ABCs OF MSD: S IS FOR… SAVVIER SECTOR SELECTION

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This post is inspired by a paper published by Market Development Facility (MDF) which explores the issue of sector selection in market systems development (MSD) programmes.

Real talk. If only spotting an inclusive growth opportunity was as easy as drawing three overlapping circles, we'd all be out of jobs. MSD 101 is to identify sectors that offer *both* inclusion prospects *and* an economic growth opportunity. The Venn diagram many of us use, either implicitly or explicitly to guide our analytical efforts, reminds us of this balancing act – there needs to be an opportunity for change, it needs to include or benefit poor producers, consumers, or employees, and we need to have some sense that it's possible to achieve in our timeframe, with our resources, in the socio-political context in which we're operating.

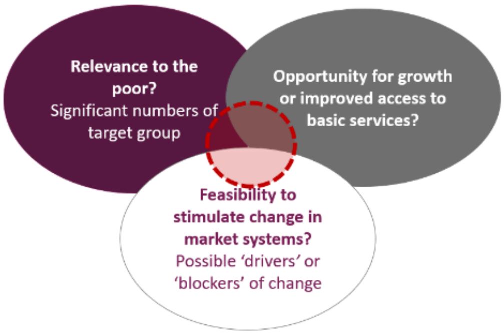

Figure 1: Sector selection in theory

Easier said than done sometimes. Whilst the beloved relevance, opportunity, feasibility Venn diagram gives us a 10,000-foot view of change possibilities in any given sector, the danger is that superficial diagnosis obfuscates important nuances that may shape programme outcomes. In reality, we see programmes often operating in one of the two scenarios below. Take Figure 1 – the tricky, yet common scenario of inclusion without meaningful economic growth opportunities. In a quest to maximise inclusive impact, aid programmes often target a sector based on it being relevant to large numbers of disadvantaged people (e.g. smallholder farmers) or a disadvantaged geographic area (e.g. a remote region). However, they often fail to recognise that a large swathe of that same sector is also not being served optimally. In such situations, inclusive impact might not be achieved as expected because firms will tend to target untapped potential that is more profitable and easily achieved (e.g. middle-income groups, medium-sized farms or firms, urban or peri-urban areas) before moving to more challenging groups and areas.

Conversely, there may be opportunities to grow sectors of the economy, such as information technology or outsourcing, but those sectors may not be willing or able to absorb additional labour or buy from your target group. Put another way, there is not a feasible business case that inclusion will contribute to competitiveness.

Figure 2: Reality check number one – inclusion without growth

Figure 3: Reality check number two – growth without inclusion

So, what can we do if we can't force these circles to overlap? Bin those inclusive aspirations and pin our hopes and targets on dodgy 'trickle down', 'all growth is good' malarkey? Or embrace inclusiveness for inclusiveness' sake, irrespective if nobody's going to buy all those extra tomatoes being grown in more remote regions?

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

Consumers: Many emerging economies include large numbers of poor people who are often underserved with various goods and services for a myriad of reasons – desirability, affordability, availability, to name a few. Any innovation, whether in product modifications, bundled services, or last mile distribution innovations, that increases a market actor's ability and interest to serve this population has good potential to deliver the inclusion and competitiveness goodies.

Producers: When the targeted beneficiaries are producers, such as farmers or small businesses, the question is whether including them builds the competitiveness of other market actors. Working with large numbers of small producers has high transaction costs – it takes time and effort to find them and deal with them. Hence, the default of most market actors is to work with a smaller number of larger suppliers or via intermediaries. The benefit of working with smaller producers must outweigh additional costs of doing so. In a situation where supply is limited, securing greater volume might be sufficient justification. Or sources might be naturally dispersed or suited to small-scale production (e.g. scattered islands, wild harvesting, or organic produce). Supply chain diversification (spreading risk) or flexibility (outsourcing piecework) might also provide a business case for working with smaller producers. Doing so because it meets corporate social responsibility (CSR) targets is a more fragile motivation, vulnerable to economic pressure or changing CSR fads.

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

Balancing relevance, opportunity, and feasibility is a good place to start for selecting sectors. But to meaningfully test the tension between inclusion and competitiveness, being more thorough about who is potentially going to benefit and realistically reflecting on the transaction costs of inclusion for a sector's competitiveness provides that next level of detail needed to make and communicate decisions.