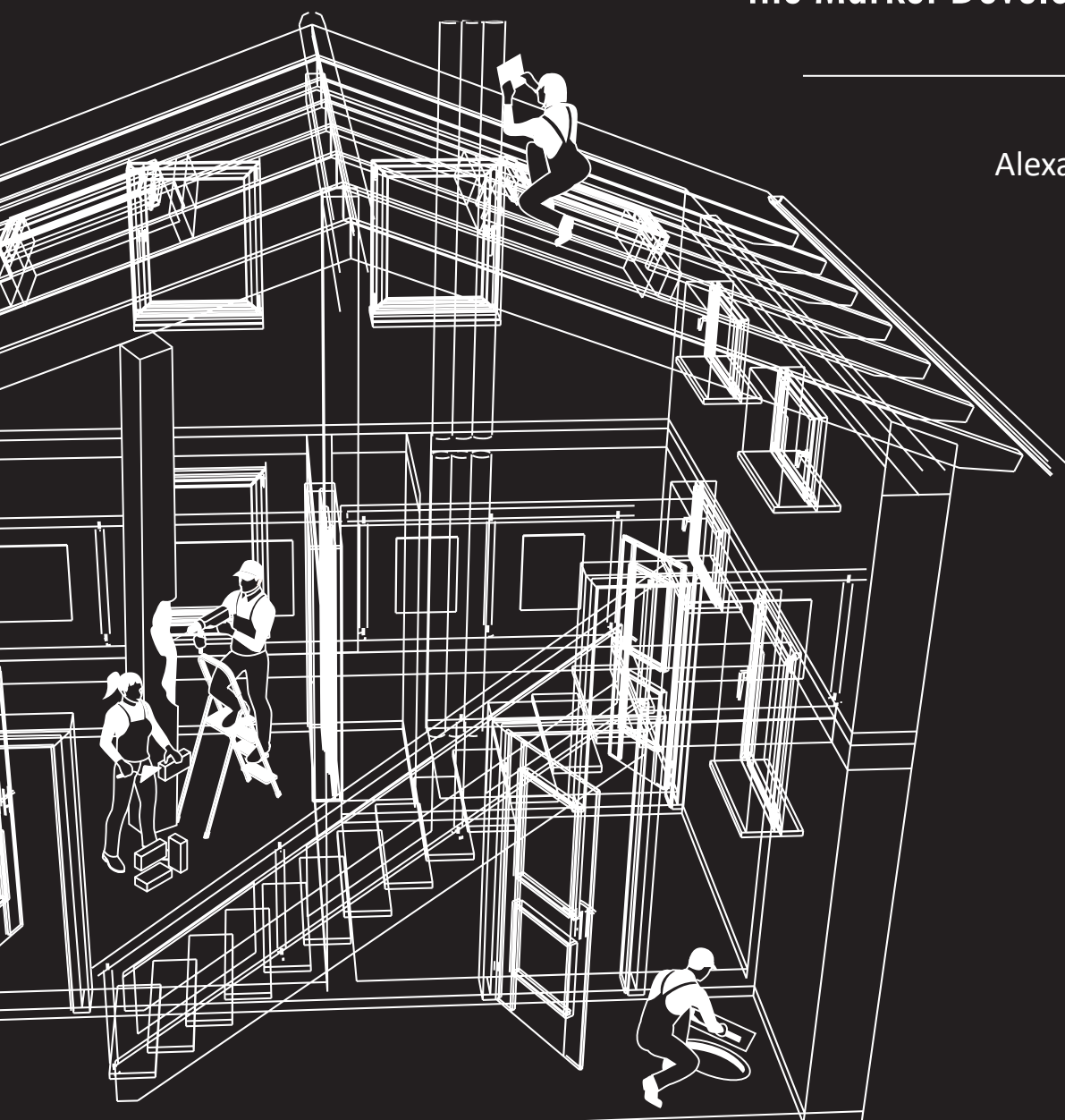


# PROMOTING SYSTEMIC CHANGE IN SHALLOW MARKETS

Lessons from Phase One of  
the Market Development Facility

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Market Development Facility





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# Table of Contents

Acknowledgements .....	i
Table of Contents.....	ii
List of Figures .....	iii
Abbreviations and Acronyms.....	iii
<b>1. INTRODUCTION .....</b>	<b>1</b>
<b>2. DEFINITIONS .....</b>	<b>5</b>
<b>3. HOW DOES SYSTEMIC CHANGE HAPPEN IN SHALLOW MARKETS?.....</b>	<b>9</b>
3.1 The Classic Case of Systemic Change in a Robust Market .....	10
3.2 Systemic Change in Shallow Markets .....	12
3.3 Why are the processes different? .....	15
<b>4. WHAT ARE THE PRACTICAL IMPLICATIONS FOR ANALYSIS, PLANNING AND RE-PLANNING?.....</b>	<b>21</b>
4.1 Defining the Objectives, Boundaries and Hierarchy of Systems .....	22
4.2 Outlining the Expected Pathway of Systemic Change.....	29
4.3 Reflecting and Re-Planning .....	30
<b>5. WHAT ARE THE PRACTICAL IMPLICATIONS FOR IMPLEMENTATION?.....</b>	<b>33</b>
5.1 The Nature of Interventions .....	34
5.2 Encouraging Changes Over Time.....	36
5.3 What To Do When Change Doesn't Happen As Expected .....	42
<b>6. HOW CAN MSD BETTER FACILITATE SYSTEMIC CHANGE IN SHALLOW MARKETS? .....</b>	<b>45</b>

## List of Figures

<b>Figure 1</b> Factors Affecting the Process of Change in a Market .....	15
<b>Figure 2</b> Contrasting Market Development Processes.....	18
<b>Figure 3</b> MDF's Hierarchy of Change.....	22
<b>Figure 4</b> Simplified Results Chain for Timor-Leste Tourism .....	29

## List of Tables

<b>Table 1</b> Comparison of Pakistan Silage and Fiji Agri-Inputs related to Change Factors .....	15
<b>Table 2</b> Comparison of Pakistan Silage and Fiji Agri-Inputs related to Change Processes .....	16

## Acronyms

MDF	Market Development Facility
MSD	Market Systems Development









# 1

## INTRODUCTION



What does the classic example of systemic change in Market Systems Development (MSD) look like? A single innovation, such as a business offering a new product for poor producers, gains traction. Sales pick up. Other businesses copy the innovation. Then, other market actors respond with supporting innovations such as related products and services or supportive regulations.

This classic sequence of events is unique, however, to relatively robust markets – large markets with strong information flows, the existence of support functions, and rules and norms that do not actively inhibit market growth. These are the types of markets that MSD started in around 15 years ago, such as some of the agricultural markets in Bangladesh and Kenya. MSD has proven useful for increasing inclusion and promoting growth in these relatively robust markets.

Programs are now applying MSD in many different types of markets – including markets with very different characteristics. Many of these markets are shallow (see the definition of shallow markets in Section 2). They may be small, have a lack of support functions or weak information flows, for example. Even in countries with relatively more robust economies, MSD

programs often choose to work in emerging sectors with growth potential because these sectors have less entrenched interests and more opportunities to encourage pro-poor and inclusive incentives as markets grow.<sup>1</sup> These emerging sectors are typically shallow because they are young or have not yet connected with more robust parts of the economy.

Programs are finding that MSD is also useful in shallow markets to promote growth and ensure inclusion as markets grow. However, the trajectory of systemic change is different in these markets than the classic sequence. Therefore, the approach to encouraging it, monitoring it, and using information to further encourage it must also be different.

This paper explores how systemic change happens in shallow markets and the implications for MSD practitioners. It uses examples from the Market Development Facility (MDF), an MSD program currently being implemented in five countries. The examples are drawn from three of these countries, Fiji, Timor-Leste and Pakistan, where MDF has been operating for more than 4 years.<sup>2</sup> The paper is intended to encourage discussion and innovation in the MSD community on how to better promote systemic change in shallow markets.



## Market Systems Development

MSD “addresses the underlying causes of poor performance in specific markets that matter to people living in poverty, in order to create lasting changes that have a large-scale impact.” For more information on the MSD approach see The Beam Exchange.



<sup>1</sup> M. Bear and H. Bekkers, **In Search of the Sweet Spot in Implementing MSD Programmes**, Market Development Facility 2018.

<sup>2</sup> In Timor-Leste and Fiji, MDF works only in shallow markets. In Pakistan, MDF works in some more robust markets and some shallower markets.





# Introduction to the Market Development Facility



MDF is a multi-country, market systems development program. It started in Fiji in 2011, Timor-Leste in 2012, Pakistan in 2013 and Papua New Guinea and Sri Lanka in 2015. MDF supports businesses and other market actors with innovative ideas, investment and regulatory reform that will improve business performance, stimulate economic growth and provide benefits for poor women and men as workers, producers and consumers. In each country,

MDF targets a few Strategic Engagement Areas with the potential to drive inclusive growth. These may be sectors or cross-cutting issues in the economy. The core of MDF's implementation is partnerships with businesses. MDF also implements a range of other 'influencing' interventions that build on partnerships to foster transformational change in the market systems it targets. For more information, see the MDF website.









## 2 DEFINITIONS



**Shallow Markets**<sup>3</sup> have several or all of the following characteristics:

- small (with relatively few market actors and consumers)
- geographically dispersed with low density of market actors
- few types of products available
- limited specialisation
- weak information flows
- limited coordination among market actors
- a lack of support functions
- a lack of clear regulations and government practices
- adverse informal rules and norms
- weak or non-existent market institutions (such as associations)
- limited mechanisms for managing risks
- lack of connection to economic growth centres.<sup>4</sup>



### Implications of a Shallow Market for a Business

A business in a shallow market has to solve many more issues for itself than one in a more robust market. For example, if a new business wants to introduce a new product in a shallow market, it is likely to struggle. There will be few, if any, organised suppliers or traders and the inputs available may not be the right quality and specifications. As a result, the business will have to identify and work with suppliers to source needed inputs. Management and staff with the needed technical or operational experience will often not be available, so the business will need to train these people. Access to financial services will be limited at best, at least until the business has sufficient assets and a financial track record. There will be few, if any services available to address common issues, such as packaging, distribution and marketing. So, the business will have to perform these functions in house.

These and other challenges of shallow markets raise the barriers to entry for new businesses and make managing businesses in the market more complex.

## SYSTEMIC CHANGE

There are many definitions of systemic change, from a variety of fields. This paper unpacks the following basic definition:

**Systemic change: change in the underlying causes of market system performance that leads to a better-functioning, more pro-poor market system.**<sup>5</sup>

## WHAT DOES THIS MEAN IN PRACTICE?

**Change in the underlying causes of market system performance:** Innovations, practices and relationships that are new in the particular market context. Examples include business models, business practices, relationships among market actors, information flows, market institutions, policies, regulations, government practices, cultural practices, standards etc. These innovations, practices and relationships address a fundamental market problem, such as a market failure, regulatory failure or an adverse norm or belief.

**That leads to a better functioning, more pro-poor market system:** The innovations, new practices and new relationships interact with each other and other market characteristics, to produce broader changes. The changes align with the characteristics expected of a growing, efficient and inclusive market system (see box). Typically, a program focuses on some of these characteristics more than others depending on the context and its own mission. The program will adapt its focus over time as it learns, and as new opportunities and constraints emerge.

