



# Competitiveness or inclusion?

Balancing short-term results  
with deep-seated change

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Market Development Facility

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### **Market Development Facility (MDF)**

Market Development Facility is an Australian Government funded multi-country initiative which promotes sustainable economic development, through higher incomes for women and men in our partner countries.

We connect individuals, businesses, governments and NGOs with each other, and with markets at home and abroad. This enhances investment and coordination and allows partnerships to flourish, strengthening inclusive economic growth.

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# Abstract

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Programs that aim to stimulate inclusive growth have two tasks: promoting economic inclusion while strengthening business and sector competitiveness. They are often forced into a trade-off between these tasks by short timeframes and by measurement that prioritises simple, quantifiable inclusion indicators, such as number of disadvantaged people benefiting. Quick results are favoured over transformational changes in competitiveness that can take longer to achieve.

The consequence is that programs tend to select sectors and interventions where 'headline impact' is rapidly achievable but ignore those that might be vital for economic development, where changes in competitiveness are complex, time consuming and hard to quantify.

The trade-off can be mitigated by program design that has appropriate timeframes, more balanced measurement and reporting systems, and a portfolio management approach that enables a judicious blending of sectors and interventions that can deliver 'quick wins' at the same time as tackling more deep-seated obstacles to competitiveness.

The data used in the paper was obtained from MDF Pakistan's impact assessments, which used a mixed methods approach. This was supported by secondary macro-level data for Pakistan's leather sector, as well as insights from industry players that were captured through periodic discussions with the MDF team over the course of the program.

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# Executive Summary

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Market Development Facility (MDF) is an Australian Government-funded multi-country initiative that promotes sustainable economic development, through higher incomes for women and men. It connects individuals, businesses, governments and NGOs with each other, and with markets at home and abroad. This enhances investment and coordination and allows partnerships to flourish, strengthening inclusive economic growth.

This paper explores the issue of sector selection in market systems development (MSD) programs. It starts from the premise that, if asked, what would a finance minister of a developing country prioritise? Would it be rapid increases in income for a specific demographic, or would it be improved competitiveness of sectors that are crucial for longer term economic performance – and, therefore, increased employment and living standards for the overall population? Development practitioners would caution the finance minister that research shows that a narrow definition of growth does not necessarily directly translate into benefits for the broader population. Growth without enhanced inclusion and/or redistribution may not reduce poverty.

MSD programs seek to promote inclusive growth by raising competitiveness and increasing poor people's participation in, and benefit from, the markets in which they participate. Programs aim to work in sectors that are important for poor people – as producers, employees or consumers. Sectors are selected based on: (a) relevance to the livelihoods of large numbers of a targeted population; (b) opportunity for the sector to improve its competitive performance, grow and benefit the target population; and (c) the feasibility of aid intervention to stimulate sustainable change in the sector.

However, sector selection is influenced by two additional factors that tend to restrict a program's scope. First, the short time frame a program has for implementation means that results (typically defined as additional employment and income generated for the target population) must be realisable within the program's lifetime. Consequently, there is a tendency to choose sectors where simple changes can lead to rapid results.

The second factor is measurability. MSD programs have rigorous standards of results measurement. To claim credit for having stimulated a change (and thereby convince the funder to continue investing) a program must be able to observe and measure that a change is the direct result of its interventions; this is unlike, for example, governance programs. This means that more complex sectors, requiring multiple dimensions of change or that are subject to significant exogenous influences, are not often targeted by MSD programs.

This may seem pragmatic. Aid resources are scarce and should be applied only where there is a strong likelihood that an intervention will succeed and deliver a development impact. But there are occasions when the imperative for rapid and measurable impact leads to the neglect of opportunities for deep-seated change that have the potential to build long-term competitiveness that would, in turn, lead to increased employment and income earning opportunities for the target population.

How to square this circle? The purpose of this paper is to explore the trade-off between achieving results in the short term and building long-term competitiveness, through a case study of MDF's work in the leather industry in Pakistan. The paper examines MDF's rationale for intervening in the leather sector, the interventions it made and the resulting impact on the industry. It explores the decisions and compromises the program faced and – based on this experience – suggests ways in which MSD programs might:

- a. Adjust their approach to sector selection to better achieve the dual objectives of increased inclusion and competitiveness;
- b. Make their measurement and reporting systems more balanced; and
- c. Use a portfolio management approach to enable a judicious blending of sectors and interventions that can deliver 'quick wins' at the same time as tackling more deep-seated obstacles to competitiveness.

# Targeting sectors with potential for inclusive growth



## In principle...

Research has shown that economic growth does not necessarily directly translate into benefits for the broader population. Growth without enhanced inclusion and/or redistribution may not reduce poverty. The MSD approach explicitly aims to stimulate pro-poor growth. Programs intervene to catalyse changes that strengthen competitiveness and increase the participation of disadvantaged groups, to ensure that benefits are widespread and improve the lives of the target population.

In line with this thinking, MDF looks for sectors in which significant numbers of poor people are active – for example, agricultural markets involving many poor farmers or urban industries that employ many poor men and women. It then analyses the underlying reasons why each market is not working as well as it could – i.e. why it is not achieving its potential. This often relates to inadequate or inappropriate market functions, such as information, skills, technology, infrastructure, finance, standards or regulations. MDF prioritises the most critical but underperforming functions and starts working toward changing them, with an emphasis on the need for the changes to be sustainable and resilient. MDF therefore always partners with private and public sector actors that are motivated and capable of driving this change. MDF does not deliver change directly on its own. Any change or innovation supported by MDF is rigorously scrutinised and piloted to ascertain that the new way of working – or ‘business model’ – is feasible and capable of being replicated or scaled up by others.



