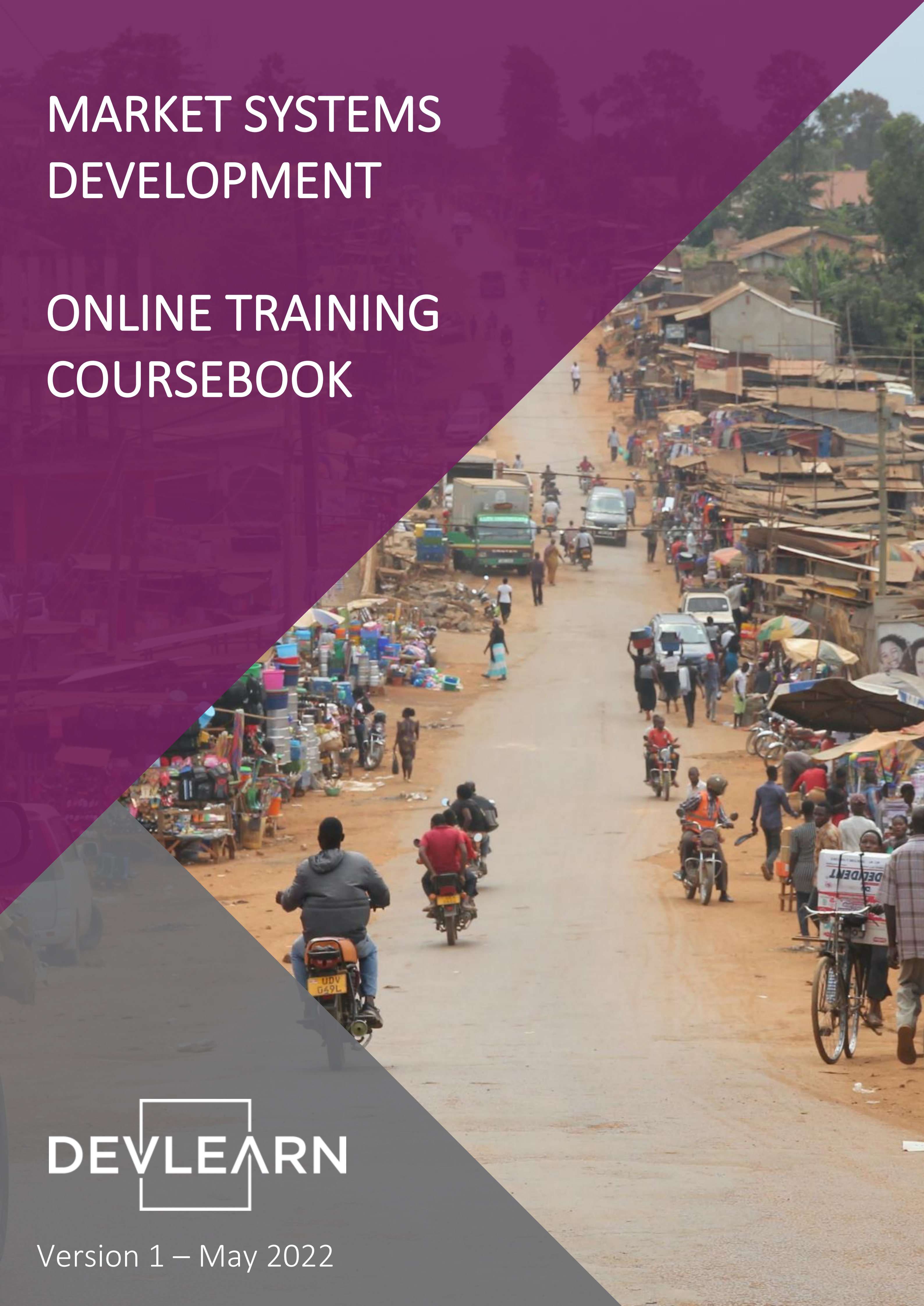

MARKET SYSTEMS DEVELOPMENT

ONLINE TRAINING COURSEBOOK

DEVLEARN

Version 1 – May 2022

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00 Welcome!

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Welcome to the Course!

A warm welcome to the DevLearn Market Systems Development (MSD) course! We're very excited to be working together to explore what MSD means to you.

About this coursebook

This coursebook covers selected core materials from the MSD course (excluding some of its Monitoring Results Measurement and MSD Management components). An overview of the contents is presented below.

Should you wish to apply for the MSD or other DevLearn courses, please [visit our website] or [email us directly].

Chapter	Title	By the end of this chapter, we will understand:
1	What is a Market Systems Development approach?	▪ What we mean by an MSD approach ▪ Why an MSD approach is useful ▪ The MSD Strategic Framework
2	Sector selection and analysis	▪ How we structure our MSD programme ▪ How we select and analyse sectors
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Week 1

Framework and Analysis

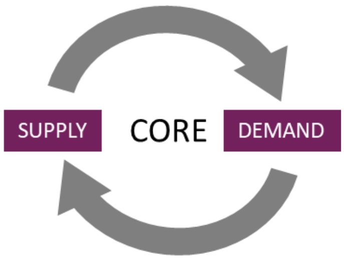
01 What is a market systems approach?

- What we mean by an MSD approach
- Why an MSD approach is useful
- The MSD Strategic Framework

Defining key terms

Let's begin by breaking down some key terms.

WHAT IS A MARKET?



A market is a **physical or virtual system in which two or more actors exchange goods and services, along with the complex dynamics that dictate the quality, quantity, and price of the exchange.**

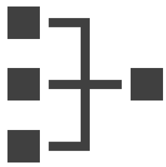
A market includes all decisions by the producers of a commodity (on the supply side) and the consumers of that commodity (on the demand side).

Markets have multiple stakeholders (the private sector, government, community, NGOs) – together forming a market system.

There are many different types of markets:

- **Labour markets** – where people sell their labour in return for money.
- **Service markets** – where people sell services in return for money.
- **Product markets** – where people sell products in return for money.

WHAT IS A SYSTEM?



A system is a **set of things working together as part of an interconnected network.**

Consider an **online payment system**. This requires the bank, the credit/debit card company, the internet service provider, the website – all working together to complete the payment.

The example provided above is a simple system, where the components are known in advance, they are predictable, and they rarely change over time.

Market systems are usually much more complex and unpredictable. Factors such as pricing, demand, production, player relationships, and the supporting environment (logistics, telecommunications, security, regulation) are continuously adapting and evolving.

WHAT IS MARKET SYSTEMS DEVELOPMENT?

Market systems development is an approach that seeks to benefit lower income and other target groups by unlocking key problems and opportunities they face in the market systems they engage in. It looks to find solutions from within the market itself. It recognises that these environments are complex and will not be easily solved, and that sustainable solutions must be sought.

Why do markets matter to our target groups?

It is often assumed that markets are not relevant for our target groups, particularly those who are highly vulnerable (e.g., the extreme poor, displaced households, etc.). In reality, our target groups are already actively engaged with markets, although they may not have the resources, power, or networks to fully benefit from them. Improving engagement in the market is an effective way of reducing poverty and other limitations.

Example: Women's access to fish markets in Bangladesh

As a result of cultural barriers, women in some areas of Bangladesh cannot move from one geographic location to another. They cannot work outside of their homes.

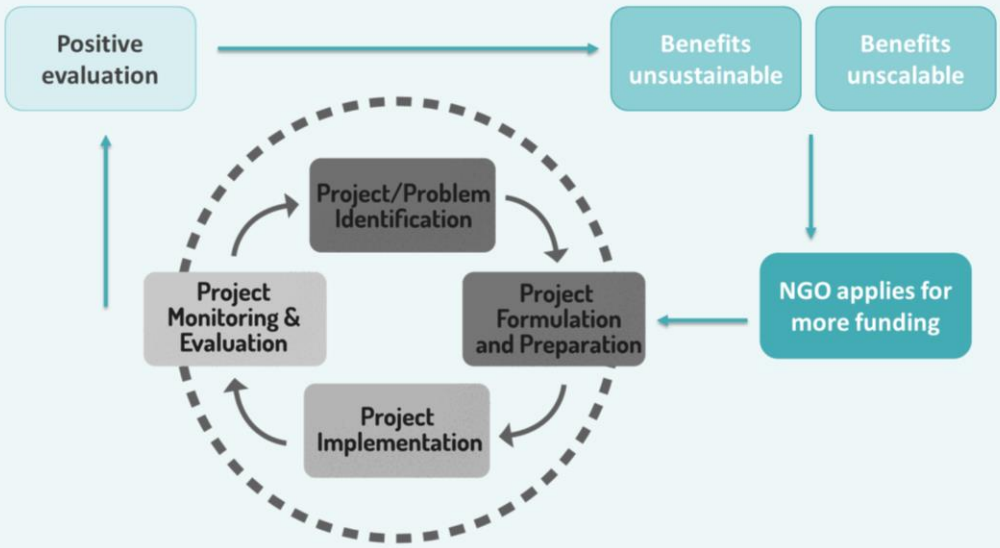
To overcome these barriers, the Katalyst programme (funded by SDC, DFID, Sida, and GIZ) promoted small-scale, semi-commercial fish-farming in ponds nearby to the women's houses. Women were then linked with quality input suppliers, and with local traders.

They started to undertake fish farming using the quality inputs. The traders came to collect the fish. This led to an increase in income for the women, who would otherwise have been excluded from the market and with limited incomes.

The limitations of conventional aid approaches

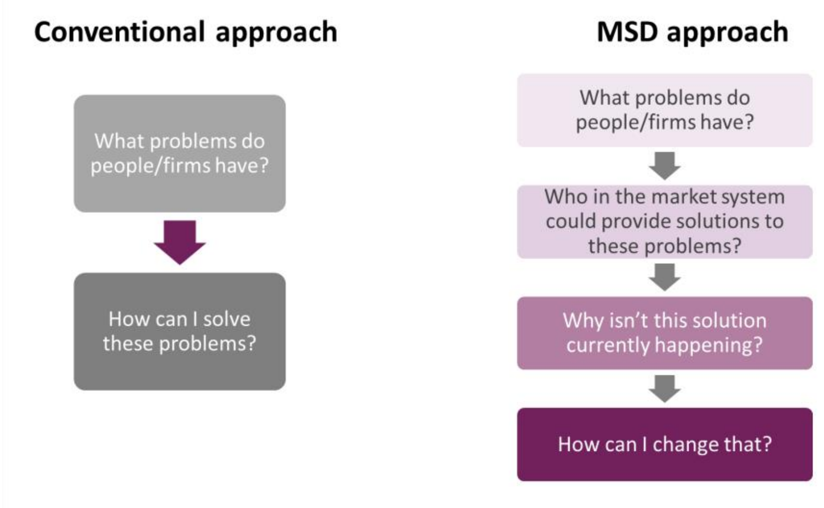
Let's start by asking – why use a market systems development approach? Let's consider how conventional aid is often approached in the example below.

Example: Construction Markets in the Pacific Islands



Consider a small construction market in the Pacific Islands. Let's assume that construction businesses use poor quality equipment, the labourers lack the skills to effectively build with them, and there is no market for replacement parts. A traditional NGO might buy those businesses better equipment, and train up the labourers. But if we returned in just a few years' time, much of the equipment would have worn out, and many of those original labourers would have moved on, with a new generation of labourers again lacking the right skills. We're back at square one. Essentially, we fixed a short-term problem, but not sustainably, and not at a meaningful scale. We didn't solve the underlying market problems.

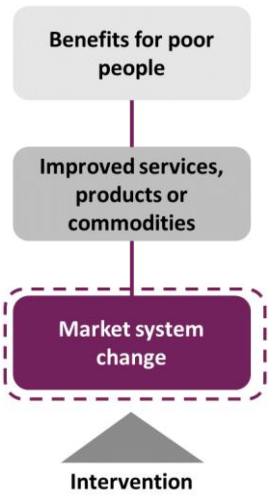
How is the market systems approach different?



Source: M4P Operational Guide, Springfield Centre (2015)

The left diagram presents the conventional development approach. The aid programme undertakes an analysis and tries to understand what problems exist in the market. For example, is it that farmers can't access seed? Maybe businesses don't have finance? Or that water supply is unavailable? They then try to solve this problem – supplying seed or finance, or distributing water. This leads to the problems with sustainability and scale we saw in the earlier example. The solution works – in the short term – but only when the project is operating. And it can't achieve scale without significantly more financing.

On the other hand, in the market systems approach, we will still seek to ask what problems people and firms have, but we ask questions from the point of view of the system. In other words, why isn't their environment providing solutions to these problems? Remembering that our project is a temporary actor, we seek to find out who the permanent members of this market systems are; who should be solving this problem? Why aren't they? This might be farmers' associations, banks and microfinance institutions, water trucking companies – and many others. MSD does not just involve the private sector – a market is made up of far more than just businesses.



Source: M4P Operational Guide, Springfield Centre (2015)

This approach is captured in the MSD Strategic Framework to the left. In the MSD approach, our intervention is designed to facilitate market systems change – which means rather than supplying products and services, we support the actors within the system to provide these products to the given target group themselves. This can be delivered via the private or public sector, or a blend of both, whatever works best. We are working within the system, with the aim of increasing sustainability and scale.

Example: Construction Markets in the Pacific Islands

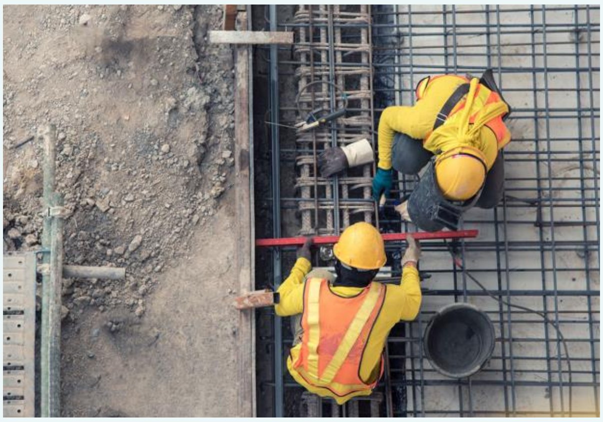


Image Courtesy: Construction Week Online

In our construction example, market systems development takes a step back to ask, 'Why isn't the market solving these problems in first place? If better equipment and higher skills would lead to better building outcomes (and higher profits), why isn't someone incentivised to fill this gap?' The answer(s) might not be obvious. For example, it might be that the new equipment falls under a slightly different import category, which faces a much higher tax rate, disincentivising purchasing. It might be that the skills offered by institutes are too outdated, or the private skills providers don't have the business skills to provide affordable, modularised training packages to construction companies for their labourers. There are often many reasons for these gaps, many things we can help to fix them, and we almost always need to spend time and energy to understand what is really going on, in order to direct our efforts towards the right places.

Market systems development seeks to find out the underlying cause of these problems, and then supports market actors that are both incentivised and skilled enough to offer solutions to these problems in the long-run - and at scale. These actors might be found within the private or public sector. They might be organisations already engaged in the sector, or they might be non-traditional organisations for that sector (for example, convincing cement companies to commercially produce agricultural lime). We always keep an open mind, focusing on incentives and capabilities.

HAZARD WARNING

All industries have rules constructed to guide us as to what work we 'can' and 'cannot' support. MSD is no different.

Try to ignore 'hard rules' – and go with what you (backed up by good logic and evidence) think will work best in your given context. For example, supporting machinery purchases, or short-term payment of new staff member salaries, is often heavily discouraged. In fact, when well considered as part of a broader strategy, these measures can work perfectly well.

Always keep your eyes open to things not working out quite as you initially plan. Never assume a market actor will always do something well to begin with, even when they've been operating in that market for a very long time. Be pragmatic and open to continuous learning, and be patient.

