

# International trade and market systems development

A study exploring the nexus

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## Executive summary

The Donor Committee for Enterprise Development Market Systems Development (MSD) Working Group commissioned research to explore the nexus between the use of the MSD approach and the pursuit of international trade objectives in development assistance programming. Aid for Trade (AfT) and MSD programming are extensive fields, each supported by a substantial body of literature. This study has, by design, focused on a small part of the programming and literature within these fields, and its findings should be read with an understanding of the research's limitations.

The key findings of the research are:

- Support for developing countries to liberalise their trade regimes and to implement a trade-related pursuit of inclusive growth has been a long-standing and prominent aspect of development assistance for over 50 years. In more recent times, AfT has been closely associated with encouraging developing countries to engage with the global architecture for trade and to accede to multilateral, regional and bilateral trade agreements. AfT encompasses a broad range of activities, and support to reducing the costs of trade is often seen as the most successful area. Success has come through investing in trade-related infrastructure, improving the enabling environment through regulatory and institutional reform, and systematising and harmonising trade structures across borders. However, a large proportion of AfT has targeted productive capacity-building, which has been viewed as less successful in contributing to increased trade.
- MSD programmes have engaged with international trade since the earliest days of the MSD approach. This is sometimes a result of the institutional mandate of funding organisations, by deliberate choices at the design stage if specific sectors or value chains are chosen, or due to market and opportunity analysis conducted once programmes begin. Many MSD programmes are identified as AfT in donor reporting, but do not seem to consistently self-identify as such.
- Across the spectrum of AfT areas of engagement, it seems the MSD approach has greatest potential in:
  - Enabling enterprises to take advantage of opportunities to expand exports – opportunities that trade policy and regulatory reform and increased market access associated with accession to, and implementation of, trade agreements have delivered.
  - Trade facilitation, which involves working with governments and other actors to unilaterally improve delivery of trade-related services and regulations and reduce impediments and cost of implementation. This contrasts with trying to directly change trade related policies, a process which is often constrained by international agreements and the processes of negotiating these agreements. The research suggests that MSD programmes are active in this space.
- Working in trade-exposed value chains is a common feature of MSD programmes. Unlike many other AfT programmes, MSD programmes explicitly see trade expansion as a means to an end: inclusive growth and poverty reduction. MSD programmes also use highly adaptive, continuous learning-based approaches to identify and address the underlying causes of poor market system performance, and the use of pilots to inform learning and changes to strategic and tactical direction.

## Using an MSD approach in the pursuit of trade objectives

MSD programmes need to consider a multiplicity of market factors, irrespective of whether they have a trade objective. However, programmes with a focus on trade also need to consider the following issues:

- Greater complexity created through longer value chains crossing borders means multiple markets, each with their own cultures, characteristics and constraints, the latter of which include different sets of preferences, rules of the game and regulatory controls. Longer and more complex value chains have implications for programme structures and set-ups; programme and donor staff knowledge and skillsets, as well as relationships with a broader array of actors.
- Understanding and working with a much broader range of functions and service providers, including public and private actors in other countries and beyond small and medium sized businesses, is highly likely. For instance, market analysis and diagnosis of opportunities and constraints is likely to highlight that achieving trade objectives depends heavily on public sector policy and functions given the highly regulated nature of international trade systems. Similarly, trade, as well as foreign investment, typically involves very large and/or highly specialised businesses, including multinational firms, who play a central role in global value chains.
- Given that governments are very influential actors when value chains cross borders, trade market systems are also exposed to a wider range of potentially limiting factors, including macroeconomic policy settings, the impact of natural resource income flows on competitiveness, and conditional nature of preferential treatment accorded by developed country partners.
- Programmes may have to work with and deliver multiple and sometimes competing theories of change, especially when working in the context of trade agreements that may span economic, political and developmental objectives. Programmes may have to develop theories of change that clearly identify how expanded trade delivers inclusion and poverty reduction.

## Possible areas for further research

Some potential areas for future research were identified.

A more comprehensive scan of programmes using an MSD, or systems-focused, approach to deliver trade-related objectives would seem to be useful and enable deeper, and possibly new, insights as well as triangulating findings from this rapid study.

Trade-related MSD programmes sit comfortably within the broader area of AfT. The key question is which area of AfT is best suited to a systems-focussed adaptive programming approach, particularly if inclusive economic development is a core objective.

The DCED MSD Working Group may consider additional research to explore the following questions:

1. How much and how well are MSD programmes addressing the underlying reasons why international trade may not be contributing to inclusive growth and poverty reduction? How effective is trade and inclusion analysis in informing programme decision-making?
2. To what extent is the MSD approach (or other systems-focused approaches) effective in enabling more inclusive trade? How effective are MSD approaches compared to other approaches, and under what circumstances?
3. To what extent is an MSD approach (or similar) used in trade-related infrastructure programmes, or what is the potential for it to be used?
4. What opportunities exist for MSD programmes to address import barriers as a primary focus to deliver consumption-related benefits to poor people beyond income and employment?

5. How can AfT programmes make broader use of MSD approaches including 1) in the context of increasing fragmentation of the international trading system, and 2) when the governments of key development partners signal a shift away from the consensus on the benefits of a rules-based approach to trade liberalisation (and the benefits of trade liberalisation itself)?
  - a) How might donors support developing countries chart their own path to trade liberalisation and inclusive export-oriented development, rather than following the global architecture model?
  - b) To what extent do, and can, MSD programmes consider the costs of protectionism, including the reliance of specific sectors or value chains on high levels of protection or subsidies, and engage with the economic rationale for an open trade regime?

# 1. Introduction

The Donor Committee for Enterprise Development (DCED) Market Systems Development (MSD) Working Group (WG) commissioned foundational research to explore the nexus between the MSD approach and international trade and established a Task Team to oversee the work. This report summarises the findings and identifies practical lessons and further areas for research.

## 1.1 Structure of this report

This report is structured as follows:

Section 1 (this section) introduces the study, the research questions and methodology.

Section 2 presents background information on development assistance programming to meet international trade objectives and on the evolution and focus of the MSD approach.

Section 3 summarises the findings of the study and offers some suggestions for future research.

A set of annexes include the research matrix, summary information on the selected programmes covered, a list of key informants, interview guides, initial propositions about trade and MSD investigated by the study, and a list of references.

A separate PowerPoint slide deck presents vignettes based on the examination of the selected programmes.

## 1.2 Research questions

The following research questions were agreed during the inception period:

1. Where programmes combine an international trade objective and the market systems development approach, what are the key considerations? What are the constraints to the adoption of trade objectives and/or the MSD approach?
2. How and why are these considerations different to either a traditional trade programme<sup>1</sup> or an MSD programme that does not have trade-related objectives?<sup>2</sup>
3. What are the implications for programmes, and different stages of the programme cycle<sup>3</sup>, that include trade-objectives and an MSD approach?
4. What are the key lessons from programmes that combine trade objectives and MSD approaches? How can donors and implementers more effectively support programmes that use the MSD approach to achieve trade objectives?
5. What, if any, are the most useful areas for future research or related activities to support the effectiveness of programmes that have trade objectives and use the MSD approach?

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<sup>1</sup> Recognising that there are many different categories of programmes with international trade objectives spanning a broad range of trade issues, beneficiaries/partners and types of activity.

<sup>2</sup> This question considers, for example, different objectives, theories of change, types of partners and interventions.

<sup>3</sup> The research considers the programme cycle stages including programme design, analysis, intervention design, partnership identification and set-up, implementation and monitoring. learning and evaluation as well as issues such as staffing.

## 1.3 Research methodology

The research was conducted from April – July 2024.

It entailed:

1. A rapid and targeted literature review related to trade and MSD programming to identify key issues and targeted programme documents.
2. Selection of programmes for examination.
3. Conducting 11 semi-structured qualitative interviews with case study programme staff and five interviews with key informants.
4. Analysis and synthesis of information.

Task Team members provided suggestions for programmes and BEAM Exchange reached out to key informants in the MSD field for suggestions. This provided a long list of 26 programmes.<sup>4</sup> A rapid review was conducted, and information collated according to: funder, country/region, sector, product or services, MSD-led vs trade-led and what trade related issues the programme may have focused on such as export promotion, e-commerce platforms, standards and certification. Eleven programmes provided a variety of examples across these different categorisations. These were discussed with the Task Team and some adjustments were made based on feedback.

Qualitative interview data was categorised and coded to identify overarching patterns and themes across programme and key informant interviews. This was analysed and synthesised to identify findings, which in turn informed recommendations about future areas of research.

### Limitations

Several limitations were identified in the inception phase due to the assignment's exploratory nature and the limited resources available. Some of these surfaced together with other issues during the research. The limited time and budget were a major constraint with some of the following implications:

- Examination of chosen programmes was based on one-hour interviews and a very rapid scan of a limited selection of programme documentation.
- Budget constraints prevented a broader scan of potential case studies. Task Team members suggested programmes and sought referrals from practitioners. The research Terms of Reference specifications for case studies lead to the exclusion of trade programmes not using an MSD approach and MSD programmes not working in trade. Most case studies were selected from Task Team donor agencies and regions they are most active (the Middle East, Eastern Europe, Africa and Latin America). More, or different, insights may have been possible if there had been a broader spectrum of programmes or regions. While common issues were discussed across interviews, saturation points were not reached. The number of interviews conducted was insufficient for triangulation to determine the most common or majority perspective on certain issues of interest, and as such the information presented in the report highlights contrasting views.

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<sup>4</sup> This does not capture all possible programmes.



## 2. Background: trade, markets & development assistance

This section provides an introductory brief on the intersection of trade and market systems development. It is not comprehensive and there are many existing resources about MSD and trade programmes, their origin and focus over time. Readers who are familiar with the topics of MSD and Aid for Trade may choose to skip to Section 2.3.

### 2.1 Development assistance and international trade

Development assistance has long aimed to achieve international trade outcomes, with a history rooted in significant efforts based on conventional macro and micro economic theories motivated by:

- a sense of the costs of autarchy, or economic self-sufficiency, and protectionism
- the demonstrable benefits of regional economic integration in Europe and other parts of the world
- the observed success of export-oriented development strategies (especially as implemented by the newly industrialising economies of Asia in the 1970s and onwards).

Assistance targeting trade as an engine of economic growth and sustainable development initially focused on unilateral actions within individual countries. However, it has increasingly been linked to the negotiation and implementation of multilateral, regional and bilateral agreements. This has reflected a consensus among policy makers and leaders in developed countries that: 1) an open trading system is desirable; 2) a multinational, negotiations-based approach to trade and investment liberalisation helps address the political economy challenges of reform, and 3) that widespread adoption of open trade regimes and global standards on policy and regulation generates benefits for all parties. Assistance has focused on bringing developing countries into that consensus<sup>5</sup>

Trade-related assistance rose significantly after the Uruguay Round of trade negotiations under the General Agreement on Tariffs and Trade, and after the establishment of the World Trade Organisation (WTO) in 1995. Developing countries were actively encouraged to join the WTO and accede to its agreement, and assistance was earmarked to help governments - and economies - deal with the costs of accession.<sup>6</sup>

There has been a proliferation of regional and bilateral agreements alongside the creation of the WTO, and the establishment of the multilateral agreements associated with WTO membership. These have often been accompanied by assistance from multilateral and bilateral donor agencies providing developing countries with aid to help with policy implementation and regulatory changes necessary to enforce the agreements - and/or to help businesses capitalise on negotiated market access and other

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<sup>5</sup> Trade agreements since the WTO was established have increasingly focused on a broad range of policy domains beyond direct controls and taxes on exports and imports of goods, including services and investment, and the way that policies towards standards, intellectual property, state trading enterprises and dispute settlement (to name a few) impact on trade and investment.

