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Addressing the
Challenges for Remote,
Vulnerable Communities:

Market Systems as the Focus of Development Programming

Implemented by





Addressing the Challenges for Remote, Vulnerable Communities: **Market Systems as the Focus of Development Programming**

In the present political environment, development spending is under increasing scrutiny. Quite rightly, development actors are under pressure to demonstrate value for money for the interventions which they design, and to show that those interventions are effective in poverty reduction. A very current debate therefore revolves around how best to spend development monies to achieve the greatest impact. This paper argues that this can best be achieved by working through private sector initiatives; in particular those working on market systems.

It is well established in the literature that economic 'clusters' such as those which are formed in the *Char* communities can be valuable drivers of economic growth. They can create growth not just in the 'core' activities undertaken (in this case, farming) but also a range of 'support' businesses. It is also clear that economic growth has ripple effects which extend more widely. Programmes to develop the private sector can have direct impacts in the communities in which they work, but also indirect impacts in other sectors, and so-called 'dynamic' impacts in non-economic areas, such as into issues of governance.

This short paper argues that the 'ripple' effect of private sector development interventions is even richer than had previously been anticipated. Based on two research projects recently undertaken by Swisscontact in relation to the *Char* communities in northern Bangladesh, this paper presents evidence that the best and most cost-effective way to approach a whole raft of development challenges is by focusing on market systems development. This provides a motor that can drive wider development such as education, health and good governance.

The M4C Programme

Making Markets Work for the Jamuna, Padma and Teesta Chars (M4C) is a project mandated by the Swiss Agency for Development and Cooperation (SDC) and Ministry of Local Government, Rural Development and Co-operatives, Government of the People's Republic of Bangladesh. Chars are riverine land, susceptible to erosion and soil disposition, which remain disconnected from mainland either seasonally or throughout the year, and economic opportunities for the people living in these areas are severely constrained due to geographical isolation, lack of access to basic services, weak markets and effects of climatic hazards such as floods.

M4C's aim is to reduce poverty and vulnerability of Char households by facilitating market systems that enhance opportunities for income generation. After seven years of implementation, the project has successfully achieved its outreach and income generation targets. Up to June 2017, M4C has benefitted 92,000 Char households in ten districts of northern Bangladesh, with an average increase in income of BDT 11,000 per household. The programme has also engaged with a wide range of different market actors, including more than 1,800 crop retailers, 300 livestock retailers, and 160 post-harvest service providers. In addition, the programme has also disbursed around BDT 270 million in loans to Char communities.



The Wider Impacts of Market Systems Programming

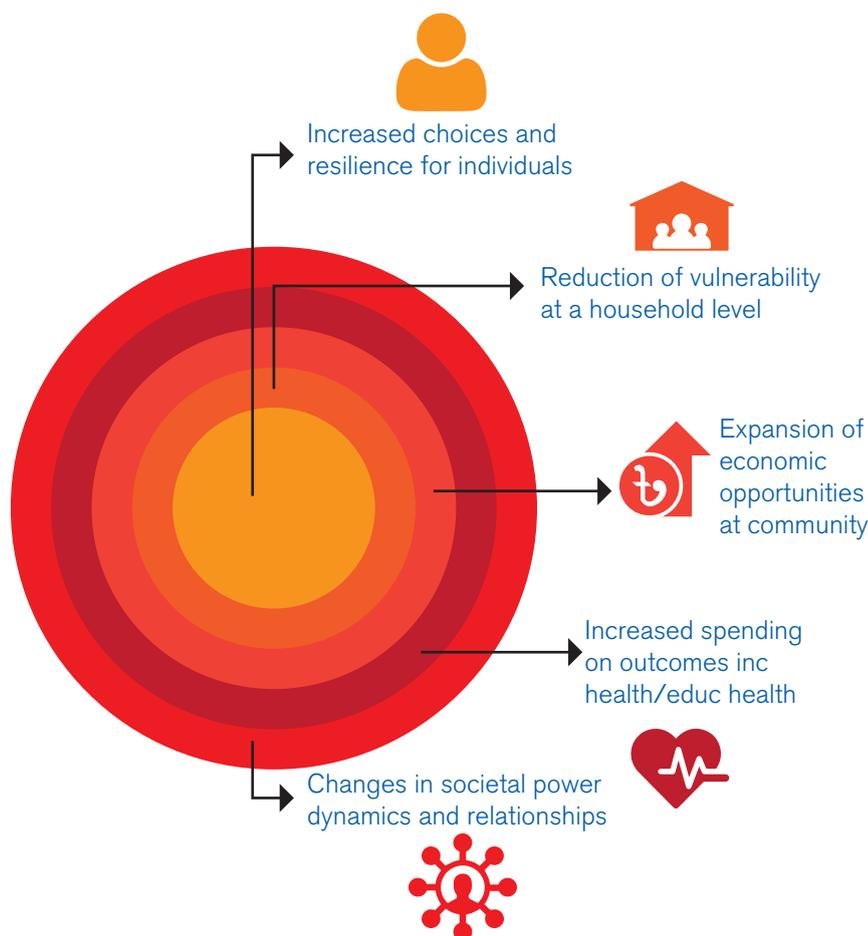
The M4C programme has been successful in meeting its mandated logframe targets. These relate principally to economic factors such as increases in incomes for target beneficiaries, and engagement with different market actors. However, it also appeared to the management team that the interventions were having wider impacts 'beyond the logframe' – that in addition to its direct economic impacts, the programme was also facilitating both indirect and dynamic impacts both in the *Chars'* economy more broadly (indirect), and in the structure of power and community structures (dynamic).