MSD programs like MDF start by analysing the economy, looking for sectors that could work more inclusively and competitively but, for a variety of reasons, do not.

Sectors are selected based on:

- a. Relevance to the livelihoods of large numbers of a targeted population, as well as to the priorities of the host country and the funder;
- b. Opportunity for the sector to improve its competitive performance, grow and benefit the target population; and
- c. The feasibility of aid intervention to stimulate sustainable change in the sector.





## In practice...

Bilateral aid programs operate with fixed time frames, typically less than five years, perhaps with a second phase dependent on the performance of first phase and not guaranteed from the outset. The funder sets the budget, target population and objectives of the program at the outset. For economic development initiatives, objectives tend to be expressed in terms that will resonate with taxpayers, politicians and media in the donor country, such as more income or better jobs. Funders expect results early within the program period. Programs are subject to oversights on behalf of the donor country taxpayer and are scrutinised through annual reports and periodic evaluations. The pressure to deliver results from early on is strong.

Consequently, in practice, sector selection has often been influenced by two additional factors, which tend to restrict the scope of programs considerably. First, the short time frame a program has for implementation means that results must be realisable within the program's lifetime. The second factor is measurability. MSD programs have rigorous standards of results measurement. To claim credit for having stimulated a change (and thereby convince the funder to continue investing) an MSD program must be able to observe and measure that a change is the direct result of its interventions.



## Implications

MSD programs are obliged to reach a certain level of measurable impact within the life of the program. The time taken to achieve this impact and a program's ability to measure and attribute it is therefore critical. Time frame and measurability have incentivised MSD programs to focus on sectors, markets and changes where the transmission mechanism from program intervention to accrual of benefit for the target population is relatively fast and clear.

There has been a tendency to choose sectors in which simple changes lead to rapid, demonstrable results. Conversely, the period required to stimulate sustained changes in the competitiveness of certain sectors – needed to drive future growth and generate more jobs and income – often exceeds a typical program timeframe. More complex sectors – e.g. export industries – requiring multiple dimensions of change or that are influenced by exogenous factors have not been particularly attractive to MSD programs, as the changes stimulated may not deliver measurable impact on the livelihoods of disadvantaged people sufficiently clearly or attributable with the time and resources available to the program.

This presents a conundrum for MSD programs. To meet funder requirements for rapid, attributable impact on the target population, MSD programs tend to rule out opportunities that may have a significant long-term benefit for the economy, but which cannot be achieved (or demonstrated) within the program time frame. There is a trade-off between quick wins and building the economic foundations for long-term competitiveness. Promising interventions addressing important competitiveness problems might be aborted because reportable results take too long to emerge, particularly when compared to interventions in sectors that generate results more quickly.

Typically, this trade-off has led MSD programs to focus disproportionately on domestic agriculture where consumer demand for food is rising but productivity is low. Expanding the provision and application of agricultural inputs – seeds, crop protection, fertiliser, or equipment – and good farming practices can generate rapid results on yields, farm sales, and farmer incomes, perhaps within one or two seasons. The producer benefit is observable and measurable, and is clearly linked to



changes in producer practice and performance stimulated by the program. This is not always the case in agriculture, however. Productivity in tree crop agriculture is often found to be declining because of aging tree stocks. Programs might avoid such sectors because the time to benefit from the solution – replacing trees – often exceeds the time frame of the program. Similarly, enhancing the off-take side of the value chain – e.g. processing or cold storage – might be vital to increasing value addition, ensuring quality, or penetrating export markets, but the immediate benefit to smallholder farmers is often not as significant as it is to other actors in the value chain.

The trade-off is more apparent in non-agricultural sectors, such as manufacturing and services, where the poor tend to be employees rather than producers. Changes that may make the industry more competitive in the medium term might be unlikely to lead to higher worker incomes or additional employment in the short term, but without these changes, the sector's prospects for growth – or even survival – might be jeopardised. Moreover, the changes required are often complex and take time. They also benefit larger businesses first, while the benefit to workers' incomes or jobs is less apparent in the short term.

This bias is an issue when a country's broader macro-economic trajectory is considered. A program may choose to work in an agricultural sector, where increasing appropriate use of seeds and fertiliser can raise farmers' productivity and sales to local food markets within one season – immediately contributing to more income for farmers. But this might be in a context where agriculture represents a declining share of GDP and employment, rural-urban migration is accelerating, and the rural population is shrinking and aging. Positive results in a short period might attract favourable attention for the program and encourage further investment in agriculture – but they may also ignore barriers to the expansion of urban industries, which have greater prospects for value addition, labour absorption and, economic contribution. The program has then missed opportunities to build the competitiveness of sectors of the future and its investment is discordant with the priorities of the host government and the ambitions of the private sector.





# MDF's engagement in Pakistan's leather sector



## Analysis and strategy

MDF Pakistan began operations in 2013. Following a detailed analysis to understand the inclusive growth opportunities available in different sectors, livestock was found to be a promising prospect, specifically the dairy, meat and leather sectors. Pakistan has the sixth-largest livestock population in the world. Livestock contributes around 11 percent of GDP and 35 to 40 million people in rural areas derive their income from livestock.<sup>1</sup>

Pakistan's enormous livestock population provides a vast supply of leather. It is estimated that Pakistan exports 95 per cent of its leather, 85 per cent of which is unfinished. MDF concluded that there was an opportunity for Pakistan to add value by producing finished leather and capture export market share because of its abundant availability of leather and competitive labour costs. The industry had been unable to exploit this opportunity and appeal to international buyers because it struggled to meet customer requirements for designs, fast turnaround and compliance certification. Ancillary components (moulds, lasts) and services (testing and marketing) were unavailable domestically, hampering responsiveness to the needs of international buyers. Local manufacturers, despite having the technical capacity to cater to export orders, did not export because they lacked expertise in product design and development and marketing. Finished leather goods were primarily sold into the domestic market.

