Market Development
in Swedish Development Cooperation
WHY DOES SIDA GIVE SUPPORT TO MARKET DEVELOPMENT?

Poor people depend on markets for income and the purchase of goods and services. But often markets for jobs, staple foods, inputs for production and essential services do not operate in a way that meet the needs of poor women and men. Sometimes markets are not accessible and market systems need to be improved in order to increase the economic choices and opportunities of the poor. The development of functioning market systems and a vibrant private business sector also has linkages to many other development dimensions, such as human security, democracy and human rights, gender equality and a sustainable use of natural resources.

The international donor community has defined pro-poor growth as “a pace and pattern of growth that enhances the ability of poor women and men to participate in, contribute to and benefit from growth”\(^1\). In line with this view, one of the main focus areas in the recent Swedish Government Policy on Economic Growth\(^2\) is to strengthen conditions for poor people to take part in growth processes. In parallel, the Government underlines that the preconditions for development of markets and entrepreneurship must be strengthened. As illustrated below, such conditions exist at different levels of the economic system.

Swedish development cooperation can have an important role in creating better conditions for pro-poor market development. This booklet gives examples of how conditions that benefit the poor can be created. The examples on the following pages illustrate some results from completed and ongoing projects.

While the EPOPA programme has had a direct impact on the incomes for thousands of smallholders in East Africa, the role of the Sri Lankan accreditation project is more indirect, but still crucial for long-term pro-poor growth.

\(^1\) OECD/DAC, 2006
\(^2\) Ministry for Foreign Affairs; Sweden; 2010
Supporting Market Development:
Some Basic Principles

Experience shows that some basic principles have to be considered for market development support to be successful:

- **Systemic change**: Finding corrective measures to market systems failures which better serve the needs of poor women and men
- **Sustainability**: Delivering sustainable change by better alignment of key market functions and players with the incentives and capacity to work more effectively
- **Scale**: Leveraging the actions of key market players to bring about lasting and systemic change and achieving impact among the poor at a large scale
- **Facilitation**: Determining a temporary, catalytic role for the development agent that stimulates actions by market players themselves.

These principles form the basic building blocks in the “Making Markets Work Better for the Poor” (M4P) approach which is one of the ways through which Sida puts the above-mentioned Policy on Economic Growth into practice. An interesting example of the application of such a market-based approach is the Financial Sector Deepening Trust in Kenya. This programme helps to promote market development for the benefit of poor people by leveraging the large resources available within the local financial system.

What is the Focus of Sida’s Support to Market Development?

There are four main focus areas within Sida’s support to market development:

- **Private sector development**, e.g. support to reforming the business environment, developing value chains, expanding business development services and strengthening business organisations
- **Trade policy and regulation**, e.g. building overall trade policy and planning capacities; training and participating in regional and international trade negotiations; supporting trade facilitation; supporting capacity building related to technical regulations and trade-related standards
- **Financial systems development**, e.g. building financial sector legal and regulatory frameworks and supervisory capacity; developing local capital markets; and expanding access to financial services, including microfinance

Further information on the M4P approach is found at www.m4hub.org, a knowledge facility financed by Sida together with British DFID and Swiss SDC.
This recognition was achieved by the signing of the Mutual Recognition Arrangements of Asia Pacific Laboratory Accreditation Corporation and the International Laboratory Accreditation Corporation.

Accreditation is part of a country’s national quality infrastructure which should ensure that products and services meet certain standards and technical regulations. If internationally recognised, it removes technical barriers and facilitates international trade. In Sri Lanka Sida has cooperated with the Swedish Board for Accreditation and Conformity Assessment in supporting the adaptation of the national quality infrastructure to international requirements. As a proof of success, the Sri Lanka Accreditation Board for Conformity Assessment, SLAB, received its international recognition in December 2009. Through these arrangements the schemes of SLAB are in accordance with international principles thereby facilitating access of Sri Lankan products to world markets.

• Employment and labour markets, e.g. building institutional capacity in employment policy and planning, labour laws and labour unions.

Diagrams 2 shows the volume of support to these four focus areas. While the long term trend has been an increase, there are substantial variations between different years. During 2010 the total recorded support to the sector “market development” amounted to 548 MSEK.

While the numbers shows support to the “market development sector”, there is also a wider spectrum of market development support embedded in other major sectors, such as infrastructure and agriculture. When the “cross-cutting” character of market development is considered and depending upon how market development is defined, the total volume of such support may increase by at least 50%.

It is also important to note that Diagram 2 does not include the flows of finance generated by Sida’s provision of guarantees within the frame of Sida’s new system of loans and guarantees. One illustration is the guarantee facility of 1.25 mdr SEK that Sida set up during the recent financial crisis in support of trade finance through IFC’s “Global Trade Liquidity Programme (GTLP)”\(^4\). The way that Sida’s support leverages much larger financial flows is also illustrated by Sida’s participation in the “Private Infrastructure Development Group” (PIDG), which has set up a number of financial vehicles to promote private investment in infrastructure\(^5\).

Diagram 3 highlights the focus on Sub-Sahara Africa as well as global programmes in the entire market development support portfolio. Again, if the market development dimension in, for example, agriculture and infrastructure projects are taken into account, the portion of the global programmes becomes less pronounced.