<sup>3</sup> In this paper, the term “shallow markets” has the same meaning as “thin markets.”

<sup>4</sup> For a detailed analysis of how shallow markets affect the behavior of firms, see M. Bear and H. Bekkers, **In Search of the Sweet Spot in Implementing MSD Programmes Part 2**, Market Development Facility 2018.

<sup>5</sup> Donor Committee for **Enterprise Development Standard for Measuring Results in Private Sector Development**, Version VIII, April 2017.



# Characteristics of a growing and inclusive market system<sup>6</sup>

The characteristics are categorised for simplicity but, in reality, many of the characteristics relate to more than one category.



## Expanding

- Capacity for businesses to grow and for more businesses to enter
- Increasing investment
- Growing diversity of products to cater to different market segments
- Growing diversity of functions to support the core market and different business models within it
- Dynamism – enthusiasm, examples of success, business confidence, willingness to take risks



## Efficient

- Relationships that enable enterprises to lower costs, increase quality and respond to markets more quickly
- Strong information flows
- Logistical and communication links to economic growth centres
- Networks and mechanisms for market actors to learn and build their capacity
- Government policies, regulations and practices free from graft or corruption that support efficient business operation while protecting society from harm



## Resilient and Responsive

- Innovation and adaptation in response to market shifts and shocks
- Increasing links with other market systems
- Availability of risk management mechanisms
- Effective and sustained cooperation among relevant government agencies, the private sector and other stakeholders
- Change driver(s) within the market that facilitate on-going market expansion and development



## Pro-poor and Inclusive

- Market relationships that include poor women and men, ethnic minorities, youth/aged and the differently abled in win/win relationships – usually long-term, trusting and transparent
- Market culture and practices that channel ever-improving benefits to increasing numbers of poor or excluded people, where the roles of poor and excluded people contribute to the ability of different market actors to be competitive and to capitalise on market opportunities and respond to market threats
- Increasing opportunities for poor and excluded women and men to get into the market, move up within it, increase their bargaining power and make choices
- Environmentally sustainable practices
- Effective organisations to encourage transparency and equity
- Market practices in line with labour and other social standards

<sup>6</sup> Partly taken from Miehlbradt, A. and McVay M. **Implementing Sustainable Private Sector Development: Striving for Tangible Results for the Poor - The 2006 Reader**. Tanburn, J. Editor. International Labour Organization 2006.









### 3 HOW DOES SYSTEMIC CHANGE HAPPEN IN SHALLOW MARKETS?



### 3.1 The Classic Case of Systemic Change in a Robust Market

Examples of systemic change in more robust markets almost always start with a single innovation, often a business model that provides services to small farmers commercially and sustainably. Once there are one or several demonstrations of this business model, others learn about it and appreciate the benefits of it. Other similar businesses ‘crowd in,’ copying the business model. The original innovators and those who have crowded in find ways to improve the business model and/or adapt it to different contexts and customers groups. They expand and reach more customers. Other businesses and sometimes government or market institutions find out about the innovation. They then come up with business models or new practices that support and amplify it. All

these changes encourage broader transformations such as changes in:

- perceptions about the customer group
- norms on how to go about business in the sector
- the roles of market institutions such as associations or government agencies.

In the context of an MSD program, the program team supports and encourages some or all these steps to maximise the growth and inclusion from the change process. They mostly use light touch interventions designed to prod the change process along, although some more significant investments may also be needed.



#### Example of Systemic Change in a Robust Market: Livestock Silage in Pakistan<sup>7</sup>

Livestock is one of the sectors MDF targets in Pakistan. 80% of livestock in Pakistan are owned by small farmers; over six million households have some livelihood dependency on livestock for milk and meat. With urbanisation, the demand for milk in the commercial sector is increasing in Pakistan by an annual average of 20%. This is stimulating investment in farm-to-factory cold chain distribution systems and providing a new market outlet for smallholder farmers.

Poor animal nutrition, and hence low milk production, is one of the key constraints faced by small farmers who want to benefit from this growth. MDF estimates

that there is a 70% gap between livestock needs for nutritious fodder and the supply of it. Access to fresh, quality fodder is often difficult. Maize silage offers a highly nutritious and cost-effective fermented fodder. Feeding livestock silage significantly enhances milk yields, the length of the lactation period, and overall animal health.

Since 2006, government and various programs have promoted silage, but this did not result in significant uptake among small farmers. The price and large size of the silage bales (one tonne) made them inappropriate for small farmers and their understanding of the benefits was limited by the lack of examples. MDF partnered with Pioneer, a leading agri-business company, to pilot a business model of rural entrepreneurs making and selling silage in small bales (60 Kg). Pioneer helped to identify silage entrepreneurs and provided them with technical support, while MDF provided financial assistance. Together with the entrepreneurs, Pioneer conducted awareness raising activities among farmers. Uptake was rapid and demand significantly outstripped supply. Within twelve months, the business model proved profitable.



<sup>7</sup> This example draws from two sources, often verbatim: Owen-Edmunds, L. **Systemic Change in the Fodder Market for Smallholder Farmers in Pakistan – MDF Case Study No. 4**. Market Development Facility 2017; Piracha, M. Presentation, March 2018.



As uptake increased, silage entrepreneurs began to independently adapt the initial business model. They began to rent their machinery to those farmers who had some land to grow maize to make their own silage. Some silage entrepreneurs began to contract small and medium landholders to grow maize for silage. MDF

also nudged the change process along. Pioneer and MDF supported a few silage entrepreneurs in other provinces and supported a few women to start silage businesses. In total, they supported 15 rural silage entrepreneurs in four provinces.



MDF supported **Bank Alfalah** and **Cattlekit**, a farm equipment importer, to develop loan products for the purchase of silage making equipment.



MDF worked with **Maxim**, an agri-input distributor, to make and distribute small bales of silage through their extensive distribution network.

Two and half years after the initial intervention, there were over 100 small entrepreneurs and other companies producing silage in small bales and packages. Cattlekit's parent company was planning on establishing more machinery outlets in Pakistan. Other machinery importers were importing silage balers and increasing imports of silage choppers. Innovative machinery had been introduced in the market, enabling silage producers to enhance processing capacity and further reduce pack sizes to 25-50 kgs. Increased competition was lowering prices and more machinery rental businesses had opened. Large dairy and input companies were becoming interested in the small bale silage business. Because of the growth of the silage market (both small

and large bales), the price of maize was increasing. At least five seed companies had launched maize seed varieties particularly for silage. Two local companies had started production of UV coated wrapping film for bales, previously only available from China and Turkey.

At that point, more than 13,000 small farmers were buying small bales of silage. They were getting an average of 2-4 additional litres of milk per animal per day and had significantly increased their profits. Women who previously had to gather forage for livestock were saving an average of 14 hours a week of manual labour. There was evidence that livestock farming families had improved financial security and resilience.



## What were some of the key factors in this rapid market development?

- Using silage has a visible and dramatic effect on livestock productivity. Other farmers can easily see the difference.
- The change farmers needed to make was modest. Many were aware of silage and some were already purchasing other types of fodder for their animals. The price of the bales is reasonably low, and results are visible with just a few bales.
- The small farmer market for silage is big enough to present an attractive market opportunity for companies of all sizes.
- Information travels quickly and easily among farmers and businesses within the key livestock belts in Pakistan. MDF and Pioneer supported information flow between provinces and MDF shared information with other types of market actors.
- The barriers to entry for silage production are manageable for medium sized farmers in rural areas. The purchase of equipment is the main investment; the skills required are reasonably easily learnt.
- There is significant competition in the agri-inputs sector in Pakistan. There are a number of large companies with competitive incentives and the financial and organisational capacity to invest. MDF supported one company to respond to the innovation with a large-scale business model focused on distribution.
- The agricultural sector is already supported by various service providers, such as financial institutions. Both these and government have incentives to serve agri-businesses. MDF facilitated links among different types of market actors and supported the development of the first loan product for the market.





### 3.2 Systemic Change in Shallow Markets

In shallower markets, the change process may unfold differently. It is still based on innovation, but MDF is finding that a single innovation is often not enough to stimulate further changes. Only when there are working models of several related innovations does change begin to occur, and other market actors begin to show an interest in 'crowding

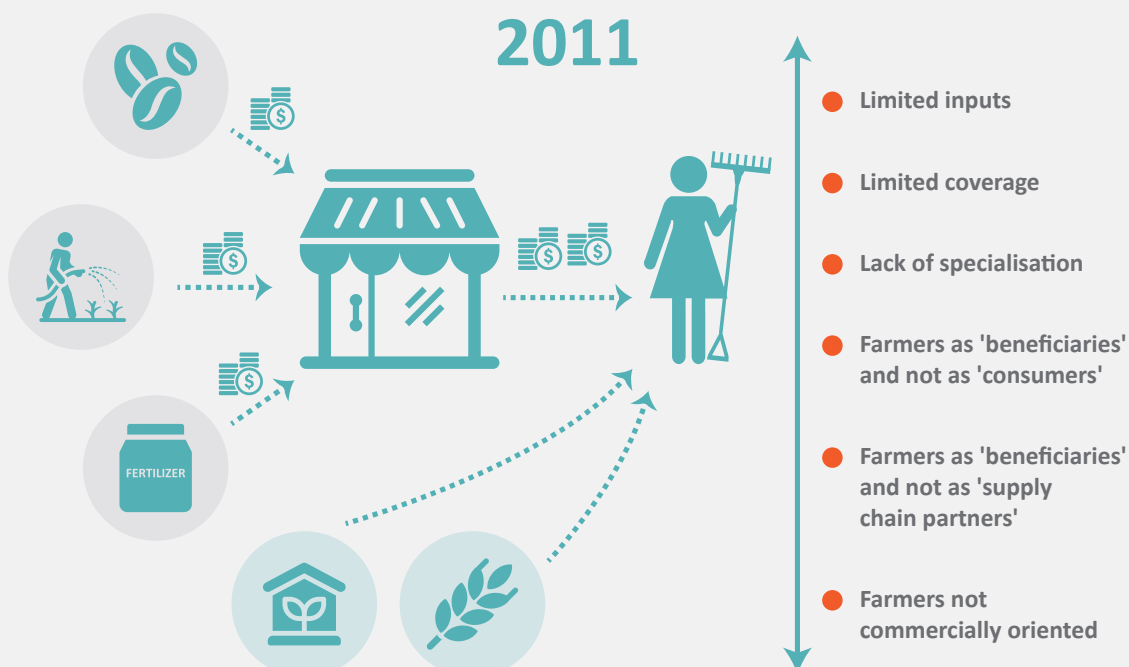
in'. Expansion is also slower as the original innovators (and any that do 'crowd in') are often not able to adapt the new business model quickly to other contexts or customer groups. These changes also often require more innovations before they happen.