<sup>6</sup> WTO accession was not - and still is not - an easy or cheap endeavour for developing, particularly less developed, countries. For example, an early assessment of the costs to LDCs of implementing Uruguay Round rule changes estimated that they could amount to the equivalent of a whole year's development budget (Finger and Schuler, 1999). Further, there was an understanding that tariff and other forms of preference made available to developing countries would be eroded as developed countries liberalised multilateral trade, and adjustment to loss or preferences could be costly for some sectors in developing countries.

opportunities<sup>7</sup>. Donors have also assisted with the implementation of regional integration initiatives to which they were not a party, such as the East Africa Community and the Association of Southeast Asian Nations.

Development assistance committed to helping countries reap the benefits of international trade and investment has grown significantly since the 2005 WTO Hong Kong Ministerial Conference, which followed the Doha Round of multilateral trade negotiations and culminated in a commitment to increase Aid for Trade.

*“Aid for Trade is about assisting developing countries to increase exports of goods and services, to integrate into the multilateral trading system.”<sup>8</sup>*

Initially, the AfT agenda made slow progress. Momentum increased after the Ministerial Conference in Bali in 2013 and the introduction of the Agreement on Trade Facilitation, which linked implementation by developing countries to the provision of technical assistance.

The OECD's Development Assistance Committee classifies assistance as AfT when projects and programmes 'have been identified as trade-related development priorities in the recipient country's national strategies.' Several categories of AfT have been specified (see Box 1). The OECD categorisation is not the only way to characterise AfT. For instance, since the Trade Facilitation Agreement came into force in 2017, trade facilitation has become an important focus but does not fall into any single one of these categories.<sup>9</sup>

#### *Box 1: Aid for Trade categories*

##### Technical assistance for trade policy and regulations

e.g. helping countries to develop trade strategies, negotiate trade agreements, and implement their outcomes

##### Trade-related infrastructure

e.g. building roads, storage, ports, and telecommunications networks

##### Building productive capacity, including trade development

e.g. supporting the private sector to exploit its comparative advantages and to diversify exports

##### Trade-related adjustment

e.g. helping developing countries with the costs associated with trade liberalisation: for example, reduced tax collection

##### Other trade-related needs

if identified as trade-related development priorities in partner countries' national development strategies

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<sup>7</sup> Several trade agreements (for example the ASEAN-Australia- New Zealand Free Trade Agreement, which came into force in 2010, and more recently the Regional Comprehensive Economic Partnership Agreement) include formal chapters on economic cooperation which include provisions for technical assistance and capacity building – for business as well as government agencies.

<sup>8</sup> WTO, 2005 (cited in Alfonso, 2016)

<sup>9</sup> Criticisms of the categories led to a concept of Trade-Related Assistance (TRA) with a narrower scope on only the AfT components with clearer trade-related purposes. For all categorisations there are definitional ambiguities that affect ODA labelling official development assistance. [OECD](#) has collected ODA trade data since 1967.

Between 2006 and 2022, USD \$648 billion was disbursed as AfT ODA, accounting for 24 per cent of all reported ODA. The categories for economic infrastructure and for building productive capacity received the largest share of commitments and disbursements.<sup>10</sup> Just under two-thirds of AfT ODA goes to middle income countries, which also account for around 95 per cent of non-ODA trade-related official flows.<sup>11</sup>

Many AfT strategies and initiatives are informed by extensive analytical and diagnostic work, such as the diagnostic trade integration studies undertaken under the Enhanced Integrated Framework Partnership<sup>12</sup>. Much trade-related assistance uses a 'best-practice approach' based on a standard set of guidelines and tools to develop and implement formal rules surrounding international trade and investment, reduce regulatory constraints and improve the capabilities of implementing institutions irrespective of local and regional economic, political and social contexts.<sup>13</sup>

However, reviews of AfT, such as Cali and de Velde (2010), have sought to establish a stronger theoretical foundation for the initiative by identifying specific market and governance failures that impede trade expansion (Table 1).

*Table 1: Market failures, externalities and governance problems that impede trade expansion*

Broad source / area of failure	Examples of failures / externalities	Responses: policies and activities
<b>Market failures</b>		
Coordination	Externalities ignored. Linkages not exploited. Complementarities not exploited.	Capacity building for trade policy to identify linkages and externalities. National trade strategy.
Developing, adapting and adopting technology	Incomplete and imperfect information. Network externalities.	Facilitate technology transfer and adoption.
Skills formation	Under-investment in training due to the risk of being unable to benefit from resultant improvement in workers' productivity should they leave the enterprise (and move to a competitor).	Better coordination and/or subsidies for training.
Capital markets	Difficult access to credit.	Credit schemes.
Access to finance	High interest rates.	Formal sector subsidy based on improved information about borrowers.
Infrastructure	Lack of good quality infrastructure because lumpy investment gets postponed in uncertain times.	Provide incentives for public-private partnerships. Provide grants in the case of low financial return/high economic return.

<sup>10</sup> OECD -WTO (2024), and OECD (2024)

<sup>11</sup> OECD - WTO (2022); Alonso (2016)

<sup>12</sup> The 1997 Integrated Framework (later Enhanced Integrated Framework and a joint initiative of the WTO, IMF, ITC, UNCTAD, UNDP and the World Bank) aimed to help LDCs to mainstream trade into national development strategies, set up structures needed to coordinate the delivery of trade-related technical assistance and build capacity to trade, which also includes addressing critical supply side constraints.

<sup>13</sup> Hynes and Holden (2013).

Broad source / area of failure	Examples of failures / externalities	Responses: policies and activities
Governance failure		
Regulatory and administrative structure.	Burdensome administrative requirements.	Streamline administrative procedures and regulation.

The diagnostic work undertaken under the EIF to inform AfT for less developed countries provides a much more detailed assessment of impediments: but as recent reviews have explained, this work typically reflects a one-size fits-all approach and does not help with prioritisation.<sup>14</sup>

## 2.2 Market systems development programmes

Programmes using the MSD approach, first introduced in the early 2000s as the Making Markets Work for the Poor (M4P) approach, are still relatively new in the field of development. The concept developed in response to increasing globalisation, the UN Millennium Goal to halve extreme poverty by 2015, and the assumption that the poor could benefit more from market activities.<sup>15</sup> The logic was that if donors invested in strengthening market systems to function in an open and competitive manner, they would provide opportunities for the poor. Improving openness required interventions that would reform policies, political systems, cultural norms and civil society, at the global and the local level. Improving market competition required donors to refocus their efforts away from short-term, small-scale results with limited target groups to long-term, systemic changes.

The M4P approach related to:

*taking a comprehensive approach to gently but proactively stimulating markets in ways that benefit the poor, ... addresses the broad enabling environment, policies, and regulations related to specific markets, support markets and infrastructure, and market relationships and structures that provide the poor with more influence, autonomy, and market choice.*

From its M4P origins, the MSD approach seeks to address incentives, behaviours and relationships among actors to:

- Tackle root causes of market failure, rather than focusing on broader macro-economic problems or on individual business.
- Influence the behaviour of public and private actors to enhance the effectiveness of market functions, which in turn enables many businesses to innovate and grow, creating ripple effects throughout communities and populations, thereby achieving change at 'scale'.
- Ensure positive sustainable benefits for the poor that last beyond the interventions, by ensuring their objectives align with the incentives and capabilities of key actors in the system. This dynamic of aligned incentives, where the focus on poverty may not be immediately apparent, assumes that lasting changes in the market system will result, rather than a short-term reaction to temporary programme activities and funds.

The MSD approach is different from other private sector development approaches because it proposes a different role for development actors that includes:

<sup>14</sup> Saana Consulting (2021).

<sup>15</sup> ILO (2005)

- A thorough analysis of how and why systems function as they do, including identifying changes that appear to be key to reducing poverty.
- Recognising the limits to initial analysis and committing to on-going review and learning, willingness to adapt and revise plans and abandon or make new interventions.
- Stimulating replication or 'crowding in' by spreading changes in roles, products or behaviours beyond a few initial partners to a wider circle of market players and beneficiaries.
- Embracing complexity by recognising that catalysing lasting change is neither straightforward nor predictable. Approaches require time, curiosity and experimentation. They also need flexible and adaptive management and a commitment to ongoing learning.

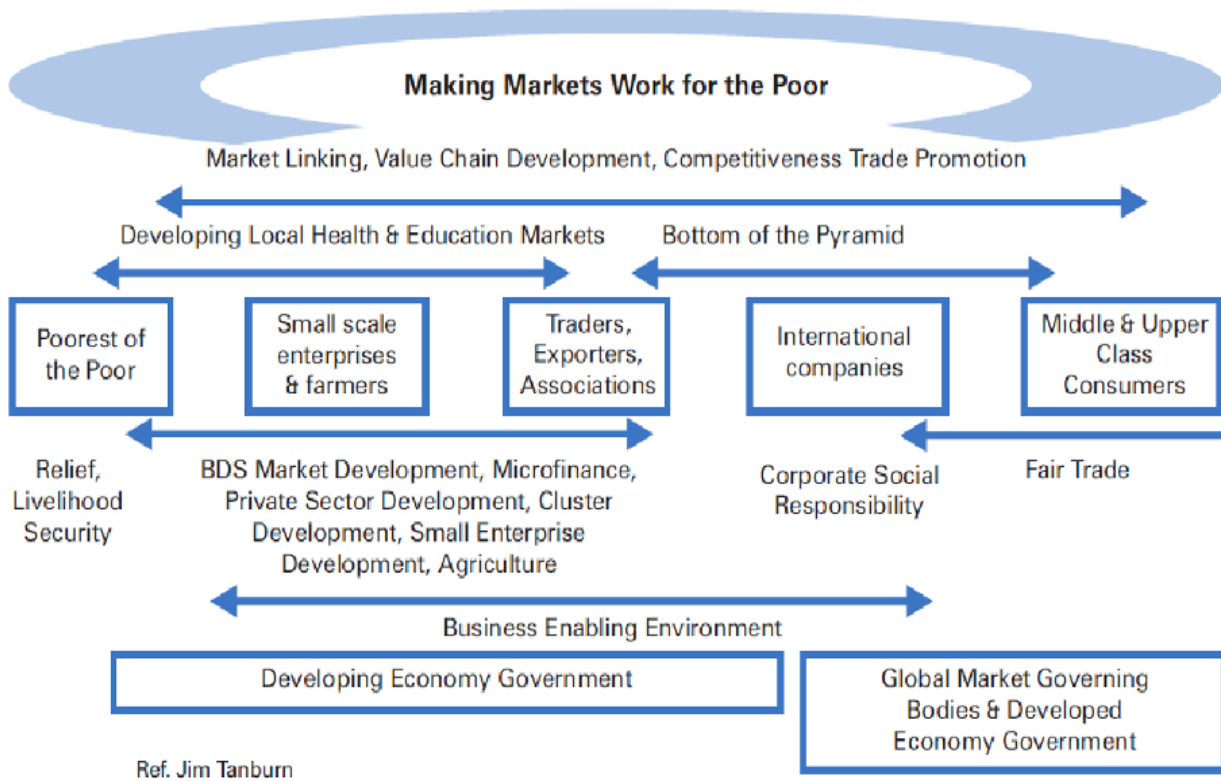
## 2.3 MSD programming and trade-related objectives

### MSD programmes engaging with international trade

From its inception, the M4P framework endeavoured to capture several development ideas, including the role of international trade (Figure 1). MSD programmes have worked on numerous trade-related issues since the early days of using the approach. These issues include:

- The production and marketing of internationally traded commodities (such as cocoa, coffee), food crops, livestock products and horticulture.
- The development of service exports, such as tourism and the outsourcing of information technology and business processes.
- Trade facilitation issues, such as customs and phytosanitary systems and processes.
- The development of legislation to improve the interface between customs and other regulatory bodies and the private sector.
- Financial systems products and services, such as investment promotion and access to trade finance.
- The development of markets supporting trade-related infrastructure and economic zone initiatives.
- Increasing cross-border and regional trade, as well as trade with more distant markets.
- Encouraging inward investment to help drive export growth and development.
- Financing small-scale infrastructure investments to enable or facilitate trade.

