are (or are not) happening as expected. MDF also assesses the counterfactual for beneficiaries – how would beneficiaries' situation likely have changed in the absence of the intervention. Methods to assess the counterfactual depend on the nature of the intervention and, in particular, the other factors influencing the specific aspects of beneficiaries' behaviour, performance and benefits that the intervention aims to influence. MDF typically uses primary information gathering in the form of quasi-experimental surveys to assess the counterfactual and compare it with the experience of beneficiaries. Other methods include the use of secondary information on non-beneficiaries and trend analysis.

MDF determines which methods will be used to assess attribution at the beginning of the intervention so that the methods can be integrated into the monitoring and measurement of the intervention.

MDF's measurement and assessment of attribution complies with the DCED Standard for Results Measurement. MDF scored 91% in Fiji and 93% in Timor Leste on the Standard control points specifically related to measurement and attribution during the 2014 audit of MDF's MRM system.

Assessing systemic change

As MDF matures, assessing the extent of systemic changes will become an increasingly important part of MDF's MRM. In 2015 MDF outlined a systemic change framework that describes its aims for systemic change and outlines how progress towards a high level of systemic change will be assessed.

In each sector / strategic engagement area, MDF outlines a few key systemic changes that will enable the sector to grow faster, more sustainably and more inclusively.⁶⁸ Its partnerships and stakeholder engagement are designed to contribute to those systemic changes. MDF's systemic change framework focuses on assessing the progress of each systemic change across six parameters. These parameters are outlined in Table 3 below.

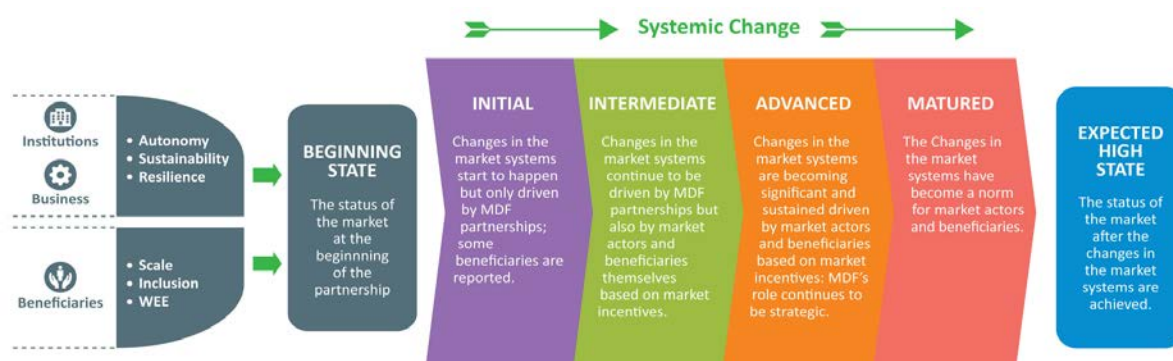
⁶⁸ The targeted systemic change and the pathways to promote them are developed and refined progressively over MDF's engagement in a country. The country specific annexes describe the systemic changes targeted for Fiji, Timor Leste and Pakistan and the expected direction of the systemic changes in Sri Lanka and PNG.

Table 3: MDF’s Systemic Change Parameters

Questions	Parameters	Definitions
Are there appropriate incentives for the market players that interact with poor people to continue, expand and adapt the new business model?	Autonomy	Independent action by businesses or other market players to adopt and/or improve a business model promoted by the programme.
	Sustainability	The extent to which the business model promoted by the programme is sustainable and/or profitable.
	Resilience	The extent to which the market system supporting the business model can adapt to stay competitive, take advantage of new opportunities and recover from adverse shocks.
Is the adoption and adaptation of the new business model continuing to serve the interests of poor people?	Inclusiveness	The extent and depth to which the business model as practiced by market players includes and benefits the target group
	Scale	The proportion of the potential target group that gets the goods, services and/or jobs promoted by the programme.
	Women’s Economic Empowerment	The extent to which the business model includes and benefits women in income, access to opportunities, assets, life chances, jobs workload and decision making.

During its sector assessments and implementation of early partnerships, MDF gathers information on the “baseline” status of the sector related to each systemic change across the six parameters. As MDF’s work in a sector matures, the team regularly gathers information on how the sector is changing related the targeted systemic changes. The team analyses this information to assess the extent of systemic change and MDF’s contribution to that change. The information and analysis focuses on market players’ behaviours and the norms in the sector, including both businesses and poor women and men, as well as other relevant players such as government agencies and representative bodies. Initially it focuses primarily on partners and beneficiaries. As time passes, MDF expects that its partnerships and stakeholder engagement will influence other businesses, poor women and men and market players. Thus, MDF widens its information gathering and analysis over time to assess this expectation. Figure 4 below shows how MDF summarises its information gathering and analysis related to systemic change.

Figure 4: MDF's Systemic Change Pathway



To practically assess changes, MDF has outlined a series of questions to guide information gathering with market players. This information gathering happens as a regular part of monitoring the sector, supplemented by dedicated information gathering as necessary. Over the last year of Phase I, MDF is increasingly operationalizing this framework within its MRM system. Assessment of systemic changes using this framework will be a regular and important aspect of MDF's MRM in Phase II.