#### Example of Systemic Change in a Shallow Market: Agricultural Inputs in Fiji<sup>8</sup>

In Fiji, MDF works in the horticultural sector, amongst others. There are approximately 70,000 farming households in Fiji spread over two main islands and many smaller ones. There is demand for Fijian produce overseas and approximately 25 exporters supply that demand, but they often struggle to fill orders. Among the constraints to the inclusive growth of the

horticulture sector in Fiji, and indeed farming more generally, is a lack of access and/or the high prices for agricultural inputs. Thus, one of the key changes that MDF aims to facilitate is enabling more small farmers to use a variety of agri-inputs so that they improve their productivity and cultivate more commercially.



<sup>8</sup> This example is based on Mohsin, M. Presentation, March 2018. The diagrams are taken from the presentation.

When MDF started in 2011, there was only one seed importer and one importer of crop care products. There were less than 20 retailers nationwide selling agri-inputs and most of them were not specialised. These providers only offered a limited and expensive range of imported seeds, crop protection and fertiliser. There was no effort at market or product segmentation; they only served a few pockets of horticulture farmers or focused on government contracts. There were also a few seedling nurseries, but most were donor supported and supplied development projects. Retailers did not reach out to farmers or aim to understand different types of farmers. If small farmers wanted inputs, they had to travel to the few retailers. Government concentrated on providing inputs to sugar cane farmers and their ways of interacting with farmers meant that they reached almost exclusively male farmers. Government did conduct agricultural research, but it was not affecting small fruit and vegetable farmers.

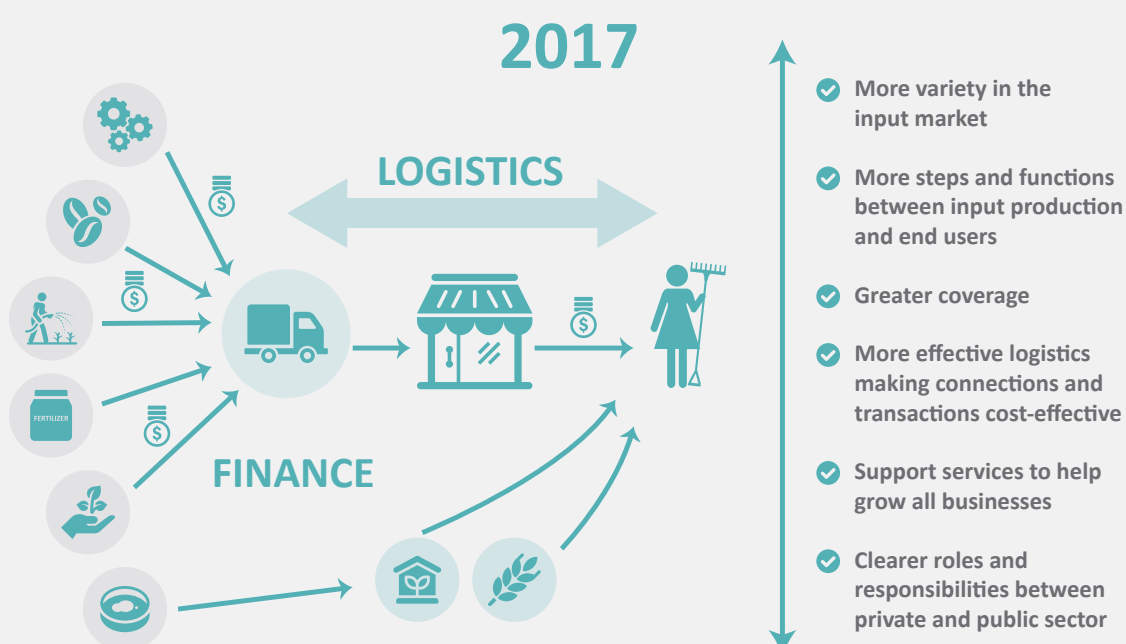
Over five years, MDF implemented a dozen partnerships in agri-inputs based on their objective above and an evolving strategy for systemic change. These first focused on agri-input producers and importers and included assisting:

- the largest manufacturer of concrete to produce agricultural lime locally, to improve soil quality
- a seedling provider to expand and focus on commercial sales, particularly of export oriented horticultural products

- the first commercial tissue culture company in Fiji to provide quality planting materials
- a second seed importer to import a greater variety of seeds for local farmers.

Not all these partnerships went smoothly. For example, it took three years of MDF's mentoring and many meetings with the Government of Fiji's Bio-Security Agency for the seed importer to get clearance to import additional seed varieties. The local producer of agricultural lime frequently focused less on lime than on its thriving business for construction products. To increase the demand for agricultural lime, MDF, together with the partner company, conducted discussions with the state-owned Fiji Sugar Corporation to encourage the use of locally produced agricultural lime among its supplying farmers.

While these interventions increased the variety of inputs available in Fiji, distribution was still an issue. MDF partnered with two hardware wholesalers who had extensive distribution channels to support them to add agri-inputs to their product mix and link them to agri-input producers and importers. These partnerships helped to widen the distribution of inputs to more locations in Fiji. MDF also started working with a logistics company to develop a regular inter-island barge service to more efficiently and reliably distribute agricultural inputs and products in Fiji.



By 2017, the market was showing significant signs of development. More types of inputs were available to small farmers in all the major agricultural areas of the three largest islands in Fiji. Some input companies were starting to target different types of farmers with differentiated products - for example targeting export-oriented farmers with appropriate vegetable seeds for export crops. One additional company had begun selling agri-inputs. Another, the largest hardware company in Fiji, was actively pursuing importation of seeds to add to its product mix. These companies were increasing the number of retailers in rural areas supplying inputs for small farmers. Networks were beginning to form between distributors and input producers and importers. Additional barge services were starting with similar business models as that of MDF's logistics partner. With the Ministry of Agriculture, MDF partners played a key role in helping the horticulture sector to recover from a severe cyclone in 2016 by providing seedlings and planting materials to allow farmers to rebuild

and kickstart their crop recovery. In 2017, companies and government were beginning to recognise the roles that women play and the decisions they make in farming households. The Ministry of Agriculture was helping to raise the awareness of small farmers about the availability and effectiveness of new inputs. They were also becoming more open to distributing agri-inputs through private distributors. Overall, small farmers were beginning to be perceived as good customers and suppliers. Input companies, logistics service providers, certification companies, banks and government agencies were starting to invest in growing the horticulture sector.

Small farmers were increasing their use of inputs and improving their productivity. For example, by 2017, over 3,500 farmers had earned FJD2 million more income from the use of locally produced agricultural lime alone. Women had increased access to inputs and information and were saving time.



## What were some of the key features of market development in Fiji agri-inputs?

- Increasing access to one agri-input did not catalyse broader change; only when a number of companies invested in the provision of inputs did other market actors take notice
- MDF's partners required considerable mentoring and assistance over several years to ensure the success and sustainability of new business models
- The availability of inputs did not automatically lead to the distribution of those inputs; MDF facilitated innovations in logistics to address this market gap
- Once new business models had been in operation for some time, companies began to consider various consumer segments
- MDF played a strong role in sharing information with various market actors and facilitating links among market actors
- Once a number of innovations were in place and functioning successfully, other companies began to crowd in to various market functions and networks began to form autonomously.





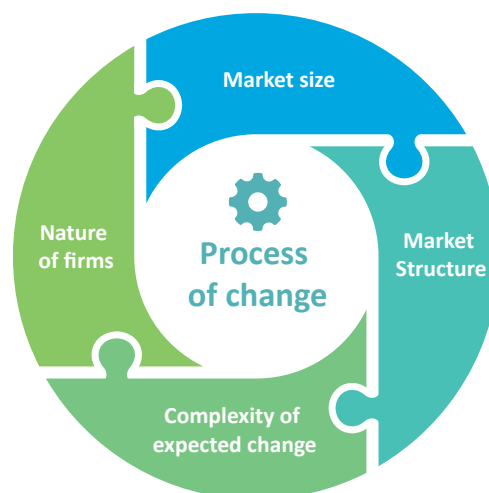
### 3.3 Why are the processes different?

It is important to unpack the characterisation of markets as ‘shallow’ or ‘robust.’ Of course, markets are not simply either robust or shallow, but exist on a continuum. The process of change in markets is affected by four interlinked factors:

- The size of the market and the number and density of firms in it
- The structure of the market, particularly the presence of supporting functions and appropriate rules and norms
- The nature of firms in the market, such as their capacity, dynamism and risk tolerance
- The complexity of the change being facilitated.

A market may be strong on some of these characteristics and weak on others. However, often these four factors influence each other resulting in a market that can be characterised as relatively shallow or robust. For example, a small, scattered or geographically isolated market is less likely to attract commercial actors or benefit from dedicated government regulations. Markets that are small because they are in newly emerging sectors also tend to have new firms that have less capability than more established markets. If a market lacks supporting functions, the changes required to enable the

Figure 1: Factors Affecting the Process of Change in a Market



market to better serve poor women and men are necessarily more complex.

Table 1 analyses the case examples above from Pakistan and Fiji in relation to these factors.<sup>9</sup>



<sup>9</sup> The information in Tables 1 and 2 comes from MDF's regular monitoring of partners and markets.

**Table 1: Comparison of Pakistan Silage and Fiji Agri-Inputs related to Change Factors**

Factors	Pakistan Silage	Fiji Agri-Inputs
<b>Market size</b>	<ul style="list-style-type: none"> <li>• Large market with many firms concentrated in a few main areas</li> <li>• 6 million households are potential consumers of silage</li> <li>• Many companies already engaged in closely related markets</li> </ul>	<ul style="list-style-type: none"> <li>• Relatively small market</li> <li>• 70 thousand households spread across different islands are potential consumers of agri-inputs</li> <li>• Only a few companies involved in agri-inputs and horticulture more broadly</li> </ul>
<b>Market structure</b>	<ul style="list-style-type: none"> <li>• Working infrastructure</li> <li>• Existing support functions</li> <li>• Mechanisms to manage risk in place</li> <li>• Rules and norms are not averse</li> </ul>	<ul style="list-style-type: none"> <li>• Geographically dispersed with many areas unconnected to market centres</li> <li>• Lack of necessary transport options</li> <li>• Few support functions</li> <li>• Few mechanisms to manage risk</li> <li>• Some norms, such as the perception of small farmers, were averse</li> </ul>
<b>Nature of firms</b>	<ul style="list-style-type: none"> <li>• Presence of both large and medium sized firms with strong financial and organisational capacity in the sector</li> <li>• Firms were aware of the livestock market system of which they were a part</li> </ul>	<ul style="list-style-type: none"> <li>• No large, private firms dedicated to agriculture; Most firms in the sector were first generation, small and medium sized enterprises with limited financial and organisational capacity</li> <li>• Most firms had limited awareness of the horticulture market system</li> </ul>
<b>Complexity of change</b>	<ul style="list-style-type: none"> <li>• Relatively simple change for small farmers</li> <li>• Moderate barriers to entry for silage firms</li> <li>• Change focuses on one existing product (silage) and one main innovation (small bales).</li> </ul>	<ul style="list-style-type: none"> <li>• Many farmers have to change from not using inputs to using multiple inputs</li> <li>• The large firms that MDF partnered with were entering agriculture for the first time</li> <li>• High barriers to entry for some input suppliers and for logistics companies; moderate for others</li> <li>• Change encompasses multiple products for a variety of crops and multiple innovations</li> </ul>

These factors promote or hinder markets change processes such as adaptation, the flow of information, response to incentives, coordination and the adjustment of perceptions

and norms. Table 2 compares the same two cases for some of the key change processes in markets that underpin market development.