HOW SIDA SUPPORTS MARKET DEVELOPMENT

Effective market development support must respond in a flexible way to the underlying causes of why markets fail to serve the poor. Such support does not necessarily require large resource transfers (such as for the building of public infrastructure). The challenge is rather to identify problems and target interventions in ways which best influence the functioning of markets. In order to be effective, such support requires a flexibility to work at different levels of the economic system.

\(^4\) http://www.ifc.org/ifcext/gfm.nsf/AttachmentsByTitle/GTLP_GTLP_Bulletin%233/$FILE/GTLP+Newsletter+%233+July+2010_final.pdf

\(^5\) www.pidg.org
Through support to institutions at the global level, Sida can impact development agendas, norms, agreements and regulations which are important for pro-poor market development. For example, Sida works with strengthening the role of the least developed countries in the WTO trade negotiations. It also provides support to ILO’s normative role (e.g. the “Decent work agenda”) and to IMF for financial crisis management.

Sida’s support to the “Trade Policy and Training Centre in Africa” (Trapca) helps build capacity at the regional level. Since 2006 Trapca provides advanced trade policy training aimed at strengthening the capacity and understanding for negotiating advantageous trade agreements for the least developed countries (LDCs). Around 500 students from governments and organisations in LDCs take part in the various courses and programmes at Trapca annually. Many Trapca participants have been promoted to more advanced and challenging trade policy positions upon returning to their governments and organisations.

Sida supports a number of programmes at the national policy level for reforms and institution building. One example is the support to the reform of the business environment in Liberia through the World Bank Group. Liberia has made progress according to the World Bank Doing Business Report, improving its ranking from 159th place in 2009 to 149th place in 2010 (out of 183 countries). In Ethiopia, Sida has supported the dialogue between representatives from the public and private sector. Such dialogue often plays a crucial role in successful business environment reforms.

Sida cooperates with a large variety of organisations and actors to promote market development in specific sectors of the economy or in specific geographic areas. An example of a project focussed on a specific market is the Small Enterprise Media project in Uganda implemented by the ILO and financed by Sida. This project contributed to a significant expansion of local commercial radio stations, which in turn have given voice to local entrepreneurs.

The Sida-supported Malonda Foundation for economic development in the Niassa province in northern Mozambique has, for example, facilitated a promising development in the forestry sector thereby creating some 3000 jobs in reforestation activities. Another example is a post-conflict eco-

6 www.trapca.org
8 ILO (2007); “Lessons learnt from supporting mass media to improve the business environment” http://www.businessenvironment.org/dyn/be/docs/157/Olming.pdf
9 http://www.malonda.co.mz/eng
nomic recovery programme implemented by International Rescue Committee in Northern Uganda. By linking farmers to markets through the establishment of collective marketing committees (CMC) and strengthening the local business environment former internally displaced persons were economically empowered (IDPs).

The above examples illustrate the flexibility and tools Sida has to cooperate with different types of actors in both public and private sectors as well as in civil society.

Sida has made a major effort to develop new and innovative forms of collaboration with the private sector since 2009, through the programme Business for Development (B4D)\(^\text{10}\). One example of a project within the B4D initiative is the Better Cotton Initiative described above.

**THE WAY FORWARD**

In order to provide successful support to market development, Sida must be able to identify constraints and opportunities in local, regional and international markets systems. This is not possible without a good understanding of the local business environment and the political economy that determines the feasibility of changes in a market at any given point in time. Local presence in partner countries, a long-term perspective and close cooperation with other donors greatly improves this understanding.

At the same time, support to market development requires that Sida works in a flexible way with a wide range of actors and leverages resources of such actors. Innovative forms for cooperating with other actors, as well as innovative forms of finance play a crucial role.

Special challenges for Sida’s support to market development exist in conflict and post-conflict countries, such as Afghanistan, Guatemala, Liberia and the DR-Congo. In those countries support to the development of the private sector is seen not only from a market and growth perspective, but also as an instrument to support the peace-building process.

\(^{10}\) [http://www.sida.se/English/Partners/Private-sector/](http://www.sida.se/English/Partners/Private-sector/)
Sida works according to directives of the Swedish Parliament and Government to reduce poverty in the world, a task that requires cooperation and persistence. Through development cooperation, Sweden assists countries in Africa, Asia, Europe and Latin America. Each country is responsible for its own development. Sida provides resources and develops knowledge, skills and expertise. This increases the world’s prosperity.

FURTHER READING:

- Ministry for Foreign Affairs; Sweden (2010); Policy on Economic Growth in Swedish Development Cooperation
- Sida (2004); Policy guidelines for Sida’s support to private sector development
- Sida (2004); Improving Income among Rural Poor: Strategic Guidelines for Sida Support to Market-Based Rural Poverty Reduction
- Sida (2004); Making Financial Markets Work for the Poor: Guidelines on Microfinance
- Sida (2008); Making Markets Work for the Poor: 10 Key Questions
- Sida (2009); Pro-poor Growth
- Lindahl C. (2005); Wealth of the Poor: Eliminating Poverty through Market and Private Sector Development; Sida Studies No.14
- SDC and DFID (2008); A Synthesis of the Making Markets Work for the Poor Approach
- OECD (2006); Promoting Pro-Poor Growth: Policy Guidance for Donors
- Donor Committee for Enterprise Development, DCED (2008); Supporting business environment reforms: practical guidance for development agencies
- Donor Committee for Enterprise Development, DCED; http://www.enterprise-development.org