02 | Sector selection and analysis

- Structuring your MSD programme
- Selecting sectors
- Analysing sectors

Structuring your MSD programme

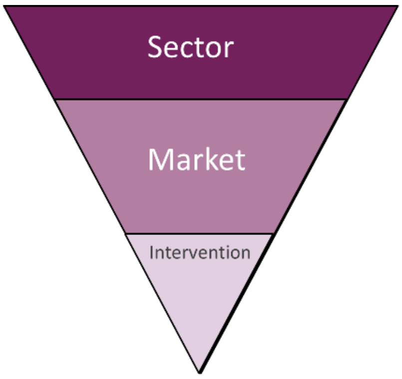
The most important starting point is focus our efforts. We've already seen just how dynamic and complex market systems environments can be, so it is important that we set clear work priorities.

You can do anything, but you can't do everything.

David Allen

BASIC ENGAGEMENT LEVELS

Sectors are usually vast, and we need a framework to help us manage their complexity. For this reason, we tend to see MSD work as operating in a number of different tiers.



The Sector Level	The highest level. This describes the product or service we will work with. For example, this could be a product or material (fertiliser, building sand), or an industry (agriculture, manufacturing, IT). The size varies quite a bit.
The Market Level	The next level is the transaction we want to affect (there are many in a sector). Here, we zoom in on a transaction we think fits our target group and we want to support. For example, we might work on the logistics or training market within the manufacturing sector.
The Intervention Level	The intervention is how we want to affect that market level change (our lever) – via our project or activities. This is where our highest span of control exists.

Why is this important?

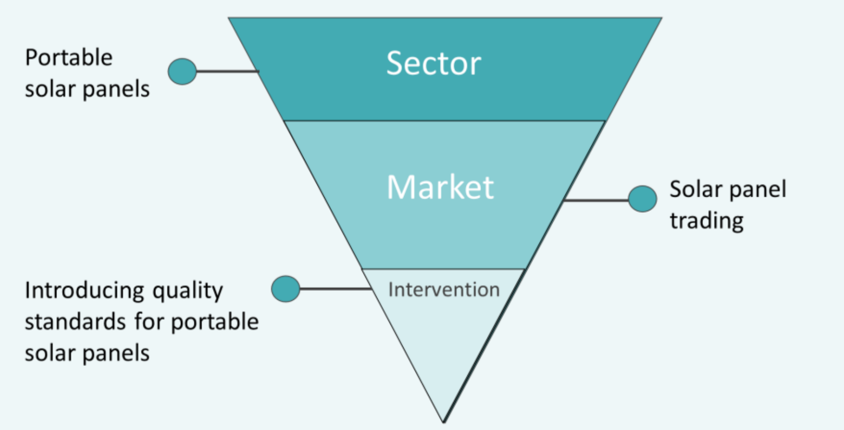
We can think of our engagements in a market system like running a good kitchen, or any other small business.

At the highest level, we need to think about the restaurant's performance. At the same time, the next level down, we need to think about the quality and choice of the food we provide, the restaurant's marketing, or the selection of our staff. Then, we can look at specific improvement measures we might want to make to improve the performance of the tiers above (such as adhering to restaurant food standard rules).

If we don't look at all of these levels, we're in danger of losing a key view at each level. All levels are important, and all interact back and forth with each other. We're really always keeping an eye on the following, zooming in and zooming out:

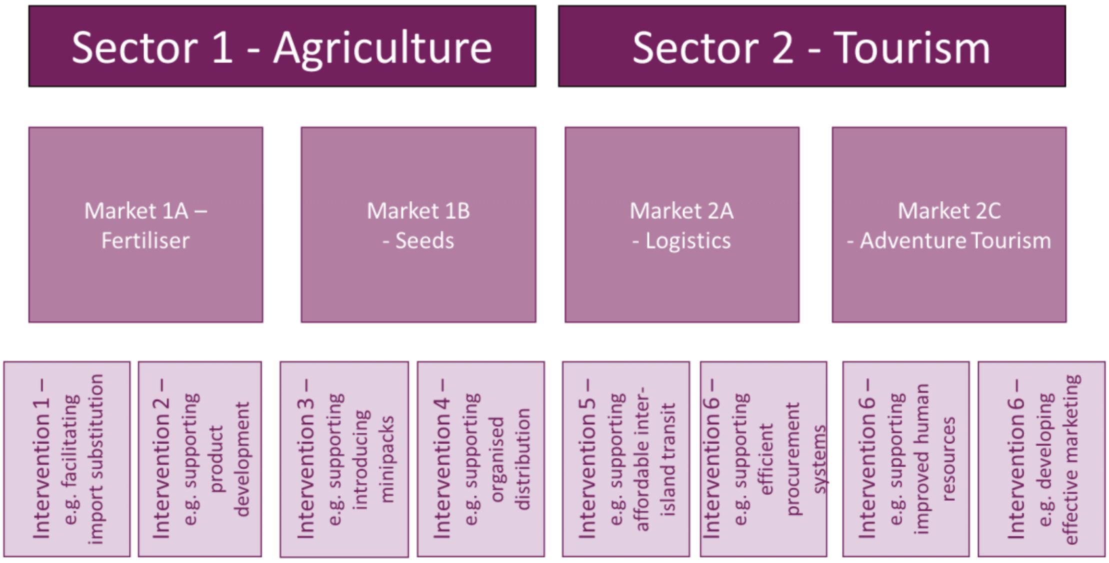
The Sector Level	What's happening in the sector? What's our wider vision for sector change?
The Market Level	What's happening in the market? What's our vision for market change? How will this influence the sector?
The Intervention Level	What intervention have we designed? What's our vision for the intervention? How will this influence the market?

Example: Portable solar panels sector



Let's say we choose to work in the portable solar panel sector. Within this sector, we identify good opportunities to overcome problems in/contribute to the solar panel trading market (i.e., we focus on consumer sales). Ultimately, we're aiming for consumers to save money on lighting, or get better lighting for their money. To achieve this, we decide to focus on an intervention that supports the introduction of quality standards for portable solar panels.

Portfolio picture

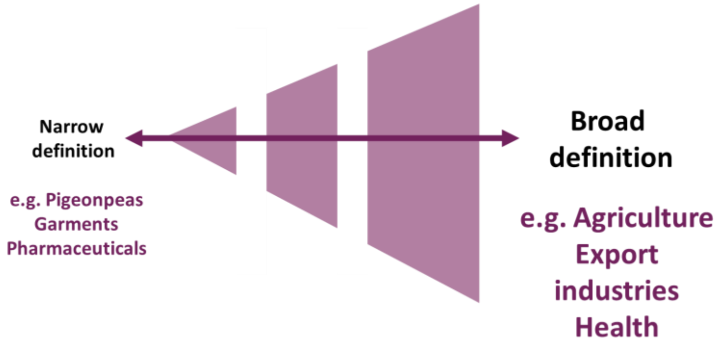


Programmes usually focus on a core set of sectors (in the example above, two sectors). A multi-sector approach is sometimes used to spread risk and to increase the potential impact. Even in the best conditions, interventions in any given a sector might not work for a range of reasons (wider changes to the economy, to partner investment trends, and so on). We often need a range of options, in the same way many companies diversify their product ranges. Other programmes consciously elect to focus in on a single sector, understanding the higher risks involved, but considering it worthwhile given the high potential for significant impact and/or focus in that sector.

Within each sector, the programme then has a number of markets that it is trying to influence. Often more than one market is needed, because more than one working area is necessary in order for the sector to work better. For example, there is no point in helping a smallholder farmer grow more rice if they don't have anywhere to sell it.

Within each market, the programme will have multiple interventions that try to influence that market. Again, the reason more than one intervention is worked on is because more than one intervention is usually required in order for the market to work better. You need multiple stakeholders to come together and change behaviour – and that can often mean several workstreams of activity.

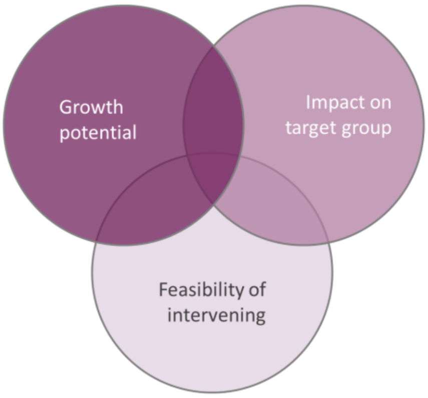
What is a sector?



A sector is normally an economic area. Sectors can be defined narrowly or broadly. We need to decide between narrow and broad definitions based on the context:

- How big is the sector? Will it give you enough interesting things to do? Working in niche sectors runs the risk of not having enough opportunities or actors to work with.
- Does your programme have enough resources to work across multiple sectors? What can we realistically influence?
- Does your sector boundary allow you to analyse the sector boundaries easily and track progress? It will be really difficult to understand the whole agricultural sector of a large economy, let alone track whether our work has really changed the sector. We will usually need to narrow in to a closer boundary (such as a specific crop or support sector) to better analyse the dynamics and track impact. A narrow sector definition allows for better analysis and sector mapping. We recommend this where possible.

How do we select sectors to work in?



Source: M4P Operational Guide, Springfield Centre (2015)

We are going to explore what sectors to work in, depending on what our programme or organisation wants to achieve.

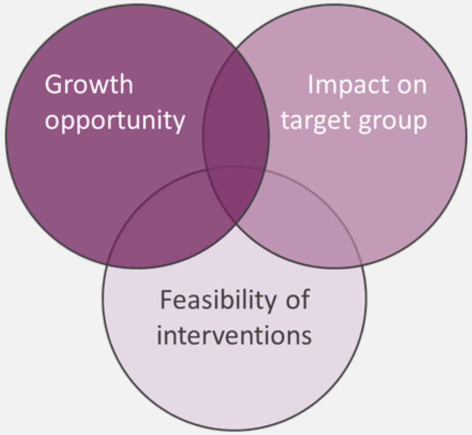
To do this, using MSD, we need to keep three main factors in mind at all times: growth potential, impact on the target group, and the feasibility of intervening.

These are presented in the Venn diagram, originally developed by the Springfield Centre. Let's now explore each of these in turn.

Growth Opportunity	The sectors we select to work in need to be growing, or at the very least have the potential to grow. **We need to think of growth opportunity beyond simple upward trajectories, and take a wide view of the sector environment.** Information that might help to us assess sector growth include revenue and export data, business and investor trends, perceptions of those investors, innovation trends, or uptake by the target group of similar products and services, either within this current market, or in comparable markets.
Impact on the target group	There are a wide range of target groups that we might want to support, ranging from households below a given income threshold (poverty reduction programmes), to youth, women, landless populations, or differently-abled people. Other broader mandates might include cross-cutting themes – for example, our programme might more broadly be looking at climate resilient.
Feasibility of intervening	There are a wide range of factors that will affect whether an intervention is feasible for us to work on at a given point in time. These include: ▪ levels of competition (if there are only a few actors to work with, or only stagnant actors unwilling to change, we are unlikely to get far); ▪ the presence of change agents or innovation drivers (these might be individiduals, organisations, or even practices/policies that are active proponents of bringing change); ▪ binding constraints (i.e., major problems that cannot be changed, such as overriding onnerous building regulations, in the case of minimum square footage requirements or other building codes in some housing markets); ▪ the political economy (in development, overly subsidised markets are a real problem and make it very hard to introduce market-driven solutions, even in otherwise highly promising sectors); ▪ timelines and degree of complexity of staging of measures (sometimes so many different measures need to be introduced in a sequence, over such a long time period, that this runs far beyond what is reasonable for a short programme to be engaged in).

Let’s test this with a simple construction sector example. Let’s imagine our new project has a mandate to introduce affordable and environmentally sustainable construction methods for low-income households into a fictitious country, which we will call Terraria. Our project begins by exploring Manufactured Sand as a potential sector. Below is a very basic (incomplete) sketch of some of the factors the project begins to explore.

Manufactured sand (M Sand)



Source: M4P Operational Guide, Springfield Centre (2015)

Growth Opportunity

- 8% annual growth in demand circa 3-5 years ahead.
- Number of investors (and investment interest) growing rapidly, but still a big supply gap, and need for diversification/quality improvements in products isn’t being met.
- Increasingly, the national construction industry widely perceives this as the only feasible sourcing option in the short-medium term, and is incentivised to innovate.

Target Group Impact

- On overall balance (halved material cost, closer production thus reduced transportation costs, albeit somewhere increased construction processing costs), M-sand offers a more affordable, accessible option for mass low income housing construction in Terraria the short-medium term.
- Significant environmental benefits compared to local river sand sourcing, which is often illegally sourced.

Feasibility of intervening

- Increasingly effective pressure from governance measures to fine illegal sourcing of river sand, backed up by the wider industry pressure to end the practice
- New M Sand production method trial cycles reasonably short, at circa 1 year
- Construction companies historically slow to innovate due to high demand across the rest of their product portfolio

In practice, as we can see from above (even within a highly simplified example), we can end up with a lot of unstructured information that can be hard to navigate. For this reason, many programmes tend to break down these three criteria further into bespoke sub-criteria. Let's look at a completely different example this time to see how this is done, in a project that has a broad mandate of increasing and diversifying the incomes of Pacific Island households in a manner that is resilient to high climate risk.

Category of selection criteria	Selection criteria	Weight
Relevance for target group (40%)	Income earning opportunities for households below the USD 2.5 per day income threshold	10.00
	Income earning opportunities for indigenous businesses and families	10.00
	Women's Economic Empowerment	10.00
	Youth Economic Empowerment	4.00
	Involvement of remote communities	3.00
	Diversification potential of income sources (household level)	3.00
Growth potential (30%)	Export demand potential	10.00
	Domestic demand potential (tourism sector/import substitution)	5.00
	Economic diversification potential (national level)	5.00
	Competition feasibility (if export, the country's ability to compete with other nations)	10.00
Feasibility of MSD approach (25%)	Will and skill of private sector	10.00
	Government priority	5.00
	Timelines for business development (especially key in slower moving economies)	5.00
	Enabling market infrastructure	5.00
Other (5%)	Climate resilience	5.00
	TOTAL points for sector	100

HAZARD WARNING

The detailed selection criteria table above can be an effective way of narrowing in on what is important to a programme. However, do not take the tool too literally. Weighting should only be taken as indicative; if one sector comes out at 74.6 and another comes out as 67.5, this is not to say we shouldn't choose the lower score. The background information we have access to - and how we eventually weight it - is usually fairly subjective, and changeable as we progress and learn new things.

Ultimately, tools such as scoring matrices are imperfect, and while they should help us structure information, we should not be too literal about following their findings to the letter.

How do we undertake this analysis?

While secondary data collection is important (particularly in the beginning, when we need enough credibility to hold a meaningful conversation with market actors), sector analysis is not about sitting in the comfort of our offices.

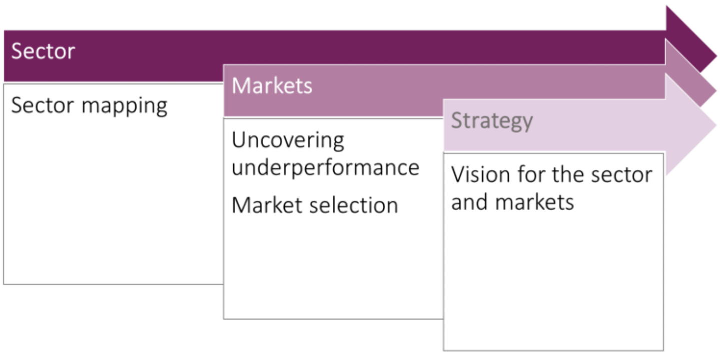
It is essential that we **go out and meet stakeholders; government, businesses, speaking with our teams, external stakeholders, target groups.** We need to make sure we're out there being visible and build momentum for our project, and also learning from the environment. In the analysis stage, we're not the experts, we're there to hear from others.

