

Inclusive Market Systems Development

**Sustainable growth
for everyone**

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Executive summary

1. Economic growth, and the markets that enable that growth, are the most powerful contributors to poverty reduction. Research shows that around 80% of the difference between the poverty reduction rates of countries is attributable to variances in economic growth.¹ For example, poverty in Vietnam halved between 1993 and 2002 – from 58% to 29% – predominantly due to annual growth rates of 6% and a vibrant economy.²
2. Economic growth and markets are important for everyone. But for the poor, who have fewer resources, weaker informal networks and often limited access to services, markets are especially vital. They provide the direct means through which the poor participate in economic activity: as producers (small-holder farmers, micro-entrepreneurs), as employees (labourers and workers) and as consumers (buyers and beneficiaries of goods and services).
3. However, this straightforward message – that markets and growth are good for all, including the poor – does not mean that all types of economic growth are equal. Where markets work exclusively or inefficiently, people who are poor have fewer options to benefit directly from economic development and growth can be concentrated within elite groups. Between 1981 and 2001, only 1.5% of global economic growth benefited people on less than US\$1 per day (even though this group constituted one-third of the world population at the time).³
4. Unless markets are inclusive, they will only reach market-ready stakeholders (experienced participants in market systems) and not those who need them most. Inclusive market systems are those that engage and benefit a range of actors, including the poor, women, youth, ethnic minorities and/or other marginalised groups, who are often excluded from traditional market systems. Inclusive markets break down access barriers and offer the poor the things they need – livelihoods, finance, goods and services – to increase their incomes and well-being, ultimately lifting themselves out of poverty.
5. World Vision's experience has shown that market-based interventions can often have too narrow a focus on macro-forces and be targeted too high at system-level change and, in the process, they can neglect to build the productive capacity of the most marginalised so that they can participate in markets.
6. Pro-poor Market Systems Development, therefore, should explicitly and intentionally include the poor and marginalised while also developing the market systems around them. World Vision Australia's approach – Inclusive Market Systems Development – builds participatory, inclusive and pro-poor economic markets to ensure that the benefits of improved market systems are shared by those who would be otherwise excluded.

7. The key point of difference of Inclusive Market Systems Development is that it complements indirect business-focused facilitation with direct farmer-focused facilitation to broaden market access and participation. In other words, it not only seeks to facilitate change indirectly by engaging change agents at the macro-market systems level, but also simultaneously involves direct facilitation interventions that enable the most marginalised to benefit.
8. Inclusive markets are essential to achieving World Vision's goal for every child: life in all its fullness. World Vision recognises that child well-being begins with sustained family well-being, which is largely driven by household economic security. In World Vision's experience, there is a strong positive correlation between increases in household income and improved outcomes for children.
9. While inclusive market-based approaches play a critical role in poverty reduction and child well-being, they are not a panacea for all development issues. Market-based approaches, which naturally operate within market systems, need to be complemented by other interventions in household, education and environmental systems to address society-wide development challenges. For example, programs on gender-based violence, early childhood education, sustainable natural resource management and water infrastructure can complement market-based approaches to empower families to lift themselves out of poverty.

Table of contents

Glossary	5
Acknowledgements	8
Introduction	9
Objectives of this paper	9
Defining Market Systems Development	10
Towards Inclusive Market Systems Development	11
Part 1: Market Systems Development – state of play	14
1.1 Current market dynamics and trends	14
1.2 The Australian Government’s experience	16
1.3 World Vision’s experience	21
Part 2: Business case for Inclusive Market Systems Development	24
2.1 Goals of Inclusive Market Systems Development	24
2.2 Inclusive market systems and poverty reduction	25
2.3 Inclusive market systems and women’s economic empowerment	27
2.4 Inclusive market systems and child well-being	29
2.5 Inclusive market systems and the Sustainable Development Goals	30
2.6 Barriers to and limitations of inclusive market systems	31
Part 3: Towards a model for Inclusive Market Systems Development	35
3.1 Emerging best practice	35
3.2 Lessons learned from World Vision’s experience	39
3.3 Tips for implementing an inclusive approach	42
Part 4: Call to action	44
4.1 What this means for the Australian Government	44
4.2 What this means for non-government organisations	45
4.3 What this means for businesses and the private sector	46
4.4 Partnering to build inclusive market systems	47
References	48

Glossary

Business-focused (indirect) facilitation	The specific actions of a facilitator to be a catalyst for change in the market system by influencing structural changes at the macro, meso- or even micro-system level, while not assuming any long-term market function themselves
Child well-being	The realisation of child rights and the opportunity for every child to experience life in all its fullness, through good health, education and positive social relationships
Farmer-focused (direct) facilitation	The specific actions of a facilitator to build the productive capacity of their target group (for the purposes of this paper, farmers), through training and capacity building, transfer of assets or technology, information provision and collective action, among other interventions; to empower them to more effectively engage in and benefit from the market system
Inclusive market system	A market system that involves and benefits a range of actors including poor and marginalised groups (including women, youth, the ultra-poor and persons with a disability) who are traditionally not participants in the market system
Inclusive Market Systems Development	An international development approach that seeks to improve the effectiveness of market systems and the participation of poor and marginalised groups within them through a mix of direct and indirect facilitation, equipping those traditionally excluded from markets with the skills, information and/or resources needed to access and benefit from markets
Intervention	A defined set of time-specific activities or actions through which facilitators seek to create positive change in a market system towards a defined outcome or goal
Local Value Chain Development	A producer-focused approach to economic development that seeks to improve farmer and producer access to product-to-market systems or value chains and increase their profitability. It often involves helping vulnerable producers and farmers to analyse markets, gain information, build relationships and act collectively to overcome market barriers and increase profits

Marginalised groups	People who face particular disadvantage due to their limited social status, income, bargaining power, knowledge and political influence, including but not limited to women, youth, people with a disability, and ethnic, religious and sexual minorities. Belonging to such groups, or even being perceived as belonging to them, heightens the risk of reduced access to services and goods, including access to employment, finance and markets
Market-ready individuals	People who are actively engaged in market systems, or who have few or limited barriers to engage in market systems, because they enjoy high productive capacity and access to finance and markets
Market system	A multi-function, multi-player arrangement that includes a dynamic combination of people, relationships, functions and rules that determine how a particular good or service is produced, accessed and exchanged
Market Systems Development	An international development approach that seeks to address the underlying causes of market dysfunction through business-focused (indirect) facilitation so that they operate more effectively, sustainably and beneficially for the poor, reducing poverty and generating widespread, sustainable change through expanded livelihood opportunities (also referred to as the Making Markets Work for the Poor (M4P) approach)
Non-market-ready individuals	People who have not engaged meaningfully in market systems before, or who face significant barriers to engage in market systems, because they have low productive capacity and limited access to finance and markets; often poor and/or marginalised
Participation	Engagement in the market system as a producer, buyer, seller and/or consumer (also referred to as economic participation)
Poor groups	People who lack sufficient money to access the goods and services they need; includes 'strugglers' (those who have a per capita household income of up to US\$10 a day but have a 40% risk of falling back below the day poverty line), as well as people living in poverty (those living on US\$1.90 a day at 2011 international prices)
Productive capacity	The ability of individuals to produce goods and services as inputs to a market system, as determined by their physical ability, skills, knowledge and resources
Pro-poor	An outcome that benefits the poor proportionately more than the less poor, or at a minimum equally as well as the less poor

Systemic change	Transformations in the structure or dynamics of a market system to improve its overall function and, subsequently, and generate sustained improvements in the opportunities for large numbers of people
Thin Markets	A market with a low number of buyers and sellers in the developing context, and/or a market where the buyers and sellers have fragmented interactions as a market system
Ultra-poor	A group of people who eat below 80% of their energy requirements despite spending at least 80% of their income on food
Value chain	The full range of activities (including design, production, marketing and distribution) and their associated actors (including farmers/producers, processors, distributors, wholesalers and retailers) that are directly or indirectly involved in bringing a product or service from its conception to its end use in the market
Women's economic empowerment	When a woman has both the ability to succeed and advance economically and the power to make and act on economic decisions

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Introduction

Objectives of this paper

While economic growth and functioning markets are critical drivers of poverty reduction, high rates of inequality and pervasive barriers to market access undermine the impact of growth on poverty.⁴

Only inclusive markets can sustainably reduce poverty on a large scale, enabling all segments of a population to benefit from increased economic activity.

Inclusive Market Systems Development is World Vision Australia's approach to ensure that all people living in poverty can access, participate in and benefit from improved market systems. We believe that market systems are most effective when they are inclusive, participatory and sustainable, accompanied by the elimination of the social and economic barriers facing marginalised and poor groups.

When developing market systems, World Vision therefore contends that the most effective approach combines the essential elements of large-scale public and private sector interventions with the community access and direct facilitation ability of local NGOs.

The remainder of this section provides a brief background on the approach and rationale for traditional Market Systems Development, and then compares it to the adapted model, Inclusive Market Systems Development.

This paper is structured into four sections.

Part 1 outlines the status of market systems globally and summarises the experience of the Australian Government and World Vision Australia in Market Systems Development.

Part 2 articulates the business case for making markets more inclusive, focusing on its benefits for poverty reduction, women's economic empowerment and child well-being.

Part 3 explains World Vision Australia's model for Inclusive Market Systems Development, drawing on emerging best practice and lessons learned from a review of the market systems literature.

Part 4 highlights the implications of the inclusiveness agenda for the market systems work of the Australian Government, non-government organisations and the private sector, including opportunities for cross-sector collaboration.

Defining Market Systems Development

Improving the lives of the poor includes transforming the environment around them, including the market systems within which they are located. The Aid and Development industry recognises Market Systems Development as an approach that embraces this reality and seeks to 'develop market systems so that they function more effectively, sustainably and beneficially for poor people, building their capacities and offering them the opportunity to enhance their lives'.⁵ Here, a market system is used to refer to the ecosystem in which buyers and sellers make transactions; they are multi-player, multi-functional and inter-connected and inter-dependent systems.

Market Systems Development – or Making Markets Work for the Poor (M4P) – involves understanding and intervening in market systems in developing countries to address the underlying causes of market dysfunction to reduce poverty and create large-scale, lasting benefits for the poor.

The logic is that the rural poor depend on markets as both consumers and producers, so strengthening markets – especially agricultural value chains and commodity sectors – helps secure higher incomes and access to goods and services for the poor, providing a sustainable pathway out of poverty. The logic further extends to the mechanisms by which this change should be brought about. It is generally accepted that a Lead Firm or Private Sector Partner should be enlisted as the private entity that has a vested commercial interest in the market change being sought. In most cases, an Intermediary Service Provider is then used as a conduit for the systems change. While all Market Systems Development projects differ slightly, the fundamental principle remains the same: using commercial forces within a market to bring about the intended change.