Figure 1: M4P's relationship with other fields of development assistance<sup>16</sup>



Broadly speaking, the factors that MSD programmes must consider when working in value chains connected to international markets are similar to those in domestic value chains. Trade can enhance production processes and expand the market for output. However, longer value chains that cross borders involve multiple markets, each with their own cultures, characteristics and constraints.

Figure 2: Aspects of trade for MSD programmes to consider



<sup>16</sup> ILO (2005).

## MSD programmes as Aid for Trade

Several MSD programmes reviewed in this study were linked to broad global and regional trade initiatives, such as the United States African Growth and Opportunity Act (AGOA) and European Commission’s Everything But Arms Initiative (EBA). Other programmes support businesses to take advantage of the market access opportunities created by regional or bilateral trade and investment agreements.<sup>17</sup> These latter activities are often implemented alongside more conventional technical assistance and capacity-building support for public sector agencies responsible for implementing elements of the agreements.<sup>18</sup> As such, these programmes are clearly part of the overall AfT effort. While MSD programmes working with, and on, international trade issues do not appear to consistently self-identify as AfT, it seems that many of them are included in development agency reporting of AfT, given the way that such reporting is conducted.<sup>19</sup>

Systems-focused and adaptive approaches, such as MSD and others,<sup>20</sup> may be more relevant to certain AfT categories. But relevance also depends on specific issues being addressed under each. Table 2 provides an initial attempt to show where using a systems approach like MSD could be most productive.

*Table 2: Potential relevance of systems-focused and adaptive approaches by AfT categories*

Aid for Trade categories	Relevance of a systems approach
Technical assistance for trade policy and regulations	<p>Negotiation of regional and bilateral agreements are unlikely to lend themselves to a systems approach because of the formal structured processes for such activities.</p> <p>The development of national policy and regulations may be more amenable to a systems approach. Activities like advocacy, stakeholder engagement, and consensus building would likely benefit from systems thinking and analysis (including political economy analysis, power analysis). This may well fall into the class of support linked to trade facilitation (see below)</p>
Trade facilitation (public sector)	<p>Depending on the objective, a systems approach could be relevant. For instance, improving government functions and processes, cross-government coordination etc.</p> <p>Some areas such as information technology software development already use user-centred-design approaches that incorporate elements or stages that may be familiar to MSD practitioners.</p>

<sup>17</sup> Australia’s PHAMA Plus programme, developed in the context of the Pacific-Australia Closer Economic Agreement is a case in point. This programme was designed to help agriculture producers and traders negotiate Australia’s biosecurity system and protocols and adopted an MSD approach when it became clear that establishing pathways for export did not necessarily translate into expanded exports. Another example is Australia’s Katalis programme, designed to help with implementation of the Indonesia-Australia Comprehensive Economic Partnership Agreement.

<sup>18</sup> The FCDO [PEPE programme](#) in Ethiopia had components working in the enabling environment for trade and investment alongside components using a MSD approach to facilitate expanded exports and better trade-related jobs in the country.

<sup>19</sup> According to the OECD, DAC member countries report their AfT performance by applying a ‘trade development marker’ to programmes that are considered to be part of the AfT initiative.

<sup>20</sup> These include the ‘problem-driven adaptive approach’ (PDIA and other similar approaches including ‘Doing Development Differently’ and ‘Thinking and Working Politically’ that also seek to break business-as-usual approaches to aid programme design, implementation and monitoring and evaluation. There is also awareness of how hard this can be to achieve (Wood, 2020).

Aid for Trade categories	Relevance of a systems approach
Trade-related infrastructure (building roads, bridges etc)	As this is focused on building infrastructure, a system-thinking approach is less relevant. While complicated, there are well tested designs, processes and practices. A systems approach may be more relevant for specific infrastructure issues such as maintenance or investment.
Building productive capacity (private sector)	Relevant - and this is where MSD programmes are already working e.g. enterprise, value chain and market systems development
Trade-related adjustments	Not relevant - this is primarily about budget and balance of payments support
Other trade-related needs	Unclear – not enough information about what falls into this category

Table 3 presents a simplistic way of showing the difference between Aft programmes using an MSD approach from other types of Aft programming. In reality, the delineation is much less simple, but the table helps identify what an MSD approach may bring.

*Table 3: Contrasting Aid for Trade and market systems development programmes*

	Analysis	Principle aims	Tactics	Inclusion	Outcomes
<b>MSD</b>	Internal market diagnostic.	Address market system failures and decrease constraints.	Draw on a variety of approaches depending on the situation. Adapt approaches based on regular assessments.	Inclusion and growth is central to analysis and interventions.	Facilitate systems change.
<b>Other Aft</b>	External theory and 'architecture-based' diagnostic.	Decrease regulatory and infrastructural costs, build productive capacity.	Refer to menu-based capacity building approaches, largely short term.	Assumes this is addressed through trickle-down.	Rely on market incentives to drive trade outcomes.

There are two important points of differentiation between programmes using the MSD approach and many other Aft programmes:

MSD programmes see trade expansion as a means to an end and focus explicitly on achieving inclusion and poverty reduction outcomes, whereas many other Aft programmes work on a presumption that increased trade will help reduce poverty.

MSD programmes, in principle, rely on diagnostics and probes to identify underlying constraints to more inclusive trade outcomes and find context-specific ways to address these constraints, rather than beginning with a predetermined approach to optimal trade expansion.



## 3. Findings

Reflecting the exploratory nature of the research, the findings are presented under key themes that arose during interviews and the rapid literature review, rather than in accordance with the research questions. This Section also highlights how MSD programmes align to different AfT categories.

### 3.1 Observations from case studies and literature review

The research looked at 11 MSD programmes or programme components working on trade. The programmes were operating in Georgia, Cambodia, Liberia, Egypt, Fiji, Ethiopia, the Horn of Africa, Uganda, Colombia, the Western Balkans and Eastern Partnership, and Honduras. More information on these programmes is provided in Annex 2.

This section summarises four key areas of difference identified in the reviewed programmes. This information provides background context for Section 3.2, which focuses on key considerations for MSD programmes working with trade objectives.

#### 3.1.1 The origin of trade objectives

As noted in Section 2.3, MSD programmes have been working on trade systems since the inception of the approach. While interaction between MSD and trade programming is not new, the research shows that programmes using a systems approach, which includes the MSD approach,<sup>21</sup> typically engage with trade through four entry points:

1. By **institutional mandate**, such as the Netherland's Centre for the Promotion of Imports from developing countries (CBI) and the Swiss Import Promotion Programme (SIPPO). CBI, part of the Netherlands Enterprise Agency and funded by the Dutch Ministry of Foreign Affairs, was established in 1971 with the aim of supporting small and medium enterprises (SMEs) in developing countries in their export development to the European market.<sup>22</sup> For example, CBI supported Egyptian small and medium information technology service providers to sell outsourcing services to European businesses. SIPPO was established under the Swiss State Secretariat for Economic Affairs (SECO) within the framework of its economic development cooperation to integrate developing and transition countries into world trade.<sup>23</sup>
2. By **design**, when explicit international trade objectives, such as those linked to implementation of a bilateral or regional trade agreement or preferential entry initiative are embedded in a programme at the design stage. Examples of these agreements include AGOA, EBA, and various regional trade and economic integration agreements established in Africa, Latin America, Asia and the Pacific. Some AfT programmes with explicit trade objectives, mostly related to building productive capacity, have chosen, or were expected, to adopt an MSD approach.
3. By **donors' or programmes' choice of market or value chain** - for instance, tourism, traded commodities such as coffee and cocoa, or IT outsourcing. Examples in the programmes reviewed include [Grow 2: Promoting MSME Development and Employment Opportunities in Liberia](#), CBI's Tourism programme in Uganda and the [Global Alliance for Trade Facilitation's \(GATF\) Improving Small Package e-Trade for SMEs \(SeT4SME\)](#) in Cambodia.

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<sup>21</sup> CBI's strategy incorporates a systems approach but not specifically the MSD approach.

<sup>22</sup> CBI (2021).

<sup>23</sup> SIPPO (ND).

4. Informed by **market and opportunity analysis** that highlights that exports may provide the only path to increased sales and higher prices for poor producers, and within small markets, or that imports are critical to improving productivity. Examples in the programmes reviewed include the [RECONOMY programme](#), where the small size of countries in Western Balkans and Regional Partnership countries makes trade beyond the region essential for sectoral growth; and the Market Development Facility working in small island economies in the Pacific.

### 3.1.2 Programme set-ups

The design and set-up of the case study programmes shapes strategies and implementation approaches related to trade objectives. While the set-up issues are not necessarily different to other MSD programmes, the additional complexity related to trade may have further implications for achieving trade objectives.

**Programme size:** Programmes designed by individual bilateral development agencies and that have large for-profit or not-for-profit sector implementers contracted through competitive tendering processes typically have larger budgets and teams and therefore may be able to address a wider or different range of constraints in the sectors and value chains where they work. For example, [Private Enterprise Partnerships Ethiopia \(PEPE\)](#) had a budget of around £70m compared to UNIDO's [GROW 2](#) in Liberia, with a budget of €7m.

While programmes can be nimble, they need adequate resourcing to deliver an adaptive approach in the context of quality market analysis, and to engage effectively with, often quite large, private sector market actors.

**Consortium arrangements:** The number and nature of consortium arrangements has an influence on implementation strategy and direction. For instance, the implementation of the Horn of Africa [Regional Livestock Programme](#) is led by Mercy Corps and a consortium of organisations whose composition was decided by the programme's original funder. The consortium is made up of very different partners. It includes another large not-for-profit organisation as well as the Intergovernmental Authority on Development (IGAD) - an eight-country trade bloc in Africa involving governments from the Horn of Africa, the Nile Valley and the African Great Lakes.

The characteristics, interests and capabilities of pre-existing partners influences the strategy, types of interventions and overall direction - including the extent to which MSD principles and approaches may be applied, as they may not align with all partners' existing ways of thinking and working.

**Design origination:** Most programmes originated from multilateral or bilateral programming design processes. However, some originate from implementing organisations who are international NGOs. For example, Mercy Corps developed a proposal for a 12-year vision for the [Regional Livestock Programme](#) in accordance with its livestock strategy<sup>24</sup>, secured initial funding, and continues to seek ongoing funding.

This type of set-up may mean there is more commitment from implementers to engage in long-term systems change, compared to those programmes that are commercially tendered with a typical three-to-five-year time horizon. However, short-term donor funding may still be a constraint regardless of a long-term vision.

**Full-time, in-country presence:** Programmes with larger in-country resourcing and staffing can implement different activities and address different issues to those that have a part-time, short-term or consultancy-based local presence. For instance, the [Tourism Uganda](#) and [IT Outsourcing Egypt](#) programmes are implemented by the funding agency, CBI, which contracts consultants to work under

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<sup>24</sup> Mercy Corps (2018)

the overall programme direction of a CBI staff member. This set-up reflects CBI's typical programme management approach. In contrast, other programmes are implemented by a head contractor with responsibility and contractual accountability for all aspects of programme delivery: this enables programme funders to concentrate on overall governance and strategic direction. In contrast, the [PEPE programme](#) in Ethiopia was implemented by a managing contractor with management and technical teams located mainly in-country on a longer-term basis.

**Relationships and working with government:** In some cases, programmes are implemented and led by recipient government agencies, which may affect the strategy and adoption of a systems change approach. For instance, [PUEDE Columbia](#) is implemented by the Agency for Rural Development, a government agency, and funded by ITC and the EU. Other programmes work with the government if this seems the optimal way to address a constraint but operate independently of the government system.

MSD principles underpin how programmes work with market actors. When working with businesses, a frequently used tool is short-term 'pilots' or 'probes' co-financed by businesses.<sup>25</sup> When working with governments, MSD programmes tend to use more conventional approaches to development assistance rather than pilots or probes. For instance, this may include funding inputs, such as equipment and technical assistance, and top-down approaches to programme delivery and policy implementation with the aim of changing policies and institutional structures. In part, the choice of approach seems to be shaped by practitioners' beliefs about the ways government agencies' work, public servants' expectations of development programmes, and beliefs about public servants and incentives.

