
THE OPERATIONAL GUIDE FOR THE MAKING MARKETS WORK FOR THE POOR (M4P) APPROACH

Second Edition

FOREWORD

In 2008, the Swiss Agency for Development and Cooperation (SDC) and the UK Department for International Development (DFID) commissioned three documents aimed at improving understanding and take up of the *Making Markets Work for the Poor* (M4P) approach. Targeted at a diverse audience of development organisations, policy-makers and practitioners, these documents (*M4P Synthesis*, *M4P Perspectives* and *M4P Operational Guide*) remain foundational references for market systems development.

Since then, the market systems development field has witnessed significant growth in interest and application:

More discourse: the market systems development approach has become more prominent across the development field as a whole, as the relevance of its objectives, principles and guidance has been recognised.

More organisations: the development community is increasingly reflecting market systems development in its policies, strategies and programming. A range of donor agencies, private foundations and non-government organisations are being guided by its frameworks and are investing in learning.

More resources and activity: the number of market systems development initiatives has expanded considerably.

More sectors: beyond its initial emergence from 'economic' sectors (business services, agriculture, finance), there is growing momentum of application in 'social' sectors (health, education, water, infrastructure).

More evidence: there is a deepening body of knowledge, in the form of implementation experience, case examples, research, and programme measurement, to guide practice.

Progress in the advancement of market systems development has been substantial but this progress has not been without challenges. The market systems development approach questions much conventional thinking about how to assist the poor and disadvantaged. So, a shift in skill sets and sometimes even in mindsets is required.

WHY THE NEED FOR AN UPDATED OPERATIONAL GUIDE?

Market systems development remains a work in progress. It has enormous potential to increase the sustainability and impact of development intervention but it requires that practitioners and policy-makers continue to learn from and build upon lessons learned to date. It requires ambition and advocacy that the development field can 'do better': in the words of the Guide, go beyond simply '*putting out fires*', over and over again.

The catalytic role played by the three 'M4P documents' in creating interest in market systems development and, importantly, enhancing practice on the ground has been considerable. Invaluable practitioner experience has since emerged from the field. Six years on, it is imperative that this experience is reflected in the frameworks and guidance that support new and ongoing market systems initiatives.

This is the reason for updating the M4P Operational Guide: to ensure that the wealth of experience in market systems development is captured and made available to development practitioners. In particular, the updated Guide seeks to:

Reaffirm the system change message: the central message of the approach remains valid and powerful. System change is the essence of large-scale and lasting development. It enables agencies to 'do better', to achieve more and longer lasting impact with their resources. The Guide will help decision-makers and practitioners articulate and communicate that message.

Capture diversity of application: market systems development offers a pragmatic, non-doctrinaire approach to understanding and intervening in any 'multi-player, multi-function' system. Its use is therefore increasing in many different development fields which face the challenge of making systems work better for the poor and disadvantaged. The Guide provides a platform for capturing and interpreting this diverse experience, but reinforces at the same time the key frameworks of the market systems development approach.

Offer learning in support of improved practice: the effectiveness of the market systems development approach lies in the capacity of those who implement it. The Guide contributes directly to capacity building.

The development of this Guide was led by a team from *The Springfield Centre for Business in Development*. Feedback and advice on drafts was gratefully received from Goetz Ebbecke, Mike Field, Julian Hamilton-Peach, Peter Roggekamp, and staff and advisers of SDC, DFID and CGAP. The Guide has been funded by SDC and DFID and produced with the support of the BEAM (Building Effective and Accessible Markets) Exchange.

We are looking forward to a journey of continued learning and improved capacities. But we are looking even further forward to see the market systems development approach successfully applied in ever more contexts, delivering on the promise of making market systems more efficient and inclusive for large numbers of the poor and disadvantaged.

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INTRODUCTION

WHAT IS THE AIM OF THE GUIDE?

The Guide aims to provide an accessible operational resource to help practitioners put the market systems development approach into practice. It explains the key principles and frameworks which guide the process of effective intervention in – and development of – market systems, addressing common challenges with examples of good practice based on practitioner experience.

WHO IS IT FOR?

The Guide is intended for people whose job entails trying to make market systems work better for poor women and men:

- Individuals involved in funding or implementing (ie ‘facilitators’) the market systems development approach, and those advising them
- Organisations that wish to incorporate market systems development thinking and practice into existing or new work
- National organisations with the potential to play a more strategic role within market systems (eg government agencies, industry associations, etc)

It is relevant to market systems development initiatives taking a variety of forms:

- Specifically-commissioned initiatives, using external and temporary resources (ie programmes) funded by international agencies contracted to implementing organisations (eg consulting firms, non-governmental organisations). Programmes might be ‘closed’, where the funder defines the programme’s focus on a single market system at the commissioning stage (eg the system for insecticide-treated mosquito nets in Country X); or ‘open’, where they focus on a portfolio of market systems, identified during implementation (eg rural markets in Country Y)
- Initiatives funded and implemented by organisations that have their own funding sources, such as private foundations, trusts and non-governmental organisations. These initiatives might secure additional funding from a variety of other funders

Throughout the Guide, the term ‘you’ is used to address the reader. Typically this refers to practitioners involved in managing or implementing market systems development initiatives. Specific audience focus is indicated where appropriate.

HOW SHOULD IT BE USED?

The Guide explores, sequentially, the key elements of the implementation process: strategy, diagnosis, vision, intervention, measurement and management. It is not intended to be read from cover to cover; readers can go directly to the chapter most relevant to their needs without having read preceding chapters. However each chapter does build upon the preceding one and may refer to other chapters.

UTILISING APPROPRIATE TECHNIQUES AND TOOLS

Whilst the Guide provides the overarching principles and frameworks needed to implement the market systems development approach effectively, practitioners will need to draw upon a range of appropriate techniques and tools when putting this into practice. The Guide does not seek to prescribe nor limit the specific methodologies suited to specific contexts, programmes or practitioners.

Readers are encouraged to make informed use of the growing body of resources and tools, many accessible on-line, detailing good practice derived from practitioner experience.

THE GUIDE IS STRUCTURED AS FOLLOWS:

INTRODUCTION	Overview of the objectives, structure and format of the Guide
CONTEXT	A reminder of what market systems development means
1. STRATEGY	Core principles and framework for setting programme strategy
2. DIAGNOSIS	Core principles and framework for diagnosing system constraints
3. VISION	Core principles and frameworks for defining and planning intervention
4. INTERVENTION	Core principles and framework to guide effective intervention
5. MEASUREMENT	Core principles and framework for measuring results
6. MANAGEMENT	Key considerations in managing market systems development programmes
GLOSSARY	Definition of key terms used in market systems development

INFORMATION IS PRESENTED IN THE FOLLOWING WAYS:

Main text: introduces key principles and frameworks, explains how to put them into practice, identifies common intervention challenges and explains how to deal with them.

Reality Check

Elaborates key points from the main text and the practical implications these may have.

Example

Real (anonymous) examples from the field that illustrate practices described in the main text.

Definition: Essential terminology is defined in the main text and also appears in the Glossary.

A NOTE OF CAUTION

The Guide is not a step-by-step manual. It provides guidance but recognises that market systems development cannot be reduced to a blueprint. Intervention in complex market systems is not about thoughtlessly following checklists or formulae: flexibility and creativity are essential. However successful interventions are not defined and delivered in an *ad hoc* manner; they are underpinned by rigorous analysis and guided by clear strategy and principles of good practice.

CONTEXT

WHY ARE MARKET SYSTEMS IMPORTANT TO THE POOR?

The purpose of this chapter is to briefly remind readers of the rationale for the market systems development approach. A fuller explanation can be found in the *M4P Synthesis* paper (the 'Blue Book').

The rationale for developing market systems stems from an appreciation of their importance in reducing poverty.

Economic growth (the main contributor to poverty reduction) and expanded access to basic services are critical in developing competitive and inclusive economies. These, in turn, require:

- Systems for the exchange of goods, services and commodities that operate efficiently for everyone but especially the poor as consumers, producers or employees
- Systems for the delivery of basic services, such as education, health and water, that can build people's capacities to escape poverty

The 'systems' for economic exchange and basic service delivery have traditionally been regarded as very different, yet both are multi-functional; they require a mixture of different functions to be undertaken such as regulation, information and delivery. Both are multi-player; they require a range of public and private players. In both, appropriate incentives and capacities are central to efficient and more inclusive systems.

The term 'market system' describes these shared features and provides a common lens through which both can be viewed.

A **market system** is a multi-function, multi-player arrangement comprising the core function of exchange by which goods and services are delivered and the supporting functions and rules which are performed and shaped by a variety of market players.

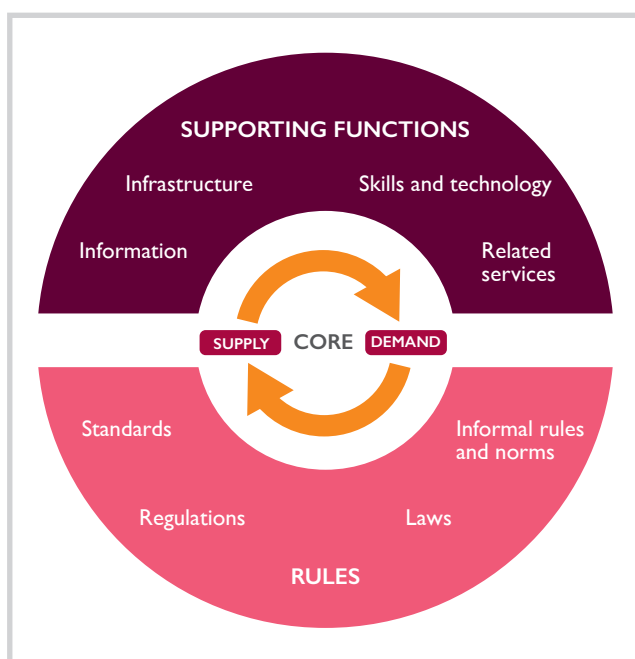


Figure 1: The market system

WHAT IS 'MARKET SYSTEMS DEVELOPMENT'?

Improving the lives of the poor – stimulating growth and expanding access – means transforming the systems around them. Market systems development recognises this reality and provides a coherent, rigorous approach to understanding and intervening in market systems so that they function more efficiently and sustainably for poor women and men.

Market system change is a change in the way core functions, supporting functions and rules perform that ultimately improves the poor's terms of participation within the market system.

Applicable to agencies working in both economic and social fields, the approach provides guidance not only on understanding the poor in market systems (analysis) but on how to bring about effective change (action). Analysis should identify the underlying causes (rather than symptoms) of weak market system performance in order to realise large-scale change. Intervention should continually strive to leverage the actions of key market players to bring about extensive and deep-seated system change.

Sustainability is a prime concern of market systems development. This means considering not just the existing alignment of key market functions and players but how they can work more efficiently and inclusively in the future, based on the incentives and capacities of market players.

The approach focuses on stimulating a change in behaviour of market players – public and private, formal and informal – so that they are better able and motivated to perform important market functions effectively.

Sustainability is the capability of market systems to respond to changes and provide a means by which poor women and men can continue to derive social and economic benefits, beyond the period of intervention.

Market systems development requires that agencies play a facilitating role. As *external* agents they seek to catalyse others *within* the market system (while not becoming part of it themselves). Facilitation is inherently a temporary role.

Facilitation refers to the temporary actions of a facilitator to bring about system-level changes and develop market systems for the benefit of the poor.

MARKET SYSTEMS DEVELOPMENT AND WIDER DEVELOPMENT CONCERNS

The market systems development approach provides the scope and flexibility to ensure development programmes address some of the more pervasive challenges faced by development practitioners.

The potential of the approach to address these challenges is explored in the *M4P Perspectives* paper (the 'Green Book'). The key lies in using its principles and frameworks to understand the underlying causes of these challenges ('why?'), to identify the system-level changes required to address them ('what?'), and to guide interventions that can bring about sustainable change ('how?').

Political economy and power is a central consideration in market systems analysis and intervention. Effective facilitation requires detailed understanding of political economy factors at both macro (sector) and micro (market player) levels; it is essential to understand the formal and informal operations of market systems, why market players act as they do and the incentives they have to change or resist change.

Gender inequality is one of the most inhibitive barriers to reducing poverty. Understanding how and why market systems serve women and men differently is a part of rigorous market systems analysis, informing the ability of programmes and their market partners to work towards a sustainable vision of systems that work better for women and not just men.

Climate change has been termed the “greatest and widest-ranging market failure ever seen” (Stern Review on the Economics of Climate Change, 2006). A credible response

demands a system-wide approach at global and national levels involving both public and private stakeholders. Understanding why the system is failing requires understanding the different incentives of those involved, and building the capacity within the system to mitigate the effects of climate change and come up with workable technical and policy alternatives.

Reaching conflict-affected and fragile areas and the most vulnerable. The market systems development approach is about working in weak socio-economic systems to improve the position of the disadvantaged within them. The approach recognises that weakness is not a binary state, but a dynamic spectrum, which cannot be addressed with fixed solutions. In the most extreme cases emergency relief is required to save lives. However, emergency relief can only ever be a short term solution. Long term solutions mean improving systems that can reduce vulnerability, be they economic or social, such as effective social safety net systems or systems for migration.

What is a systems development approach, and what isn't? – an analogy

A systemic approach helps us to see events and patterns in a new way, and respond to them differently, to bring about lasting and large-scale change. To take a simple, non-aid example:

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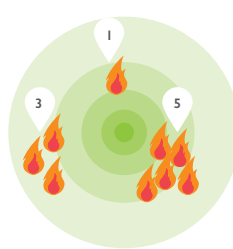


Symptoms...

Suppose a fire breaks out in your town. This is an event.

If you respond to that event by putting the fire out, you're reacting. You have done nothing to prevent new fires. You're only dealing with the symptom of the problem.

2



Patterns...

If you respond by putting out the fire and then study where fires tend to break out in your town, you're paying attention to patterns.

You might observe that certain neighbourhoods seem to suffer more fires than others.

If you locate more fire stations or fire engines in those areas, you're adapting. But have you done anything to prevent new fires? No, you're just dealing with fires more efficiently. You're still dealing with the symptom of the problem.

3



Root causes...

How might you address the underlying causes of the problem?

Suppose that you try to understand these patterns more closely: why are the fires breaking out? Now you're thinking about systems: what influences the patterns of neighbourhood fire outbreaks?

This might lead you to look at:

- The availability and use of smoke detectors, fire alarms and extinguishers in local shops
- Levels of education and information about fire prevention and safety in the neighbourhood, provided by schools or residents' associations
- The suitability and enforcement of building codes and fire regulations by government
- The availability and use of fire-resistant materials, and better building practices, in the commercial construction industry

Thinking about 'systems' means focusing on the underlying reasons why fires happen (the root causes) and what might need to change in the system to stop this from happening so frequently. The problem is that development agencies often keep putting fires out, rather than preventing them from happening in the first place. A systemic approach tries to avoid this.

Thinking and acting systemically places a set of different demands on us, for instance, our objectives and what we want to leave behind, our analysis, our actions, and what we measure. A market systems development approach is about... **how not to be a firefighter!**

STRATEGY

IS YOUR PROGRAMME FOCUSED ON PRO-POOR SYSTEM CHANGE?

01

1.1 KEY PRINCIPLES AND STEPS

“The secret of success is constancy to purpose” Benjamin Disraeli

“Because the problem of poor business environments is systemic, genuine solutions must also be systemic” Scott Jacobs

Market systems development is an approach that aims to improve the long-term efficiency and inclusiveness of the systems that matter most to poor women and men: those systems upon which their livelihoods rely and those that provide access to basic services. Programme strategy needs to be consistent with this aim.

Funders and implementers can achieve this consistency by setting out a strategic framework to guide programme analysis, action and measurement. This should explain how intervention will bring about changes in market systems, which result in improvements in the poor’s performance in markets or their access to basic services, and consequently contribute to a reduction in the poverty they face. This is the programme’s theory of change.

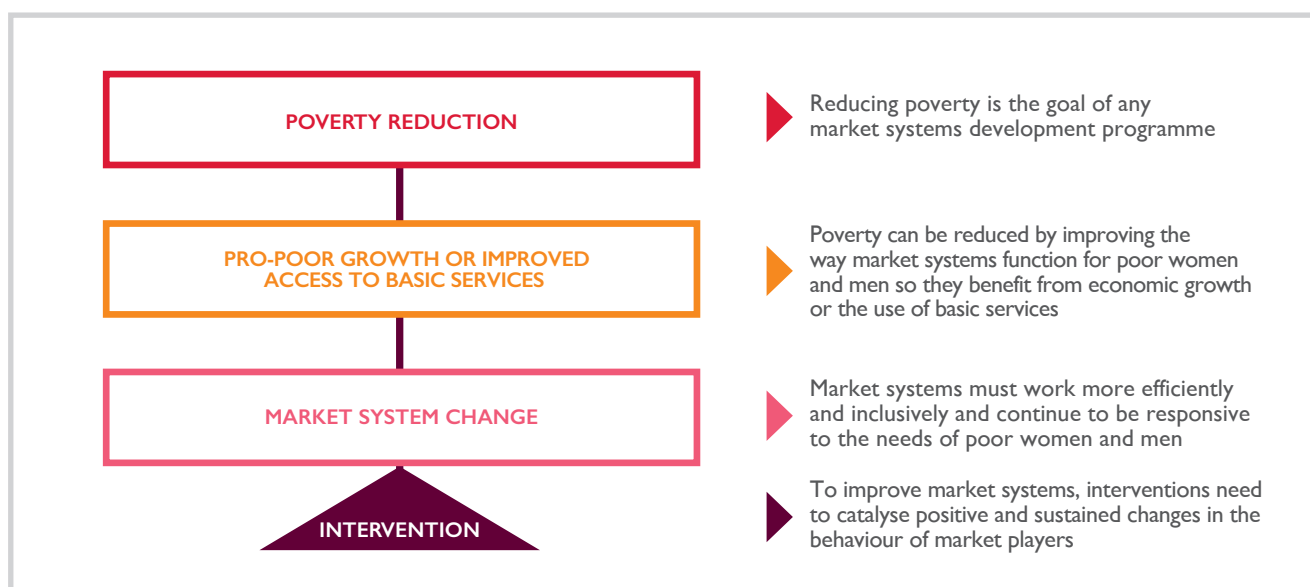


Figure 2: Strategic framework for market systems development

The strategic framework guides programmes to select and analyse market systems where: (a) there is potential to reach significant numbers of poor women and men, i.e. the target group, (b) there are prospects for significant change that can benefit poor people, and (c) inducing positive, lasting changes in systems appears feasible. Outlining the programme’s strategic framework entails four initial steps:

- Step 1: Define the poverty reduction objective:** The social and economic profile of the target group and anticipated poverty reduction impact on that target group
- Step 2: Identify opportunities to benefit the target group:** To improve the target group’s performance in growing markets or their use of basic services, which can contribute to reduced poverty
- Step 3: Assess the feasibility of inducing system-level change:** A context conducive to intervention, as well as funding and implementing agency readiness to implement a market systems development programme
- Step 4: Establish the programme’s main parameters, seek funding approval, and guide a detailed design process**

For funders, these steps will be sufficient to establish the main parameters of the programme, seek funding approval, and begin a more detailed design process. However, these steps are not sufficient to inform the programme’s vision for change in selected market systems, nor interventions and their measurement. For this, the strategic framework needs detailed elaboration based on a comprehensive understanding of how the poverty of the target group manifests itself in selected market systems, the constraints that restrict pro-poor outcomes, and the political economy of change. This guidance is presented in Chapter 2, Diagnosis and Chapter 3, Vision.

1.2 ESSENTIALS OF SCOPING, APPROVAL AND COMMISSIONING

Funders face a challenge when scoping and preparing a new programme. Some decisions need to be made before a programme can be approved and commissioned (ie contracted to an implementing agency), but deciding exactly where and how to intervene requires in-depth analysis of the root causes, rather than symptoms, of a market system's underperformance, as explained in Chapter 2.

If you are responsible for scoping and preparing a new programme for approval and commissioning you will need to answer three **key questions**:

What information is needed, and how much analysis is required to generate this information?

This depends on your agency's procurement procedures and on the proposed scope of the programme (will it focus on a single, well-understood market system or multiple, complex systems?).

How much detail actually can, and should, be decided before implementers start work?

This depends on:

- When you know enough to be able to define your programme's key parameters; eg objectives and level of funding
- The risk that initial decisions to fix certain details will restrict the flexibility of programme staff to respond to lessons learned and changes in context during implementation

Who should undertake the analysis, and when?

There are three options:

- The funder conducts analysis and designs the programme in detail, before contracting an implementing agency
- The funder hires specialists to conduct analysis and support the funder to design the programme in detail, before contracting an implementing agency
- The funder awards a 'design-and-implement' contract to an implementing agency, who then helps the funder to develop a detailed programme design, based on comprehensive analysis

There are three important lessons from experience:

- Funders rarely have the time or staff to develop a comprehensive programme strategy or set accurate targets based on the kind of detailed market systems analysis outlined in Chapters 2 and 3
- Even if funders are able to plan in detail (eg using specialist designers) there is a risk that information is outdated by the time the implementation contract is awarded. Undertaking comprehensive analysis before implementation often results in the analysis being done twice. This wastes time and money
- Implementers always need to do their own analysis: they require up-to-date information to intervene effectively and their ownership of analysis and resultant programme strategy is vital

Reality Check

The greater the level of detail required for funder procurement needs, the greater the depth of analysis required before the programme begins. Funders must be mindful of designing programmes on the basis of insufficient analysis, and implementers equally mindful of accepting detailed programme designs not based on credible analysis.

For funders, unless comprehensive analysis has been conducted, detailed programme design can give you an illusory sense of precision and certainty. You should be realistic from the start about how much analysis you can do. Don't aim for detail in the first place if sufficient analysis isn't possible.

Experience is leading many funders to limit their role in programme design to a few well-researched key decisions. This means defining the programme's poverty reduction objective, its scope (which geographic areas, groups, or types of market systems to prioritise) and its indicative budget. Contractors then bid to design and implement the programme.

During the first six to twelve months the implementer selects specific market systems, analyses them in detail, determines more specific objectives and targets, and plans how to allocate its budget and set up the systems it needs for implementation.

This design-and-implement model is suitable when funders intend to work in multiple market systems or are unable to conduct thorough analysis before commissioning a programme. If this type of model is pursued, regular dialogue between funder and implementer is vital.

If funders intend to focus on a single, well-understood market, it is possible to design a programme with detailed targets and interventions, although there are risks in doing so, as discussed above.

Implementers must check carefully the information on which programme design was based. At the outset, verify that objectives are realistic and, where necessary, refine them based on changes in context and understanding.

Example 1: Clarity of objective

In West Africa an agriculture sector-focused programme was commissioned to increase incomes for poor people, 50% of whom should be women. During its detailed design phase the implementer found that women's involvement in agriculture was less than 15%. The programme and funder were forced to adjust targets to a lower, more realistic range and broaden the programme's scope beyond agricultural sectors, in order to have prospects of substantial impact on women.

The guidance which follows is therefore directed at funders who are scoping and preparing a new programme to establish its key parameters, and at implementers who are elaborating their strategic framework in more detail.

1.3 PUTTING IT INTO PRACTICE

To set the strategic framework, start at the top, and follow these four steps.

Step 1: Define the poverty reduction objective

To define your programme's poverty reduction objective you need to consider the potential for reaching large numbers of poor women and men, specify your target group and identify how your programme might impact on their poverty.

The 'poor' are not homogeneous. They are disadvantaged in different ways, according to their gender, ethnicity, age, physical capacity, geographic location or degree of poverty. For instance, women may face discrimination based on their gender. Some programmes therefore target women or girls

specifically. Nevertheless, you should identify gender-specific factors that might prevent poor women from benefiting from your programme wherever feasible.

For your targeting to be useful you need to go beyond generic terms like 'the poor'. You must specify groups that are sufficiently identifiable for expected impacts to be measured, but also large enough to constitute significant impact for the funding agency.

You should define a basic social and economic profile of the target group, by answering the following **key questions**:

What is the poverty status of the group of poor women and/or men that is being targeted?

Eg the middle three income quintiles, or those seasonally poor due to flooding.

Are the target group producers, workers or consumers?

Eg producers (smallholder farmers with X hectares / head of livestock), employees (unskilled and semi-skilled urban workers), consumers (pregnant and nursing mothers and infants).

How will you reduce the target group's poverty?

Eg raising income or reducing mortality.

Funders should establish the poverty reduction objective in line with their country-specific priorities and 'local' needs. The objective is likely to be shaped by a combination of:

- Geographic focus, eg a region or community
- Target group focus, eg agricultural producers, industrial workers or consumers of health services
- Sector focus, eg agriculture or primary education
- Product focus, eg a specific type of good or service such as mosquito nets or financial services

Reality check: The importance of a clear objective

Programmes should have a single, clearly defined poverty objective. Multiple poverty objectives (eg increased income and reduced environmental degradation) dilute focus and create practical consequences that tend to make programmes less effective:

- Multiple objectives translate into multiple 'theories of change' and a diverse range of interventions
- Significant additional analysis is required
- Broader skills sets are needed within programme teams
- Staff and partners can be confused about the programme's focus or priorities
- Management, measurement and communication all become more complicated

Step 2: Identify opportunities to benefit the target group

Once your poverty reduction objective is defined, identify opportunities to reduce the poverty of your target group.

Opportunities will be specific to the context of each programme and its poverty reduction objective, but they can usually be categorised as improving the poor's performance in markets so they can benefit from growth (ie economic), or improving their access to the basic services they need (ie social).

To identify poverty-reducing opportunities, answer this **key question**:

Where is the greatest potential for benefiting poor women and men?

Identify the market systems that are most important to the target group's economic livelihoods or basic needs, and where the prospects are greatest for reducing poverty (eg raising their profits or productivity as *producers* in the poultry market, or improving their terms of employment as *workers* in the construction industry, or increasing their use of appropriate rural antenatal services as *consumers*).

It is important to check that your target group has the potential to benefit from more efficient and inclusive market systems, and that projected outreach is sufficiently high to justify an intervention.

Example 2: Assessing potential to benefit the poor

A horticulture programme in Central Asia focused on improving the poor's participation in soft fruit (strawberry) markets, particularly women in settlements for Internally Displaced Persons. A review after one year of pilot activity recommended closure of the (USD 1m) intervention, having found that fewer than ten households had directly benefited and that outreach was unlikely to exceed 90 households. Initial scoping had focused on identifying a target group, but estimates of outreach were not based on a realistic assessment of growth potential.

Funders should research such opportunities to the extent that the poverty reduction objective for the target group is linked to the way in which poverty is expected to be reduced. This research needs to be sufficiently accurate to allow realistic targets to be set.

Step 3: Assess the feasibility of stimulating system-level change

Once you have found potential for substantial pro-poor benefit, you should assess if it is feasible to achieve lasting change within the life of a typical programme, ie three to five years.

Your assessment should take into account the likelihood of achieving change within the social and political context as well as the capability of the funding and intervening agencies. It is not a detailed analysis of a specific market system.

This assessment should cover three **key questions**:

What is the likelihood of achieving pro-poor system change?

Look for evidence that the pro-poor change in the market system(s) identified in **Step 2** is likely to be feasible (see also Chapter 3).

For change to be sustainable, it must be led by market players, so it is important to assess which market players have incentives to support or to block change.

Look for momentum, ie changes in or around the market system that might lead to further, positive change. For instance, policy reforms, institutional or technological innovations, a critical incident, shifts in alliances between key players, new investors or entrants.

Example 3: Assessing intervention (in)feasibility

A West African cassava market was widely believed to offer potential for thousands of smallholders. It is an easily grown crop and a key contributor to national food security. After closer examination, a programme found the market structure to be highly localised for 'fresh', 'fermented' and 'pounded' cassava (eg short supply chains, few intermediaries, few players of any scale). Other processing opportunities (eg cassava flour) were not supported by policies and few bread or biscuit products were consumed locally. Given the number of smallholders engaged, government and numerous development agencies were already active in the market with a range of potentially distortive initiatives (eg free processing machinery, direct extension services). The programme concluded that there was limited scope to intervene systemically at that time and chose to focus on other market systems instead.

The roles that poor women and men play in market systems, the risks they take and the rewards they gain are all influenced by the distribution of power and resources between different groups and individuals. Understanding this political economy is vital if you want to understand your target group's situation and the opportunities to improve it.

Example 4: Establishing a conducive operating environment

In South Asia, a programme set out to scope opportunities to increase the use of mechanisation in remote areas. The programme entered into the consultation process for the country's new Agricultural Development and Agricultural Mechanisation Strategies. Engagement at policy level prior to market system selection sought to encourage future government policies compatible with market systems development interventions.

Is the funder in a position to commission and oversee a market systems development initiative?

