

What is Market Development Facility?

Market Development Facility | June 2019

Summary

The Market Development Facility (MDF) is a multi-country Australian government aid program that partners with the private sector to achieve lasting growth and create sustainable jobs for poor women and men. MDF does this by using a Market Systems Development (MSD) approach.

MDF is funded by the Australian Department of Foreign Affairs (DFAT). It is implemented by Palladium in partnership with Swisscontact.

Objectives

MDF's guiding principle is to support the Australian Government's objectives of promoting sustainable economic growth, enhancing women's economic empowerment and reducing poverty.

How it works: markets and systemic change

It is widely agreed that economic growth has helped hundreds of millions of people escape poverty throughout the world. However, not all kinds of growth are equal. The full potential of the economy to lift people out of poverty is only realised when growth is sustainable, and the benefits are enjoyed by a broad section of the community. MDF is not focussed only on economic growth, but growth that is more evenly distributed. How do we do this in practice?

Most private sector development programs work with governments and policy makers to improve the 'business enabling environment' in what can reasonably be described as a top down approach. In contrast, MDF works directly with businesses and entrepreneurs to achieve change. It's more of a bottom-up approach.

MDF starts by scouring the economy for markets that could work better but, for a variety of reasons, don't. We specifically look for markets in which large numbers of poor people are active - for example, agricultural markets involving large numbers of poor farmers or urban industries that employ large numbers of poor women. We then work very hard to

understand the underlying reasons that the market is not working as well as it could. This is critical. True understanding only comes by spending time with the market actors (buyers and sellers) to understand why they do what they do; understanding *incentives*.

For markets to work well for everyone (not just those at the top) there are a range of things that need to be present. These include information, technologies, infrastructure, finance, standards and regulations. If these things are absent or sub-optimal, they tend to inhibit the performance of the sector or, in other words, mean that no one earns as much as they could. A simple example is farmers that don't know how or when to use fertiliser. They may be using too much, too little or applying it at the wrong time of year. In poor farming communities this is a very common phenomenon. Incorrect use leads to lower yields and quality, resulting in lower prices from farm gate to consumer. Everyone loses.

MDF tries to find entrepreneurs and farmers who would benefit from a better-functioning market. Using the example above, farmers might be given advice from the fertiliser salesman on when to use fertiliser and how much to use - this in turn increases yields. If the farmers are happy with the advice, they are more likely to be repeat customers. The farmer earns more when they sell their produce and the fertiliser salesman gets repeat business. Everyone wins.

Where does MDF fit in?

There may be lots of reasons why the salesman doesn't provide advice when he sells fertiliser. Perhaps he doesn't have the information himself and needs training but can't afford it. Perhaps he is too busy and can't afford to hire another staff member to spend time with the customers. Once MDF works out what is going wrong it can then either provide money or technical advice to help the salesman reduce the risk or upfront costs of switching to a new sales technique. Once the salesman has adopted the change, and sees his sales increase, he has an incentive to stick with the new approach.

This process of harnessing the incentives of market actors to influence behaviour is at the core of the Market Systems Development approach. But the work doesn't end there. There is only limited benefit from improving things for only one seller and his clients. The objective is for the change to spread throughout the fertiliser market and improve the market for all farmers. This is often referred to as systemic change. In the example used above MDF might replicate this activity with a number of fertiliser sellers across the country so that many more people are exposed to this new way of doing business. Once enough people can see the benefits of adopting a new practice or business model then it becomes the standard practice across the industry. The system has changed.

The example used above is deliberately simplistic, but the principles at play are applicable across all of the sectors and countries in which MDF works.

Relevance

MDF is part of Australia's aid portfolio. Having an MSD program as part of the aid portfolio provides DFAT with access to a group of industry stakeholders who operate in different spheres to its traditional interlocutors. In most instances, MDF is the only program in a country portfolio that works directly with a diverse array of businesses across the private sector.

MDF therefore has a clear role in advancing Australian economic diplomacy efforts. MDF strengthens local economies. This in turn makes the country a more attractive place to do business for Australian investors and companies.

MDF also provides a platform for accessing local industry stakeholders, many of whom are influential players in local policy reform initiatives. MDF represents an alternative pathway to influence policy than traditional government facing aid programs. When a bilateral, government to government relationship is rocky, partnerships with the private sector are an effective way of keeping the bilateral relationship moving forward and maintaining strong people to people links. MSD country teams are packed full of highly skilled, well-networked individuals who are adept at networking and influencing.

MDF also has the capability to provide market matching and market intelligence that could be of significant value for Australian investors and exporters.

Moreover, the skills embodied in MDF builds a positive image of Australian business capabilities and (micro) economic policy expertise. These help to build Australia's bilateral relationships, improving the business communities' perception of Australia as a good country with which to do business.

Importantly, it also strengthens the visibility of the Australian Government's commitment to, and effectiveness in, supporting inclusive and sustainable growth.

Results as of 2018

- USD 59.9m - the business innovations resulting from MDF's investments yielded 59.9m USD in additional revenue for our business partners (value of additional market transactions, VAMT).
- 2616 Market Actors - for every partner that MDF works with, they in turn work with a host of other market actors. These businesses benefit indirectly from MDF's support and stimulation does not rest narrowly on a few advantaged actors.
- 97,970 people have so far benefited from MDF's work (effective outreach)
- Additional income of USD 61.3m was generated in 2018 for women and men in MDF's countries of operation.



Fiji: Garden City Business Park, Grantham Road, Suva, Fiji

Pakistan: 95-E/1, Syed Shamshad Haider Road, Hali Road, Gulberg III, Lahore, Pakistan

Papua New Guinea: Level 6, PwC Haus, Harbour City, Port Moresby, Papua New Guinea

Sri Lanka: No. 349, 6/1, Lee Hedges Tower, Galle Road, Colombo 03, Sri Lanka

Timor-Leste: 2nd Street, Palm Business & Trade Centre, Surik Mas, Dili