WEE in MRM

MDF made the decision to formally link WEE with MRM in its system to ensure that WEE is thoroughly integrated into MDF's management tools and processes, as MRM is. This decision has also meant that WEE is included in all aspects of MRM, from the development of intervention guides and systemic change pathways, through to information gathering, analysis of findings and use of information to improve interventions and strategies.

Some of the practical implications of this integration related to WEE are:⁶⁹

- **Results Chains:** MDF articulates change steps relevant for WEE within intervention results chains.
- **Indicators:** MDF outlines specific indicators, both quantitative and qualitative, related to WEE for interventions. These are related to the five domains of WEE included in MDF's framework: economic advancement (increased income), decision making authority, manageable workloads, access to opportunities and life chances and access to assets, services and needed supports to advance economically.
- **Measurement and Attribution:** Assessment of progress in WEE is integrated with the monitoring and results measurement of interventions. This includes integration of WEE in information gathering tools as well as specific information gathering exercises related to WEE when useful. When appropriate, MDF gathers information from women and men separately. MDF disaggregates relevant quantitative results by gender by gathering sex disaggregated data as well as considering the proportion of women and men in various roles within each targeted sector.
- **Checks for Unintended Results:** MDF recognizes that it is particularly important to check for negative, unintended impacts on women that may result from its interventions. This is included in MDF's regular monitoring and results measurement. Checks for unintended impacts on women do not focus only on economic considerations but also include other, gender-related, risks such as violence against women and negative changes in household or community dynamics.
- **Assessment of Systemic Change:** WEE is one of six aspects of systemic change that MDF considers for every systemic change it targets. This is not a generic analysis, but instead focuses on assessing and analysing changing behaviours and norms around the specific aspects of WEE that MDF has outlined as part of the systemic change pathway. The analysis includes partners / other

⁶⁹ For more details on how MDF integrates WEE into MRM see: MDF (2015) Women's Economic Empowerment at http://marketdevelopmentfacility.org/?type=publication&posting_id=5118

businesses, poor women themselves, households, and other institutions such as communities or sector bodies. For example, MDF analyses the extent to which partners and other businesses see a vested interest in targeting women with information, products, services and/or employment opportunities. MDF also analyses the extent to which poor women are participating in, and benefiting from, new opportunities and how this is contributing to changes in norms around issues such as decision-making power and workloads.

- **Analysis and Decision-Making:** MDF assesses WEE as part of its regular analysis of progress and results at all levels. For example, discussion of WEE is a part of every six-monthly sector review meeting.
- **Reporting:** MDF disaggregates results by gender for its Facility-wide impact indicators. In addition, MDF reports and analyses results related to WEE in every country and sector / strategic engagement area in its Annual Aggregation of Results.

Poverty and Inclusion in MRM

MDF interventions are designed to engender participation from, and benefit, poor women and men. Each innovation and partnership is designed to engage and poor women and men in specific ways in relation to their roles as producers, workers and/or consumers. During impact assessments, MDF assesses the extent to which the women and men participating in and benefiting from interventions are poor. Firstly, MDF assesses the extent to which beneficiaries are from the groups and have the profile envisioned in the intervention design. For example, if a partnership with an urban based processor is designed to generate jobs for poor women living in informal urban settlements. MDF assesses the extent to which new jobs are filled by women living in informal urban settlements. Secondly, MDF uses a formal tool, the Progress out of Poverty Index (PPI) in its impact assessments to assess the likely poverty status of beneficiaries.⁷⁰ This tool, developed by the Grameen Foundation, uses ten questions in surveys of beneficiaries to assess the likely percentage of poor people in the beneficiary population. The Grameen Foundation develops the questions in each country by assessing the correlation of specific characteristics of households with indicators of poverty status using data from a nationwide Household Income and Expenditure survey. The questions and calculations to assess poverty status are periodically updated for each country based on new data. Using these two techniques, MDF is able to gain a solid understanding of the extent to which interventions reach and benefit women and men who are poor or vulnerable to poverty.

MDF assesses the extent to which the results of its interventions are inclusive by assessing who participates in and benefits from the changes created by each intervention. For example, MDF gathers information on the extent to which there are women and men who are disabled within the beneficiaries of an intervention. If a key factor in inclusivity in a particular country is geographical location, MDF gathers information on where beneficiaries of interventions live. If a key factor in inclusivity in a particular country is ethnicity, MDF gathers information on the ethnicity of beneficiaries.

However, well before beneficiary level assessment, MDF assesses the extent to which partnership are promoting inclusivity by assessing to what extent and how partners are reaching out to various groups with their information, products, services and/or employment opportunities. For example, if a partner plans to source a particular raw material that is only available from producers in isolated locations, then the partnership is likely to promote geographical inclusion. If a partner's recruitment efforts and employment policies and practices include, and are sensitive to the issues related to, various ethnic groups and disabled people, then employment is likely to be more inclusive. These early assessments help MDF to work practically with partners to operationalize the business case for inclusion that is inherent in each partnership agreement.

Internal and External Reporting

MDF produces a range of internal and external reports that include and analyse results. The most important of these is its Annual Aggregation of Results. This report provides aggregated quantitative results for the

⁷⁰ For more information on the PPI, see <http://www.progressoutofpoverty.org>

Facility as a whole and for each country. It also describes qualitative results in each country. The report analyses progress based on information on results and context in each country and in each sector/strategic engagement area. This report is made public on MDF's website.

MDF also produces other internal and external reports that describe results and analyse progress. These are detailed in Table 4 below.