A programme is partly shaped by the agenda of its funders, the resources they make available and how appropriately they commission and oversee the programme. If you are a funder, four factors can help you or hold you back:

- *The decision-making environment:* your agency's attitudes, expectations and behaviour must be supportive of a market systems development approach and, in particular, a genuine commitment to sustainability
- *Management systems:* your agency's procurement, oversight and administrative systems must be flexible enough to allow a programme to be responsive to the dynamism of market systems
- *Budget:* sufficient funds are needed for implementation, although excessive funding can create distortionary pressure to spend. The level of flexibility about how funds are allocated over time is more important, if programmes are to be responsive
- *Coherence:* the programme's strategy should not conflict with other programmes in your agency's country portfolio, to reduce the risks of distortion or duplicated effort

You might not be able to alter these four conditions radically, but by identifying them in advance, you can at least try to find ways around them if they are a problem.

Reality check: Signs that funder procedures may not be fit for purpose

Adopting the market systems development approach can challenge the procedural norms of many funders. Signs that a funder may not yet be 'ready' to commission a market system development project include:

- Inherently hierarchical/micro-level decision making
- Activity-level accountability requirements
- Headline target-setting without sufficient analysis
- Multiple initiatives seeking to address diverse and/or conflicting objectives under a single programme vehicle

Does the implementing agency have the capability to pursue the market systems development approach?

Experience indicates that the capabilities of implementing agencies (ie their ethos, experience, staff capacity, management and learning environment) are as important, if not more so, than the specifics of design. These factors are explored in Chapter 6.

The questions raised in **Steps 1-3** provide the basic considerations for selecting specific market systems, which can then be analysed in more depth to determine where the programme might intervene (see Figure 3).

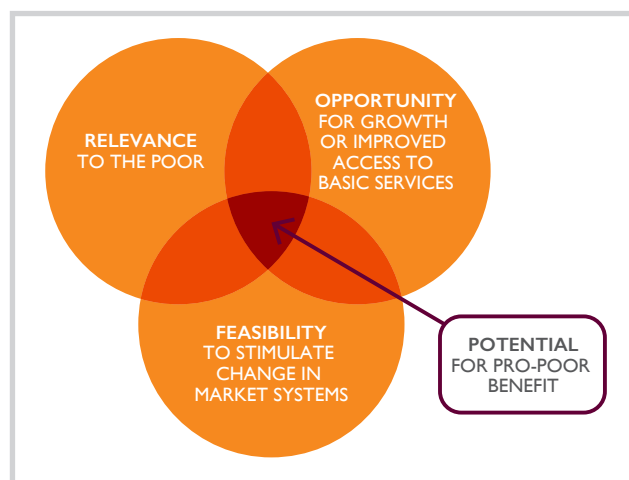


Figure 3: The basis for market system selection

The application of these basic considerations for selecting market systems is discussed further in section 1.4.

Reality check: Applying selection basics with parity and rigour

Relevance, opportunity and feasibility considerations are of equal importance, although they have been presented as sequential steps. You often start by defining your target group because that is a funder's priority, but it is essential to explore opportunities and feasibility at the same time. If you don't, there is a risk that you define a large target group, but without a realistic prospect of impact. In practice, pragmatically assessing opportunities and feasibility helps you define your target group more tightly.

Step 4: Establish the programme's main parameters, seek funding approval, and guide a detailed design process

Steps 1-3 define the programme's poverty reduction objective, identify opportunities to improve the poor's performance in growing markets or their access to basic services, and assess (broadly) the feasibility of stimulating system-level change.

For funders, these steps will be sufficient to establish the main parameters of the programme so that funding approval can be sought and a more detailed design process started. However, these steps are not sufficient to inform the programme's vision for change in selected market systems, or to determine the nature of its interventions or provide a basis for detailed measurement.

Setting indicators and targets for poverty reduction and improved growth or access

At this stage you can define your programme's indicators and targets for poverty reduction: what kind of impact the programme is aiming for; how much, and for how many beneficiaries. You should also be able to set indicators for changes in the poor's performance in growing markets or their

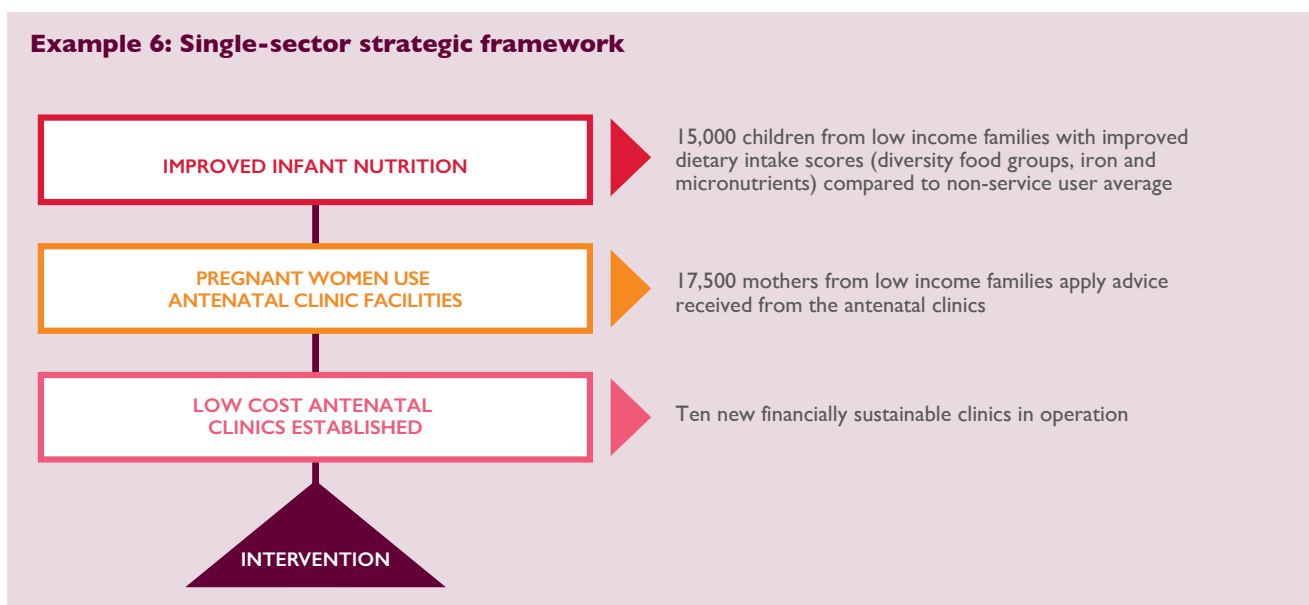
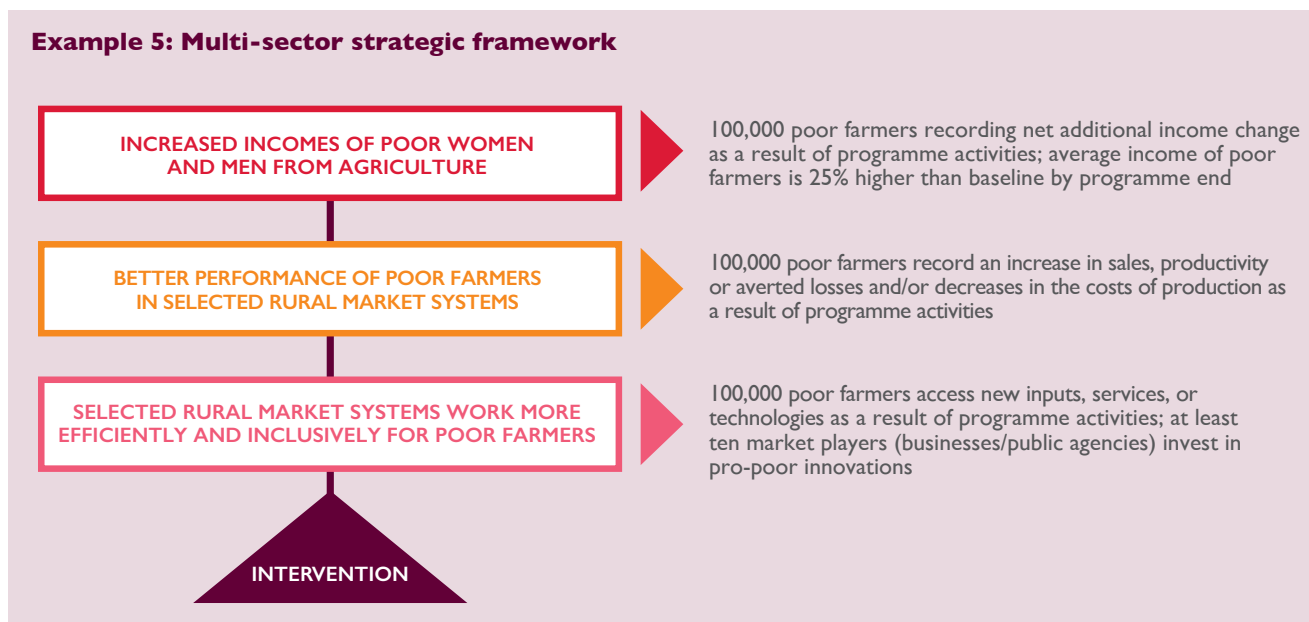
access to basic services. Realistic targets can be set as well, so long as accurate information has been gathered.

It is important that assumptions and evidence for these high-level targets are established clearly, so that both funders and implementers have confidence in the programme's basic parameters.

As already noted, identifying system-level constraints and changes, and defining their associated indicators and targets, requires in-depth analysis, as described in Chapters 2 and 3. This level of analysis is usually not possible before the programme is commissioned.

Indicators and targets for changes at the market system level should therefore not be too specific at the start of your programme, unless a particular market system has already been selected and researched to the point that specific system-level changes have been identified.

These indicators and targets can be made more precise as your programme's understanding of market systems grows. Realistic objectives and targets can only be set once sufficient analysis has been completed:



- Funders must consider at what point in the commissioning process sufficient analysis has been completed to warrant detailed objective and target setting, and at what 'level' of the strategic framework
- Implementers must assess the rigour of analysis underpinning any objectives and targets they are provided and not just passively accept them to win a contract. This is particularly important before the programme's 'logframe' is finalised as this can be difficult to re-negotiate

You should avoid trying to elaborate the strategic framework any further unless you have been able to select a specific market system(s) and analyse it to the extent that you can answer two **key questions**:

Why is the market system not working efficiently for poor women and men?

In what way does the market system need to change in order to serve the poor better?

Unless you have identified system-level constraints and their potential solutions you will not be able to define your strategy for stimulating change, in terms of more detailed intervention design and measurement.

Unrealistic targets can pressurise a programme into taking the wrong actions or intervening intensively to 'buy' quick results at the expense of impact that is sustainable in the longer term.

1.4 TOOLS AND SOURCES OF INFORMATION

Defining the poverty reduction objective

This assessment usually draws on secondary data sources, reinforced by some primary research, using a range of standard poverty assessment tools, including:

- Census data
- Poverty assessments
- Livelihoods analysis
- Socio-economic studies
- Gender analysis

Identifying the opportunity for pro-poor impact

To identify opportunities to increase the poor's performance in growing markets or their access to basic services, you usually use a range of secondary sources of data, verified by primary research, including:

- National or regional development plans and investment strategies
- Market profiles and economic forecasts
- Growth diagnostics and competitiveness analysis
- Consumer research
- Public services assessments

Assessing the feasibility of system-level change

To judge whether pro-poor change is likely to be feasible, you should analyse the local context carefully. Tools used for political economy analysis, such as 'Drivers of Change', can be useful. So can organisation-level focused diagnostic tools, as used in change management processes.

Sources of information can include studies by research organisations and think tanks, information from coordinating and representative bodies, as well as routine assessments by organisations such as the OECD, EIU or World Bank.

Criteria for selecting market systems

You need a basis for choosing market systems and prioritising which one(s) to investigate in more depth, to determine where you will intervene. This is the case whether your programme intends to focus on one market system or several.

Setting and applying selection criteria makes your decision-making more transparent and aids constructive dialogue between funder and implementer on why decisions have been made. It can be helpful if the funder and implementer determine these criteria collaboratively.

Each market system you consider should be assessed for its relative potential to: (a) affect large numbers of poor people, (b) increase the poor's performance in markets that are growing or their access to basic services, and (c) stimulate system-level changes. As noted above, these basic considerations are of equal importance. It is essential to explore opportunities and feasibility at the same time as defining your target group.

These basics can be turned into a more detailed table of questions, which can be used to assess individual market systems or to compare different market systems, using transparent ranking, such as a 'traffic light' scheme (see Figure 4, overleaf).

The selection criteria you establish should also reflect any broader considerations that the funding organisation might have. For instance, funders often give programmes a cross-cutting objective such as promoting gender equity, in addition to a primary objective (eg reducing income poverty). Make cross-cutting objectives part of your selection criteria. If you want to achieve these objectives, you must select market systems which have the potential to contribute significantly to them.

Example 7: Conflict or stability-related selection criteria

Cross-cutting objective: likelihood of creating or exacerbating socio-economic tensions. Criteria might include:

- Will any specific 'constituency' of people be excluded from entrance or meaningful participation?
- Will growth create disproportionate socio-economic benefits for any one specific constituency of people?
- Will growth create or exacerbate 'pressure points' (eg increased reliance on natural resources, transport hubs, crowded market places, etc)?

Cross-cutting objective: potential to promote stability. Criteria might include:

- Are there socio-economic opportunities for unemployed, disenfranchised youth or other excluded groups?
- Do opportunities exist for economic cooperation and building trust between these groups and the more advantaged (eg trading, joint production, investment, business partnerships)?
- Are there opportunities to reinforce institutions that provide stabilising effects or enhance rule of law?

POTENTIAL CRITERIA		TRAFFIC LIGHT		
		High	Med	Low
RELEVANCE	Number of poor women/men with potential to be active in the market system			
	Scope for poor women/men to improve their incomes or access basic services			
	Ability to address vulnerability and/or disadvantage			
OPPORTUNITY	Economic and/or social value of the market system			
	Previous and forecast growth of market or access trajectory of service			
	Likelihood of economic growth/service access being genuinely pro-poor			
	Apparent dynamism/robustness of the market system			
	Prospects for attracting public and/or private sector investment			
FEASIBILITY	Availability of market player 'drivers' with leverage			
	Prospects for attracting more players or services			
	Conduciveness of political economy (eg absence of conflicts, barriers to reform etc)			
	Willingness of market players to change business model/adopt new practice			
	Likelihood of distortion/inability to apply market system development principles			

Figure 4: Market system comparison and selection

Example 8: Gender-related selection criteria

Cross-cutting objective: return on women's labour. Criteria might include:

- Can greater efficiency be achieved in production and/or marketing to allow women to earn more income with less labour?
- What is the labour time 'saving' and how is it redeployed (eg on next best economic activities or activities of a social nature)?

1.5 "DON'T MAKE THE SAME MISTAKES I DID..."

Begin dialogue at the start

Stimulating change in market systems is complex and unpredictable. Check the information and assumptions upon which your programme was designed, and upon which its indicators and targets are based. If the evidence base for these appears unclear or unrealistic, the funder and the implementer need to discuss the problem as soon as possible.

Too frequently, implementers, as early as the bidding process, accept objectives that are contradictory or unlikely to be feasible. Instead, ensure you make a first feasibility assessment as soon as possible, and then make space throughout the programme's life for the review and adjustment of targets and objectives, as new evidence emerges.

Be alert to conflicting initiatives

Check for other initiatives with conflicting objectives and approaches that operate – or have operated – in the same market system or geographic area as your programme.

You will find it hard to alter how market players perceive and respond to a new market systems programme if other established initiatives have eroded players' incentives to adjust their behaviour and invest in change.

If you spot potential conflicts, first try to engage with those responsible for conflicting initiatives, to avoid the potential clash of approaches. If that fails, you may need to adjust the geographic location or market systems in which your programme is looking to intervene.

Build an appropriate partnership with government

Market systems development programmes often engage with government in two distinct ways; as a market player but also as an implementing partner.

Government is a key player in most market systems whether as regulator and policy-maker or provider of supporting functions (eg research, information, infrastructure etc). The nature of engagement and/or partnership with government, as with any market player, should be defined by your analysis and their envisaged role in market system change.

Consequently it is neither easy nor always advisable for a market systems development programme to be located close to or within government. Nevertheless, for political or diplomatic reasons, formal affiliation with a government partner may be an obligation for some programmes. Affiliation may be beneficial where the government partner's own

mandate is of a cross-cutting or coordinating nature (eg a national planning agency). A sector-specific mandate, on the other hand, can restrict a programme's ability to explore wider intervention opportunities. For instance, it may prove problematic for a programme affiliated with a Ministry of Agriculture to operate in the financial services sector that falls under the purview of the Ministry of Finance despite the fact that finance is determined as a constraint.

In building an appropriate partnership with government consider the following: (a) your need to maintain the independence of your analysis and operational flexibility to work beyond the narrow mandate of individual ministries/ departments and to access and lever key contacts and relationships across government, and (b) your relationships (and credibility) with key non-government market players.

2.1 KEY PRINCIPLES AND STEPS

“We often preoccupy ourselves with the symptoms, whereas if we went to the root cause of the problems, we would be able to overcome the problems once and for all” Wangari Muta Maathai

“Lack of analysis of constraints is often translated into a wishful list of actions to be undertaken”
Overseas Development Institute

Programmes need a good understanding of how the market system works – diagnosing how and why it fails to serve the poor – prior to intervening in it. This diagnostic process begins by identifying the disadvantages the poor face in a market system (the ‘symptoms’) and iteratively proceeds into a detailed analysis that explains the continued existence of these disadvantages (the ‘root causes’).

Market systems are complex, so locating root causes can be difficult and time-consuming, but ceasing the diagnostic process too soon can result in programmes exerting their intervention efforts in the wrong places: dealing with symptoms but not their underlying causes, ie ‘fighting fires’.

‘Paralysis by analysis’ must be avoided however. The diagnostic process has a practical purpose; information gathered should pinpoint what is responsible for maintaining the poor’s disadvantage and where intervention is most needed. It should:

- Identify the system-level constraints (root causes) that the programme can feasibly address
- Familiarise programmes with the incentives and capacities of market players associated with these constraints
- Generate intelligence and insights which can be used to influence market players during intervention
- Provide information that can be used for measurement purposes

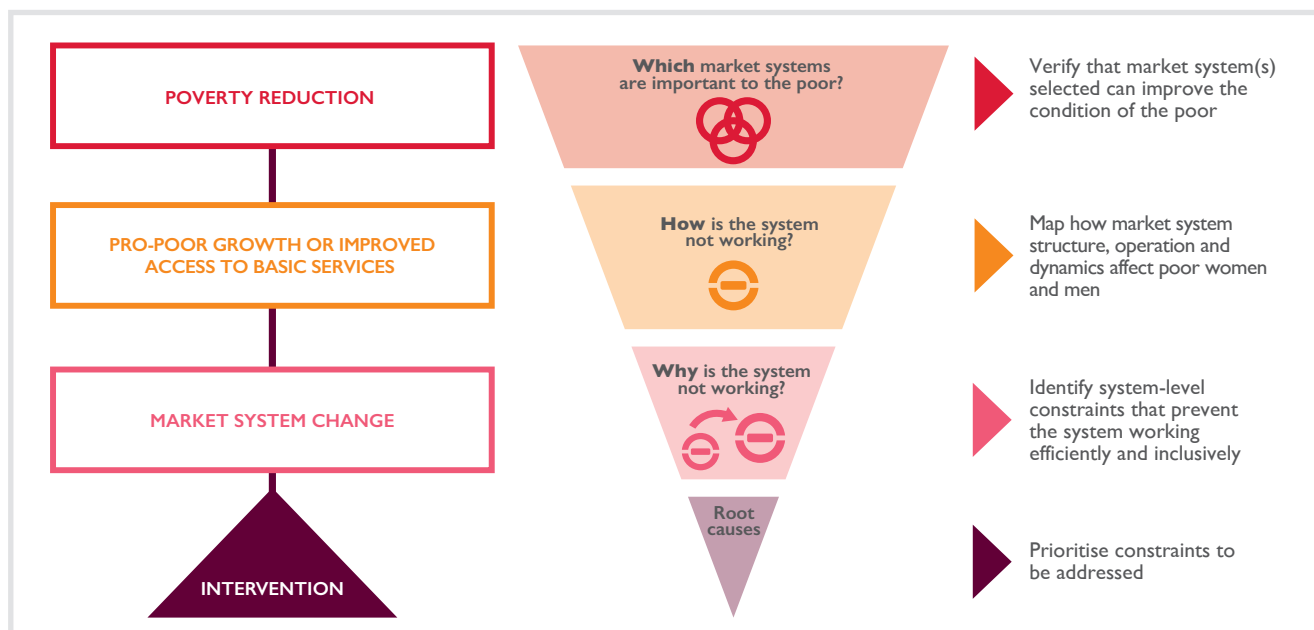


Figure 5: The diagnostic process

The diagnostic process is broken down into four steps to make it easier to explain. In practice, the process is never entirely linear. Narrowing down on system-level constraints requires exploration and experimental action, so programmes need to be prepared for some ‘back to the drawing board’ moments.

Step 1: Verify that the market system(s) selected for further investigation remains valid

Step 2: Map the market system structure and understand its operation and dynamics to ascertain where the system adversely affects the target group: Identify how the system isn’t working for poor people

Step 3: Identify system-level constraints (root causes) that prevent the market system from serving the target group effectively: Understand why the system isn’t working for poor people

Step 4: Decide which constraints are the priority: Determine the point(s) where the programme can focus its efforts to the greatest effect

2.2 PUTTING IT INTO PRACTICE

Market diagnosis cannot be done sitting at your desk: you need to speak to poor people and market players.

Gathering primary information is vital: internet searches or literature reviews rarely generate new insights.

If done well, the diagnostic process outlined below should test existing knowledge or assumptions, even in a system that already seems well researched.

If you are responsible for understanding a market system to help decide where your programme should focus its interventions, you will need to go through this four-step diagnostic process.

Step 1: Verify that the market system(s) selected for further investigation remains valid

Begin by selecting which market system to focus on, ensuring it fits with your programme's objectives. The **key questions** you need to answer are:

Is change in the market system likely to be feasible?

Would the change significantly benefit large numbers of poor people?

Guidance for market system selection is provided in Chapter 1 using these criteria:

- Relevance to large numbers of poor people
- Opportunity to increase the poor's performance in growing markets or their access to basic services
- Feasibility to stimulate system-level change

If you are an implementer and your programme is already mandated to work in a specific market system, you still need to examine the rationale for this choice to ensure that: (a) the original selection remains valid, and (b) your programme team understands the reasons for this choice. This verification is important because:

- Considerable time may have elapsed between the funder's analysis and the actual start of your programme, leaving information outdated
- The funder's analysis might have been rapid or under-resourced, basing market system selection on inadequate information

If you conclude that you have been tasked to work in the wrong market system, renegotiate with your funder. Try to provide evidence that the funder's poverty reduction objectives stand a higher chance of being met by shifting within a market system or to another market system entirely.

Example 9: Validating market system analyses

Following delays in programme mobilisation, the market system selection made by the original programme scoping study in a post-conflict African country was revisited. The implementer found a substantial increase in the levels of funding and activity by other agencies and players in two of the five market systems in the intervening years. This led the programme to change its market system selection and prioritisation.

If you are satisfied that you have selected the correct market system, think of it as the 'principal' market system, ie the system where your target group exists, either as producers, entrepreneurs, workers or consumers.

Step 2: Map the market system structure and understand its operation and dynamics: how the system isn't working for poor people

Understanding structure and interactions

Start by mapping the roles of poor women and men and the transaction(s) they have (or don't have) with other market players, ie the 'core function' of the market system.



Figure 6: Core function of market system

Poor people may potentially participate on either side of the transaction:

- On the demand-side: as consumers of a good or service, eg soap, vocational training or antenatal services
- On the supply-side: as workers or producers, eg selling their labour or rice
- In some cases the poor might be both producers and consumers, eg small-scale seed producers selling to poor farmers

To understand the nature of transactions you will need quantitative (eg volumes, values) and qualitative (eg quality and relevance of relationships) information from demand-side and supply-side players.

You then need to identify the market system functions and rules that shape the terms of the transactions that involve the poor: 'supporting functions' and 'rules'.

Making a graphical representation of a market system can assist you, though don't try to map every supporting function and rule. Focus only on those that have a significant bearing on the target group's level of performance or access within the system.

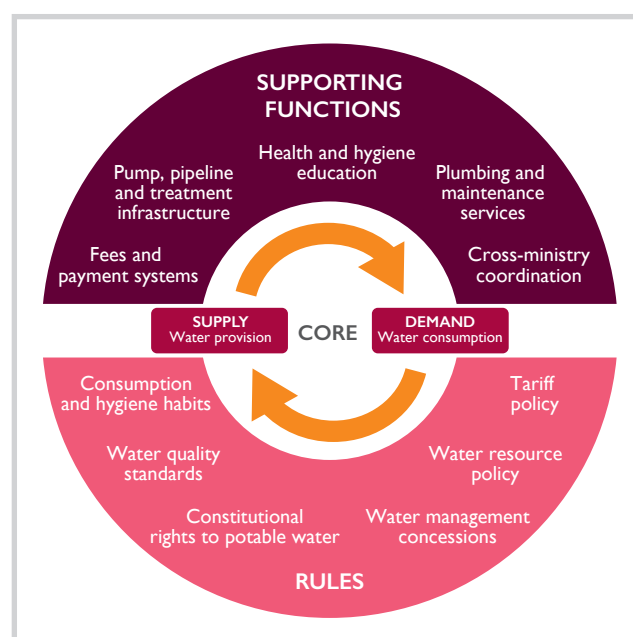


Figure 7: Principal market system: potable water supplies

Figure 7 depicts a potable water system consisting of core, supporting functions and rules. Its core function is the delivery of potable water supplies. The effectiveness of that delivery, however, depends on a range of supporting functions including water infrastructure, payment mechanisms, maintenance services, multi-authority coordination, consumer awareness and education, etc. Delivery also depends on prevailing rules including sector management, regulation, standards and legislation as well as informal factors such as consumer practices and hygiene habits.

The **key questions** to ask when mapping the structure of the market system are:

What is the role of the target group in the market system?

Identify how poor women and men participate in the core of the system, as producers, workers or consumers.

What is the nature of the disadvantage they face?

Identify how the performance or access of poor women and men can be improved. Make sure you isolate any gender-specific differences.

What supporting functions and rules are hindering the core function?

Understand which supporting functions or rules affect poor women and men's transactions in the market system.

Who are the players that perform the functions or set the rules relevant to the poor's transactions?

Identify the players whose actions/inactions affect the poor. These players may be private, public or civil, large or small, formal or informal.

What are the relationships between key players?

Understand the nature of commercial and non-commercial interactions between players in the core of the system (eg schools and pupils/parents), and between core players and those that perform supporting functions and rules (eg schools and parents' associations). Again, it is important to be alert to gender-specific differences in relationships.

Are there any 'embedded' or hidden transactions, or other forms of informality?

Not all interactions are obvious at first sight. For instance, a seemingly poor commercial relationship between farmers and a commodity trader might persist because the trader provides farmers with additional benefits, such as inputs on credit or transport to market.

Example 10: Looking for the less obvious

During a research exercise, a Central Asian herder confirmed that he only sells animals to one specific mobile trader. When asked if this is due to personal connections, price or other considerations, the herder responded that the trader operates near the boarding school attended by his daughters and he could, if the need arose, request his daughters to take credit from the trader in lieu of future animal sales. The informal credit service embedded within their livestock transactions explained the relatively fixed nature of this trading relationship and highlighted the need to develop alternative financial services if livestock trade is to become more competitive.

Are there any 'positive deviants'?

Look for signs that performance is clearly better among some players or within some areas than is the case on average.

Understanding dynamics

Don't just copy a decade-old subsector map from the internet. Understand the dynamics of the system in which you are looking to intervene. This means understanding whether the performance of market players has improved or worsened over time, or stagnated in a low-level equilibrium. And it means looking for signs the situation might change in the future.

Key questions include:

How have transactions changed over time?

Trends in terms of value, volume, type, suppliers, consumers, inclusion levels and nature of relationships.

Have any major events altered the way the system works?

Such as new entrants, new legislation or regulations, technological innovation, etc.

How has the behaviour of key players changed in response?

For instance, evolution in business models, recent investments, geographic expansion or withdrawal, new products or services launched.

Exploring dynamics gives you a first insight into how feasible it will be to stimulate change. Be realistic: avoid wasting time on those things that your programme will be unlikely to alter.

Assessing performance of market players

As you map a market system's supporting functions, rules, players and relationships, you will begin to gain an insight into their performance. The **key question** is:

How is 'function A' or 'rule B' being performed?