To explore these phenomena in more detail, a pair of research projects were commissioned and undertaken in Autumn 2018. The first explored the impacts of

the programme on vulnerability of *Chars'* communities; and the second examines the political economy of the northern *Chars*, and how this has been altered by the work of the M4C programme. Brief descriptions of these research papers are contained in annex A: this paper presents the synthesis of the conclusions of these two papers.

The clear conclusion of both papers is that, indeed, the M4C programme has delivered impacts that were not (and perhaps could not have been) anticipated. These 'ripples' of impact mean that the M4C programme has been able to deliver a wide range of developmental goods, as shown in fig 1.

Moreover, the research found not just that the actual situation in the *Chars* had changed, but also that the work of M4C had substantially changed the perceptions of others about these communities. Historically seen as being poor and marginal, they are now seen as important, and home to significant economies. This is demonstrated, for example, by the much greater willingness of agro-input companies and others to court *Char* farmers as clients.





Increased Knowledge and Choices

A clear finding of both studies was that a key benefit of the M4C programme for farmers was improved knowledge of farming techniques and other issues. Historically, *Char* farmers have learned their trade largely by word-of-mouth from their fathers and grandfathers. The M4C programme has provided them with improved knowledge and ability to farm effectively. As a result, farmers now produce a greater variety of produce, which spreads their risk and reduces their reliance on only one or two crops. Moreover, because they are now growing more commercial varieties, they are able to command higher prices at market, with the result that incomes have increased.

In the communities where the M4C programme operates, farmers' improved knowledge has changed their relationships with those with whom they work. During both research projects a number of interviews were undertaken with farm input providers of various types (for example, those providing seeds, fertilisers and other goods). Many of these said that farmers' now exhibit much greater knowledge of seed types, the need for specific fertilisers, pest control and so on.

Reduction in Vulnerability for Farming Households

The key intervention strategy of M4C has been to mend the disjuncture between *Char* economies and market systems by creating market access, establishing linkages, and supporting *Char* traders with information and knowledge. The key aim is the intensification, and diversification of livelihood strategies in *Chars* that will increase capacity and performance of the people consequentially resulting to higher magnitude of

resilience and sustainability in the livelihood options.

As a result of the M4C programme, farmers have increased the range of crops they produce, an widened other livelihood strategies that they adopt, for example the fattening of cattle. Moreover, their increased knowledge has put them in a stronger position in relation to other market actors, for example their input providers. One consequence of this is that these input providers are more prepared to extend credit to *Char* farmers, which in return has reduced their reliance on money lenders who historically have demanded very high rates of interest. One *Char* community reported that the money lenders were being obliged to reduce their interest rates considerably in order to remain in business.

The combination of these factors has been to reduce greatly the vulnerability of *Char* households and communities. They now have a much greater diversity of income streams, which reduces reliance on a limited number of livelihood strategies. Moreover, because of the greater leverage that both knowledge and income provide, these communities have greater leverage with those with whom they work. They now have agency, rather than simply being 'victims' at the whim of events and of the decisions of others.