Tips and Tricks	
Be fast	The analysis stage should quickly inform implementation– avoid 'paralysis by analysis'.
Be iterative	You'll need to reassess what you are learning again and again in different forms. Analysis isn't something that finishes in the first three months of a project, but should continue alongside implementation.
Lead the analysis yourselves	Some elements of the analysis might need outsourcing to experts, but take care, as teams don't learn when they are isolated from the sector development process.
Narrow your focus	Trying to analyse overly broad sector boundaries is rarely as useful as zooming in to a focused tier of the market.

Sector analysis

Before we dive into our intervention selection, we're going to take a step back so that we can better understand the sector we've selected to work in.

The three components of sector analysis



We begin by mapping out the sector and key actors. After this, we focus in on the market level, asking which markets are underperforming and how to select markets to work in. We then develop a vision for the sector and markets.

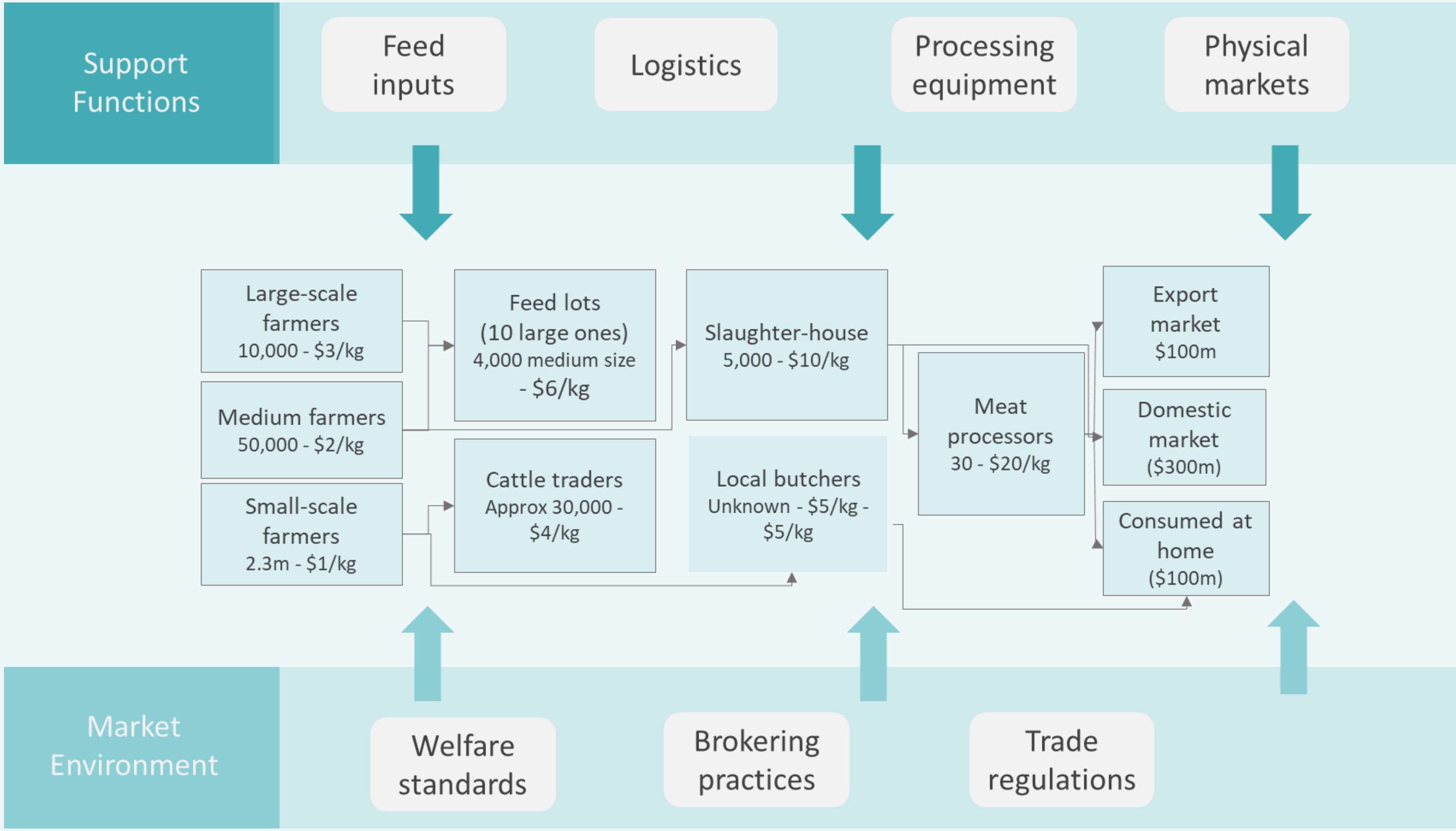
Sector mapping

Begin by understanding the sector value chain. A value chain is a pathway of processes that a product follows as it moves from the primary producer to the final consumer (taken from the IFAD 2016 livestock sector guidance). In principle at least, value is added at each stage of the chain, which is why we use the term 'value chain'.

Value chain mapping helps us to understand the full extent of the sector. In particular, it helps us think beyond the immediate beneficiaries of the programme – while they are important, we mustn't forget about the rest of the system.

We can make value chain mapping as simple or as complex as we need. Let's take a look at an example.

Example: The Meat Sector



Example: The Meat Sector

Let’s take the example of a meat sector. In its simplest form, there is a production stage, involving farmers and their livestock. There is a trading stage, where farmers sell to an intermediary that buys live cattle. There is the processing stage, which involves slaughtering the livestock, and then selling raw meat or processing it into sausages and other products.

We learn more from breaking the value chain down further. We see that different sizes of farmers are involved at the production stage. We also see that different actor groups have different access points to the value chain. For example, small-scale farmers use cattle traders, but medium and large farmers do not. Similarly, while slaughterhouses are larger businesses primarily used by larger farmers, local butchers are less value-adding and generally used by smaller farmers and traders. We can separate out the slaughter of the livestock to the processing into the end product. Similarly, feed lots are a part of the chain that can feature – this is where cattle can be taken to be fed intensively before slaughter.

The sector map can help us to see different aspects of the value chain.

It can give us a sense of scale at each step. We see that the map can give us a sense of scale of the different actors. How possible this is will depend on the market we’re in.

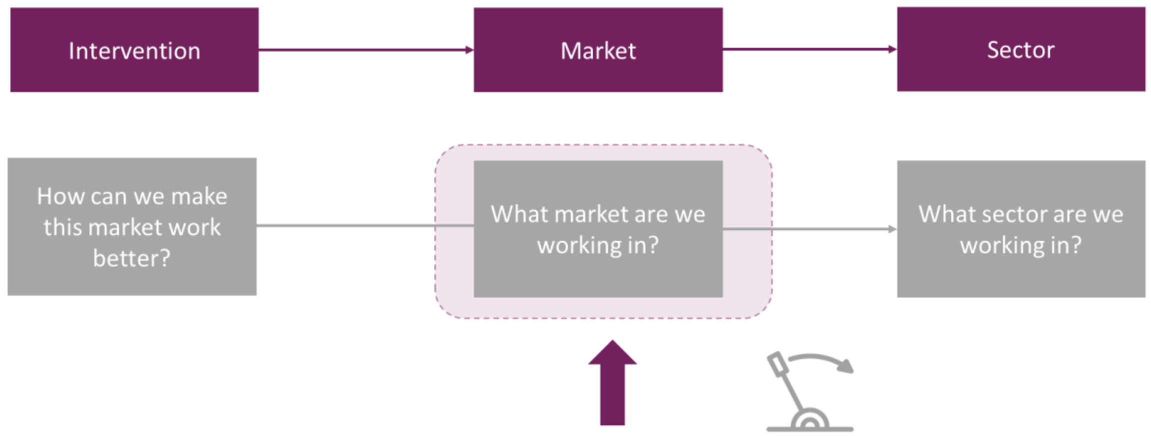
It can give a sense of value added at each step. We see that we can map out the value added at each step in the chain. For example, we see how farmers sell for different amounts at different steps; a small farmer sells for $1/kg, cattle traders sell for $4/kg, local butchers add another dollar of value, and so on. This is really helpful in understanding where value is actually created and how it is distributed in the sector.

We can also use the sector map to show key supporting functions and rules around these transaction points: We can also map out key supporting functions and rules directly associated with each different stage or actor point in the chain, and to look at underperformance factors in a focused manner.

03 Market selection and analysis

- Selecting and analysing markets
- Interconnected markets
- Setting the Strategy

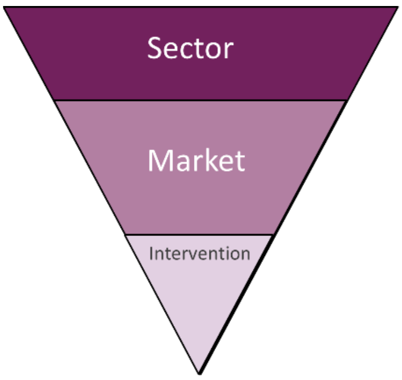
Why is selecting a market important?



Think of markets as levers of change in our sectors. They provide us with defined spheres of work where we can focus on unlocking critical constraints and opportunities, which in turn unlocks sector growth. We very often work on multiple markets at the same time, which together unlock a sector.

How we select markets

In this chapter, we'll now focus in on how we select a market level. Let's begin by reminding ourselves of the basic engagement levels we explored earlier.



The Sector Level	The highest level. This describes the product or service we will work with.
The Market Level	The next level is the transaction we want to affect (there are many in a sector). Here, we zoom in on a transaction you think fits our target group and we want to support.
The Intervention Level	The intervention is how we want to affect that market level change (our lever) – via your project or activities. This is where our highest span of control exists.

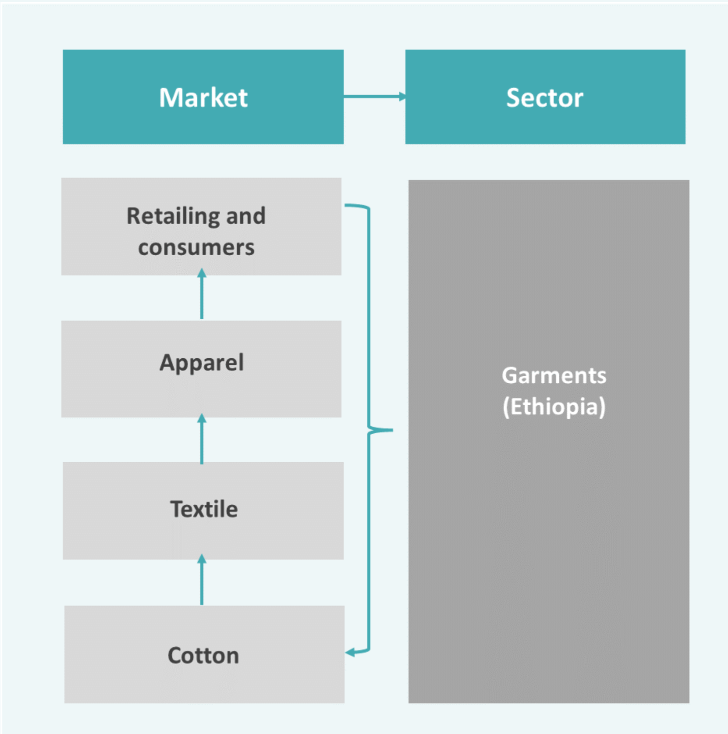
How do we select markets?

As with all aspects of market systems development work, there is no nice, neat, set formula to selecting a market.

Tips and Tricks

- Is the market underperforming significantly? Is the underperformance a critical barrier to the overall growth of the sector?
- Will addressing the constraints in one market affect the other markets?
- Does this offer poverty reduction potential?
- Is there any momentum? Is this a priority of the government and the private sector?
- Is there a donor mandate to support this?
- Are there other cross-cutting agendas? (For example – green growth, gender)
- What is the feasibility of doing interventions? (Such as the capacity of partners, resources available to the programme, etc.)

Example: Garment Sector, Ethiopia (Enterprise Partners, FCDO)

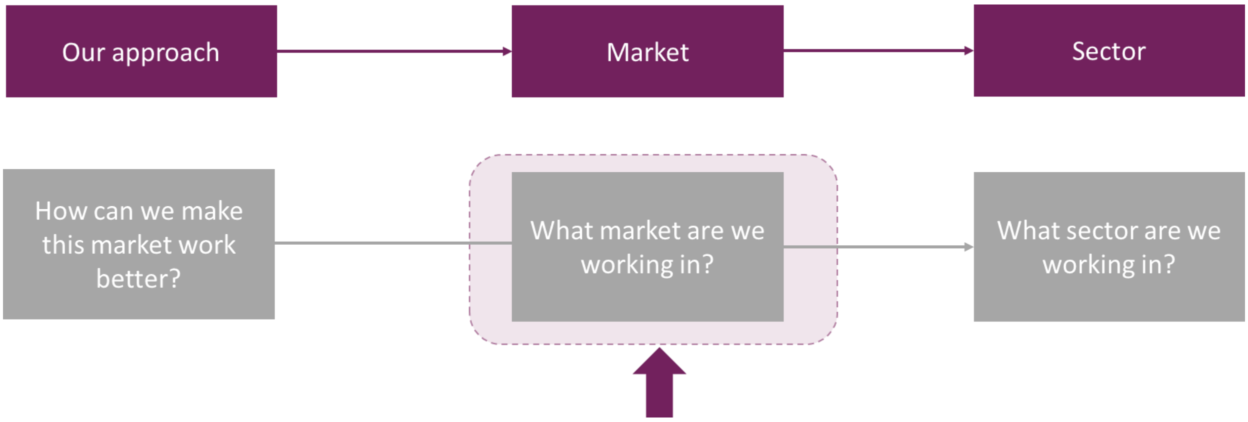


Let's take the example of the garment sector in Ethiopia (from the FCDO-funded Enterprise Partners project). This sector is comprised of four markets: cotton, textile, apparel and retailing/consumer.

Below, we analyse whether or not we recommend proceeding with them.

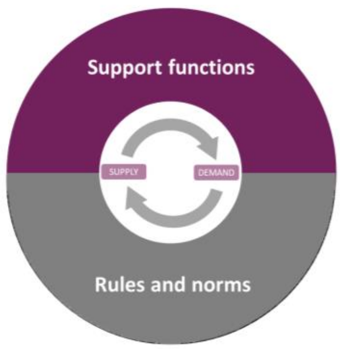
Cotton	▪ Highly underperforming ▪ Critical to more value addition in-country and the textile market ▪ High small-holder farmers and opportunity for jobs in commercial firms ▪ Government priority ▪ Green growth opportunity	Proceed
Textile	▪ Highly underperforming ▪ Critical to more value addition in-country ▪ Growth is dependent on domestic cotton industry (cotton import is expensive) ▪ Job opportunity potential is not very high ▪ Lack of private sector investment	Do not proceed
Apparel	▪ Potential to improve performance ▪ Critical to country's export earning ▪ Highly labour intensive (women) ▪ Govt priority ▪ High private sector investment ▪ Growth is not dependent on other markets ▪ Interest from global brands	Proceed
Retailing and consumers	▪ Highly performing ▪ Not pro-poor ▪ Potential to drive better work environment and green growth ▪ International market, the programme cannot influence	Do not proceed

Analysing markets



By this stage, we've selected the sector and market we want to work in. Now we're going to analyse how we can make this market work better. Bear in mind, although we're depicting a linear process, these questions are iterative. Answers to one will inform the others. We'll need to make decisions and move forwards, but we should always keep this circular approach in mind.