**Table 2: Comparison of Pakistan Silage and Fiji Agri-Inputs related to Change Processes**

Factors	Pakistan Silage	Fiji Agri-Inputs
<b>Adaptation</b>	Many firms had the capacity to adapt new business models on their own. When additional skills were needed, these were available in the local labour market.	Most firms did not have the capacity to adapt new business models on their own; significant support from MDF was required. Some necessary skills were not available in the local labour market.
<b>Information flows</b>	Existing information flows enabled others within a geographical area to learn about the innovation. They were able to get enough information to quickly copy or adapt the new business model. MDF supported information flow to other areas.	Information flowed within defined areas; MDF supported information flow to other areas. Because of the complexity of the change, it was difficult for firms to get enough information to copy or adapt new business models.
<b>Response to incentives</b>	The large, dense market and demand for silage provided a strong incentive for firms to copy and/or respond to the innovation. Firms could manage risks. Competitive pressure and firms' understanding of the market system further encouraged change.	The small and relatively unknown market did not provide a strong incentive for firms to copy or respond to innovations. To be profitable, many support service providers needed to target the whole agricultural market rather than just horticulture. Firms struggled to manage risks. Non-partner firms did not immediately see the relevance of the innovations to their own business due to a lack of awareness about the overall market system.
<b>Coordination</b>	Firms had relationships with other market actors, such as support service providers, to address needed functions, such as logistics and finance.	Firms had few relationships with other firms, particularly support service providers. Support providers would not be profitable if they focused only on one input or even inputs as a whole. For example, logistics providers must transport a variety of inputs, produce and other products to be profitable.
<b>Adjustment of perceptions and norms</b>	Medium sized silage entrepreneurs were an ideal choice to initially target small farmers with silage; companies followed relatively quickly once the business case was demonstrated.	Tradition and a legacy of a donor-supported approach meant that companies and government did not consider small horticulture farmers as commercial actors. Multiple demonstrations and sustained provision of information were necessary to begin changing this perception.



## Market Development in Robust Markets

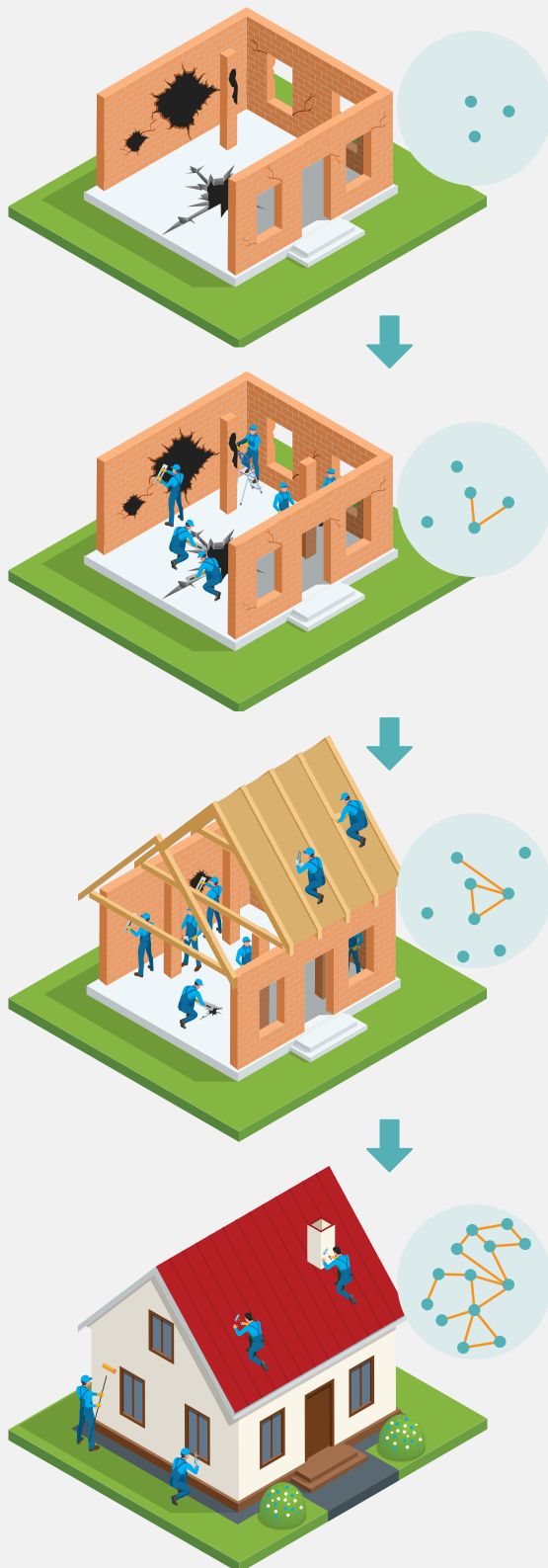


In more robust markets the basic elements of a functioning market, such as infrastructure, supporting functions and market institutions, are already in place and perform at least at a minimum threshold level. So, a single innovation can act as a spark, catalysing multiple further changes with modest support. The lead innovation diffuses through the market, catalysing a range of related changes behind it that, over time, contribute significantly to broader change.

Imagine a house with a foundation and walls but without a roof. When one worker starts building the roof beams, others join in, adding more beams, then tiles and a chimney. The initiative of the first worker catalyses the others to improve and build on the initial work.

● Innovation — Connection

# Market Development in Shallow Markets



In shallow markets, some basic elements that are critical to growth are missing or are not performing at a minimum threshold level. So, a program must work on several elements at the same time to get all the necessary elements in place and performing at a minimum threshold level. Only then will innovations begin to catalyse other innovations and the change process happen more autonomously. Thus, change looks like clusters of related innovations that, as links form, promote more innovation within and outside the clusters.

Over time, the clusters and links between them contribute significantly to broader change. Imagine a house without a roof. But in this case, there is a hole in the foundation and only one roof support with a crack in it. Three different teams start working on the house – one to fix the foundations, another to fix the existing roof support and the third to build new roof supports. Once these are all done, then a roof worker joins to build the roof beams, and, with encouragement, other workers start on windows, roof tiles and a chimney. It takes several teams working on different parts of the house to catalyse others to improve and build on the initial work.

The change process in shallow markets tends to be slower than in robust markets, involves more steps and gets stuck much more often. While small changes in shallow markets can initially gain attention, if they are not further supported, they are unlikely to lead to broader changes.

Of course, there are differences in how change happens in every market and there will always be surprises. The different characteristics of markets described above ensure that the process unfolds somewhat differently in each case.







4

WHAT ARE THE PRACTICAL  
IMPLICATIONS FOR ANALYSIS,  
PLANNING AND RE-PLANNING?

MSD programs face challenges in both robust and shallow markets. In each case change happens differently, and it is important for programs to tailor their approach to the market

context. This section describes approaches that MDF has used to catalyse changes in shallow markets.



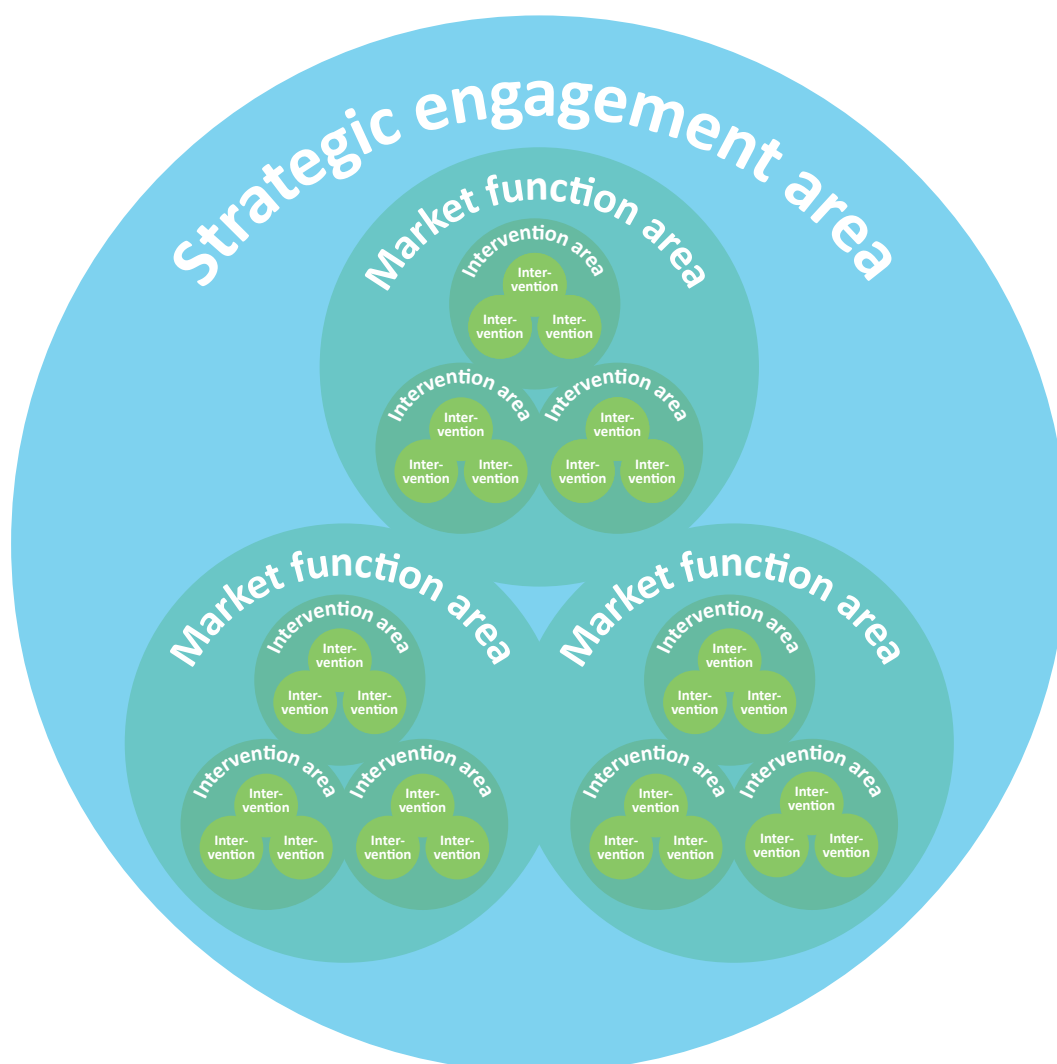
## 4.1 Defining the Objectives, Boundaries and Hierarchy of Systems

To determine where and how to work, MSD programs have found it helpful to outline a nested set of objectives, creating a hierarchy from the highest level outcomes to the specific changes that individual interventions are expected to achieve. This nesting of objectives leads iteratively to the identification of a hierarchy of systems- parts of the economy- where the different levels of changes are expected to occur. MDF has found that this process is important in shallow markets because innovations must link together if they are to catalyse broader changes. Thus, it is important to outline:

- the expected change (objective) at each level
- the boundary of the system at each level
- how innovations within a level are expected to interrelate
- how interrelated innovations will stimulate broader change at the next level.