Skilled labour was also a limiting factor. To recruit and retain skilled (mainly male) workers employers pay advances, offer longer breaks during shifts and provide extra leave. The advance payments taken by workers often make them reluctant to leave their existing employer because they have a debt to repay, ensuring worker retention. As demand for skilled labour rose, however, employers were obliged to offer even larger advances.

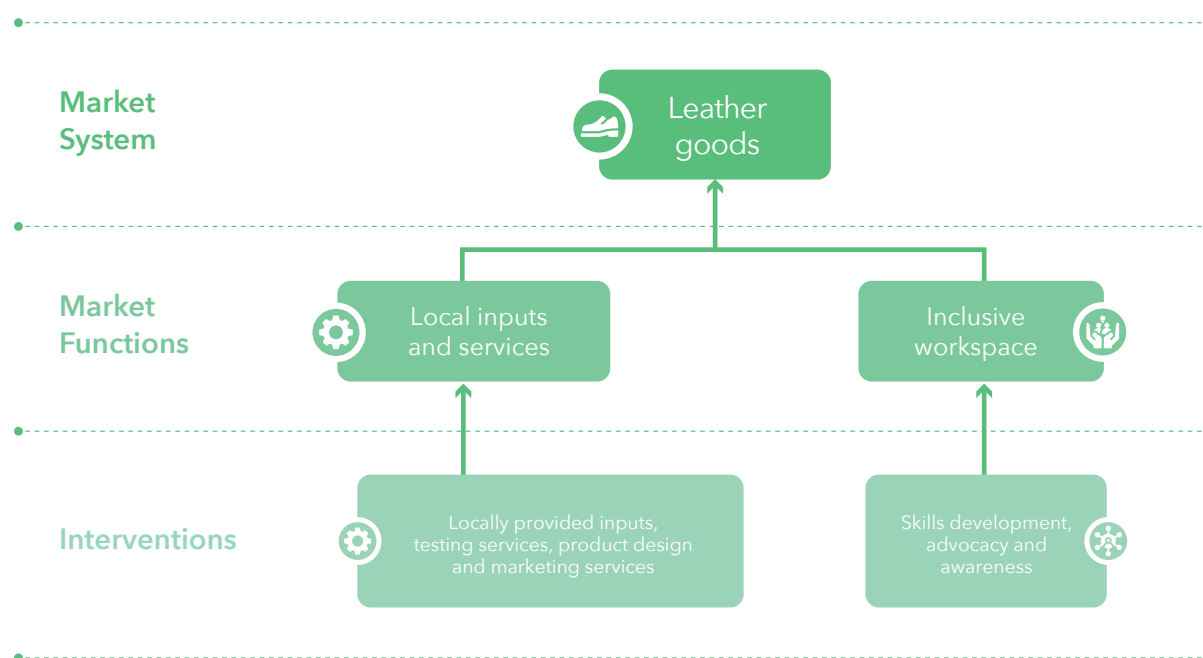
At the same time, one source of skilled labour remained underutilised: female workers. Women are typically involved in stitching roles but mainly work from home, on an informal, piece-rate basis. They are not engaged formally and lack job security, training, and benefits. Formal employment in factories was unappealing to women because of working conditions and practices: they require segregated working areas, rest facilities, and transportation. The industry's human resource management practices were outdated and unsuited to bringing more women into the workforce.

MDF identified the footwear segment as having the highest potential for growth within the leather finished goods industry. It was the largest segment of the sector and struggled to meet rising demand. In collaboration with the Pakistan Footwear Manufacturers Association, MDF investigated the constraints and potential solutions to increasing the manufacture and export of finished leather footwear.

MDF's theory of change was that converting more leather into finished goods would add value and increase export earnings, making a valuable contribution to the economy. Increasing production of finished leather footwear would drive up the need for skilled labour, so investment in more inclusive workplaces would be needed to expand the (female) labour force and create better jobs. Development of domestic capacity to provide key inputs and services would increase the industry's responsiveness to the demands of international buyers.



<sup>1</sup> MDF's sector assessment report for dairy, meat and leather sectors



**Graph 1** MDF's strategy for the finished leather goods export market system

## Interventions

MDF's interventions in the finished leather goods export market system started by focusing on local inputs and services. MDF's first partnership was with Intra-Systek in 2014, one of Pakistan's leading shoe materials, components and accessories manufacturers and distributors, to set up a local shoe last manufacturing facility. The rationale for this partnership was to reduce the industry's reliance on imported lasts for shoe manufacturing, which slowed down response time and increased costs. Further partnerships followed to stimulate locally made inputs and local service delivery. These included local manufacture of shoe moulds with Tabraiz Mold Engineering – one of the leading mould manufacturers in the packaging industry – and local quality assurance testing of leather products to comply with international standards with Textile Testing International, a provider of testing services to the apparel and textile industry for over two decades.

MDF partnered with Interconnect Global (ICG) to improve product design and marketing for export markets. ICG was supported to become a footwear sourcing house, the first of its kind in Pakistan. ICG provides value-added

services such as product development, merchandising, production management, quality inspections and audits, and logistics solutions to enable footwear manufacturers to win export contracts.

In 2016, DFAT's Gender Equity Fund (GEF) awarded MDF AUD800,000 to develop partnerships that promote Women's Economic Empowerment (WEE). In Pakistan, partnerships funded by GEF focused on the introduction of (a) a range of commercially sustainable training models for women in agriculture; (b) financial services and promotion of information targeting women; (c) improved workplace conditions for female workers.

