

Reaching the poorest:

Market Systems Development (MSD), social protection & graduation approaches

Market Development Facility | 2019

Executive Summary

Market Systems Development (MSD) programs, such as DFAT's Market Development Facility (MDF), are driven by considerations of scale, sustainability and value for money. MSD programs' responses to these drivers, along with a traditional focus on working with established businesses, have been argued to make MSD programs ineffective at reaching extreme-poor people. This brief explores these arguments and provides commentary on a proposed hybrid push/pull approach, combining facets of social protection and graduation approaches with MSD currently being considered for a new Australian Department of Foreign Affairs and Trade (DFAT) initiative in Nepal.

The knowledge brief suggests that there are opportunities for more explicit targeting of MSD programs towards extreme-poor people and explores how combining MSD with other approaches may help to ensure the inclusion of those who might otherwise face exclusion from profitable engagement with markets. It commends efforts to improve the effectiveness of poverty reduction efforts for extreme-poor people and suggests that regardless of the tools a hybrid approach may use, a maintained focus on sustainability needs to remain the priority.

This knowledge-exchange brief is part of a series developed by the DFAT funded Market Development Facility (MDF). The briefs reflect a range of perspectives from roundtable discussions facilitated by MDF at DFAT in Canberra in October 2018 as part of MDF's learning agenda. The briefs acknowledge the diversity of policy perspectives on MSD and incorporate examples and lessons learned from MDF and other MSD programs. The learning agenda aims to support learning and information sharing by MDF, one of DFAT's largest, most sectorally diverse and geographically dispersed MSD programs. Learning Agenda sessions are aimed at deepening understanding of the value, application and complementarities of MSD as well as other private sector approaches in complex economic and political environments.

Purpose

Social protection/social security systems are core ongoing parts of countries economic and social architecture. MSD programs are timebound initiatives that aim to improve the functioning of market systems for the benefit of poor people. Whilst there are significant overlaps in their objectives, they have largely been understood in isolation of each other. DFAT, with help from Palladium-Swisscontact and BRAC, is currently exploring a new hybrid program in Nepal, which would see 'pull' MSD interventions driving market expansion complemented by community level 'push' interventions such as targeted stipends or cash transfers. It is a highly novel approach. One of the more novel features is the implementation model which is based on a partnership between a commercial contractor and one of the world's largest NGOs.

The proposed Nepal team would include representatives from both a social protection background as well as MSD practitioners. Decisions on the nature of interventions would be taken jointly by MSD and social protection managers on an intervention-by-intervention basis, ultimately driven by what the program's analysis indicates will be the most effective and sustainable approach. This proposal for a new program with this hybrid approach, presents an opportunity to test the complementarity of MSD/ social protection approaches as well as the potential challenges.

Analysis

Purposeful targeting is important to social protection approaches. Defining who 'the poorest' or the extreme-poor – as referred to in this paper – are is highly debatable and contextual. For the purposes of the new Nepal program, extreme-poor people are defined as those earning less than USD 1.90 a day and are demonstrating a range of other indicators of multidimensional poverty, e.g. no access to electricity or evidence of undernourishment. Social protection programs provide income security through recurrent (ongoing) support. This is generally in the form of regular and predictable cash or in-kind transfers. Social protection programs have had significant – directly attributable – successes in reaching large numbers of poor people and ameliorating the worst aspects of extreme poverty. Graduation, an approach emerging from the work of BRAC in Bangladesh, couples cash transfers with systematic provision of assets and training, aiming to sustainably take people out of the poorest poverty bracket. Graduation initiatives are livelihood programs that are often conceptualised as social protection because of their transfer of assets and cash. Unlike social protection programs graduations programs are time bound and have an end date.

MSD programs work at a system level. They have large in-country teams who build networks with system actors – private, public, community – and identify opportunities for partnerships – most often co-investments with a number of different enterprises – to catalyse changes to the way that a particular market function. MSD programs generally

operate on the hypothesis that direct partnership with poor individuals or poor communities is treating the symptoms, rather than the underlying causes, of exclusion and inequality. Consequently other than the benefits accruing to supported individuals, broader gains are considered less likely to be sustainable, and interventions will generally represent poor value for money compared to working with system level actors for broader, sustained change.

To date, there remains considerable misunderstanding between the two approaches. MSD programs are often thought to only be working with big business and being disinterested in social impact, whilst social protection approaches are blamed for driving localised inflation and creating dependency in poor communities. A limited number of attempts to 'bolt-on' MSD program market analysis and system level interventions to social protection programs have been attempted, but without considerable reflection on the overarching compatibility of the approaches.