In this model, the role of donors and implementers is to fund and conduct research that identifies root causes of constraints in a market system, working with Lead Firms to co-design a commercially viable solution. At the macro-level, successful M4P projects have managed to radically redefine entire export industries through a blend of public and private partnerships. One of World Vision's strengths in Inclusive Market Systems Development is our focus on the micro- and meso- levels, where our community access and reputation allows us to develop local partnerships and business models in such a way that they can target more marginalised producers through otherwise hard-to-engage Intermediary Service Providers.

Principles of Market Systems Development

While market-based approaches to development are highly adaptable and flexible, they share several core characteristics in common:

- **Systems thinking.** The approach recognises that market actors, from large-scale businesses to informal sector operators and poor consumers, do not operate in isolation of each other but are part of an interacting adaptive system. It utilises systems analysis to diagnose and address the structural and social barriers that face poor and disadvantaged people in improving their position within markets.⁶

- **Scaling for impact.** Market Systems Development aims to change the way that industries and whole sectors of the economy work for the poor. Interventions may start small, targeting specific market actors, but will be part of a broader strategy to make markets work better for a larger number of poor people.
- **Facilitation.** As a market-based approach, Market Systems Development involves facilitating change that improves the way that markets work for the poor rather than directly delivering solutions. The aim is to stimulate change in the market system through partnerships with Private Sector Partners and Intermediary Service Providers, without becoming part of it.
- **Iteration and adaptive management.** The approach is pragmatic and recognises that market systems are complex and do not always respond as expected, so programs are monitored closely and strategies iterated and refined over time, building on what works and changing what does not to maximise outcomes.
- **Sustainability.** The focus is on continuation of market services to the poor rather than just the sustainability of individual market actors within that market system, maintaining social wealth and inter-generational well-being.

Working in partnership with market forces, however, is not a concept limited to Market Systems Development. Outside of this approach there has also been a general shift in development programming towards approaches that leverage markets to reduce poverty. Market Systems thinking is embedded in the Sustainable Development Goals, for example, which call for inclusive and sustainable economic growth and decent work for all (Goal 8), inclusive industrialisation (Goal 9) and responsible consumption and production (Goal 12) as a means of eliminating poverty and protecting the planet. The Addis Ababa Action Agenda on Financing for Development is also explicit about the importance of mobilising resources outside of Official Development Assistance, including inviting the private sector to engage and invest as partners in the development process.⁷

Towards Inclusive Market Systems Development

Inclusive Market Systems Development is an emerging approach that World Vision Australia has developed based on the recognition that markets will only reach 'market-ready' smallholders if an intentional effort is made to include others.

Inclusive market systems are those that involve and benefit a range of actors including poor and marginalised groups (such as women, youth, the ultra-poor and persons with a disability) who are who are often excluded – or even exploited – by traditional market systems.⁸

It is vital that market systems programs do not limit themselves to 'market-ready' individuals, but reach marginalised people who have not engaged meaningfully in markets before. World Vision Australia believes that poor and marginalised groups must be able to actively participate in markets and share in their rewards if we are to realise the potential of market systems to eliminate poverty.

Why we need to make market systems more inclusive

Value chains and market systems can exclude the extremely poor and other marginalised groups, intentionally or otherwise. Between 1981 and 2001, world GDP increased by US\$18,691 billion; however, only 1.5% of this growth benefited people on less than \$1 per day (even though this group constituted one-third of the world's population at the time).⁹ The incomes of the poorest 10% of people increased by less than \$3 a year between 1988 and 2011, while the incomes of the richest 1% increased 182 times as much.¹⁰ In some Latin American countries, the poor, while still benefiting from growth, have done so proportionately less than the average population.¹¹

People living in poverty often face structural barriers that prevent them from accessing markets and employment opportunities, financial services and credit, land and property, market information and new technology. Social barriers such as discriminatory social norms can compound these economic barriers for marginalised groups such as women, people with a disability, and religious and ethnic minorities, among others.

As a sector, we must ensure that those currently excluded from the market system are not, at the end of the intervention, still excluded from a market system with improved functionality.

Principles for making markets more inclusive

In addition to the principles for Market Systems Development outlined earlier – systems thinking, scaling for impact, facilitation and iteration – Inclusive Market Systems Development is guided by the following principles:

- **Equity.** Inclusive market systems create more opportunities for upward mobility for more people. All segments of society, especially the poor, women and other marginalised groups, are able to take advantage of these opportunities. Within these markets, inequality decreases rather than increases.
- **Participation.** A key focus of the inclusive approach is to break down barriers to market access so that marginalised groups are able to participate fully in economic life and engage in markets as workers, consumers, and business owners.
- **Farmer-focused (direct) facilitation.** In circumstances where the equity and participation of the most marginalised is unattainable through indirect system-level change, World Vision's approach to Inclusive Market Systems

Development calls for intentional outreach to these groups through direct facilitation methods over and above the market systems interventions at the macro- and meso-levels. There are times where the productive capacity of the most poor is simply too far removed from the market system. In these cases, even intentional efforts to close the gap through private sector engagement alone is sometimes not enough. It is then that training, support and facilitation need to be delivered directly to the marginalised.

When applied, these additional principles help ensure that the benefits of market systems not only flow through to the poor, but that the poor directly engage with and influence these systems to reap benefits. In this sense, Inclusive Market Systems Development expands the opportunities for more broadly-shared prosperity, especially for those facing the greatest barriers to advancing their well-being.

Part I: Market Systems Development – state of play

This section provides an overview of the inclusiveness of market systems around the world and tracks the evolution of the Australian Government's and World Vision Australia's efforts to make markets work more effectively for the poor.

I.1 Current market dynamics and trends

Market systems vary considerably by industry, geography, demography, climate and culture, among other factors. For example, in Rwanda, market systems are often agriculture-based and labour-intensive. Rwandan farmers have limited access to market and input information and, consequently, productivity is low, one-third that of Ghana.¹² In Bangladesh, Cambodia, Indonesia, Myanmar and Sri Lanka, lack of access to finance is a major obstacle for small and medium-sized enterprises that have outgrown micro-finance but are considered too risky for traditional financiers. In many economies in Africa, the absence of commodity exchanges, which serve as a pooling mechanism to reduce price volatility, means that producers and small-holder farmers are particularly vulnerable to economic shocks.¹³ For example, Ethiopian farmers experienced record-breaking grain harvests in 2001, but were devastated by an 80% price collapse in 2002.¹⁴ Compare this to many developed country markets, which have established insurance, forecasting and protective mechanisms in place.

While each market system is different, due to its unique ecosystem of producers, buyers and sellers, it can be useful to identify economic meta-trends to understand the health of market systems in context. One clear trend is that global growth is slowing.¹⁵ Weak economic growth is reducing the capacity of markets to provide decent work, affecting the quantity and quality of jobs and the way that they are distributed, especially in developing countries. Over the medium term, the global economic slowdown is expected to:

- contribute to a slower rate of improvement for the average standard of living
- increase the persistence of vulnerable employment (own-account workers and contributing family workers)
- reduce the potential for real wage growth
- lower net job creation, making it more difficult to find employment.¹⁶

Weak global growth is already affecting access to employment, markets and finance around the world. To combat widespread decent work deficits, it is important to increase the effectiveness of growth by making it more inclusive.

Access to employment around the world

According to the International Labour Organization, the global unemployment rate is expected to fall slightly to 5.5% in 2018 (from 5.6% in 2017); however, the total number of unemployed is expected to remain above 192 million.¹⁷ Extreme working poverty remains widespread, with more than 300 million workers in emerging and developing countries having a per capita household income or consumption of less than US\$1.90 (PPP) per day.

Young people are much less likely to be employed than adults, with the global youth unemployment rate standing at 13%, or three times higher than the adult rate of 4.3%.¹⁸ The challenge is particularly acute in Northern Africa, where almost 30% of young people in the labour market are without a job.¹⁹ Women are also less likely to be employed than men and, when they are employed, women are paid less on average than their male counterparts for doing the same job.

Vulnerable employment is on the rise, affecting three out of four workers in developing countries.

In developing countries, which are home to 82% of the world's working age population, most people work but they struggle to earn income because of what is commonly defined as vulnerable employment (own-account work and work in family businesses), often in the informal sector where salaries are lower and working conditions poorer. Globally, around 42% of workers (or 1.4 billion) are estimated to be in vulnerable forms of employment.²⁰

Access to markets around the world

People living in rural areas in developing countries often lack access to critical services (such as transportation, communication and financial services) and face higher entry and transaction costs (for material inputs such as seeds and fertilisers) that limit their market access. Three quarters of the extreme poor in Africa live in rural areas.²¹ In Vietnam, 95% of the poor live in rural areas.²² For these groups, limited access to markets, whether due to poor infrastructure, limited links to buyers and sellers or insufficient information, prevents access to both labour and capital.

The incidence of poverty is also much higher in rural areas. For example, just 4% of the urban population in East Asia live on less than US\$1.25 a day, while more than 20% of the rural population live in extreme poverty. In Sub-Saharan Africa, almost 50% of the rural population live in extreme poverty compared to one third of the urban population.²³

Access to finance around the world

Three quarters of the world's poor are 'unbanked' and do not have access to formal financial institutions.²⁴ The credit gap for formal and informal small and medium-sized enterprises in developing countries is estimated to be US\$2.6 trillion.²⁵

On almost every global indicator – including access to finance – women are more economically excluded than men.²⁶

In developing economies, women are 20% less likely than men to have an account at a formal financial institution and 17% less likely to have borrowed formally in the past year.²⁷ Even when women have access to financial services, it may be in name only. One study in Pakistan found that although accounts might be opened in the name of a woman, the decision-making authority around the use of those funds often remained with a male relative.²⁸

I.2 The Australian Government's experience

Within the development sector and the Australian Government there was some initial scepticism about the role of the for-profit sector in contributing to development outcomes such as eliminating poverty, which were primarily considered the responsibility of not-for-profit actors. There was also a view that those living in poverty rather than the proprietors of businesses or market systems should be the direct beneficiaries of Australia's development assistance.

In 2014, the Australian Government reshaped the purpose and focus of Australian development policy to emphasise the critical contribution of economic development. Australia's development policy now elevates the dual goals of stimulating growth and reducing poverty, and defines the purpose of Australian aid as the promotion of 'Australia's national interest by contributing to sustainable economic growth and poverty reduction'. A practical example of this commitment is the recent reworking of standardised indicators across the Australian NGO Cooperation Program, the Monitoring, Evaluation and Learning Framework (MELF) indicators.²⁹ This results measurement framework, which is reported back to the Australian public, measures key impacts data including the value of private sector investment used and the number of local in-country partners reporting an increased capacity. Such tangible indicators are evidence of Australia's commitment to targeting local market actors and tracking their business performance as part of a larger systemic approach.