Some programmes adopt more nimble and less conventional approaches to bringing about change in the public sector. For example, the Transforming Market Systems in Honduras programme seeks to facilitate expansion of exports of value-added agriculture and tourism. It identified problems with the delivery of trade-related support functions and chose to work with the customs department to implement paperless customs processes and codify commercial service providers' functions and obligations related to customs processing. [TMS](#) conducted political economy analysis to inform its work, examining incentives for agencies and individuals within them, while recognising that the dynamics of power and influence vary within agencies and across agencies. The [Market Development Facility \(MDF\)](#) in Fiji worked closely with the Government to promote the country as a location for investment in business process outsourcing and to improve incentives for such investment. And the SeT4SME programme in Cambodia worked directly with the Customs and Postal agencies to digitalise the customs process for small international postal shipments to facilitate engagement in e-trade by SMEs.

Clearly the choice of whether, and how, to work with government agencies is a strategic and context-specific decision.

### 3.1.3 Multiple and varied theories of change

Theories of change describe the processes or pathways through which target groups are expected to experience positive outcomes. Theories of change incorporate different understandings of the context and the ways in which change is expected to happen. These beliefs may be influenced by an individual's professional disciplines (such as economics or management), values and experience, as well as organisational mandates and history.

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<sup>25</sup> The idea of probes draws on theories related to complexity, such as the [Cynefin framework](#). In complex environments and change processes, the recommended process is probe-sense-respond and in complicated environments, sense-analyse-respond. These processes or sequencing differs from simple environments that may be better suited to upfront prescriptive or top-down designs or intensive analysis to inform action.

Interviews highlighted the diverse theories of change that underpin the work of MSD programmes in trade, reflecting the wide range of MSD programmes.<sup>26</sup> However, common theories also emerged across the group of programmes reviewed.<sup>27</sup>

The **most common core theories of change** identified in the reviewed programmes included:

- *Working with cooperatives to increase inclusion:*  
increase the incomes of many poor farmers by improving access to markets through greater aggregation, typically facilitated by cooperatives and associations.
  - For instance, the Sweden International Development Agency's (Sida) [Grow 2](#) in Liberia and the International Trade Centre's (ITC) [PUEDE in Colombia](#) both work with cooperatives and farmers' associations to increase returns from and/or expand agricultural and horticultural exports. This approach is partly due to their long-established tradition and their support by government policy and institutions. Cooperatives and associations offer the potential to facilitate necessary collective actions and serve as vehicles for providing extension-style services that public sector agencies have been demonstrably unable to deliver.
- *Promoting SME development to increase jobs and exports:*  
strengthening SMEs and increasing their revenues and/or creating jobs by increasing exports through strengthening marketing and compliance capabilities.
  - [GATF's](#) Improving Small Package e-Trade for SMEs (SeT4SME) in Cambodia is designed explicitly to enable SMEs to participate in e-trade by encouraging and assisting two government agencies to link their electronic systems, and by CBI's [IT Outsourcing Egypt](#) targeting SMEs in the IT sector, with a view to aiding international demand for offshoring provision of IT services.
- *Intervening in supporting functions*  
(e.g. labour supply) to increase the functionality and inclusion of export-oriented foreign investment. The [PEPE](#) created an innovative labour-sourcing system for textile manufacturers in the Hawassa Industrial Park. [PEPE](#) worked with suppliers of sourcing, grading and screening services for workers, and with providers of soft-skills training. CBI's [Tourism Uganda programme](#) facilitated the development of a consultancy and certification services market. The ACLP worked to identify suppliers of certification services to uphold the organic credentials of Georgian honey exporters.
- *Connecting SMEs to intermediaries*  
to increase domestic capability and enable SMEs to reach end markets. CBI's support to [IT outsourcing businesses in Egypt](#) aimed to build the skills and job opportunities for youth and connect local businesses with buyers in Europe. DFAT's [MDF](#) in Fiji supported the development of the business process outsourcing sector: this included helping to establish a sector association to promote Fiji as a supplier of services and encourage inward investment, as well as making links with providers of matchmaking services
- *Working with business associations to improve policy and regulations*  
to improve the enabling environment when those associations require support to strengthen their organisational management, operations and advocacy capacity. The USAID-funded [Transforming Market Systems \(TMS\) programme](#) in Honduras worked with business associations and service providers, such as customs agents, to advocate for improvements in the operation of the Honduran Customs Service. Sida's and Swiss Development Cooperation's (SDC) [RECONOMY programme](#) in the

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<sup>26</sup> In-depth reviews of programmes' theories of change were not undertaken.

<sup>27</sup> These may be biased by the case studies selected for this study and may change if a larger set of case studies was reviewed.

Western Balkans and Eastern Partnership countries works with business associations to engage with governments to improve government-provided certification processes and services.

- *Working with business associations to solve collective action problems affecting trade.*  
CBI's Tourism programme in Uganda and [Alliances Caucasus 2 \(ALCP\)](#) in Georgia worked to strengthen the capability of associations in tourism destination and activity promotion, honey product branding and image promotion. Most single producers are reluctant to undertake these functions because of the free-rider problem, but improving them can deliver significant returns to a group of producers.
- *Enabling private investment:*  
encouraging and facilitating foreign direct investment (FDI) to create new opportunities or expand the level and quality of activities. [TMS in Honduras](#) worked to improve coordination of the country's investment promotion efforts. This was seen as necessary to enable systemic change in the promotion and regulation of foreign investment. The MDF's work on business process outsourcing in Fiji helped the local outsourcing community to promote Fiji as a destination for investment in the sector. Building connections with demand sources and gaining a clear understanding of client's needs were seen as necessary for expansion, often forming part of foreign investors' proprietary resources. Meanwhile, [PEPE](#) focused on expanding investment in industrial parks.

Perhaps unsurprisingly, given the programmes covered in the research, other theories of change arose less often in this review. These included:

- *Reducing costs of trade:*  
improving government functions to reduce costs and then stimulate more import and export activity. The [TMS programme](#) in Honduras worked directly with the Customs Service to improve its functionality and to increase the efficiency with which it dealt with matters relevant to the programme's immediate stakeholders. [PEPE](#) included a component directly aimed at working with the government on policy development and regulatory reform.
- *Financing small-scale infrastructure/facility investments by smallholders.*  
[PUEDE](#) helped farmers make investments in facilities (such as bathrooms for workers) necessary to achieve certification for export into key markets.
- *Facilitating imports to achieve productivity gains.*  
Many MSD programmes working in agriculture sectors seek to improve access to inputs such as chemicals and seeds, but this issue did not arise often in discussions.

The range of theories of change used by MSD programmes (and the strongly adaptive approach they are expected to adopt) contrasts with the more formulaic approaches adopted by other Aft programmes to bring about change. This is particularly the case in the technical assistance for policy change and implementation category. (Noting that, as mentioned in section 2.3, there are several public-sector oriented adaptive and iterative approaches to bringing about policy reform and stronger institutional performance in the public sector, and some of these have been used on trade-related issues and programmes. And it is worth noting that USAID's guidance on trade programming emphasises the importance of applying its Collaborating, Adapting and Learning (CLA) approach when engaging with both the public and private sectors.<sup>28</sup>

### 3.1.4 Breadth of engagement across value chains

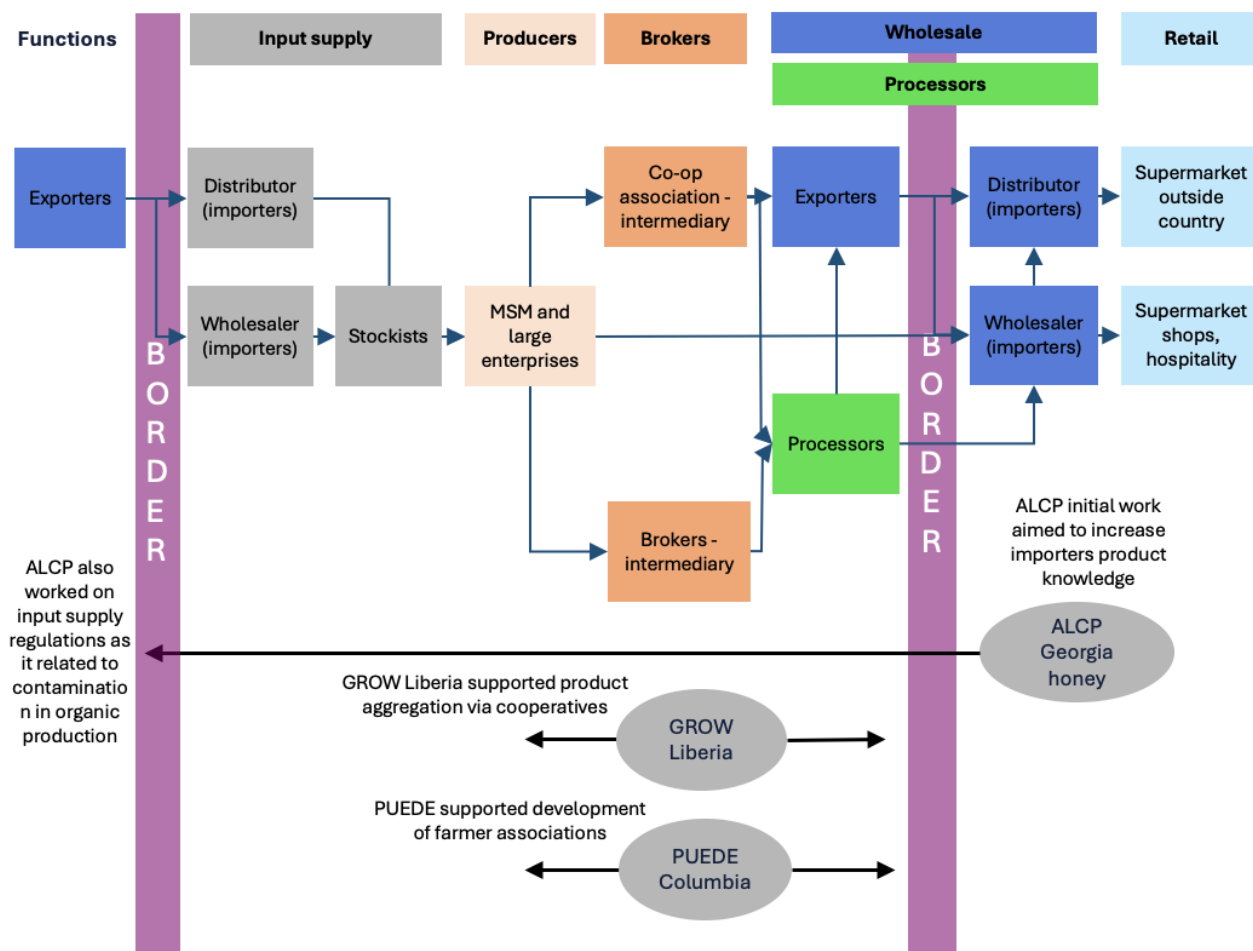
The underpinning theories of change seem to influence where programmes focus their efforts and interventions across what might be a long value chain, and the degree to which these linkages are

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<sup>28</sup> USAID [Monitoring, Evaluation, and Learning Compendium: Meet the Challenge of Rising Standards.](#)

reached up and down the chain. Figure 3 gives a sense of the potential scope for broad engagement and illustrates how three programmes have spread their interventions. A central theory of change underpinning [Grow 2](#) and [PUEDE](#), for example, was their support to strengthen the capacity of farmer cooperatives and associations to better link farmers to buyers located within their borders. In comparison, [ALCP's](#) work in the honey sector ranged from issues around the import of contaminated supplies to the promotion of organic honey to international buyers, meaning that it worked with enterprises and institutions in destination countries

Figure 3: Depiction of the breadth of programme's interventions along the value chain



### 3.2 Considerations when combining trade objectives with an MSD approach

The case studies and literature review point to a number of factors that MSD programmes must consider when working in value chains connected to international markets.