The proposal for a hybrid approach is underpinned by three key assumptions that require further consideration. Firstly, that MSD programs tend not to target and monitor their impact on the extreme-poor and so require blending with social protection approaches. Secondly, that there are locations and communities where market access is so limited, or markets so thin, that MSD's facilitative approach is ineffective and that the only option is for direct provision from a project of recurrent-investment type interventions. Finally, that MSD programs and social protection programs have a different and potentially incompatible vision of sustainability.

Most MSD programs do not explicitly target the extreme-poor, largely because targets set by funders relating to value for money, cumulative income increases etc. incentivise them to opt for interventions that maximise scale rather than impact on a specific poverty demographic. Instead, MSD programs spend significant amounts of time and resources on measuring downstream poverty impact and ensuring that this feeds back into future intervention design. Nevertheless, many doubt the extent to which MSD programs can adequately reach the extreme-poor because these people are typically only active at the periphery of formal markets and continued cynicism that 'trickle-down' benefits will ever reach these individuals. MSD programs, even those using the approach in systems that are not purely commercial, e.g. education and health have difficulty responding to these claims because they are generally unable to directly and robustly attribute results of their interventions in the way that programs doing direct delivery can. The hybrid approach, with its explicit targeting, offers an opportunity to test an approach that sees an MSD program use a systems level approach in a way that explicitly targets extreme-poor people without the restrictions of rigid targets or one dimensional value for money calculations.

It has been suggested that extreme-poor people are not engaged in markets. This view can originate from a conflation of formal and informal markets; seeking to identify extreme-poor people engaging with registered businesses and formal employment

mechanisms and in so doing overlooking the ways the extreme-poor interact with and are dependent on functional, but informal markets. These markets exist everywhere. Farmer cooperatives and organizations still interact with aggregators, people breaking rocks still sell those rocks to middle-men. Except for some very rare examples of truly subsistence agriculture, most people are consumers and producers. This is just as valid for the extreme-poor as any segment of society. A specifically targeted MSD program, with an explicit extreme-poor poverty reduction mandate may be able, as in any other market system, to analyse and find opportunities for intervention by partnering with market actors who engage with extreme-poor communities or households. It just may be that these markets – and the actors within them—are not as formalised as those MSD programs conventionally engage with.

There are legitimate concerns that the portfolio approach of MSD programs – which has a relatively high tolerance for failure at the activity level – means that targeting already vulnerable people may cause unacceptable levels of individual economic instability. Whilst no intervention, including those taken from the graduation approach that exposes individuals to the risk of market transactions can be entirely without risk, it is hoped that the proposed hybrid approach can help. Provision of cash transfers and ongoing analysis of changing community dynamics from the social protection toolkit could help to de-risk activities. It is anticipated that this would run in parallel to the commercial de-risking that occurs at the system level through MSD interventions.

Both social protection and MSD approaches have visions for sustainability at their core. In the case of MSD, this relates to aid funded interventions being time limited and ensuring that existing or emerging system actors maintain responsibility for market functions. In social protection, the sustainability of donor funded recurrent expenditure activities for extreme-poor people is ensured through a clear plan from the outset of implementation for how partner governments will continue funding. MSD programs have found that when programs deliver goods and services directly initially, and then try to transfer their delivery to system actors at a later date, sustainable delivery has typically not been achieved. This is because programs end up focusing solely on delivery, not on practically testing sustainable means of delivery that can work without aid support. The challenge for this hybrid approach will be to test sustainable mechanisms for delivery through system actors sufficiently early and consistently, rather than delivering first and addressing sustainability later. An effective hybrid approach will need to ensure that a clear vision for sustainability is maintained, ensuring that no activity – whether from the social protection or MSD toolkit – only delivers temporary distortionary effects, rather than sustainable, systemic change.

Conclusions

A well-considered, market system led approach to more sustainably supporting *extreme-poor* communities represents an opportunity to test innovative development practice in a

new context. There remain misunderstandings between donors and practitioners of MSD and social protection/ graduation approaches that still however need to be addressed. Core to this in any hybrid program will be the building of shared objectives for sustainability. Donors and practitioners will need to work closely together and co-design interventions, basing decisions on systems analysis. Ultimately whatever tools are used to deliver interventions, any hybrid approach must deliver system change and sustainable reductions in poverty.



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