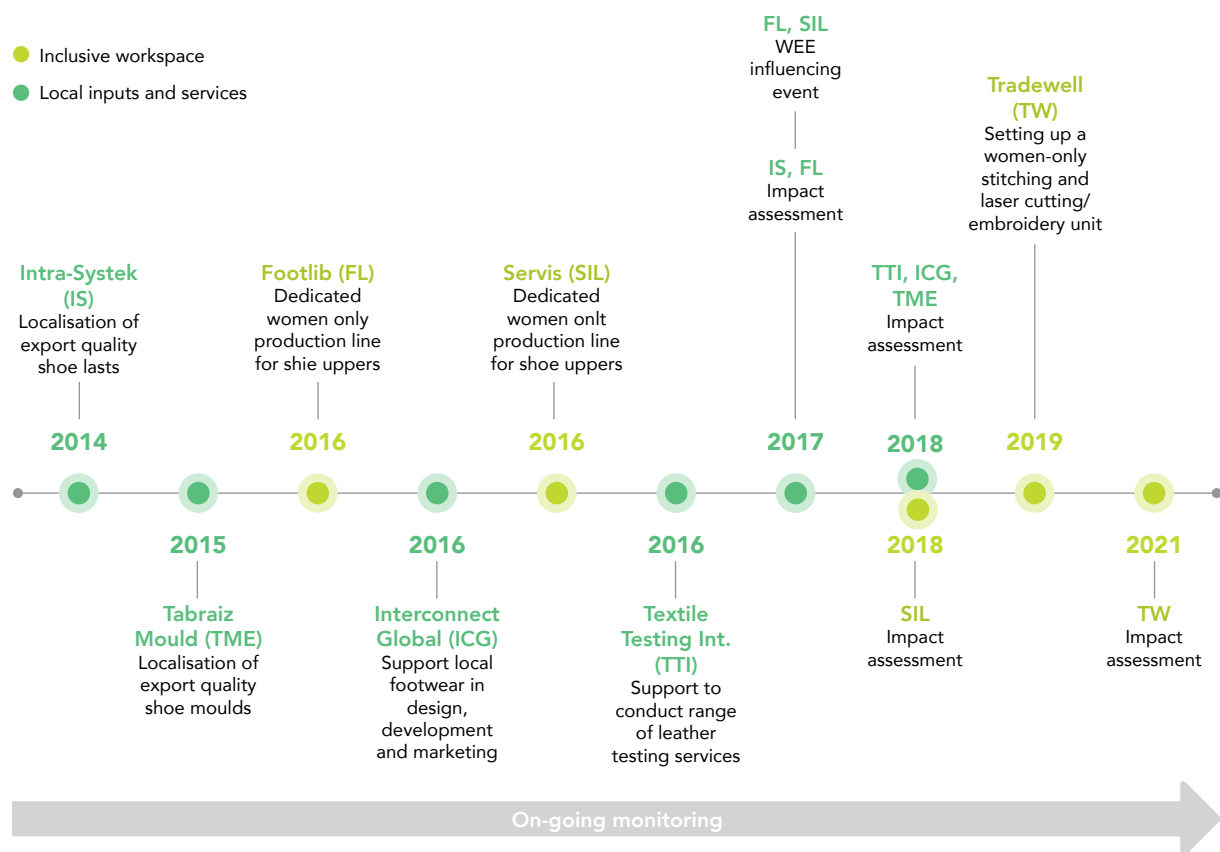
A partnership with Footlib, a medium-sized footwear manufacturer, created a segregated stitching line for female workers producing shoe uppers. These shoe uppers were sold to Stylo – a local footwear manufacturer. With the increase in the availability of shoe uppers, Stylo was able to procure up to 3 additional orders per year. To cater to these additional orders, Stylo hired an additional 75 workers in its production facility.

Another partnership with Servis – the largest footwear manufacturer and exporter in Pakistan – set up a female-only footwear manufacturing unit, along with a day-care centre for children. Female workers were also taught new skills in more complex functions, such as cutting and lasting, to broaden their career opportunities. Working with other female colleagues and supervisors enabled women to network and progress into supervisory roles. MDF chose to work with Servis because it was a receptive partner: it had already introduced some changes to benefit its female staff, such as fixed salaries, ATM cards and segregated transport.

GEF funding ended after two years, but MDF continued inclusive workspace interventions under its regular budget. In 2019, MDF partnered with Tradewell, a

medium-sized leather and leather goods manufacturer and exporter, to set up a women-only unit, and train women in more complex roles such as embroidery and laser cutting. Tradewell also started to engage more women in administrative and supervisory roles.

Armed with a collection of practical experiences and success stories on making workspaces more inclusive as well as productive, MDF sought to promote wider understanding and uptake. This was done via dialogues with associations and engagement events convening the private sector, third-party service providers, public sector, and non-profit organisations, to provide examples of pathways to engage women in the manufacturing workforce.