In recognition of the role of trade in reducing poverty, the Foreign Minister launched Australia's aid for trade strategy in 2015 to support developing countries in their efforts to trade and prosper and be a catalyst for poverty reduction. In the strategy, the Australian Government committed to increasing its aid for trade funding to 20% of annual aid expenditure by 2020.³⁰

The Australian Agency for International Development and, more recently, the Department of Foreign Affairs and Trade, have implemented several landmark programs aimed at reducing poverty by stimulating economic growth through engaging directly with private sector market actors. The development of the programs has been collaborative and inclusive. Large, international managing contractors who hold significant Market Systems Development portfolios have played their part, and World Vision is proud to have contributed at multiple stages

of the journey. In particular, World Vision’s Social Entrepreneurship and Economic Development (SEED) unit, established in Melbourne just over 10 years ago as World Vision International’s centre of excellence in economic development, has been actively involved in helping shape Australia’s response.³¹

Today, Market Systems Development Programming is becoming a key feature of Australia’s development assistance, with some of Australia’s first market systems projects now entering second phases and several new programs commencing. These span a wide variety of geographies and economies, from the more developed market systems of South and South East Asia to the relatively ‘thin’ and nascent markets of Timor–Leste and the Pacific. The Australian Government achieved its target of increasing aid for trade investments to 20% of the total aid budget in 2016–17, far earlier than its 2020 deadline.

The Australian Government currently funds a portfolio of programs and facilities focused on Market Systems Development, each of which is at different stages of maturity. The flagship facilities are summarised in the table below.

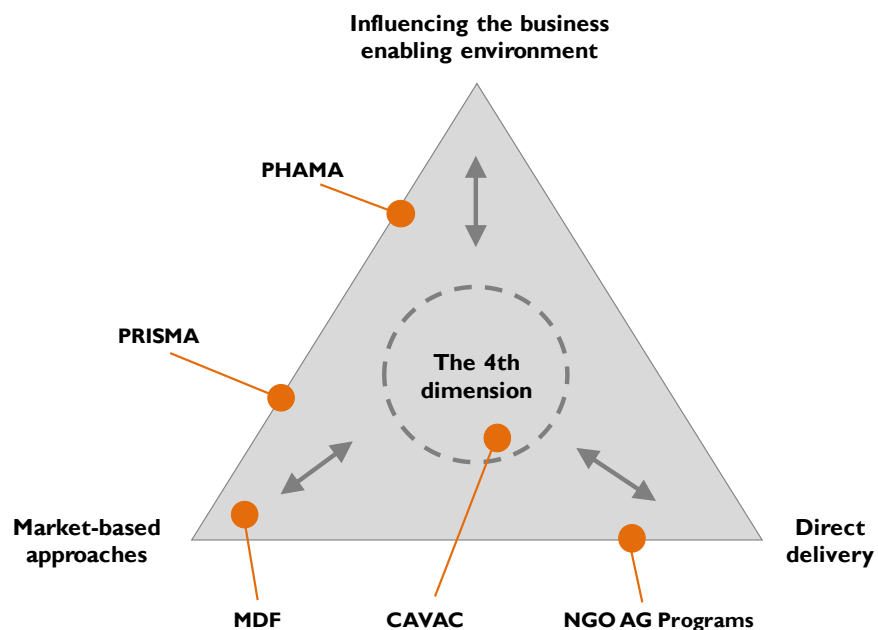
Table 1: Australia’s Market Systems Development Programming (2017–18)

Project	Location(s)	Description
Market Development Facility (MDF), Phase 2	Fiji, Timor–Leste, Pakistan, Sri Lanka, Papua New Guinea	MDF Phase 1 ended in June 2017. In Phase 2, the MDF is supporting businesses with innovative ideas, investment and regulatory reform to increase business performance and stimulate economic growth.
Australia–Indonesia Partnership (AIP) for Rural Development (which includes Promoting Rural Income through Support for Markets in Agriculture, or PRISMA)	Indonesia	AIP–Rural’s PRISMA Program is on track towards its goal of increasing the net income of 300,000 smallholder farmer households in eastern Indonesia by 2018. It has done this by improving the farmers’ access to new markets, better inputs, know-how and technology. PRISMA 2 is now close to commencing.
Cambodia Agricultural Value Chain program (CAVAC), Phase 2	Cambodia	From 2016–21, CAVAC will increase the productivity and incomes of small farmers and trade in milled rice and other crops by strengthening market systems and investing in irrigation infrastructure.
Australia–Middle East NGO Cooperation Agreement (AMENCA3)	Palestinian Territories	Running from 2015–20, this AU\$40m phase is aimed at improving the competitiveness of Palestinian farmers, helping them connect to markets by improving market readiness and addressing gaps and blockages in agricultural value chains.

Project	Location(s)	Description
Farming for Prosperity (TOMAK)	Timor–Leste	A AU\$25 million agricultural livelihoods program from 2016–21 with the purpose of ensuring that rural households live more prosperous and sustainable lives. World Vision is an implementing partner.
Pacific Horticulture and Agriculture Market Access (PHAMA)	Fiji, Tonga, Samoa, Vanuatu and the Solomon Islands	This program from 2011–17 provides practical and targeted assistance to help Pacific island countries manage regulatory aspects associated with exporting primary and value-added products. A new phase – PHAMA Plus – is proposed which builds on this improved market access to support farming households to increase the quantity and quality of their agricultural, horticultural and cultural exports.
Investing in Infrastructure (3i)	Cambodia	A AU\$27 million program that provides investment subsidies to local infrastructure companies.
Strongim Bisnis	Solomon Islands	A AU\$12.5 million project that will strengthen value chains and markets by developing and testing new business models, and reduce the risk to new investors through risk or information sharing, among other activities. The project will focus on tourism, cash crops (cocoa and coconut products) and inter-island shipping.
Aus4Equality	Vietnam	A AU\$35 million project from 2017–22 to empower local women to better engage in agriculture and tourism businesses. It aims to increase the incomes of 40,000 self-employed women farmers and small entrepreneurs and contribute to the creation of 4,000 full time positions for women.

The Australian Government’s framework for Market Systems Development has evolved with its experience. For example, World Vision collaborated closely with the Department of Foreign Affairs and Trade in 2015, under the leadership of former Manager of the SEED Unit Chris Rowlands, the year when the Department’s Senior Agriculture Sector Specialist, Jim Woodhill, produced what is now known as the ‘4th Dimension of Market Systems Development in Agriculture’ (see Figure 1). The model observes that we can break down donor interventions in agricultural development into three dimensions: 1) influencing the business enabling environment; 2) direct investment; and 3) market-based approaches.

Figure 1: 4th Dimension of Market Systems Development



Interventions focused on the business enabling environment involve government and business policy reform, aimed at improving the cohesion and overall functionality of the larger economic system within which target actors operate. Direct delivery interventions are traditional donor-led programs that target actors overtly, providing them with essential goods or services in the absence of access to a functional market system. On the other hand, market-based approaches are those that co-create solutions with market actors through Primary Service Providers to help address market problems, thereby involving target actors and intermediary support service providers in the very solution itself.

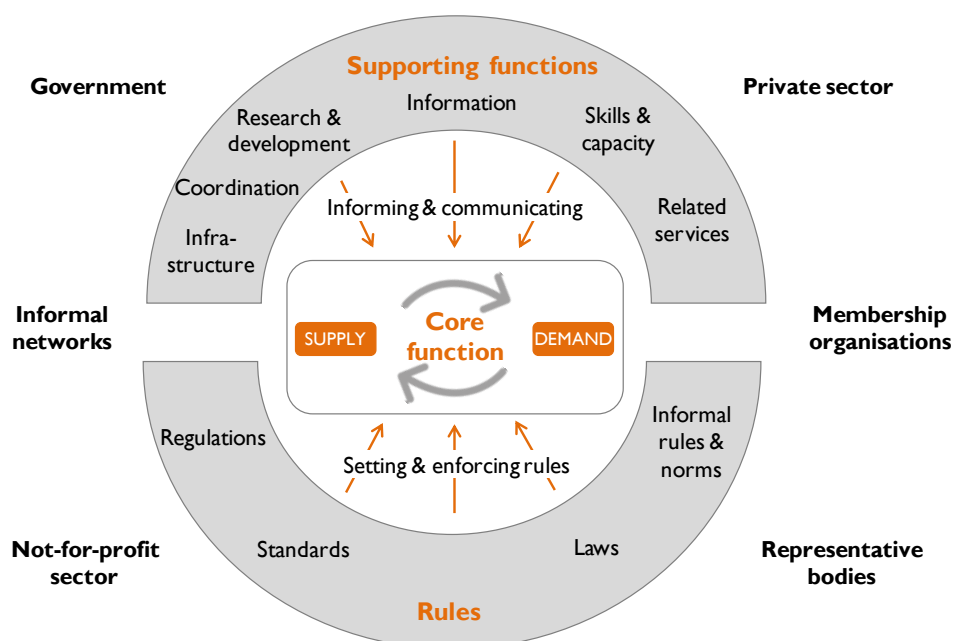
Woodhill then went on to posit a fourth dimension whereby each of these contextually essential interventions strategies worked together as part of a more holistic strategy. At the time of development, Woodhill mapped Australia's largest agricultural programs against this framework.

The Australian Government, through the Department of Foreign Affairs and Trade, is today a leading supporter of Market Systems Development programming across the globe, with its regional focus being countries closest to home in the Asia Pacific region. The Department directly funds programming that adopts the M4P methodology. The M4P approach grew out of the market development work of the United Kingdom and is largely credited to the Springfield Centre with funding from the Department for International Development. It focuses not only on locating and understanding the poor in market systems (analysis) but also how to bring about effective change to serve the needs of poor people (action).

To understand market challenges for the poor and to identify the system-level changes required to address them, M4P divides the market system into three parts (see Figure 2):

- the core (where providers and consumers exchange goods and services)
- the rules (formal or informal rules which shape behaviour)
- the supporting functions (such as information, skills, logistics, marketing).³²

Figure 2: M4P stylised view of the market system³³



Informed by an analysis of these components, the approach focuses on stimulating behaviour change of market players in a given industry or sub sector – public and private, formal and informal – so that they are better able and motivated to perform important market functions effectively, which will ultimately benefit the poor.

In 2017, the Department of Foreign Affairs and Trade released an operational guidance note on Market Systems Development, outlining key features of its approach and sharing early lessons learned from its programming.³⁴ Also in 2017, the Australian Government released its Foreign Policy White Paper which reaffirmed the Government’s market systems approach to poverty reduction, stating that it will ‘promote economic reform and inclusive growth, reduce poverty and address inequality’ through its development partnerships, especially in South East Asia.³⁵ In another section, the White Paper says that Australian aid, including aid for trade, will be used to ‘catalyse sustained and inclusive economic growth to help reduce poverty’. This theme of inclusive growth recurs throughout the White Paper. In fact, inclusive growth and poverty reduction are now listed as one of four tests for allocating Australian aid, alongside whether the project is in Australia’s national interest, whether it adds value and leverages partner funding, and whether it represents value for money.

I.3 World Vision's experience

World Vision has significant experience and expertise in designing and implementing market systems programs.