The market donut



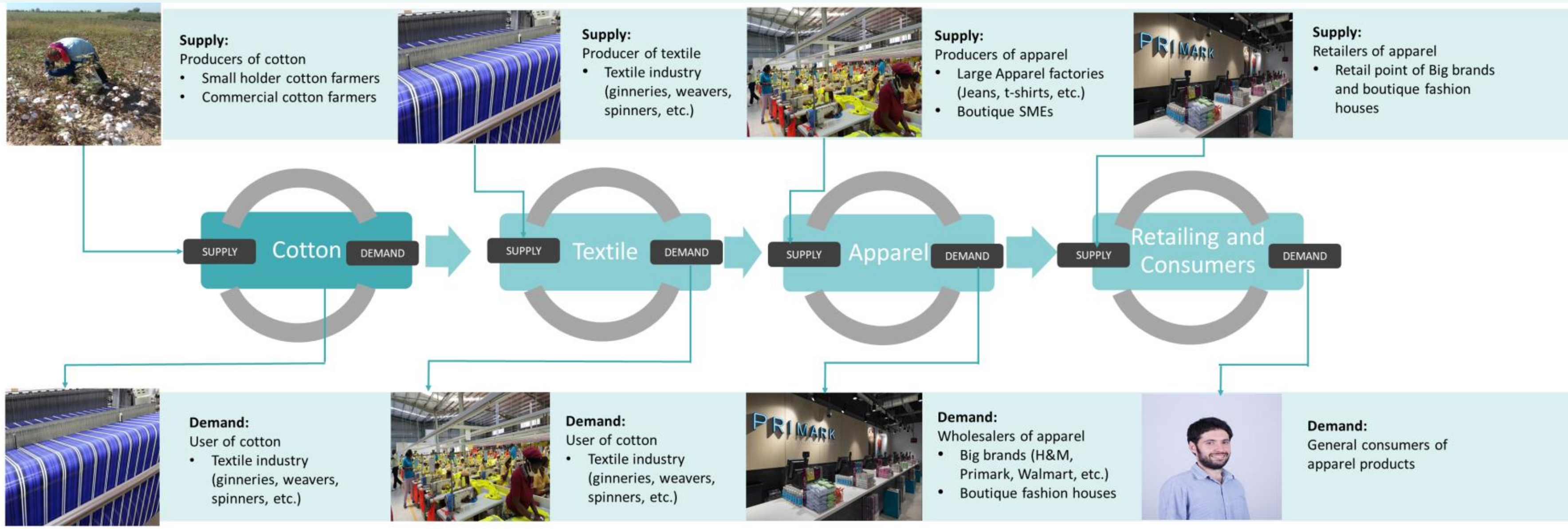
In order to analyse our markets, we will now use one of the more well-known MSD tools: the Donut (developed by the Springfield Centre). This simple yet powerful diagram helps us to look not only at the core transaction in a given market, it also allows us to see the wider universe that exists around it. It reminds us that when we are engaging in a market, we cannot simply look at core supply and demand, rather we need to think about the support functions, along with the rules and norms, affecting the central transaction. Many of these are where points of opportunity for change – or to unlock bottlenecks – can be found.

A market donut has three parts. At the centre, we have the core market transaction. At the top, we have the support functions. And the bottom, we have the rules and norms.

Example: the core of the market - garments sector, Ethiopia

Let’s return to the garments sector in Ethiopia (to the Enterprise Partners programme). At each stage, we see the core transactions, with supply (producers, retailers) and demand (users, wholesalers, consumers) presented.

The Core Markets – Cotton, Textile, Apparel, Retailing and consumers



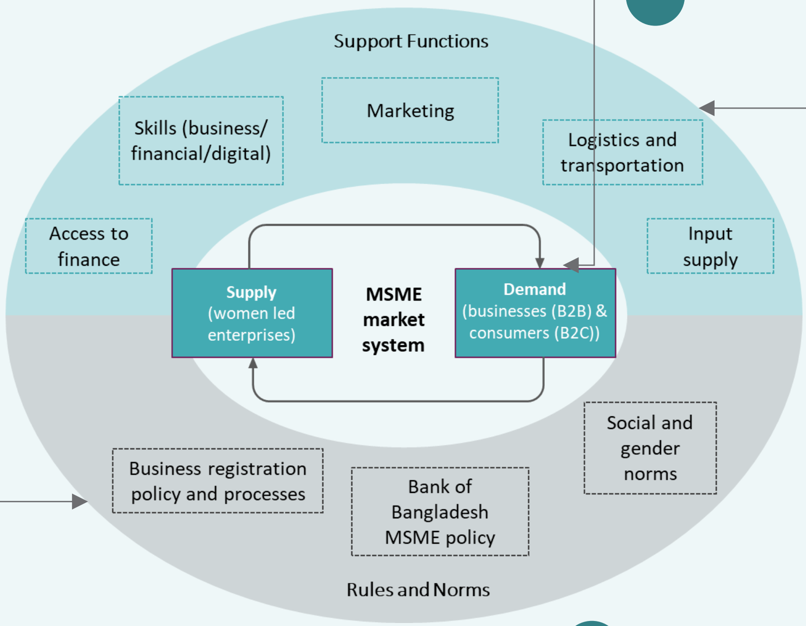
Courtesy: https://commons.wikimedia.org/wiki/File:Cotton_handle_peeling_(Buka_district,_Tashkent_region,_Uzbekistan)-06.jpg
https://pixabay.com/photos/textile-weaving-bench-factory-3751276/

Now let's take a look at an example which covers both the core market transaction and the support functions and rules and norms.

Example: Women-led micro, small and medium enterprises in Bangladesh

In this example from the Asia Foundation of the MSE market in Bangladesh, we clearly see that the core, support functions, and rules and norms are all interconnected. Therefore, the solutions we are going to propose combine different support functions.

At the **core** of the women-led MSME market, there is a **supply side** - the women-led entrepreneurs supplying products and services, and there is a **demand side** – the procurers of those products and services, which we will take to be businesses (B2B) and consumers (B2C).



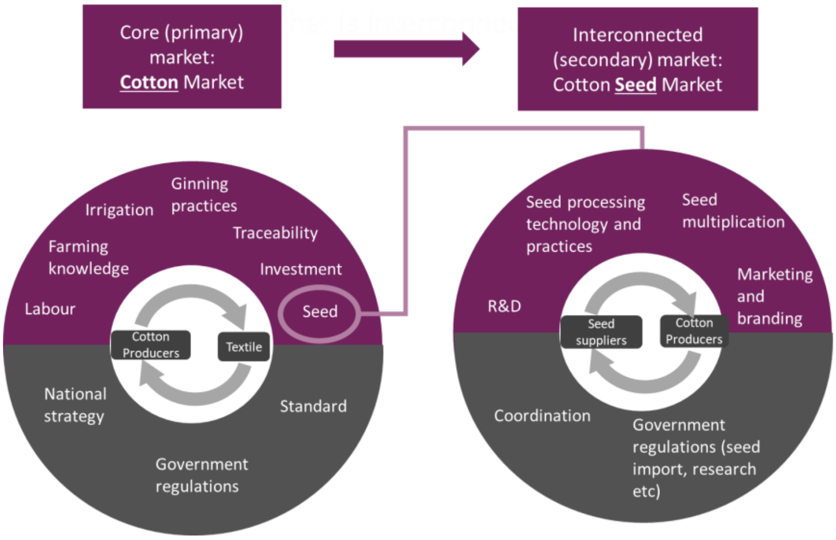
We also have a range of **rules and norms** that exist around the market, such as: **business registration policy and processes**: a set of regulations and processes to register a formal business, including trade licenses and tax payments; **social and gender norms:** female participation as business owners in the system, the importance of male support (family, community), women's role in growing businesses, attitudes of system actors towards women businesses, lack of entrepreneurial mindset; **Bank of Bangladesh (BB) MSME policy**: set of regulations and rules set out by the central bank, applicable to the banking sector for MSME financing.

Then we have various **supporting systems** that exist around the market that enable it to function, such as: **input supply:** supply of raw materials or consumer goods to women-led enterprises; **access to finance:** commercial banks, micro finance institutions (MFIs); **market access/marketing:** supply of products and services to larger markets (regional/national/international); **logistics and transportation**: supply of goods and services to the consumer markets; **skills (business, financial management/record keeping, digital):** women enterprises' level of skills in businesses in business, financial management, record keeping and digital literacy.

It's important that the donut captures the key functions around the market. This is not the same as naming a single actor. For example, the technical design skills function could be filled by formal universities via long-term architecture degrees, or it could be offered as embedded internal on-the-job training within design companies. By mistaking the function for an actor, we greatly limit the way in which we see the function at present, how it might evolve, and the types of actors and solutions that might be able to help bring innovation.

Interconnected markets

To add to the complexity, each of these functions are actually markets in their own right. We refer to these as interconnected (or secondary) markets, as they stem out of our primary or core market analysis. Let's take a look at one of these interconnected markets.



Visualising each of these markets in their own right helps us to delve in more deeply and explore what is going on. We'll see this market has its own core transaction points, along with support functions and rules spheres.

Interconnected markets can confuse people, and can be especially difficult to explain to those not working directly with us on a day-to-day basis (for example, our funders). Simple visual donuts can help us to explain a complex set of transactions in a relatively simple way.

> **HAZARD WARNING**
>
> Don’t drive yourself mad producing too many interconnected market diagrams. While they can be helpful tools to help us understand complexity in a more manageable way, used excessively they can lead us to get very lost very quickly. We’ll need to draw and redraw them quite a few times, it is an iterative process – so think of this as a regular, informal, rather than preparing the most beautiful, ‘perfect’ set of technical diagrams.

Exploring market donuts

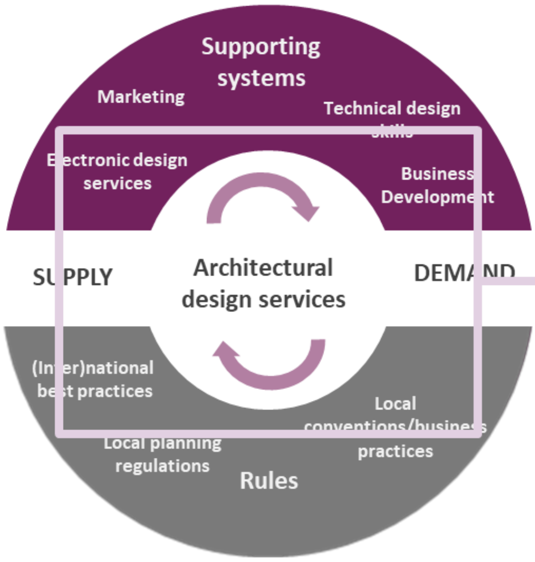
Here are some helpful steps when developing market donuts.

Step 1	Clearly define the core market actors, analyse those actors, and pinpoint where underformance is taking place.
Step 2	Sketch out the support functions and rules, and develop and define what we mean by each of them.
Step 3	Analyse the constraints, opportunities,and actors surrounding each of the key support functions and rules.
Step 4	Identify critical support functions and rules that are causing the underperformance within the core (primary) market.
Step 5	Validate the findings with key industry stakeholders and other relevant sources of data.

It is very important that you **go out and talk to people**. You might also combine this with other quantitative and qualitative research methods (Focus Group Discussions, Key Informant Interviews, surveys, perhaps of the target group, such as the Poverty Probability Index). Ideally this should be a team exercise, not something that is outsourced to consultants.

STEP 1 - CLEARLY DEFINE THE CORE MARKET ACTORS, ANALYSE THEM, AND PINPOINT UNDERPERFORMANCE

Let’s take a look at an example from the construction sector - architectural design services. We will take a look at the core market actors, and the main reasons for the market’s underperformance.



Core market actors

Supply side: architects, or they might be those with a simpler set of skills, such as drafters/those preparing simple AutoCAD drawings.
Demand side: small-scale contractors, or direct procurement from households.

Underperformance

- Slow, costly services
- Lack of understanding of client needs and purchasing habits
- Tendency to ‘overdesign’ services and products
- Slow delivery and correction/adjustment timelines

In order to understand the reasons behind the underperformance, it helps to think about three main factors: the QUANTITY of the transaction (e.g., not being about to produce enough), the QUALITY of the transaction (e.g., not being able to produce at a requisite level of quality), and the PRICE (e.g., overly costly products that do not match consumer purchase thresholds).

STEP 2 - SKETCH OUT THE KEY SUPPORT MARKET FUNCTIONS AND RULES, AND DEVELOP AND DEFINE WHAT WE MEAN BY EACH OF THEM

In our example, a brief sketch of these definitions could look as follows:

Support functions and rules	Definitions
Electronic design services	Includes all of the technology and equipment (software and hardware) required to generate the architectural design services.
Marketing	Includes a range of marketing efforts by firms or by third parties to promote the architectural design services.
Technical design skills	Includes all of the technical design skills and knowledge required by supervisors and designers in order to produce the required architectural design services.
Business development	Includes a range of measures by firms and third parties to develop the business aspects surrounding architectural design services.
(Inter)national best practices	Includes all formal and informal international codes and guidelines surrounding architectural design services.
Local planning regulations	Includes all local regulations, codes and guidelines by planning and other interconnected support service authorities surrounding architectural design services.
Local conventions/business practices	Includes all formal and informal norms, conventions and practices by stakeholders surrounding architectural design services.

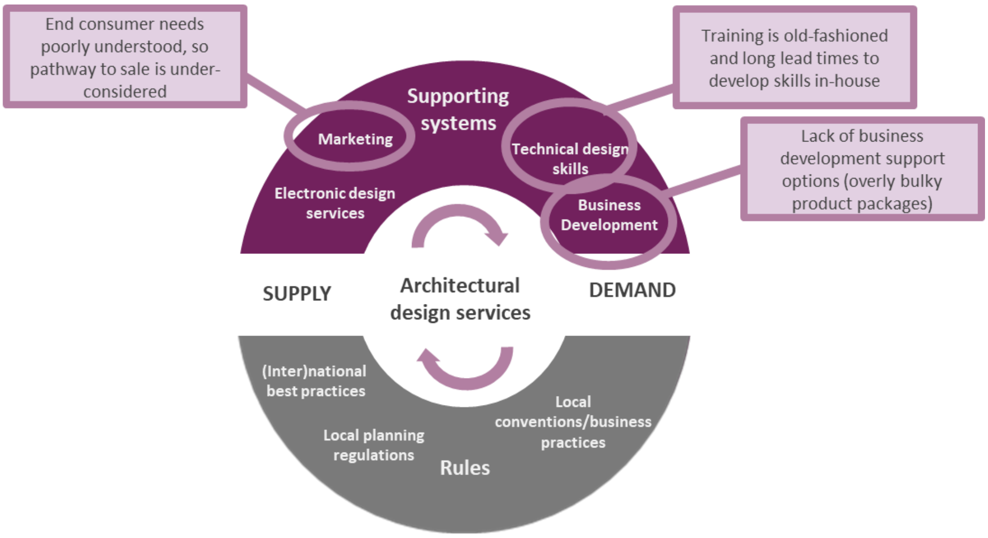
STEP 3 - ANALYSE THE CONSTRAINTS, OPPORTUNITIES, AND ACTORS SURROUNDING EACH OF THE KEY SUPPORT FUNCTIONS AND RULES

We would then expand this out to understand what actors currently perform these functions and rules, and where the core constraints and opportunities are.

Support functions and rules	Definitions	Actors	Constraints AND Opportunities (remember to look for both!)
Electronic design services	Includes all technology and equipment (software and hardware) required to generate the architectural design services	Drawing software providers (international markets), computer hardware providers (international and local markets)	Software package offerings are often overly complex and difficult to tailor (connected to poor service package offerings). In particular, software used is not well designed for small-scale, low-income household style builds. There are numerous good alternative options available (mainly tailored towards non-commercial use), yet industry practice has not yet evolved to use them.
Marketing	Includes a range of marketing efforts by firms or by third parties to promote the architectural design services	Design firms (embedded in marketing departments, or as part of business deveopment manager roles), specialist marketing firms, industry body level marketing	Marketing practices and methods are based on overly general principles, rather than tailored to industry. In particular, marketing relates poorly to client needs and purchasing pathways, which are rarely analysed due to a lack of good market research. Poor marketing is then closely connected to poor service package offerings.
Technical design skills	Includes all of the technical design skills and knowledge required by supervisors and designers in order to produce the required architectural design services	Universities, technical colleges, short-course providers (in-house and external providers)	Technical design skills are either too broad and theoretical, or too limited to a particular use of a given software or approach. Technical design skils are either very extensive (degrees with limited focus on low-income housing requirements) or overly simple (training on individual software package use), there is limited good 'mid-level' provision.