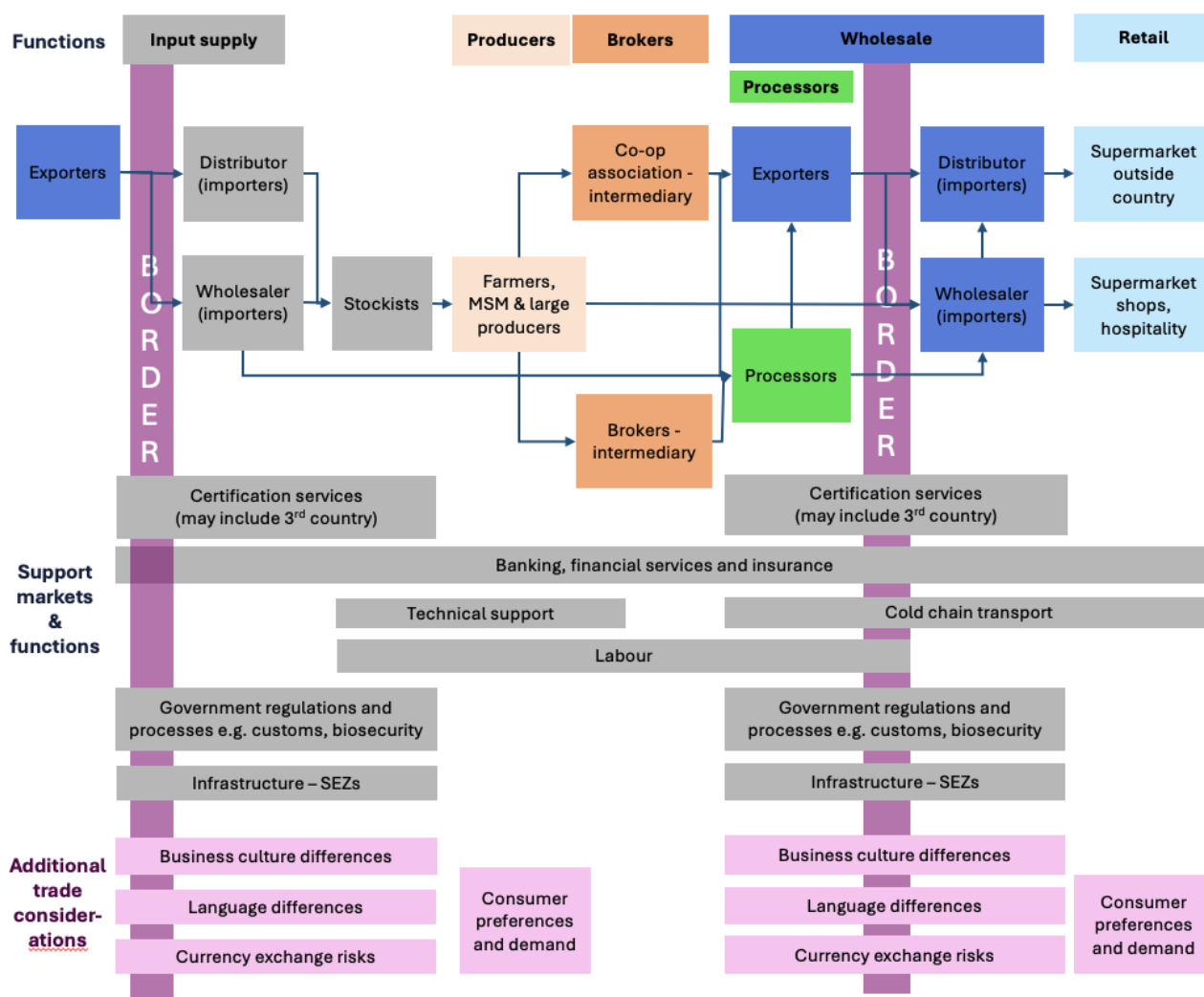
**Longer value chains as a result of crossing borders leads to multiple markets, each with their own cultures, characteristics and constraints.**

This increases the complexities that may slow progress towards trade outcomes. This is illustrated in Figure 4, which illustrates the issues involved in programming to enable and expand exports from a generic agricultural product value chain. Programmes that only target expansion in the domestic market are still likely to have to deal with trade issues, such as access to imported inputs or dealing

with competition from imports. But when targeting exports, an additional layer of complication and complexity emerges.

Moreover, trade-exposed market systems and value chains are subject to a larger range of potentially disabling factors, ranging from macroeconomic policies such as foreign exchange controls, policies preferencing other sectors and the presence of large natural resource revenue flows, that may impact the competitiveness of exporting and import-competing activities. The impermanence of preferential treatment accorded by developed country partners and trade agreements may also need to be factored into analyses<sup>29</sup>.

Figure 4: Agriculture product value chain: domestic and export markets



### Governments become even more influential when value chains cross borders

Governments are responsible for critical functions at the border such as the levying of taxes, protecting biosecurity, enforcing consumer protection and human safety laws, protecting national security, detecting fraud and violations of intellectual and other property rights, and regulating freight carriage and more. Therefore, well-functioning international markets have a greater dependence on government capacity in the country of origin as well as the end-market.

<sup>29</sup> ILO (2022)

Guidance, such as the ILO's handbook on cross-border value chain development,<sup>30</sup> points to the importance of understanding the incentive structures within, and outside of, government systems and their effects on efforts to reform policies and to improve the interface between government agencies and businesses. Within government institutions, MSD programmes may need to adopt different approaches to trigger changes compared to those that work in market systems – while some public sector agencies display a degree of entrepreneurialism, bottom-up autonomous adaptation and change is not as common as is in markets.

Crossing borders increases the number and types of compliance requirements for producers, processors, manufacturers and service providers. For example, meeting standards and obtaining certification of compliance is a common area of activity across the programmes reviewed. A significant effort has been devoted to multilateral, bilateral and regional agreements to harmonise standards and streamline the application and enforcement of standards on goods and services crossing borders

*Box 2: Sanitary and Phytosanitary Measures illustrates regulation of cross-border trade*

An example is the WTO Agreement on the Application of Sanitary and Phytosanitary Measures (1995), which sets out basic rules for food safety and animal and plant health standards but allows individual countries to set their own standards while being mindful of not arbitrarily or unjustifiably discriminating between countries where identical or similar conditions prevail.<sup>31</sup> However, differences in national standards remain and provide challenges not experienced outside of trade work. For instance, if one country's standards are higher than another, this could result in an additional burden to meet them. An UNCTAD study in 2014 of agricultural trade to the European Union found SPS measures resulted in relatively higher burdens for lower income countries.<sup>32</sup>

While some of the burden might be mitigated through membership in deep trade agreements, SPS measures have still been estimated to dampen export volumes.<sup>33</sup> While many middle and high-income countries have the capacity to comply with designation markets' SPS measures, many lower income countries do not. This is one reason why there has been so much technical assistance provided to LDCs to help upgrade their capabilities to enable exporters to meet SPS requirements.

Even where donors aim to increase exports from the recipient country or region to the European Union, programmes may necessarily take a pragmatic view and support market actors to access other markets that may have lower barriers to entry. For instance, the [ALCP](#) supported Georgian organic honey producers to export to Europe as well as the United States and Canada, where there was demand from diaspora communities, and to the Middle East.

While there were many examples of MSD programmes working with the government, the appetite for working closely with the government on an ongoing basis seems mixed. As noted in Section 3.1, [Grow 2](#) and [PUEDE](#) formally partner with a government agency and/or a government agency is the implementing organisation. SeT4SME worked directly with the Cambodian customs and postal authorities. Other MSD programmes seem to work with the government on a more as-needed basis

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<sup>30</sup> ILO (2022)

<sup>31</sup> WTO (1998)

<sup>32</sup> Murina and Nicita (2014)

<sup>33</sup> Murina and Nicita (2014) estimated the distortionary trade effect of the European Union SPS measures reduced lower income countries' agricultural exports of about 3 billion \$US (equivalent to about 14 percent of the agricultural trade from lower income countries to the European Union).



depending on which constraints they chose to address, and then often only indirectly preferring to work through business or sector associations and in a time limited or narrow manner. Additionally, some programmes do not seek to change the rules (laws and regulations) but to ensure efficient, consistent and responsive implementation.

There may also not be strong incentives for MSD programmes to work more closely with government because:

- Working with the government is viewed as slow. Some interviewees also noted that programme implementation timeframes are often too short to enable visible or notable market systems change. Therefore, programmes work with those actors they perceive are most likely to change in the least amount of time.
- Some practitioners and implementing agencies are comfortable with engaging directly with governments, while others prefer to remain at arms-length from the public sector to gain the trust of businesses. This second group are usually comfortable, however, working with, and supporting, business and sector associations to influence government indirectly. This can be seen as addressing a challenge of collective action, rather than supporting the interests of individual businesses that can be promoted through individual advocacy. This scenario may also reflect the professional experience of programme staff who are more familiar working with businesses or non-government organisations. As previously noted, insufficient attention has been paid to working on rules relating to market systems development and business environment reform.<sup>34</sup>
- Activities involving the government, and the types of changes that may bring about, do not directly contribute to common success metrics such as increased income, job creation, or, in the case of trade, higher export sales. Many interviewees referenced these types of quantitative indicators, despite the MSD approach proposing that desired outcomes are achieved through market systems changes, which may require changes in the formal rules and their implementation.

Trade facilitation may provide the greatest scope for productive engagement between MSD programmes and the public sector since it should be more focussed on improving service delivery and policy administration - both areas where governments can provide unilateral action.<sup>35</sup> In contrast, changing many trade-related policy settings are limited by international agreements and the negotiations-based approach to committing to policy change.

## **Programmes may need to deal with a broader range of functions and service providers**

Exporting, particularly of goods, requires drawing on a large range of specialist functions and service providers. These include freight forwarders; customs agents; cargo consolidators; inland customs carriers; bonded warehouse operators; providers of trade-related services related to finance (such as providers of letters of credit and electronic payment systems); marketing; standards certification; and matchmaking. Additionally, managing transaction costs and risks may require working with larger, formal domestic and foreign enterprises.

Examples from the programmes reviewed included:

- [TMS](#) engaged with a range of commercial service providers, known in Honduras as 'Auxiliaries of the Customs Public Function', to assist the Government to improve the regulation of their activities.

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<sup>34</sup> White (2020)

<sup>35</sup> ILO (2022)

- The USAID-funded Southern Africa Regional Trade and Investment Hub (SARTIH) worked on the development of a regional market for the supply of integrated trade promotion support services with specialist companies capable of maintaining a regional presence.

### **It may be necessary to facilitate or engage with foreign investment**

Investment by foreign businesses may be necessary to increase domestic actors' participation in global value chains. Foreign investors may bring a range of capabilities - such as technology, ways of doing business, market contacts, and economies of scale and scope - that domestic firms cannot easily acquire. Many export opportunities for labour-rich developing countries have been created by investors building or participating in global value chains. Without the linkages that such investors bring, engagement in these chains can be very hard. Starting an export-focused value chain from scratch is often associated with engagement from foreign investors and trading conglomerates that are looking for new sources of product, or production of labour-intensive components of global value chains.

In addition to the examples provided in Section 3.1, CBI's [IT outsourcing programme in Egypt](#) helped the Government engage with foreign companies to invest in setting up businesses in Egypt, thereby offshoring some of their functions by setting up a local business employing mostly local workforces. This presented both opportunities and risks for the programme's efforts to build the capacity of Egyptian businesses and expand outsourcing capabilities.

### **It may be necessary to reduce import barriers to increase exports**

Imported inputs are central to improving agricultural productivity and many global manufacturing value chains, such as garments, electronics and transport equipment involve firms processing imported inputs for onward transmission to another country for further work. Reducing barriers to imports has been a key objective of much AfT, especially since imports can also have a significant impact on the consumption options available to households. Many countries have also taken further steps to ease importation for further processing by establishing export processing and special economic zones.