As a child-focused agency, World Vision embraces economic development, recognising that creating jobs across the economy improves household incomes, enabling parents to better provide food and nutrition, education and healthcare for their children. When there is improvement in decent work along with positive change in the incomes and assets of parents, it paves the way towards enhanced household well-being, including for children.³⁶

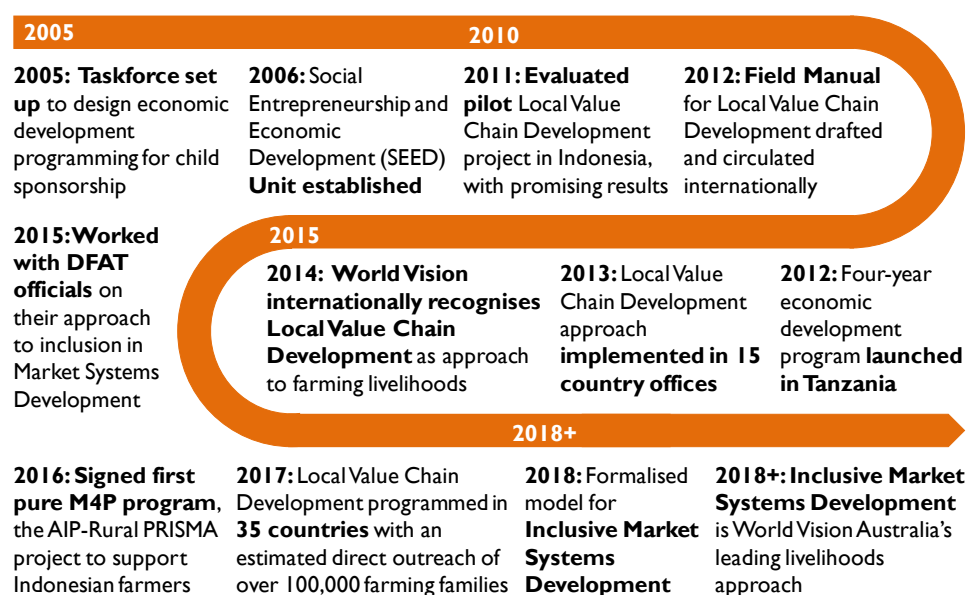
World Vision Australia's economic development programs seek to enhance income and growth opportunities for farmers, women, youth and small business owners to manage natural resources sustainably and to improve living standards of those living in poverty in regions as diverse as Southern and Eastern Africa, South East Asia, the Pacific, the Middle East and Eastern Europe. This work spans small business financing and development, employment pathways, value chain development, Inclusive Market Systems Development, micro-franchising, savings, credit and financial inclusion initiatives, social protection and insurance, sustainable farming initiatives, resource management and regeneration, and agricultural productivity and extension work.

World Vision first forayed into market systems work through its Local Value Chain Development project model, which uses the value chain approach with a participatory household focus, helping vulnerable producers and farmers to analyse markets, gain information, build relationships and act collectively to overcome market barriers, all leading to an increase in profits. Producers build their capacity by forming groups, by undertaking training to improve quality and productivity, by gaining understanding of market systems and through forming relationships with buyers and relevant market actors.

The genesis of the approach began in the late 2000s when a small task force was set up within World Vision Australia to develop the economic development programming approach for child sponsorship funds. Value chain development approaches were of course far from new at the time, and World Vision adapted its approach from industry best practice from around the world, with adjustments as necessary to leverage World Vision's strengths and key value adds. Central to the model was the 'Market Facilitator', who would work through producer groups to enact local value chain development across a manageable selection of commodities. Farmer training, household engagement and local lead farmers were also an integral focus from the beginning of World Vision's expansion into value chain programming. The model was aptly named and adopted by World Vision as the Local Value Chain Development model (LVCD)³⁷. By 2011, World Vision Australia had completed a four-year pilot of the model in the East Nusa Tenggara region of Indonesia (see Case Study 1). Following an evaluation and follow-up research into the Social Return on Investment,³⁸ the approach was soon rolled out across the World Vision partnership and, by 2017, it was being actively programmed in 35 countries with an estimated direct outreach of over 100,000 farming families.

The Local Value Chain Development approach is, however, a living methodology. Over the years, World Vision’s approach to value chain development has evolved in line with an international industry with ever-evolving terminology. While terminology changes might only have minor implications, the shift in focus within the industry that has been most significant is the current focus on partnerships with private sector actors where market interventions are co-designed to stimulate a development outcome. This, we refer to as a Market Systems Development approach. This indirect ‘levers-based’ approach has enabled development projects to reach an unprecedented scale, as the reliance on a donor-funded implementer is phased out as soon as possible, being replaced instead by a ‘crowding in’ effect of the private sector chasing the newly created commercial opportunity. While private sector market actors have always been an integral part of the Local Value Chain Development approach, reducing the focus on the direct facilitation of training and linkages and shifting the focus toward leveraging the influence of small and large-scale private companies has become the latest iteration for World Vision.

Figure 3: Timeline of World Vision Australia’s market systems journey



Today, World Vision’s approach to Market Systems Development is led by our Melbourne office through the Social Entrepreneurship and Economic Development Unit (SEED). The Unit has a dedicated Market Systems Development portfolio manager, but is also able to draw upon expertise on Women’s Economic Empowerment, Disability Inclusion, Financial Services Development and Climate Smart Agriculture. World Vision’s flagship M4P project is part of the Promoting Rural Income through Support for Markets in Agriculture (PRISMA) program in the cashew subsector (see Case Study 1). While World Vision Indonesia might be the most well-advanced implementing office, the SEED Unit is now capable of driving high-quality Market Systems Development programming right through the Asia Pacific region, into central Asia and some parts of Eastern and Central Africa.

Learning over time has revealed the need for an expanded model that expresses the wider context in which value chains operate. This wider context is essential because the goal of developing inclusive markets goes far beyond moving a product or service from inception through to the end product with consumers. Inclusive Market Systems Development is the latest evolution in World Vision's thinking in market-based approaches.

Case Study I: Building localised M4P capacity in Indonesia over a decade, the foundations for the MORINGA Project

World Vision first tested and adapted its LVCD model in Indonesia back in the late 2000s. The original market facilitator for that project, Diana Margareth Johannis, later became the project manager for World Vision's Co-Facilitator role in the Australian Government's PRISMA project, under the Australian-Indonesian Partnership.

World Vision's team of national staff, in collaboration with World Vision Australia's SEED Unit, worked closely with the PRISMA staff and their technical subcontractor (Swiss Contact) throughout the design and early implementation of the project. Using the standard for design and results measurement developed by the Donor Committee for Enterprise Development, the project team constructed an effective set of M4P interventions, each designed in conjunction with a selected private sector partner.

Importantly, the capacity that World Vision developed through its involvement in the PRISMA program was not lost as PRISMA 1 concluded. With the original World Vision PRISMA project staff taking on more senior positions within the organisation, not only was their valuable experience preserved, but the understanding of and desire for more market-based programming began to spread throughout World Vision Indonesia.

In 2017, World Vision invested AU\$4 million over four years from of its allocation under the Australian NGO Cooperation Program into a new M4P project in the NTT and Sulawesi provinces of Indonesia. The sub-sectors have changed, with the project focusing on the moringa tree and maize farmers but, most importantly, the internal capacity within Indonesia has been maintained and will continue to be leveraged.

The critical success factor for the design of this new M4P project has been the ability to retain and develop the experience, talent and learnings of key Indonesian staff over a decade.

As of April 2018, three market-based interventions have been drafted and business models are being developed with a shortlist of selected private partners. With years of successful programming behind them, World Vision's design team is now exploring sustainable, scalable M4P interventions with the project partners, while at the same time ensuring that the benefits reach the most marginalised by programming necessary direct facilitation in parallel.

Part 2: Business case for Inclusive Market Systems Development

This section outlines the benefits of inclusive market systems, with a particular focus on poverty reduction, women’s economic empowerment and child well-being. This section also considers the limitations of market-based approaches and discusses the need for complementary measures to address a range of development challenges.

2.1 Goals of Inclusive Market Systems Development

The ultimate goal of Inclusive Market Systems Development is to improve opportunities for empowered families to lift themselves out of poverty through strong and resilient economic livelihoods and the transformation of market systems.

An estimated 2.6 billion people live in poverty. More than 1 billion people lack clean water, 1.6 billion do not have electricity and 3 billion lack access to telecommunications.³⁹

This represents huge unmet needs. As many of the world’s poor live in areas with limited government services, they must rely on private markets not only for their livelihoods but also for a range of basic human services that would otherwise be centrally distributed. As consumers, poor men and women rely on markets to meet their needs for food and essential services. As employees or producers, they sell their labour or products in these markets.

Table 2: Direct and indirect goals of Inclusive Market Systems Development

Direct goals	Indirect goals
<ul style="list-style-type: none"> Strengthen market systems so that they feed more effectively into the local, domestic and international economy Reduce poverty by improving incomes and assets Reduce inequality by broadening participation in value chains Increase productivity and productive capacity, especially among the poor and marginalised Economically empower poor and marginalised people, including women 	<ul style="list-style-type: none"> Reduce child labour by increasing household economic security Improve child health and education by increasing household economic security Improve health outcomes, especially among poor and marginalised groups Increase the ability for parents and caregivers to make choices and determine their own futures, for themselves and their children

By improving market systems so that they reach the most vulnerable on a more level playing field, we can make progress towards ensuring that the benefits of markets are shared more widely and involve poor and marginalised groups more effectively. Inclusive Market Systems Development aims to create the enabling conditions for those living in poverty to improve their lives. However, it also has broader indirect goals outside of the market system, such as improving health and reducing child labour as parents gain economic security (see Table 2).

2.2 Inclusive market systems and poverty reduction

Several studies support a range of linkages between market participation, poverty, and food security among the extremely poor. One study of market access in Ethiopia, for example, found that isolation from markets contributed to increased food insecurity and lower school enrolment rates.⁴⁰ Likewise, other researchers have demonstrated how 'push' and 'pull' strategies facilitate market inclusion and enhance food security for women and the extremely poor.⁴¹



Vincent and his family are benefiting from World Vision's LVCD project in Tanzania

At a more systematic level, research on a wide range of developing countries has consistently found evidence that economic growth has a positive correlation with poverty reduction. A typical estimate from these cross-country studies is that a 10% increase in a country's average income reduces the poverty rate by 20%–30%.⁴²

In 2017, the Building Effective and Accessible Markets (BEAM) exchange released their annual review of the BEAM Evidence Map, a database of around 100 evidence documents on market systems projects that meet stringent inclusion criteria.

The BEAM Evidence Map review concluded that there are now 'sufficient evidenced examples' to validate the market systems approach for promoting economic development, improving access to services and reducing poverty.⁴³

Impacts at a poverty reduction level were described in 36 out of 97 evidence documents.

One example of World Vision's approach to reducing poverty through markets is its Local Value Chain Development project in Tanzania⁴⁴ (see Case Study 2).

Case Study 2: Increasing incomes for poor producers in Tanzania to lift their families out of poverty

In 2012, 95% of the population in Bukene, Nyasa and Simbo in the Nzega District of Tanzania depended on small-scale agriculture and livestock farming, relying on crop and livestock yields to survive. However, only 15% of these farmers had access to reliable markets for their produce. To empower these producers so that they could provide for the needs of their families and children, World Vision strengthened local value chains and invested in the productive capacity and resilience of farmers.