Performance might be inadequate, or the wrong players are involved, or certain roles might be missing altogether:

- **Inadequate:** a function or rule has attracted the 'right' player(s), but they do not have adequate capacities or incentives to improve their performance of it. For instance, a customs authority may lack the capacity or power to adequately enforce standards designed to restrict the import of fake pharmaceuticals
- **Mismatched:** a function or rule is ineffective because the player(s) performing it is 'wrong' for the role, and unlikely to have the capacities or incentives to perform a function/rule more effectively in the future. For instance, poultry vaccination services may be restricted to qualified veterinarians too few in number and expensive to meet demand
- **Absent:** a function or rule is missing because capacities and incentives are not in place, or do not exist, for any player(s) to perform it. For instance, commercial media services for rural communities are often constrained by a lack of understanding of the needs of rural audiences and their potential interest to advertisers. Audience research services are often absent and as a result would-be advertisers lack information on the media usage of this target group and are unable to identify media channels and products relevant to rural and poor communities

Example 11: How is the system serving the poor?

Poor rural households in an East African country cannot access affordable, potable drinking water because of the policy of fixed water tariffs. The tariff-setting policy is not adequately serving the poor. Tariffs are set artificially low, discouraging water service providers from taking on service contracts outside of higher density, urban areas.

The aim of **Step 2** is to understand *how* the system is currently not serving poor people effectively, ie inhibiting them from improving their performance in growing markets, or accessing the basic services they need.

However you are still describing the symptoms of the problem at this stage. In the Example 11 above, policy-setting does not serve the poor; in spite of good intentions. Why? You need to identify the system-level constraints that are the root cause of the problem.

Step 3: Identify system-level constraints: why the system isn't working for poor people

The next step is to find out why key supporting functions and rules are under-performed, ie the root causes of system-level constraints. It is these constraints that your interventions will seek to address. The **key questions** are:

Why are key functions and rules underperformed?

Why have more inclusive, pro-poor solutions or alternatives not emerged autonomously within the system?

To answer these questions, you need to investigate how market players' incentives and capacities cause critical supporting functions or rules to be underperformed. Understanding this will explain why these functions and rules are inadequate, mismatched, or absent.

Tracing problems in the principal market system (ie the one within which the target group exists) back to their roots often leads you to the capacities and incentives of players in another, 'supporting', market system.

Investigating supporting market systems

When you need to analyse underperforming supporting functions and rules, it is useful to treat them as separate systems from the principal market, and to undertake a further diagnostic process of their underperformance (see Figure 8).

Identify who 'supplies' and who 'demands' each of the underperforming supporting functions or rules in the principal market system.

Then repeat **Step 2** for each one of these new 'demand-supply' transactions, mapping structure, operations and dynamics. This will help you understand the incentives and capacities of the key players who are maintaining the *status quo* or who are blocking the emergence of alternative solutions.

Example 12: Assessing incentives to provide better services

Tariffs for the rural water services in an East African country (see Example 11), are set by regional water boards (the tariff 'supplier'), who fix one point-of-sale price per litre of water that contractors (the tariff 'taker') must comply with. This has resulted in rural water service provision being commercially unattractive to prospective contractors, confining service availability to urban areas only. The tariff-setting practice and political economy around it remains unchanged. Stakeholder consultation and industry advocacy processes are absent, and independent or in-house research fails to provide appropriate evidence to inform tariff-setting policies and procedures.

Understanding incentives

Incentives drive behaviour. Programmes commonly ignore them, but in a market systems development approach you need to treat incentives very seriously.

Incentives operate at various levels: for and between individuals, and within and between groups or organisations. They are shaped by attitudes towards risk and reward (eg losing or gaining money, status, reputation, opportunity, assets or resources).

Incentives can be:

- **Materially-oriented:** based on a desire to get something, or not lose it, eg food, money, market share, property or freedom
- **Socially-oriented:** based on the need to belong to, or not be rejected by, a wider collective, eg being accepted into a group of peers with shared values
- **Purpose-oriented:** based on a quest to achieve a goal, which can be individual, eg becoming a village head or running a marathon, or collective, eg supporting a political cause

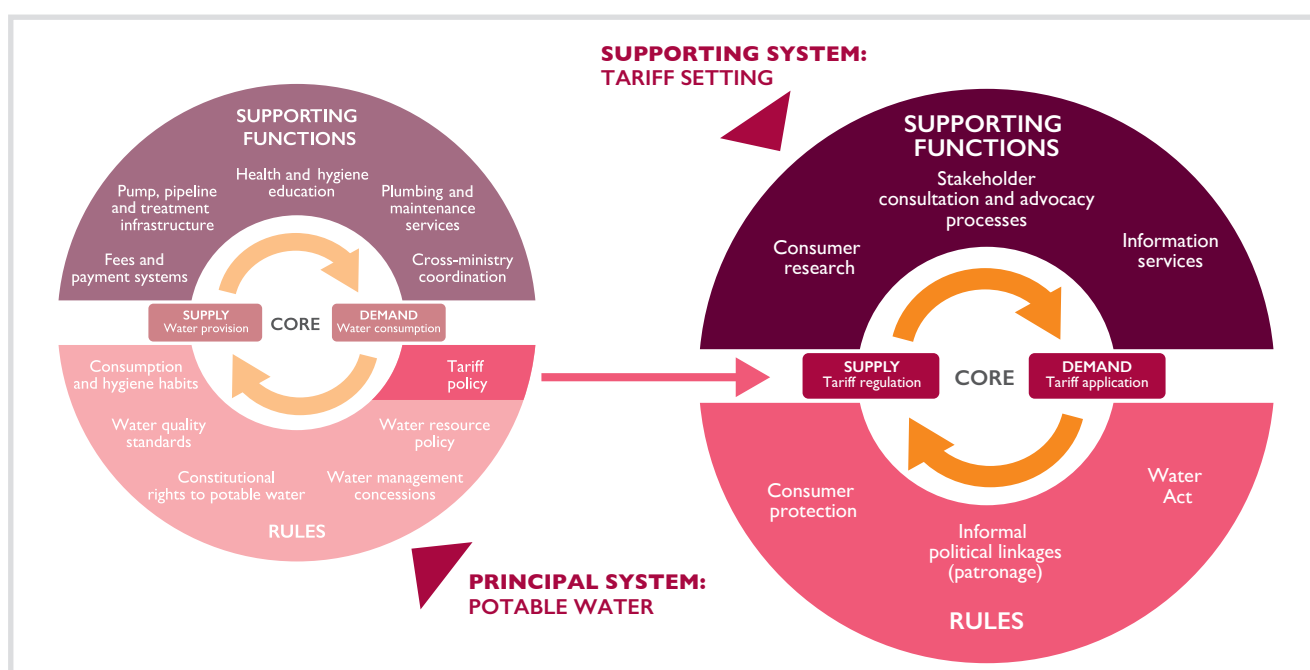


Figure 8: Supporting market systems

You will need to understand the motivations for specific behaviours and aim to reinforce positive incentives in support of change. Find ways to overcome negative incentives such as fear, vested interest or tradition, that cause resistance to change.

The challenge is that incentives aren't always obvious: they are rarely written down. Smart investigation is therefore required. You need to cross-check or 'triangulate' what people claim with their actual actions, and with information from other sources (eg employees, former employees, competitors, sub-contractors and other informed observers, such as analysts from the media).

Understanding capacities

Understanding the capacities of market players means assessing their ability to perform relevant functions in market systems. Capacity can be viewed at different levels: individuals, groups and organisations.

Capacity can be:

- **Technical:** the knowledge and ability to execute actions to a required standard
- **Financial:** the money to execute actions
- **Physical:** the structures, assets, human resources, scope or outreach (customer base, distribution system) to execute actions
- **Strategic:** the vision, governance and networks to perform appropriate roles in the system
- **Personal or cultural:** the ethos, attitudes and leadership to shape effective performance

Programmes tend to consider capacity in superficial terms, overestimating the capacity of players to perform a function. Be careful to assess capacity realistically: look for tangible evidence of it (or the lack of it).

Analysing conditions that result in above-average performance (ie positive deviants) can help programmes identify the root causes of under-performance. Do positive deviants have stronger incentives or capacities than the 'average'? If so, why aren't these incentives or capacities more widespread?

The aim of **Step 3** is to tightly define the root causes – system-level constraints – that affect your target group. It should not result in a long list of all issues that afflict the system.

It is important that programmes establish and agree a common understanding of: (a) cause and effect relationships, and

(b) when you have found the true 'root' cause. This is most effectively achieved through a well-managed process of team discussion and consensus building.

Step 3 also provides programmes with invaluable information on the current state of the market system in terms of its key functions, players and interactions. This provides programmes with baseline data against which to measure change (see Chapter 5).

Step 4: Decide which root causes are the priority

Programmes have limited time and resources at their disposal. You can't fix everything, so you need to prioritise. To prioritise which root causes to address, ask the following **key questions**:

What is the opportunity for change?

The root cause of most, if not all, market system constraints can be expected to be entrenched within the *status quo*. Change requires a 'disruptive' innovation in order to modify or transform the *status quo* and trigger the emergence and adoption of new practices or behaviours. Assess the relative opportunities for stimulating disruptive innovation.

Is it definitely a cause of under-performance, system-wide?

You should not provide direct solutions to an individual's problem. Strengthen systems so they provide solutions to a common problem faced by many individuals or organisations.

Is it feasible to address?

Building on the initial assessment made in Chapter 1, judge whether you can achieve significant change within the life of your programme. This often depends on the presence of 'blockers' or 'drivers' of change, as well as the capacity of your programme.

Is it the most important constraint?

Compare the potential impact on the target group of addressing the different root causes identified. For guidance on projecting results, see Chapter 5.

Is sequencing important?

Determine whether there is any interdependence between constraints: whether one system-level constraint needs to be addressed before another.

Prioritising is important. Programmes must strike a balance between what is feasible and where improvements and impact can be greatest (see Figure 9). The farther away from the principal market you work, the more complicated, slow, and

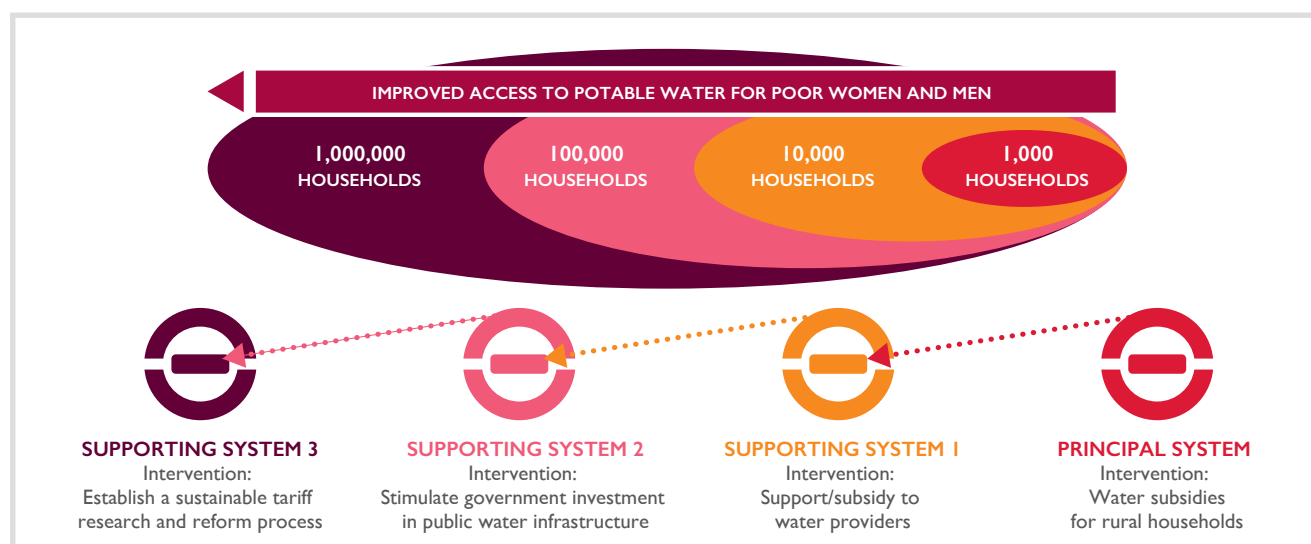


Figure 9: Deciding where to focus

perhaps political, intervention becomes. This is, however, often where the greatest rewards of intervention can be found.

At this stage you should have sufficient understanding to inform what needs to change, but will not yet be able to articulate your vision of how the supporting and principal market systems, and the players within them, should operate in future. This is the focus of Chapter 3.

Action research is part of the diagnostic process

The diagnostic process is messy; it won't be entirely linear. You will never have perfect knowledge. Some trial and error will be needed to locate system-level constraints. Pilot interventions to test a clearly defined 'hypothesis' are usually necessary (see Chapter 4).

This may lead you to work with a single partner to test whether you have found the root cause and are able to address it.

These 'experiments', where solutions may be tested and concepts proven, can help you to gauge the commitment of market players and to generate evidence with which to influence other players at a later date.

When deciding how and with whom to experiment, check that your actions will not accidentally distort the system, by disincentivising or displacing other players.

Diagnosis provides the foundation for measurement

The information gathered during the diagnostic process provides the 'starting point' against which you can assess the effectiveness of subsequent interventions and measure your programme's progress.

The diagnostic process generates invaluable baseline information across your strategic framework: the poverty

profile of your target group, their level of performance or access within a market system, the specific constraints in the system, and the level of performance of key market players, including their behaviour, capacity and incentives. You can measure the effects of your interventions on all these variables. In simple terms, you 'diagnose down' and then 'measure up' your strategic framework (see Chapter 5).

Reality check: Linking the diagnostic process to baselines

Many programmes conduct extensive (and expensive) baseline studies for measurement purposes, only to find that the information that they have collected doesn't relate to where they actually end up intervening. They mistakenly separate their baseline from their theory of change and diagnostic process.

2.3 TOOLS AND SOURCES OF INFORMATION

The diagnostic process is all about getting the information required to make informed decisions and narrow down options. There is no single tool for diagnosing system-level constraints.

As you become clearer about the information you need, pragmatic choices can be made about where to get information, what tools to use, and who should do what.

The diagnostic process described here guides you to increase your knowledge of the way a market system functions, through information collection, analysis and, in some cases, action. During this time, different tools can be utilised to generate the information, analysis and insight required (see Figure 10).

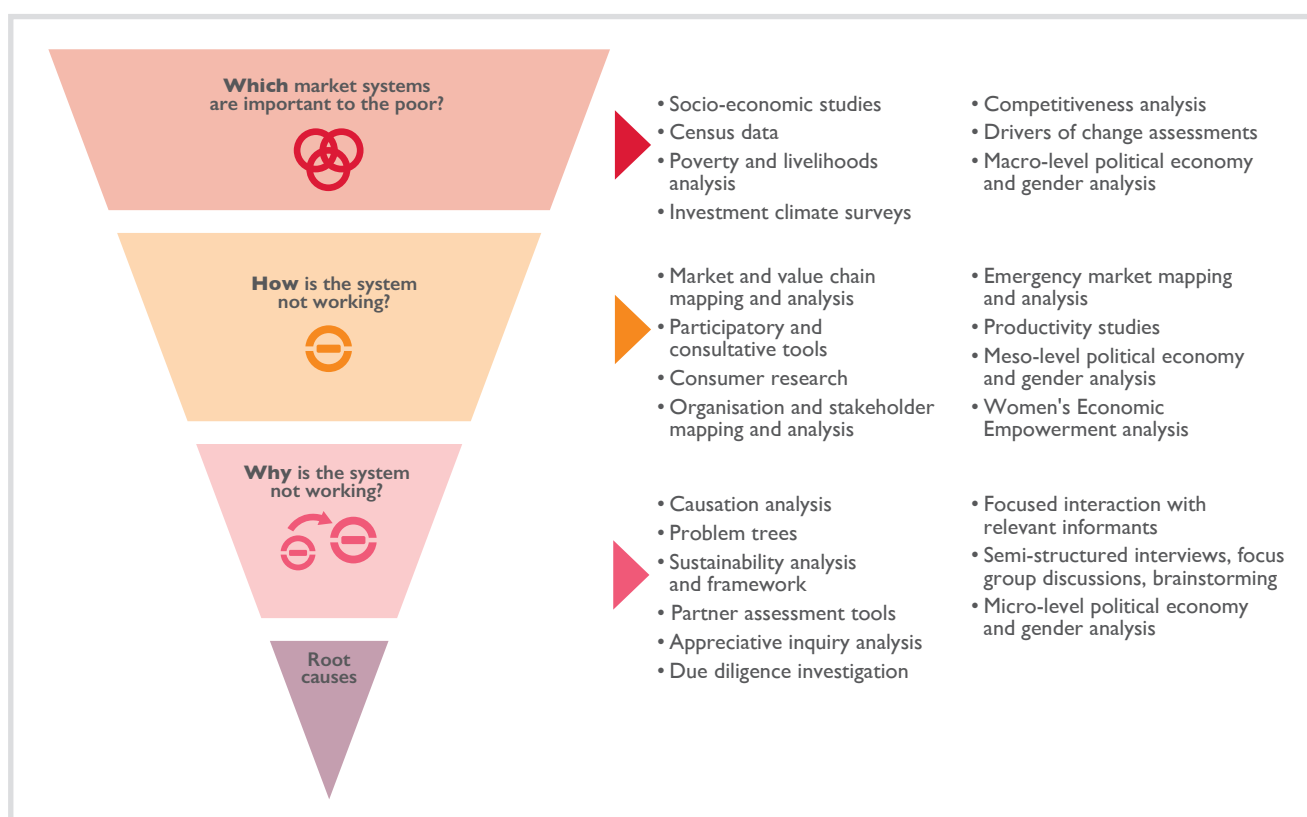


Figure 10: Diagnostic tools and information sources

The way in which you choose to gather information can also help you to build consensus or induce a greater willingness to act amongst market players. For instance, exploring options for addressing an identified constraint with different market players can lead to increased recognition of the need for a solution and improved understanding of the perspectives of other market players upon whom a lasting solution may depend.

Triangulation should always be a guiding principle throughout the process: use more than one tool or source of information to double (or triple) check your findings.

The aim is to make an assessment from multiple perspectives, to test assumptions, and expose natural biases of individual tools or sources, in order to develop a balanced view.

Example 13: Information triangulation and verification

When researching the recent use of artificial insemination (AI) services in cattle in the Caucasus, a programme complemented its sales data from the country's AI providers with rural household visits in the areas where the providers were known to operate, in order to validate the AI provider data.

Some considerations when choosing which tools to use

Different tools suit certain contexts, as well as the time, budget and staff skills available to your programme:

- *Geographic, political or public administration focus:* in situations where key players define themselves by geo-political boundaries or mandates (eg a district or province) participatory or stakeholder-based assessment tools are well suited for information gathering. They are less useful in situations where key players operate across boundaries (eg in a value chain)
- *Population density:* certain kinds of tools, such as formal surveys, are easier and cheaper to conduct in locations with high population densities. In more remote areas, the costs of achieving appropriate levels of coverage can be prohibitive
- *Nature of players:* it is important to think about what type of tool works best for different types of market player. More formal assessment methods that require direct 'interrogation', such as large-scale surveys, can be intimidating for micro-/informal enterprises and marginalised groups, who often fear they are a form of scrutiny by the authorities. Gender and cultural considerations might also influence the types of tool or method you choose to use. Informality presents a challenge for accurate sampling and identification of potential respondents because, by definition, these groups are seldom included in formal public records. Public sector players are often comfortable with the openness and time required for participatory discussions. Commercial players only tend to engage in such methods (eg focus groups) when they see value in doing so. They are also cautious about disclosing what they regard as sensitive information to broad groups of participants

Example 14: Understanding and quantifying the informal

The growing number of low cost private schools in middle and low income countries are largely unregistered and operate in continual fear of harassment and closure by officials. Consequently, researchers tasked with mapping the incidence, growth and educational outcomes of such schools were unable to rely on either government statistics (which often don't include them) or on government perspectives (which are often biased and hostile). From the schools owners' point of view, it is usually better to remain hidden, to avoid punitive regulations, demands for bribes and official disapproval.

Given this context, finding and understanding how these informal schools work required relatively intensive and extensive on-the-ground research. Researchers had to go street by street, approaching teachers and owners directly, and asking parents within specific low income neighbourhoods where they send their children to school. Once 'inside' the informal system, introductions and engagement with other players (eg school associations, community groups and schools suppliers) became possible.

- *Nature of activity:* certain tools are better suited to assessing specific kinds of activity. For instance, value chain analysis is easier to apply to sectors where there are clear stages of production or transformation. It is more difficult to map out sectors which are less linear or transformational in nature, eg service industries. Tools for assessing regulatory conditions are well suited to formal policies and regulations, but less able to explore non-statutory or informal rules. Value chain analysis tends not to assess the operation of supporting functions and rules

What really matters for designing and implementing effective interventions is accurate, up-to-date knowledge of the market system in question, however it may have been acquired. Tools are important but experience indicates that the most useful skill all facilitators should have is curiosity: continually asking 'how?' and 'why?'

2.4 "DON'T MAKE THE SAME MISTAKES I DID..."

Do your homework, but remain open-minded

When interviewing market players make sure you are prepared. Read up on them. Ask other informants. Improve your knowledge of the market using secondary data. Use this knowledge as a conversation opener. Being ill-prepared for meetings wastes their time and damages your credibility, sometimes irreversibly.

Before a visit, be sure you are clear about what you hope to gain from the interaction. Prepare a list of semi-structured questions and likely follow-up questions. Sticking to the plan is not vital, but having it to hand keeps you focused on what you have and have not covered.

Try to enter any interaction with information of your own to offer. This makes the interaction feel more like a dialogue and less like an interrogation. Ideally the market player should feel that they are getting something from the interaction too.

You must be prepared to listen, learn and challenge your assumptions. No matter how much of an expert you might be, you won't know everything; there's always something new to discover.

Outsourcing is risky

Information and insight are powerful ways of changing the perceptions or behaviour of market players. They are often more effective than financial support.

When you outsource diagnostic activities, you often miss out on detailed insights (you usually only get a summary) and risk never properly understanding the system you're working in.

When you undertake the diagnostic process in-house, you avoid this risk. You also establish relationships with market players and may identify opportunities for collaboration before intervention actually begins.

External specialists or secondary sources can provide important technical expertise that informs decision making. The process of diagnosis should always include some primary research, and be led by programme staff, however. It is vital therefore that your programme team contains people with an inquisitive mind-set and analytical capacity (see Chapter 6).

Avoid paralysis by analysis

The diagnostic process is not a fixed, sequential procedure but a way of filtering information needs (*'what do I really need to know?'*), filling knowledge gaps (*'where do I get it?'*), and interpreting information (*'what is the information telling me?'*) to guide your strategy and action.

Your understanding of how systems work and how players think and act in different scenarios can never be perfect. Aiming for exhaustive analysis often results in programmes getting carried away, generating lots of information of limited practical value, at considerable time and expense. Stay focused on how diagnosis is going to inform potential interventions.

Don't stop too soon... be curious

Paralysis by analysis is a common mistake, but so is stopping your diagnosis too soon. Don't stop your diagnosis *'because there is a lack of X...'* or *'because Y is unaffordable...'* or *'because Z is too risky...'* You need to ask why access, costs and risks are problems and why market players have not resolved these problems by themselves.

In the case of basic service markets, analysis often hinges upon so-called 'affordability'. But are services really unaffordable to the poor? Often the poor's self-engineered solutions (eg to access water or energy services) can result in higher unit costs (for a lower quality service) than better-off people who access mainstream services. If analysis concludes that services are genuinely unaffordable then it is important to continue to ask *'why?'*: why does it remain this way? Why have suppliers not pioneered more cost-effective means of delivering services? Can costs be reduced, shared, paid or defrayed in some way? Why have other players, such as finance providers, not responded with an 'offer' (eg credit products specific to the context)?

Be careful about making assumptions

Examining functions and rules means examining the players which perform them and pay for them. Do not assume that only one type of player can fund or deliver a particular function or rule.

A common mistake is to go straight to the obvious without questioning it. It is important to think about 'function' before deciding on 'form'. For instance, an organisation might have an official title or mandate stating that it is a coordinating body. In reality, coordination is actually being performed informally, perhaps through a group of senior civil servants and industry figures, or a trading intermediary.

Pay attention to who actually does and pays for what in the system. Triangulate your findings by using two or more tools or sources to double-check findings. Public agricultural extension services, for instance, are never the sole source of information for farmers; explore the presence of alternative suppliers such as input retailers, traders, lead farmers and neighbours, local radio and television.

Programmes commonly make ill-founded assumptions about the incentives and capacities of players. In reality these are rarely clear. Test 'obvious' positions and received wisdom. Private businesses, for instance, are often assumed to be short-termist and profit-maximising entities, yet some are content to expand their presence into new areas so long as costs can be recovered in the medium to long-term. Others are prepared to pursue low risk and low return options, especially when failure or individual blame looms large.

Diagnosis isn't a one-off task

There is a tendency to regard analysis as something that is only done at the start of a programme. Up-to-date information is required throughout the life of a programme in order to guide actions. Rapid feedback allows you to adapt interventions and avoid big mistakes.

You might also need to start new interventions, for instance when new priorities emerge, interventions fail and funders make new demands. New interventions (or entire market systems) require fresh diagnosis. Ensure that provision is made in programme planning and budgeting for diagnostic processes to be repeated throughout the period of intervention.

Don't rely on one tool or source of information

The diagnostic process is an iterative one. To answer the questions posed in the steps outlined above, you will have to use a number of tools and information sources.

The market systems development approach does not preclude the use of any tool or source. Which you use depends on factors such as market type, population, accessibility, resources, time, security of travel and availability of secondary sources.

The key is to recognise that relying on a single tool or source is risky: it can give you a skewed and unreliable perspective. Similarly, if you hire a technical specialist to identify constraints, you may find that they identify constraints (and solutions) that closely match their area of expertise or the tools they feel most comfortable with. Triangulate, and keep triangulating.

3.1 KEY PRINCIPLES AND STEPS

“Any development that is not sustainable is not development” Dr Manmohan Singh,

“People respond to incentives. The rest is commentary” Steven Landsburg

Sustainability is central to the market systems development approach. Sustainability is defined as: the capability of a market system to continue to adapt and provide the means by which poor women and men can continue to derive social and economic benefits, beyond the period of intervention.

The diagnostic process has identified what is not working in the market system and why it is not working. Programmes must now look forward and think through how the system will work better in future. Programmes should plan for their exit before intervening. This means developing a clear and realistic vision of how the principal, as well as any supporting market systems in which the programme intervenes, will continue to serve poor women and men effectively, after intervention in that system(s) has ended.

Functioning market systems are never static: they have within them the capacity and incentives to be dynamic, to respond to change. Determining how this dynamism and responsiveness will take place in future without further intervention is central to taking sustainability seriously.

This is done by defining market system capability in detail, by identifying: (a) market functions that need to work more efficiently and inclusively if the system is to benefit poor women and men, and (b) specific market players who have the requisite capacity and incentives to perform those functions more effectively. In simple terms, this means answering two sets of questions:

- Who ‘does’ what currently, and who will do what in future?
- Who ‘pays’ for what currently, and who will pay for what in future?

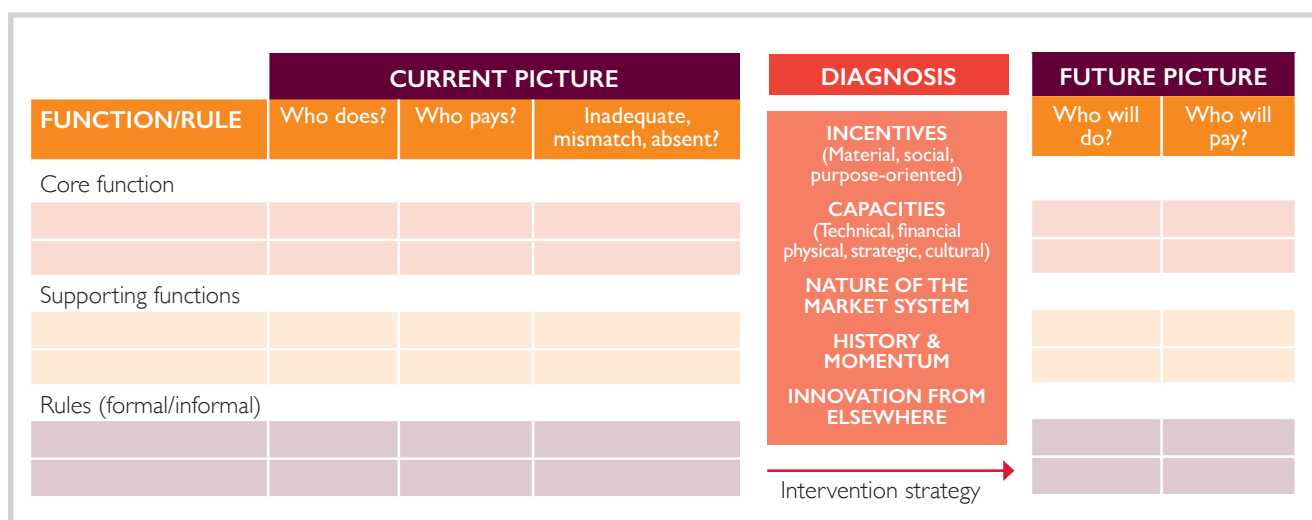


Figure 11: Sustainability analysis framework

Taking sustainability seriously imposes discipline on a programme’s strategy and interventions. Without a clear picture of what it intends to leave behind, there is a risk that a programme’s actions will distort systems rather than develop them. Developing a credible vision of how market systems can continue to function in future entails four steps:

- Step 1: Take stock of the current picture:** Review your understanding of how the market system functions at present, in terms of who does what, who pays for what and their capacities and incentives
- Step 2: Develop a realistic picture of how the system will work after intervention, ie the future picture:** Define which players will perform or pay for which functions, to ensure that the system better serves the target group
- Step 3: Decide the main focus of programme intervention needed to bring about the vision:** Specify the support required to strengthen the incentives and capacity of market players to take on new or improved roles
- Step 4: Elaborate a more detailed strategic framework for the market system:** Construct a causal logic linking interventions to system-level change, benefits for the target group from economic growth or access to basic services, and poverty reduction

3.2 PUTTING IT INTO PRACTICE

Step 1: Take stock of the current picture

To establish a realistic picture of the future, ie where you want to end up, first understand the current picture of the market system, ie where you are now.