**Figure 1** Timeline of MDF's engagement in the leather sector

**Table 1** Interventions in the leather sector

<b>Partner</b>	<b>Description of partnership</b>
Intra-Systek	MDF supported Pakistan's first quality plastic shoe lasts production. The partner purchased a computerised numerical coding machine to produce lasts for premium customers. Exporters purchased these lasts to supply export orders.
Tabraiz Mold Engineering	MDF supported Pakistan's first quality shoe moulds production. These moulds reduce manufacturers' production time and increase export competitiveness. The partner purchased casted mould manufacturing machinery to produce shoe moulds to meet the requirements of local manufacturers.
Footlib	MDF supported Footlib to establish a dedicated production line for making shoe uppers staffed by women. This provided employment opportunities for women workers and led to career progression (e.g. supervisor roles).
Inter Connect Global (ICG)	MDF worked with Inter Connect Global to support local footwear manufacturers design and develop products catering to the needs of the European market, and to promote their products in these markets. The partner's merchandisers and quality assurance team worked closely with contracted factories to ensure that local footwear manufacturers followed European Union requirements.
Servis	Supported Servis to set up a women-only stitching unit. Female workers were hired and provided with on-the-job training. The partner opened day-care facilities and an ATM at the unit for the female workers.
Textile Testing International Laboratories (TTI)	Supported TTI Testing Laboratories generate awareness about its range of leather testing services among local manufacturers and foreign buyers.
Tradewell	Supported Tradewell to set up a women-only stitching and laser cutting/embroidery unit. Female workers were hired and provided with skills training.
WEE influencing events	MDF hosted engagement events to share practical experiences and success stories on women's employment in the formal sector through a conducive work environment and dedicated facilities.

# MDF's impact on Pakistan's leather sector



## Local inputs and services

MDF's impact assessments found that quality local inputs and services were being offered to, and used by, footwear manufacturers and that this had resulted in a significant reduction in imported inputs. For example, prior to MDF's intervention, 100 per cent of shoe lasts were imported (90 per cent from India) – approximately 35,000 lasts per year. Now, only 2 per cent of lasts are imported.



Over 2016-2018, Intra-Systek manufactured and supplied **65,000** lasts to the footwear industry, more than the total number of lasts it had previously imported. Since starting to manufacture lasts its customer base expanded from 63 to 84.

It takes Intra-Systek 10 days to deliver a locally produced last, compared to 21 days for an imported last, and it can produce a sample last in 1 hour. Customers reported their satisfaction with the quality and lead time of Intra-Systek's lasts and continue to buy them. Intra-Systek had to turn away orders due to the sudden surge in demand for local lasts, and the company invested USD153,120 in additional machinery to meet new demand.

Intra-Systek's lasting unit was the first of its kind in Pakistan. As news spread in the industry of Intra-Systek's success, a new firm entered the market – Trendy. Trendy installed a last production unit and started catering to the rising demand for local shoe lasts. Between them, Trendy and Intra-Systek manufacture around 90,000 units per year. Intra-Systek primarily caters to manufacturers supplying to the export market. Trendy mainly caters to firms supplying the domestic market.



Developing the footwear industry in Pakistan

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Localised production of shoe moulds has also flourished. Tabraiz Mold Engineering (TME) reported that local manufacturing allowed it to supply a mould series in 30-35 days, compared to 50-55 days when it used to import moulds from China. This reduction in lead time meant that locally available moulds reduced the turnover period on each order by four to six weeks on average. Local moulds also cost 10 per cent less than imported moulds.

A key requirement to sell to international markets is quality assurance and product certification. Prior to Textile Testing International (TTI)'s testing facilities, footwear manufacturers spent a significant amount of time and money getting their products tested outside Pakistan. Since starting to use local testing services,

manufacturers are saving seven to eight days in lead time. TTI reports that orders for its services increased by 34 per cent after setting up a local testing facility, instead of sending samples abroad for testing as it had done in the past.

Interconnect Global (IG) supported two footwear manufacturers in design and product development, as well as securing orders by presenting their samples in international trade fairs. ICG took 115 articles from local manufacturers to the Rive Schuh International Footwear Trade Fair in Italy, securing an order for 200,000 pairs of shoes valued at around USD1 million, which resulted in additional employment of 40 people at contracted factories.



## Inclusive workspaces

Servis accounts for 40 per cent of Pakistan's footwear exports and Footlib exports 90 per cent of its production. Both firms reported that establishing women-only shoe upper and stitching lines had benefited their production volumes by enabling them to tap into a huge workforce, which previously had not been available. Buoyed by this initial success, Servis has invested an additional

USD71,720 to install more women-only stitching lines. Tradewell has trained and involved women in more complex roles such as embroidery, laser cutting, and administration roles in addition to the stitching function. In total, 337 full time jobs were created and USD690,628 of additional income was generated for new employees.

### Progress over 2017-2018



Servis was able to secure **23** additional orders



Average order size was **6,000** pairs



There was an approximately **5%** increase in production over two years



An additional **337** full-time jobs were created, generating over **USD690,000** in additional income for women.







## Competitiveness, inclusivity and value for money

The innovations supported by MDF contributed to the footwear industry's competitiveness and growth. Analysis of exports and interviews with manufacturers revealed that exports of leather footwear to the top ten export destinations increased by 9 per cent from 2015 to 2018. Servis, Pakistan's top exporter and the main buyer of Intra Systek products, reported sales growth of more than 40 per cent between 2015 and 2017.

Not only were footwear manufacturers receiving more export orders, but there was a shift in the category of orders that they could now fulfil. Historically, Pakistan was known for producing simple boat-style shoes and had captured a significant share of that export market segment. This type of shoes did not require any changes in the last and had a rapid turnaround time, but it was not the most profitable category of shoes (exported for about USD8-10 per pair). Pakistani manufacturers were unable to accept fashion orders because they could not meet the turnaround time requirements. The availability of locally produced lasts enabled shoe manufacturers to reduce turnaround time and accept orders for more profitable fashion categories (exported for USD70-80 per pair).

Despite this promising progress, MDF saw that impact at the beneficiary level was not as it had envisaged. MDF had entered the leather sector with the aim of increasing employment and inclusivity. This was only occurring to a limited extent.

The inclusive workspace intervention with Servis, Footlib and Tradewell created 337 full-time jobs and generated USD690,628 in additional income for the beneficiaries. It also opened opportunities for career progression, as some women moved into administrative and supervisory roles. Some jobs were also created at input manufacturers Intra-Systek and Tabraiz Mold Engineering.