Over four years from 2012–16, World Vision:

- hired three **market facilitators** to work with producers, guiding groups through a **participatory value chain analysis** to identify high-potential products (in this case, tomatoes, onions, paddy and groundnuts)
- facilitated the formation of 155 **producer groups** (comprising 3,372 individuals, 49% of whom were women) to work collectively to purchase inputs and to sell market-ready products
- linked producer groups to **business and technical training**, delivered through demonstration plots by model farmers, helping them to improve productivity
- facilitated the creation of 79 self-governed **savings groups**, which saved a total of more than US\$35,000 per year, improving the resilience of farmers and their ability to meet year-round expenses
- helped farmers establish over 650 **water pans**, capable of irrigating more than 180 hectares of land to combat Tanzania's unpredictable dry season.

With three market facilitators, and US\$250,000 a year, the project created a measurable increase in income for 7,000 remote farmers. In total, 85% of small-holder farmers increased production and, on average, the sales price for farmers increased by 140%. A total of 125 beneficiary households generated 549 jobs over the life of the project.

The evaluation concluded that the project significantly contributed to improving the ability of households to provide for the basic needs of their children, including their nutrition, education and health. Access to child health services improved as a direct result of increased household incomes from the project.

World Vision is now implementing this project model, known as Local Value Chain Development, in 86 projects across 35 countries, benefiting more than 100,000 farmers and their families.

2.3 Inclusive market systems and women's economic empowerment

Women make up more than half of the world's population. However, they are disproportionately affected by poverty. There is a growing recognition that women's economic empowerment is critical to the achievement of all the Sustainable Development Goals (SDGs), not just Goal 5 on gender equality. According to the McKinsey Global Institute (2015), if women could achieve their economic potential, up to US\$26 trillion could be added to the global GDP in 2025.⁴⁵

However, in the context of Market Systems Development programming, the barriers that women face are immense. Around the world, there are significant gender inequalities when it comes to resources. Women often have less access to market services and information, and less access to credit, inputs and technology. In many contexts, women have lower literacy levels, social networks and skills training. Markets do not operate in isolation from society. Harmful socio-cultural norms of what is deemed 'acceptable' women's work can lead to gendered roles and responsibilities in the value chain where women's roles are either undervalued, unrecognised or underpaid. The lack of decision making and bargaining power of women within market systems and within individual households are also significant barriers to women's economic empowerment.

To address these barriers, World Vision is adopting a gender inclusion lens in its Market Systems Development projects in Sri Lanka, Bangladesh, and Myanmar. A key critical part of the approach is conducting gender-sensitive market and value chain analysis, which acknowledges that men and women will have different experiences in a market system. In this assessment phase, it is important to investigate value chains that have the potential to meet market demand, establish key partnerships for sustainability, improve profitability, and have the potential to improve women's economic empowerment. To this end, it is important to investigate the different roles and responsibilities of men and women in value chains, to what extent men and women are making decisions within value chains, and the specific barriers preventing women from participating in, and benefiting from, value chain activities. This foundational analysis enables the development of sound interventions that can include and benefit both men and women.

This is reinforced by global evidence on how to achieve gender equality in Market Systems Development programming. Based on evaluations of women's economic empowerment projects in Ghana, Pakistan and Afghanistan, studies have concluded that a blend of 'push' and 'pull' strategies are required to overcome barriers to women's economic participation.⁴⁶ 'Push' strategies involve direct facilitation to help women overcome the persistent gender-based discrimination that undermines their support networks, self-confidence and access to markets, finance and value chains. It is critical for success that this facilitation is community-based – including men, women and families – but also that it is market-based, ensuring that a full understanding of market forces inform facilitation to give women the best possible

chance of participating more fully in lucrative and burgeoning market systems. 'Pull' strategies complement the direct interventions by using commercially-based incentives to open opportunities for female employment and increase women's incomes. It is again critical for success at this juncture to ensure that 'pull' strategies are designed based on an informed analysis of the local market context. World Vision is committed to finding and developing opportunities for women to more fully participate in the economic system. This mix of 'push' and 'pull' factors (what World Vision calls direct and indirect facilitation) is what defines the Inclusive Market Systems Development approach.

When market systems are inclusive, the structures within them facilitate women's equal access to resources and employment.

The resulting outcome is a more efficient and effective market and a more equitable market that reduces gender inequalities, opening new opportunities for women to access additional resources and improve their agency.⁴⁷

Firstly, inclusive markets that involve women function more effectively. This is because including and empowering women:

- **accesses untapped employee talent.** By expanding the talent pool by including women, businesses can expand their productive capacity.
- **improves supply chain reliability.** Promoting access to information, resources, and technology to both men and women can help address bottlenecks within a supply chain.
- **reaches female customers.** Microenterprises that include women as customers ultimately boost sales, while also promoting women customers' access to critical resources.⁴⁸

Secondly, research has found that increasing women's economic empowerment through inclusive markets results in social returns beyond the immediate market system. While private returns from investment in market access may be similar for both women and men, social returns are greater from women's economic participation due to co-benefits from lower fertility rates and improved household well-being. For example, studies reveal that when women are stable financial contributors to a household, investments in health and education for children increase and household poverty decreases.⁴⁹

While it is often assumed that increasing women's earnings also strengthens their roles in household decision-making, this is not necessarily the case. For example, in its meta-analysis of projects, Oxfam concluded that women's economic empowerment alone is not sufficient to change power dynamics within the household and that more direct and targeted interventions are required to shift intra-household power dynamics. Working in close partnership with Promundo in both Sri Lanka and Bangladesh, World Vision is currently piloting the some explicitly intentional gender-sensitive Market Systems Development ideas, alongside

programming that engages men and women on household decision making, including control over income, time use, and household spending.

2.4 Inclusive market systems and child well-being

In practice, inclusive markets contribute to the well-being of children in two broad ways.

Firstly, markets that contribute to pro-poor, pro-child growth create jobs across the community and improve incomes for poor households, enabling parents to increase family expenditure on goods and services essential for child development. This includes using higher incomes to buy better and more nutritious food, accessing clean water and good hygiene, reducing or ending demand for child labour, and securing better housing, healthcare and education for children.⁵⁰ Based on an analysis of household survey data from 12 countries as well as aggregate data from 61 developing economies, the World Bank concluded that income growth plays an important role in reducing child malnutrition.⁵¹ While there is no guarantee that higher family incomes are always invested in pro-child expenditure, there is considerable evidence that this is often the case. On the other hand, we know it to be a logical certainty that without sufficient income it is fundamentally not possible for caregivers to allocate appropriate resources to pro-child expenditure.

Secondly, at the national level, inclusive market systems stimulate economic growth and, in turn, increase public sector revenue as the tax base widens and deepens. This provides additional resources for essential services such as public health (including child and maternal healthcare), education and social security that children can access and benefit from, that also contribute to further economic development, enhancing the well-being of future generations of children. For example, research indicates that national income has a direct effect on the development of health systems, through investment in public hospitals and insurance.⁵² Other studies have shown that households with economic growth spend a lower proportion of their expenditure on health care, but they use more provincial/central hospitals and access higher quality health care services than households without economic growth. Inclusive growth also has benefits for public education. While the positive impact of education on economic growth is well established, emerging studies are showing 'reverse causality': the effect of higher economic growth on education may 'be at least as important as the causal effect' that education has on growth.⁵³

To summarise, Inclusive Market Systems Development supports child well-being outcomes at scale, albeit indirectly, by increasing household economic well-being. While inclusive market systems have clear co-benefits for children, it is important to note that they do not guarantee that child wellbeing outcomes will be achieved. World Vision does not promote Inclusive Market Systems Development or any form of economic development as a silver bullet, but rather as an essential part of the holistic effort against poverty. Without the wealth and opportunities that inclusive market systems generate, progress towards achieving child well-being outcomes would certainly be more difficult.

2.5 Inclusive market systems and the Sustainable Development Goals

Inclusive markets are fundamental to the achievement of the Sustainable Development Goals (SDGs).

The SDGs are a transformative global agenda to eliminate extreme poverty, protect the planet and advance sustainable development for all. Agreed to by all 193 members of the United Nations in 2015, the SDGs are a comprehensive framework of 17 Goals and 169 targets that integrate the economic, social and environmental dimensions of development.

The underlying principle of the SDGs is to leave no-one behind and, to have as a first priority, reaching those who are furthest behind. In fact, the two most frequently-used words in the description of the SDG targets are 'for all'. For Inclusive Market Systems Development, leaving no-one behind means intentionally reaching and empowering non-market-ready individuals: people who have not previously engaged meaningfully in market systems or who face significant barriers to engage in market systems. As mentioned earlier, this includes women, youth, the ultra-poor and people with a disability, among others.

Inclusive markets use capacity building and economic forces to achieve a range of sustainable development outcomes, with a focus on leaving no-one behind. Table 3 outlines how inclusive markets contribute to the SDGs. For example, inclusive markets provide decent work opportunities for poor and marginalised groups (SDG 8), which in turn increases their incomes and reduces poverty (SDG 1), reduces inequality (SDG 10) and builds more inclusive communities (SDG 11).

In addition to contributing to the objectives of the SDGs for social and economic inclusion, market systems programming leverages private sector financing to help bridge the financing gap for sustainable development. This is important given the tremendous scope and ambition of the SDGs. Worldwide, the funding required to meet the SDGs in developing countries alone exceeds the total global aid budget by US\$2.5 trillion.⁵⁴ New and innovative sources of development finance, including market-based approaches, are therefore needed to bridge this financing gap.

Table 3: Relationship between the SDGs and inclusive markets

SDG	Contribution of inclusive markets
 <p>1 NO POVERTY</p>	<p>Inclusive markets broaden access to employment and empower people to lift themselves out of poverty (as outlined in Section 2.2). They build the productive capacity of people living in poverty and use the private sector to reduce poverty through market forces.</p>
 <p>2 ZERO HUNGER</p>	<p>By building the productive capacity of poor groups, inclusive markets improve productivity and yields, increasing food security in local communities. Higher incomes also enable people who are poor to access more nutritious food, reducing malnutrition.</p>

SDG	Contribution of inclusive markets
 <p>4 QUALITY EDUCATION</p>	Inclusive markets indirectly contribute to child education. By increasing household incomes, inclusive markets reduce pressure for child labour and increase opportunities for education for all girls and boys.
 <p>5 GENDER EQUALITY</p>	Women's economic empowerment is a central objective of inclusive markets. Empowering women to engage in markets can reduce economic discrimination against women and indirectly lift women's civil society participation (as outlined in Section 2.3).
 <p>8 DECENT WORK AND ECONOMIC GROWTH</p>	Inclusive markets aim to create decent work opportunities for all, including women, young people and persons with disabilities. They encourage the growth of micro-, small- and medium-sized enterprises and enhance the supply-side capacity of economies.
 <p>10 REDUCED INEQUALITIES</p>	Inclusive markets reduce income inequality within communities by broadening participation in value chains. These markets promote the economic inclusion of all, irrespective of sex, disability, race, ethnicity, origin, religion, economic or other status.
 <p>11 SUSTAINABLE CITIES AND COMMUNITIES</p>	By broadening economic participation, inclusive markets make communities more inclusive and sustainable. Profits and increased government revenue enabled by these markets can be invested in better housing, public spaces and transport.
 <p>16 PEACE, JUSTICE AND STRONG INSTITUTIONS</p>	Inclusive markets promote peaceful and inclusive societies for sustainable development. They empower poor and marginalised groups and indirectly contribute to ending unjust practices such as forced child labour.
 <p>17 PARTNERSHIPS FOR THE GOALS</p>	Inclusive markets use the private sector to deliver goods and services, which diversifies financing for sustainable development. Partnerships between governments, civil society and businesses are also at the heart of inclusive markets.