Table 4: MDF Results Reports

Level	Document	Use in Reporting Results	Frequency
Intervention	Intervention Guide	Tracks updated results for the intervention at all levels of the intervention results chain	Updated at least every six months
	Intervention Study Report	Summarise findings from a specific results measurement study	Immediately after the study
Sector / Strategic Engagement Area ⁷¹	Systemic Change Pathways	Describes and analyses progress in specific systemic changes targeted	Updated annually
	Sector Guide	Describes progress and changes at the sector / systemic engagement area level and their implications for sector strategy	Updated annually
Country / Facility	Annual Strategic Plan	Describes results in the past year and the implications for the next year's plan	Annual
	Semester Report	Reporting overall progress	Semi-annual
	Annual Aggregation of Results	Comprehensively describes and analyses MDF's results to date	Annual

In addition, MDF conducts or commissions studies on specific aspects of the program, such as a case study on a country program, sector or intervention⁷² or research on a specific aspect of results.⁷³ These studies support and deepen MDF's regular MRM and reporting.

Human and Financial Resources for MRM

All professional staff in MDF are involved in monitoring and results measurement as a core part of their jobs. This regular involvement makes it much more likely that the team will use the findings on results to improve interventions and strategies. As such, the key resource for MRM in MDF is the professional staff. All staff are trained in MRM and their workloads are structured to ensure that time is spent gathering information on results, analysing that information and using the analysis to learn and improve. The Country Representative in each country leads and drives MRM in the country program, communicating clear incentives for regular, honest and credible results measurement and supporting the team in their analysis and use of information to improve interventions and strategies.

MDF also has specialist staff to support the rest of the staff in results measurement. These specialist staff positions are there to provide technical support to the rest of the team and act as a sounding board for the processes around information gathering, analysis and decision-making. The specialist staff also lead specific studies, such as impact assessments. The requirements for specialist staff are assessed on a country by country basis but, for Phase II, are expected to include at least one MRM and WEE specialist from within the team. In some cases, there may also be an MRM and WEE adviser. In the CLT, there are two Results Measurement and WEE managers, who oversee MRM and WEE across all five countries. These managers build the capacity of country teams in results measurement and WEE, provide technical support to the

⁷¹ MDF is moving to merge these two reports in Phase II.

⁷² For example, see http://marketdevelopmentfacility.org/?type=publication&posting_id=5432 for a case study on the Fiji program.

⁷³ For example, see "Employment Dynamics in Key Agricultural Sectors of the Fijian Economy" at http://marketdevelopmentfacility.org/?type=publication&posting_id=3688

country teams, ensure consistency in results measurement across the Facility and lead improvement to MRM and WEE together with the Facility-wide MRM and WEE working groups.

While MDF conducts most of its regular MRM in-house, it does outsource data gathering for some studies, particularly larger surveys. In addition, MDF uses STA to provide technical support to the team for particular studies or to conduct particular studies. Financial resources for the outsourcing and STA are included in MDF's annual budget.

Improvements to MRM for Phase II

MDF has established a useful and credible MRM system. This will be carried into Phase II. MDF will further improve several aspects of its results measurement system in Phase II, as follows:

- **Monitoring systemic changes:** MDF has developed a systemic change framework and is working to operationalize the use of it in each country program. As the program matures, it will be important for MDF to further develop its monitoring and assessment of systemic change in each target sector, focusing not only on quantifying results but on qualitatively assessing the program's contribution to long-term inclusive growth in each sector. MDF may also refine how it reports, internally and externally on systemic changes in sectors / strategic engagement areas. Improvements to external reporting will focus on clearly communicating results at this level. Improvement to internal reporting will focus on ensuring the MDF team effectively uses findings on results to improve systemic change pathways and sector strategies.
- **Further operationalizing WEE within results measurement:** During Phase I, MDF developed a WEE framework and integrated it into its RM system. During Phase II, MDF will further embed WEE into partnership monitoring and the assessment of systemic change. This will involve continuing to build staff capacity around integrating WEE with MRM and using the resulting information in the design of partnerships, stakeholder engagement and sector/strategic engagement area strategies. It may also involve refining MDF's internal MRM tools to make it easier and more practical to substantively integrate WEE.
- **Integrating other aspects of inclusion:** MDF includes various aspects of inclusion in its current MRM system. During Phase II, MDF will further develop how it embeds various aspects of inclusion in MRM, making it more thorough and more practical for staff.

During Phase II, MDF will regularly assess the appropriateness of its MRM system and seek feedback from DFAT and other stakeholder on the extent to which MDF results measurement and reporting is meeting their needs. This is expected to lead to regular refinements to the MRM system throughout Phase II.

Annex 6: Women's Economic Empowerment

For the design of MDF II, DFAT requested that particular attention be given to Women's Economic Empowerment. Specifically, DFAT wanted the design to "further strengthen women's economic empowerment and leadership [and] embed the new WEE strategy". Furthermore, topics of inclusion and disability needed to be added to the design as they were not found in the initial MDF program design.

A gender specialist as well as support from a global gender expert were contracted to work with the design team. Their roles were to inform the design team of the key gender considerations, including new developments in the field of WEE. They also led the reframing of WEE within the broader context of inclusion as well as addressed the integration of disability. This annex sets out in detail how gender considerations have been integrated.