STEP 4 - IDENTIFY CRITICAL SUPPORT FUNCTIONS AND RULES THAT ARE CAUSING UNDERPERFORMANCE WITHIN THE CORE MARKET

Once we have set out the supply, demand, supporting functions, and rules, we have a visual tool to explore underperformance in the market. In the simplified example below, we see the issues with the marketing, technical design skills, and business development functions surrounding the core architectural design services market.



Remember, we can initially be open-ended when we are exploring all potential market constraints and opportunities. Yet ultimately, we do have to narrow our focus to make the most of limited time and resources.

Tips and Tricks

Factors that help us to identify critical support functions and rules:

- Is this factor affecting the quality, quantity or price of the core market transaction significantly?
- Are the core market actors actively demanding the support function or rule? Are they willing to pay for it?
- Will improvement in one support function or rule help improve another support function or rule?
- Is there any momentum? For example, government incentives, presence of private sector etc.

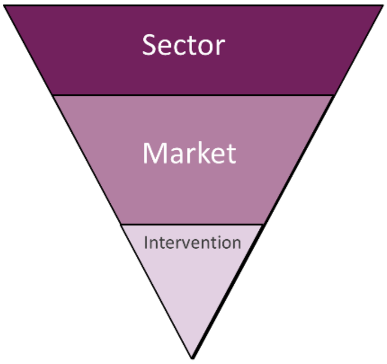
STEP 5 - VALIDATE THE FINDINGS WITH KEY INDUSTRY STAKEHOLDERS AND OTHER RELEVANT SOURCES OF DATA

By this point in the process, you need a sanity check. It can be all too easy to develop an idea from the comfort of your office, convince your colleagues of its brilliance, and immediately run out to search for the first partner to attach your idea to. Instead, hold conversations with key industry players to give you a feel for whether your idea is feasible. These conversations will serve the dual purpose of building your connections in the market.

Setting the Strategic Vision

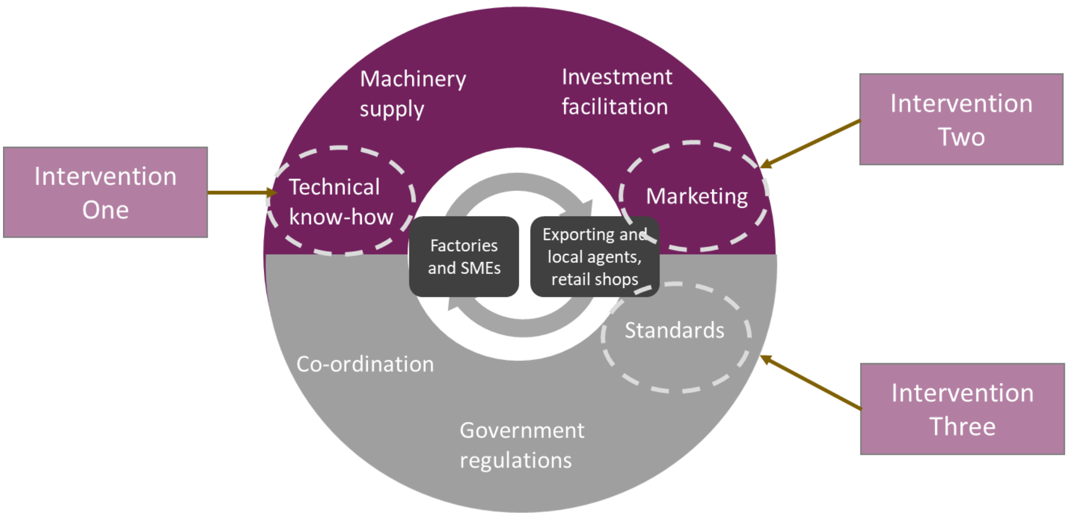
Market analysis is not easy and it can take time. You can’t set a clear vision unless you do the analysis properly. Even though setting vision comes in the end, it is the most important bit.

The Sector Level	At the sector level, there are two key questions to consider: ▪ What is your vision for the sector? ▪ What markets will we work in to enable this, and why?
The Market Level	At the market level, three important questions are: ▪ What is your vision for the market? ▪ What support functions and rules will you work in to enable this? ▪ How do these support functions and rules interact to create the change you seek?



We can also use the donut to develop the market strategy – adding a narrative of the vision, circling the critical support functions or rules, explaining how they interact or shift, and how this leads to the achievement of the vision.

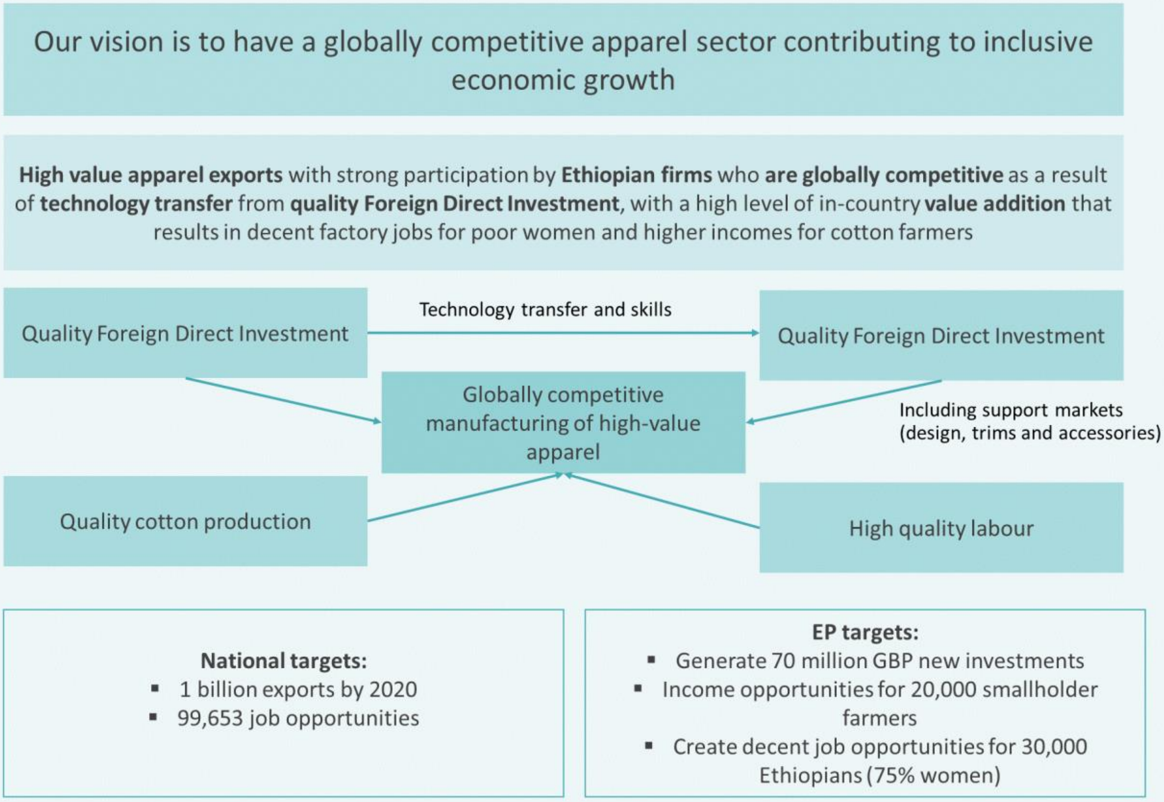
Your team would add a narrative of the market vision



Your team would add a supporting narrative explaining how these support functions and rules interact.

Example visions: Ethiopia Apparel Sector and Egyptian Citrus Sector

An example sector vision for the apparel sector in Ethiopia (from Enterprise Partners) is provided below.



In contrast, below is an example sub-sector vision of the citrus sector from the Arab Women's Enterprise Fund in Egypt.

Vision

A globally competitive citrus sub-sector where an increased focus on women's working conditions, mobilisation, wellbeing and advancement results in increased productivity and product quality and contributes to enhanced and sustainable economic growth for all.

Strategy for Change

Build awareness and capacity of citrus farms, pack houses, and the broader system to invest in capacity building and training of workers (specifically women), introduce gender sensitive recruitment, HR policies and effective communication mechanisms.

Tips and Tricks

Factors that help us to identify critical support functions and rules:

- Be realistic (but inspirational)
- Be timebound
- Quantify if and where possible
- Align with national and other relevant strategies
- Keep things short and simple

Week 2

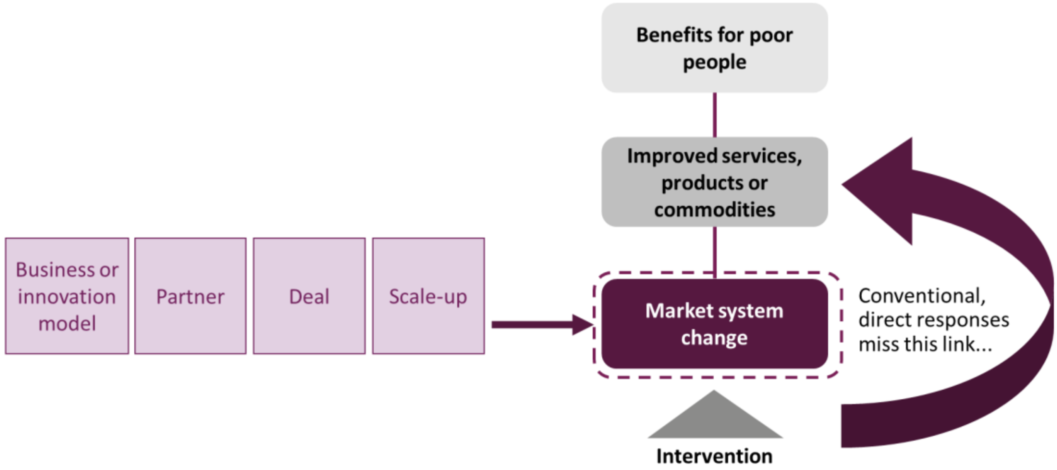
Intervention design and implementation – Part 1

04 Introduction to business models

- Key components of intervention design
- Developing business models

Key components of intervention design

We have explored why MSD programmes avoid working directly in the market, and instead aim to bring about a longer term, sustainable market system changes. This was illustrated in the MSD Strategic Framework. Bringing about market system changes requires four key elements: a business model, partners, deals, and a scale-up plan. We'll now look at each of these elements in more detail.



Element	Definition
The business model	A market system change requires us to introduce a new way of working in order to solve a problem in a sustainable way. We refer to these innovations as 'business models', although they can also involve public sector actors. Alternatively, these can be referred to as innovations, or even practice changes. Choose whatever language makes most sense for your context.
The partner(s)	The business model must become established in the market in a sustainable way, and this means it needs to be owned by actors operating within the market. When we introduce a business model, the initial organisation(s) or individual(s) we work with to test whether the business model is feasible are known as partners.
The deal	Business models cannot simply be given to partners. We need to understand how and why partners want to work with us on a model, what their capabilities are, and structure a suitable working arrangement to match these needs. This is known as 'the deal'. A deal includes the formal (contracting) and informal (business dealings and other tacit arrangements) structure of the agreement, including how we manage the arrangement over the lifetime of that partnership.
The scale-up plan	The scale-up plan is the strategy which takes us from our initial pilot with one or more partner towards embedding a wider, sustainable practice change within a market.

The Business Model

Let's look at the first essential element in intervention design – the business model.

Why is the business model at the core of good intervention design?

If we want to change the behaviour in a market to bring about sustainable benefit for our target group, we need strong underlying ideas firmly rooted in sound market analysis. Without this, our support and activities are unlikely to create meaningful market shifts in the medium to long-term. It is easy to get seduced by a good stand-alone business case, it is a real headache to try and retroactively connect it back to how it will drive wider market change.

HAZARD WARNING

We say 'innovation', but this can mean many different things. In market systems development, we want to be generous with our definition. Introducing a successful technology used elsewhere (adapted to fit the current context) can be innovative, as can expanding the reach of a product or service from a local area to a national scale, as can slightly tweaking a failed pilot to the point that it can work. Ultimately, we are looking for market actors to do something **different enough** to bring about lasting, meaningful change for our target group.

Business models: moving from theory into practice

All business models evolve upon contact with the real world. Let's explore this using three scenarios: opportunism, co-creation, and idea-blindness.

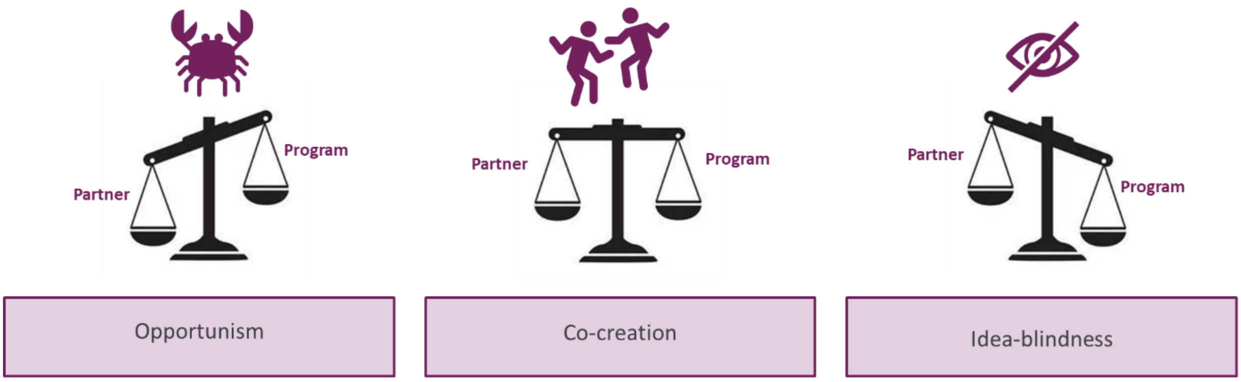


Image courtesy: Vecteezy

Opportunism happens when we rely too much on the partner. We are too quick to follow their business ideas, and we lose track of our wider intention to create a shift in the wider market.

Idea-blindedness is the opposite of opportunism. Here, teams prepare the entire business case in-house, completely detached from the market and partner perspectives, and then expect to 'bolt on' their idea to a partner. This usually results in a theorectical model that doesn't work in the real world. What's more, we should be suspicious of partners willing to do everything we say – it can be a sign that they are seeking short-term funding, and aren't really concerned about eventually taking up a self-owned sustainable business case in their own right.

Co-creation is where we want to be. Here, our team is invested in developing a sustainable business case that serves the wider market shift we want to bring about. At the same time, the team recognises that the partner understands the real-life context it is going into, and the need for adjustments. The team is receptive to the partner's feedback and realises that they have to hand over control so that the partner truly owns the model in the longer-term.

Visualising the business model

It can be really helpful to visualise a business model to show us who is doing what, how transactions work, the relationships between the key actors, and the changes between old and new models. This makes analysis easier: for example, it helps us pin-point areas where we might be setting up unrealistic or overly complex transactions between actors. In general, the more complexity we add, the more risk we add (though in the right circumstances, this can still pay off).

Let's look at a simplified practical example.