2.6 Barriers to and limitations of inclusive market systems

It is important to note that inclusive market systems are not a panacea for all development challenges. While market-based approaches are effective at advancing many development objectives – from poverty reduction through to economic empowerment – they are limited in their ability to achieve outcomes outside of the market system and they face greater barriers to success in fragile contexts.

Limits of market systems to address non-market-based challenges

Market-based approaches, which operate within market systems, are often not the most effective in addressing problems that occur and have root causes outside of the market system, such as those arising from social, political or environmental systems. These broader systems are often out of scope for strictly market-based approaches. It is recommended that inclusive market projects be complemented by non-market interventions where objectives are to achieve positive change in social, political and environmental systems, in addition to inclusive growth.⁵⁵ For example, while market-based approaches can help address non-market issues such as child well-being and women's empowerment, it may be necessary to implement complementary measures to more directly address issues such as reducing gender-based violence, improving water security and hygiene, enhancing nutrition, or providing education for children, as these services may not be provided by even an inclusive and effective market system.

Interventions that are not market-based can still improve the functioning of market systems, especially for marginalised groups. For example, many Ethiopian women in coffee production are unable to become business or farm managers due to their limited education and literacy and numeracy skills. Initiatives to improve the local education system, and increase school attendance for girls in particular, are increasing the skills of the future female workforce and, in turn, strengthening their ability to engage in markets and become farm managers in the future.

Limits of market systems in fragile contexts

Inclusive market-based projects face greater barriers and limitations in fragile, conflict-affected, post-conflict and humanitarian disaster situations. While private sector-led Inclusive Market Systems Development approaches remain a crucial part of humanitarian responses, donors and implementers must be aware of the compounded challenges of implementing them in fragile contexts. In these contexts, markets are often distorted (or they completely collapse) due to significantly reduced resources and mass population displacement. For example, the political upheaval and humanitarian crises in the Middle East since 2011, especially in Syria, has seen a collapse in local markets and an increase in livelihood strategies aimed at basic survival, including increased black-market activity, greater makeshift production of medical supplies, rooftop gardening, and the expansion of smuggling networks.⁵⁶ Responses to outbreaks of conflict or humanitarian disasters such as food aid also often inadvertently distort private sector markets, further compounding challenges for markets to function effectively.⁵⁷

While additional challenges exist in fragile contexts, it is actually even more important in these situations to implement well-thought-through Inclusive Market Systems Development, lest the relief and humanitarian effort cause further damage to an already fragile market. In these contexts, where the market system is damaged or weak, relief organisations and governments all too often intervene directly in the situation by taking over the provision of all essential services that may once have been provided by commercially viable private actors. When this happens, not only have the livelihoods of these private market actors been compromised by the

disaster itself, but they can then be completely dismantled by the distorted market behaviour that follows as a result of donor-funded activities. It is especially important in such fragile contexts that relief interventions engage the market system, in whatever form it may remain at the time. By engaging the damaged or fledgling private enterprises still present, we give the entire economy a significant boost in its instinctive attempts to regenerate. If indigenous private actors are simply replaced by donor money, we will see longer recovery periods where the private sector is simply unable to re-enter the marketplace. World Vision refers to the Minimum Economic Recovery Standards as a guide for Inclusive Market Systems Development programming in fragile and recovery contexts.⁵⁸

In the midst of these compounding challenges, the effectiveness of Inclusive Market Systems Development in fragile states can be mixed. Based on a study of livelihoods projects in fragile and conflict-affected states from 2012–16, one review concluded that there is ‘limited robust evidence’ on programs seeking to expand market access to the poor in fragile states.⁵⁹ However, in its analysis of 13 market development projects in crisis environments, the Small Enterprise and Education Promotion Network found that where interventions incorporate a sound understanding of the market and its context, they can be effective and ‘have the potential to smooth the transition from relief to development’.⁶⁰ In 2013, World Bank research into market-based approaches in fragile states in Africa similarly found that ‘developing value chains soon after the abatement of conflict has the potential to spur economic growth and mitigate conflict’. The study cites examples such as market systems projects in Northern Uganda (where cotton production and sales grew despite local insecurity), South Sudan (where shea nut processing and exports benefited vulnerable women), and Somalia (where livestock, fisheries, and resin value chain development is under way despite the absence of a recognised state).⁶¹

World Vision’s own experience of programming Inclusive Market Systems Development in Afghanistan, Palestine, South Sudan and Somalia have mirrored this reality. In these programs, we have faced additional challenges, each unique to their context. One example is our Australian Government DFAT-funded program in Afghanistan through the Australia Afghanistan Corporation and Resilience Scheme (see Case Study 3).

As an alternative to traditional market-based approaches, unconditional cash transfers are increasingly being used in fragile contexts to offer greater flexibility for livelihood support, given that cash is fungible and can be used for immediate or long-term needs.⁶²

Towards a holistic approach

The World Bank has long asserted that economic growth alone is a necessary component but insufficient in isolation to reduce poverty.⁶³ Similarly, analysis by Save the Children and the Institute of Development Studies shows that while changes in income matter for poverty goals, other factors are equally or more important, especially in poorer countries.⁶⁴

For these reasons, World Vision maintains its non-market-based livelihoods work, and cautions against viewing market-based approaches as a catch-all solution. Rather, World Vision approaches development holistically, recognising that market-based and non-market-based programs are both needed to address the range of challenges facing people living in poverty. World Vision's ability to address the multi-sectoral dimensions of poverty is an important reason why NGOs have such a vital role to play in Market Systems Development programming, as NGOs often have the ability to call upon experience from other sectors as the context requires.

Case Study 3: Strengthening market systems in fragile contexts in Afghanistan

World Vision is implementing an Australian Government-funded, market-based program in Afghanistan through the Australia Afghanistan Corporation and Resilience Scheme. As part of the Scheme, World Vision is working in the fragile post-war context of Herat province to help restore the market system, including rebuilding local business connections to enable the market to function effectively.

The context for this inclusive market program is that decades of war and unrest had devastated local economies, to the extent that consumers, market actors and development staff alike in Herat province had not experienced a naturally-operating local economy for some years. Market actors were increasingly unable or unwilling to perform the services expected because they simply could not find a commercial proposition to operate naturally. These market actors instead had been propped up, or in many cases replaced, by the global humanitarian effort to provide essential services to farmers.

Recognising that replacing essential commercial services with donor-funded direct delivery options had distorted the market, World Vision worked to restore the market system from first principles. World Vision, working closely with the local government and private sector, helped to re-establish market places and events to create an entrepreneurial environment and rebuild the fabric of trust in the broken economic system. This involved facilitating several trade shows and exhibitions that strengthened people-to-people connections. Notably, these connections resulted in the creation of Afghanistan's first women-only market, a safe and culturally-sensitive outlet for female traders and consumers to conduct commerce.

In the context of post-war Afghanistan, the market system was so damaged that conventional M4P approaches needed to be adapted; in this case, the intervention included an intentional focus on rebuilding trust within the market system.



The start of the first women-only market in Afghanistan

Part 3: Towards a model for Inclusive Market Systems Development

Based on emerging best practice, this section outlines World Vision Australia's model for Inclusive Market Systems Development, and describes its role in developing well-functioning markets and facilitating the inclusion of poor and marginalised groups within those markets.

3.1 Emerging best practice

There is no one-size-fits-all approach to inclusive market systems but, as the case studies in this report show, there are several common characteristics shared by successful inclusive market-based projects. These include:

- strengthening horizontal and vertical relationships of the very poor
- recognising that market systems include households and communities
- raising productive capacity in parallel to pulling systemic levers
- leveraging local governments as change agents
- building trust as a foundation for the market system
- operating in 'thin' markets.

Strengthening horizontal and vertical relationships of the very poor

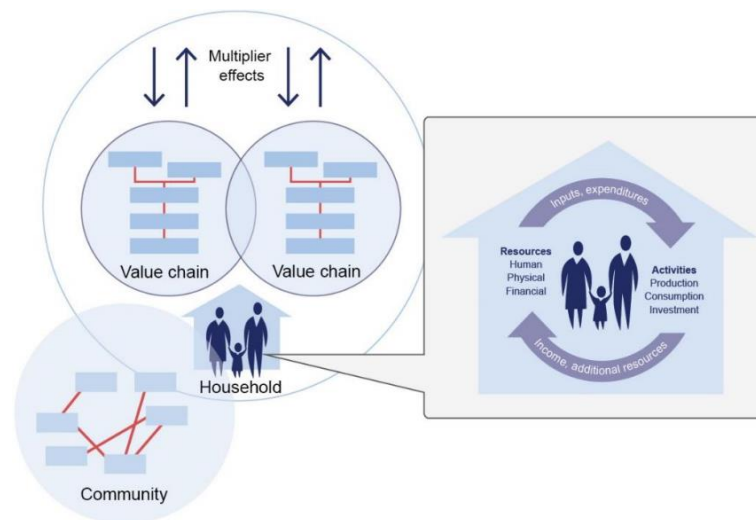
Improving vertical relationships (between very poor producers and their buyers and sellers) and horizontal relationships (among peers to address risk, trust and confidence) has always been a focus for inclusive growth projects. This is because mutually-beneficial vertical relationships allow information, skills, and services to flow along the value chain, while mutually-beneficial horizontal linkages or producer-to-producer linkages can improve economies of scale, reduce transaction costs, share risks, facilitate collective learning and increase bargaining power for traditionally excluded market actors. The United States Agency for International Development (USAID) together with Family Health International 360 and World Vision have produced a field guide on this very topic, *Integrating Extremely Poor Producers into Markets*, designed to provide field practitioners with the tools and applications required to integrate very poor producers into value chains, with a focus on strengthening relationships between poor producers and their buyers, sellers and peers.⁶⁵

Recognising that market systems include households and communities

USAID has put the household system at the heart of its inclusive market systems approach (see Figure 3).⁶⁶ This has come from a recognition that decisions about resource allocation and economic activity do not occur in isolation, but are negotiated among household and community members, influenced by a range of

socio-economic factors including their status, decision-making power, role and interests, in the local context. Contextualising the household system within the market system can help donors and delivery partners understand the dynamics that affect market participation for poor and marginalised groups, especially if this participation is likely to result in reduced resources for other economic activities, threaten an individual's household or community status, or create additional demands on women's or children's time, for example.