BACKGROUND

1. DFAT Policy on Gender Equality

Australia has identified the promotion of gender as both an important right and driver of growth, but also as a factor advancing Australia's national interests and reflecting the country's values of fairness and equality. DFAT defines gender equality as "equal opportunities, rights and responsibilities for women and men, girls and boys". Two important and recent documents inform DFAT's evolving perspective on women's economic development, the Gender Equality and Women's Empowerment Strategy (February 2016) and the Gender equality and women's economic empowerment in agriculture strategy (September 2015).

The Gender Equality and Women's Empowerment Strategy outlines DFAT's three gender equality priorities as (1) enhancing women's voice, (2) WEE, and (3) ending Gender Based Violence (GBV). The strategy recognizes that gender equality and empowering women contributes to growth, development and stability, while economic growth can help reduce inequality between women and men. Yet, economic growth can also have negative consequences for women around increasing women's time burden and GBV. DFAT's WEE strategy focuses on increasing training, education infrastructure and information for women, improving workplace safety and freedom from discrimination, enhancing access to finance and markets, access to family planning services and social protection programs, stimulating leadership, improving the enabling environment for women in business and linking Australian women with global counterparts. Finally, 80 percent of DFAT's investments, regardless of their objectives, should effectively address gender equality issues in their implementation.

The Gender equality and women's economic empowerment in agriculture strategy outlines and focuses on the five domains of WEE, which are defined as (1) economic advancement and increased income, (2) access to opportunities, (3) access to assets, service, (4) decision making authority in different spheres, (5) manageable work load and highlights the importance of addressing agency (choice) and structure (rules, customs, habits). The strategy requires the frontloading of gender analyses and favours the adoption of the DCED guidelines to measure WEE results.

MDF's approach to gender, especially since the adoption of the WEE strategy, has been relatively well aligned with overall DFAT gender strategies, particularly with the systematization of the five domains of WEE. MDF Phase II will further align through increasing activities which address WEE from 60% to 80%, improving the integration of WEE in early analyses (sector selection) and enhancing the inclusion of non-economic factors of WEE in its activities (including GBV).

2. MDF WEE framework highlights

The MDF WEE framework was released in mid-2015 and has pushed the program team to become deliberate in the inclusion of women throughout the project life cycle. It particularly helped bridge the gap between existing theories in WEE and implementation approaches. It was influential in articulating how women can contribute to, and benefit from growth, beginning with understanding where women are in markets, (see figure 1), it defined the domains in which MDF should analyses, understand and advance WEE (see figure 2) and outlined how to build the business case for WEE and subsequent private sector partnerships.

Figure 1: Continuum of women’s economic involvement (from MDF WEE framework)

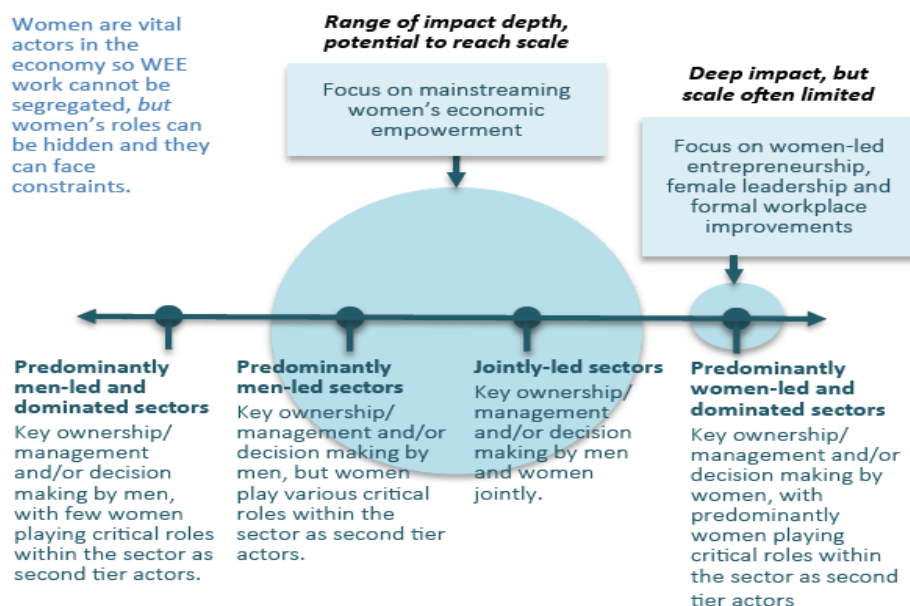


Figure 2: Five dimensions of WEE (from MDF WEE framework)

The five domains of the Women’s Economic Empowerment Framework	
OVERALL OBJECTIVE:	
1.	Economic advancement
STRONGER AGENCY:	
2.	Decision-making authority and influence in different spheres, including household finances and trade relations
3.	Manageable workloads for women
IMPROVED ACCESS:	
4.	Access to opportunities and life chances such as skills development or job openings
5.	Access to assets, services and needed supports to advance economically.

The framework clearly outlined the following key principles as guidance to the program team:

1. MDF will create opportunities for women in women-led activities and leadership position, but will also identify the “missing middle”, women in traditionally male-led industries, and encourage joint-decision making and/or expansion of opportunities.
2. MDF aims to increase women’s participation in the sectors it engages (therefore sectors will be more gender equitable after program interventions).
3. The program seeks to create win-win scenarios between WEE and economic growth, ensuring this through the development of viable businesses cases for WEE.
4. MDF considers both domains of Access and Agency in WEE. The main entry point for influencing WEE is often Access, although the program is committed to identifying and monitoring the Agency domain and, when needed, developing direct or supporting partnerships to address, advance or mitigate potential issues.
5. The program provides gender disaggregated data and makes learnings available to DFAT and the wider development community.