Chapter 2 describes how to narrow your focus from the principal market system (in which your target group exists) to supporting market systems, in order to identify the functions and rules which disadvantage your target group.

To understand how a principal or supporting market system currently works, consider its core function and each underperformed supporting function or rule by asking the following **key questions**:

Who does (which player is performing which function or setting which rule)?

Who pays (which player is resourcing which function or rule)?

Using the sustainability analysis framework – current picture (Figure 12) is a helpful way of doing this.

FUNCTION/ RULE	CURRENT PICTURE		
	Who does?	Who pays?	Inadequate, mismatch, absent?
Core function			
Supporting functions			
Rules (formal/informal)			

Figure 12: Sustainability analysis framework – current picture

The framework assists you to document firstly who performs and who pays for core functions in a supporting market system and, secondly, how this aligns with who performs and pays for the supporting functions and rules identified as problematic in your diagnosis.

Using the framework ensures that your programme's picture of the future is adequately informed by the findings of your market diagnosis.

Note that at this stage, 'who' will be a type of market player (eg input suppliers or low cost schools) rather than a specific player (eg Acme Fertiliser Co., or Happy Days School).

You might include development agencies in the current picture, as this could be an accurate reflection of who is doing and paying for what in the system at present.

Step 2: Develop a realistic picture of how the system will work after intervention, ie the future picture

To set out a future picture where the market system works more efficiently and inclusively you need to think through which players are best suited to perform which functions. Take into account the willingness (ie incentives) and ability (ie capacity) of market players to change.

The **key questions** to ask now are:

Who will do in future (which player will perform which function or set which rule)?

Who will pay in future (which player will resource which function or rule)?

Re-aligning functions and players is not a theoretical exercise. Be pragmatic: balance ambition with realism about feasibility, and consider the local context when assessing the likelihood of change.

There are three important factors to consider when you are assessing the feasibility of moving from the current picture to a future picture:

- The nature of the selected market system
- The history (past actions) and momentum (present and planned actions) of players within the system
- Innovation from elsewhere. Changes that have occurred outside the system but which might inform the feasibility of change within it

In considering these factors you are deepening the assessment of feasibility you made initially in Chapter 1 and then built upon in Chapter 2.

Nature of the market system

Some markets have inherent characteristics such as 'externalities' or 'transaction costs' that determine how important certain kinds of function will be. Such characteristics vary between different types of market and context.

Transaction costs are the costs of participating in exchanges in market systems. Common transaction costs include:

- Search and information costs: in some types of market system it is difficult for buyers and sellers to find out about each other (eg because of distance). In this type of system, information and intermediation functions are essential
- Bargaining costs: in some market systems there are barriers to buyers and sellers reaching an acceptable deal (eg because of unequal power). Functions that rebalance power through aggregation, collective representation, coordination, standards or regulation are therefore important
- Enforcement costs: some market systems are prone to a lack of trust between buyers and sellers (eg because of unfamiliarity or unequal information between buyers and sellers). In such systems, functions that support resilient relationships to develop, or functions that establish assurance, guarantees, or rights of redress are critical for the market to function

Example 15: Transaction costs in market systems

Contract farming is often inhibited by high transaction costs. In some rural areas contracts are unenforceable so there are no penalties for farmers or buyers if they fail to fulfil their promises. Problems like 'side-selling' and default are common. To avoid this, buyers incur high search and enforcement costs. They need to invest effort to identify and build trust with farmers, to compensate for the lack of effective enforcement. This reality explains the emergence of local intermediaries – 'middlemen' – who know farmers and have informal or social means of enforcing deals.

Externalities occur in market systems where the actions of one player can affect many. To restrict negative outcomes or to ensure favourable outcomes for the many rather than the few, regulatory, coordination or compensatory functions are necessary. Externalities thus increase the need for 'public' functions and the role of government in particular.

Example 16: 'Merit good' functions

Schools have a strong incentive to bias test results in favour of their own pupils. This undermines the credibility of the test system for all pupils. Therefore a functioning school system requires an impartial, trusted means of assessing learning outcomes and school performance. This assessment and information function is a public role, usually performed by government or an association of schools, or contracted out to an accredited examination board.

History and momentum

History: the evolution of market systems varies between contexts, with different traditions associated with, for instance, the role of government, representative organisations or business-to-business cooperation.

The past can provide insight into the capacity and incentives of market players, and therefore their potential to change. Consider if there is anything in a system's history that gives you confidence that a revised alignment of functions and players is feasible:

- Do certain players adhere strongly to long-established roles or norms? This usually signals a resistance to change or affects how other players in the system view the player in question
- Do certain players hold positions of entrenched power or influence? If so, they are likelier to be potential 'blockers' or 'drivers of change'

Example 17: Market system history

A cause of the lack of competitiveness of the export market of one African country is its supporting system of logistics, particularly costly freight-forwarding. No formal barriers to competition exist, but alternative providers are not entering the market to drive down costs and improve quality.

Closer scrutiny reveals that there is an entrenched association between existing freight-forwarders and the political elite, resulting in informal barriers to competition. A programme's only option in this situation was to identify a partner with a vested interest in improving export competitiveness, but that also had its own political connections, to act as a countervailing power.

Momentum: understanding trends and developments in a market system, ie its 'direction of travel', can also help you predict its potential for change. You should ask:

- Are there any clear trends or events within the system which might indicate that change is feasible? For instance, increasing consumer sophistication or more demanding buyer behaviour; new entrants to the market, more favourable policies and regulations, technological advances, or signs of positive deviance

Example 18: History, momentum and incentives in education

The opportunity to improve low cost private schools in a large city in Africa is shaped by political economy factors. The municipal authority's success in raising taxes depends on it being responsive to local citizens. Two-thirds of all children attend these private schools and senior politicians and officials recognise that the authority's historical role as the provider of schooling is becoming less important, and actually a barrier to improving low cost private schools. The same officials know that other large cities face a similar challenge. Being seen to deal practically with this new schooling reality and shifting its role from provider to an enabler of education is important to the authority's tax-raising ability and the city's international prestige.

These political-level incentives and momentum for reform provide an opportunity for a development programme to engage with the authority to work towards a pluralistic education system, with more private provision but shaped by stronger government standard-setting and oversight. The programme must align itself with the history, momentum and incentives of this context. This may be best achieved by helping it recognise this historical provider role is relevant to a decreasing number of children, rather than directly questioning that role. It should work with the authority to develop a new, more relevant enabling role (eg regulations, standards, testing, information) which will impact on the majority of children, and also satisfy political stakeholders.

Innovation from elsewhere

Innovations in comparable contexts can inform your view of what might be possible within the market system on which you are focusing. The comparable context might be a similar type of market (eg agricultural commodities), type of function (eg enforcement of service standards) or socio-economic situation (eg post-conflict environments).

Example 19: Transferring innovation

A programme in West Africa 'borrowed' from East Africa the idea of selling small packets of fertiliser through a network of village-based agents. Agents were also tasked with educating farmers about correct usage. A key intervention was to organise East African experts to train executives in the West African partner firm in this new sales model.

It is important therefore to keep informed about wider changes which might be relevant to the market system(s) on which you focus. You should ask:

- Is there any evidence of positive innovations in comparable contexts which might provide inspiration and impetus for change in the market system on which the programme is focusing?

Step 2 is the most challenging step. Completing the sustainability analysis framework – future picture (Figure 13) forces you to think through sustainability realistically before intervening.

Note that development agencies should never feature in a future vision of a market system: their role is only temporary.

FUNCTION/ RULE	FUTURE PICTURE	
	Who will do?	Who will pay?
Core function		
Supporting functions		
Rules (formal/informal)		

Figure 13: Sustainability analysis framework – future picture

Applying the sustainability analysis framework leaves you with nowhere to hide. Challenge and justify any assumptions that you make by asking the following **key questions**:

Why would market players continue to undertake their new role without programme support?

To what extent will players identified be motivated and able to change how they behave with (modest) programme inputs?

Can the new configuration of functions and players result in sustainable system change within the lifespan of the programme?

Step 3: Decide the main focus of programme intervention needed to bring about the vision

When satisfied you have developed a realistic vision of the way in which the market system should work in future, consider what your programme needs to do to achieve this vision. In other words, outline the main focus of your programme's interventions. The **key questions** you need to ask are:

Which market player has both the incentive and capacity for change?

What type of support might help catalyse sustainable behaviour change?

As a result of the 'who will do, who will pay' process in **Step 2**, you will have identified the type(s) of player with which you might need to partner; based on their incentives and capacities, to try to get them to work in a different way. Determining what your support should focus on cannot be separated from this: it is the next logical step.

The 'will-skill' framework (Figure 14) is useful in helping identify which player you might partner with and the nature of support required to change their behaviour.

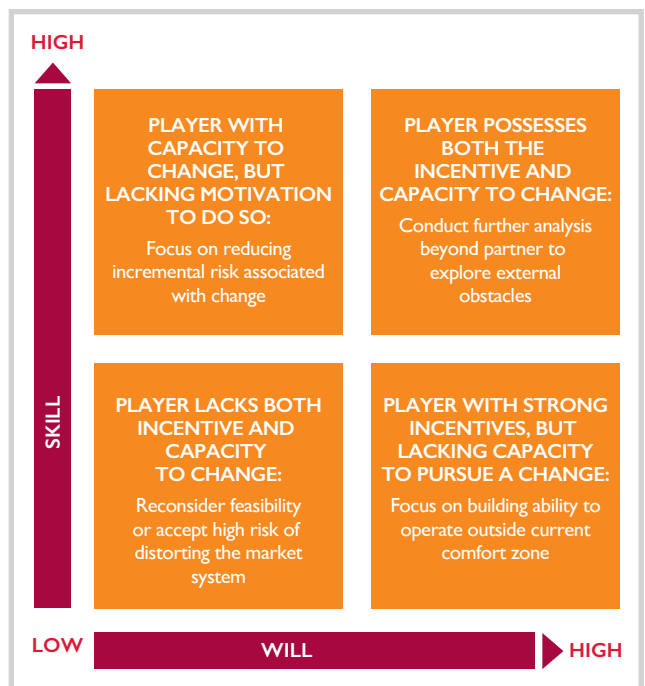


Figure 14: 'Will-skill' framework

Depending on how strong their incentives ('will') and capacity ('skill') are, different kinds of support might be required:

High will, low skill scenario: a prospective partner displays strong incentives, but lacks the capacity to pursue change. Focus support on strengthening their capacity to operate outside their 'comfort zone', eg through advice, training or mentoring.

Review your prospective partner's long-term access to capacity building inputs. You might work through local service providers, enabling them to work with players other than your partner in future.

Low will, high skill scenario: a prospective partner appears to have the capacity to change, but lacks the motivation to do so. Support should focus on 'making the case' for change to the partner or reducing how risky they perceive the change to be.

This might involve jointly undertaking research to build understanding and evidence, co-funding trials to test a concept and instil confidence, or contributing temporary financial support to 'buy down' the initial risk of making a change.

Low will, low skill scenario: a prospective partner may lack both the incentive and capacity to change. So, why work with them?

In a 'thin' market such a partner may be the only option (eg a public agency, a sole supplier of a basic service like a regional water board or a commercial oligopoly). Here, intensive support addressing both capacity and incentives may be required to achieve change, but the risks of such an intensive approach should be recognised (see Chapter 4).

High will, high skill scenario: a prospective partner appears to possess both the incentive and capacity to change. So, why aren't they doing it already? Their lack of action might be caused by dysfunctions elsewhere. For instance, the profitability of a new venture is hindered by the regulatory environment, or a new role depends on relations with other players which are inhibited by a legacy of conflict.

In such a scenario, you might realise that the type of player you are considering working with may not be the right one after all. You

simply may not have analysed the market system deeply enough. Or it could be that you require a pilot that involves working with multiple types of player to test and build new relationships.

Note that weakness on the demand-side of transactions can often be addressed through supply-side players. For instance, if your target group is unaware of the benefits of a new service, improving consumer education provided by government, a consumer protection organisation, or the marketing practices of service providers could be potential 'solutions'.

Determining the main focus of your support, and its potential recipients, allows you to elaborate a more detailed strategic framework for the system in which you are intervening (see also Chapter 4 for more detail on intervention support and planning).

Reality check: Prioritising interventions

Some programmes consider a large number of intervention ideas because the system on which they are focusing could be improved in many ways. You can't fix everything; you need to prioritise.

First, consider the feasibility of achieving each intervention. Take into account potential partners' history and momentum. Second, project the results that each intervention could realistically achieve (see **Steps 1-3** in Chapter 5). Give each intervention idea a score for feasibility and another for the size of its expected results. Consider assigning additional points for intervention ideas that meet other criteria which are important to your programme, such as benefiting large numbers of poor women. Compare the scores of your intervention ideas, and prioritise.

Step 4: Elaborate a more detailed strategic framework for the market system

You have now developed a realistic vision of the way the market system should work in future, and outlined the main focus of your interventions. You can now elaborate your strategic framework for this system (see Figure 15).

Add more detail to the logic linking your programme's main interventions to system-level change(s) and your programme's poverty reduction goal. The **key questions** to ask are:

Are the links between each level of the strategic framework realistic?

As Chapter 1 explains, the strategic framework must lay out realistic causal links, making plausible connections between your main interventions and the chain of results expected at output, outcome and impact levels (to use logframe terminology).

Are changes at the system-level elaborated precisely?

What you write in the boxes for *pro-poor growth* or *improved access to basic services* and *market system change* must describe a changed behaviour and practice. For instance, 'community water enterprises finance operational and maintenance expenditure' or 'input supply firms implement a new curricula for training retailers in their distribution network'. The aim is to provide an unambiguous, concise description of the anticipated change and therefore a basis for measuring and communicating market system change to programme stakeholders.

Your strategic framework for the market system does not require exhaustive detail about each activity and output. It should be sufficiently detailed to be informative and to enable

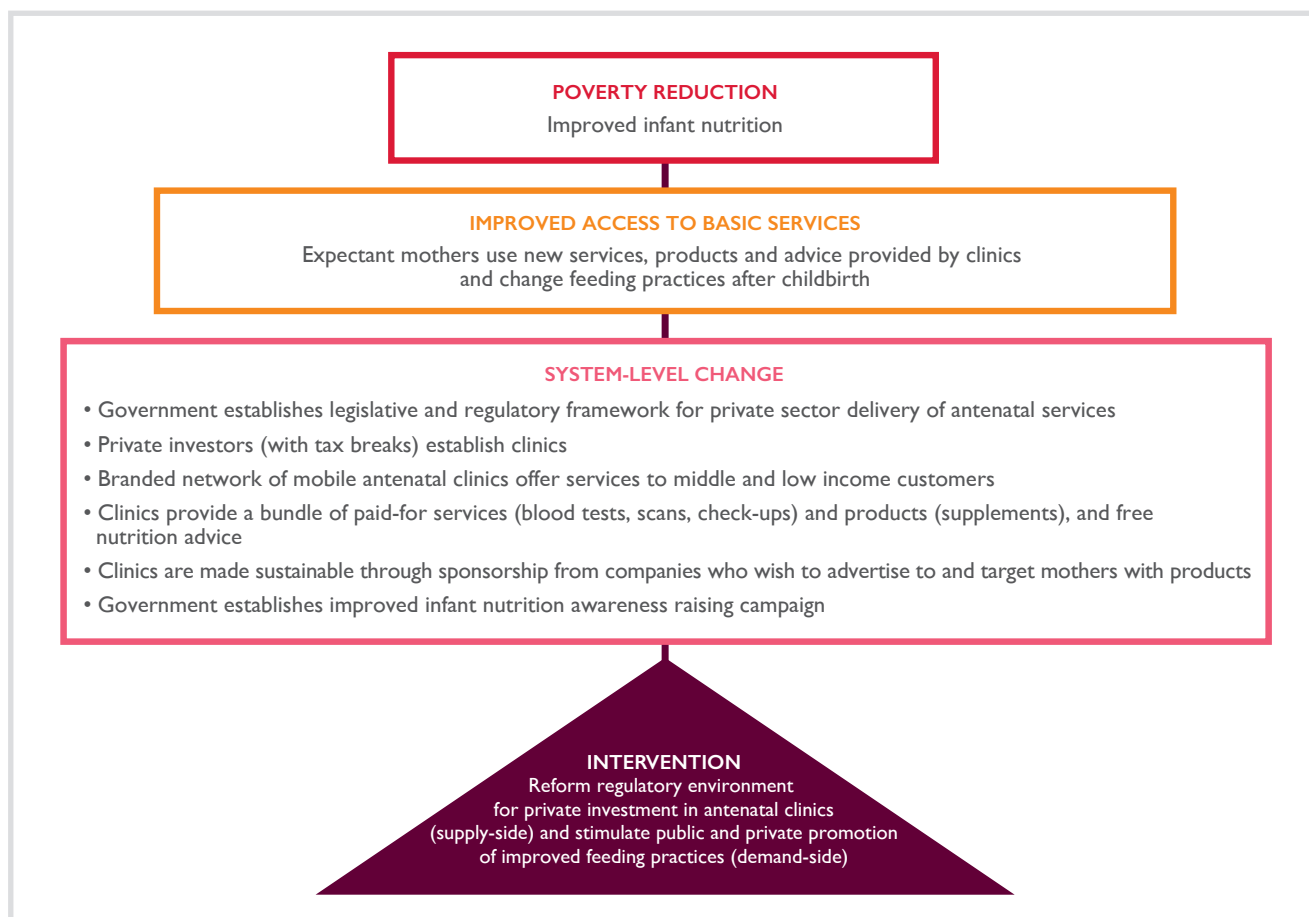


Figure 15: Elaborated strategic framework for an antenatal programme

appropriate indicators of expected results to be assigned for measurement purposes (see Chapter 5).

Each market system that your programme works in will require an elaborated strategic framework. Each intervention within each market system will also require its own results chain. You might find it useful to draw these intervention-level results chains before negotiating with intervention partners, but will often need to revise them afterwards, when your intervention activities are clearer (see Chapter 4).

Develop indicators that measure sustainability

Taking sustainability seriously means developing appropriate sustainability indicators for each of your interventions, which enable you to measure whether or not your interventions achieve outcomes that continue without further programme support (see Chapter 5).

3.3 “DON'T MAKE THE SAME MISTAKES I DID...”

Consider sustainability from the start: your exit strategy should be your entry strategy

Programmes tend to only consider how pro-poor benefits might continue at the point when their interventions are ending. Avoid this mistake. When you first plan how to intervene, consider the day when your programme is no longer there. It takes time to get your partners to take responsibility for changes, so start early. You will only succeed when you send the right signals and establish the right motivations from day one, not in the last few months of the programme.

A future picture is not a fixed five-year plan

There is a risk that when programmes set out a vision of the future functioning of the market system, they treat the vision as a long term plan, which must be rigidly adhered to at all costs. This misunderstands the value of the vision. Developing a credible vision provides your programme with a clear direction and forces you to be realistic about what you can achieve, and what you wish to leave behind after your intervention has ended. However it is equally important to recognise that, in light of experience or changes in context, a vision might need to be revised.

Make sure your future picture of the market system is built on realistic foundations

Building a vision of the future functioning of supporting systems is not a paper exercise. A credible vision can only be achieved through discussions (sometimes tough ones) with market players about the need for change and the nature of changes required. Never forget that it will be market players that drive any changes.

As you narrow down on the changes you feel are necessary for players to adopt, start sharing your ideas. Gauge their openness to change as soon as possible.

When talking to stakeholders, provide clear evidence that justifies why you believe that changes are needed. You can do this by sharing some of your findings from the diagnostic process with more receptive and thoughtful stakeholders.

Participation is not an ‘end’ in itself

When stakeholders help you to define a credible vision of system-level change, they often value this vision more, feeling a greater sense of ownership over it. However, it is common for programmes to interpret stakeholder participation as ‘including everybody in everything’, paying little attention to who needs to be consulted, how and when.

Participation is not an event. Vision-building is not something you do in a workshop with all stakeholders around a table at the same time. Care is required so as to avoid power dynamics disproportionately dictating outcomes, but also to avoid wasting people’s time. For this reason, the opinions and insight from some market players are best sought individually.

Remember that your role is not simply to host a workshop. You should bring clarity, objectivity and a sense of feasibility to the facts and opinions that you’re presented with. Whilst visions will of course be negotiated, they should be brokered by the programme as an objective third party, not delegated to a room of vested interests.

INTERVENTION

ARE YOUR ACTIONS DEVELOPING OR DISTORTING THE SYSTEM?

04

4.1 KEY PRINCIPLES AND STEPS

“Anyone who has never made a mistake has never tried anything new” Albert Einstein

“The principal task of a conductor is not to put himself in evidence but to disappear behind his functions as much as possible” Franz Liszt

Market systems development programmes should leave behind more efficient and inclusive systems that function and adapt without external support and deliver benefits to large numbers of poor people in the future.

Programme interventions must *develop* systems by transforming the behaviours and practices of market players within them such that change lasts. Care must be taken not to *distort* the way those systems work, through actions that displace or bypass market players and the roles they need to perform, or that cause them to alter their behaviour and practices in ways that aren't appropriate or sustainable.

The way in which programmes engage with and support market players determines how successful they are in stimulating lasting behaviour change. Understanding incentives, and taking them seriously, must precede intervention.

Interventions should support relevant market players to innovate and perform more effective roles, and empower them to maintain and adapt those improvements in the future. To do this, programmes must be adept at engaging with a variety of market players, knowing when to enter and exit partnerships, gauging whether players genuinely 'own' changes promoted, and assessing whether the system is really changing.

Programmes will often work closely with individual market players to understand market dynamics and test whether or not necessary behaviour and practice changes can endure (see *Adopt, Adapt* below). At other times programmes must work with a diversity of players to encourage behaviour and practice changes to deepen and broaden market system responses and improve the functioning of supporting systems (see *Expand, Respond* below).

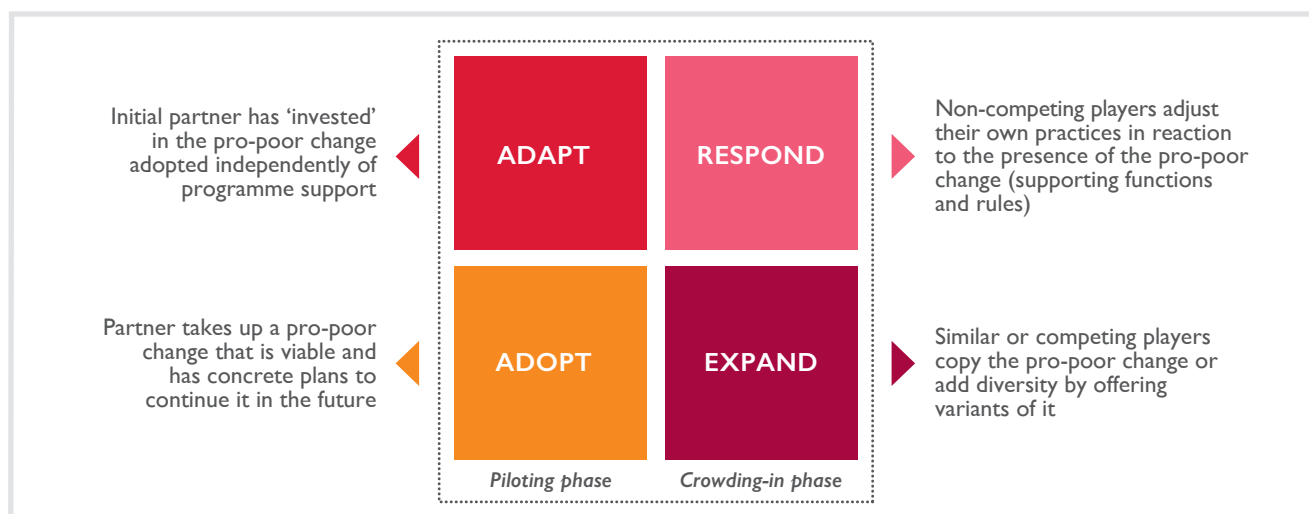


Figure 16: Systemic Change Framework

The Systemic Change Framework helps programmes determine the extent to which market players have reacted to interventions. It helps programmes assess and measure how systems, and the players within them, change over time, and guides them on where and with whom to intervene next. The intervention process can be broken down into two main steps:

Step 1: Conduct and review pilot interventions: Engage appropriate market players as partners to promote the adoption of innovations and more effective roles that result in pro-poor changes in the market system

Step 2: Conduct supplementary interventions that stimulate crowding-in: Develop supplementary partnerships to increase the scale of outreach and improve other functions and rules that support the piloted innovations, to enhance responsiveness and sustainability

This chapter provides guidance for practitioners in two ways. 4.2 *Essentials of partner engagement and intervention management* considers the essentials of partner engagement and intervention, focusing on how to select partners, agree support, and manage interventions and ongoing partner relations. 4.3 *Putting it into practice* applies these essential considerations in more specific guidance to steps 1 and 2 of the intervention process.

4.2 ESSENTIALS OF PARTNER ENGAGEMENT AND INTERVENTION MANAGEMENT

As an implementer of a market systems development programme you do not fully control impact: you 'facilitate' and hence rely on market players to lead the change process. That's how sustainability is achieved. Catalysing lasting change requires partnerships and success will depend upon who you partner with, what you do with them, and how you do it.

From the very first interaction with a market player, you must carefully manage and assess your relationship with them, and your intervention's progress.

You can expect to need different partnerships at different times in order to see system-level changes not only adopted but also maintained, expanded and supported by other players. This means managing multiple partnerships during implementation, approaching new players and exiting from earlier partnerships as required.

This section focuses on the essentials of partner engagement and intervention management common to both steps of the intervention process, specifically:

- Selecting partners and agreeing support
- Managing interventions and partner relations

Selecting partners and agreeing support

In Chapter 3, the sustainability analysis and 'will-skill' frameworks helped determine:

- The types of player with whom you should engage
- The focus of support needed to align players with functions and rules and improve their performance

You now need to decide which specific player(s) to partner with and how to support them. Making the right choice means understanding each prospective partner's willingness and ability to change. You can use the 'will-skill' framework again to compare them.

From the diagnostic process you may have gained an idea of who the right partner could be, but it is only when you start negotiating each party's specific contributions to, and responsibilities within, a partnership that you can confirm this.

Ideally, you will be able to select a market partner from several options (see **Step 1** in 4.3), though this is not always the case. Some programmes opt to select a partner before negotiating detailed terms; others make a more detailed offer to a number of players to see how they respond before choosing. Either way, deciding and negotiating what support to offer a prospective partner are essential skills.

Approaching prospective partners

Establishing partnerships in keeping with the principles of the market systems development approach is the key to successful intervention and demands due care and attention. Making the wrong choice can prove costly in terms of time and results, and can undermine your credibility.

Reality check: Key principles of engaging market partners

If interventions are to be successful, market players must own the change process you are supporting. This means:

- The pace of activities is driven by the market partners, not the programme
- Market partners must be free to adapt, and to modify interventions accordingly
- Programmes need to be flexible to make changes
- Planning, budgets, time frames and partnership agreements need to reflect this flexibility
- Market partners should not have incentives to please the programme

Example 20: Negotiating partnerships

In one South Asian country, a programme succeeded in getting a processor of maize to invest in transferring improved cultivation and post-harvest practices to women. Women typically managed the crop, while men migrated in search of other work each season. The programme encountered cultural resistance to male staff from the processor training women on the farm. To address this the training was scheduled so that husbands and wives could attend together, before the men migrated.