Figure 4: Role of households in USAID's market systems framework



Raising productive capacity in parallel to pulling systemic levers

While the industry has had great successes over recent years in reaching scale through 'systemic levers', there is an emerging trend that recognises the parallel value of business-focused facilitation with a focus on the most marginalised. 'Systemic levers' refer to the higher-level, macro-adjustments that market-based programs often target in order to cascade a desirable change throughout an economy, industry or sub-sector. While the purist school of Market Systems Development forbids implementing agencies from working directly with beneficiaries and demands instead that primary and intermediary service providers are used as proxies, the emerging pragmatic school argues that development agencies must also continue to facilitate the improvement of productive capacity at the farmer level to complement change at the systemic level. World Vision argues that this farmer-focused or direct facilitation should take place at multiple levels, including at the farmer and producer levels.

Firstly, at the level of the already-productive small-holder farmer, it is becoming increasingly clear that a range of parties in the farming community should be supported to reap benefits from systemic changes. While World Vision embraces the shift towards market actors solving market problems, it highlights that there are circumstances where vulnerable farmers require additional services in order to benefit from market development. In an ideal world, all necessary services could be provided by a well-functioning market system, but in the real world it is not always

possible. Training, linkages, farmer field schools, exposure visits or encouragement to form producer groups are important examples of ways that development agencies can build the productive capacity of farmers so that they are better able to reap the benefits of the Market Systems Intervention; this is Inclusive Market Systems Development.

One working example is World Vision's MORINGA project in Indonesia. While the project is forging ahead with three systemic interventions based on fully commercial business models across two sub sectors, World Vision is cognisant that the most isolated communities in remote Sulawesi will not be able to fully access the benefits without some additional bridging. For example, one high-level intervention being implemented is to improve the last mile retail network in partnership with a large input supply company to expand market access. While this initiative will benefit thousands of farming households across the region, there are some that simply lack the productive capacity to take advantage of improved farm inputs, unless the project is complemented by programming that includes farm business training and some exposure visits for lead farmers. The project will also work with the supply chain system and at the point where it becomes economically unviable to go any further, reduce risks to get even more isolated communities involved.



World Vision staff member in a maize field in Sumba, Indonesia, as part of the MORINGA project

Secondly, there is emerging evidence that farmer-focused or direct facilitation is needed to support the most marginalised or ultra-poor producers. These are the households that have little to no productive capacity at all and no previous engagement in the market system. Such households are the focus of BRAC's Ultra-Poor Graduation Approach.⁶⁷ Again, Inclusive Market Systems Development embraces M4P interventions that make significant improvements to the market system within which these households are geographically located, but without direct interventions specifically targeted to the ultra-poor they simply miss out on the benefits. That is why World Vision is rolling out BRAC's Ultra-Poor Graduation model (which is co-funded by the Australian Government) throughout its market-based programming, with the Micro-franchised Agricultural Service Expansion

(MASE) project in Cambodia being a prime example (see Case Study 4). After the evaluation for first phase of the project showed that the most poor farmers did not realise as much benefit from the M4P intervention (agri-input supplies) as their wealthier counterparts, the second phase has been specifically designed to share market benefits more widely. While expanding the original intervention, World Vision is additionally working on targeting the ultra-poor in the same Cambodian districts with graduation-style programming that builds their productive capacity to a point where they will one day benefit from the availability of agri-inputs. The targeted programming includes training, support and productive asset transfer.

Leveraging local governments as change agents

Local governments are being increasingly recognised as an important actor to involve in market system interventions, as exemplified by the Australian Government's Promoting Rural Income through Support for Market in Agriculture (PRISMA) project. Within the initial implementation parameters of the project, the only acceptable lead firms or intermediary service providers were independent private sector actors. However, it was discovered early on that the local government was a critical change agent in the local context, and one that needed to be included in the intervention design itself. By the time World Vision's third market intervention was being designed, one local government function became the key partner, or 'lead firm', in the business model. The logic for this decision was that it was more likely that the project team could influence and steer the government's handout program by working with them as a project partner, rather than competing with the local government through separate initiatives.

Building trust as a foundation for the market system

It is becoming increasingly recognised that at the heart of market systems are relationship-based interactions, and this is especially the case in regional and remote contexts and in smaller communities.

The importance of community trust was highlighted in the Australia Afghanistan Community Resilience Scheme. As described in Case Study 3, World Vision implemented a project under the Scheme to rebuild the market system in the fragile post-war context of Herat province. This included an intentional focus on rebuilding trust and connections within the market system, an outcome much harder to measure on a logframe. Working closely with the local government and trade associations, World Vision facilitated several trade shows to strengthen business networks. These connections resulted in the creation of Afghanistan's first women-only market which was opened by President Ashraf Ghani.

Operating in thin markets

It is also worth discussing the role of Market Systems Development work in thin markets. The Market Development Facility's paper series on 'Messiness in Market Systems Development' illuminates, with examples, the need for flexibility in markets where systems and structures are somewhat weaker.⁶⁸ In these contexts, the kind of relationships, networks and trust held by local NGOs become critical success factors in implementing successful market interventions.

3.2 Lessons learned from World Vision's experience

The key lesson that World Vision has learned in regard to market systems in recent years is the importance of being intentionally inclusive of the poor and marginalised through a mix of business-focused and farmer-focused facilitation.

World Vision's experience in Local Value Chain Development and Inclusive Market Systems Development has shown that market-based interventions can often have too narrow a focus on macro-forces and be targeted too high at system-level change and, in the process, can neglect to build the productive capacity of the most marginalised so that they can participate in markets.

World Vision's Micro-franchised Agricultural Service Expansion (MASE) Project in Cambodia is a prime example of how a market systems project can be adapted to promote greater inclusion (see Case Study 4 for more information). Partnering with International Development Enterprises, World Vision recruited and trained more than 40 Farm Business Advisors to empower smallholder farmers with the right skills, knowledge and market connections to improve their livelihoods. While the project achieved a 186% increase in annual sales in its first year, an evaluation found that the project reached fewer women than men (approximately 20% of total beneficiaries) and that the benefits of

the project did not reach the ultra-poor. Going into Phase 2 of the project, World Vision has adjusted its approach based on the evaluation to include direct, farmer-focused facilitation to more effectively target poor farmers who cannot quite access the treatment that their less poor counterparts are benefiting from. Figure 5 illustrates the complementary roles of business-focused (indirect) facilitation and farmer-focused (direct) facilitation that World Vision is seeking to implement.

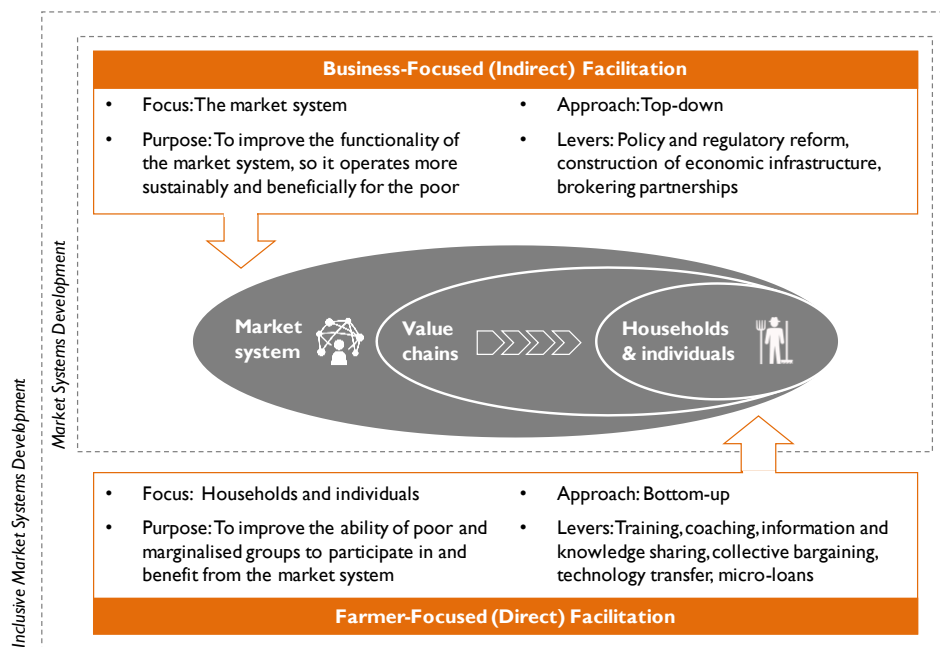
Learning from this and other experiences, World Vision has found that market-based interventions need to recognise that the poor and marginalised face unique challenges, such as greater vulnerability to risk, lack of information, limited business skills, fewer resources, greater barriers to finance and fewer relationships with people who are upwardly mobile, that often hinder them from accessing opportunities that are traditionally created through Market Systems Development projects. World Vision is now focused on helping poor and marginalised groups, including small-holder farmers and producers and especially women, to overcome these structural disadvantages. As illustrated by the MASE Project in Cambodia, this requires the introduction of farmer-focused facilitation efforts that complement



A Cambodian cucumber farmer participating in the MASE Project

business-focused, system-level changes and build the capacity of the poor and marginalised to more profitably engage in markets.

Figure 5: Roles of business-focused and farmer-focused facilitation



It is also worth mentioning again that for the poor and marginalised, Inclusive Market Systems Development programming is not a panacea for lifting everyone out the cycle of poverty. As noted in the section on limitations of inclusive markets (Section 2.5), World Vision is a strong advocate for mixed methods development programming, including the invaluable work of our colleagues who focus on social inclusion, empowered world views and other social interventions that address the complex set of obstacles facing victims of intergenerational poverty.

In general, NGOs have a greater awareness and appreciation for the interdependent nature of market systems as they interact with other cultural, social and ecological systems.

Because of their breadth of programming, NGOs often have a wider appreciation and awareness for the whole of life for a given community or target group.

In the Australian donor landscape, while the vast majority of Market Systems Development funding continues to be programmed by commercial contractors, the methodology is at risk of being derailed by some of the complex multidimensional causes of poverty that can become blind spots in the program.

World Vision has also learned that the intentional inclusion of poor and marginalised groups needs to begin upfront, at the design stage. To tailor interventions to support more inclusive market systems, donors and their delivery partners should conduct an analysis of the local market system that is gender- and poor-sensitive.

This analysis should have a specific focus on:

- **who** is traditionally excluded from the market system and why they are excluded
- **which** excluded actors – if they were included in the market system – would have the greatest effect on poverty reduction, child well-being, women’s economic empowerment, and/or other inclusion goals
- **where** there are opportunities to align objectives for market effectiveness with inclusion goals.

By intentionally considering those traditionally excluded from market systems, and by supporting them through both indirect/top-down and direct/bottom-up interventions, market-based approaches can broaden their reach and benefits to those who need them most.