3. New WEAMs framework and other WEE developments

The first influential WEE framework available for MSD programs was published in 2012. Since then, WEE has gained in importance for both donors and market based programs. Experimentation and learnings have accelerated and led to the recent release (soon to be published) of the updated WEE MSD framework called Women's Empowerment and Market Systems, or WEAMS framework.

A major addition in the WEAMS from the original WEE MSD framework in the acknowledgement, based in the practical experience of many projects, that economic interventions alone do not necessarily lead to the economic advancement of women and at times can lead to regressions. The WEAMS framework opens the door to integrating non-economic dimensions of WEE as necessary components of achieving women's empowerment. Such dimensions can include, but are not limited to, unpaid care, social norms or Gender Based Violence (GBV). Non-economic dimensions have not traditionally been included in market based programs as it was often felt to fall outside the scope of the program or could be too difficult for a program based on a facilitation approach to address. Yet, not addressing these dimensions has now been shown to often hinder the achievement of WEE outcomes, therefore making the inclusion, where appropriate, of non-economic factors often necessary for success.

Without ever forgoing the economic rationale in interventions, there is a growing body, although it is still early days, of learning focusing on non-economic factors. Influential developments include:

- a) **Push-pull approach** – the approach acknowledges that certain vulnerable segments of the population cannot take advantage of market opportunities (pull) unless strategies aimed at levelling the playing field – economic or non-economic – are also included (push). Examples can include cash transfers, confidence building, psycho-social support, etc.
- b) **Addressing Gender Based Violence (GBV)** – It has been well documented that economic advancement by women can lead to an increase of violence directed at them. This is often linked to a shift in the balance of power between men and women in the household and/or the community. This should not lead to a reduction in efforts towards WEE, but should be mitigated in programs which address WEE. An understanding of factors of risk leading to GBV and actions to address the corresponding social norms and behaviour can be integrated into programs to address this. DFID has published an effective two-part guide on addressing GBV in market based programs (2015).
- c) **Unpaid Care Work** – Care, defined as activities that serve people in their wellbeing, is important to the well-functioning of society and the economy. Yet the provision of care is not typically recognized as an economic activity, has no economic return associated with it, and generally falls within the scope responsibility of women. Unpaid care is a particularly important factor impacting women's time burden. A recent paper, by Mar Maestri and Jodie Thorpe (2016), on unpaid care work outlined how "where programmes ignore unpaid care, it can be detrimental for both development outcomes and market activities". It highlights, through examples, how addressing social norms in the household as well as working with private sector, for example in offering day-care services for children of factory workers, can lead to win-win outcomes.
- d) **Social norms** – the set of collective behavioural rules that shape social behaviour and expectations are typically key in understanding factors of exclusion which women may face, yet have seldom been addressed in market based programs. A new paper, by Erin Markel et al. (2016), on social norms found that programs that do address these norms do so through a variety of direct and indirect approaches. Indirect approaches, more typical in market based programs, tend to operate within existing social norms and may work well in sectors where women are already well represented. Direct approaches seek to intentionally shift social norms and may become more important in market based programs that aim to increase the presence of women in traditionally male-led sectors or positions. MDF's ambitious goals for WEE will likely lead it to address some social norms directly, which begins with a thorough understanding of the social norms constraints, including community surveillance and sanctioning behaviour, and would likely lead to some non-economic partnerships.

As is demonstrated above, WEE is undergoing a rapid evolution and MDF has been, and should continue to be, a beneficiary of as well as a contributor to the global learning and conversation. It is important for phase two of the program to allow the space and flexibility to experiment and adopt new approaches as they emerge.

4. Inclusion and disability

Inclusion in MSD programs has typically been assumed yet has not always been included in the analyses framework of programs. The “poor” are assumed to always be at the core of MSD programs, but factors which create the condition of poverty, in other words, the factors of exclusion, are not always understood and therefore not necessarily taken into consideration or addressed in implementation.

One of the key factor of exclusion, gender, is the most advanced in terms of framework development, implementer awareness and integration into programs. While many other factors of exclusion such as caste, ethnicity, geography or disability are either not considered or integrated in an experimental and ad hoc approach. There are no frameworks to date outlining a holistic approach to looking at, selecting and addressing different factors of exclusion in market systems.

The initial MDF design documents were written at a time when WEE was similarly approached in an ad hoc manner. In the subsequent years, multiple WEE in market based program frameworks and findings have been emerging, many of which were influenced by the experimentation and learnings from MDF.

MDF Phase II finds itself at a similar situation with broader issues of inclusion and disability. Programs have started to experiment, yet no framework exists. MDF Phase II can therefore contribute to developing the field through experimentation, communication of learnings and participation in communities of practice.

The existing WEE framework can offer a good base from which to look at other aspects of exclusion and should serve as the base from which to experiment.