Assess the time and options available to you. Reflect on how you might get the best out of your partner. Review your team's preparedness for negotiations. Ask the following **key questions**:

Are you beginning discussions in good time?

Approaching players too late or hastily (eg due to funder pressures or seasonality) leads to rushed negotiations and compromise. Creating sufficient 'space' to negotiate increases the chance of agreeing support that will truly change your partner's behaviour. Think about the player's timeframe. It may be quite different from your own (eg commercial organisations often need faster decisions than development agencies).

Are you keeping your partnership options open?

Programmes are often under funder pressure to establish partnerships quickly, start interventions and deliver some 'quick wins'. Having only one option, and your prospective partner knowing this, can force undesirable compromises.

Try to create a situation where you can politely walk away if negotiations are not progressing as desired. Keep your options open and subtly make these known to your preferred partner.

Do you have persuasive, diligent and personable staff?

You need staff who can listen to, and communicate effectively with, different types of people. They need to be persuasive and able to demonstrate a level of understanding of the market system and incentives that inspires confidence among prospective market partners.

Have you considered how you might gain an ally?

Find the most effective route to decision-makers. It is not always about going straight to the top. Look for sympathetic counterparts within the potential partner organisation. If you think it may be difficult to influence key decision-makers to drive changes, consider other insiders that might have stronger incentives to change, and begin there.

Be careful to avoid bad first impressions in early interactions. They are difficult to reverse later. Starting well means asking a further set of **key questions**:

How will you manage partner expectations?

Prospective partners may have dealt with other development programmes and hold pre-conceived ideas about the advantages of working with you. They may also have only incorrect understanding of your approach from interactions during diagnosis and vision-building.

Clear up any confusion as early as possible. Emphasise that any partnership will be reciprocal, temporary, based on mutual benefit and without large grants.

Managing your image is also important. Downplaying your developmental agenda and arranging meetings at partners' premises, on their terms, are two simple ways of avoiding inflated expectations.

How will you set up discussions?

Poor preparation undermines your credibility and gives partners more scope to dictate the terms of support, possibly reducing its developmental benefits or making it harder to replicate with others.

Enter talks informed by your analysis (facts and figures to hand) and ideas (future picture of the system), and with realistic proposals to discuss. But keep an open mind and resist presenting a fixed deal: it is better to present a small range of options.

Initial discussions can help to explore why prospective partners are reluctant to change. Shift conversation from problems to solutions by asking 'what if we could...?' questions.

How will you ensure you have access to the information you need?

You will need access to specific information from the partner during and for a while after engagement to monitor progress, make partnership decisions, and capture evidence of results.

Information needs may include business plans, budgets, revenue, profit and loss data or minutes (relating to the change in question). Be clear about these requirements from the start. Emphasise that any sensitive information will be treated confidentially, but also ask yourself whether you really need it.

Your offer of support

There are no fixed rules about the type of support you provide in stimulating market systems development. Your offer depends on the context and what you want to achieve.

Your offer needs to be clear, specific and reciprocal. State unambiguously what both parties wish to achieve, what each will contribute, and include any terms and conditions that govern the partnership. The following **key questions** should guide your offer:

Are you opening with an offer of 'softer' support?

'Softer' types of support such as research, information, advice or mentoring tend to distort less than 'harder' inputs like training or co-financing. Avoid discussing what funds you may have available during initial partner engagement.

Does your offer have value and relevance beyond the partner you are working with?

Your support must not erode non-partner organisations' incentives to independently adopt the changes being tested.

Be wary of providing support to a partner that gives them an unfair advantage. This is a particular risk when 'harder' support is provided (eg ownership of a milk-chilling machine or the intellectual property of a trading database), which other market players might be unable to acquire in future.

Avoid fixing a series of organisation-specific problems, one after another.

Are you offering to fund or perform functions that will be part of the partner's day-to-day operations?

Avoid paying for or performing activities that are central to a partner's routine operations. You must be confident the partner is willing to pay for and perform all those functions required to continue with behaviour and practice changes in future. Support should focus on one-off activities that 'open doors' and encourage partners to continue; and stimulate non-partners to adopt and invest in new ways of working.

Are you securing a genuine commitment and tangible contribution from your partner?

Effective partnerships are reciprocal, ie they involve a *quid pro quo*. Your support must prompt genuine commitment from your partner. One key sign of partner commitment and ownership is their willingness to invest money or something tangible in kind.

Deals agreed, and any terms attached, must be explicit.

Example 21: An extract of partnership terms

"The programme will identify a technical expert in seed multiplication and post-harvest handling for two weeks in Quarter 1, to train company staff. The company will organise a training-of-trainers event which at least 50% of their full-time technical staff must attend. The company must select and sign up at least 100 prospective seed growers by end of Quarter 1, to be trained by newly-trained company staff.

The training event will be recorded, paid for by the programme, and will be the property of the programme for use elsewhere. The technical expert will be paid for by the company initially and 80% of the costs reimbursed by the programme, if the above targets are met."

Is your offer 'right sized'?

The amount of support you contribute to a partnership must be judged relative to: (a) your partner's contribution and predicted benefit (and any recurrent expenditures), (b) comparable investments made by similar market players, and (c) the anticipated developmental impact (ie X amount of benefit multiplied by Y number of poor people reached).

Too much support undermines sustainability by eroding your partner's ownership and distorting their valuation of the true cost of the initiative. It can also be divisive with other players. Conversely, too little support could result in a partnership failing to change behaviour.

As a rule of thumb, the developmental impact of an intervention should exceed its total costs by a factor of at least three or four times.

Example 22: Seeking value for money

A programme in Latin America established and built the capacity of producer cooperatives across multiple sectors, with the aim that they become self-sustaining mechanisms of direct product marketing for their members. In its first phase, the programme found it took on average eighteen months of intensive capacity building to fully establish each cooperative. A subsequent review calculated a cost-benefit ratio of this support of only 0.52. This intensive support had also built up the cooperative's overheads (staff, equipment etc) to a level that they couldn't finance through their own revenue generation.

In a subsequent phase, the programme identified local service providers and linked them with producers to meet their skills development needs on a more tailored, commercial service basis.

the next task is to elaborate your strategy and detailed guidance for each intervention, describing the specific activities and sequencing that will achieve your system-level change objectives. This should be supported by a set of results chains illustrating the rationale or logic of each intervention.

Many programmes use 'intervention guides' to manage interventions, capture learning and document changes in how interventions evolve over time. Typically intervention guides encompass the following:

- *Intervention results chain*: each results chain should illustrate the logic of your intervention strategy, the intermediate changes you expect to see between the different levels of the strategic framework, and the specific sequence of activities required (see Figure 17)
- *Indicators of change and a plan for measuring them*: set qualitative and quantitative indicators of change for each results chain box and create a measurement plan showing when each indicator will be monitored, how (the method) and who is responsible for collecting data. It is also useful to document any assumptions and calculations so that projections of change can be revisited in the context of intervention progress

Managing interventions and partner relations

Your support should lead to a lasting transformation in your partner's behaviour. This goal underpins how you design, manage and measure partnerships.

Maintain flexibility in how you work with your partner and regularly assess progress to identify when and where modifications are needed. Ensure that your systems, procedures and documentation allow staff to reflect on the performance of partnerships, and withdraw when needed.

Organising and documenting partnerships

Intervention strategy, results chains and guides

Chapter 3 takes you through setting out a strategic framework to describe your overall vision for system change and defining the focus of intervention(s). As partnership negotiations evolve,

Reality check: Setting targets

Setting indicators and targets for each intervention is an important discipline, because it allows you to project their likely results and track their progress. However it is important that you don't try to achieve intervention-level targets at all costs, because this can often undermine the change process. In a quest to speed things up, programmes assume more and more responsibility for intervention, displacing their partners' ownership. They take damaging shortcuts.

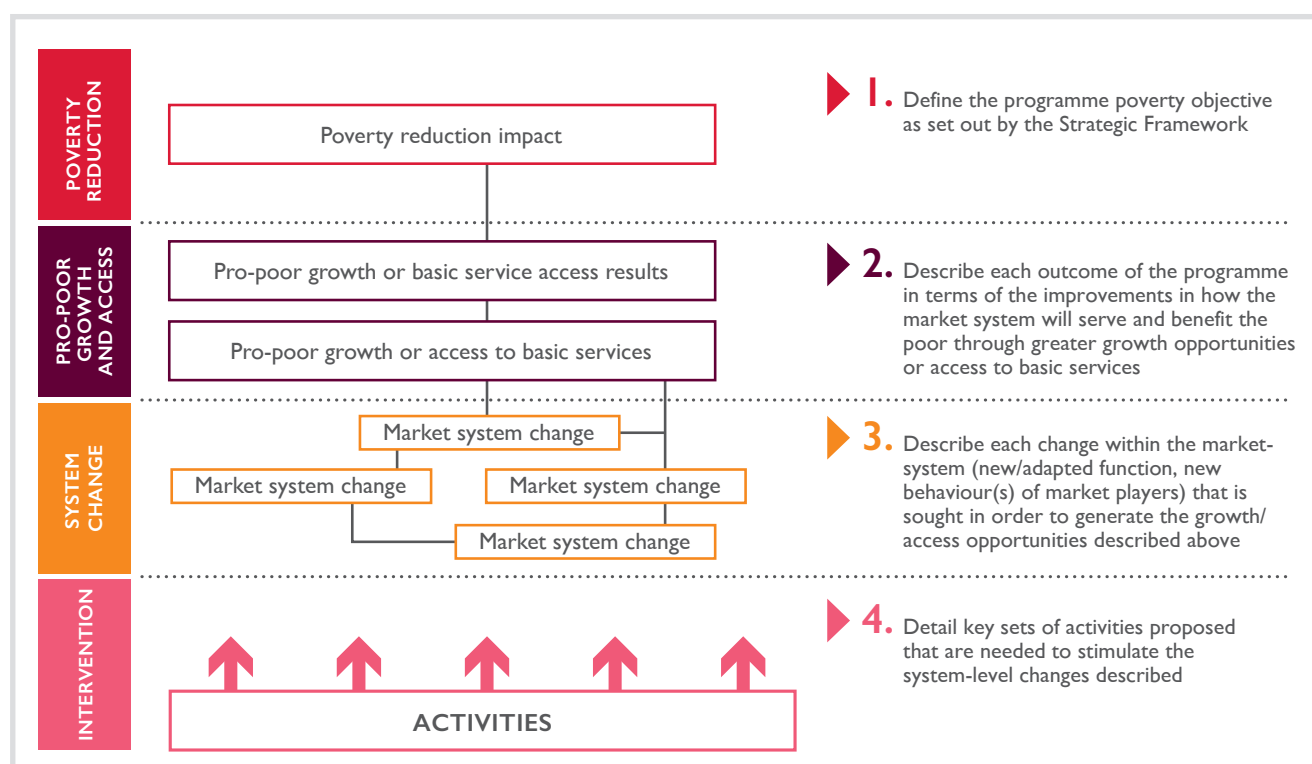


Figure 17: Intervention results chain

- **Work plan:** a detailed schedule of sub-tasks for each activity and an assessment of the risks associated with the execution of each activity
- **Budget:** a budget estimating the human and other resource requirements for the intervention
- **Partnership terms:** as partnerships are finalised, a summary of terms agreed between the programme and partners and any conditions attached to them, including a statement of the tasks each party is responsible for. An estimate of the future cost to your partner of maintaining any new practices introduced (ie activities that require recurrent performance) is helpful
- **Learning narrative:** a mechanism for capturing learning and filling gaps in the programme team's understanding of the market system, and for feeding that knowledge back to inform decision-making

Reality check: Make intervention guides user friendly

An intervention guide is for internal management use, not reporting. It doesn't need to be perfect. It should be a 'living' accompaniment that guides staff throughout the intervention. Staff must invest time to update them and keep them relevant. Intervention guides are often better documented in tabbed spreadsheets than text-heavy documents, which staff may be reluctant to update once written.

Partnership agreements

Formal agreements stating partnership terms and conditions may be necessary. Whether these are signed or legally binding partly depends on how comfortable you and your partner are working with one another. Written agreements are wise if a partnership involves significant investment or if the programme will require access to sensitive partner information.

Be careful that such agreements are not misinterpreted. Their primary aim is to encourage behavioural change rather than to simply mitigate the risk of fraud. Ensuring development funds are not misappropriated is important, but legalistic contracts can turn partners into 'sub-contractors' and erode their ownership. A better balance can be struck if programmes:

- Remain in direct control of spending programme funds on activities, rather than transferring resources or making accountable grants
- Use annexes, rather than the main document, to house legal aspects of the agreement (eg pertaining to fiduciary responsibility, arbitration, audits, etc)

If it makes sense for funds to pass through partners, use the terms 'investments' or 'contribution' instead of 'grant' or 'transfer', and:

- Structure contributions in arrears as reimbursement on completion of defined milestones
- Pay in tranches so you can withhold instalments if partnerships falter or do not work out as planned

Some partners may be more comfortable to take action when they have written assurances, but not all partnerships require a high degree of formality. Using a non-binding memorandum of understanding is common, as is using simple 'statements of intent' that define purpose and areas of collaboration.

Reality check: Flexibility in partnership agreements

Market systems of a more dynamic nature or those susceptible to shock events present a challenge for partnership agreements and how tightly bound each party is to the terms agreed in advance. It is useful to insert a clause proposing that both parties are able to convene to mutually adjust terms of support and contributions within the partnership in the event of significant changes to context. This also applies to agreeing the timelines that parties are working to, remembering that the pace of change should be driven by what the partner is able to do, not what the programme wants it to do.

Executing partnerships

This is not a sub-contract. You are not commissioning a partner and then leaving them to get on with business as usual. Partner roles have to be overseen and supported through an appropriate level of contact with counterparts. Arranging routine, but non-intrusive site visits helps maintain momentum. Programme staff must be active relationship managers, close and trusted enough by partners to influence and troubleshoot, but detached enough to take tough decisions if necessary.

Be cautious about embedding programme staff in partner organisations (eg to initiate, manage or monitor change processes). Doing so creates a false impression that new behaviours have been internalised when in fact they are driven by you.

Make sure your offer (eg advisory services, training, financial inputs) is not readily available elsewhere. In any activity performed by the programme it is important that valid relationships between market players are not displaced (eg technical service providers or banks who might support your partner in future).

The exception is where your input is a one-time only activity, ie purely a facilitation task. But even for one-off activities undertaken by your programme, it is vital partners are engaged and fully aware of the inputs you make. This familiarises them with the true costs associated with the change.

Reflecting on the effectiveness of intervention

Different interventions involving different partners may be expected during implementation to see system-level changes taken up and sustained.

Reflecting on the contribution of specific interventions or partnerships in stimulating the system-level changes is essential. Allocate sufficient time and resources to do this.

Whether successful or unsuccessful, you have a decision to make. The following **key questions** will help you:

Is the partnership yielding the system-level outputs expected? Are poor women and men benefiting?

Is the partner showing signs of independent activity, ie able to continue the change without further support?

Is further collaboration likely to be distortionary? If not, can failures be rescued or successes be strengthened?

Is it time to move on; to work with competitors or other types of player?

Assessing progress means monitoring the behaviour changes of non-partners as well as partners. This requires internal procedures to track and document market system dynamics.

Using learning to adjust interventions and partnerships as necessary

Regular review (eg monthly or quarterly) of partnership progress and wider developments in the system is invaluable, to inform decision-making about intervention and to adjust activities and results chain boxes (and indicators) where necessary.

If a partner is failing to meet your expectations, renegotiate or dissolve the partnership and reassess your vision of the future. Do not simply pump more resources into a weak partnership to 'make it work' or to meet a deadline. The result of such intensive input is rarely sustainable.

4.3 PUTTING IT INTO PRACTICE

The process of changing how market systems work to the benefit of the poor usually involves two main steps:

- Pilot activities that test and re-test an innovation with a partner with the will and skill to invest in and maintain the innovation independently of programme support (ie 'adopt' and 'adapt')
- Supplementary activities that increase the size and improve the sustainability of the pilot's impact. These activities may involve partnership with new players and/or further engagement with your initial partners (ie 'expand' and 'respond')

The essentials of partner engagement and intervention management set out in 4.2 are applicable throughout the intervention process. Their specific implications for each step of the intervention process are explored in more detail below.

Step 1: Conduct and review pilot interventions

A common mistake is to see pilot interventions as a set of activities to be replicated. Pilot interventions initiate and test a behaviour or practice innovation with one or a small number of partners.

The aim is to establish whether partners are willing and able to 'adopt' and 'adapt' lasting solutions to the root causes of why a market system is not working for the poor. You should be confident that these solutions will be continued and improved upon in the programme's absence.

Adopt: A market player has successfully adopted a behaviour/practice change to the ultimate benefit of the poor producer/worker/consumer; recognises the value of continuing with these changes irrespective of programme inputs, and has accordingly made plans to invest in upholding these changes and covering associated recurrent costs.

Adapt: The market player that adopted the behaviour/practice changes pioneered during the pilot has made qualitative and/or quantitative investments that allow them to continue with or augment changed practices, without programme support. These actions, independent of the programme, constitute an 'acid test' for whether pro-poor outcomes will be sustained.

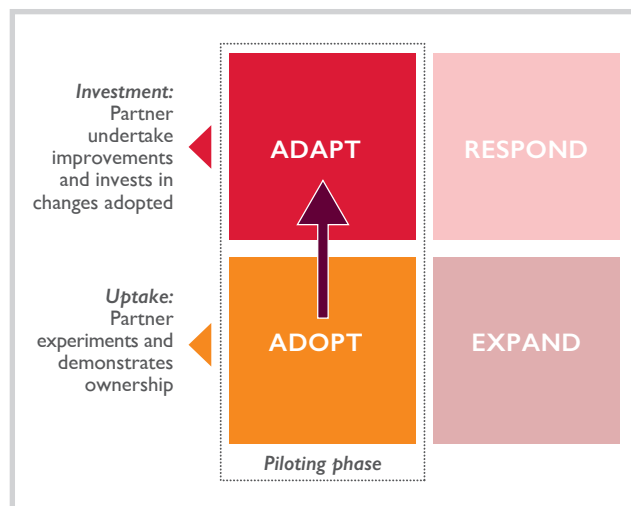


Figure 18: Systemic change: adopt and adapt

Selecting partners and agreeing support

Approaching prospective partners

Consider whether your pilot activity partner is representative of its peers.

Testing innovations only with the 'highest common denominator' (ie the most able, best resourced player) is not a fair trial. Other market players may lack the will and skill to adopt the same innovation, especially if they can expect, as a feature of your exit strategy, to receive reduced or no programme support.

This doesn't mean that you work only with the 'lowest common denominator' in the system. Your partner should be comparable to many of their direct competitors or peers.

Example 23: Identifying plausible partners

A programme in East Africa used a lead farmer model to promote better farming practices. The 'best' farmers were identified and selected to take part in pilot interventions. These tended to be farmers with access to more resources, including finance and information. The programme found that the influence of these farmers was limited. The wider community felt these farmers were 'not like them' and that they were therefore unable to farm like them.

Reality check: Partner representativeness and leadership

The representativeness of prospective partners is less of a consideration in systems where you need to engage with government, or where there is a paucity of prospective partners in the first instance.

Similarly, some market systems lend themselves to trend-setting more than others, eg the media, technology or education industries. Here, working with a market leader may not be distortionary. Instead it reflects how change is likely to happen in a system of that nature: it is a smart way of influencing other players.

Many programmes work in 'thin' market systems, characterised by low or diffuse levels of activity. Here your choice of partner can be limited. Consider the following options:

- Look beyond the principal market system for players who might be supported to expand into your targeted system. For instance, traders looking to buy new commodities, franchisers wishing to expand their product to new areas, or players from similar or adjacent systems looking to diversify
- When faced with a single, dominant player (eg a monopoly or monopsony) you might attempt to lower barriers to entry in order to create competition. If this isn't realistic, you will need to focus on strengthening supporting functions or rules that restrain anti-competitive behaviour and protect disadvantaged groups from exploitation (eg consumer protection regulation, representation, ombudsmen or media scrutiny)

Example 24: Stimulating organisation in a system

In one country in the Caucasus, the system for veterinary services was highly fragmented with vets focused primarily on retailing animal medicines, making weekly trips to numerous suppliers in the capital. Vets had little access to up-to-date information, research and advice other than through occasional development agency projects.

A programme approached several pharmaceutical firms to see if any were interested in building closer commercial relations with the vets. One firm committed to co-investing with the programme to develop an extensive network of 'branded' vets. Vets benefitted from regular training and access to information, higher quality medicines and improved storage facilities, and from the lower transaction costs of securing medicines. Farmers benefitted from using the 'branded' vets because they provided better quality and more reliable services and medicines, at affordable prices.

Your offer of support

The type of support you provide should be determined by your analysis and future vision, and an assessment of your partner's will and skill to make the change(s) required (ie the support necessary to encourage them to take on a new way of working).

Support will typically seek to encourage your partner to:

- Develop a new product or service, or improve an existing one, targeting poor women and men
- Re-orient operations (ie supply chains, service provision) to respond to opportunities in lower income market segments
- Expand or customise existing operations in order to enter a new market system or geographic area

In deciding on the level of support for your pilot activity partner(s), ask yourself the following **key questions**:

Are you leading with your analysis?

When concepts have yet to be tested, you are unlikely to have definitive evidence to convince partners that a change is worth the effort or risk. Evidence from other contexts is useful but not always sufficient.

Insights from your market analyses make the most compelling case to convince a partner to recognise a missed opportunity (or threat) and experiment with a new way of working. Presented well, this information can go a long way to securing partner commitment. It is often your most important offer.

Have you communicated your 'no go' areas clearly?

Be clear on what you cannot do or fund during the pilot. Think what might be distortionary and what is more likely to be developmental. Communicate these limits to prospective partners early to guide negotiations.

One tactic is to 'hide' behind your programme's mandate. If a prospective partner asks for a level of support you feel is too intense or exclusive, you might respond that *'the programme is not permitted to fund X'* and/or *'your investment committee is likely to say no'*.

Alternatively, make clear the requested support falls within the partner's own area of responsibility or core operations as defined by the partnership agreement.

Will the level and terms of support leave the door open for future partnerships?

Whatever support is agreed for 'partner A' to adopt an innovation should not jeopardise your ability to engage with 'partners B, C, and D' at a later date, in a different or less intensive way.

The support you provide to 'partner A' should ideally encourage other players, prompting them to consider investing their own resources without the promise of programme support.

Does your partner understand that programme support is temporary?

To reduce the risk of distortion your support should not be long term and ideally should reduce over time. This will test whether partner ownership is growing.

It is prudent to think of piloting as a process which has at least two iterations, where space is left for reviewing and adjusting your activities (ie test 1 → review and adjust → test 2). You don't need to tell your partner this and should avoid committing formally to a two-phase pilot.

Example 25: Iterative partnership engagement

Initial engagement with the Department of Education saw a programme in Africa focus on constraints which were most immediately relevant to the Department and most 'do-able' in terms of departmental capacity, eg regulatory amendment and oversight, and grading.

Further engagement followed, with the partnership between the programme and the Department evolving to work on a wider range of educational functions beyond regulation, all with a strong 'public' orientation where government was, practically, the only potential provider. As the Department's horizons and capacities grew, it became possible to look at information on school performance, teaching methods and even demand-side finance.

Partnership, though with the same player, was broken down into iterative stages, to work on different public roles, as the programme progressed and the Department's capacity and commitment increased.

Managing interventions and partner relations

Organising and documenting partnerships

Update intervention guides regularly, as and when your strategy evolves and in line with decisions made during quarterly reviews. Results chains, indicators and measurement plans should always reflect current intervention strategy and understanding of the system:

- Remind yourself regularly of partnership terms, intervention strategy, and the anticipated step changes in the intervention results chain. Be alert to 'mission creep' or signs that you are being talked into providing more support than you should
- Look for incremental changes in your partner's behaviour that might indicate momentum towards the overall change desired. Change rarely happens in one swift movement
- If interventions are failing to progress, ask yourself whether it is your vision or your strategy for realising it that needs to change

A feature of all pilot interventions is uncertainty. The innovation you are aiming to introduce is untested, as are your partner's capacity and incentives. Make clear that both parties are free to exit after (or during) the first cycle if the partnership does not work out. It is wise for agreements to contain a review clause (in case terms need to be re-negotiated mid-pilot) and an 'escape clause' (triggered if partner responsibilities are not fulfilled).

Executing partnerships

The intensity of contact between you and the partner will vary depending on your partner's commitment and capability. Pilot interventions tend to require closer supervision than supplementary interventions, to enable timely learning, reflection and adaptation.

Try not to take up too much partner time. Meet only for specific purposes and when there is a mutual benefit for doing so. Where possible plan meetings around key decisions that need to be made.

Reflecting on the effectiveness of intervention

Pilot interventions involve trial and error. Embrace this. Be prepared to make adjustments. Use lessons to inform whether to maintain or alter partnerships, or to end them altogether. Assess whether:

- There has been a tangible behaviour or practice change that is being continued without programme support
- The partner-level change is leading to a change at the target group-level (either in terms of improved participation in growth markets or use of basic services by the poor)
- There has been a reaction beyond your initial partner(s) (eg evidence of autonomous changes by non-partners inspired by your pilot)

The transition from pilot (**Step 1**) to supplementary (**Step 2**) interventions aimed at scaling up impact should only begin once you are certain your initial partner(s) has adopted and integrated the behaviour and practice changes into their core operations. This integration might be reflected in a partner's staff or budget allocations, formal documents and procedures or investments.

Ideally, you should also see signs that the innovation can be feasibly adopted by other players. Resist any temptation to scale up an innovation until its value and sustainability are proven.

Reality check: Short-term programmes and risk management

Programmes commissioned for less than three years or those that have suffered delays or setbacks may have to move to **Step 2** before refining the innovation and before seeing it fully adopted by pilot partners. This will entail working with both initial partners and new partners simultaneously, but using different approaches and working at different levels of intensity.

Shorter-term programmes face a higher degree of risk of intervention failure and have an even greater imperative to learn from and adapt interventions quickly.

If you are not seeing a change being adopted and adapted independently by your initial partner(s), revisit your analysis to see if other options exist outside of the partnership. It may simply be a partner problem.

Conversely, if your partner is progressing beyond expectations, assess whether your support is still needed.

After pilot interventions, you usually have three options:

- Cease intervention because your pilots have proven your theory of change to be incorrect or unfeasible. It is time for you to go back to the drawing board
- Make corrections to the innovation introduced, either with existing or new partners, with a revised offer of support
- Design and implement supplementary interventions and form new partnerships aimed at stimulating system-wide change, ie **Step 2**

Reality check: Knowing when to go

It is a good discipline to develop verifiable criteria to establish when exit is warranted. Sometimes programmes, having achieved a level of success during a pilot, find it difficult to walk away from a partner. Reasons are invented for continued intervention, often in pursuit of illusory perfection or guaranteed results. Remember, the longer you engage with a partner the greater the risk of distortion or dependency.

Step 2: Conduct supplementary interventions that stimulate crowding-in

Once satisfied that your initial partners are continuing and investing in the change piloted, your focus must shift to stimulating other market players to adopt that change and/or adapt their way of working in response to the change.

The aim is to make pro-poor changes widespread in the system: the normal way in which the system will continue to operate in the future. This entails undertaking supplementary interventions, working with new and similar types of players, under a second wave of programme-player partnerships. This is known as 'crowding-in'.

Crowding-in: The process of stimulating a number of (diverse) market players to react to the (nascent) system-level changes instigated during the piloting process. It results in greater 'breadth' (eg more and improved growth or basic service benefits for the poor) and 'depth' (eg supporting functions/ rules that respond to the new market system context).

First, check whether or not crowding-in is already happening. Monitoring indicators of wider system change and crowding-in will be part of your measurement plan (see Chapter 5). Depending on whether or not signs of crowding-in can be seen, and the level and pace at which it is happening, supplementary intervention should follow.

Your task should shift from testing innovations and improved roles to seeking to 'expand' their application and encouraging other market players to 'respond' to the changes taking place.

Expand: A number of market players similar to those that pioneered the pro-poor behaviour/practice changes have adopted comparable changes – either direct copies or variants on the original innovation – that are upheld without programme support.

Respond: The emergence and continued presence of the pro-poor changes lead market players in supporting systems to react by re-organising, assuming new/improved roles, developing their own offers, or repositioning to take advantage of opportunities that have been created. This response enables pro-poor behaviour/practice changes to further evolve. It indicates a new capability within the system and suggests it can support pro-poor solutions to emerge and grow in future.

