

Synthesis Review of DFAT Funded Market Systems Development Programs

DFAT Management Response

In 2019, the Agricultural Development and Food Security (AFS) section within the Department of Foreign Affairs and Trade (DFAT) commissioned a Synthesis Review of DFAT Funded Market Systems Development (MSD) programs.

The **primary purpose** of the review was to assess the extent to which DFAT's MSD programs remain relevant, offer value for money (in terms of both efficiency and effectiveness), and are meeting DFAT's expectations of household and market system impacts that benefit the poor. The review also explored the extent to which MSD approaches can achieve impact across different contexts and whether there are certain pre-requisites contributing to success or failure.

The **primary audience** is DFAT staff involved in current MSD programs, or considering options for new or follow-up investments where MSD approaches may be appropriate; while a secondary audience is DFAT's implementing partners, including managing contractors, NGOs, governments and private sector organisations; as well as the global MSD community of practice, including other donors.

The Terms of Reference for the Synthesis Review asked for suggestions on measures to further strengthen the development benefits from DFAT's MSD programs. The Synthesis Review was completed in late 2019.

The Review found that Market Systems Development programs remain strongly aligned to Australia's key policy settings and that most programs are effectively benefitting poor men and women. The MSD approach has been adapted across a range of country contexts and programming approaches but more could be done to learn from that range of experiences. MSD programs face challenges in recruiting, training and retaining staff, of building capacity in MSD approaches and of retaining institutional knowledge but these challenges are not unique to MSD programs. There is inconsistency in the way MSD programs show that they are facilitating change in markets (rather than in individual market actors) and programs have found it difficult to communicate progress and performance information on changes in how markets operate in a way that balances quantitative and qualitative information. Conceptualising, assessing and reporting on how markets operate (or systemic change) has proved challenging. MSD programs have also not convincingly demonstrated value for money and DFAT has not provided strong guidance on value for money in these styles of programs. Finally, the Review found there was considerable scope for linking MSD programs to other initiatives. To get the most out of these opportunities, however, requires better incentives at the program level.

DFAT's management response to specific Review suggestions is as follows.

REVIEW SUGGESTION	DFAT MANAGEMENT RESPONSE
<p>DFAT should continue to invest in MSD programs, but needs to build stronger structures to learn from the portfolio; strengthen institutional understanding of the MSD approach; and build internal capabilities for staff and management to engage with and draw from MSD programs.</p> <p>Specific suggestions include:</p> <ul style="list-style-type: none"> ■ Build a more formal mechanism to learn from the portfolio – with a more structured approach guided by specific learning objectives and a feasible research plan developed in consultation between DFAT, current programs and individuals familiar with these programs. ■ Foster development of a community of practice (CoP) that can share experience, contest ideas, and support DFAT staff and management to better appreciate MSD and the broader types of systemic engagements for the aid program. This could aim to help address DFAT’s need to improve institutional memory about individual programs and the overall approach. A CoP needs to be more than a loose and shifting coalition of interested people. It needs a strategy and program of events, processes and products (such as the research proposed in the previous point) – and resourcing. ■ Strengthen orientation programs for DFAT staff with upcoming responsibilities with respect to MSD programs. ■ Update the 2017 guidance note on MSD programs to reflect learning since it was drafted. 	<ul style="list-style-type: none"> ■ DFAT acknowledges that additional resources would be needed to build and strengthen internal capabilities for staff to manage, learn from and apply learnings that will improve the effectiveness of the MSD approach and inform associated development and policy outcomes. ■ DFAT will assess on a regular and ongoing basis whether additional resources can be applied to these functions including by drawing on various Technical Advisory Groups, international learning exchange networks and participation in reputable training programs. ■ DFAT will strengthen orientation programs for DFAT staff with upcoming responsibilities with respect to MSD programs including by preparing and offering a package of training material to all relevant staff. ■ DFAT will update the 2017 guidance note on MSD programs to reflect learning since it was drafted.
<p>Work with programs to improve the articulation of strategic intent to help stakeholders better understand how they are targeting systemic change.</p> <p>In particular:</p> <ul style="list-style-type: none"> ■ Request greater clarity in formal and informal reporting with respect to programs’ understanding of the specific causes of the underperformance of markets, which causes programs choose to work on, and the implications of not addressing other causes. 	<ul style="list-style-type: none"> ■ Through its reporting frameworks and management interactions, DFAT will seek clearer rationales from MSD programs on market underperformance and what investments are needed to address this. ■ DFAT will request MSD initiatives to apply a more rigorous approach for demonstrating additionality at strategy and intervention choice stages, and encourage impact analyses to undertake ex-post assessments of additionality.