Observations on inclusion, WEE and disability from Phase I of MDF

WEE integration has been improving in MDF, particularly since the early days of Fiji. WEE is integrated into MDF's project life cycle and project management processes at all levels of evaluation, decision making and monitoring. Yet, lack of understanding by external stakeholders of the level of WEE integration points to some weakness in communicating the WEE perspective and achievements, which is leading to confusion of whether WEE is indeed taken into consideration. Terminology may be confusing - the timing of the Poverty and Gender studies after the main sector assessments seems to throw people off; there needs to be a better explanation of sequencing and, although the integration of gender has been improving in the early sector analyses, this aspect should continue to be strengthened. The framework has been useful for staff but the program is still in the early days of grappling with operationalizing it. A tremendous amount of learning has occurred, particularly in the last six months. The program team feel that the next year will also bring significant learning which could be integrated within an updated framework – hence not rushing to update it yet. There is not yet enough focus on the institutional aspects of WEE such as women's leadership roles, positions within the value chains, bargaining power, etc. although experimentation around these aspects is being undertaken.

Very little work has been done in MSD programs on disability inclusiveness. This presents an opportunity for MDF Phase II to lead the community of practice and experiment with different approaches. As with gender, the difficulty with disability inclusion is building the business case that individuals with disabilities can represent an asset or opportunity to private sector partners. However, as noted above, DFAT has established disability as a key mandate for all programs, and much work has been done (especially by the ILO) which MDF could build on. Some work is emerging in this regard, particularly focused on individuals with disabilities as employees and as an underserved consumer segment. MDF1 has been exploring some interventions focused on disability Inclusion but this has been done on an ad hoc, intervention by intervention basis.

Inclusion, WEE and disability in MDF Phase II

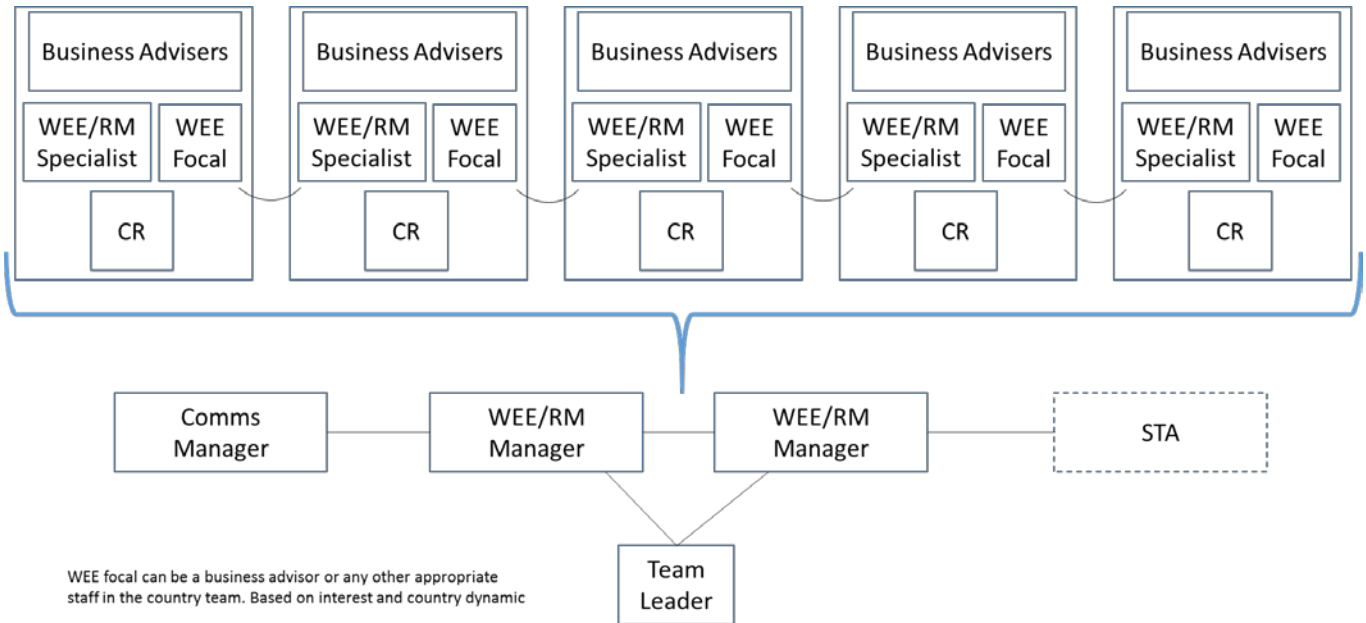
As outlined in the body of the text, MDF has been doing significant work in integrating WEE in the program, but could do more to integrate inclusion and disability in general. The following table outlines the main recommendations for MDF Phase II going forward on all three topics and is broken into three part: (1) continue doing the work as performed in the first phase, (2) strengthen some components from the first phase, and (3) add for the new phase of MDF.