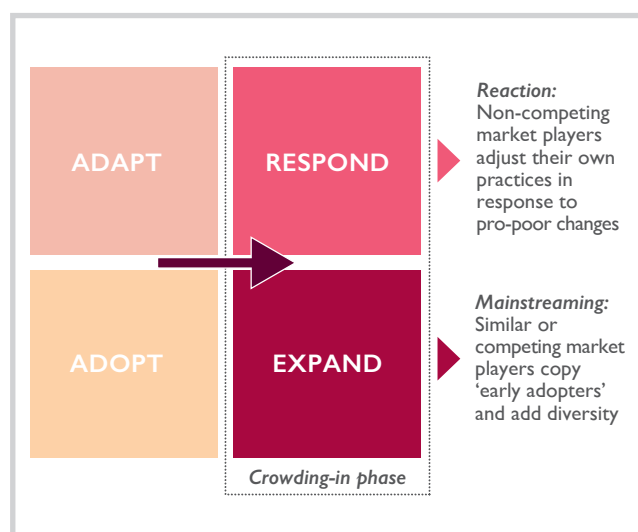


Figure 19: Systemic change: expand and respond

Selecting partners and agreeing support

Approaching prospective partners

The shift in focus toward crowding-in interventions often means exiting initial partnerships through which you tested innovations, and forming new partnerships. These should promote wider system-level change, scaling up innovations (or variants of) and stimulating a diverse set of market players to support the change you have initiated.

Normally you will partner with other market players similar to your initial partner(s), who are motivated to replicate the successes of the early adopter(s).

You will also need to partner with different types of market players who, whilst having less direct impact on your target

group, nevertheless perform or pay for important functions or rules that support the innovation you have initiated. Such as:

- Business service providers
- Research organisations
- Educational establishments
- Large investors
- Representative or industry associations
- Standards-setting and regulatory organisations
- Government agencies and public bodies

Example 26: New priorities, new partners

A programme sought to improve the vocational training system for healthcare professionals. It first partnered with private universities and colleges and with regulators. It then engaged with a financial services provider to promote a credit product designed to improve the likelihood that students from poorer backgrounds would be able to finance their studies in paramedic training.

Reality check: Thin markets

If your programme worked with the sole supplier of a product or service during pilot interventions, increased impact is only likely to occur as a result of the supplier rolling out the innovation at scale. In such situations, you should focus on encouraging other types of player to respond to the innovation in order to mitigate the risks associated with a monopoly supplier, eg an oversight body or consumer protection group.

A good place to start is to identify whether there have been any autonomous reactions from other market players and to build on that momentum, for instance:

- If a commercial model was piloted, assess whether competitor firms have reacted to it by making similar changes in their operations
- If a socio-political model was piloted, assess whether the change (eg in service delivery or policy consultation processes) has been responded to by other government agencies and other types of player

If such responses are not evident, you will need to engage more actively with other market players, following the principles outlined in 4.2.

Autonomous reactions may have been inhibited if:

- Pilot phase partners were unrepresentative of their peers, ie they had higher levels of 'will' or 'skill' than other players
- Support to pilot partners gave them too much advantage, making it hard for others to catch up
- The pilot's demonstration effect was not sufficient to stimulate a reaction from other players, ie they might not be aware of the innovation and its benefits, or they might not understand what they need to do to change
- New constraining factors or root causes that were previously deemed less of a priority are inhibiting crowding-in, eg market entry regulations constrict expansion

Example 27: Emergence of 'new' constraining factors

A programme in South Asia established hub and satellite centres for milk collection, linking producers with a milk cooperative. Whilst semi-functional during the first dry season, these centres soon ceased collection in the rainy season as roads became unusable for long durations.

Trading relations did not resume when the roads became passable again. Disputes over whether the milk was to be transported on public transport at the farmers' own expense or collected by the buyers at their expense were not resolved. As a result farmers lost confidence in milk production for commercial purposes. The programme might have had greater success if it had thought through the transportation and collection constraint from the outset, including its seasonal dimensions, as a vital part of the system's functionality.

Your offer of support

As a result of successful pilot interventions your knowledge of how the system works will have improved. You will better understand what motivates players, the behaviour changes required and the actions you need to take to stimulate them.

This knowledge and evidence that your initial partners have benefited from the innovation should make it easier to get the attention of, and crowd-in, other market players. This includes those who may have ignored you initially.

This does not, however, necessarily mean your efforts to expand an innovation will be any less intensive than in your pilot. Whilst you might expect new partners' willingness ('will') to engage to be higher than before, their ability ('skill') to change is likely to be the same or similar as before.

Example 28: Engendering broader 'will' and 'skill'

Access to finance was a contentious concern in Southern Africa with little common ground between stakeholders: politicians, government, private sector and civil society. A programme set out to facilitate the improved functioning of the financial system, to better serve low income groups. Through a variety of interventions over ten years it contributed to a doubling of households (from one-third to two-thirds) with access to bank accounts.

However, its credibility was developed through one initial intervention. It undertook detailed market research and scenario analysis, which it presented (in more than twenty workshops) to different stakeholders, allowing them to see the implications of their decisions on access to finance. The analysis was recognised as neutral and authoritative, and permitted a consensual agenda upon which all stakeholders could move forward. This laid the foundation for all the programme's subsequent interventions.

Building on your pilot activities does not simply mean replicating those activities repeatedly with an array of new partners. You should be undertaking activities of a different nature.

In many instances, a move away from supply-side support towards demand-side stimulation is warranted. Actions may include: social marketing and consumer incentives, press-releases and coverage of the pilot, and stakeholder workshops communicating the evidence base for change.

Determining where you should now focus your efforts requires further analysis. **Key questions** to ask are:

Which supporting functions or rules continue to impede autonomous reactions to innovations piloted?

Are there new drivers of change or political economy issues to consider?

Example 29: Some practices are deeply entrenched

A programme in Africa persuaded two banks to start issuing loans for agricultural machinery, by offering advice and linking them to an agricultural service providers' association that would identify clients. The programme offered loan guarantees for up to 20% of each loan during pilot interventions.

The banks experienced no defaulted loans and farmers' incomes increased; the pilot appeared successful. However the banks did not expand their lending. Risk averse, they were reluctant to lend without the programme's 20% loan guarantee, even though it had not been drawn upon during the pilot. Banks simply found it easier to lend to their established sectors and clients; their 'comfort zone'.

The programme needed to shift partnership strategies toward the banks' head office decision-makers and sought more dynamic players in the banking sector to develop new partnerships.

Crowding-in interventions tend to focus on building relationships between players, as well as stimulating and advocating for positive responses from players in supporting systems. Examples 30, 31 and 32 below provide some illustrations of crowding-in activities.

Example 30: Fostering competition in the same system

A programme in Asia sought to encourage a competing agricultural information service in response to an internet kiosk business model piloted with a top telecoms operator. The programme shifted to support a well-known and equally high-profile competitor to develop a different kind of information service, this time a help-line targeting farmers with mobile phones.

Example 31: Catalysing players in supporting systems

A South Asia programme supported private organisations to become sanctioned to provide accredited healthcare training as a result of pilot phase interventions. The programme then shifted to working with national examination boards to adjust prevailing structures and operations to accommodate their oversight of private vocational training organisations.

Example 32: Innovation becoming embedded in the wider system

A programme in the Caucasus worked with a local newspaper to improve the relevance and quality of information services accessible to poor rural communities. The programme helped strengthen agriculture-oriented content and journalism, product and market price information, and the development of a more viable advertising revenue strategy for the newspaper. The newspapers' circulation subsequently grew ten-fold and its coverage expanded from 1 to 3 municipalities.

Following the initial intervention the newspaper managers, independently, built on the learning from these innovations. They invested in improved training for their other journalists to strengthen reporting on non-agriculture rural issues (eg, child care, water provision, street lighting) and introduced new reader-driven sections. Advertising revenues continued to grow due to improved strategies to attract advertisers in the land, housing and equipment sectors.

Example 33: Supporting legitimate third party services

A programme supporting media systems development in East Africa worked initially and directly with a few radio stations in order to learn and develop its offer around more listener-focused broadcasting. The programme quickly found a need for more industry expertise and credibility, and that this support was a long term market function. It began working with technical service providers on programme format and production who then continued to provide this commercial service to other radio stations in the country and across the region.

These specialists have become drivers of change in the radio industry.

Intervening through third parties in this way can build a system around the initial innovation. Your support can strengthen suppliers of services that sustain or improve the innovation.

Managing interventions and partner relations

Organising and documenting partnerships

Programmes should consider their crowding-in strategy before they commence pilot interventions, though you will only be able to develop appropriate interventions as the pilot phase comes to an end.

Some programmes develop new intervention strategies and draft new intervention results chains for crowding-in activities. Others opt to refine existing strategies and add new activities and their expected 'cause-and-effect' changes at different levels to the side of pilot intervention results chains. The decision is often based on how substantive the crowding-in activities required are and whether they are looking to effect change to a supporting function or rule previously unaddressed by the programme.

You may also include an exit plan (eg lasting six to twelve months) in new partnership agreements. In this timeframe, you can commit to periodic meetings with key stakeholders, monitor developments, and measure progress, but crucially, you should not undertake any further intervention activities. This helps you to assess sustainability whilst the programme is still on-going.

Executing partnerships

Crowding-in interventions may be light (eg presenting evidence or making recommendations) or quite intensive (eg supporting organisational change and policy response within a government agency).

The extent to which you can be 'hands-on' with partners is context dependent. The further removed your intervention activities are from your target group, the less distortionary intensive support is likely to be.

One way to reduce the intensity and 'directness' of support is to operate through third parties where relevant and feasible. The aim is for your partners to see prospective solutions to current and future problems as coming from within the market system rather than from you.

Building sustainable relationships between crowding-in partners and relevant third parties (eg training providers, management or marketing consultants, certification/food hygiene service providers etc) can disguise, or even replace your support altogether.

Example 34: The challenges of third party brokerage

In an East African programme, the strategy was to create NGO network brokers that could over time turn into commercial brokers or traders. The network brokers with programme support would aim to be commercially viable by being more transparent, consistent, customer- and supplier-focused, and concentrating on generating revenue over larger volumes (as opposed to maximising margin per unit). The programme's focus on paying this third party as a means of quality control created problems as the primary commercial relationship resided between the NGO broker and the programme, and not the commercial parties. There was also a challenge as the function of trading/brokering was well developed, so the relevance and ease of replication of this business model were both limited.

Reflecting on effectiveness of intervention

As crowding-in begins to occur and new players, supporting functions and rules improve, ask yourself if root causes have been addressed. Revisit your analysis and vision and assess whether your programme can still add value and whether the programme's work can be undone. Ask the following

key questions:

Have you done enough to feel confident that the system is sufficiently robust to cope with threats? Are supporting systems now able to find answers to market player under-performance from within?

Would further intervention risk displacing national initiative and investment?

Has your presence become a blocker of change, or begun to create perverse incentives for autonomous change?

4.4 “DON’T MAKE THE SAME MISTAKES I DID...”

Avoid using intensive support as a shortcut

Using intensive support to speed up processes, garner influence or achieve quick results, invariably backfires.

Intensive support can undermine the sustainability of outcomes, as your partners attach a lesser value to the support they are receiving, having invested little in the change process themselves. It also makes crowding-in harder because it raises the expectations of second-wave partners about what your programme will do for them.

If your input is a one-time only activity not required in the future, the intensity of your support is less of a concern. If you have no other option, eg in an extremely thin market with no realistic partners, then proceed with caution. Recognise the sustainability risk from the outset, monitor the positive and negative effects of your actions carefully, and keep looking for less distorting options and means of exit.

Keep a low profile within the system

Funders often like their programmes to be highly visible within a country. In keeping with the aim of developing rather than distorting market systems you must be cautious about being too visible within a system.

Prominent development agency branding (eg logos) can send the wrong signal to your partners and other market players, creating harmful expectations of lots of subsidy. This affects your relationship with partners, and the relationship your partners have with others (eg undermining customers' willingness to pay because they believe an agency is paying for a service).

Be smart about your communications. The visibility that funders seek is often political, eg within their own organisation, for politicians and taxpayers at home or for host governments. It tends not to be aimed at the target group or market players. So, develop two distinct programme identities and communicate them accordingly:

- *Towards the market system:* display your development agency image judiciously. Maintain a low profile but business-like image where possible. Avoid branding activities or publicising the size of your budget
- *Towards developmental or political stakeholders:* communicate your achievements in a conventional way, emphasising the distinctive approach that your programme takes towards working through partnerships and emphasising sustainability

Don't overload partners with too much support

Overloading can take various forms: (a) transferring wholly developmental objectives to partners which are outside of their core competencies, (b) imposing unnecessary and burdensome reporting requirements, (c) suffocating partners with too many meetings or with intense coaching, to the extent that their core activities are disrupted, or (d) encouraging partners to mimic the standards, systems and procedures of developed country agencies, rather than those befitting their context.

The terms of programme support and how it is provided must reflect your partner's ability to take on your support whilst retaining ownership and control over their own actions.

A related risk is that partners, particularly if they grow to be successful, become attractive to funders and other

visitors to your programme, who wish to observe market systems development in practice. It is gratifying for you and your partners to receive such recognition, but this kind of attention can become disruptive. It can distract partners from performing their primary function and turn them into showcases. Try to control access: schedule such visits to coincide with your routine interactions with partners and spread them across your portfolio of partners.

Market systems development in practice, not theory

Programmes sometimes develop intervention strategies based on a few tentative discussions with market players. Your plans must reflect your partner's actual intentions, not an 'ideal' scenario on paper which ignores reality. Setting a ratio for cost-sharing activities, without gaining the views of (prospective) partners, is meaningless.

Look out for other programmes whose actions can damage the sustainability of your work

It is a sad reality that your best-laid plans will often be spoiled by other development initiatives. When market players supported by your programme become successful, other development agencies can rush to work with them, displacing investment and ownership, and sometimes undoing much of your work.

This is difficult to counter, but you must try. Register the issue with the funders and initiatives in question and engage in advocacy to influence the agendas of others.

Market systems development fora have been established in a number of countries. These involve regular meetings, opening dialogue for more consistent intervention approaches that cut across programmes and funders.

You can also use market system selection criteria to mitigate this risk. Identify market systems where distortionary programmes are active and focus elsewhere.

Don't rely on the demonstration effect

It is common for programmes to undervalue or neglect **Step 2**, assuming that crowding-in will occur through a demonstration effect as a result of initial interventions.

In reality the demonstration effect is not as powerful as many programmes think. Pilot 'successes' often fail to progress to greater acceptance and scale because of widespread capacity, incentive, information and coordination shortcomings that remain in the system. Indeed one sign that root causes of under-performance haven't fully been addressed is the continued failure of the demonstration effect.

Supplementary interventions are, therefore, nearly always required for pilot phase successes to achieve scale and for poor outcomes to be institutionalised.

Partner with entities, not counterparts

Programmes can rely too heavily on individuals within partner institutions. Individuals may leave the partner to work elsewhere or, as is often the case in public agencies, be rotated to another department.

It is important to work towards partners, as entities, 'embedding' new behaviours and practices, so that the concept and process of change manifests itself beyond any one individual counterpart.

5.1 KEY PRINCIPLES AND STEPS

“The most serious mistakes are not being made as a result of wrong answers. The truly dangerous thing is asking the wrong question” Peter Drucker

“The effective use of data – learning by measuring – is at the heart of how we should manage complexity” Owen Barder

Monitoring and results measurement (MRM) is key to successful market systems development programmes. Market systems are complex, and intervening to make them more efficient and inclusive is not a matter of implementing a fixed plan. MRM must be both rigorous and pragmatic in order to deal with this complexity.

MRM in market systems development programmes must take into account two specific considerations:

- Monitoring and measuring system-level change and its impact on the poor: measuring change, and its sustainability, at the system-level is a priority. Ascertaining whether system-level changes are benefiting the poor is also vital. Programmes must be able to measure causality from intervention to poverty reduction via system-level change, isolate the impact of their interventions from wider influences, and identify programme beneficiaries within a wider population
- Dealing with complexity and unpredictability: change processes are driven by market partners operating in dynamic environments; outcomes are not fully within programmes' control. Flexibility and responsiveness are crucial. Programmes need timely, accurate feedback to assess intervention effectiveness and adjust their actions accordingly. MRM must be integral to the intervention process and the role of all staff

The information generated by an effective MRM system supports two interrelated yet distinct goals. It provides evidence to 'prove' development outcomes (ie impact and their attribution to programme intervention). It also supports continuous learning and adjustment in order to 'improve' the effectiveness of programme intervention to bring about better outcomes.

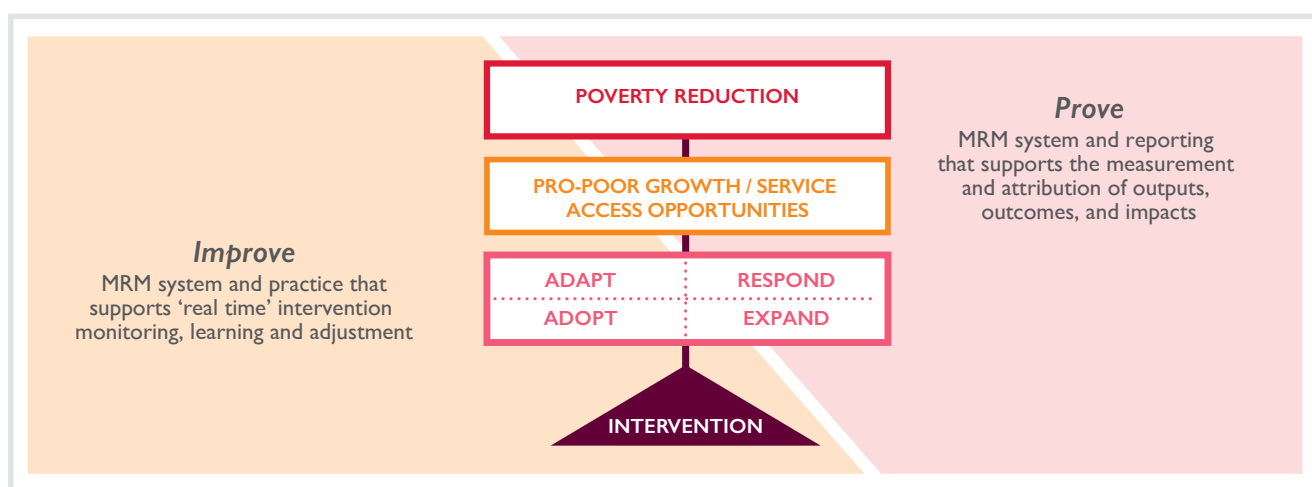


Figure 20: Measuring systemic change

Establishing a rigorous process for MRM capable of proving and improving outcomes entails five steps:

- Step 1: Assign sustainability indicators, augmenting the results chain where necessary:** Set results chain indicators that measure progress towards system-level, pro-poor growth or improved access and poverty reduction changes, as well as the sustainability of these changes
- Step 2: Project how much each indicator will change by:** Predict the extent of change anticipated for each indicator as a result of each intervention by a given date
- Step 3: Create a plan for collecting information to measure performance:** Detail who will undertake each measurement task, when, where and using which methods
- Step 4: Establish appropriate baseline information, then measure results:** Baseline information for each indicator is needed before intervention begins. Carry out measurement duties as per the measurement plan
- Step 5: Analyse and use MRM information to inform decision making and external communications:** Interpret the findings of MRM and use them to inform decisions about improving programme strategy and interventions. Learn from achievements and failures, and communicate both to funders and other stakeholders

5.2 ESSENTIALS FOR MONITORING AND RESULTS MEASUREMENT IN MARKET SYSTEMS DEVELOPMENT

A range of accepted good practices in MRM and technical resources are available to support practitioners (for example the Donor Committee for Enterprise Development Standard for Results Measurement). The Guide does not aim to replicate these, but rather complementing them by focussing on those aspects that are specific to market systems development. In particular the Guide emphasises the role of MRM in decision making and its integration into intervention and management processes.

A rigorous yet pragmatic MRM system is needed to address two key monitoring and measurement challenges for market systems development:

- *The need to monitor and measure system-level change and its impact on the poor:* you need to be able to measure across the chain of causality – your programme’s strategic framework – from intervention to poverty reduction via system-level change. You can’t rely on high-level poverty impact indicators to determine this. A range of intermediate indicators, quantitative and qualitative, are required to assess progress up your results chains, employing different methods on a case-by-case basis. To do this, the MRM system will need to draw upon information from the diagnostic process that defined the focus of intervention in the first place. The emphasis on monitoring and measuring system-level change, with the aim of highlighting the sustainability of changes instigated and informing intervention decision-making, necessitates programme MRM systems to be fully integrated with processes of intervention management.
- *The need to deal with complexity and unpredictability:* you need to recognise the interconnectedness and uncertainties of market systems, ie their complexity. To do so, an MRM system that captures, interprets and acts on information quickly is critical. Without this feedback, management will not be equipped to adjust interventions that are not progressing. Of equal importance to MRM system design is staff attitude. Management has to develop a culture that is learning-focused and that endorses self-critique. It is this that makes adjusting interventions possible. This has implications for how your MRM system is set up, staffed and resourced. The system and culture together is what allows programmes to respond to complex environments

Integrate MRM fully into programme management systems

MRM is not simply the component of your programme that captures logframe indicators for funders to ‘prove’ that the programme is being effective. It informs daily decision-making across your programme to ‘improve’ its performance. MRM drives effectiveness. This vital role must determine MRM systems’ design and management.

Key questions to ask of MRM systems are:

Are you developing, testing, and maintaining an integrated MRM system?

An effective MRM system takes time, resources and commitment to develop and to integrate with decision-making processes.

Your MRM system will have to capture and deal with a lot of information, including partner activity, field observations, focus group feedback, survey data, expert reports and case studies. Handling this much information can be a challenge and

requires suitable procedures, opportunities, and documentation to incorporate new knowledge and interrogation (ie what is working, why, how? What isn’t working, why not, how does it need to change?). Intervention guides (see Chapter 4) should be designed to capture all this information.

Managers should expect to pilot MRM systems and procedures and to refine them over time.

Are you drawing on information from the diagnostic process?

Make the most of the knowledge the programme already possesses. Information from the diagnostic process (see Chapter 2) provides the starting point for key measurement information needs, ie indicators and baselines. Programmes will already have a detailed understanding of how market players are underperforming and what they need to change as well as the target group’s performance and poverty status.

In simple terms, you should ‘diagnose down’ the strategic framework to define your interventions; then you can use much of the same information for indicators and baselines to ‘measure up’, from intervention to impact on poverty.

Programmes often neglect that they have this information at their disposal and instead commission separate, expensive baseline surveys. This wastes time and money. Utilise your diagnostic information, supplementing it with additional baseline assessments where needed.

Are programmes and funders able to get what they need?

The MRM system must produce information for programme funders as well as for its implementers. Funders and implementers have diverse uses for information, and thus different information needs.

The MRM system has the dual purpose of programme management and external reporting. It is, however, important that reporting requirements are not driving the design of your MRM system. Management and decision-making utility must be the number one priority.

In practice, an effective MRM system that supports internal programme learning and improvement should generate the kinds of information needed by external partners too. But, it remains important to:

- Discuss funder information requirements as soon as possible, focusing on ‘essentials’ rather than ‘nice to haves’
- Agree a realistic schedule for what can be reported and when. Programmes find it useful to communicate to their funders using their results chains. This gives rise to discussions that are more focused on the sequencing of market systems development interventions, as well as the time-lapses expected between activities being undertaken and impact being reported
- Regularly review whether requirements are being met, adjusting the MRM system where necessary to also capture information funders wish to see

Are you getting the balance right?

MRM systems need to be tested and refined. This means programmes need to find out: what they can measure feasibly, which indicators work, which tools and methods are suitable, what needs to be simplified, and which technical service providers can be relied upon.

Your MRM system needn’t be academically perfect, but it must balance the need for rigour with the need to be affordable and able to be operated by programme staff.

Taking MRM seriously requires dedicated resources. The MRM system doesn't need to cost a fortune but it needs people, time and management.

Reality check: Resourcing MRM activities

Although measurement and learning are shared responsibilities between MRM staff and intervention staff, MRM staff with specific technical measurement and analytical competencies should account for at least 10% of all programme staff.

Don't forget to budget for costly items, such as large surveys outsourced to technical service providers, as well as for the measurement of intervention achievements up to two years after intervention has ceased (to assess not only how sustainable changes stimulated have been, but also to give a better indication of impact).

Take MRM and learning seriously

Demonstrate MRM system utility

Although essential to programme success, intervention staff often won't take MRM seriously unless they receive signals from management to do so. Managers must prioritise not only the development and testing of the MRM system, but management's adherence to analysis- and learning-based decision-making.

Senior managers must be seen to use the MRM system and the knowledge it generates as a decision-making tool. As MRM generates useful insights and feeds into intervention re-design, the incentive is created for monitoring and measuring to continue.

Regularly review, triangulate and interpret information

MRM information can only be used for decision making if procedures are established for routine, structured reflection by the team (ie monthly information check and triangulation, quarterly progress reviews) and if senior decision makers participate.

Regular meetings to review and triangulate information on progress, and discuss changes to interventions, drive critical reflection. These should focus on what is not working and where you are getting stuck, rather than on briefing management. These sessions should be fixed in the programme calendar as routine events (eg monthly) so that they are prioritised and well-prepared.

Establish a culture that encourages internal criticism

Effective learning requires a spirit of open, critical enquiry across the programme: continually asking what does and doesn't work, and why. If staff are unable to critique themselves and one another, the full potential of the MRM system will not be realised.

Staff can feel that the 'failure' of interventions reflects negatively on them, eg jeopardising their promotion prospects. It is inevitable that some interventions won't work and staff should not regard this as failure. Managers must work hard to develop and maintain a culture of openness, honesty and receptiveness to constructive criticism.

Leading by example is important. A programme which is overly hierarchical or fixated on chasing targets will lead to a 'closed' culture inhibitive to honest reflection and learning. This is hard to reverse.

Iterative adjustment of intervention strategies, results chains, indicators, and measurement plans in response to regular feedback and reflection is normal in market systems development. Programmes are only as flexible as the staff within them!

Avoid segregating MRM staff from intervention staff

To be most effective, measurement staff will need to work very closely with intervention staff. Understanding of your programme's approach, market system analyses, and intervention strategies should not rest solely with intervention staff.

Avoid segregating measurement and intervention staff in the office and ensure that measurement staff accompany intervention staff on non-measurement tasks and *vice versa*. Intervention staff should have ownership over results chains, indicators, and measurement plans. They are not simply the tools of measurement counterparts. Intervention staff on their market systems development programmes will typically spend far more time working on measurement, analysis and learning-related tasks than staff on other programmes.

Reality check: MRM building blocks

Assess progress towards an operational MRM system by asking:

- Are market systems strategies developed? Are these supported by credible diagnosis?
- Do all main interventions have results chains?
- Have key indicators been developed and tested?
- Are measurement plans realistic and adequately resourced?
- Is the team leader or a senior manager driving the MRM process?
- Is there an MRM manual that is known by staff?
- Can all staff explain what their role is in MRM?
- Are all staff involved in review and triangulation sessions? Are there records of this?
- Is there agreement between funder and implementer on reporting requirements and scheduling?

5.3 PUTTING IT INTO PRACTICE

The following five step guidance focuses on priority considerations for MRM in a market systems development programme context. **Steps 1 to 4** should be repeated when you begin a new intervention. Some steps may also require repeating for the same intervention, as the intervention progresses.

In practice, **Step 5** is needed whenever any significant monitoring or measurement information becomes available for any given intervention, to interpret the findings and decide if results chains, indicators and projections need updating.

Step 1: Assign sustainability indicators, augmenting the results chain where necessary

Chapter 4 describes the use of results chains as a key element of programme intervention guides (see 4.2).

Though the results chain is the management and measurement 'backbone' of intervention, it is only given meaning if the indicators of change are well formulated, ie SMART (specific, measurable, achievable, relevant and time-bound) and if they are tested and amended accordingly. In some instances, you may need to use proxy indicators to tell you something about a change that is hard to measure.

Reality check: Assigning indicators

Assigning at least one indicator to each box in the results chain helps you to track progress accurately and to examine your assumptions about how change was predicted to take place.

For some programmes, this can create a large number of indicators to track. This level of detail can be useful so long as it informs decisions or is used for reporting. To avoid irrelevant indicators, ask yourself:

- Will changes in this indicator inform my next steps?
- Will this indicator help establish the link between change at one level in the results chain and the next level up, ie the chain of causality?
- Is this indicator needed for reporting purposes?

It is a common mistake to select indicators at the start of the programme, and then stick with them, regardless. What seems like a sensible indicator during planning might not be practical when it comes to actual measurement, in terms of feasibility, reliability, significance or replicability on a larger scale.

The results chain and its indicators are only meaningful in a market systems development programme if the sustainability of output, outcome, and impact changes are also measured. Assigning sustainability indicators will ensure that your programme takes sustainability seriously.