MDF uses the terminology in Figure 3 for its hierarchy.

Figure 3: MDF's Hierarchy of Changes







## What's in a Name?

The labels for the different levels of MDF's hierarchy have been the subject of considerable debate because the parts of the economy encompassed in each level are not uniform. MDF begins formulating its objective for each level before the boundaries of it. For example, if a key program objective is to enable more poor women and men to get jobs in urban areas, then MDF looks for parts of the urban economy with the potential to grow and drive inclusive job creation. The part of the economy chosen may be broader or narrower depending on the context. Thus, it is challenging to find a standard term for each level that describes the variety of parts of the economy it defines in different cases. The reality is that the names for the levels don't really matter. They could in fact be A, B and C. What matters is that there is an objective and a boundary for each that effectively responds to the program goal and the analyses of the market systems.



The following sections discuss each level of the hierarchy using an example taken from a shallow market in Timor-

Leste. For simplicity, only one element within each level of the hierarchy is discussed.

### 4.1.1 STRATEGIC ENGAGEMENT AREA

At the first level, which MDF calls a 'Strategic Engagement Area'<sup>10</sup>, the program iteratively defines:

- a broad market system
- a high-level change in that market system
- how the high-level change is expected to benefit the target group.

Ongoing market analysis and implementation experience enables MDF to refine the Strategic Engagement objective over time.

It has been useful for MDF to define the boundaries of the system at this level quite broadly because shallow markets are small with few market actors. A broad scope allows the program to experiment by targeting different market actors and different leverage points to find the ones that will best contribute to the targeted change. Equally important, key market actors such as government and support service providers will only be interested in the market system if it is broad enough to be relevant to them. If a very broad market system has been chosen, as in the case below, then it may be necessary to define sub-systems within it.

<sup>10</sup> Since the time of writing, MDF has changed the terms it uses for SEAs. Given how challenging it can be to define the parts of the economy that the team works in, these changes are to be expected. The previous terms have been kept in this paper for ease of reference.





## Example: Greenfields and Tourism in Timor-Leste<sup>11</sup>

The economy of Timor-Leste is highly dependent on a finite supply of oil and gas. Non-oil GDP is dominated by government spending. There are few jobs outside of farming and public service. Nearly half of the approximately 200,000 households in Timor-Leste are poor.

When MDF started working in Timor-Leste in 2013, the team recognised that both improvements in agriculture and economic diversification were central to inclusive

growth. These two objectives defined the initial two Strategic Engagement Areas.

Economic diversification had the potential to:

- generate jobs
- enable rural households to diversify their income sources and moderate their risks
- build the economic base of the country in preparation for the inevitable decline in oil and gas revenues.

### GREENFIELDS

Increased investment in non-traditional areas provides opportunities for poor women and men to get jobs and increase their incomes.



MDF dubbed its work on economic diversification 'Greenfields', with the objective of: **Increased investment in non-traditional areas provides opportunities for poor women and men to get jobs and increase their incomes outside of agriculture.**

All markets in Timor-Leste outside of oil and gas can be considered on the extreme end of the 'shallow' spectrum. Thus, the Greenfields area initially included three broad sectors: manufacturing, tourism and construction. These sectors had common constraints, for example lack of finance and appropriate skills. Within two years, construction was dropped due to an inability to find partners interested in focusing on clients besides government.

Because the Greenfields area was very broad, MDF further outlined objectives related to benefits for the target group for each sector within it. Thus, its hierarchy in this case had an extra level. Tourism was one of the sectors likely to lead to Greenfield growth. Timor-Leste has natural beauty in abundance, is safe and is close to the key tourism markets of Australia and Asia. Hence, tourism has the medium to long term potential to provide significant numbers of jobs and income opportunities for poor people in both rural and urban areas. In Timor-Leste, this is particularly important for youth who have high unemployment rates. In this sector, MDF formulated its initial objective as: **Tourism businesses improve offers to attract more tourists which generates jobs and income for poor women and men.**

<sup>11</sup> This example is based on **Greenfields Industries – Tourism Systemic Change Pathways**. Market Development Facility 2015; Ferdous, Z. Presentation, March 2018; interaction with the MDF team. The arrows indicate the relationships between the elements within a level.

#### 4.1.2 MARKET FUNCTION AREAS

Based on market analysis and on-going learning from implementation, MDF then outlines several key changes in the Strategic Engagement Area that the team thinks are central to achieving the overall objective. The targeted changes mandate the parts of the economy within the Strategic Engagement Area on which MDF will work. MDF calls these

parts of the economy 'Market Function Areas'. Importantly, in shallow markets, the targeted changes may be necessary but not sufficient to achieve the overall objective. It is important to define all of the changes required to achieve the overall objective, even though some may be beyond the influence of the program or are best addressed by others.



#### Example:

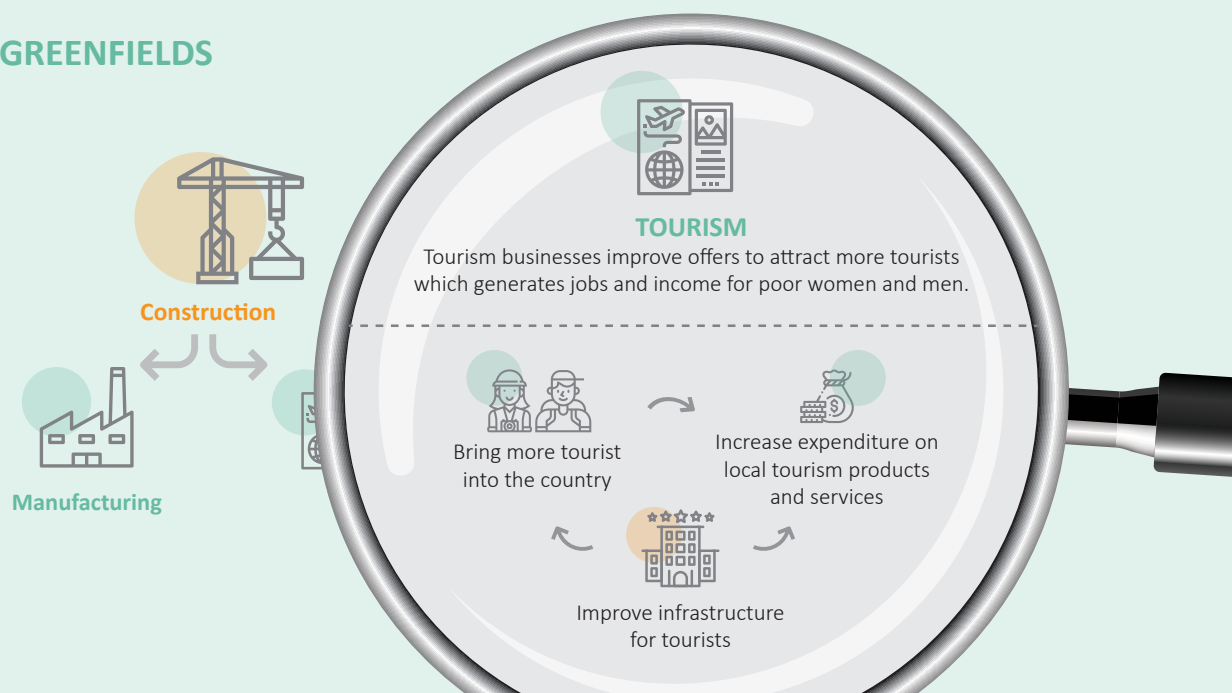
### Market Function Objectives in Tourism in Timor-Leste<sup>12</sup>

The tourism industry in 2013 was very small and largely built on the expatriate community in Timor-Leste. Tourist infrastructure and facilities were basic. Products and services were not well developed. There was no country tourism strategy and coordination between the public and private sectors as well as within the private sector was minimal. MDF recognised that it needed to help the sector generate some momentum that benefited people within the country. To define its focus, the program team formulated two key changes required to contribute to inclusive growth in tourism:

- Bring more tourists into the country
- Increase expenditure on local tourism products and services.

MDF recognised that bringing more tourists into the country would contribute to increasing expenditure. MDF also realised that improving infrastructure, such as roads and ports, would be critical to growing the tourism sector. However, there were other, bigger programs working on this in conjunction with the government, so MDF decided not to work on this change directly.

#### GREENFIELDS



<sup>12</sup> Ibid.



Over time, the MDF team identifies feasible changes in parts of the market system that can contribute to each Market Function objective. MDF calls the parts of the market system ‘Intervention Areas’.<sup>13</sup> The program team has found that in shallow markets it is useful to be flexible when defining the intervention areas. They may include:

- Parts of the value chain, e.g. inputs
- Supporting functions, e.g. logistics services
- Subsectors, e.g. cruise tourism
- Market institutions, e.g. regional associations
- Specific government regulations and practices, e.g. environmental regulations and their enforcement.



#### Example:

### Intervention Areas to Help Bring More Tourists into Timor-Leste<sup>14</sup>

MDF’s analysis and experience showed that bringing more tourists into Timor-Leste would require work in multiple areas. Key among them:

- Connections: More connections from consumer markets to Timor-Leste
- Destination Marketing: More and better marketing of Timor-Leste and, in particular, destinations within Timor-Leste
- Skills Development: Better skills to develop attractive offers for tourists and to manage tourists effectively
- Coordination: Improved coordination among government and market actors.