Recommendation	Notes
Continue	
Maintain the current model of gender resourcing, while broadening the scope of the RM and Gender officers to address other aspects of exclusion as appropriate	The model of integrating gender with RM, along with designating a gender focal point per country and then expecting gender to be integrated into every staff responsibility has worked well. Ensure more resources are added if more countries buy in. Bring in STTA as needed
The existing version of the WEE framework will be kept for the first 18-24 months of MDF	It is very new, lots of learning happening and more to come. Let the speed of learning and operationalization slow before updating
Strengthen	
MDF Phase II will ensure that 80% of its investments address WEE issues	An increase from MDF1's targets of 60%. This aligns with DFAT requirements as laid out in the recent DFAT <i>Gender Equality and Women's Empowerment Strategy</i> (February 2016).
The program will continue to include gender throughout all analyses, designs and implementations, but will now expand its focus to analyse and understand the systemic change potential of the work; therefore, bridging the gap between individual interventions and the broader theory of change.	MDF has been doing enough work in WEE to start to assess early impact at the systemic level.
MDF Phase II will seek to test and integrate new learnings in the field of WEE, and make a specific effort to integrate institutional aspects of gender	MDF is already experimenting with and it should continue. For example, looking at the position of women within the value chains, negotiating ability, as well as experimenting with integrating non-economic factors of WEE
MDF Phase II will work in generating better communication of its work in WEE and Inclusion.	This will be done both within existing reporting frameworks, while ensuring WEE and Inclusion are an integral component, not an add-on, as well as with the broader community of practice.
MDF Phase II will broaden its efforts to collaborate (through supporting partnerships) with organizations working on human rights, advocacy and other social aspects of women's empowerment	These can help MDF address issues which, as an MSD program, it may not be well positioned to tackle
Safeguards should be strengthened with the RM system to avoid/mitigate or address negative externalities	Gender Based Violence (GBV), reputation risks, risks linked to social shifts etc. should be understood in the intervention contexts and monitored throughout the partnerships.

Add	
Like gender, disability considerations can be integrated within a broader Inclusion framework throughout the project life cycle from research and analysis through to monitoring and evaluation	Recognize that disability has a very wide definition and can include people with challenges around vision, hearing, intellect and physical abilities, etc. The disability field is new and MSD programs have little experience in integrating this aspect. MDF can lead the field in experimentation and learning.

5. Proposed WEE resourcing in MDF Phase II

Figure 3: Structure for WEE resources in Phase II



Annex 7: Risk Matrix

Risk Rating Matrix					
Likelihood (L)	Consequences (C)				
	Negligible (N)	Minor (MI)	Moderate (MO)	Major (MA)	Severe (S)
Almost Certain (AC)	Moderate	Moderate	High	Very High	Very High
Likely (L)	Moderate	Moderate	High	High	Very High
Possible (P)	Low	Moderate	High	High	High
Unlikely (U)	Low	Low	Moderate	Moderate	High
Rare (R)	Low	Low	Moderate	Moderate	High

Risk	Impact	L	C	RR	Management Response
External					
Existing or new conflicts develop leading to a deteriorating security environment in MDF partner countries, subjecting staff and partners to possible acts of terrorism, abductions, hostage-taking, armed conflicts, intimidation, harassment and safety incidents.	The program's progress might be delayed or halted in affected counties with partners less willing to invest and the team's safety threatened. The facility's management and outcomes will be compromised.	U	MA	MO	<ul style="list-style-type: none"> Program will ensure conflict-sensitivity embedded in program strategy Program team will plan for contingencies and remain alert and proactive in understanding country context and security environment.
An MDF partner country is affected by a natural disaster, such as a flood, volcanic eruption, earthquake or tsunami.	Staff's security would be compromised, halting the progress of interventions. Potential for distortion of markets, undoing the program's progress.	U	MO	MO	<ul style="list-style-type: none"> Program will have emergency procedures for external environmental events with all staff trained in how to handle emergency situations.
The activities of other actors (e.g., partner government policies, other donors or NGOs or private sector organisations) negatively influence MDF interventions.	Partner's willingness to invest and the commercial viability of business models may be undermined thus so would the sustainability and scale of pro-poor results.	U	MO	MO	<ul style="list-style-type: none"> External stakeholder engagement will occur through program team and DFAT managers to understand the ecosystem of donor programs and other development actors. Through embedded RM systems, pro poor results will be communicated to others through communication strategy and AG to highlight effectiveness and credibility of the MSD approach. Specific studies and analysis to be commissioned to inform dialogue.