Many MSD programmes working to encourage agricultural and horticultural exports have engaged with efforts to reduce the costs of importation. [MDF](#) implemented interventions related to agricultural imports, and [PEPE](#) worked directly with firms in zones established by the Government of Ethiopia to make it easier to import production inputs. Most programmes do not seem focused on directly improving household welfare through cheaper imports, possibly because most have targets associated with income generation and job creation.

### **More coordination and collaboration for the export of services**

Many MSD programmes aim to address collective action problems among market actors, but exporting services often require additional efforts beyond their immediate scope of operating. For instance, many tourism-focused MSD programmes work with destination marketing organisations to promote a locality, or type of experience, to foreign markets. IT out-sourcing programmes, such as [MDF](#) and [Egypt IT](#), also work to make potential customers aware of a country's capabilities, or work with groups of firms to deliver viable collective marketing and promotion services to overcome weaknesses in promotion capabilities, which are often the responsibility of the government.

### **Single programmes cannot address all issues along import and export chains**

Diagnostic work will inevitably find many market impediments and programmes choose which, and how many, issues they will work on. Given the breadth of import and export chains, the number and variety of issues are likely to increase, e.g. from working with small scale producers to tackling trade policy and regulation, public sector behaviour and infrastructure issues. Clear and transparent decisions are needed, and donors may need to implement a portfolio approach and promote

collaboration across a set of programmes to ensure that all significant impediments are being tackled appropriately.

However, programmes operating in thin markets may need to address multiple market deficiencies, since no single pathway may be sufficient to unlock potential opportunities.<sup>36</sup>

TMS and MDE, working in very small economies, have had to work on multiple constraints, or collaborate with other programmes to tackle some of the many market and government system failures.

## **Working with and delivering against multiple, sometimes competing, theories of change and objectives**

Development programmes, and portfolios of donor programmes, are often underpinned by multiple objectives and theories of change, some of which are not easily reconciled with each other. As outlined in Section 2, MSD programmes have different histories and theoretical backgrounds to other programmes delivering aid-for-trade-related objectives. Donors also have multiple objectives.

The architecture for international trade is strongly legalised, and many AfT programmes focus on helping developing countries align national practice with that architecture. This may encourage adoption of ‘best or global practice’, leading to what some analysts have described as ‘isomorphic mimicry’ – adoption of institutional mechanisms without their core underlying functionalities.<sup>37</sup> Broader international development assistance has also been criticised for a top-down, cut and paste approach. But over the last 20-30 years there have been increasing efforts to find alternative approaches. Theoretical and cultural differences may arise between those that work on international trade architecture and those that work closer to the on-the-ground structures, systems and processes and actors related to import and export functions.<sup>38</sup>

MSD programmes are driven by objectives related to inclusive economic development and poverty reduction. Many other AfT programmes do not have an explicit inclusion and/or poverty objective, and the way in which key stakeholders present AfT often seems to assume that expanding trade will benefit poor and marginalised communities.

There is strong evidence that AfT programmes in general have reduced the costs of international trade in recipient countries, especially by promoting regulatory reforms and adoption of good practice processes and through the provision of trade-related infrastructure – and that this has led to enhanced levels of trade. There is less evidence that support for productive capacity has had a positive impact on trade.<sup>39</sup> While there has been a stated recognition that businesses need to have capacity to respond to rule changes, reviews of AfT programmes consistently identify a lack of prioritisation and inadequate engagement with the private sector.

Certain kinds of AfT programmes or activities, such as investments supporting smallholder agricultural production and addressing the infrastructure needs of poor regions, may have a more direct effect on poverty reduction.<sup>40</sup> Other areas may have an indirect effect, or the benefits may flow to non-poor regions for a variety of reasons.

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<sup>36</sup> Miehlsbradt, Swete Kelly and Warner (2018)

<sup>37</sup> Pritchett, Woodcock and Andrews (2010).

<sup>38</sup> Hynes and Holden (2013).

<sup>39</sup> Cali and te Velde (2011); World Bank (2009); ICAI (2023)

<sup>40</sup> De Melo and Wagner (2016)

For instance:

*... farmers and small businesses do not usually export their produce directly, but depend on intermediaries to aggregate, process, package and transport their goods. These intermediaries often directly benefit from measures to simplify trading across borders. The extent to which these savings are passed on to producers and consumers depends on whether there is sufficient competition in these intermediary markets, which is often not the case. If smallholder farmers lack the knowledge and bargaining power to demand higher prices for their produce, then the aid for trade intervention may lead to higher profits for intermediaries. Furthermore, poorer areas may lack firms able to produce goods of export quality.<sup>41</sup>*

The evidence that AfT has delivered necessary benefits for the poor is less compelling. Programmes may also need to work on multiple issues, beyond facilitating trade, for the poor to benefit.<sup>42</sup>

Additionally, programmes attached to regional and bilateral trade agreements may have objectives requiring commercial benefits for businesses in all participating countries. As such, mainstreaming economic inclusion across a programme is not possible. Much AfT programming has not focussed on poor countries but targets countries where the strategic and commercial benefits to the funding nation are high.

### **The range of required knowledge, skills and capacities expands**

The capabilities needed for MSD programmes are well-documented.<sup>43</sup> Programmes working in trade and across borders may need a broader set of knowledge and skills than other MSD programmes. They need to reach deep into destination markets, help local enterprises develop good business propositions to pitch to prospective clients and engage with external (often very large) enterprises involved in global trade. To achieve this, programmes require specialist capabilities to meet the requirements of destination markets, those who understand the drivers and incentives of export trade and are able to work with the many public sector actors responsible for trade.

Donors who fund AfT programmes and have not taken a systems-focused approach may also need to expand the breadth and depth of their own organisational and individual knowledge and skills in relation to trade and the MSD approach, its strategies and theories of change.

Adjusting expectations about when outcomes or results may materialise could pose an additional challenge to donors looking to integrate an MSD approach into AfT programmes. AfT programmes may often be expected to produce early 'deliverables'. This is at odds with the MSD approach, in terms of time necessary for market analysis, use of pilots or probes to better understand the context for change, and the insistence on the use of robust measurements of the impacts of poverty and inclusion.

### **Considerations at different stages of the programme cycle**

The above issues are relevant for all stages of the programme cycle, from design, implementation and evaluation, regardless of whether the programme is considered first and foremost an MSD or trade programme.

Additional issues relevant to specific stages of the programme cycle are outlined in Annex 6.

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<sup>41</sup> ICAI (2023: 8)

<sup>42</sup> ICAI (2023: 8)

<sup>43</sup> See, for example, [MSD competencies \(beamexchange.org\)](https://beamexchange.org) for a discussion of the 17 competencies that MSD programmes need to be able to draw on.

### 3.3 Questions for further consideration

This report only presents a preliminary exploration of how an MSD approach may be useful for programmes with trade-related objectives. It has only considered a very small sample of MSD programmes working in international trade domains.

If the Task Team and the Working Group on MSD wish to better understand issues, a more comprehensive scan of programmes using an MSD approach to deliver trade-related objectives would be useful. This could explore the extent to which other systems-focused adaptive approaches are being used in the overall AfT effort. Such a scan may unearth more issues or provide a better way of triangulating findings.

Trade-related MSD programmes, or those using a systems-focus, sit comfortably within the broader class of approaches to delivering AfT. A key question is which group of trade challenges, including the inclusive expansion of trade, is an MSD approach best suited to. Further exploration of this issue could help donors when designing programmes.

Additionally, further examination of trade programming with an inclusive trade objective seems warranted (based on a rapid literature review conducted for this study). Potential areas for further research include:

- To what extent are MSD programmes addressing the underlying reasons why trade may not be contributing to inclusive growth and poverty reduction.
  - How is analysis on trade and inclusion informing programme decision-making?
- To what extent is the MSD approach (or other systems-focused approaches) effective in enabling more inclusive trade? How effective are MSD approaches compared to other approaches, and under what circumstances?
- To what extent, is an MSD approach (or similar) useful in trade-related infrastructure programmes, or what is its potential use?
- What opportunities are there for programmes using an MSD approach to address impediments to imports as the prime focus of engagement and delivery of benefits, other than income and jobs, for poor people?
- What is the potential for AfT programmes to make broader use of the principles of MSD approaches including 1) in the context of increasing fragmentation of the international trading system, and 2) when the governments of key development partners are signalling a shift away from the consensus on the benefits of a rules-based approach to liberalising trade (and the benefits of trade liberalisation)?
  - How might donors support developing countries chart their own path to trade liberalisation and inclusive export-oriented development, rather than following the global architecture model?
  - To what extent do, and can, MSD programmes consider the costs of protectionism - such as the reliance of a sector or value chain on high levels of protection or subsidies - and engage with the economic case for an open trade regime?

## Annex 1 - Research matrix

Key questions	Data collection method	Interviewees
1. Where programmes combine a trade objective and the market systems development approach, what are the key considerations? What are the limitations to the adoption of trade objectives and/or the MSD approach?	Rapid literature review – general trade and MSD literature as well as programme-specific reports Key informant interviews Case study programme interviews	Current and past programme leaders and specialists who have worked on trade / MSD programmes
2. How and why are these considerations different to either a traditional trade programme or MSD programme that does not have trade-related objectives?	Rapid literature Key informant interviews Case study programme interviews	Current and past programme leaders and specialists who have worked on trade / MSD programmes  Case study programme interviewees
3. What are the implications for programmes, and different stages of the programme cycle, that include trade-related objectives and an MSD approach?	Key informant interviews Case study programme interviews	Current and past programme leaders and specialists who have worked on trade / MSD programmes (x4 – 6 interviewees)  Case study programme interviewees
4. What are the key lessons from programmes that combine trade-related objectives and MSD approaches? What can donors and implementers do to better support programmes on MSD approach and trade objectives?	Rapid programme document review Case study programme interviews	Case study programme interviewees
5. What, if any, are the most useful areas for future research or related activities to support the effective of programmes with trade objectives and an MSD approach?	Key informant interviews Case study programme interviews	Current and past programme leaders and specialists who have worked on trade / MSD programmes  Case study programme interviewees

## Annex 2: Summaries of programmes covered as cases

Name	Sectors	Description
<b>Alliances Lesser Caucasus Programme II (ALCP)</b>		
Georgia  Phase 2: 2022 - 2026  Funder: ADA, SDC, Sida  Implementer: Mercy Corps	Agriculture  Products  Honey	<p>ALCP has worked in the honey sector since 2014, firstly supporting export promotion to increase buyer awareness, establish an umbrella business association, work with Government to prohibit the registration of beekeeping veterinary medicines containing prohibited chemical substances including antibiotics, and on certification processes. In ALCP, the honey sector actors are focused on facilitating improved outreach and affordability of bio-certification - increasing bio product range offer, including organic beeswax and re-establishment and breeding of Caucasian grey bee for Georgian bee and honey industry development and export.</p> <p><a href="#">Honey Impact Assessment 2024</a></p> <p><a href="#">Programme Profile on BEAM Exchange</a></p>
<b>Global Alliance for Trade Facilitation (GATF)</b>		
Cambodia  2021 - 2023  Funder: Global Alliance for Trade Facilitation  Implementer: Swisscontact	Services  Small package e-trade	<p>The Alliance project is establishing a fully functional EAD system by seamlessly integrating Cambodia Customs ASYCUDA World and Cambodia Post's Customs Declaration System, marking a significant step in digitalising Customs processes for international postal shipments. It also included various supporting activities such as awareness campaigns, capacity building, and public relations before and after deployment. Using its public private partnership approach to trade facilitation, the Alliance worked with the Cambodian Women Entrepreneurs Association (CWEA) to develop an e-logistics platform. BoxShipper links with an e-commerce platform, allowing 600+ MSMEs easier access to postal and express shipment services for domestic and international e-commerce activities. The streamlined e-logistics solution acts as a one-stop site for all tracking and delivery updates. It also displays real-time shipping rates, generates shipping labels and customs declaration forms that can be printed out for postal shipments, and online payment options for service fees etc. The Alliance conducted capacity building programmes to boost export-readiness for MSMEs through a dedicated programme called Small Package Exporter Champions (SPEC). The programme aimed to enhance MSME presence online and to increase their engagement in cross-border e-trade, particularly through small-package exports, taking full advantage of the improved e-trade environment delivered by the project's EAD and e-logistics solutions. Through workshops and tailored mentorship, dedicated trainers and mentors from both public ministries and the private sector provided information on a variety of relevant topics to further the success of exporting businesses.</p> <p><a href="#">GATF Cambodia project description (website)</a></p>

