

Engaging the private sector for a market-led recovery

The role of the private sector in post-COVID aid

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Summary

COVID-19 presents an unprecedented health and economic challenge, which will have lasting impacts, particularly for Australia's closest neighbours in Timor-Leste, Papua New Guinea and the Pacific. It is critical that any response to the crisis achieves meaningful and lasting results in our region. This paper draws on Market Development Facility's (MDF) extensive on-the-ground experience in empowering businesses to innovate and adapt to demonstrate how this approach will allow businesses to become more efficient and resilient, creating more equitable supply chains and markets, leading to better development outcomes.

An unprecedented crisis

SARS-CoV-2 is highly transmissible and has spread rapidly across an interconnected planet. With no vaccine available, COVID-19 will be an inescapable reality for some time to come.

Governments have responded to the pandemic with mandatory public health measures, including quarantining and social distancing. A health crisis that causes no direct damage to infrastructure has severed socio-economic connections and stalled economies. Economic contagion is now spreading faster than the virus. Disrupted commerce, trade, travel, and consumer behaviour are affecting all economies in ways that are likely to be radical and long lasting. Developing countries are being impacted differently. Most are imposing lockdowns, but few have the resources to deliver stimulus packages without incurring heavy debts. Many of their citizens rely on daily wages and do not have recourse to social safety nets. They will have no choice but to keep working. They will be exposed to the virus in greater numbers, but with scant access to healthcare.

There is an increasing possibility that global supply chains, particularly for food, will experience some level of disruption. If just one large commodity exporting country imposes restrictions or price controls it could result in global shortages and price spikes similar to those in 2007-08. Even if supply chains are not severely disrupted, plummeting exchange rates for the worst affected countries will drive prices higher in relative terms. Once again, poor people are most likely to be priced out of supplies of essential goods. They will be hardest hit as sources of informal credit and remittances dry up. The numbers of the poor will expand, as middle-income families in developing countries are pushed into poverty by unemployment and bankruptcy. In some countries it could result in large numbers of poor being forced into subsistence lifestyles. History suggests that the unemployed and bankrupted 'new poor' will recover more slowly as their asset base is depleted. It also

suggests that women will be impacted particularly severely in this crisis. Often employed in insecure jobs in vulnerable industries such as hospitality and manufacturing, women are likely to see the economic and social gains of the last decade recede.

Responses to the health and economic crisis have been positioned as two distinct sets of actions. Control the spread of the virus and maintain essential supplies, then restart the economy. Health and the economy cannot be disconnected, however. For the poor, the availability of medical and food supplies has no benefit if people cannot afford them. Essential goods cannot move if critical links in supply chains have been disrupted. For instance, agricultural supply chains rely on transport that is often an integral part of other sectors, such as construction. If the latter is locked down, so is the former. If imports of fertiliser do not flow smoothly, next year's food supply is reduced. Lay-offs in 'non-essential' sectors shrink aggregate demand and kill off other firms that are part of essential supply chains.

Opportunity out of the crisis

Health and economic measures must be balanced concurrently. A vital dimension in minimising the impact of COVID-19 will be supporting businesses to survive and adapt in the short term and position for recovery. Measures might also be taken to turn crisis into opportunity. Supply and demand shocks will accelerate existing trends, disrupt established players, foster innovation, and increase receptivity to new ways of working. While the COVID-19 economic shock is unprecedented in many ways, it is familiar in one important respect: it will unleash a wave of destruction and creation from which some countries and industries will lose, while others will benefit handsomely. There will be opportunities for fleet footed countries, industries, and businesses to 'build back better': to be more efficient, resilient and fair—particularly for women by integrating strong female participation from the outset, rather than trying to retrofit this within established, rigid business models. But they will need to think about smart—not just rapid—recovery.

The international aid response

Aid agencies are also grappling with lockdown: delivery mechanisms have been compromised by movement controls, international staff have been repatriated, and resources are being redirected to COVID-19 mitigation. This 'COVID-19 pivot' is not without risks. As the aid community has learned over the years with disasters of all kinds, rapid influxes of aid into fragile systems often crowd out locally led recoveries. Preoccupation with distribution of food and medical supplies might distract attention from maintaining livelihoods and supply chains, so critical to helping communities keep trading with one another, helping to maintain human interaction and social cohesion.