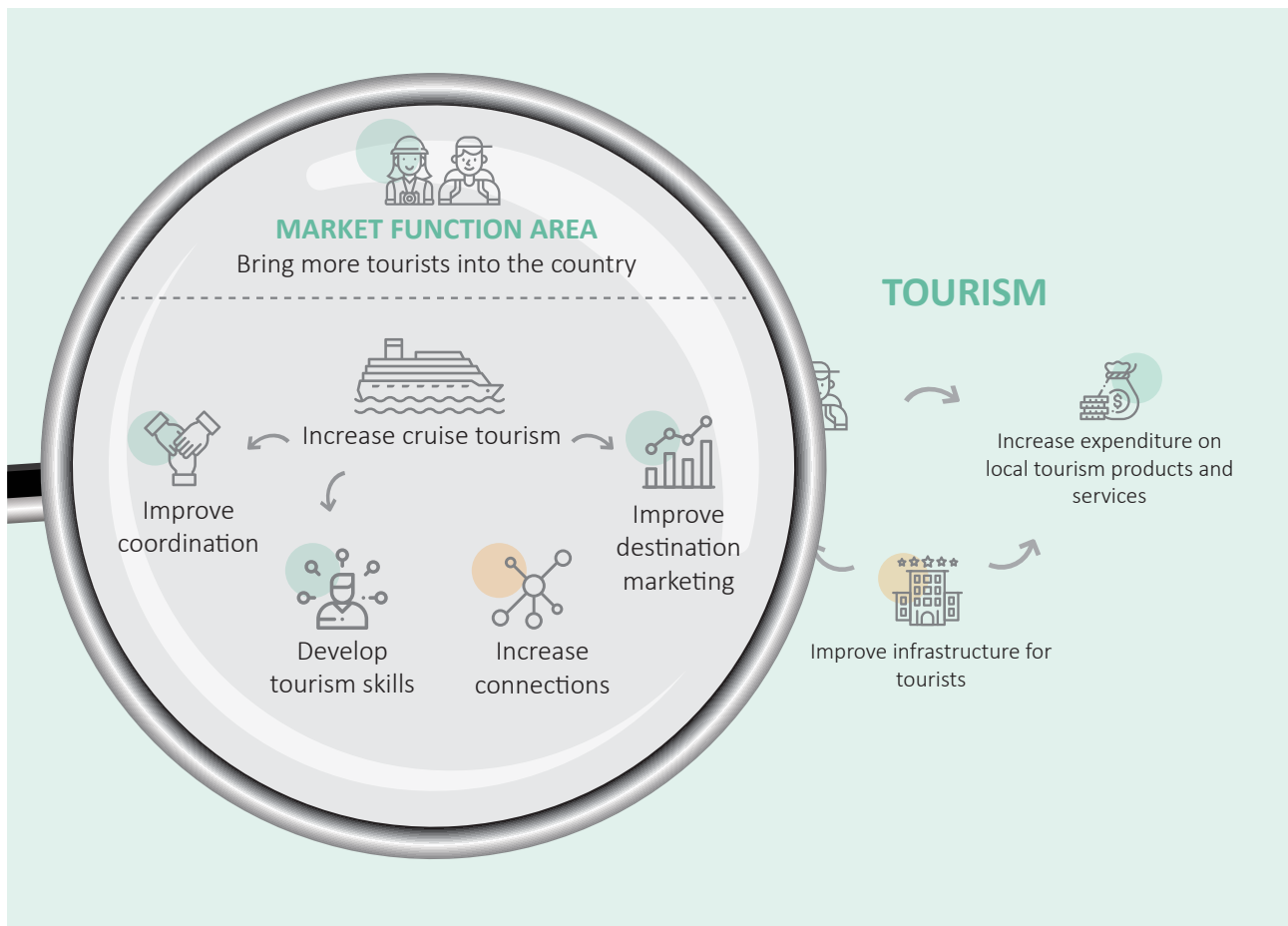
MDF recognised that it was beyond its scope and capability to address connections. However, the other three areas were promising.

MDF talked with most market actors and experimented with several interventions focused mainly on tourism for expats and locals within the country. During that

time, cruise tourism was growing substantially in the Asia-Pacific region and cruise operators were showing interest in stops in Timor-Leste. MDF realised that cruise tourism might offer a useful entry point to several of the areas above. It was a relatively quick way to increase the tourist footprint in Timor-Leste. It provided a useful way to work with market actors on how to effectively deal with a large number of tourists. It also provided an opportunity to market specific destinations in Timor-Leste and required coordination among industry actors. Thus, innovations in cruise tourism could leverage innovations in the broader tourism sector. Cruise tourism also circumvented the problem of limited international flights to Timor-Leste. MDF focused its efforts on cruise tourism while remaining open to opportunities in destination marketing and skills development. It also continued to promote coordination through networking and representation with market actors and government.

<sup>13</sup> This is a similar process to identifying individual supporting functions or rules in the Springfield doughnut. The Springfield Centre, **The Operational Guide for Making Markets Work for the Poor** (2nd Edition), 2015.

<sup>14</sup> Ibid.





#### 4.1.4 INTERVENTIONS

The program iteratively outlines interventions that will catalyse innovations and links among them in each Intervention Area. These innovations are in line with the Market Function

and Strategic Engagement objectives the program aims to contribute to.



#### Example:

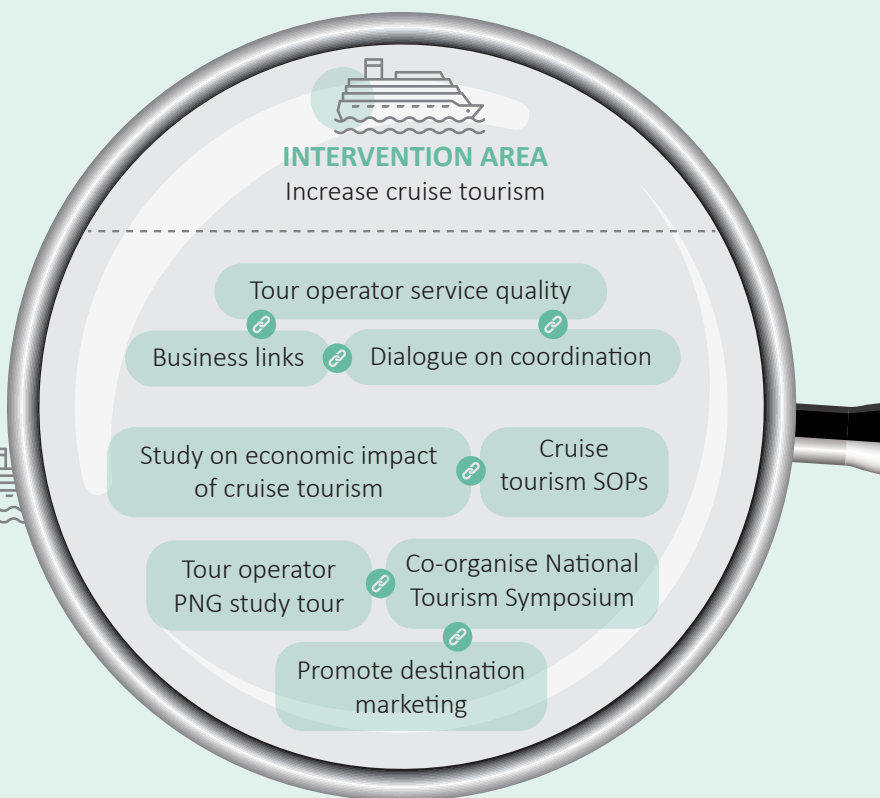
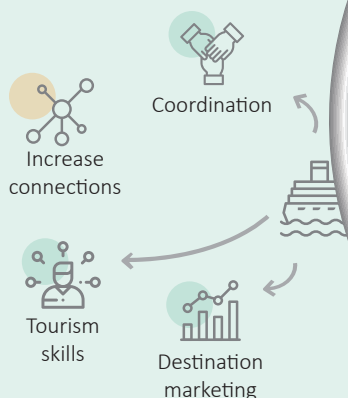
### Interventions in Cruise Tourism Timor-Leste<sup>15</sup>

MDF's cruise tourism interventions built on each other. In 2016, MDF partnered with a tour operator to improve product and service quality. Recognising that cruise tourism offered a potential opportunity for the tour operator, MDF assisted them to develop products and services for cruise tourists. In addition, MDF started a dialogue with the Ministry of Tourism to improve coordination among different cruise stakeholders. It also facilitated links among tourism businesses to introduce essential support services for cruise passengers.

Building on these efforts, MDF worked together with another development organisation and the Ministry

Coordinating Economic Affairs to assess the impact of cruise tourism in Timor-Leste. The interaction with market actors led to a partnership with the Ministry of Tourism to develop standard operating procedures for cruise tourism in Timor-Leste. At the same time, MDF assisted with a study tour on cruise tourism for Timor-Leste tour operators to Papua New Guinea and co-organised a national symposium on tourism. The symposium generated ideas for destination marketing including targeting cruise tourists with marketing on various destinations in Timor-Leste.

#### MARKET FUNCTION AREA: Bring more tourists into the country



<sup>15</sup> Ibid.

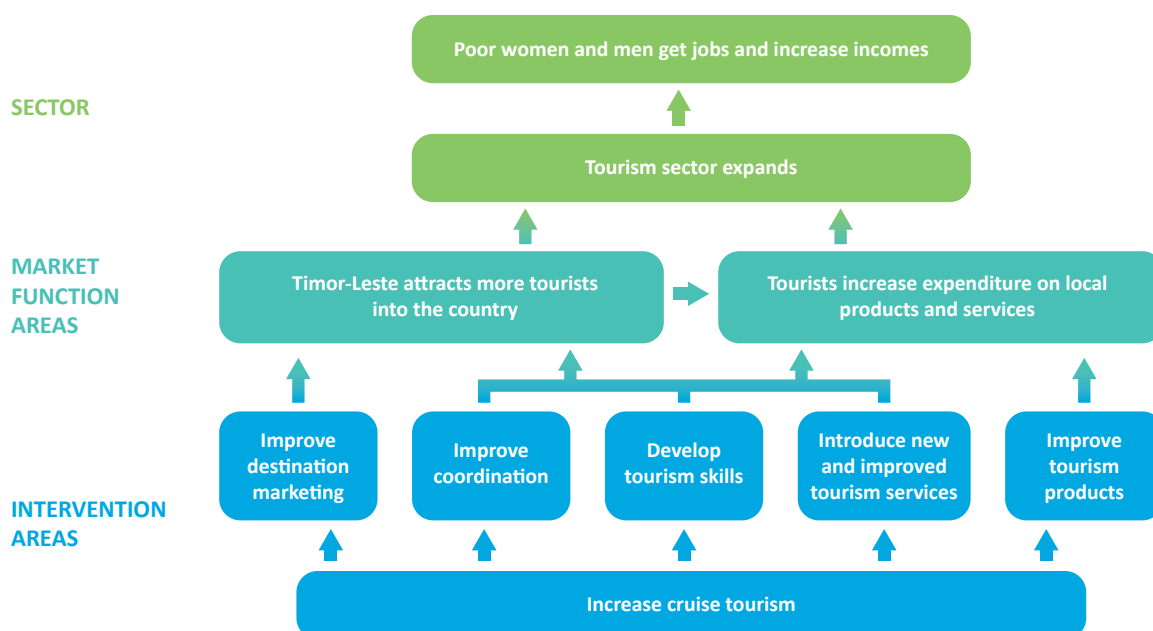


## 4.2 Outlining the Expected Pathway of Systemic Change

Defining the expected changes in each of the nested systems provides the skeleton of the pathway for systemic change.

This pathway can be summarised using a sector or Strategic Engagement Area Results Chain (see Figure 4).

Figure 4: Simplified Results Chain for Timor-Leste Tourism



Because the change process in shallow markets is generally not led by single innovations but rather by clusters of innovations that link over time, it is very likely that the pathway for systemic change will be more complex than those for robust markets. A results chain can only be a simplified summary of the complex change process. It is therefore important to document this greater complexity in the pathway thinking. It is also essential to regularly reassess the links between the objectives at each level and with areas that the program is not working on directly but are never-the-less important contributors to achieving the Strategic Engagement objective.

In shallow markets, it may take longer for the change process to progress from one level of the hierarchy to the next. Consequently, changes at the broad level are often limited or absent within the typical timeline of a program. For very shallow markets, even change at the intervention area level is a significant accomplishment because it will, over time, contribute to broader changes. For example, a new business model that sustainably fills a gap in the market may take two or three years to become operational in a shallow market. But, once established it will contribute, together with other changes, to making the market grow and become more inclusive over time. Therefore, systemic changes may be happening well before change can be observed at the Market Function or Strategic Engagement Area levels.