Expansion of Economic Opportunities at Community Level

The increasing wealth of *Char* farmers is also providing additional economic opportunities to members of the community. New businesses are emerging which take advantage of new needs and the ability to pay for these. In a number of *Char* communities, both research teams

observed the emergence of some farmers who act as aggregators for their local colleagues. Because markets are often quite distant from *Char* communities, farmers face an opportunity cost in terms of time to go to market themselves: this is time they feel they could better use tending their farms. Accordingly, the opportunity has arisen for aggregators to collect produce from neighbouring farms to take it to market, charging a commission (apparently around 15%) for doing so.

We also saw evidence that the greater economic vitality of the *Chars* is actually drawing people into the region. Specifically, there are an increased number of motorcycle riders who provide a mixture of a taxi service, and the transportation of goods. Interviews suggested that a number of these people had worked in the garment sector in Dhaka, but economic development of the *Chars* had enabled them to return, yet still earn a living.

Increased Spending on Other Developmental Outcomes

In the past the *Char* communities have been under-served in key human development goods such as healthcare and education. The impact of the M4C programme is beginning -albeit slowly – to change this. Although it is still the case that state education and health facilities remain harder to access than for mainland communities, many of those interviewed stated that increases in incomes were being used in part to fund children's education, and improved healthcare. Many families stated that sending their children to school was a priority. Furthermore, even though state health facilities remain hard to access, many *Char* communities now have a shop which sells basic medication. In many cases these shops had either come into existence, or expanded as a result of the increased wealth of *Char* communities. At present, these are relatively small steps - the responses from the private sector are less than required, and public sector response is still largely missing. Nevertheless, the M4C programme begun to provide the financial

momentum to facilitate other beneficial outcomes to local communities which would normally be the focus of dedicated programming by development agencies.

Changes in Societal Power and Political Economy Dynamics

What has also become clear is that the M4C programme has contributed to significant changes in the political economy of the *Char* communities. The increase in farmer incomes has had wider impacts than simply the economic, and on a wide range of different groups.

From the perspective of farmers, the M4C programme has had the effect of improving their knowledge and capabilities. As a result, they have increased their incomes, and this is putting them in a stronger position in relation to many of the other groups with whom they come into contact. The change in relationship with input providers has already been referenced above, but it is not the only relationship change. The situation with traders has also altered, with farmers able to fulfil larger orders, and so command better prices. We also saw evidence that this means they are able to bypass some of the market intermediaries and go straight to the larger buyers. It also seems to be the case that *Char* communities are able to command more attention from public authorities – indeed it was reported that agriculture extension workers are hitching lifts with M4C staff into the *Char* communities. It was also claimed that local MPs are paying more attention to the *Chars*. It is an interesting, but open question whether or not public authorities will be able to respond to increasing demands from the *Chars* for public goods including, for example flood defences.

A key result of these changes in the political economy is that the M4C programme has succeeded in creating systemic change through its activities. The changes in power dynamics mean that the structure of the *Char* communities has changed in such a way that those changes have become embedded in a new status quo.





Conclusions and Recommendations

The clear conclusion of both of these studies is that the most effective way to address development in the round is to focus principally on market system reforms and development of the private sector. The example of the M4C programme demonstrates that the impact of market systems interventions extends significantly beyond only the economic. The impacts extend into a wide range of issues which development actors might normally consider as ripe territory for programme interventions.

Firstly, working on market systems reform can significantly reduce the vulnerability of beneficiary communities. Moreover, the changes are systemic rather than one-off, as would be the case with a more 'traditional' development interventions such as an asset transfers. Farmers do not just have higher incomes, but more diversified ones, which significantly reduces the vulnerability to the downturn in one livelihood strategy. Secondly, working on improving market systems can also lead to the creation of a 'cluster' of businesses, since the increasing levels of incomes amongst the prime beneficiaries can give rise to other business opportunities either for those beneficiaries or others. Farmer aggregators, motorcycle riders and other opportunities further diversify the local economy.

Thirdly, increased incomes mean that beneficiary families have money to spend on other outcomes which might normally be the subject of development projects. It was clear from both studies that households are increasing spending on things like education and healthcare. Whilst provision in these areas is still problematic, the fact that

these goods are being paid for by local people rather than by a development programme makes them more durable over time.