Environmental						
The facilities interventions actively negatively impacts the local or regional environment contributing to wider climate change issues.	The facility's positive outcomes lack credibility due to negative environmental outcomes that ultimately hurt the target population.	U	MO	MO		<ul style="list-style-type: none"> Program will apply an environmental management strategy. Appropriate monitoring of activities where risk cannot be eliminated.
Technical						
Cross-cutting issues are not properly considered, integrated or addressed in Facility activities, including: <ul style="list-style-type: none"> Gender, Disability, and Greater Inclusion 	Outcomes are not in the greater public interest. This will affect the Facility, the approach and DFAT's reputation and therefore the Facility's relationship and influence with stakeholders. Facility fails to equitably benefit women or people with a disability, or inadvertently contributes to negative outcomes (such as GBV). Facility activities negatively impact on local or regional environment.	U	MA	MO		<ul style="list-style-type: none"> The program will continue their progress from Phase I which includes using and regularly reviewing their gender framework in order to understand challenges to gender equality, integrating gender and inclusion analyses (of which disability is a factor) in interventions and partnership brokering, analysing risks and maintaining informal GESI mentors in each country team and internal staff development on the issue. The program will continue to properly resource the two fulltime RM/ gender advisors for the programs, while broadening their scope to RM and Inclusion officers, of which gender is a key area of focus. Resources and time will be allocated to staff development in gender and inclusion (including disability) and to bringing extra GESI resources to assist teams when needed. Close collaboration with the DFAT gender team based in Canberra and at Posts will occur to maintain MDF's alignment with DFAT's gender equality policy.
The Facility fails to attract and retain suitable expertise for CTs and CLT where relevant skills are in short supply in a particular country or technical area of expertise.	Reduction of the Facility's volume of results, weakness in quality of work due to poor management or technical understanding of MSD approaches, and poor internal/external learning.	P	MA	H		<ul style="list-style-type: none"> The program will maintain its flexible approach towards staff roles, allowing for ease of movement between country programs when necessary. Staffing budgets will be appropriately resourced. Strong staff recruitment and management will be a high priority for the program, beginning early. Internal staff development will be a priority resulting in potential internal candidates for senior positions.
Access to finance is limited for market actors.	Intervention benefits are reduced or negated.	P	MI	MO		<ul style="list-style-type: none"> The program will continue to apply a similar approach as in Phase I to support partners to access private finance but will also look to link potential investments to impact investors in the region.
A shortage of potential Facility partners	Limits the prospects for strategic market innovations; leads to inappropriate partnerships	R	MA	MO		<ul style="list-style-type: none"> The program will remain flexible and engage with a full range of market actors to allow for a range of interventions, using the same approach it has in other thin markets.
Implementation and monitoring experience in one country fails to inform learning in other countries.	Lessons learned not shared between or beyond Facility. Appropriate data not collected or analysed. Mistakes repeated. Facility attribution / contribution difficult or impossible to quantify	U	MI	L		<ul style="list-style-type: none"> Integrated RM approaches will continue from Phase I to Phase II, maintaining that all staff have a responsibility to effective monitoring and evaluation. Staff and the Communications Manager role will continue to link programs for learning opportunities. Refocused Engagement and Learning Agenda will see additional case studies and lessons learned shared across the program and DFAT.
Failure to develop constructive working relationship between industry and government (vested interests are not managed / utilised)	Weak / fractious relationships delay or halt decision making. Facility loses direction and local buy-in. Sustainable outcomes threatened.	U	MI	L		<ul style="list-style-type: none"> The program will continue with a similar approach to Phase I, by which they partake in extensive 'networking in sectors' to understand its functions in addition to research that is shared across governments, banks and other interested actors.

Fiduciary					
Misappropriation of funds by Facility partners e.g. fraud or corruption.	Reputational risk for the Facility and DFAT. Facility is compromised and could be subject to repercussions.	P	MA	H	<ul style="list-style-type: none"> Program will apply the DFAT zero tolerance fraud and anti-corruption policy. Program will avoid any unnecessary risk in partnerships by using mechanisms that emphasis co investment (skin in the game) and milestone payments based on deliverables.
Business interests and political interests overlap to pressure or manipulate MDF teams to engage in unsuitable partnerships	Reputational risk for the Facility and DFAT Limited pro-poor impact of interventions Facility is compromised and could be subject to repercussions.	U	MA	MO	<ul style="list-style-type: none"> Careful, transparent and rigorous selection process for partners Continuous oversight by CLT of deal making process and systems of rotation between different sectors for staff to ensure they are not coerced.
Reputational					
Facility fails to be relevant for sufficient number of poor people in relation to job creation or creating opportunities for additional income	Economic objectives may be achieved but reinforce status quo and wealth divide; reputation of MDF model impacted as developmental objective not achieved. This will lead to reduced stakeholder engagement and support.	U	MA	MO	<ul style="list-style-type: none"> Program will apply similar approach used during Phase I which has been effective. Sector strategies will be developed to include inclusive growth across a variety of cross cutting issues.
Acknowledging and allowing for failure not accepted by DFAT, partner government or other stakeholders.	Stakeholder buy-in and engagement reduced leading to direct or indirect barriers to implementation and reduction in Facility outcomes. Unsuccessful interventions are artificially sustained.	U	MI	L	<ul style="list-style-type: none"> The program employ a communications strategy to effectively disseminate information on the MSD approach and MDF results to DFAT and external stakeholders. Stakeholders will be kept informed on MDF's process and results aligned with DFAT strategies and policies.
Management					
CLT is unable to manage and maintain integrity of geographically dispersed teams.	Knowledge / information not effectively shared. Resources wasted and / or duplicated. Facility lacks coherence.	U	MA	MO	<ul style="list-style-type: none"> The program will continue its approach to properly staffing and resourcing the CLT that it began in Phase I. Refocus on engagement and learning agenda will support cross regional learning and the continued use of the MIS (mango apps) will provide an online platform for information dissemination.
Accession of new countries to/ secession of existing countries from the MDF model is not managed effectively.	Benefits of Facility reduced through insufficient planning or resources. Inefficient allocation of resources. Reputational risk to DFAT and MDF approach.	U	MO	MO	<ul style="list-style-type: none"> The program will establish a notional schedule of activities for program establishment including induction for the new DFAT manager.

<p>Transition plan is poorly administered and managed.</p>	<p>Staff turnover increases between phases leading to a reduction in corporate memory/ learning and increased start up period for Phase II, ultimately impacting overall results.</p> <p>Partnerships are delayed resulting in lack of momentum, reputational risks for the program and DFAT.</p> <p>One or more country programs delayed due to mobilisation delays.</p>	<p>P</p>	<p>MO</p>	<p>H</p>	<ul style="list-style-type: none"> Phase II design and procurement will specify some arrangements including a transition plan covering key roles and core functions of MDF. MDF CLT will provide direction to staff on the likelihood of their prior engagement. DFAT will ensure procurement deadlines are met in a timely manner to ensure a smooth transition between phases and management.
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