For all markets, it is critical to be clear at what stage in the change process members of the target group are likely to benefit significantly. In shallow markets, where change may be slower, it is important to be realistic about the timeframe for those benefits. For example, if members of the target group will benefit as consumers of new products developed by individual interventions, there is potential for them to benefit relatively early. However, if the target group are new workers in businesses that are expected to grow only as a result of multiple changes in multiple intervention areas, then it will take a long time for them to benefit. In these cases, the focus in the shorter term should be on the quality and sustainability of the expected intermediate changes.

It is always very difficult to know how long changes will take to appear and to deepen. However, it is still important to have conversations about likely timelines within a program and with stakeholders, and to use experience to better estimate timelines for changes. In some markets, it may be realistic to expect systemic change only at the intervention area level within the program timeframe. While in others, it may be realistic to expect systemic changes at the Market Function or even Strategic Engagement Area level.



### 4.3 Reflecting and Re-Planning

Reflecting and re-planning are important in all MSD programs. Up front analysis and diagnostic work can only take a program so far. The experience gained through actual engagement with market actors is essential to understanding opportunities, challenges and gaps in the target market systems. In shallow

markets, hitting roadblocks during implementation is common and it can take considerable time to find the multiple entry points needed to stimulate broader change. Thus, reflecting and re-planning must explicitly consider emerging information on barriers and potential linkages in the target market systems.



#### Example:

### Revising the Tourism Sector Approach in Timor-Leste<sup>16</sup>

MDF started working in tourism in 2013. Initially, it partnered with two hotels outside of the capital to improve their offer. Both partnerships were completed, and one was very successful. While there was some interest from government in the more successful hotel, these two interventions generated only modest enthusiasm among private sector actors for similar ventures.

In 2015 and 2016, MDF partnered with a company and a cooperative to improve the quality of their handicrafts for tourists and enable them to develop new products. Both of these partnerships have shown positive results: increased sales and benefits for women handicraft makers. However, they also generated only modest enthusiasm among other tourism market actors.

More substantive change did not happen until MDF's first partnership in cruise tourism highlighted the opportunity for market actors to work together, launching several related interventions and activities focused on tourists arriving on cruises. The knowledge, understanding and connections made through these interventions enabled MDF to realise not only the potential for growing cruise tourism in Timor-Leste, but also the potential to use cruise tourism as an entry point to other Intervention Areas in tourism. MDF is now putting considerable focus on cruise tourism as a key Intervention Area within the overall tourism sector.



<sup>16</sup> Ibid.





## Some of the tips emerging from MDF in this process

1

Recognise that a detailed pathway of systemic change will only emerge over the first few years of a program through a combination of 'top down' analysis and 'bottom up' experience. MDF outlines its broad Strategic Engagement Areas and objectives up front, based on analysis. In each Strategic Engagement Area, it defines all other parts of the pathway over time as it gains understanding of the markets through an iterative process of identifying, working on and reflecting on specific market improvements.

2

Allow early interventions to be exploratory. This does not mean that they do not have objectives in line with the overall Strategic Engagement objective, but it does mean that the links between partnerships and the overall objective may be somewhat vague during the early stages. Hence the program must ensure that the learning gained from early interventions is analysed and fed into strategy decisions that flesh out the pathway of systemic change.

3

Outline modest objectives for early partnerships. In shallow markets, a program cannot jump into addressing complex objectives right away. It must first build confidence and increase understanding within its own staff and among market actors through manageable early interventions.

4

Recognise that there are likely to be some fairly significant changes in strategy in shallow markets as initial ideas about how to generate changes often don't work. All stakeholders should be aware of this.

5

Be relentless in ensuring that reflection does not focus only on interventions but considers emerging changes at all levels and how innovations are beginning to link together (or not).

6

Regularly reflect on barriers to change. In shallow markets, the change process is likely to get stuck multiple times. It is important to dig into the reasons why and clarify the underlying barriers that may have been missed. It may be necessary to address more underlying barriers to help the change process get moving again.







5

WHAT ARE THE  
PRACTICAL IMPLICATIONS  
FOR IMPLEMENTATION?



MDF has found that working in shallow markets requires considerable creativity. This section discusses some of the

approaches the program has used in shallow markets and associated tips.



## 5.1 The Nature of Interventions

MDF has found that partnerships with businesses are the best starting point for working in shallow markets. Whereas early partnerships in more robust markets typically demonstrate innovations aimed to encourage crowding in, the early partnerships in shallow markets usually enable a partner to fill a market gap. For example, an early partnership might provide an input or service that is not currently available to the market. Even though these early partnerships are not easily copied by others, they do demonstrate successful innovation in the sector. Multiple demonstrations of innovation, along with other measures, are generally required to generate sufficient confidence to encourage risk taking by other market actors. In addition, each partnership that fills a market gap increases the potential for broader market changes and lowers the barriers to others innovating.

MDF has also found that partnerships with businesses are an essential mechanism for getting an in-depth understanding of the market and for building the program's credibility and network. Early partnerships demonstrate the program's worth and increase its ability to influence.

While MDF has found that partnerships with businesses are an important tool, in shallow markets other tools and complimentary activities are also needed to address the many different types of gaps in markets. In addition to partnerships

with businesses, MDF also uses a range of influencing tools to catalyse change, including:

- Mentoring to help new, fragile or risk adverse businesses to have the confidence to stay the course and persevere through the inevitable difficulties they face<sup>17</sup>
- Networking to exchange information with market actors and to highlight incentives for changes
- Studies (with or without a partner) to analyse parts of a market and identify if and what incentives there are for change- the studies are shared with market stakeholders to promote changes
- Dialogues with specific market actors to discuss issues in the market and encourage changes
- Memorandums of Understanding with market actors or other development actors to jointly carry out specific activities to address a market constraint or promote a specific change
- Events to provide information on challenges, new opportunities and innovations and to highlight incentives that encourage the emergence and diffusions of innovations
- Facilitating links among market actors to jointly address particular constraints or engage in new business models.



<sup>17</sup> Some degree of mentoring is required in all partnerships in both robust and shallow markets, however the intensity of mentoring tends to be significantly higher for businesses in shallow markets.



## Example: Tourism in Fiji<sup>18</sup>

Tourism is one of the sectors MDF targets in Fiji. Within tourism, MDF has gained the most traction by contributing to two interrelated Market Function objectives: more tourists visit more places in Fiji and tourists spend more on local products and services. Within these Market Function Areas, MDF has partnered with a number of tourism businesses to develop services outside of the main tourism areas in Fiji. MDF has also partnered with tour and booking operators to improve their marketing and service quality. But it has also implemented a number of less conventional interventions, for example:

- MDF built the capacity of three regional tourism associations, including assisting with the registration of two of these. It then partnered with these tourism associations on a range of destination marketing activities. This was complemented by linking the associations with key government agencies for dialogue and advocacy. Throughout, MDF has closely mentored the associations
- MDF has frequent discussions with the Ministry of Trade and Tourism and with the Government's marketing body, Tourism Fiji, to highlight opportunities in regional tourism and to make them aware of tourism initiatives outside the main tourist centres
- MDF links tourism businesses (both partners and non-partners) and stimulates discussion around

product offers, multi-destination tourism, joint marketing and other opportunities for collaboration

- MDF has regular interactions with industry bodies, such as the Fiji Islands Hotel & Tourism Association (FIHTA) to encourage more sharing of information and statistics between the national association and the smaller regional tourism associations
- MDF facilitated events with Trip Adviser to connect them with tourism businesses in various regions and enable businesses to learn how they can better take advantage of Trip Adviser's services
- MDF facilitates discussions on women's roles and leadership in various community-based tourism businesses
- MDF has conducted a number of studies with and without direct partners. These have been shared with industry stakeholders. The studies focused on:
  - The interaction of businesses and traditional Fijian communities to understand various commercial models and effective practices for ensuring sustainability and mutual benefit
  - Utilisation of scarce resources in a tourism product supply chain
  - The impacts of marine-based tourism (cruises and yachts) in Fiji.

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This unconventional mix of interventions and activities is improving information flows and coordination, increasing dynamism and contributing to a change in perceptions about diversifying tourism in Fiji beyond traditional areas and customer segments. Examples of results include:

- Additional, regional tourism associations are forming and tourism stakeholders in other smaller regions are organising themselves into informal representative groups
- Regional tourism associations are more active in direct marketing and advocacy
- Visitor numbers have increased for MDF partners; the reputation of several community-based tourism activities is growing
- New tourism products that incorporate local sourcing as a part of their brand and unique product offering are emerging
- Networks and new business linkages are forming between regional tourism stakeholders and other, key market actors.

<sup>18</sup> This example is based on Mohsin, M. Presentation, March 2018 and interaction with the MDF team.



## 5.2 Encouraging Changes Over Time

In shallow markets, the process of change is unlikely to flow smoothly. MDF has found that it is important to use a range

of tactics to prod the process along. Some of the tips that have helped the MDF teams follow.

### Prioritise visible changes early on

MDF has found that in shallow markets, fostering dynamism is important. Visible changes are more likely to

get the attention of other market actors and foster their enthusiasm.



### Example:

## Cruise Tourism in Timor-Leste and Exports in Fiji<sup>19</sup>

The sight of thousands of tourists disembarking from a ship cannot fail to attract attention. MDF has found that the very visible nature of cruise tourism in Timor-Leste has contributed to motivating market actors and government to innovate in catering to this market.

In Fiji, one of MDF's partner exporters has elevated the image of kava, a common Fiji product, by showcasing it as a premium product with a recognised quality mark (HACCP standards) and improved packaging. Other market actors are now developing new kava products with improved packaging and HACCP certification.



<sup>19</sup> These examples are based on Z. Ferdous, Presentation, March 2018 and interaction with the MDF team.



## Be ready to respond to new opportunities

In a shallow market, any change can have strong ripple effects. It can alter dynamics quickly and create new footholds for change. It is important to regularly talk with market actors

to understand changing dynamics and to be ready to take advantage of new opportunities as they arise.



### Example:

## Women in Manufacturing in Pakistan<sup>20</sup>

In Pakistan, leather is one of the sectors that MDF targets. Within this sector, one of MDF's Market Function Areas is focused on skills with the objective that: Retail goods manufacturers have access to skilled labour and provide a conducive environment for female employment. While the leather sector does not exhibit many of the characteristics of a shallow market, there are key barriers to women's employment in the sector. Norms and beliefs in Pakistan discourage women from working in factory jobs, particularly in mixed gender situations. While there are examples of women-only work lines in large companies, the model has not spread significantly within the leather sector. Most factories also do not provide facilities that address women's needs such as day care facilities and transport to work to ensure safety.

In 2016 MDF started a partnership with a mid-tier leather goods manufacturer to set up a women only stitching line. This proved successful. In 2017, MDF then initiated a partnership with the largest shoe manufacturer and exporter in Pakistan to set up a women only stitching line together with key facilities for women including day care and an ATM. It is not only

the workers who are female, but all the managers are as well. With this major industry actor demonstrating innovations in how to effectively employ women, MDF realised there was an opportunity to influence not only other leather manufacturers but other types of manufacturers as well. So, MDF conducted a study in 2017 on barriers and opportunities to employing women in three manufacturing sectors: leather, textiles and pharmaceuticals. MDF conducted two events in different cities to share the findings of the study as well as showcase examples of companies (both partners and a few others) successfully employing women.