Name	Sectors	Description
<b>GROW 2</b>		
Promoting MSME Development and Employment Opportunities, Liberia  2013 – 2027  Funder: Sida  Implementer: UNIDO	Agriculture  Products	<p>Grow 2 provides technical support along two areas: 1) Strengthening of cooperatives and sector associations; Strengthening horizontal and vertical coordination among actors along the value chain (cooperatives; producer groups; MSMEs; sector associations; other alliances); Strengthening common facilities (input supply; production; storage; pre-processing; processing), based on collective efficiencies and increased mechanization; Facilitating access to relevant technical/entrepreneurship training services; Facilitating access to training on environmental protection (including regenerative organic agriculture), climate-smart practices (resource efficiency), health and safety of the work environment; Facilitating access to quality-related services, accompanying cooperatives/producer groups/MSMEs in ensuring the quality and safety of products in view of compliance with standards, testing and certification based on market requirements; Strengthening linkages with investment promotion and financial service providers; Strengthening linkages with trade promotion services (incl. information on opportunities and market requirements and fostering alliances of producers' groups /MSMEs with regional/international buyers); 2) Advice regarding policy and regulatory framework and eventual reform opportunities/ needs; Supporting dialogue on business environment and related reforms; Strengthening the support infrastructure, covering inter alia agriculture extension, quality infrastructure, climate resilience related services (such as promotion of organic production, resource efficiency and renewable energy), and market promotion.</p> <p><a href="#">Grow 2 project outcomes and technical support areas (website)</a>  <a href="#">Programme Profile on BEAM Exchange</a></p>
<b>IT Outsourcing</b>		
Egypt  2020 – 2025  Funder: CBI  Implementer: CBI outsourcing	Business services	<p>In 2020, the Centre for the Promotion of Imports from developing countries (CBI) helps Egyptian small and medium-sized enterprises (SMEs) to improve their market position in the European Union (EU). Also, the project aims to improve the ecosystem for IT SMEs by removing barriers and supporting Egypt's ITO sector. This project aims to: Achieve an inclusive and sustainable ITO sector. This involves a sector that generates decent work opportunities for youth; Help stakeholders and enhance services delivery to improve the business environment for ITO services export; Help SMEs to access the EU market and establish strong links between EU markets and Egyptian ITO companies. 19 companies are taking part in this export coaching project. All participating companies focus on application outsourcing. This includes services such as software support and custom application development.</p> <p><a href="https://www.cbi.eu/projects/it-outsourcing-egypt">https://www.cbi.eu/projects/it-outsourcing-egypt</a>  <a href="#">CBI Strategy</a></p>



Name	Sectors	Description
<b>Market Development Facility (MDF)</b>		
Fiji  Phase 2: 2017 – 2022  Funder: Australia DFAT  Implementer: Palladium/ Swisscontact	Business services	<p>MDF began working in Fiji's OS sector in 2019. Fiji's economy, particularly the tourism sector, was severely affected by COVID-19. However, the pandemic's impact was felt earlier in major OS destinations like India and the Philippines than in Pacific Island Countries, creating an opportunity for the Fijian OS industry. Around the world, firms wanted to diversify their outsourcing options in response to uncertainty in established OS destinations. Fiji's nascent OS providers were well positioned to capitalise on these changing market dynamics, acquire new clients and break into new markets. A pool of recently unemployed tourism workers with appropriate language skills and cultural affinity also became available to the OS industry. MDF supported early business pioneers and government agencies to grow the sector, helped establish BPOC (now Outsource Fiji) and supported industry initiatives to promote Fiji as an outsourcing destination to global markets.</p> <p><a href="#">MDF Outsourcing case study</a></p> <p><a href="#">Programme Profile on BEAM Exchange</a></p>
<b>PEPE Private Enterprise Programme</b>		
Ethiopia  2013 – 2020  Funder: FCDO  Implementer: DAI	Agriculture  Industrial park	<p>PEPE supported private sector development, through improving firms' access to finance and addressing market and government failures in identified value chains following M4P methodology. PEPE was implemented through 2 components: 1) Access to Finance. The access to finance pillar was expected to achieve the outcome of increasing investment levels in the Ethiopian economy, particularly for growth-oriented SME. 2) Priority Sector. The priority sectors pillar was expected to achieve the outcome of increasing returns on investment (productivity) and investment levels in the identified sectors (livestock and leather, cotton and textile, horticulture). In both pillars, particular priority was given to supporting economic opportunity for women and "greening" growth.</p> <p><a href="#">PEPE description (website)</a></p>

Name	Sectors	Description
<b>PUEDE</b>		
<p>Columbia 2018 – 2022</p> <p>Funder: ITC Multi-donor trust funds and EC</p> <p>Implementer: Agencia de Desarrollo Rural</p>	<p>Agriculture</p>	<p>Colombia PUEDE is working to improve income earning opportunities of 2,000 smallholder farmers and their families in post-conflict areas of Colombia by increasing their productivity, improving the quality of their produce, and strengthening their market competitiveness. Colombia PUEDE works with small producers of coconuts, cocoa, and Tahiti lime in four post-conflict municipalities of the Department of Nariño, in the south of Colombia: El Rosario, Leiva, Policarpa, and Tumaco. The project aims to help these farmers through: Increasing their access to technical assistance and infrastructure; Strengthening the capacities and skills of producers; Enhancing the market knowledge of small producers; Identifying market opportunities and value chain alliances.</p> <p><a href="#">ITC project description (website)</a></p> <p><a href="#">Project data</a></p>
<b>RECONOMY</b>		
<p>Western Balkans and Eastern Partnership</p> <p>2023 – 2026</p> <p>Funder: Sida</p> <p>Implementer: Helvetas</p>	<p>Textiles and garments</p> <p>IT services</p>	<p>The main goal of RECONOMY is to enable women and youth, including the most disadvantaged and excluded, to benefit from economic opportunities by increasing their income and taking up decent and green jobs, inclusively and sustainably. RECONOMY works with businesses to help them embrace the new or better services facilitated by RECONOMY, it is expected that their investment and growth would increase as a result, making the private sector more competitive. RECONOMY places a high priority on the "triple dividend," or the addition of social, economic, and environmental values. It is implemented in the Eastern Partnership countries (Armenia, Azerbaijan, Georgia, Moldova, and Ukraine) and the Western Balkans (Albania, Bosnia &amp; Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia). The rationale for regional value addition is addressing problems and responding to opportunities where there are commonalities or similarities like the problem across countries. It is also possible that RECONOMY may replicate interventions in one country based on the learning from that intervention in a different country.</p> <p><a href="#">RECONOMY project website</a></p> <p><a href="#">Programme Profile on BEAM Exchange</a></p>

Name	Sectors	Description
<b>Regional Livestock Programme</b>		
Ethiopia, Kenya, Somalia  Funder: SDC, Sida  Implementer: Mercy Corps with Helvetas, WHH in partnership with IGAD	Phase 1 (2023 - 26) of 12-year implementation period  Agriculture	Problem (in addition to production and enabling environment issues): Asymmetrical market information and opaque pricing practices skew negotiation power to the hands of the buyer, disincentivizing producer investments in quality or loyalty to traders. Traders themselves operate in the wider and often hostile business environment with limited large-scale or public investments that reduce transaction costs and smooth functioning of livestock markets. The lack of industry trade promotion and largely informal business contracting across the region results in financial institutions consistently grading livestock trade as a higher risk investment
<b>Tourism Uganda</b>		
Uganda  Funder: CBI  Implementer: CBI	2022 - 2025  Tourism  Services	<a href="https://www.cbi.eu/projects/tourism-uganda">https://www.cbi.eu/projects/tourism-uganda</a>  <a href="#">CBI Strategy</a>
<b>TMS</b>		
Transforming Market Systems, Honduras  Funder: USAID  Implementer: ACDI VOCA	Agriculture  Business enabling environment (customs)	TMS fosters competitive, resilient, and inclusive market systems that provide increased economic opportunities that incorporate women, youth, ethnic minorities, people with disabilities, the poor, and other marginalized groups who are often excluded—or even exploited—by traditional market systems. Activities include: transforming agricultural products and services to create value and expand market share; developing attractive experiences that motivate tourists to visit and spend in Honduran destinations; delivering the resources needed by entrepreneurs to establish new ventures and grow their enterprises; facilitating training and placement in jobs, advance workers' careers, and ensure a skilled workforce for private-sector growth; establishing institutional and legal environments to improve ease of doing business / competitiveness.  <a href="#">TMS website</a>  <a href="#">Programme Profile on BEAM Exchange</a>

## Annex 3: List of people interviewed.

Programme Staff	Key informants
Helen Bradbury (ALCP)	Mark Priestley
Rajiv Pradhan (SeT4SME)	Liz Turner
Fred Gibson, Charles Sackey, Irhad Puce (GROW 2)	Paul Keogh
Max Schulz, Nada El Guindy, Henrique Postma-Hazelaar (IT Outsourcing Egypt)	Golden Mahove
Oliver Matheson, Kelera Cavuilati (MDF Fiji)	Debora Randall
Bill Grant (PEPE)	
Rene Alarcon (PUEDE)	
Paulo Rodrigues, Elene Tkhlashidze (Reconomy)	
Carmen Jaquez (RLPHA)	
Jeannette Scherpenzeel, Martijn Harlaar, Tim Gamper (Tourism Uganda)	
Dun Grover, Karla Velasquez (TMS)	

# Annex 4: Interview guide

## *Case study programmes*

### **Introduction**

The DCED's MSD Working Group has been asked to examine the interrelationship of trade objectives and the use of market systems development approaches to understand how the two work in practice, identify any advantages and challenges and provide lessons and suggestions to DCED members. This research includes the preparation of a small number of programme or intervention case studies.

We would like to invite you to participate as a key informant in the research because you have been involved in MSD and/or trade programmes and have knowledge of the programme under consideration. The benefits of taking part are to provide new insights on the relationship between trade objectives and market systems development approach, and to inform future research and practice. DCED will publish the findings of this study as a public good report.

You can ask questions about the research before deciding whether or not to participate. If you agree to participate, you may withdraw yourself from the study at any time, without giving a reason, by advising the researchers. If you are happy to take part in the research, you will participate in a 60-minute online interview. For purposes of transcription, the call will be recorded (but not shared). After our interview, the researchers may follow up via email with any questions or clarifications.

Thematic analysis will draw on the range of responses and be anonymized. However, if the interview focuses on a specific programme for a case study we will not be able to anonymise all of the information that you provide e.g. lessons. We may include specific quotes from the interview that include attribution directly to you. If so, the researchers will specifically request and seek consent via email, and only include quotes after you directly approve them.

### **Indicative interview questions**

1. Please provide a brief description of the programme/intervention (Interviewer to complete what is already known ahead of interview; do not collect again if already known but clarify any gaps).
  - What are/were the trade-related outcomes the programme aimed to achieve?
  - What is the constraint that is being targeted?
  - Would you describe the programme as being primarily guided by trade-specific objectives or a market systems development approach?
    - To what extent is the total programme focused on trade-objectives?
    - To what extent does/did this programme utilise the MSD approach?
2. In what ways has the MSD approach been used on this programme in relation to the trade objectives?
  - [For programmes that include non-trade objectives] To what extent is this different from how the MSD approach is applied to other parts of the programme? If so, why?
3. To what extent is applying the market systems development approach on a programme with trade objectives different to a programme that does not have trade objectives? How is it different and why?
  - What are the key factors that need to be considered in different phases or work of a programme cycle and why?
    - Programme design
    - Intervention analysis and design
    - Implementation

- Monitoring and evaluation

4. What are the key opportunities and challenges (or limitations) when a programme combines trade objectives and a market systems development approach?
5. What advice would you give to donors who are wanting to fund more programmes that combine trade and MSD?
6. What can donors and implementers do to better support programmes on MSD approach and trade objectives?
7. Anything else you would like to share?