Case Study 4: Building inclusive markets through micro-franchising in Cambodia

In an effort to address the complex causes of poverty faced by Cambodian farmers in a sustainable way, World Vision partnered with the International Development Enterprise (iDE) and their local social enterprise Lors Thmey to develop the MASE Project (Micro-Franchised Agricultural Service Expansion Project). Nem Chheco is the MASE Project Manager in the Takeo region of Cambodia.

The goal of this project is to improve farmers’ livelihoods through the Farm Business Advisor Model.

Through the project, World Vision supports Lors Thmey to recruit and train more local micro-entrepreneurs to become Farm Business Advisors. These advisors play a dual role. They help farmers improve their yields by selling agricultural inputs imported by Lors Thmey, like seeds, fertiliser and drip irrigation. They also provide farmers with much needed agricultural technical support and help to generate links with buyers in the market.

In the last two years, the MASE Project has reached over 1,500 new farmers and recruited and trained 41 Farms Business Advisors across four different communities in Cambodia’s Takeo province. By the end of 2017, the project increased Lors Thmey’s original sales volume by 363%.

While the project impact evaluation found strong increases in income for participating small-holder famers, it also revealed that only those farmers who had already reached a baseline of productive capacity were able to access and therefore benefit from the Lors Thmey services.

In phase two of the project (commencing 2018), not only will World Vision continue to work with Lors Thmey to expand their outreach, but World Vision will also work concurrently to build the productive capacity of the producers who are not yet able to purchase inputs.

This direct facilitation to graduate the most vulnerable will enable the next level of small-holders to engage in the improved market system created by Lors Thmey.

3.3 Tips for implementing an inclusive approach

From World Vision's experience, there are several practical tips to keep in mind when designing and implementing the Inclusive Market Systems Development model. To maximise the impact and sustainability of market interventions, it is important that development practitioners:

- **invest in the right people.** Pro-poor Market Systems Development requires skilled direct and indirect facilitation, especially when it is participatory, involving diverse actors and interests. Staff are the most critical component of effective facilitation; it is their knowledge, intuition and influence that stimulate change, so it is important to get the right people and the right training in place from the outset. Equally important is finding the right commercial partners with the incentives and capacity to initiate positive change in the market system.
- **set a baseline upfront.** To identify ways to improve and adapt the intervention over time, it is useful to develop a baseline of quantitative and qualitative indicators. Examples include measuring household income, using results chains, developing custom systems indicators, using qualitative approaches such as network analysis and outcome mapping, and/or monitoring indicators of child well-being (which is a particularly sensitive measure of a range of social and economic conditions faced by marginalised communities). Wide participation should be prioritised at all levels and stages of evaluation, including in setting the project baseline.
- **avoid paralysis by analysis.** The diagnostic and analytical process is critical in understanding the root causes of market dysfunction and identifying the specific barriers facing women, youth, the ultra-poor and persons with disability in order to design targeted interventions. However, it is important to remember that the analysis exercise is a step in the process rather an end in itself. Development organisations should stay focused on how the diagnosis is going to inform practical interventions. Undertaking comprehensive and detailed analyses can result in the production of lots of information and documentation, but it often consumes significant time and money and may be limited in its practical application.
- **embrace flexibility.** The pathway to system-wide market change and inclusive growth is not predictable. Rigid, inflexible planning and reporting mechanisms can sometimes hinder projects from taking advantage of emerging opportunities and responding to changing circumstances as they arise. It is recommended that development agencies adopt an interactive and flexible approach to market-based development that is open to learning and adaptation along the way. If we wish to promote flexibility within market systems, then we should influence them in ways that are themselves flexible.

- **go beyond 'business as usual'**. For market systems to truly reach their potential for poverty reduction, they need to operate differently and more inclusively. It is valuable to look for opportunities to trial new and innovative approaches and methods of facilitation to ensure that no-one is left behind, and to maximise the inclusion of the poor and marginalised in market systems. This may require trying something new – embracing risk, adopting a mix of 'push' and 'pull' approaches or partnering with new types of actors.

Part 4: Call to action

Market-based development programs should leave as their legacy more efficient and inclusive self-functioning market systems that sustainably reduce poverty and deliver benefits to all segments of the local population. For this to happen, governments, non-government organisations and businesses all have a role to play.

4.1 What this means for the Australian Government

The Australian Government has the opportunity to build on the success of its market systems programming to date by having an intentional focus in the future on groups traditionally excluded from market systems, positioning Australia as a global leader in inclusive markets.

Australia should ramp up its investment in inclusive market programs, especially in Asia and the Pacific where large segments are not benefiting from economic progress.

The parameters for Australia's market systems programming should be made more flexible to accommodate both business-focused and farmer-focused interventions in the market system. In both design and implementation, the Department of Foreign Affairs and Trade should adapt its market-based programs to better target marginalised groups, such as women, youth and the ultra-poor, and make these groups central to its monitoring and evaluation strategies.

In addition, the Department should explore ways to better utilise NGO skills and experience in its market systems programming. While we continue to see market systems being programmed in large facilities, overseen by managing contractors who typically come from an engineering or contract management backgrounds, the role of technically competent NGOs is all the more necessary. Partnering with NGOs as sub-contractors or even as prime delivery partners means that the entire facility will benefit from not just the market systems programming experience of the NGO, but also their community access. NGOs have longstanding, deep and genuine connections with local communities and can often reach vulnerable groups that are otherwise difficult to access. As the Foreign Policy White Paper stated, NGOs 'bring strong connections to local communities, a comprehensive understanding of poverty in local contexts, and deep development expertise'.⁶⁹

Within its aid for trade agenda more broadly, it is recommended that the Australian Government invest more in productive capacity building because it is the most direct and effective way to engage the poor and marginalised in trade. While investment in economic infrastructure and regulatory reform are critical to facilitate trade, the primary focus of aid for trade should be to reduce poverty by empowering people living in poverty to engage in and benefit from trade. This can

and should still be done through meaningful private sector engagement, but World Vision encourages an increased focus on the micro and meso levels where implementing NGOs operate.

4.2 What this means for non-government organisations

Inclusive Market Systems Development should be prioritised by international development NGOs as part of a holistic approach to poverty reduction.

Some NGOs are already deeply involved in livelihoods and economic development programming (including inclusive market-based approaches), while others focus exclusively on more traditional development projects, directly providing goods and services such as education, food, shelter and water, sanitation and hygiene for people living in poverty.

NGOs should complement these direct delivery models of development with inclusive market systems interventions that deliver positive change at the system level. As mentioned earlier, market-based approaches can have significant and sustained benefits for poverty reduction, women's economic empowerment and child well-being on a large scale, with positive flow-on effects throughout communities.

NGOs should embrace inclusive market systems, get up to speed, upskill and get involved in this space as a priority.

NGOs are in a good position to partner with other practitioners of Market Systems Development – whether they are governments or commercial partners – to complement their business-focused, top-down market facilitation approaches with farmer-focused, bottom-up capacity building programs. By partnering together, the expertise and experience of both actors can be leveraged and the market intervention can be made more holistic. In addition, by diversifying their aid portfolios by engaging in market-based development, NGOs can broaden their reach, develop expertise and, ultimately, more effectively and efficiently achieve their goal of eliminating poverty.

However, if an NGO chooses not to partner with an experienced market systems actor but still plans to pivot to market-based programming, then the NGO may need to consider making changes to its management and implementation of programs. Moving away from direct facilitation, or in many cases direct service delivery, can be an uncomfortable place for traditional NGO implementing personnel, both here in Australia and on the ground in programming locations. To effectively implement market-based programming, some NGOs may need to:

- **adjust management systems.** Indirect facilitation of market systems change requires an evolution from traditional 'flat' or 'fixed' logframes or implementation plans. Working with a dynamic private sector partner requires flexibility to test, fail and pivot in intervention designs. This means that the project management system must also be a living, iterative

document. Resources like the Donor Committee for Enterprise Development's Intervention Steering Document or existing frameworks on adaptive management are a great place to start.⁷⁰

- **adjust results measurement systems.** Following adaptive management is adaptive results measurement. NGOs must start by acknowledging that results measurement will be different; it may be more difficult to measure and isolating attribution may become more of a challenge. There are tools available to help,⁷¹ and NGOs must be flexible enough to explore them.
- **invest in the right personnel.** Inclusive Market Systems Development programming provides better value for money than traditional service delivery programming. Vast amounts of money are saved on handouts and other direct services, but more money is often needed for facilitation staff than is traditionally allocated for staffing in other projects. Given that these interventions are focused on facilitating market actors to solve market problems, the project must invest in staff with the capacity to isolate and analyse market problems, as well as the ability to work with the private sector to co-design business model solutions. These skills can often be specialised and are often more expensive, but they are critical to creating systemic change. Remember, if direct service delivery and handouts are being removed as implementation costs, adequate facilitation staff and consulting support are the new implementing costs – they are not overheads.

4.3 What this means for businesses and the private sector

Developing inclusive market systems and reducing poverty is in the interests of the private sector, as inequality undermines headline economic growth and trade. In fact, the OECD has found that a key determining factor of economic growth is the gap between the lower middle class and poor households compared to the rest of society.

Businesses should examine their business models and international supply chains to look for opportunities to make them more inclusive. Actions that businesses can implement include:

- building the resilience and inclusiveness of their supply chains because it makes commercial sense, including building capability within developing country markets
- supporting inclusive market systems through corporate social responsibility and shared value initiatives that involve the poor and marginalised
- indirectly supporting inclusiveness by reducing barriers to market access and creating the right enabling market environment for micro-business to thrive.

For example, one of World Vision's private sector partners in Indonesia is a manufacturer and importer of farm inputs. The company, PT Novelvar, is run by a socially-minded CEO, Herman Suriato, with whom World Vision has developed a productive working relationship. Speaking at meetings together over the years, Herman will often talk about his business model and how generating farmer wealth is at the centre of his business sales strategy. 'I need farmers to have enough education and training so that they are able to calculate for themselves the benefits of buying my product', he says. 'That's why, at the centre of my sales strategy, is farmer wealth and wellbeing, because it leads to improved farming practices.'

At a minimum, businesses should ensure that they comply with international standards and agreements that protect labour rights, child rights, human rights, indigenous peoples and the natural environment, making sure that they conduct operations, domestically and internationally, in ways that are sustainable, transparent and ethical. This includes implementing the United Nations Guiding Principles on Business and Human Rights and the Children's Rights and Business Principles within their operations and supply chains, and complying with International Labour Standards.

4.4 Partnering to build inclusive market systems

While governments, NGOs and businesses (including managing contractors) can advance inclusive market systems in isolation, their impact is magnified when working together in partnership. Each sector brings different but complementary experience, expertise, capability (including technology and reach), resources, networks and relationships that together can be leveraged for positive impact at scale.

Innovation often occurs at the intersection of sectors and disciplines, where the sum becomes greater than its parts.

For cross-sector partnerships to be effective, the different organisations need to be united by a shared vision, such as reducing poverty through functional and inclusive market systems, and they need to have mutual respect for each other's contributions.

These collaborative partnerships should not just be limited to implementation, but can and should be used to co-design the market systems intervention, co-finance solutions and/or to evaluate the success of projects and share lessons learned.

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