Aid will need to focus on the long term whilst dealing with the short term. Attention and resources will need to be directed to business survival and adaptation—and smart recovery. Supporting business continuity. Working to keep connections open within and between countries, which have been so central to the enormous poverty reduction gains of the last three decades. This will be particularly true for trade-dependent economies, such as in the Pacific, helping public and private market actors take advantage of a one-time opportunity to 'build back better'.

Thinking regionally in response and recovery

Improved regional economic integration is a core aim of DFAT's Pacific Step-Up, and this crisis makes it more urgent: trade-dependent Pacific economies will need regional solutions to maintain food security, address supply chain issues and support economic recovery. It seems likely that trans-Tasman travel will restart more quickly than other international travel, and that concepts such as the 'Pacific Bubble' will offer opportunities for enhanced trade and labour mobility with our regional neighbours. This is a unique opportunity to promote coordinated and enhanced regional economic integration through recovery.

Using the tools we have: working with private sector

It is against this background that this paper outlines the case for an approach that empowers private sector and ensures sustainable markets - taking a Market Systems Development (MSD) lens to our recovery initiatives. MSD is one of a small number of proven delivery mechanisms that enhance economic outcomes for both individuals and businesses in the countries of our region. MDF is the Australian Government's flagship MSD program. Its objective is simple: help firms innovate and adapt to build more efficient, more resilient and more equitable supply chains and industries. It is based on the well-established premise that economic systems are most durable when they deliver shared benefit for both businesses and the broader community. In normal times MSD works to innovate, identify trends, and exploit opportunities to help our partners get 'ahead of the curve'. In the current climate, more than ever, this will become a matter of survival as the destructive forces of COVID-19 break in waves across the economies of the region.

Working with market actors, as MDF does, has been shown over the last decade to provide tangible results in improving access to markets and stimulating growth in the Pacific. Programs like MDF have the existing networks and capability to work quickly, not only to help businesses respond effectively to the crisis, but also to develop regional markets in ways that other aid delivery mechanisms cannot—to turn crisis into opportunity.

MSD programs do not deliver solutions directly, but work through extensive networks of businesses, government agencies, apex bodies, research organisations, etc, that have long-term stakes in local economies. This catalytic approach can play an important role in supporting smart recovery.

Several features of these types of development programs make them well suited to operating in and responding to the COVID-19 crisis.

Flexible mechanisms: Programs like MDF are set up for rapid programming and re-programming, making them extremely versatile. They work through a diverse portfolio sectors, partners, and instruments (such as technical assistance, grants, coordination, behaviour change campaigns). This enables them to identify and respond to rapidly changing circumstances, dropping, adjusting, and adding activities according to need. MSD programs have been used extensively in crisis recovery contexts and are adept at implementing a 'build back better' approach to market recovery. MDF is particularly versatile as it is a multi-country facility with a flexible head contract that allows rapid

deployment in markets across the Indo-Pacific region without the need for a lengthy design or contracting process.

Best practice approach to Women’s Economic Empowerment: MDF has a best practice approach to Women’s Economic Empowerment. Activities are designed to maximise participation of women from the outset, rather than as an afterthought. The damage being wrought in almost every major industry as a result of COVID-19, and the rethinking that this brings, provides an opportunity to ensure the participation of women is embedded into business models from the outset, rather than attempting to retrofit, which is always more challenging.

In-country capacity: Programs like MDF work through locally based teams that reach from international buyers to remote farmers. This means that even during times of crisis, they maintain a presence on the ground and can continue delivering. It allows them to coordinate between a wide range of stakeholders, which will be vital in responding effectively to widespread supply chain crises. In a rapidly changing and unprecedented situation, they can serve as DFAT’s ears and eyes in the real economy, so Australia is seen as a reliable, trusted source of advice in the region. MDF was designed to operate with a small number of expatriate staff, many of whom support local teams remotely. This has allowed MDF to ramp up its engagement throughout the COVID-19 crisis – even as other development programs went into a period of hibernation.

Led by real-world intelligence: The extensive in-country networks of programs that work closely with private sector allow them to gather market intelligence from every level of the economy and analyse impacts from households to multinational firms. For example, MDF has been collating intelligence about supply and demand shocks, supply chain disruptions, business pain points and responses, and emerging opportunities in each of its countries, and providing these insights to DFAT. This intelligence also helps MDF work with its market partners to respond to the crisis and plan their recovery.



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