<ul style="list-style-type: none"> ■ Bolster consideration of the notion of additionality (e.g. a business would not have taken the risk now or in the near future or to the same extent with program support) at strategy and intervention choice stages, and encourage impact analyses to undertake ex-post assessments of additionality. ■ Work with programs to develop pathways to manage tensions between delivery of quantitative results, additionality and systemic change at intervention, sector and program levels. 	<ul style="list-style-type: none"> ■ Through its reporting frameworks and management interactions, DFAT will work with program implementers to better articulate what quantitative results, additionality and systemic change at intervention, sector and program levels can be expected. ■ DFAT will streamline communication products for MSD programs – such as diagrams to visually map progress in target sectors and providing narrative around annual performance against expectations. This will be useful to understand lessons learned and program flexibility to respond to changes in markets.
<p>Devote time and resources to the development of cost-effective M&E approaches to best meet various program and DFAT needs.</p> <ul style="list-style-type: none"> ■ Commission collaborative action research and analysis to design ways of monitoring and evaluating systemic change across different contexts – developing alternative approaches and testing them across different programs, especially where headline indicators cannot convey the depth and richness of systemic change achievements. ■ Develop a clearer articulation of what kinds of formal reporting DFAT needs, and how best to deliver it, recognising that: <ul style="list-style-type: none"> ○ strong relationships and frequent and honest communication may be a more effective way of meeting many needs than formal, periodic reporting that is also expected to meet diplomatic and headline reporting requirements; ○ M&E systems for adaptive programs that seek systems change are more resource intensive, and require greater levels of capability, than direct delivery programs. ○ It is also important to consider trade-offs and what programs might be asked to stop doing or do less of. ■ Clarify what DFAT needs from programs to meet its institutional need to demonstrate value for money: recognising that currently 	<ul style="list-style-type: none"> ■ DFAT will consider commissioning collaborative research to design ways of monitoring and evaluating systemic change in conjunction with other donors as appropriate. ■ DFAT will seek to further clarify what is needed to demonstrate value for money. DFAT recognises that this is a challenging task given the complexities of the market systems approach.

<p>used metrics convey very little information about the key drivers of value for money at a program level, and there are no clear benchmarks against which to compare these metrics.</p>	
<p>DFAT should do more work to understand, and find ways of dealing with, the challenges of hybridisation and exploiting the synergistic potential of MSD programs. In particular:</p> <ul style="list-style-type: none"> ■ Actively consider the very different intellectual, professional and ‘team culture’ mindsets that underpin MSD and other approaches that may be included in hybrid programs; and how best to manage these differences across teams. ■ Actively consider ways to promote cross-program collaboration. There are models where active portfolio management has brought about effective interactions between programs dealing with different elements of the challenge of getting low-capability or marginalised groups to benefit from market systems development. ■ Explore ways of making better use of MSD program’s nuanced understanding of the business enabling environment to support policy engagement and economic diplomacy. 	<ul style="list-style-type: none"> ■ DFAT will consider how it can effectively promote greater collaboration between MSD initiatives and other relevant programs. Through the Market Development Facility, DFAT has already commenced consultations on cross-program opportunities in the Pacific around labour mobility, infrastructure and impact investing. A summary paper is forthcoming. ■ DFAT will draw on the recommendations of a forthcoming summary paper from the Market Development Facility to advise its other MSD programs on opportunities for cross-program collaboration within DFAT partner countries. ■ DFAT will consider how it can make better use of MSD program’s nuanced understanding of the business enabling environment to support policy engagement and economic diplomacy.