Overall, however, few new jobs were created in shoe manufacturers. Firms revealed that while they were now catering to more orders, they had not required additional labour to fulfil these orders. The shoe industry had been operating at sub-optimal levels, so increased production could be handled by existing workforces

and, if necessary, by offering overtime.<sup>2</sup> Manufacturers would only hire more workers when orders increased to such a level as to justify setting up a new stitching line. For manufacturers, labour was a relatively flexible or elastic input; equipment for a new line was more a more 'lumpy' or inelastic input and the main deciding factor for expansion. Manufacturers also indicated that while local inputs and services had enabled them to secure more orders and diversify, local inputs and services were still nascent and needed to develop further to permit the level of expansion that would require widespread hiring. Manufacturers did observe that additional and more profitable orders helped sustain existing jobs, which otherwise would have been cut due to lack of orders.<sup>3</sup>



MDF monitors the value for money (VFM) it achieves from its interventions. It found that it was expending more effort and investment in the leather sector than in other sectors, such as dairy and meat and horticulture, for less impact. On average MDF invested USD9 to impact one beneficiary in the dairy and meat sector, USD3 in the horticulture sector and USD625 in the leather sector. Conversely, the magnitude of impact generated per beneficiary was higher in leather sector interventions – USD2,374 in additional income per beneficiary compared to USD454 in the dairy and meat sector, and USD207 in horticulture – but the outreach was lower. MDF found that innovations, inputs, services and finance in the agricultural sectors were taken up by large numbers of small farmers, usually resulting in rapid improvements in yields and incomes. Outreach was further increased as the innovations were copied by new farmers over two or three seasons. Innovations in the leather sector, conversely, took longer to be adopted, by smaller populations of firms and their workers. For example, setting up a new stitching line required the procurement of new equipment and the hiring of 30-50 workers.

<sup>1</sup> A comprehensive study on labour dynamics and elasticity was planned to assess the increase in operations and income for existing staff; however, this was not completed due to portfolio re-prioritisation and the subsequent closure of the MDF Pakistan program in June 2020.

<sup>3</sup> Ibid.

MDF had a more notable impact on levels of investment in the leather sector. Another VFM variable that MDF monitors is the ratio of private sector investment leveraged as a result of MDF's interventions (i.e. the amount of private sector investment generated for every dollar MDF invests). For leather interventions, this

ratio was 4.46 compared to 2.68 in dairy and meat and 1.72 in horticulture. This reflects the capital-intensive nature of the footwear industry compared to agricultural sectors, but also suggests that firms responded positively to MDF's interventions in the sector, seeing tangible benefits of competitiveness and growth.

**Table 1A** Value for money – local inputs and services and inclusive workspace interventions

	Local inputs and services	Inclusive workspace
Total MDF investment (USD)	173,471	154,931
Total partner investment (USD)	1,050,587	415,617
Private sector investment leverage ratio	6	2.7
Total FTEs	188	337
Net additional income (USD)	555,832	690,628

**Table 1B** Value for money – leather sector interventions vs other sector interventions\*

	Leather	Dairy and meat	Horticulture
Total MDF investment (USD)	328,402	1,078,640	445,804
Total partner investment (USD)	1,466,205	2,887,591	766,676
MDF investment per beneficiary (USD)	625	9	3
Net additional income per beneficiary	2,374	454	207
Private sector investment leverage ratio	4.46	2.68	1.72
Total effective outreach	525	122,979	134,893
Total FTEs	525	793	498
Net additional income (USD)	1,246,460	55,854,210	27,941,012

\*All numbers are as of 2020.

MDF recognised that the positive changes taking place in the leather sector were not translating into measurable impact that could be reported to its funder. Large-scale and rapid results were being achieved in other sectors, where the causal link between MDF's interventions and target population was simpler, clearer and more achievable. In contrast, in the leather sector, the increases in employment and incomes that MDF aimed to generate appeared to depend on a multi-faceted, complex and lengthy change process, involving localised inputs and services, changes in shoe manufacturers, and penetration of export markets. The slack in businesses' workforces and wider labour market made it clear that considerable further growth would be required to drive up employment and changes in workers' incomes.

When MDF compared the impact and value for money achieved across its portfolio, it was decided that the focus would shift within the sector to inclusive workspaces and that the work on inputs and services would be dropped, since anticipated results could not be achieved. With the new strategy, the idea was to continue working with factories to create more jobs for female workers by setting up inclusive workspaces. This would create greater visibility of the model and MDF would encourage industry uptake through advocacy and awareness.



# Revisiting sector selection

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MDF's experience with the leather sector in Pakistan suggests that selecting sectors in which to operate would warrant a more rigorous consideration of feasibility and an increasingly nuanced assessment of whether opportunity and relevance are likely to overlap. This would increase the prospects of identifying sectors in which inclusion can be achieved alongside increased competitiveness. This approach would also help programs anticipate tensions between short-term results and long-term impact, and inform how they might manage, measure and communicate the inevitable trade-offs.



## Be realistic about feasibility



### Time

Time is a vital resource for MSD programs. The feasibility of changing a sector must be gauged within the parameters of a program's timeframe. The longer it takes to bring about a change in sector performance and inclusion, the more scrutiny a program will come under for entering it: the justification must be strong and clearly communicated. Several characteristics might lengthen the time it takes to achieve change:



### Export orientation

In sectors that are oriented to exports (or imports, to some extent), the actors that drive change are usually based outside the country of focus, e.g. major buyers and retailers. Standards and consumer preferences are also often determined externally. This makes change in such sectors harder to influence because a program must reach outside its mandated geographic jurisdiction – unless it has a transnational remit. Export markets are also exposed to a greater variety of exogenous factors that can influence change processes, e.g. exchange rates, government policies, duties and tariffs, and international export schemes such as Generalised Scheme of Preferences Plus (GSP+).