Fourthly, the views that others hold of *Char* communities have fundamentally shifted. *Char* farmers are now seen as significant producers of agricultural products. Therefore, they are regarded as a key market for input providers, many of whom now travel regularly to the *Chars* to find business, something that hitherto would not have happened.

Finally, the M4C programme has supported a significant change in the political economy of the *Chars* communities. The power balance has shifted considerably between *Char* farmers and their business partners. As a result, in some cases the power relationships between these parties have also changed. It is also the case that the *Char* communities are beginning to make demands of 'formal' authority, which has largely not been the case in the past. These changes in the political economy of these communities means that the changes that have been affected are likely to be sustained over time.

The clear recommendation of these studies, therefore, is that private sector, and in particular market systems interventions ought to be seen as a primary line of access for development programming. By facilitating the better functioning of markets, these interventions are able to provide a motor which then drives changes in other areas, such as education, healthcare, governance and vulnerability reduction which might normally have been seen as areas themselves for donor interventions.

Annex:

Descriptions of the Research Projects

Vulnerability Study

The main objective of the study was to determine M4C's contribution in reducing the vulnerability of M4C beneficiaries and thereby sustainable poverty reduction through increased resilience.

The study had a multi-stage design. Micro-ethnographic research was combined with a farmer-level structured survey with 230 households (1189 members) and focus groups and interviews with various market actors across selected *Chars*. Households in control *Chars* were interviewed to establish counterfactuals.

Some of the Key Results and Findings From the Study are:

- Market actors have, invested, expanded and deepened their network in *Chars* by improving/ forging new relationships with other actors.
- This is manifested in that control *Chars* almost 100% of inputs are purchased from mainland retail stores, whereas in M4C-impacted *Chars* over 56% bought inputs from *Char* input sellers.
- Selling from the home has increased from 33.3% to 46.1% (over 3 years) for treatment farmers while it decreased for control farmers.
- More than twice as many treatment farmers received information (97.7%) from formal value chain actors than their peers (41.5%).
- Treatment farmers have intensified their maize production through increased investment. Also, they have diversified: income from maize has been invested in livestock.
- Social capital: Knowledge and skills have increased; women's participation in the market has increased; education and employment have increased. interactions have increased between market actors and maize farmers; collaborations with traders, companies and experts have increased; collective market operations have empowered them as market actors
- Natural Capital: More land has come under cultivation, and the use of irrigation has increased.
- Physical Capital: House renovations have been easier with better materials; solar panels has increased; *Char* transportations have improved

These shift in livelihood capital has enabled households to respond better to *Char* vulnerability and shocks.

Political Economy Study

This study explores the ways in which the M4C programme has changed the balance of power between different actors in the *Chars*. The aim was to explore firstly, the immediate relationships between farmers and their working counterparts, and secondly, changes in the wider regional society in the *Chars*. Changes in the balance of power have occurred not just between farmers and other stakeholders, but also between those other stakeholders themselves.

A group of 24 researchers worked in pairs. The study used a mixture of focus groups and interviews with a range of different stakeholder groups including farmers, business counterparts, providers of finance, community leaders and technical advisors.

The study found that quite significant changes have occurred in the power dynamics of the *Chars*, with farmers (generally) in a much stronger position than was the case before the development of the M4C programme. The sister paper to this finds that the M4C interventions have reduced the vulnerability of *Char* communities by increasing their knowledge and so broadening their range of economic options. This paper finds that the interventions have also significantly improved the ability of *Char* farmers to interact proactively with those with whom they come into contact. They are no longer passive victims of events, or recipients of aid, but have real agency in what they do.

Hitherto, the primary focus of development actors has been on areas of programming such as education, healthcare provision, or even asset-transfer as a means of reducing extreme poverty. This study finds that private sector avenues are the most effective way of creating lasting change in focal communities. The study demonstrates clearly that a market-systems intervention – M4C – has brought about fundamental changes in the political power structures of the communities in which it is working. Therefore, it appears that the best way into topics like governance, healthcare, education and so on is through a market-system point of access since this throws up highly specific issues that demonstrably need to be addressed, not hypothetical ones



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