## Foster linkages among innovations

Each innovation is unlikely to pull change behind it without further intervention. MDF takes an active role in linking

partners and market actors together to cooperate in developing additional innovations or promoting other changes.

## Work with others

Shallow markets may be crowded with development and government initiatives. Many of these may encourage market actors to take advantage of unsustainable opportunities. Never-the-less, taking a combative approach will not work

as it is likely to alienate market actors as well as the other initiatives. Finding areas of productive collaboration while continuing to work on more sustainable incentives is more effective.

<sup>20</sup> This example is based on Piracha, M. Presentation, March 2018; Market Development Facility, Annual Aggregation of Results January – November 2017; Khan, M. **Women's Economic Empowerment in the Manufacturing Workplace**, Market Development Facility, 2017; Ryan, A. et al. **What Can be Achieved in Women's Economic Empowerment?** Market Development Facility, 2017.

In a shallow market, broad change will take time. However, there are usually narrower changes that can benefit market actors more quickly. Focus early support on short term

incentives and benefits, while developing a longer-term plan to build on medium and long-term incentives for change.



### Example: Agri-inputs in Timor-Leste<sup>21</sup>

Within its work in agriculture in Timor-Leste, MDF aims to increase the distribution of agri-inputs to small farmers throughout the country. Low productivity in agriculture significantly contributes to poverty in rural Timor-Leste. Small farmers get limited information on, and access to inputs. While the government provides free inputs for selected crops, in any given year, distribution is uncertain and often late. Input importers are concentrated in the capital city with limited rural reach. Rural and peri-urban input retailers lack capacity and tend to stock low quality products.

In 2015 MDF started their work in this Market Function Area with a partnership with one input wholesaler, assisting the business to expand its network of rural retailers and embed information with the sale of inputs. At the same time, MDF networked with another large development program working in seeds, the National Seed Council and the Ministry of Agriculture. The team also consulted all three major agri-input wholesalers in the capital. While the innovations implemented by the

first partner generated interest, no other wholesalers moved to copy the model. So, in 2016 MDF started consultations with agri-input retailers, covering 25 retailers in 11 out of 13 municipalities in the country. Among other issues, MDF discussed the potential of establishing a business membership organisation of the retailers. With MDF's support, a national agri-inputs association was established in 2017.

MDF quickly facilitated links between the agri-inputs association and a financial institution. With another development program working extensively in finance, MDF promoted agri-inputs as a potential sector for targeted financial product development. Finance was a clear, short term incentive for the association members and demonstrated the value of the association to members. In 2018, MDF continues to work with the association, helping it to start buying inputs together in bulk, get access to new products and improve administrative capacity. The team are promoting the association members as a potential source of agri-inputs in the districts to other development partners and linking the association with a variety of agriculture related companies. These efforts increase both their sales and their visibility in the industry.

Early signs are encouraging. Association members buy into the idea of focusing on sales to farmers rather than relying on government contracts. The association is independently identifying and carrying out new activities. There is interest from new retailers to join. While the long-term goals of the association focus on advocacy, MDF recognises that it is first important to solidify the short-term incentives for the growth and development of the association. Thus, it is helping the association to increase its visibility, build the capacity of members and introduce new products that address concrete needs of small farmers.



<sup>21</sup> This example is based on Z. Ferdous, Presentation, March 2018 and interaction with the MDF team.

## Consider how viable business models for support services can work

When markets are small, commercial support service providers cannot focus on only one subsector. They have to serve a number of subsectors or sectors to be profitable. This is a

key consideration when working with partners on support service business models.



### Example: Agri-inputs in Fiji<sup>22</sup>

As MDF's work in agri-inputs in Fiji began to focus more on distribution, the team realised that transport and logistics providers could not profitably specialise in transporting agri-inputs. Firstly, the volumes were insufficient. Secondly, the transport of agri-inputs was only one way, from urban to rural areas, meaning that trucks or boats would be empty on their return.

MDF realised there were two ways to address this problem. Firstly, fast moving consumer goods were

already being distributed effectively throughout Fiji. MDF therefore targeted distributors of these goods to add agri-inputs into their product mix. Secondly, for both export and domestic markets, rural produce needed to be transported to urban areas for sale or shipment. So, MDF is identifying business models, such as a regular barge service, that can transport both agri-inputs and produce. This will enable providers to consistently fill their cargo space and be more profitable.

## Consider working with businesses outside the target sector

Typically, there are missing products and services in shallow markets. It may not be possible to find a business operating in the sector willing and capable to develop the necessary

products or services. However, sometimes capable businesses in other sectors may have an incentive to diversify into providing needed products or services in the target sector.



### Example: Agri-inputs in Fiji and Agri-business in Timor-Leste<sup>23</sup>



In Fiji, MDF partnered with a cement company to produce agricultural lime. With minimal adjustments, they were able to process their limestone for agricultural use.

In Timor-Leste, real estate companies are now investing in agri-business.

<sup>22</sup> This example is based on interaction with the MDF team.

<sup>23</sup> These examples are based on interaction with the MDF team.



## Recognise the political economy issues

In small economies, politics tends to be very personalised. Political influence may strongly affect the behaviour of both government agencies and businesses in many sectors. It is

important to understand this influence as it can be either an incentive for, or a barrier to change.

## Find and work with change agents

It is useful to think not only about what missing market function a market actor might fill but what role they might play in encouraging broader change. For example, some business owners are natural leaders who have intrinsic motivation or

sufficient stake in the overall growth of a sector to motivate and mentor others to change. The program can help and support them to take on this role and make it more effective.



### Example: Tourism in Fiji<sup>24</sup>

In its work in tourism, MDF has been able to identify and support change agents who have the inclination and business model to influence others in the sector. Two examples are provided below.

MDF has partnered with a company that specialises in spa products and services. The company has its own stand-alone spa, manages spas in major hotels, has a massage therapy training academy and produces a line of spa products. The company owner is an energetic and well-connected woman passionate about providing opportunities for low-income women. Her company trains and employs significant numbers of women and provides a range of support services that address women's needs. She also seeks out raw materials for her beauty line produced or gathered by women in rural communities. Graduates of the company's training academy work in spas throughout the country. MDF has linked the owner with other companies in the tourism industry so that they can learn about its effective employment of women and hire graduates

from the academy. MDF has also encouraged industry actors to ask the owner to speak at conferences and mentioned her as a key industry innovator to a wide range of tourism stakeholders.

MDF has recently started a partnership with a dance company to establish a cultural centre in one of the main tourism areas in Fiji. The owner of the company is a dynamic woman dedicated to promoting arts, particularly dance, from different parts of Fiji to people from other countries. Among other features, the cultural centre will have a market where tourists can sample food and products from different regions in Fiji. MDF sees that the cultural centre will not only provide employment for people in the area but can also play a role in encouraging tourists to visit other areas of Fiji. As the partnership progresses, MDF plans to introduce the company to regional tourism associations and businesses who can market their destinations and services through the cultural centre.



<sup>24</sup>This example is based on interaction with the MDF team and its partners.

In shallow markets, a few light touch interventions generally don't provide enough support for change. MDF has found that a more hands on approach is required, both with individual partners and to nurture the change process. This

doesn't necessarily mean more money, but it does mean more time – to mentor partners, meet with market actors, facilitate links, gather information and coordinate with other public and private initiatives.



### Example: Exports in Fiji<sup>25</sup>

One of MDF's Intervention Areas in its Exports Strategic Engagement Area focuses on certification. MDF has worked with several exporters to enable them to get certified. This was not a simple matter of just linking the exporters with a certification body. Instead, MDF had to first assist the exporters to strengthen their supply chains and get ready for certification. Next,

MDF linked the exporters to the certification body. Once they obtained certification, MDF assisted the exporters to identify new markets they could target because they were certified and use the certification in their marketing. Without this intensive engagement, it is unlikely that there would be much movement in certification of export products from Fiji.



<sup>25</sup> This example is based on interaction with the MDF team.



## 5.3 What To Do When Change Doesn't Happen As Expected

Perseverance is needed in shallow markets. However, it is also important to know when to quit trying to foster a particular change and work on other changes, or other market systems.

This is always a difficult decision in an MSD program, but is particularly tough when working in shallow markets. It is important to consider this decision periodically.



### MDF's tips when change doesn't happen as expected

1

Analyse the reasons why change has stopped. This may require targeted research.

2

Assess whether additional interventions to promote the change are needed or if there are reasons that change has stopped which the program cannot address. For example, there may be political considerations or cultural norms that the program and its network are not able to influence.

3

Compare how likely various changes are based on early signs such as interest and attitudes. Prioritise those changes where early signs are positive.

4

Reconsider the timelines for change. Innovations that are likely to contribute to broader changes in the long-term may be just as important as those that catalyse widespread growth during the life of the program. Are changes just slow or have they stopped?

5

Reconsider the innovations that are necessary to support broad change that the program is not targeting. Are these likely to change in the short, medium or long term, or not at all?





## Example: Leather in Pakistan<sup>26</sup>

In the leather goods sector in Pakistan, MDF works in the Intervention Areas of skills, ancillary products necessary for production, testing and product development. MDF's expectation is that improvements in these Intervention Areas will enable retail goods manufacturers to increase efficiency and better respond to international orders. As a result, MDF expects that manufacturers will expand and hire new workers.

MDF has implemented a number of successful partnerships in these Intervention Areas. For example, MDF partnered with two companies to pioneer the local production of plastic shoe-lasts and moulds. Pakistani shoe manufacturers are purchasing these products and the availability of local lasts has reduced the lead time for orders by nine days. Another shoe-last manufacturer

has crowded in. MDF has also developed successful partnerships in market access services including compliance testing and product design.

MDF's results measurement shows that, as a result of these services, shoe manufactures are securing some additional orders. However, this has not translated into hiring more workers. Thus, the MDF team is re-assessing its assumptions. Is more time needed for the effect on shoe manufacturers to be significant enough to enable them to expand and hire more labour? Or are other constraints preventing manufacturers from expanding? MDF is now conducting a study to understand the reasons why increased efficiency and orders is not translating into hiring and the other barriers to the growth of leather shoe manufacturers.



In shallow markets, an MSD program may only be able to contribute to the conditions for broader change at some point in the future. While this may result in some benefits for the target group, they may be limited until other changes in the system support the Strategic Engagement objective. If this is an acceptable outcome for the program, then persevering in

a difficult market may be appropriate. However, for programs aiming for widespread impact among the target group based primarily on the program activities, it is important to recognise when this is unlikely within the timeframes and scope of the program.

<sup>26</sup> This example is based on Piracha, M. Presentation, March 2018.









6

HOW CAN MSD BETTER  
FACILITATE SYSTEMIC CHANGE  
IN SHALLOW MARKETS?









- **Fiji:** Level 5, Fiji Development Bank Building, 360 Victoria Parade, Suva, Fiji Islands
- **Timor-Leste:** 2nd Street, Palm Business & Trade Centre, Surik Mas, Dili
- **Pakistan:** 95-E/1, Syed Shamshad Haider Road, Hali Road, Gulberg III, Lahore, Pakistan
- **Sri Lanka:** No. 349, 6/1, Lee Hedges Tower, Galle Road, Colombo 03, Sri Lanka
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