Example Visual Business Model: Small-scale Construction Delivery Services

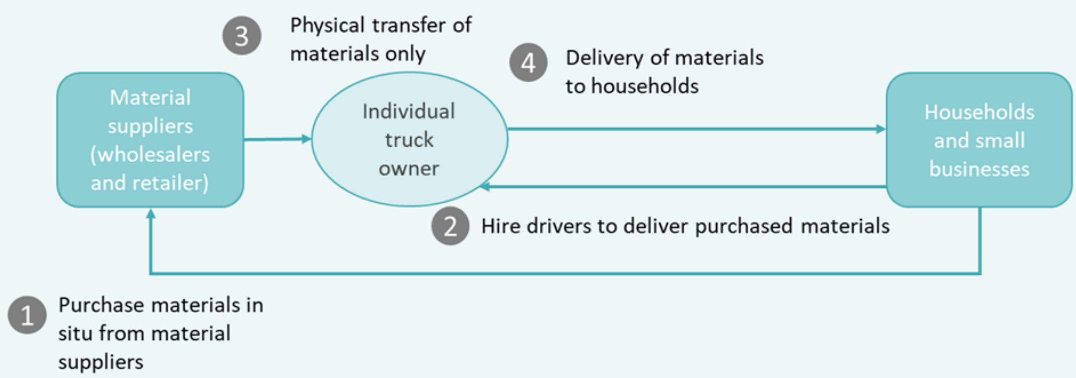
Suppose our programme is working in the small-scale construction delivery services market. This market is dominated by individual truck owners and small very small-scale trucking companies. These businesses tend to be very informal (especially the individual providers), with poor to no formal record keeping, and even less structure around client management, marketing, procurement, through the delivery life-cycle, quality control, and feedback loops. This leads to highly volatile pricing, and a lot of uncertainty around availability of services (especially during the peak construction months outside of the rainy seasons), which causes pricing and planning issues for both the delivery service providers and the end consumers (small-scale contractors, households, and other small-scale construction-related businesses).

The programme decides to work on an integrated booking management system to better connect truck drivers and/or trucking companies to end consumers.

Designing the initial pilot business model

The team explores some of the delivery service business models that already exist in the market. Broadly, they find two different cases.

BEFORE Model 1 - Individual service provider model



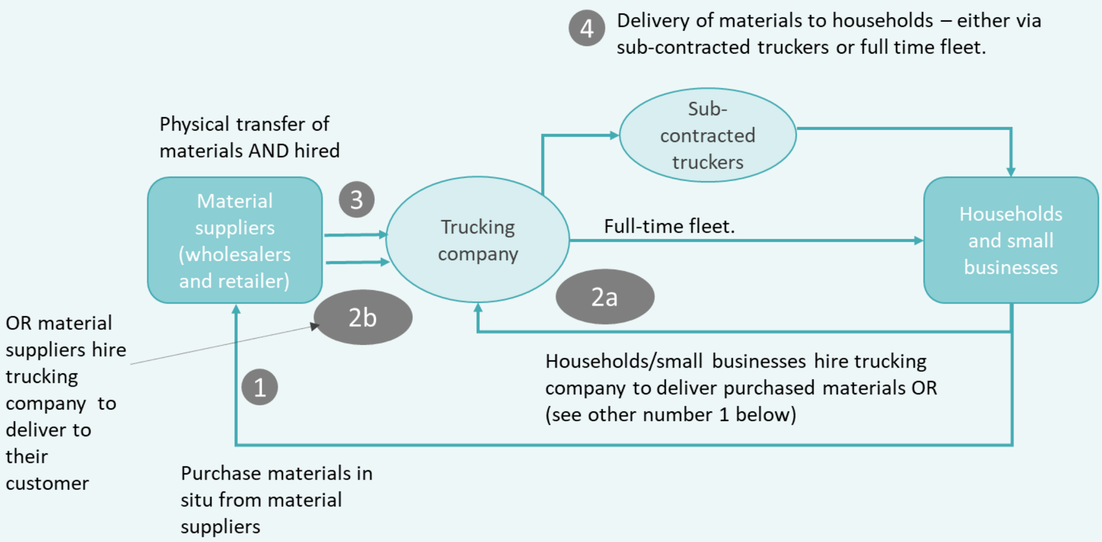
Under the simplest business model, households and small businesses visit the material suppliers to procure the materials they need. Either in parallel or prior to the purchase, they make a separate arrangement with individual truck owners to collect the materials from the material suppliers, and deliver them to their site.

The key limitations of this model:

- **Transaction size limits:** Individual truck owners can handle up to 15 deliveries per week, less if there is distance or large quantity involved.
- **Growth of business limits:** Trucking owners can rarely afford to buy more than one to two vehicles. Even if there was further finance available, there would rarely be able to grow beyond a 1-2 model operation.
- **Limited to no business skills:** Individual truck owners mostly operate on a one-time hire model (although some do maintain some soft client relationships). There is little to no business structure other than the week to week simple hire-deliver arrangement between a household and a driver.
- **Inefficiency and volatile availablity and pricing:** As a result of a high level of inefficiency and uncertainy, there is a high pricing and vehicle/driver availablity volatility, particularly during peak periods. This causes issues for both the drivers and the end consumers alike, with relationships between these groups often being fairly poor.

The team quickly determines there is no real potential to work with these providers directly, as they will never be able to lead to a scaleable solution to support the wider shifts they want to bring about to the delivery services function.

BEFORE Model 2 - Small-scale trucking company model



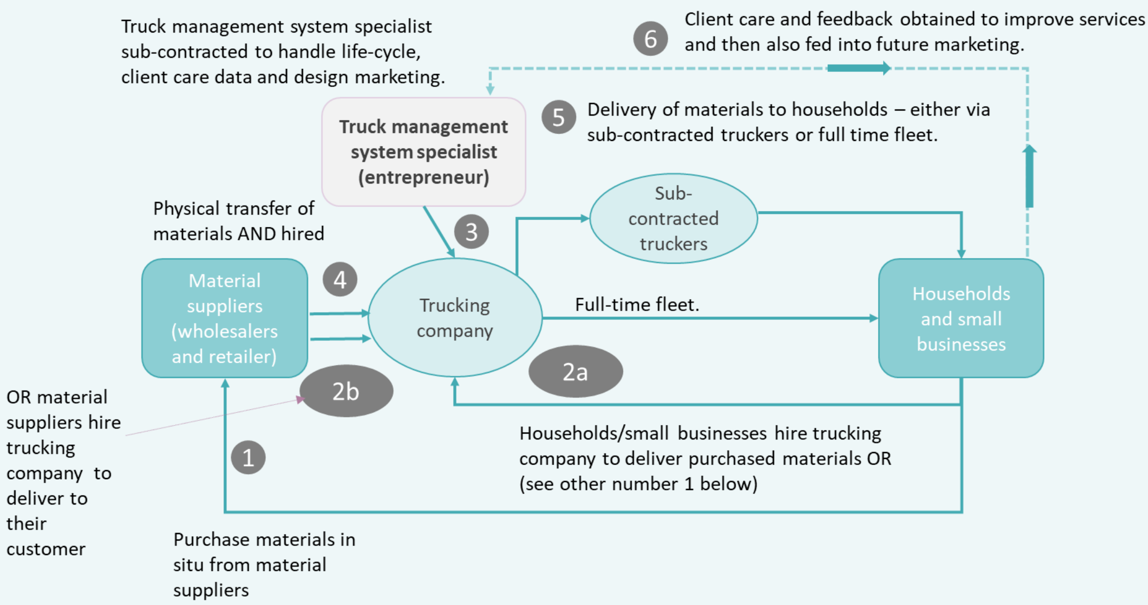
This also remains a fairly simple business model, although there is a little more formalised business structure involved. Here, either households/small businesses AND material suppliers hire the trucking company to make deliveries to the end consumers. The trucking companies either use their full-time fleet (internal) or use sub-contracted drivers to deliver materials to site.

The key limitations of this model:

- **Transaction size limits:** Trucking companies are certainly able to handle larger numbers of transactions than individual truckers, but these businesses are usually fairly small. They usually involve 20-40 trucks, with a slightly higher delivery ratio per individual driver, of about 20 deliveries per driver per week.
- **Growth of business limits:** Financing to grow businesses is available, but these businesses usually hit a natural technical limit, beyond which they do not have the right internal systems to grow further (see below).
- **Limited business skills (beyond a small company set-up):** In-house processes are usually not very developed, and there is often limited to no formal marketing, client relationship management, and lifecycle management practice.
- **Inefficiencies and volatile availablity and pricing:** Trucking companies can offer a degree more consistency of availability and pricing in low periods, but during peak periods they also find themselves subject to sudden high demand and pricing changes, being closely affected by individual truckers (which make up a vast majority of the market).

The team determines there is more potential to work with this underlying business model, with some critical adjustments.

AFTER Model – Pilot Case



Under the pilot model, the trucking company sub-contracts the newly established truck management system specialist (the entrepreneur that wants to test out the feasibility of working with trucking companies) to manage their order life-cycle, client care data, and (subsequently) marketing efforts.

There are a few important design points to note:

- The trucking company wants to retain control of the bookings, as it still want to front-face with the clients. Under this set-up, the trucking management systems specialist is not yet the face of the booking service.
- However, the opposite happens at the point of client care and feedback. The trucking company does not want its direct lines and staff to become mixed up with the client care and feedback loops, so at the point of sale, it provides direct details of the truck management system specialist (albeit as its sub-contractor).

There are other ways this model could have been set up – what alternative ways could have been chosen? What are the key risk points to the current model? Has too much accommodation been made for the individual partners, or is this a reasonable trial set-up?

Learning from the pilot

The team keep a track of key components of the pilot business model, so they know if and how it is working, and to keep a track on the level of engagement and continued interest of their partners. We will explore the details of how to track this information in our Monitoring Results Measurement chapters ahead, as MRM data is absolutely vital for this process. For now, we can see a simple, short list some of the types of data we will need to track below.

How many orders were made in given periods (taking into account of high and low seasons)? (baseline)

What is the pricing structure of the truck hire service? (baseline)

How many full time fleet members does the company have?

How many orders on average can a direct fleet driver handle in a week?

What is the size/nature of the orders handled by the direct fleet driver?

How many orders on average can a sub-contracted driver handle in a week?

What is the size/nature of the orders handled by the sub-contracted driver?

What is the profile of the clients hiring the trucking company (of the households, small businesses, material suppliers)?

How satisified are the current clients with the service?

What issues do current clients face with the service, if any?

What data is the truck management system specialist starting to collect – keep a close relationship to see what data trends can be established as a baseline and as it is collected.

What is the initial relationship like between the different actors under the arrangement?

05 Partners and deals

- Selecting and assessing partners
- Getting the deal right
- Introducing scale-up

How do we select the right partners?

We have learnt that at the core of market systems development is sustainable changes in behaviour (underpinned by the right incentives), a change in the way practices are undertaken, and a resulting improvement in market performance that benefits the target group.

In terms of partners, we can draw out two key elements from this.

Firstly, incentives: our partners must be incentivised by the business model, and we must understand what their motivations are behind working with us.

Secondly, the capacity of our potential partner: this includes financial, technical, leadership, physical and networks.

Tips and Tricks

What do we mean by incentives, and why are they so important?

Incentives can mean…

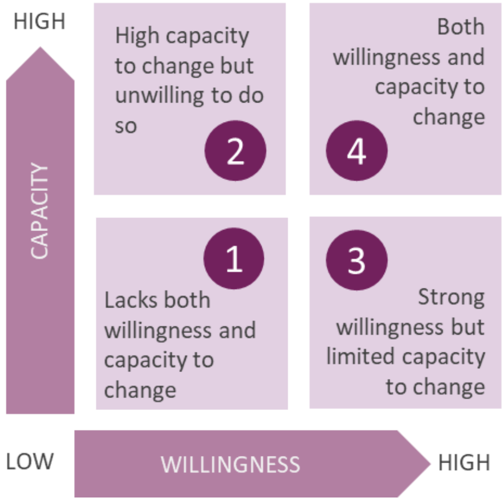
- money
- relationships
- recognition/reputation
- competitiveness (including diversification)
- risk avoidance
- desire to do good
- growth
- compliance

We need not share the same incentives as our partners – rather what matters is that our incentives are aligned.

How do we assess partner options?

One widely used approach to assess, select and strategize with partners is the will-skill matrix. The will-skill matrix reminds us of two critical building blocks to partnering; partners must be willing (have the right incentives) and capable (have the right capacity) of partnering with us.

As with any of the simplified MSD tools, this isn't about using this tool once and then putting it aside. Rather, just like the MSD Venn (Growth, Impact, Feasibility), you want to think back to these tools throughout the whole partnering life-cycle. Will and skill should become a key part of your vocabulary.



The will and skill diagram above has been adapted from the Springfield Centre's Will-Skill Matrix and Jim Tomecko's Partner Engagement Matrix/Think Tool

The will-skill matrix has four quadrants. Let's now explore each of these below.

Quadrant	Definition
Lacks willingness and capacity to change	Obviously, where possible, we do not want to partner within this quadrant. However, this might be your only option, or it might be strategically necessary (for example, you might have to partner with government to manage relationships).
Has capacity to change but is unwilling to do so	In this quadrant, partners might not see a return within a period, there might be opportunity costs they are considering, they might hold certain perceptions about risk. Many of these might be valid concerns, and we should be open to learning from these parties, as they often understand these markets well and are seeing hurdles we might be underestimating. At other times, many of these hurdles might be more to do with personal preferences, bias, or simply poor timing, all of which can be overcome and have little to do with the opportunity itself. We need to differentiate and get down to the source of the concerns to make sense of them.
Has strong willingness but limited capacity to change	We often find ourselves in this quadrant in practice. It is not a terrible place to be. The risk in this quadrant is that we try to fix too many aspects of the organisation, or, even when we are trying to fix one or too aspects, this might require unrealistic levels of time and resources. We have to be careful not to get to entangled in the challenges of one particular business, at the cost of focusing on wider system changes.
Has both willingness	This is obviously the ideal quadrant. But before we dive in, we do need to ask ourselves, if all the right conditions exist, why isn't the partner already taking up this case by themselves? There might be a number of different reasons. The first is the simplest; partners might be presented with lots of good

and capacity to change	options, it doesn't mean they will take all of them at a given point in time. The second is more complex; there might wider issues outside of the control of the partner at play, for example issues with government regulations, or industry policies.

Guiding questions for assessing partners

Like any complex process, ultimately there is no single checklist that can magically produce the best partners. We've provided some basic starting points in the table below – but you should think about what is needed in your particular case, and build upon it. The situation will always be dynamic, so a rough assessment repeated regularly is usually far better than a detailed assessment that is never reviewed.

Category	Guiding questions
SKILL: CAPACITY TO CHANGE	
Technical	▪ Do they have practical knowledge to deliver the required services or products?
Human	▪ Do existing staff have time available? ▪ How much experience does the management team have? ▪ Can the organisation hire and train new staff?
Financial	▪ Do they have the financial resources to make additional investments? ▪ What is their track record with financial institutions? ▪ Is the use of existing physical resources restricted to other purposes?
Leadership	▪ Are there champions in the firm who have the power and influence to lead the change process? ▪ Are there individuals in the firm who want to explore and break new ground?
Networks and Linkages	▪ Has the company previously worked with the target population? ▪ Is it connected to the appropriate geographic areas (provinces, districts, etc.)? ▪ What is the size of its customer or supplier base or reach of its distribution network? ▪ Does it have good relationships with local decision makers and relevant government agencies? ▪ Does it have potential to influence other actors in the value chain?
OTHER	
Reputation and General Risk Profile	▪ Is the company and its management reputable (no known corruption charges or scandals, donor blacklists, no known associations with terrorist groups, etc.)? ▪ What is the general public perception of the company? Is its brand well recognised? How are its products and services received by consumers? Is it engaged in responsible supply chain management? How does it treat its employees or distributors?