Assessing sustainability requires you to determine whether the innovation players have adopted is continuing independently of the programme and whether crowding-in has taken place.

The systemic change framework (see Chapter 4) provides a way of reflecting on both the sustainability and scale of impact and assists programmes in planning their next move.

Sustainability indicators can be created for each element of the framework (adopt, adapt, expand and respond) and can be used to augment pilot and crowding-in phase results chains.

Sustainability indicators help programmes:

- Track changes in partner behaviour, capacity and motivation, drawing attention to those partners who are struggling to continue with new roles
- Track changes in the level of partner ownership, and signs of the shift from 'adopt' to 'adapt' (ie independent actions)
- Assess whether scale and sustainability depend on too few players
- Identify whether other players in the systems are responding positively to changes introduced, or where the wider environment remains unsupportive of pro-poor change

Figure 21 presents **key questions** that you will need to answer before concluding that your results are sustainable. You will need to generate credible evidence that the answer to each of these questions is 'yes'. It also provides examples of indicators that can help you to answer these questions.

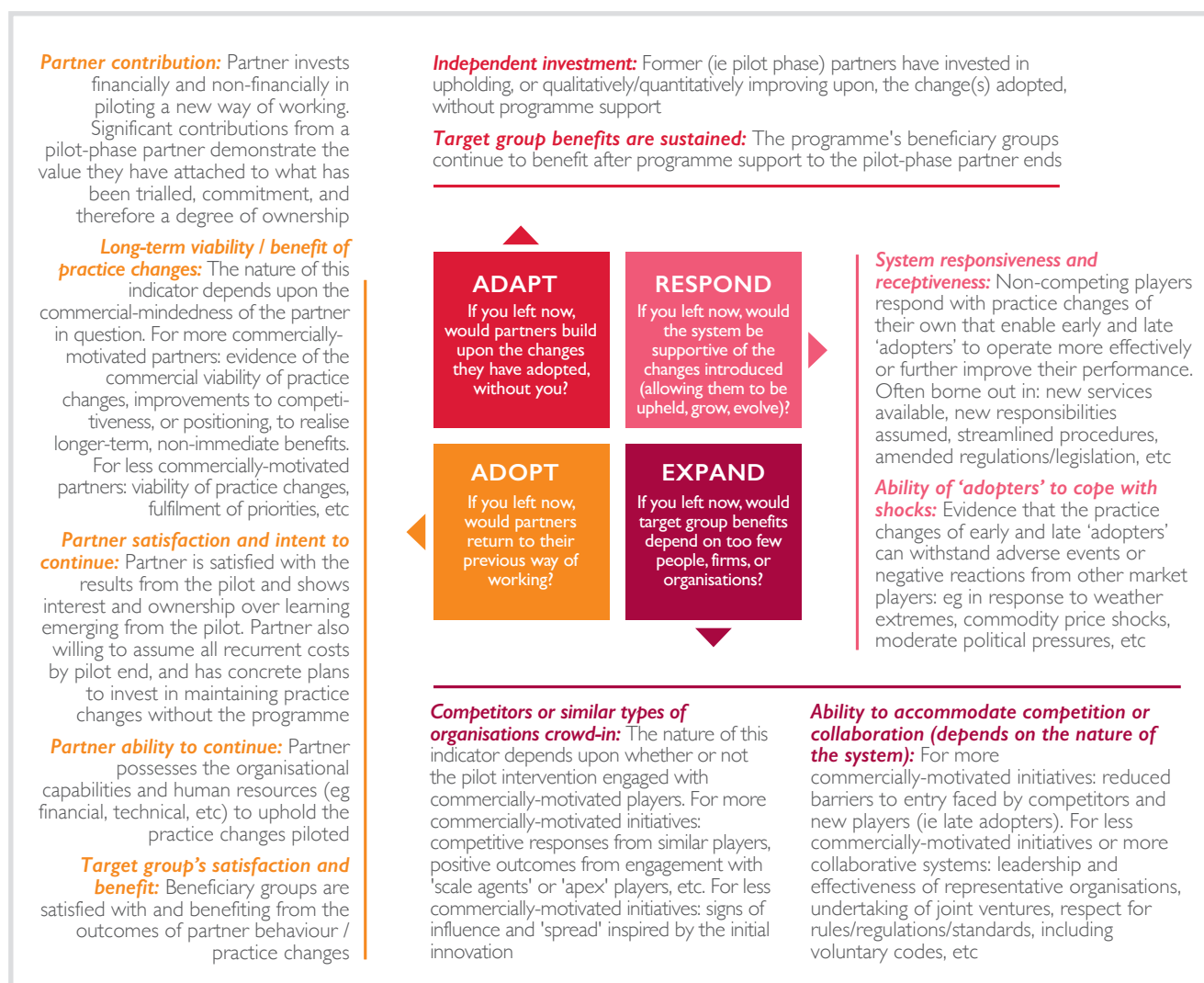


Figure 21: Key questions and indicators of sustainability and scale

The indicators in Figure 21 are illustrative: you will need to tailor them to the context of the system you are working in.

Note that when you measure scale (how many, how much) you focus mainly on the changes stimulated by your interventions. When measuring sustainability, the same is true, but you must also be alert to what has not happened and what is not yet in place.

Step 2: Project how much each indicator will change by

Projections are not targets. They are 'best estimates' of results, by a given date in the future, based on current information. Use the information you gathered during the diagnostic process to help you make realistic projections.

Programmes tend to draw on estimates of the size of the current market (eg traded or consumed volume/value) or the size of the service access frontier. These estimates establish a projection 'ceiling', within which intervention strategy-based projections are made as to the proportion of the market or access frontier that their work will conservatively impact.

Estimates may not be exact, but they are important. They help you make decisions. Projections allow you to compare the expected benefits of interventions with their estimated costs and decide whether an intervention is value for money, ie likely to result in sufficient and sustained developmental impact to justify its cost.

Projections are, therefore, most useful when they are reviewed and updated regularly. They are also more useful when time-bound: you should project how much change will occur and by when it is forecast to occur.

Take care that staff do not begin to chase projections, misinterpreting them for targets. Targets and year-on-year milestones are a topic for programme-level discussion in the context of the overall programme logframe. Managers should not delegate targets directly to intervention staff as this incentivises more intensive and direct intervention and may undermine sustainability.

Use your intervention results chains to remind staff of their immediate focus on system-level change, the causal logic of intervention, and the importance of not taking shortcuts.

Projections should include a period beyond the intervention itself (eg two years after intervention ends) in line with the need to demonstrate results that last.

Reality check: Project and communicate clearly

Funders can be impatient to see results during the early stages of a programme's life, because it takes time to achieve impact. This can be addressed by making and sharing realistic projections to give your funder a concrete sense of what the programme is likely to achieve.

Communicate clearly that these are projections only, and explain key assumptions. Your projections should be conservative. Some programmes use an 'optimism bias factor' to reduce their projections, eg only using 70% of any estimated impact figure.

Step 3: Create a plan for collecting information to measure performance

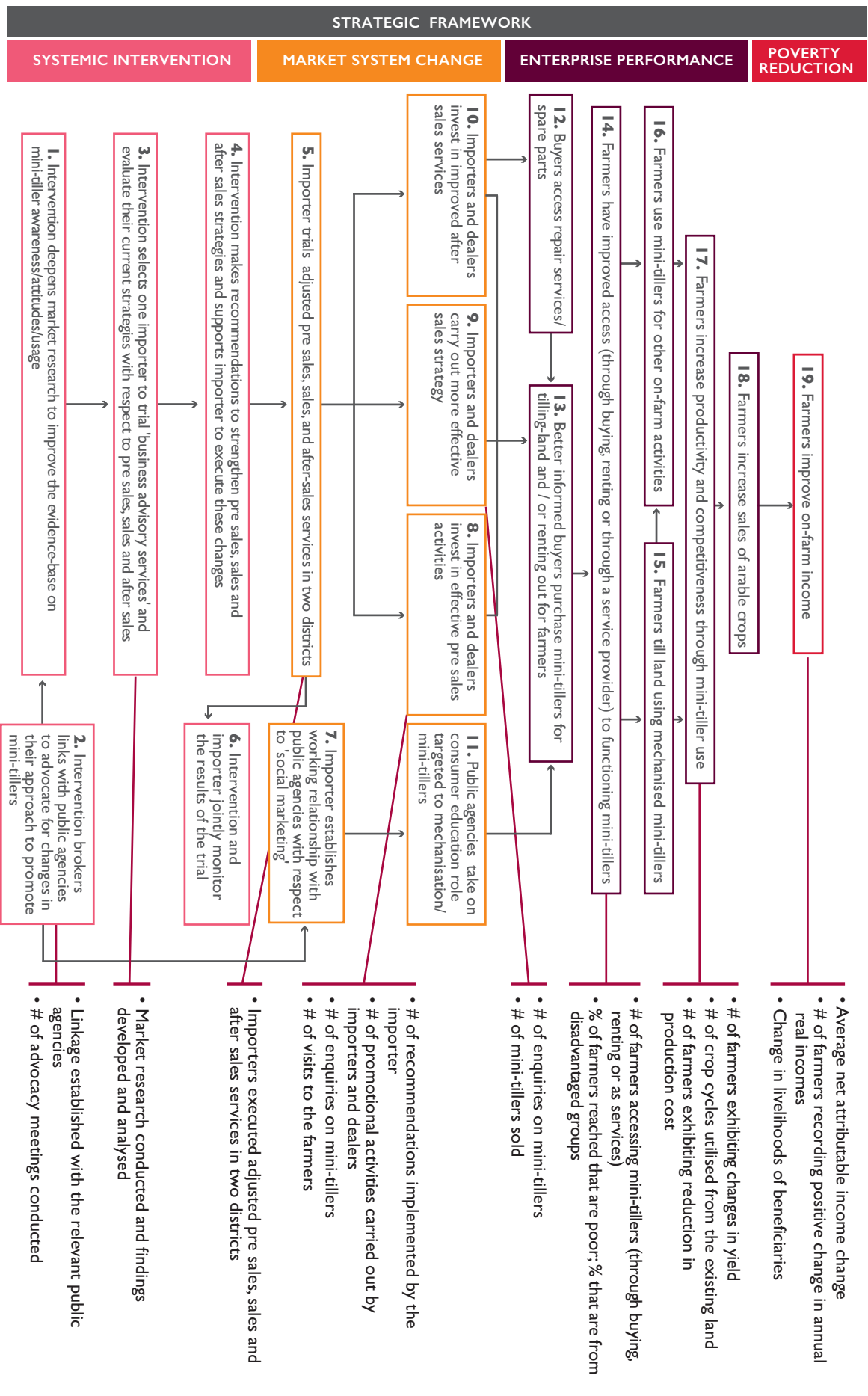
The next step is to compose a measurement plan for who will undertake each measurement task, when, where, and using which methods. Define clearly the roles and responsibilities of all staff.

Develop your measurement plan as follows:

- **List and number each result:** list each anticipated result from the results chain against its respective 'level' (ie system change, growth/access, poverty reduction). Each 'result' should be assigned a number
- **Questions:** list the key questions that you want to answer by measuring changes that relate to each box
- **Indicators:** set indicators, including sustainability indicators, for each results chain box (see **Step 1**)
- **Assumptions:** before piloting an innovation you invariably make assumptions about its future costs, its level of usage and level of response to its presence. These assumptions need to be validated in time. Include them in your measurement plan, next to the most relevant results chain box
- **How, who, and when:** list the methods and sources of information you will use to measure changes in the relevant indicators. For each indicator, add who will measure it and when
- **Baseline:** write what baseline information there is, for each indicator. Remember to revisit the information gathered during the diagnostic process
- **Projections:** write what results you project, for each indicator, as per **Step 2**. Supporting calculations are best written elsewhere (eg on a separate spreadsheet)
- **Progress:** for each indicator, write the cumulative attributable results already recorded (ie the results so far)

Example 35 (overleaf) provides an illustrative results chain based on a real example from a programme in South Asia, accompanied by a set of indicators for selected results.

Example 35: Intervention results chain and selected indicators



Choosing the right methods

The methods you need to use to measure will vary. When creating the measurement plan, reflect on the purpose for measurement, the level of the results chain you are measuring, the phase of intervention you are in, and the resources at your disposal. There are many technical resources available to help practitioners select between methods depending on the purpose for measurement (and therefore the level of rigour required) and the resources and budget available.

Reality check: Don't expect a single method to do it for you

The Degrees of Evidence framework for monitoring and evaluation funded by USAID offers a practical framework that seeks to address the confusion surrounding measurement methodologies. The framework helps programmes to assess their methodological options according to their purpose, rigour, and cost in order to match MRM methodologies to the questions asked, the level of credibility sought, and the level of resources available.

Where practical, it is good practice to use at least one qualitative and one quantitative method to measure each indicator, and different methods and sources to triangulate data received. Quasi-experimental and qualitative methods are recommended for use in market systems development programmes:

- *Quasi-experimental methods help you assess what has changed:* assessments (eg surveys) comparing those targeted by the intervention (experimental group) with those similar to your target group who remain unaffected by your intervention (comparison group). Differences between affected and unaffected groups are especially useful to gauge how much change occurred due to programme interventions
- *Qualitative methods help you assess why something has changed:* in-depth interviews, focus group discussions, and observations by programme staff and enumerators will help you to understand the reasons behind the changes emerging from quantitative data. This is necessary for estimating attribution, but also for assessing the sustainability of outcomes and results

Whether or not a suitable comparison group is available must also be factored in. Quasi-experimental methods are easier to use within relatively homogenous populations. Even in these circumstances, finding the right comparison group(s) requires careful planning.

Your findings can be inaccurate if factors other than the intervention itself cause one group to do better than the other, during the period of study. They will also be invalid if your interventions start to influence the comparison group as well as those targeted. Where no comparable group exists, the following two options should be considered:

- Look for 'matches' (people or entities) in other regions that are similar to the specific people or entities in the region of the affected group
- Analyse and compare trends between affected and unaffected areas, then try to identify and discount all factors other than the intervention that cause results to vary between affected and unaffected areas. External influences may include macroeconomic trends, new infrastructure, regulations, climatic events or the effects of other development programmes

Remember to cross-check findings from quantitative and qualitative studies. This will help identify mistakes as well as capture nuances and explanations missed by using quantitative methods alone.

Reality check: Look for the unexpected

When analysing data look for clusters (ie lots of feedback showing similar results), including any which may be surprising. Are there any obvious anomalies? Are unexpected factors at work?

Investigate any 'surprises' to see if errors have occurred with some basic follow-up and verification tasks post-assessment. Intervention staff may also wish to include some open-ended questions in survey instruments for enumerators/researchers to use when speaking to partners or your target group, so that you're less likely to miss out on information that could challenge your expectations. Equally, encouraging enumerators to talk to respondents informally after the survey can reveal new and unexpected insights, which they should be incentivised to make a note of.

Step 4: Establish appropriate baseline information, then measure results

You need baseline information to assess whether change has happened, and the extent of that change. Measuring the difference between the groups you target and relevant comparison groups, before and after your intervention, lowers the risk that your results are biased by differences between these groups that are unrelated to your intervention.

As noted earlier, the diagnostic process provides the starting point for establishing indicators and baselines. Important information will emerge from the diagnostic process as well as pilot activities that can never be captured upfront by a single, large scale baseline survey. Where additional baseline data are needed to complement that generated during diagnostics programmes commonly undertake a number of smaller, targeted studies to complete their baseline information.

Be smart about baselines

In considering establishing baselines, ask yourself the following three **key questions**:

Have you made the most of the information gathered during the diagnostic process?

Your understanding of the target group, how they engage in market systems, and the growth or service access opportunities that present themselves as well as the functions, players and their performance within the system provides essential baseline information against which to measure change.

Establishing baseline information starts with your diagnosis of the market system and how the poor engage with it. It draws on understanding of your target group and the nature of their poverty; the current level of income or service benefits; and how efficiently and inclusively the system is performing. Building the baseline from your diagnoses saves effort and keeps strategy and measurement coherent: you should diagnose down and measure up.

Are you putting too much faith in a single programme-wide baseline study?

It is better to conduct several smaller baseline surveys specific to each system or intervention given how specific data needs are and how locations and target groups are likely to vary across interventions. In conducting a single baseline study to cover all interventions, you often find that the people assessed initially are not those who are ultimately covered by your interventions.

When are you planning your baseline?

When conducting small complementary baseline surveys is appropriate, timing is critical. The expected trajectory of impact on beneficiaries is longer for market systems interventions because systems must first change before lasting impacts can be measured. Consequently, the imperative to complete your baseline as soon as the programme mobilises is lessened. More importantly, surveys conducted too early may pre-empt emergence of the focus of intervention (eg. principal or supporting market system; operational geography) during the diagnostic and piloting processes.

Significant delays in capturing baseline information may make your results less accurate. The people you wish to assess may no longer recall their exact status before the intervention began.

If you are unable to establish a reliable baseline from the outset, you can still measure results accurately later. Sample sizes can be made larger and even more care should be taken to identify and isolate any factors that might differentiate targeted and comparison groups.

Use good measurement practices

You should adhere to accepted good measurement practices. The following **key questions** are particularly relevant to programmes employing the market systems development approach:

Which measurement tasks is it safe to outsource?

Outsourcing some tasks, such as the conducting of large surveys, is pragmatic: it frees up staff time and can bring technical expertise and independence to your measurement. Outsourcing is also useful when cultural or political sensitivities require you to disguise your involvement, or in situations when a third party is regarded as more impartial or acceptable.

However, if you do hire external parties, make sure to remain fully involved. You must still set the overall framework for the measurement task, supervise and quality assure data collection and cleaning, and troubleshoot where needed.

Other measurement duties are better conducted in-house by staff who are able to construct clear, logical results chains, select research methods, develop and refine survey instruments, analyse and interpret findings of incoming data, and aggregate results.

How reliable are secondary sources?

Secondary data analysis is vital in understanding wider market system change. However, information relating to market system change is rarely specific enough to record reliable baselines or to credibly assess changes if taken solely from secondary sources. It is particularly important to do your own research at this level in the results chain.

What exactly do you need to measure?

Some programmes collect large volumes of information, yet need only a fraction of it. The information that you gather only has to be 'good enough for now'. Double-check surveys, filtering out less relevant questions. Clear results chains keep you focused on information that is essential rather than 'nice to have'.

Step 5: Analyse and use MRM information to inform decision-making and external communications

Reviewing and adjusting interventions and strategy

Information generated by monitoring and measuring should be used to review intervention progress: are results being realised as envisaged? These internal reviews and the process of data triangulation are the essence of integrating MRM systems into programme decision-making. Intervention results chains and indicators should be updated to reflect any alterations.

Use monitoring data to assess your progress against the indicators in your Systemic Change Framework. Discuss whether partnerships should continue, be adjusted or exited altogether, based on the levels of partner contribution, motivation and ownership.

Establish processes and procedures that encourage staff, including managers, to use information to review the programme's performance regularly. A combination of formal and informal processes and procedures are needed:

- **Formal processes and procedures:** regular progress review and data triangulation meetings should be scheduled, ideally monthly and quarterly. These are interactive meetings involving all technical staff. They require key documents to be up-to-date and shared with peers beforehand as inputs.

On a quarterly basis you should review progress against the up-to-date version of the intervention results chain: is the intervention working? Have key activities resulted in changes to how players within the market system work? What else needs to change? Do assumptions still hold?

On a monthly basis you should review the status of specific partnerships: is the partnership working? Is this partner the right 'vehicle' for achieving system-level change?

It is useful to use some simple 'early warning' checks when reviewing partnerships: what is the likelihood that your partner will continue to fully adopt the changes they are experimenting with? Are incentives of all parties clear? Are the changes initiated by your partner having an effect on your target group and is it the desired effect?

- **Informal processes and procedures:** staff in market systems development programmes tend to have considerable autonomy. Important tacit knowledge can be lost because staff lack the means to capture and share the information they amass when in the field, on the phone with partners, or in discussions with informed third parties. Help staff to maintain simple records or 'learning narratives' to capture this tacit knowledge. This isn't a reporting obligation, merely the documenting of staff knowledge as and when it expands.

These records constitute an important part of the programme's memory. They provide the raw material for formal meetings. They help capture vital qualitative information, give you insights into what else is going on in the system beyond your interventions, and identify issues that need to be followed up.

Communicating progress to programme stakeholders

Think carefully about what you need to communicate to whom. There is a tendency in development to share all information with everybody. In reality, this blunt approach is unhelpful and can even be damaging. At its best, it leads to information overload and the undermining of the market intelligence you have generated. At its worst, it can put inappropriate information into the hands of people who are not in a position to interpret it correctly, and lead to misperceptions and erroneous expectations.

These problems can be avoided by developing a simple, audience-specific, communications strategy. Based around your strategic framework, this should map out who needs to know what, when and in what form.

When communicating to funders, emphasise how the programme achieves impact, explaining the connection between system-level changes and the large, long-lasting poor outcomes expected. Communicating this connection, with evidence drawn from sustainability indicators, should lessen demands for 'quick impact' that often arise out of the funders' nervousness that results are taking time to materialise (see also **Step 2**).

Case studies, thematic reports, and other similar 'products' also give you the opportunity to present findings, particularly the narrative underpinning change and important lessons learned, that might be 'lost' through more routine reporting.

5.4 "DON'T MAKE THE SAME MISTAKES I DID..."

Stay in charge of the MRM system

MRM is central to programme implementation and management. Programmes often become dependent on external resources to set up and lead their MRM systems. This tends to be expensive and ineffective.

Your MRM system will need constant leadership and adjustment. This can't happen through periodic consultant inputs or recommendations in a report. It needs to be led by management with dedicated staff and programme-wide commitment. Outsource tasks carefully.

This said, MRM is also a technically demanding area. Recognise that you can't do everything alone: make use of available expertise and experience. Make sure you are clear about what you want, stay in control of the process and try to build your staff capacity as you go.

Be realistic about external research capacity

If you need to outsource large-scale surveys, you need to ensure that the results are reliable. Some research organisations try to serve their clients by telling them what they want to hear, not by delivering independent, rigorous research.

Make sure you check the track record of prospective firms carefully and take the time to orient any enumerators and managers hired-in from such firms. Shape and stay involved in the research task and trial survey instruments first before doing the full survey. This will not only provide a test for the methodology of your survey, but also the firm's ability to undertake tasks as required.

Recruit the right people

In-house staff are vital. It is important not to simply recruit people on the basis of a CV with extensive MRM experience. That doesn't necessarily mean that it has been 'good' MRM experience. Instead you need to look for critical attributes:

- Ability to develop and update results chains and indicators
- Ability to manage and analyse large-scale surveys and triangulate between different sources and information-gathering methods
- Strong analytical skills to organise and interpret incoming data
- Ability to identify key informants and design and conduct small 'rough and ready' surveys
- Ability to write clearly, eg mini-cases and briefing notes

Involve partners in measurement on their terms

Avoid asking partners to collect information for measurement if the information you are asking them for is not relevant to them. Conversely, programmes should encourage partners to monitor information important to their own (future) performance, either in-house or by hiring researchers, if they do not do this already.

Take care to leave the right impression

When you monitor and measure, for both ethical and practical reasons, assessors should avoid creating unrealistic expectations (eg giving the impression that your programme will be giving people hand-outs).

Where the risk of creating such expectations is high, you might try contracting 'mystery shopper' researchers, or rely on interviewing a few key informants within your target group, who are less likely to misunderstand the monitoring task.

6.1 KEY PRINCIPLES

“Luck is when preparation meets opportunity” Seneca the Younger

“All organisations are perfectly designed to get the results they are now getting. If we want different results, we must change the way we do things.” Tom Northup

Stimulating market system change is a multi-faceted and non-linear process. It has distinct management implications for implementers. Implementers, and those who contract them, must prepare themselves for this move away from 'business as usual', ie away from continually fighting fires to preventing fires from breaking out in the first place.

Programme management has to be able to accommodate less predictable interventions. Market systems development programmes work through market players in partnership, at a pace determined by market players, in a way that encourages ownership of the change process. Market players do not operate according to the schedules or procedures of international development agencies.

A less direct, more catalytic approach requires programme managers to provide conditions that are conducive to flexibility, innovation and trial and error. Expectations, especially of what can be achieved in the short-term, also need to be adjusted.

Recruitment and personnel capacity building must be consistent with the demands of the approach. Market systems development is not a logistical endeavour, where delivery according to plan is all that counts. It is an analytical, advisory and catalytic endeavour. It requires credible, strategic leaders with entrepreneurial qualities and a team of staff with a wide range of multi-disciplinary expertise.

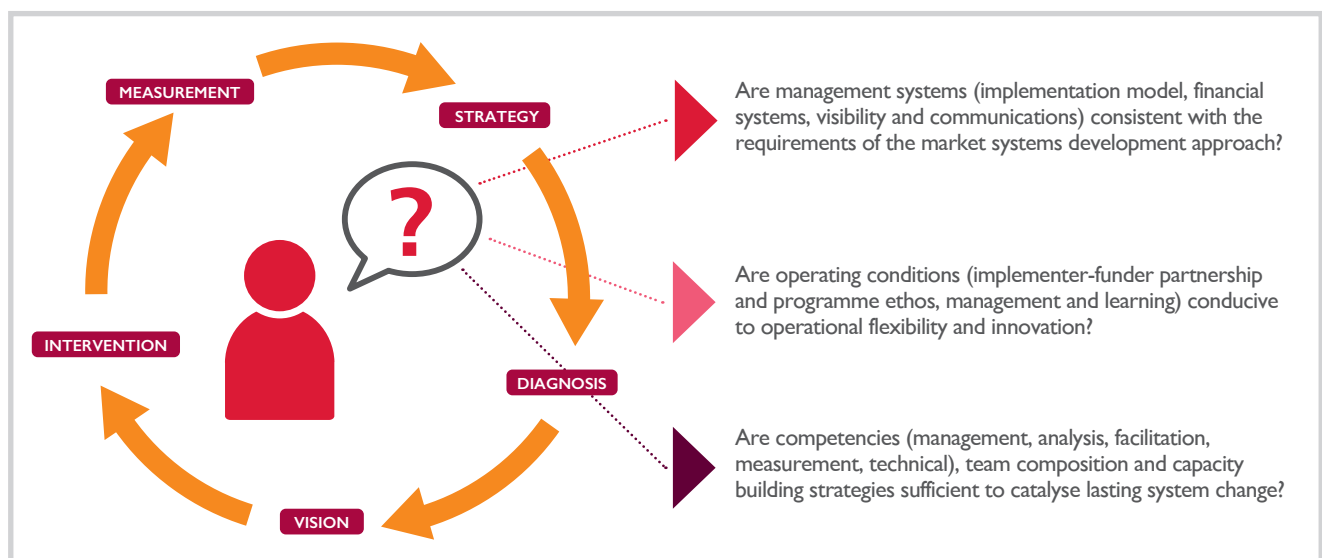


Figure 22: Managing market systems development programming

Aspects of management have already been covered in previous chapters, when dealing with specific considerations of setting strategy, diagnosing markets and establishing a vision, and facilitating and measuring change. Funder-specific considerations have been covered in Chapter 1, Strategy.

This chapter is aimed primarily at implementers, but it also has important implications for those funding programmes. Implementers must understand the management implications of the approach described in Chapters 1 to 5 of this Guide and be prepared to find ways of dealing with the tension between the bureaucratic norms of large, publicly-funded development agencies and the realities of programmes on the ground. This chapter focuses on three aspects of programme management – readiness, willingness and ability:

Readiness: *Assess whether systems are ready and fit for purpose:* Understand where organisational processes and procedures may constrain implementation of the market systems development approach; develop strategies to mitigate these constraints

Willingness: *Ensure staff are empowered and willing to manage market systems interventions:* Establish conditions that encourage flexibility and innovation amongst staff, reflecting the dynamic nature of market systems interventions

Ability: *Equip programme teams with the ability to manage market systems development effectively:* Assemble programme teams that offer leadership as well as technical expertise, supported by a strategy and resources for building team capacity

6.2 PUTTING IT INTO PRACTICE

This chapter examines the practical management implications of pursuing the market systems development approach as laid out in Chapters 1 to 5.

Implementers need to establish programme management which is consistent with applying the market systems development approach. This means being *ready* (putting in place the necessary systems); *willing* (creating appropriate incentive structures); and *able* (ensuring staff have the requisite capacities for market systems development). Funders must try to encourage implementers to establish these conditions.

Readiness: Assessing whether systems and procedures are fit for purpose

The **key question** you need to answer is:

Are your management systems consistent with the requirements of the market systems development approach?