### Investment-heavy or lengthy operating cycles

Sectors that require significant investment to operate competitively have lengthy investment payback periods or operating cycles that tend to take longer to change, e.g. manufacturing production lines, cold chains or tree crops. This can make market actors more risk-averse and sensitive to uncertainty and instability, prolonging the time it takes to achieve change.





### Government reliance

Sectors that depend on public functions are likely to face lengthier change processes. Public sector bureaucracies tend to take longer to make changes than the private sector. Decision-making processes are lengthy, vested interests create conflicting aims and political cycles can be disruptive.



### Complexity

If many changes are required to bring about an improvement in competitiveness and inclusion, or if one change is contingent on several other changes, time can again become a problem. There are more things to fix and more things that can go wrong. Multiple changes will often involve multiple actors, who may have conflicting interests, which will prolong the change process.



### 'Measurability'

'Measurability' does not determine feasibility per se, but it does affect the likelihood of a program being able to claim it has caused a change. Programs are accountable to their funders: if it is likely to prove difficult to identify and attribute changes to program actions, funders' investment will be difficult to justify. A robust, evidence-based theory of change, delineating the boundaries of the market system boundaries into a manageable scale and scope, and defining intermediate indicators are essential to managing this challenge





## Assess whether opportunity and relevance do overlap

The real challenge lies in assessing whether there is a genuine overlap between a growth opportunity and its relevance to the target population: that market innovations to increase inclusion will also build competitiveness, and vice versa. Unless these are mutually supportive, tensions or trade-offs are likely, which will weaken market actors' incentives to pursue inclusion. A purposeful assessment of opportunity with relevance is needed – not just ticking separate 'opportunity' and 'relevance' boxes during sector selection.

The key consideration is how direct the relationship is between increasing inclusion and overcoming obstacles to business performance and competitiveness. If it is directly in market actors' interest to transact with disadvantaged populations – to sell or buy more or better goods and services, to hire more workers or offer them better terms and conditions – the more likely it is that they can be stimulated to do so and will keep doing so.



This is perhaps most obvious when the population targeted for inclusion are consumers – a 'bottom' of the pyramid' business strategy. In many developing economies, poorer households constitute a disproportionate amount of the population and significant numbers of them are unserved by appropriate goods and services. This is a missed business opportunity. If serving them with goods or services increases market share or sales volume (to improve economies of scale of production or distribution), then there are incentives for market actors to incorporate inclusion into their strategies, so long as it is commercially feasible and profitable. Any innovation that increases market actors' interest and ability to serve this population should deliver a direct benefit to inclusion and increase business performance and competitiveness.



When the targeted beneficiaries are producers, such as farmers or small businesses, the question is whether including them builds the competitiveness of market actors. Working with large numbers of small producers has high transaction costs – it takes time and effort to find them and deal with them. Hence market actors tend to prefer working with a smaller number of larger suppliers or via intermediaries. The benefit of working with smaller producers must outweigh

the additional cost of doing so, therefore. In a situation where supply is limited, securing greater volume might be sufficient justification. Or sources might be naturally dispersed or suited to small-scale production (e.g. scattered islands, wild harvesting, or organic produce). Supply chain diversification (spreading risk) or flexibility (outsourcing piecework) might also provide a business case for working with smaller producers. In these situations, innovations that enhance market actors' interest and ability to work with smaller producers, to include them in their supply chains, are more likely to have a direct benefit to inclusion, as well as increasing competitive performance.



When targeted beneficiaries are workers, an improvement in inclusion needs to resolve labour-related competitiveness problems faced by market actors. Hiring more workers or giving them better terms and conditions only makes sense if it contributes to business performance. This might be when there is a shortage of workers in a sector, pervasive deficiencies in skills or labour productivity, or problems of labour retention that cost businesses money or a competitive edge. Innovations that enable businesses to hire, develop and manage their workforce more effectively can result in inclusion and competitiveness benefits. This is likely to be most applicable in labour-dependent sectors and when substitution of labour with technology is not a viable option.

When the connection between improving business performance and competitiveness and increasing inclusion, or vice versa, is not direct, it becomes more difficult to predict how innovation and improvement in competitive performance will impact a targeted population. The logic is that that increased competitiveness increases the likelihood of business survival and growth, and that in turn might have knock-on benefits for the disadvantaged, such as small producers and suppliers or workers.





## How likely is it that firms will sell or buy more, outsource more or hire differently in order to secure competitiveness?

These knock-on benefits are hard to predict and measure, but can be influenced by:

### Prevailing levels of capacity utilisation

If a sector is operating below its capacity, business growth is likely to result in existing labour working more – and possibly earning more – rather than new employment, and existing facilities being utilised more fully, rather than outsourcing to other (smaller) firms.

### Elasticity of labour and restrictiveness of labour regulations

Improved business competitiveness and growth might result in increased employment or better terms and conditions for workers (from the targeted population), so long as affordable technological substitutes for labour are not available and the hiring of new workers is not burdened by overly restrictive labour market regulations and obligations.

### Complementary technology or investment

As a business grows and wishes to expand, it might refrain from hiring additional workers if that requires making additional ‘lumpy’ equipment purchases or other investment, e.g. adding a new assembly line. Firms might defer hiring until volumes or orders have increased substantially. In such circumstances, it might also choose to outsource additional work to sub-contractors.