The deal

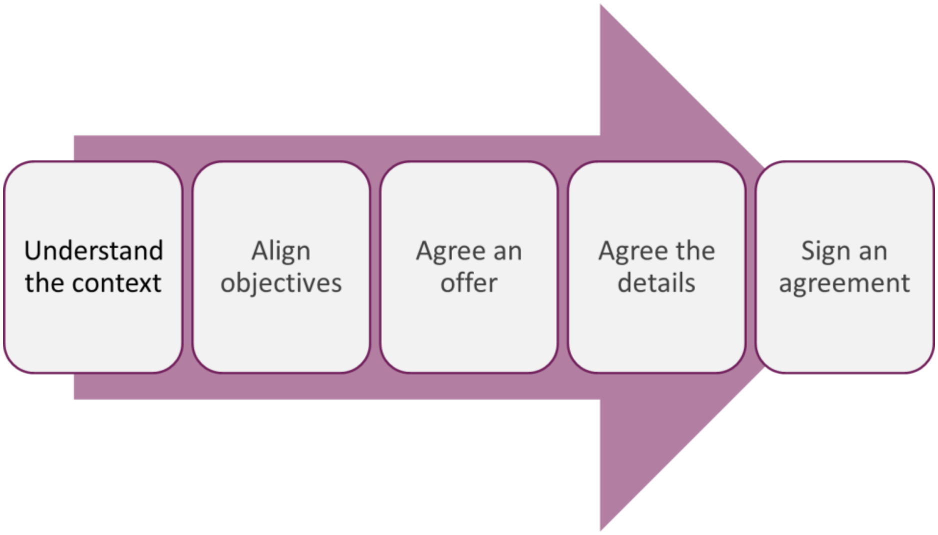
The ‘deal’ refers to all of the agreed ways of working with a particular partner, or set of partners. We are really talking more about the initial deal along with how it evolves into a longer-term partnership.

There are whole disciplines devoted to deal-making and partnership management. For our purposes, we will focus on three important elements. A good underlying deal (and subsequent partnership) should be underpinned by clarity, trust, and commitment.

Clarity	Relates to the timelines, activities, and responsibilities of the offer of what you and the partner can provide. It relates to being upfront about what each party intends to get out of the relationship. In MSD, you want to see wider practice change, you are not aiming to be tied with that partner forever and only interested in their individual success. This requires balance, because at the same time you’ll need to develop a close relationship with your partners through the development and roll-out of the model.
Trust	Trust takes time to develop, and is not just limited to you and the partner, but also involves your (and their) wider standing in the market. How you engage with other partners will influence your reputation. It has not been unknown for two or three people in larger programmes to request meetings with the same multi-national in the same week, leading to an image that the programme is disconnected and disorganised. Trust is also about setting good boundaries, and not over-promising on what can be delivered (again, on both sides).
Commitment	Commitment here relates to making the business plan work, and ties closely in with trust and clarity above. It is fine to provide varying levels of support, but we must always be clear where the lines are drawn between what we do and do not expect to support.

The basic deal-making stages

Below is a simplified outline of the key stages involve in brokering the initial deal. Certain aspects – such as commercial contracting – require some additional expertise.



Understanding the context	Align objectives	Agree an offer	Agree the details	Sign an agreement
Know the partner, the business model, the deal Give yourself enough time for negotiations Draw on external expertise where needed	What do you want? What does your partner want? Who else needs to be involved? Managing partner expectations from the beginning	For sustainability: 1.) Cost-share the new, risky activities 2.) Take care when investing in 'core business' 3.) Avoid distorting the market 4.) Ensure enough financial, time, and resource commitment from the partner – and attach contact points where possible	What can you bring to the table? Ideas, technical assistance, introductions and networks, money What do we expect partners to do? Take responsibility and ownership Cost-share or resource-share the project (with new and dedicated resources)	Don't underestimate the contract – such as confidentiality provisions, IP, monitoring data provisions etc. – take good time to understand the commercial contracting aspects, particularly when the source contract is not with you

The 'who does, who pays' framework

A practical and helpful tool to help setting expectations from partners is the 'who does – who pays' framework (originally developed by the Springfield Centre). This reminds us that when we structure activities in an agreement, we should be doing so with a long-term ownership picture in mind. As with much of MSD, this ties closely in with incentives and long-term behaviour change. Before we allocate a task to ourselves, or to a partner, we need to be realistic about how this will all play out over the long-term. If we offer to pay for an expensive activity throughout the partnership, will it be realistic to assume the partner will take on this responsibility (and the cost) after we are gone?

Who does – Who pays (PRESENT vs FUTURE)

Activities (or Tasks)	Doing (Present)	Doing (Future)	Paying (Present)		Paying (Future)	
	Who will do this during the project?	Who will do this after the project?	What costs are attached to this activity during the project?		Who will incur the costs after the project completion?	
			To be paid by project	To be paid by partner	To be paid by project	To be paid by partner
Activity 1						
Activity 2						
Activity 3						

How do you find partners?

Ultimately, we are aiming to find the most suitable partner to unlock the market for us. This means that the methods we use to find partners **should serve us in the best way to find the best candidates**. Whether we use direct selection (i.e., selecting a tighter pool of candidates that we then source from – this might even be a single candidate) or open selection (i.e., opening up to the wider market, usually either with open or semi-open procurement processes) depends on what will fit best. In general, direct selection is faster and often more efficient, but comes at the risk of losing out on options we may not be able to see. Open selection is slower and less efficient, but allows us to think beyond our immediate networks.

Scale-up

We have spent a lot of time on the initial partnership formation in this chapter, as this is the foundation for our work. Yet initial partnerships can all too easily distract us from the aims of an MSD programme, as we focus on the demands of day-to-day relationship management, timely fund disbursements, and contracting.

As this chapter draws to a close, it's important we bring the bigger picture back into view. **Ultimately, we are seeking to change markets, not improve conditions for individual partners.**

For this reason, we should be thinking beyond the initial partnership from the very outset of our work. **We should be thinking about how we want to scale up the work (if it is successful).** In the beginning, we might have a lot of gaps in our knowledge: we won't know whether our idea will work, or how it will evolve. We need to think of the initial partnership as just one piece in a longer-term plan.

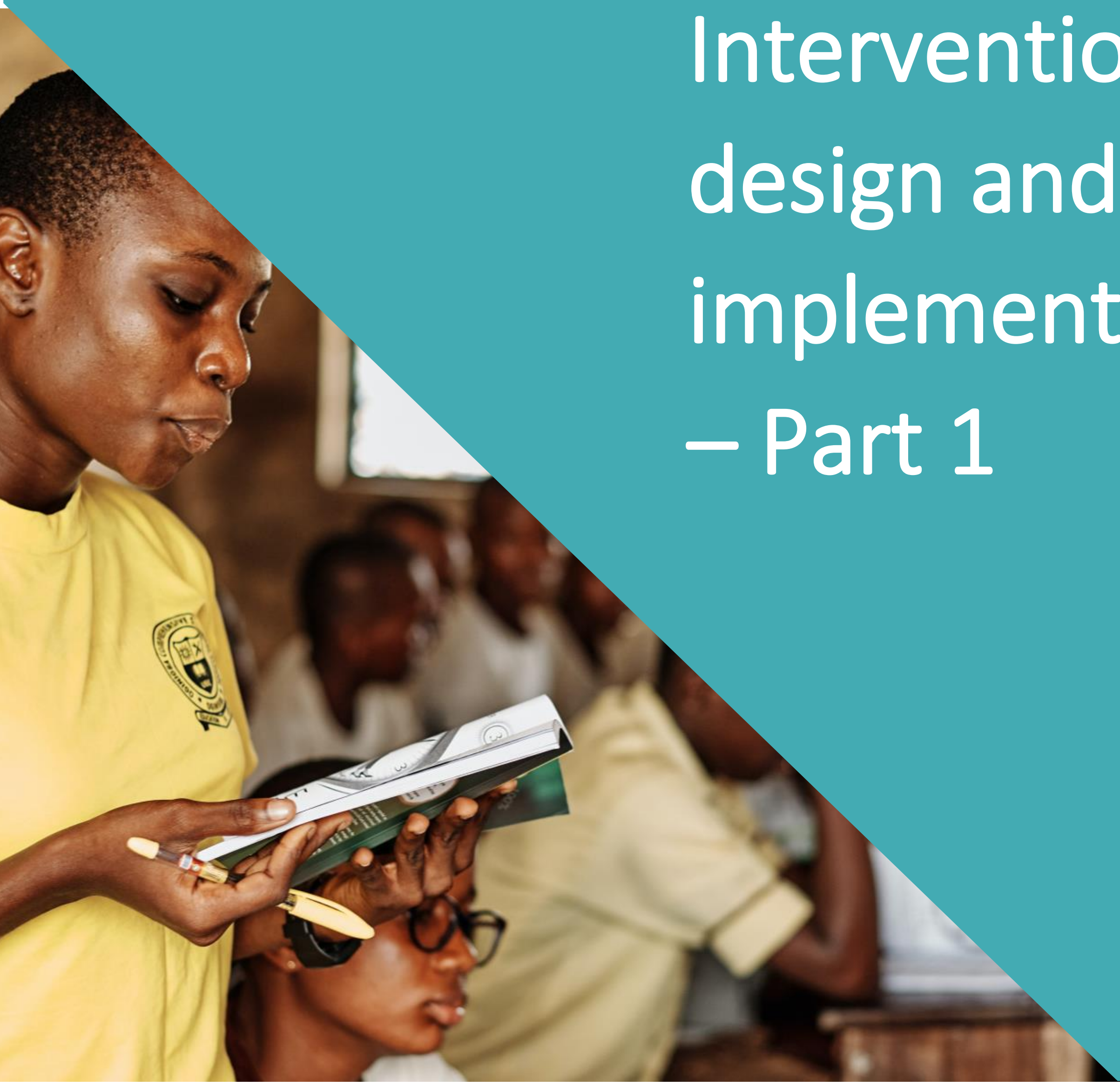
Tips and Tricks

From our initial partnerships, we should aim to learn:

- Whether initial movers were willing to take a risk on the idea, how easy (or difficult) it was to get them on board, and how this played out for them (the mechanics of what went right or wrong with the initial or adjusted business model).
- Whether second movers might be interested. We should not expect that this follows organically, and unsupported. In reality, second movers usually require further support.
- It will then take further effort for a widespread practice – often bolstered by other interventions in interconnected markets – to bring about longer-term change.
- The dynamics of a sector are ever-changing, depending on the volatility of the sector. We should continuously be zooming in and out – from close to the individual partner and business model – right out to the wider dynamics and changes in the markets and sectors – to constantly update of view and gain a better appreciation of what is going on.

Week 3

Intervention design and implementation – Part 1



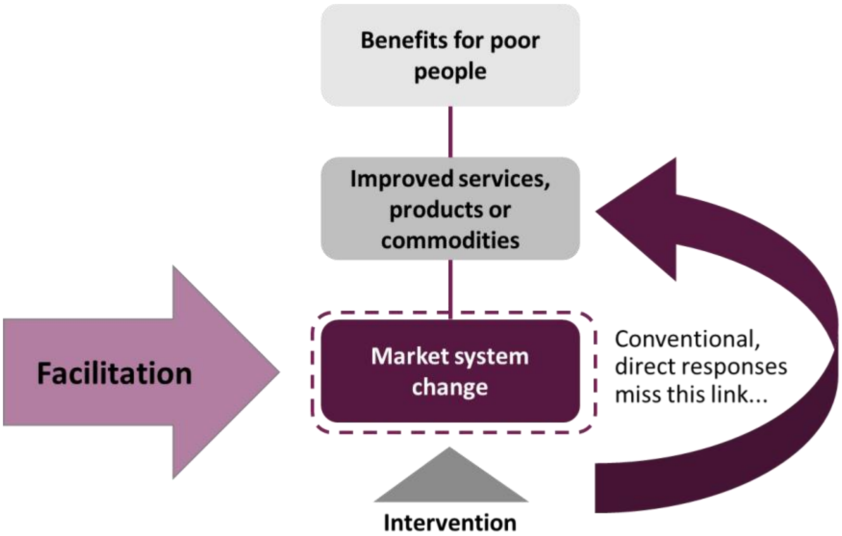
06 Facilitation

- What is facilitation and what do facilitators do
- Facilitation approaches

What is facilitation?

Market facilitation involves an action or agent that stimulates the market to develop and grow - but does not become part of it. This is to avoid our intervention rapidly falling away when we exit. Too often, development organisations and programmes forget that they are not going to be around forever.

The risk of not being facilitative is that we replace the market system, rather changing it. When we exit, the market system reverts to where it was.



Source: M4P Operational Guide, Springfield Centre (2015)

What does a facilitator do?

There is a wide spectrum of facilitation approaches. The approach needed will depend on the context. One approach will seldom be sufficient – we will need to try out different things. Generally, we aim to try lighter touch approaches first, and then progress to more intensive approaches. However, this will always depend on the market and on our partner, and less about our needs and tendencies (although we will be limited to some extent by our own skills and resources).

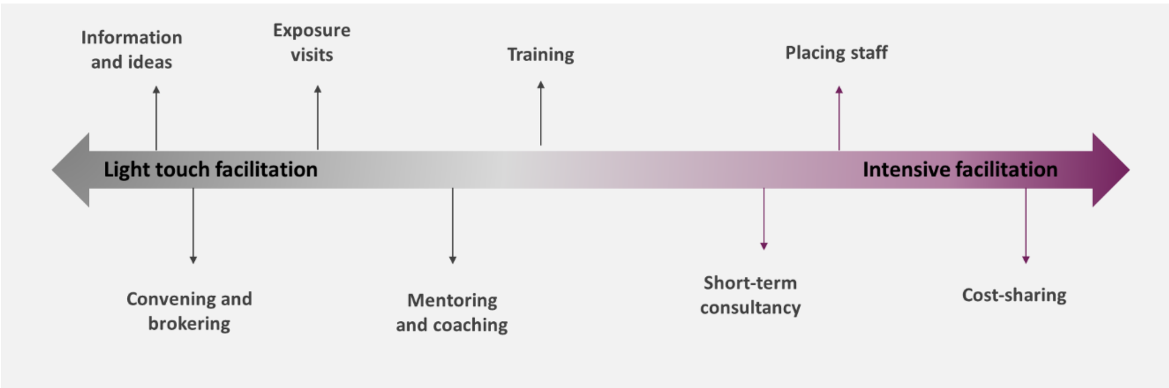
There are benefits and limitations of light touch and intensive approaches.

Light touch facilitation approaches often encourage greater partner ownership, requiring less hand-holding. They are often cheaper and less time consuming for a programme, and require less of an exit strategy. Yet they might not be appropriate in cases where the partner is either less capable or less incentivised, and/or where the market is slow.

Intensive facilitation approaches often push the partners and markets to bring about changes more quickly, leading to faster results, which can in turn trigger greater buy-in and uptake (seeing is believing). However, intensive approaches can also lead to dependency on the programme, with the partner expecting continued heavy support. Intensive support is costly, both in terms of money and time of the programme team. There is also a greater risk of market distortion, by over-supporting a handful of players. This also makes it very unlikely that a feasible scale-up strategy would be able to be developed effectively.

Delivering different facilitation approaches

This diagram outlines a spectrum of different facilitation approaches, from light-touch to intensive.



What approaches can my programme deliver?

The ability of a programme to deliver different approaches will depend on a number of factors:

Credibility – While less resource intensive, light touch intervention approaches can be surprisingly difficult to deliver in practice. In order to get partners to do something (while providing them with less resources to do so), your ideas need to be incredibly convincing. Your case needs to be presented strongly, and/or the deliverer of the idea needs to be someone with the influence and credibility to get the partner on board. Credibility can mean different things to different organisations, and ranges from strong technical and business knowledge, pre-existing/recognised standing within the industry, strong connections, and so on. Awareness of what will and will not sway a partner to act is key to being able to deliver a 'lighter' approach.

Context – As with all good development work, context is everything. If we try to copy and paste an approach from a different context without adapting it to the place we are working in, it is likely to hit some major practical roadblocks along the way.