Flexible, responsive programme management is critical. It requires procedures and processes that are also flexible and responsive:

- Implementation models
- Financial systems
- Visibility and communications

Implementation models

Few contracts specify the precise form of programme implementation model to be employed by the implementer, but in practice two models (or hybrids thereof) have emerged:

- *In-house implementation*: interventions are executed by full-time programme staff
- *Sub-contracted implementation*: interventions are executed predominantly by sub-contracted implementation partners or 'co-facilitators'

In-house implementation is the most common model. Its benefits lie in building and retaining in-house expertise and experience in the market systems development approach, and in setting strategy and controlling interventions.

For larger programmes in-house implementation implies high staff numbers and associated personnel costs. Some programmes therefore seek to outsource this burden by sub-contracting implementation activities.

The sub-contracted model can offer a means of quickly widening programme coverage, as well as bringing new expertise and networks into play.

In practice, sub-contracted implementation presents two difficulties. First, finding sub-contractors with commitment to and competence in market systems development is not easy. It can be difficult to determine prior to sub-contracting. Second, orienting, managing and measuring external sub-contractors responsible for delivering key parts of your programme can consume almost as much time and resources as the programme undertaking interventions itself.

The advantage of using sub-contractors, ie their local knowledge and contacts, is often the source of their greatest disadvantage. They tend to have established methods of working and other contracted activities that often conflict with the market systems development approach. Further drawbacks include:

- Experienced staff having entrenched opinions, which prevent them from looking at a problem with 'fresh eyes'
- Pre-existing relationships with market players based on direct support create expectations which can undermine development of more facilitative partnerships

If sub-contracted implementation is necessary it should be based on the principle of partnership, not 'delegation'. Assess the following factors:

- *The need to sub-contract*: sub-contracted implementation is not an easy option. Have you considered alternatives (eg expanding in-house resources or reducing your scope of intervention)?
- *Sub-contractor additionality*: what is the added value a sub-contractor brings (eg outreach, local knowledge, expertise)? Does this justify the costs associated with sub-contractor orientation, management, measurement and systems alignment?
- *Sub-contractor capacity*: does the sub-contractor demonstrate the technical and managerial capacity for market system intervention? What level of support and oversight will you need to provide?
- *Sub-contractor credibility*: Does the sub-contractor have credibility with market players? Does it have historical relationships with key market players that could undermine your programme's approach?
- *Sub-contract terms and conditions*: conventional output-based sub-contracts can create incentives for sub-contractors to deliver outputs irrespective of the sustainability of those outputs. Does the proposed sub-contract sufficiently incentivise effective application of the market systems development approach?

Reality check: Outsourcing strategies

In practice, programmes tend to use a mix of in-house and outsourcing, outsourcing different things at different times. Initially, a programme needs to establish effective systems and learn. At this stage, it is often not capable of managing and overseeing the outsourcing of large components of implementation. It will tend to outsource smaller, more manageable tasks. As the programme gains experience and momentum (and confidence in subcontractors) it is better able to outsource large elements of implementation, perhaps as it enters a new market system. The key lesson, however, is not to outsource strategy, diagnosis and measurement if you want to retain control.

Financial systems

Budgetary and financial management systems designed to assure accountability often lead programmes to define, from the outset, detailed budget breakdowns, spending forecasts and reporting formats.

Budgeting and forecasting in such a rigid and detailed manner is not possible when you intervene through a range of market players, at their pace. The diversity of activities associated with multi-faceted interventions can also lead to an excessive number of budget lines that pose a heavy financial reporting burden.

Try to balance the need for financial accountability with the need to avoid constraining intervention flexibility. It is more practical and less onerous to assure accountability through rigorous financial monitoring, cash-flow management and audits, than prescriptive budgeting.

Reality check: Co-funding arrangements

Co-funded programmes can be more complicated when funders have different accountability and process requirements. To avoid being 'all things to all funders', one solution has been the formation of trusts. A trust is a legal arrangement delegating management and governance authority from funders to a legally-bound entity governed by a 'Board of Trustees'.

Trusts can be complex to establish, but they offer a practical cost-effective means of accommodating multiple funding streams in pursuit of a single, cohesive implementation strategy.

Programme budgets are conventionally split into overheads (ie management, staff and administration costs) and funds spent directly on 'impact'. Funders seek to reduce the level of overheads as a proportion of overall programme budgets, in the interests of demonstrating 'value for money' and that the bulk of funds spent benefit poor women and men.

Influencing market player behaviour is a human-resource intensive process: rarely is it just about providing funds or equipment. You add value through your intelligence, insight, advice, mentoring and impartial mediation. Staff are therefore an essential intervention cost for any market systems development programme.

Categorising staff as overhead instead of intervention costs inflates overheads and under-reports intervention costs which distorts the picture of your programme's financial performance.

Interventions must be costed accurately and fully (eg staff inputs to market diagnosis, negotiations with market players, following up pilots, etc). These costs should also be integrated into your results measurement system to routinely permit a comparison of the costs and benefits of intervention, to aid decision-making and transparent reporting.

Reality check: Implementer incentives

Implementers tend to make most of their profits from staff fees. Variations in staffing plans can therefore undermine their commercial returns, reducing their incentives to be flexible during implementation.

Some agencies are using outcome-based performance contracts and payments as a way of encouraging implementers to focus on achieving impact through programme strategy, rather than personnel allocations, allowing more flexibility about how the programme organises its resources.

Reality check: Contracting mechanisms

Market systems development programmes are typically managed under a single head contract between a funder and an implementer, which lays out the fiduciary responsibility of the implementer and the basis for its legal accountability to the funder.

Effective contracts should safeguard the need for flexibility in implementation. They should emphasise poverty and system-level outcomes and sustainability rather than detailed inputs and activities. Contracts must provide for:

- Operational flexibility, including the ability to reallocate resources over time. The specifics of interventions should not be defined in detail at the contracting stage
- Incremental programme expansion, at a pace determined by opportunities and the responsiveness and capacity of market players
- Regular review to assess and revise intervention strategies and portfolio mix in light of results and market system dynamics
- Longer than conventional programme timeframes (typically five to six years)

Visibility and communications

Programmes engage with an array of stakeholders: target groups, civil society, government, funders, etc. How you communicate with these stakeholders can impact the effectiveness of your interventions and partnerships within the market system.

As highlighted in Chapter 4, programmes should maintain a low profile with the target group. Avoid promoting your 'development' identity, so as not to come between the target group and those market players who serve them and with whom direct relationships need to be built or strengthened.

Programme 'invisibility' may not be desired by your funder or government partners. For instance, your funder might want the programme to be 'visible' to its own constituency. Government might wish to see the programme support the priorities of an entirely different constituency. Neither one of these might be your target group or market partners.

Chapter 5 identifies the need for tailored and succinct communications strategies that enable you to communicate targeted messages to suit different audiences. Simple, clear and relevant messaging is vital if your stakeholders are to understand and support what you are doing and why.

Willingness: Assessing the programme operating conditions

Management systems can be adjusted to allow programmes to operate differently, but funders and implementers also have to want to work differently.

The **key question** you need to answer is:

Are programme operating conditions conducive to staff working flexibly and innovatively?

The effectiveness of teamwork within the programme is influenced by: (a) the nature of the funder-implementer management partnership, and (b) the conditions under which the programme will operate.

Implementer-funder partnership

Managing flexible programmes requires genuine partnership between funder and implementer; reflected in shared ownership of programme outcomes and decision-making.

Market systems development programmes take risks. Rigidly defined boundaries of responsibility between funder and implementer can encourage risk aversion. An open and collegiate approach is very important. You should be concerned if you find yourself in a 'them and us' relationship.

Sustainability is rarely a 'quick win'. It requires iterative interventions and longer timeframes. Being patient yet confident that sustainable results will emerge in time is risky for funders and implementers. Risks can be minimised when they are recognised and responsibility for their monitoring and mitigation is shared:

- **Planning:** build consensus and commitment to the strategic framework and its operational implications
- **Implementation:** maintain a joint focus on the programme objectives whilst recognising the need for flexible intervention tactics in pursuit of those objectives. If you are a funder you will need to give implementers 'space' to innovate. If you are an implementer you will need to build your funder's confidence in the decision-making processes shaping the programme's direction
- **Measurement and communication:** share understanding of the change process and what is being measured; be open to learning lessons (positive and negative) in order to refine programme implementation

There will always be a tension between the practical realities of stimulating system-level change and the need to demonstrate tangible results in short timeframes. Realistic projections can help (see Chapter 5), but experience suggests that reconciling this tension is almost impossible unless implementers and funders work together closely.

Programme culture

Intervening through market players reduces the degree of control a programme has. If you are an implementer you need to be willing to work in a way that carries greater risk (albeit to achieve larger scale, more sustainable outcomes) and establish an operating environment that is conducive to staff working flexibly and entrepreneurially.

The ability to operate effectively is reflected in a programme's ethos, leadership and learning environment:

- **Ethos:** effective market systems development programmes are characterised by demonstrable understanding of and commitment to the approach, its focus on sustainability and the facilitative role of aid intervention. This ethos needs to be nurtured by management and supported by the programme's funder
- **Leadership:** implementers need to establish a programme culture and management systems capable of accommodating risk and flexibility. Leadership is the most critical factor in achieving this. Effective management entails encouraging experimentation and calculated risk-taking. Teams need to be empowered to engage with diverse stakeholders and to employ a range of intervention techniques. In parallel, management needs to develop the discipline of analytical rigour and critical thinking, accompanied by effective systems for measurement and learning (see Chapter 5)

- **Learning:** Your interventions can only be responsive and flexible if information flows regularly from the field into your decision-making and back again. Learning is both an attitude and function. It needs to be inculcated across the programme's operations. Features of a strong learning environment include:
 - *Inquisitive people:* staff at all levels ask questions about market systems and interventions, and share lessons about successes and failures
 - *Space for learning:* programmes provide the time and opportunity (progress review, data triangulation) for all staff to reflect regularly on what they are doing, and build mentoring into the tasks of management
 - *Learning is captured and utilised:* staff are expected to capture and share lessons from interventions, and have the mechanisms to do so
 - *Learning as a management criteria:* staff should be assessed and incentivised on their capacity for learning and adaptability
- A learning culture must be invested in. It requires:
- Allocation of time in the calendar for learning and exchange, and recognition of its validity (eg in terms of reference)
 - Allocation of resources for specific research activities that adds to understanding and learning

Ability: Assessing staff competency to deliver

The effectiveness of any market systems development programme depends on its people. Finding, training and motivating the right people is vital to success.

In recruiting and establishing teams the **key question** you need to answer is:

Do you have the requisite breadth and depth of competencies to catalyse lasting system change?

There are three aspects that you need to consider:

- Core competency needs
- Team composition
- Capacity building strategy

Core competencies

The diversity of contexts, market systems and interventions means that it is rarely possible to have, or even predict, all the skills you need within one organisation. What you must have are the basic attributes and competencies of market systems development within your core team (see Figure 23, overleaf): managing, analysing, facilitating and measuring interventions. These are transferable across systems, and this inter-change is actually beneficial. System-specific technical expertise is needed within the core team, but can be complemented by outsourcing.

A combination of these competencies is therefore essential:

- **Management:** conventional programme management emphasises the delivery of outputs and thus the management and administrative capacity of senior staff. Intervening in complex and dynamic market systems and working through market players places even greater emphasis on robust and responsive management and leadership. Some programmes separate technical and managerial leadership (eg a general organisation manager and a technical portfolio manager) to ensure both skills sets are adequately provided for.

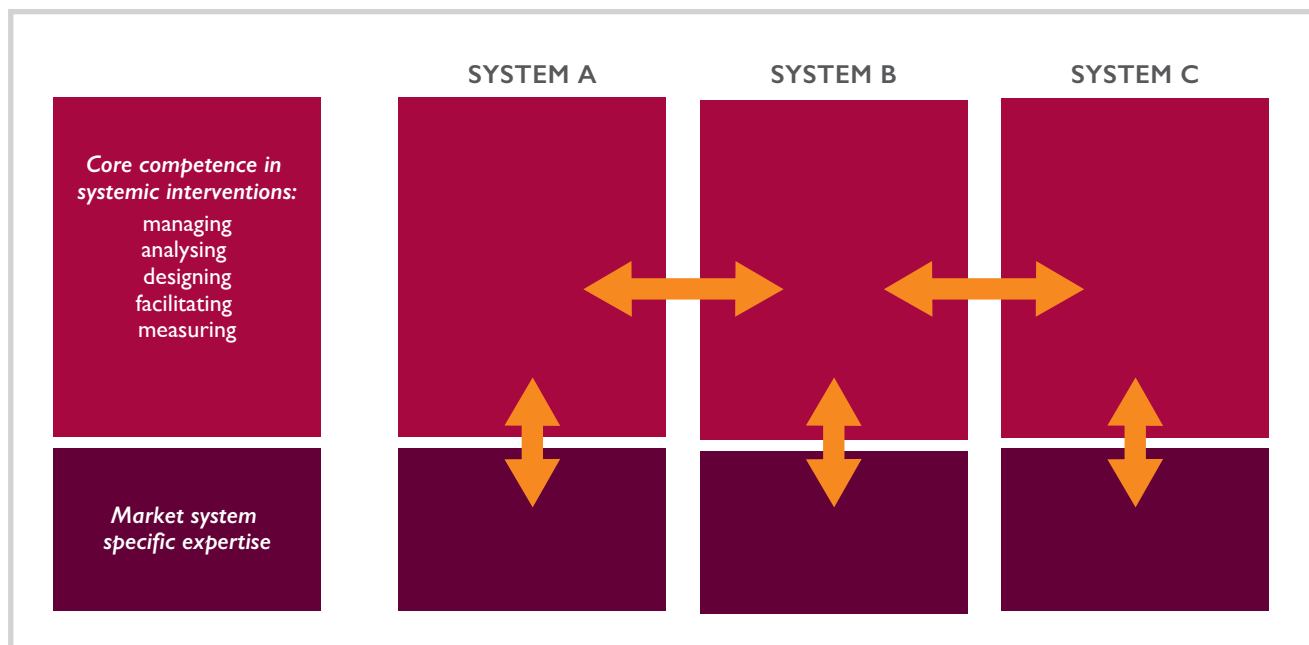


Figure 23: Core competencies in market systems development

Effective management is also important at intervention-level. Market systems development programmes are often organised around particular market systems (eg primary education or fisheries) or specific supporting systems (eg regulation or research). This structure requires 'middle management' leadership of each intervention, with the capacity to drive and focus the work programme and intervention teams

Reality check: Management style

Openness (including about failures), mechanisms and incentives for exchange, learning, and decision-making (driven by analysis and critical feedback) are all essential parts of programme culture.

Management can contribute to this culture by sending the right signals and leading by example. Conversely, there are some warning signs that may indicate management style might be inhibitive to such a culture:

- Reporting and procedures which are overly rigid or formal (where delivering reports or complying with procedures becomes the driving force)
 - A management structure which is very hierarchical or authoritarian (where the prevailing orientation is to satisfy the next level up the chain)
 - Decision-making which is unilateral or bureaucratic (where initiative is stifled or slowed down)
 - A culture of blaming individuals for lack of progress (where fear of failure restricts openness)
- **Analysis:** the ability to stand back from individual market players' perspectives, look at the wider market system context and identify where intervention is required. Teams must add value to the process of market player consultation by identifying constraints and opportunities at the system-level.
- Specialist analytical skills are often called upon when taking account of more entrenched societal factors. Specific skills important to market systems analysis include:

- **Political economy:** the *status quo* often represents a 'political' settlement which favours vested interests. Pro-poor change challenges entrenched vested interests and meets resistance. Teams need to be skilled at understanding the political economy of change and in finding ways to overcome resistance to change
- **Gender:** teams need to be skilled at understanding disadvantages between women and men in market systems and in finding ways to resolve these imbalances in the system
- **Facilitation:** market systems development is about catalysing others to change. The ability to 'facilitate' that change process is an essential competency, made up of a number of attributes:
 - **Communicator:** facilitators constantly give and receive information. They must be adept communicators with a diversity of stakeholders and able to interpret information
 - **Relationship builder:** improving relationships is central to market systems development. Facilitators must be skilled at bringing people together, changing perceptions and fostering trust. They should be effective mediators and resolvers of conflicts
 - **Entrepreneur:** facilitators need to be entrepreneurial and credible to the private sector. This is a departure from the conventional expectation of familiarity with development norms. Facilitators need some business experience
 - **Coach:** facilitation involves building capacity and confidence. This requires a capacity to assess needs, provide support and guide the change process whilst not undermining ownership
 - **Innovator:** innovation is a driver of market systems development. Facilitators must be creative and able to identify and stimulate new ideas in others. A good facilitator has enthusiasm for a continuous process of learning
- **Measurement:** all team members need some level of capability in monitoring and results measurement and, importantly, the willingness to be self-critical and open to learning
- **Technical:** a strong interest and/or track record in relevant target market systems. Credibility in the eyes of market players requires technical competence

Reality check: What a CV cannot say

Facilitation skills and aptitude are not easily presented in a CV. Programmes should consider means of exploring key aptitudes either at interview or during probationary periods, for example:

- A simple spreadsheet with analysis tasks to test basic confidence with numbers, analysing ratios and relationships, and spotting patterns
- A simple reading and presentation task to test comprehension, interpretation and communication skills
- A 'field' exercise to gather information, test basic observation and engagement skills, and assess resilience in field conditions

Team composition

An effective team is one that balances the requisite competences and attributes needed, supplementing them with external expertise as required.

Market systems development requires a mix of 'thinkers' and 'doers'. Over-dependence on either one of these attributes can be problematic.

Thinkers are important in order to:

- Gather, analyse and evaluate information
- Step back from the detail and keep sight of the 'big picture'
- Think strategically and prioritise
- Assess and make decisions

Doers are important in order to:

- Coordinate and manage activities and people
- Operate independently and with purpose
- Be persistent, dealing with and adapting to rejection and failure

Capacity building strategies

Attracting and retaining the calibre of staff needed requires appropriate investment in human resources and working conditions.

Market systems development remains unfamiliar to many practitioners. Experience demonstrates that:

- The market systems development approach can be learned and does not require specific technical expertise
- 'Direct delivery' approaches can be difficult to 'unlearn' for many development professionals

Where good facilitation skills are not readily available, programmes must invest both time and resources in building capacity during and after mobilisation. A practical and well-resourced capacity building strategy may include:

- *Mentoring*: ongoing mentoring within and between intervention teams, led by those experienced in the market systems development approach
- *Training*: structured professional development schemes for teams combining local and international packages ('training of trainers') and in-house skills development ('cascade training')
- *Backstopping*: recurrent technical backstopping from market system development experts to intervention and portfolio managers, and programme-level backstopping to team leaders
- *Staff secondment and exchange*: secondment of senior staff between programmes to share experience and train new staff
- *Networking and peer learning*: remote and face-to-face learning fora (eg LinkedIn groups) and events

Reality check: Staff turnover

Programme experience highlights the specific risk of high staff turnover, particularly at senior levels, when newly commissioned programmes seek to build new teams. This can be extremely disruptive to programme and team development. Managers need to consider the incentives in place to retain staff including remuneration, training and/or secondment opportunities.

6.3 "DON'T MAKE THE SAME MISTAKES I DID..."

Getting the 'right' experience

Figure 23 describes the mix of expertise required in an effective market systems development intervention team. When looking for experienced personnel to grow existing teams or establish new ones, managers should focus on the core competencies required (ie management, analysis, design, facilitation and measurement).

A common mistake, often exacerbated by the appraisal criteria favoured by funders when assessing personnel in programme proposal documents, is to prioritise technical expertise in a specific system during team identification and staff deployment.

In practice, technical expertise is more difficult to transfer across systems in a multi-market systems programme, than competency in managing and implementing market systems interventions. In fact, very focused technical experience in a specific system can be a hindrance to analysing a system's constraints dispassionately, and to introducing new perspectives and solutions to 'disrupt' the *status quo*, which might come from a different supporting system entirely.

Similarly, it is important not to judge the capability of an implementing organisation purely on the basis of a corporate capability statement providing a long list of seemingly market-oriented initiatives implemented to date. If you are a funder looking to commission an implementing organisation, or an implementer looking to sub-contract some of your implementation, you must probe more deeply into an organisation's track record in providing the kind of management systems and operating conditions described earlier in this chapter. Most crucial of all is the calibre of proposed leadership.

Effective management of the portfolio of market systems and interventions

Effective market systems development is responsive to the dynamics of those systems. Some interventions will work, others will need adaptation and some will need to be dropped. Not everything will work.

Managers must be prepared to make tough but informed decisions about the programme portfolio, be that in terms of entire market systems or interventions within those systems. In the absence of timely decision-making, portfolios tend to grow whilst retaining increasing numbers of ineffective interventions, or even market systems which are unlikely to change.

Staff should be equally prepared to accept intervention portfolio decision-making. Whilst successful interventions require team commitment and motivation, it is important that individuals do not become so attached to those interventions that they resist making the necessary decisions when changes are required.

Adaptation or stopping of interventions in response to market system signals should be expected and regarded as normal in a programme with an effective learning culture. It should be seen as a positive process by staff, not a reflection of failure. Managers must instil a culture and mindset that is supportive of trial and error and self-evaluation. Staff should be confident of support rather than 'blame' when changes to intervention strategy or tactics are called for.

GLOSSARY

Access frontier: the maximum proportion of a population that has access to a basic service at a given point in time. The frontier may shift over time, eg as the result of innovation and/or behavioural changes in the market system.

Agencies: development organisations – funded by aid or other non-commercial sources – that act as funders or facilitators with the aim of developing market systems.

Asymmetric information: when one party in a market transaction (on the supply-side or demand-side) knows more than another.

Attribution: a characteristic of monitoring and measurement that explains how observed systems-level changes, pro-poor outcomes, and poverty reduction are linked to intervention activities.

Core function: the exchange between providers (supply-side) and consumers (demand-side) by which goods and services are delivered at the heart of a market system. The medium of exchange can be commercial or non-commercial (eg the accountability mechanism between the 'setter' and 'receiver' of a regulation) and formal or informal (eg barter-based trading).

Crowding-in: is the process of stimulating a number of (diverse) market players to react to the (nascent) system-level changes instigated during the piloting process. It results in greater 'breadth' (eg more and improved growth, or basic service benefits for the poor) and greater 'depth' (eg supporting functions/rules that respond to the new market system context). See also 'Market system change'.

Diagnostic process: a method of understanding how a market system works and exactly why it fails to better serve the poor prior to intervening in it. The aim is to identify the root causes of market player under-performance and the functions/rules most in need of redress.

Disruptive innovation: an innovation (see below) that helps create a new or improved behaviour, practice or technique which modifies or transforms the market system *status quo* by displacing – over time – an earlier behaviour, practice or technique.

Drivers of change: a catalyst or agency of (systemic) change or reform. Drivers of change may be individual or institutional champions of reform, or the product of the interaction between structural features, formal and informal institutions and individuals that gives rise to a process of reform.

Embedded transaction: a good or service that is not paid for directly but is included or hidden within an exchange of another good or service that is paid for.

Externalities: spill-over effects impacting on parties that did not choose to be affected by them. These can be costs or benefits.

Facilitation: the temporary actions of a facilitator to bring about system-level changes and develop market systems for the benefit of the poor.

Facilitator: a development agent/agency seeking to stimulate market system change, tasked with remaining outside of the market system they are intervening in. In developing market systems, facilitators actively avoid distorting those systems and must be conscious not to make market players reliant upon their continued presence.

Incentive: the material, social, or purpose-oriented motivations set for (or held by) individuals, groups, and organisations that shape attitudes towards risk and reward (eg with respect to performing market functions and/or changing what they do).

Innovation: new or improved behaviour, practice or technique adopted by a market player as a result of programme intervention that confers a benefit to the poor. These can be goods or services and/or new roles that support a different way of working.

Institutions: structures and mechanisms of social, political and economic order and cooperation, either formal or informal, which shape the incentives, capacities and therefore behaviours/practices of market players.

Intervention: a defined set of temporary activities through which facilitators seek to effect change in a market system.

M4P: acronym derived from the phrase 'making markets work for the poor' and used by some in reference to the market systems development approach.

Market: a set of arrangements by which buyers and sellers are in contact to exchange goods or services; the interaction of demand and supply.

Market distortion: when the intervention of an external agent creates perverse incentives among market players contrary to what is required for such players to uphold and build upon pro-poor changes.

Market player: any organisation or individual in the private or public sector; civil society/community groups, social enterprises, representative organisations, academic bodies etc that is not sustained by donor finance.

Market system: a multi-function, multi-player arrangement comprising the core function of exchange by which goods and services are delivered and the supporting functions and rules which are performed and shaped by a variety of market players.

Market system change: a change in the way core functions, supporting functions and rules perform that ultimately improves the poor's terms of participation within the market system. Also referred to as 'systemic change' or 'system-level change'. The four core elements which together define market system change are:

Adopt: *an element of the systemic change framework referring to the state of market system change when a market player(s) has successfully adopted a behaviour/practice change to the ultimate benefit of the poor producer/worker/consumer, recognises the value of continuing with these changes irrespective of programme inputs, and has accordingly made plans to invest in upholding these changes and cover any associated recurrent costs.*

Adapt: *an element of the systemic change framework referring to the state of market system change when the market player(s) that adopted the behaviour/practice changes pioneered during the pilot has made qualitative and/or quantitative investments that allow them to continue with or augment changed practices, without programme support. These actions, independent of the programme, constitute an 'acid test' for whether pro-poor outcomes will be sustained.*

Expand: *an element of the systemic change framework referring to the state of market system change when a number of market players similar to those that pioneered the pro-poor behaviour/practice changes have adopted comparable changes – either direct copies or variants on the original innovation – that are upheld without programme support.*

Respond: *an element of the systemic change framework referring to the state of market system change when the emergence and continued presence of the pro-poor changes lead market players in supporting systems to react by re-organising, assuming new/improved roles, developing their own offers, or repositioning to take advantage of opportunities that have been created. This response enables pro-poor behaviour/practice changes to further evolve. It indicates a new capability within the system and suggests it can support pro-poor solutions to emerge and grow in future.*

Market systems development approach: a set of principles, frameworks, and good practices that guide both analyses of market systems and developmental interventions which bring about pro-poor change within them.

Merit goods: goods or services which are non-rival and non-excludable and therefore cannot be offered by private firms. Sometimes referred to as public goods.

MRM: monitoring and results measurement.

Positive deviants: individuals within a population whose uncommon but successful behaviours or strategies enable them to find better solutions to a problem than their peers.

Principal market system: the market system where the poor - the programme's target group(s) – exist as producers, entrepreneurs, workers, and consumers.

Programme: dedicated intervention utilising external and temporary resources with the aim of transformational change in a market system that leads to improved socio-economic welfare of the poor.

Pro-poor: a development outcome (eg improved growth or basic service access) the benefits of which impact upon the poor more than the less poor.

Proxy indicator: an indirect measure or indicator that approximates or represents a phenomenon when a direct measure or indicator is difficult or prohibitively expensive to determine, or is absent.

Results chain: a model showing the chain of causality through which a programme's activities lead to poverty-reducing benefits. Results chains are tailored to specific interventions and are consequently more detailed than a strategic framework (see *Strategic framework*).

Right-sizing: a magnitude of action (ie the scale and intensity of a facilitator's interventions) consistent with the norms and context of the market system in question. This is a key facilitation consideration for programmes to gauge programme 'inputs' in the context of both partner and target group benefits.

Rules: formal (laws, regulations and standards) and informal (values, relationships and social norms) controls that strongly define incentives and behaviour of market players in market systems.

Strategic framework: the logical connection between different levels of objectives (output, outcome, impact) that links a programme's intervention aimed at inciting market system change to pro-poor growth / improved service usage, and consequently, to poverty reduction.

Supporting functions: a range of context- and sector-specific functions that inform, support, and shape the quality of the core function and its ability to develop, learn, and grow.

Supporting market system: market systems whose performance has a direct influence on how the market players in the principal market system behave and perform. Supporting market systems have their own core function, supporting functions, and rules.

Sustainability: the capability of market systems to respond to changes and provide a means by which poor women and men can continue to derive social and economic benefits, beyond the period of intervention.

System: See *Market system*

System change: See *Market system change*

Theory of change: is a narrative of the programme's strategic framework explaining the series of cause-and-effect changes following intervention activity. This represents the programme's vision of how market systems will be functioning in the future, the pro-poor outcomes it results in, and the anticipated poverty reduction impact.

Thick markets: markets characterised by a level of competition in which a significant number of market players and/or relatively few 'absent' supporting functions and rules exist (though they may still be poorly performed).

Thin markets: markets that are relatively uncompetitive in which there are few market players and/or a large number of 'absent' supporting functions and rules.

Transaction cost: the costs of participating in exchanges, covering search and information, bargaining, and enforcement costs.

Triangulation: using multiple methods to develop a more accurate view of how and how much change has occurred. Triangulation is a means of verification that removes the biases of individual tools and information sources and helps to give programmes confidence in the results generated by their monitoring and measurement systems.