### Availability of outsourcing options

As a business grows and wishes to expand, it might avoid hiring additional workers if flexible, cheaper options exist outside the firm. This is often the case if labour regulations are onerous, the business cycle is seasonal, expensive skilled labour is required, or significant investment in complementary technology is also needed. This might mean that impact would need to be observed and measured beyond the supported firm. Conversely, firms are less likely to outsource in sectors where reliability and quality control are essential for competitiveness.

### Industry structure and prevailing level of competition for labour or outsourcing

Where labour supply is tight or outsourcing options are limited, business expansion is more likely to result in better returns to workers or suppliers. The opposite is likely to be the case where there is slack in the labour market and fierce competition among suppliers.

### Demographic and geographic trajectory of the sector

In a quest to maximise inclusive impact, aid programs often target a sector based on it being relevant to large numbers of disadvantaged people (e.g. smallholder farmers) or a disadvantaged geographic area (e.g. a remote region). However, they often fail to recognise that a large swathe of that same sector is also not being served optimally. In such situations, inclusive impact might not be achieved as expected because firms will tend to target untapped potential that is more profitable and easily achieved (e.g. middle-income groups, medium-sized farms or firms, urban or peri-urban areas) before moving to more challenging groups and areas. Programs cannot sustainably encourage firms to leap too far ahead of existing frontiers of innovation, access and inclusion.

# Considerations for program funders, designers and implementers

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## Allow time and resources for analytical sector selection

In many programs, the choice of sectors is often pre-defined and/or made on the basis of insufficient analysis. Understanding whether and how it might be possible to build competitiveness and increase inclusiveness requires analysis. It is often difficult to conduct sufficient analysis during the commission and design of a program. It is a task that is usually better left to implementers during the opening stage of a program, in consultation with the funder. It is important that the funder and implementer both clearly understand the rationale for sector selection, the competitiveness and inclusion objectives for the sector, and the likely trajectory to impact.

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## Ground sector selection within the broader economic context

A program's choice of sectors and its objectives for change within those sectors needs to be grounded within the broader economic context of a country. This means considering a sector not only in terms of a headcount of poor people involved but its current and future competitiveness, its significance to the economy (e.g. foreign exchange earnings or ability to absorb or serve a swelling urban population). Understanding a country's economic trajectory and the changing structure of the economy is also important, e.g. a shift from bulk commodity agricultural exports to higher value agricultural exports or a growing urban industrial or service base.

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## Anticipate a realistic trajectory of achievement

MSD programs begin slowly and build momentum, as their market intelligence, networks, and credibility grow, and as market actors respond and multiplier effects are achieved. Their trajectory towards headline impact follows a classic 'J' curve. Initiatives that pursue deep-seated changes take longer to build that momentum. It is important to anticipate the shape of this trajectory and recognise that different indicators are needed to judge a program at different stages. This can be problematic for funders wishing to use payment-by-results (PBR) contracts if payments are only triggered according to achievement of headline indicator targets set at the outset. The basis for PBR is likely to be more effective if is adapted during a program's lifetime, to reflect its position along this trajectory. Some of the learnings on adaptive management can be accessed in lessons gathered by PRISMA.<sup>4</sup>

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<sup>4</sup> [https://aip-prisma.or.id/data/public/uploaded\\_file/02\\_Managing%20and%20Adapting%20A%20Development%20Program%20-%20Lessons%20from%20PRISMA.pdf](https://aip-prisma.or.id/data/public/uploaded_file/02_Managing%20and%20Adapting%20A%20Development%20Program%20-%20Lessons%20from%20PRISMA.pdf)



## Emphasise different indicators and measures of VFM through the program's life

Activities that pursue deep-seated changes can look like bad value for money in the short term because they consume program resources from the outset, but only achieve headline results later. If costs are compared to benefits that are 'lagging' headline indicators, performance will look unfavourable. This can be mitigated by emphasising intermediate or 'leading' indicators, such as behaviour and performance changes of market actors and changes in measures of industry competitiveness, and by using additional measures of VFM, which compare costs to 'leading' indicators, such as private sector investment and market transactions stimulated. Measuring jobs or income maintained or saved is also likely to be important when strengthening a sector's competitiveness, rather than only additional jobs created or income generated.



## Use a portfolio approach to balance different types of results

It is unreasonable for a program to be judged solely on longer-term results. 'Quick wins' early in a program's life are important to give evidence of success to funders and host governments, to build credibility with market actors, and to maintain staff morale. It is important therefore to construct a portfolio of sectors, interventions and partners. This spreads risk – some level of failure is inevitable – and allows for a blend of activities, some of which might deliver results quickly, while others pursue more deep-seated changes. The task of management is to maintain a balanced portfolio of shorter- and longer-term activities and achievements, building on successful interventions and adapting or dropping those that are underperforming.



## Optimise the time frame available and sequence deliverables to it

The typical aid initiative has a three-to five-year time frame. A year of implementation time can be lost to start-up and close-down processes, external reviews and exogenous disruptions. It is unlikely that transformational change can be achieved in such a short period. This is especially true for complex sectors, those that are export oriented, require substantial investment, have lengthy operating cycles, or rely on government. Consequently, many MSD programs are designed with a more optimal five-year-plus-five-year duration. In practice, implementers of such initiatives rarely work to a ten-year horizon, however. The second five-year phase is usually conditional on the performance of the first. And pressure to demonstrate early headline results in the first phase means that more transformational changes are ignored, and a short-term orientation runs across both phases. Ideally, different types of deliverables would be sequenced through the life of the program, with greater emphasis on intermediate or 'leading' indicators initially (e.g. changes in investment, practices, business models), with a shift in emphasis towards more system-wide or 'lagging' indicators as the program matures (e.g. changes in policies and regulations, competitiveness, growth, employment and income).