## *Key informants*

### **Introduction**

The DCED's MSD Working Group has been asked to examine the interrelationship of trade objectives and the use market systems development approaches to understand how the two work in practice, any advantages and challenges and provide lessons and suggestions to DCED members. This research includes the preparation of a small number of programme or intervention case studies.

We would like to invite you to participate as a key informant in the research because you have been involved in MSD and/or trade programmes. The benefits of taking part are to provide new insights on the relationship between trade objectives and market systems development approach, and to inform future research and practice. DCED will publish the findings of this study as a public good report.

You can ask questions about the research before deciding whether or not to participate. If you agree to participate, you may withdraw yourself from the study at any time, without giving a reason, by advising the researchers. If you are happy to take part in the research, you will participate in a 60-minute online interview. For purposes of transcription, the call will be recorded (but not shared). After our interview, the researchers may follow up via email with any questions or clarifications.

Thematic analysis will draw on the range of responses and be anonymised. We may include specific quotes from the interview that include attribution directly to you. If so, the researchers will specifically request and seek consent via email, and only include quotes after you directly approve them.

### **Indicative interview questions**

1. Please provide a brief description of your experience working on trade and MSD programmes.
2. To what extent is applying the market systems development approach on a programme with trade objectives different to a programme that does not have trade objectives? How is it different and why?
  - What are the key factors that need to be considered in different phases or work of a programme cycle and why?
    - Programme design
    - Intervention analysis and design
    - Implementation
    - Monitoring and evaluation
3. What are the key opportunities and challenges (or limitations) when a programme combines trade objectives and a market systems development approach?
4. What advice would you give to donors who are wanting to fund more programmes that combine trade and MSD?
5. What can donors and implementers do to better support programmes on MSD approach and trade objectives?
6. Anything else you would like to share?

## Annex 5: Initial propositions about trade and MSD

These are propositions that will be tested based on the interview data and further literature review. They are based on the researchers' knowledge and experience. It may be that some of these propositions do not hold true, therefore they are exploratory and should not be considered findings based on research.

### *A market systems development perspective of international trade*

The nature of the transactions

#### **FORMAL IMPORTING AND EXPORTING**

- For exporters, demand conditions are different compared to selling to the domestic market –
  - Probably much more elastic, so expanding sales may not affect price.
  - Consumers may require different kinds of value addition: packaging, labelling.
  - Consumers may have different expectations re social and environmental practices
  - Suppliers may end up bearing the effects of export market product taxation. Relief from domestic sales and value-added taxation may not be available, or be costly to acquire. Relief from import duties may be made available by FTAs, but accessing this relief may require obtaining certificates of origin and dealing with other procedures.
- Contractual arrangements are different -
  - Enforcing contracts may involve two countries' legal systems
  - May require greater levels of trust.
- Exporters will be subject to destination country regulation -
  - Products and services subject to consumer protection and standards regulation, which may bear on service exports as well as good exports.
  - Additional certification may be required if the domestic system is not accepted in the destination country.
- Importers may need to ensure compliance with home country regulation – meeting labelling requirements, for example, ensuring that product and other standards have been met. Imports will need to be classified for taxation and import regulation purposes, and taxation, demurrage and warehousing costs payments made at or before clearance.
- Logistic arrangements are different, because products have to cross borders and deal with home country export and destination country import and transport regulations -
  - Bio-security, food health and safety, transit controls
  - Land-locked countries have to deal with mid-countries that may have different regulations/requirements; also additional opportunities for corruption
  - Increasing issue is expectations about transport options and environmental concerns, e.g. shipping cargo vs air freight
- Payments may be in foreign exchange – of itself not an issue if both countries have liberal foreign exchange policies, but it does mean that prices are subject to additional variations compared to interacting in domestic markets. Also transactors have to find ways of remitting and receiving payments
- Trade financing is more complex and potentially less reliable: availability of letters of credit depends on the quality of the financial sectors in both countries, or involve a third country
- Transaction costs may be higher than when transacting in domestic markets – logistics, insurances, financing, prepayment of taxes, bonds etc.



- The interactions with home and destination country regulators and taxation systems occurs at the individual transaction level much more frequently than it does for sales to the domestic market. This means higher transaction level costs, and much more frequent interactions with public administrations.
- May be additional language, cultural and gender barriers when trading across borders and/or different business norms that affect trust, relationship building and affect power dynamics (e.g. large international buyers versus small local producers; or local aggregators that speak English whereas producers do not; acceptability of women interacting with male foreigners).

Because of the size and nature of additional costs, and the specific knowledge that is required, scale may be important for the entities doing the export/import transaction, as will be formality.

- This raises questions for MSD programs: are they targeting engagement in export/import value chains by MSMEs, or helping larger enterprises trade directly with an expectation that will generate business and employment opportunities back along the supply/selling chain? In what ways do the medium and long-term outcomes differ, the pathways to change and assumptions made in MSD vs trade programs?

### *CROSS BORDER TRADE*

Cross-border trade can take many forms, with varying degrees of regulation and taxation impacting on transactions, and with enterprises with varying degrees of formality -

- Context matters: in some countries, border regions use a range of currencies interchangeably, and border controls are easily avoided. Trade may involve transactions between extended families, with internal means of ensuring that contracts are enforced, and transaction costs minimised.
- Such trade may be outright illegal. But it may not, and transgressions may be a function of what is being transacted – narcotics, fuel etc.
- Subject to petty corruption.

### *IMPORTING VS EXPORTING*

Trade programs – and MSD programs often emphasise exports, but from an enterprise/sector development perspective, imports can be important (not to mention the fact that imports are also important to consumers' welfare).

- Imported inputs are often important to improve productivity of agriculture (seeds, chemicals), and may be subject to a range of regulatory controls: often importers need to get permission to import specific products and deal with a range of regulatory agencies.
- Imported inputs are central to many global manufacturing value chains, and governments have developed/experimented with a range of initiatives to reduce costs of export- oriented production that uses imported inputs (SEZs, duty drawback, bonded warehousing etc). These arrangements are often hard for small domestic firms to utilise, as are duty concessions associated with preferential trade agreements.
- At a macroeconomic level, if policy makes importing difficult, it will make exporting less competitive, unless the country is a net exporter of capital.

### *INVESTMENT AND BEHIND-THE BORDER ISSUES*

- Most programs dealing with trade policies and their implementation tend these days to also address policy and regulatory barriers to foreign investment, and issues such as national treatment and controls on commercial presence etc.

- Most trade agreements around which many aid-for-trade programs are built typically deal with a range of behind-the-border factors that may discriminate against foreign suppliers.

#### *INTRA-REGIONAL TRADE VERSUS TRADE TO MARKETS IN EUROPE, US ETC*

- Some programs focus in inter-regional trade, arguing that it may be easier or more appropriate to pursue outcomes in this domain rather than for exports to distant developed country markets -
  - transport may be cheaper and easier to organise
  - expectations re standards may be lower than in Europe, US etc
  - regional trade agreements may provide easier market access
  - trade within currency unions (Western Africa CFA zone, Central Africa CFA zone and the Common Monetary Area based on the South African Rand) is not subject to foreign exchange risks, and payment and financing systems may be easier to navigate.

*What kind of market system failures/problems are different or worse for international trade in goods and services?*

There are a range of regulatory dimensions to international trade that are not present, or with different characteristics than those that bear on domestic trade.

- International transactions are subject to the regulatory system of the country where a counterparty to the transaction is located: import controls and taxation, standards, bio-security, restrictions on trade in services, transport and logistic regulation, financial system regulation (currency controls, regulation affecting trade finance, trade taxation)
- Acquiring market information in export markets may be much more costly than for domestic markets.
  - Solutions to this characteristic of the market for information and the uncertainty it creates may involve engaging additional parties to transactions and incurring additional costs. There may be language barriers as well as issues like affordable access to technology (internet).
- Formal transactions also involve more interaction with home country regulatory and control systems
  - This not only requires addressing demands of formal policy, but also dealing with how policy and regulation as are administered, and how officials exercise the power that regulations and their position give them (which may differ depending on the nature of the trade – see cross-border). Movements across borders provide a ‘choke point’ where taxation is easier to lev, and where exercise of regulatory discretion can be particularly burdensome on businesses.

*Do trade-related programs deal with market system issues?*

Many AfT programs include components aimed at helping businesses take advantage of international trade opportunities. Common activities are information dissemination activities, targeted enterprise training, structures for helping gather information about markets, and sometimes support for dealing with particular aspects of target market trade regulations. There is often focus on streamlining trade logistics including the implementation of border controls. Historically, there has been less in the way of working with businesses to identify systemic impediments. Rather programs assume that they are removing policy or regulatory barriers and that is sufficient.

*Do MSD practitioners think differently than trade professionals?*

Problem analysis – market systems development programmes may start from a different place, analysing incentives, examining root causes rather than surface visible issues like policies and regulations (bottom of the iceberg versus top of the iceberg).

## Annex 6: Considerations for different stages of the programme cycle

This Annex outlines the key considerations for trade and MSD programmes at different stages of the programme cycle referred to in Section 3.3.

### Design phase

- Decide whether to include an MSD approach, and if so, ensure the approach flows through to the programme strategy, structure, resourcing and theories of action.
- Stress test assumptions about meeting developed country/region requirements and capacity of source country to meet those within the programme timeframe; consider weight of importance of increasing trade in general vs increasing trade to a high-end market like the EU.
- Determine the scope of the programme, the extent it will go beyond traditional MSD programming to tackle policy change/trade facilitation issues and how far it will aim to address backward and forward linkages. Identify other existing or upcoming programmes or mechanisms that may provide collaboration potential in source and end countries.
- Set realistic timeframes to achieve market systems changes
- Set success indicators relevant to changing market systems to achieve end beneficiary outcomes rather than setting end-beneficiary outcomes, which may incentivise programmes to count changes at this level as a proxy for systems change. For new programmes, success metrics and targets like jobs created and income increased can create a short-term focus that drives perverse sector/intervention choice (including less government work) to changing systems, and if this culture is set for phase 1 it is hard to change for follow-up phases

### Implementation: market analysis

- Orient analysis according to design decisions regarding programme scope. Analysis will inevitably find non-policy related and policy-government related market impediments – determine the extent to which the programme will address and adjust success indicators in accordance with ambitions of programme.
- Assess market demand related to potential source-market supply, and requirements and feasibility of meeting
- Analyse government incentives, using approaches such as political economy analysis (at a micro level that allows for within-agency and across-agency government systems understanding)
- Identify other existing or upcoming programmes or mechanisms that may provide collaboration potential in source and end countries.

### Implementation: intervention design and implementation

- Don't be hindered by working on one side of the border only
- Apply MSD principles and design interventions with government informed by approaches like PDIA, look at options for working with the government directly (not always indirectly through business associations etc).
- Apply participatory approaches to include government agencies and related public-sector entities (that may include business associations, research etc) to collaborate around the research (more than just being consulted in data collection, but also in the exploration of the findings and ways forward to interventions).

- Consider where trade knowledge and skills are beneficial and if they cannot be bought in long term, look at short term consultancy inputs to complement long-term local staff knowledge and bolster programme capabilities.

#### **Implementation and post-programme: monitoring and evaluation**

- Assess changes in trade systems – requires also assessing changes in market systems in end-countries related to demand, relationships and connections, resource flows (total volumes but also the equity in distribution of benefits).
- For donors, reorient performance assessment frameworks to better account for market system change being a pathway to the desired change and therefore the need to assess changes on a regular basis.

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