Purpose – We cannot just set out to deliver a particular facilitation plan without a connection to the partner. A facilitation approach is, after all, a gameplan for how we will change behaviour. That gameplan will change depending on who we are working with (remember – will and skill!), and we will not often have the same facilitation approaches for different partners, even if it is the same model.

Internal or external – Good teams recognise their own limitations. They need to consider whether they have the technical and business expertise to roll out an intervention in-house, or whether they might be better off bringing in the support of external expertise. While it's nice to imagine we can always try to do things in-house where possible (and there are huge benefits to this, particularly in the long-run, as we build the strength of our in-house team), this is not always feasible or preferable. This ties in closely with credibility; sometimes partners will be far more convinced by those with a little more knowledge and connection, and it is fine for us to draw them in to trigger that effect.

How to make different facilitation approaches effective

Let's take a look at each of the facilitation approaches in the outline spectrum.

Approach	Definition
Ideas and information	Here, we are looking at delivering convincing information and ideas to targeted audiences. This means the information needs to be delivered by the right parties (which might not always be us), in the right format (if you are talking to a business, a short presentation may work a lot better than a 50-page report), and using the right dissemination strategy (anything from one-on-one meetings right through to radio programmes).
Convening and brokering	Here, we are bringing together different key actors, often to try to come up with efficient solutions to different problems, or to demonstrate awareness of opportunities. It's important (as the facilitator) to be seen as a neutral actor in the brokering process. This also requires strong facilitation skills in our teams, good preparation, and good follow-up to ensure the actions have happened, and/or to troubleshoot any issues that have arisen since the brokering – it is rarely about having one meeting and sending everyone on their way; it is often a staged process.
Exposure visits	Exposure visits have a reputation for being ineffective and prone to manipulation. The image they bring up is of a high level official being sent on a nice city break, rather than a useful mechanism for triggering behaviour change. Before we drop them outright, remember they can be useful. For example, when we send technical people to meet other similar technical people in a different context, it can be eye-opening for them and can bring about a real transfer of innovative ideas. Our partners need to demonstrate signs that they are committed and ready to make changes,

	and similarly that the receiving party is also equally comitted to receiving them (consider what their incentives are too).
Mentoring and coaching	The best MSD partnerships are often ones where the partner can say that the programme has acted as their mentor throughout the partnership process. This is often a two-way street, with programme staff also listening to and learning a lot from partners in return. To set up the right environment for a mentoring-style relationship, the fundamentals of the relationship need to be in place. The partners and programme alike need to understand the scope of the support, develop KPIs and milestones where needed, and set up regular and structured contact (such as regular meetings or check-ins).
Training	To be useful, the training needs to fill a capacity gap, the content needs to be tailored and based on the reality of the partner's needs, and it needs to be suitable for the audience (most often, avoiding lengthy and boring classroom training, utilising shorter multiple sessions, favouring interactive and exercise-based formats), and where needed, using alternative training approaches, for example – online, video lectures, etc. Where partner staff teams are busy (particularly where the training is directed at senior staff or business leaders), don't take too much of their time – breakfast meetings can be easier for them to attend, and provide the draw of being a rapid networking event in addition to the learning session itself.
Short-term consultancy	Engaging short-term expertise can be very useful. It's important to ensure the ownership of the partner through the process; this starts with the co-development of the Terms of Reference for the expert, recruitment, contracting and engagement. Ideally, the partner should then be the one to manage the consultant. In effective cases, this can even lead to longer-term relationships between partners and consultants.
Placing staff	As with short-term consultancy, staff placements should involve the engagement of the partner throughout the recruitment and engagement process. As this will be a staff member rather than an external party, it's important to clarify the position of this role within the partner's organogram. It's also important that the partner commits to at least part of the staff member's salary early on, and that it is feasible in the longer run for the partner to absorb the complete salary cost.
Cost-sharing	Cost-sharing can be a legitimate way of reducing exposure to the risks of doing something innovative or out of the partner's normal work sphere. As with any good contracting arrangement, the trick is to place the risks with the right party – what would the partner really struggle with, or be disincentivised to engage with, if we weren't in the picture? At the same time, try not to overcomplicate the cost-sharing arrangements, as this will potentially make future partner financial management more difficult. While every co-financing case is unique, some useful tips are:

- get the partner to provide financial and other commitment throughout the partnership lifecycle – don't lump support in any one period;
- in particular, don't lump all support up-front, as you will have little to no leverage to encourage the partner to continue towards the end if all support has been completed;
- be careful about whether you want to base payments on milestones or on reimbursements for costs – different donors have different rules on this, and again this can make financial management more or less difficult.

Week 4

Learning and managing

07 Adaptive management

- What is an adaptive programme
- Types of adaptive management
- Implications for a programme

What is adaptive management?

Let’s start with a practical example.

Example: Nintendo

Image Courtesy: https://wallpaperaccess.com/nintendo-switch-logo

Nintendo is one of the world’s largest video game companies. It started off in 1889 as a playing card company. For the first seventy years or so, the company was doing well, with Nintendo producing a variety of much-loved playing card designs, and making a reasonable profit.

By the 1960s, the company was struggling. The public was no longer interested in playing cards, sales were down, and its stock was plummeting. As it looked like the company was about to close, it tried to enter a rather strange set of new markets.

It started a taxi company – Nintendo taxis. This was a successful venture, but it was sold when struggles with the driver labour unions made the business too expensive to run. It set up a food company, selling instant rice. It even went into what they called the ‘love hotel’ business.

None of these ventures were successful. However, Nintendo’s fortunes started to turn in 1966, when the company created and released what it called the ‘ultra-hand’. This was a simple toy that could be extended and retracted to pick up things. It sold well over a million copies. The person who designed this eventually designed the Gameboy, and the rest is history.

Imagine what would have happened if the business had been managed like a typical development programme. It would have had a big, bulky programme design document developed in 1889 which analysed the context, and set out the argument as to what was needed was (playing cards). There would have been a workplan - and probably a contract - specifying in advance exactly what would have been done. And there would have been a results framework which laid out how many playing cards would have been produced, should be produced and sold, and perhaps how happy the customers should be. When the initial model failed in 1960, there would have been an evaluation criticizing the initial analysis and implementation, and making recommendations that nobody would read.

When we talk about ‘adaptive management’, we mean that development programmes should be more like Nintendo. Rather than bound by our initial proposals, workplans and budgets, we should have the flexibility to grow and change in response to learning and new opportunities.

What are adaptive programmes?

Adaptive programmes place great value on the ability to maintain flexibility and to change.

Market systems development involves trying to solve complex, difficult things, in spheres such as economic growth, governance, health systems, and education. In all of these areas, we don't know what the answer to these problems will be in advance. There is no one right way to improve governance in developing countries, or to build strong, locally owned health systems. Even to understand the context is deeply challenging – for example, no one expert would have the same idea of how to fix the Ethiopian education system. It is simply too big, with too many moving parts, and too many interactions between different people to fully grasp.

As a result, the traditional development model, of analysing the context at the beginning and designing a programme to implement, just doesn't work.

Instead, we need **adaptive management** – the ability of programmes to continually work to better understand their context, to think carefully about what they are doing, where they are going, and to make decisions about how to change their programme.

We can think about three types of adaptive management. Not every type is right for every programme – but many programmes draw from at least one of these three streams. We can also think of them as sitting within a hierarchy; the first type of adaptive management is the easiest, and most programmes do it to some extent. The third type is the hardest.

Three types of adaptive management

CHANGING THE ROUTE

The first way of thinking about adaptive management is that it **gives us the ability to change course as we go**. Think about this like a car journey: if we are trying to go from one city to another, we will have various road systems we can take.

In the same way, an adaptively managed programme might try to increase school attendance, or support SME growth. This adaptive management approach gives us the ability to change our course in pursuit of this goal. The programme might work with teachers, or perhaps with parents, or perhaps in a completely different way altogether.

Adaptive management gives us more flexibility to change our structure to match our needs: to change our budget, our activities, our resourcing, or our team structure.

This might sound basic, and some of you might say, 'we already do this'. Yet it's certainly not universal in the development sector, where plenty of donors still require their teams to sign up to a workplan at the beginning of the project, with little ability to change course. At other times, programmes (and their operational practices) 'cement' into a style of working, so even where change is permitted in theory, for practical and habitual reasons changing track isn't possible.

ADAPTING THE DESTINATION

The next stage of adaptive management acknowledges that it is not just the processes and activities we need to change: sometimes **the outcomes we're aiming at also need to change.** We might, for example, realise that supporting SME growth is the wrong strategy, and we should be working on waged employment in medium tier enterprises.

EXPERIMENTATION

A further stage up again focuses even more on explicit experimentation and hypothesis testing.

This approach **sees a project as not just trying to reach a goal, like a roadmap, but is explicitly trying out multiple ways of getting there, to see which one(s) work best**. Here, the programmes are designed around coming up with hypothesis and testing them. For example, in an education project, one hypothesis might be that teacher incentives need to change. Another might be that after-school coaching helps under-performing children. The programme then focuses on these hypotheses, deliberately testing them, and scaling up the ones that work.

Getting comfortable with messiness

In MSD, where solutions don't come easily and there are no clear 'right' and 'wrong' answers, and where conditions are in constant flux, our teams can rarely (if ever) draw up a tidy plan and execute it by ticking off an activity list. There are no fail-safe business plans either.

Instead, our teams need to get used to a probing style of work, where they have to feel through problems and make sense as they go along. They have to get comfortable with a messy work environment, where they will often fail. This requires patience and self-awareness, and losing their fear of getting things wrong. **Strong MSD teams actually embrace when things don't go to plan, seeing it as a great chance to course-correct and build stronger solutions, and for personal growth.** It is critical that the team builds in this adaptive learning (and failure resilient) culture from the outset, and it is almost always fostered by supportive senior management leading by example.

What are the implications for a programme?

There are numerous implications for a programme:

- **Strong, appropriate Monitoring Results Measurement is critical to help support programmes to adapt** – without monitoring as we go along, we won't be aware of what adaptation is needed.
- **Monitoring isn't enough – we need a culture that enables us to use the information it generates.** As noted above, this can be a major shift in thinking away from traditional programme management (which follows a set plan of activities and proceeds on to tick off boxes). This even goes so far as being able to challenge management when higher level goals no longer make sense.
- **Genuine organisational flexibility is key.** This runs from implementation (strategy), monitoring results measurement approaches, right through to operations and financial systems.
- Part of this is because **increased flexibility is not without risk**. Upheaval can negatively affect programmes in different ways, from less security in financial systems and practices, through to emotional upheaval in teams dealing with change management.

- We need to remain **accountable in programmes with moving parameters**. Impact measurement is still vitally important. There is a fine but firm line between adapting and perpetual experimentation without outcome. Market systems programmes should use adaptive management to support results, and not morph into expensive experiments.

Tips and Tricks

The Donor Committee for Enterprise Development (DCED) Standard

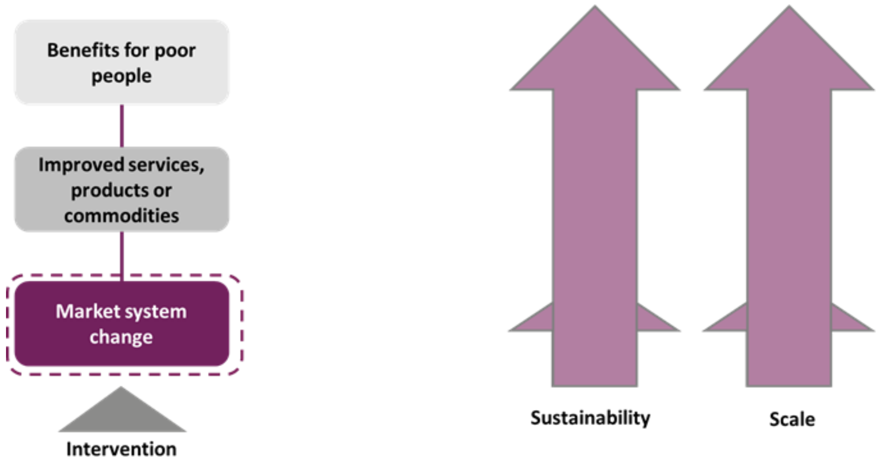
The DCED Standard is a well-established and practical framework that supports robust and adaptive results measurement in private sector development programmes. It enables programmes to monitor their progress towards their objectives and better measure changes, manage implementation, and demonstrate results. Further details can be found at: https://www.enterprise-development.org/implementing-the-dced-standard/

While Monitoring Results Measurement is not covered in depth in this coursebook, DevLearn runs a full course on this subject area. Should you wish to enquire about or apply for this or other DevLearn courses, please visit our website or email us directly.

08 Systemic Change

- Introducing systemic change
- Key challenges
- Measurement advice – the basics

Systemic change



Market systems programmes are not seeking to bring about small-scale changes to individual partners, rather they want to foster changes across the defined markets or sectors they work in:

- at scale: impacting significant numbers of a target group/groups in a meaningful way;
- sustainably: via the introduction and development of new models and with partners that can sustain these innovations within the market;
- in a resilient manner: where these innovations are able to sustain a certain level of shifting (and even shocks) in the wider market(s), as there will never be a static market environment where these innovations comfortably settle – conditions are always changing.

Definition and measurement challenges

Pinning down an exact, universal definition of systemic change has proven to be a painful exercise for the market systems development community. As we've seen time and again throughout this coursebook, market systems are complex and multi-layered, and even defining a boundary around what falls inside and outside of a dynamic system is a challenge.

Existing measurement methods can struggle to know at what level to measure changes: should the change be assessed at the sub-market level, i.e., around the distribution function of a seed market, or around the localised, specialist seed market, or around the broader, national seed market? There is no single answer: this would depend, for example, on the size of the economy: in a Pacific Island we might track the whole national sector, in a large economy we might only track a specialist sub-market.

Another challenge is that changing sectors/markets can take time. Systemic changes may not occur until long after a programme has concluded. It might only be possible to track early-stage changes (such as sustained uptake by partners or wider market actors).

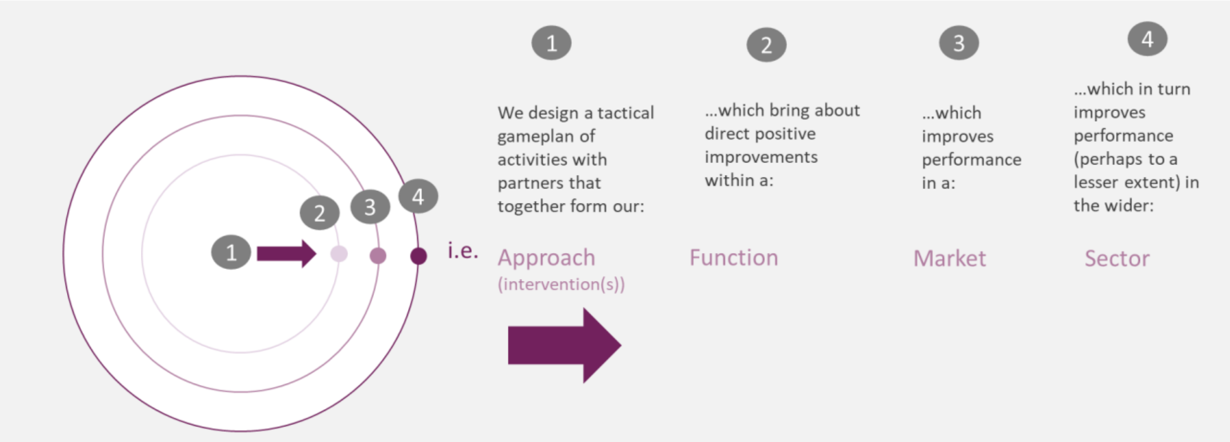
It can also be difficult to attribute the systemic changes to the intervention. Most programmes steer away from attribution altogether and prefer to define their support based on contribution (i.e., they recognise they are really one of multiple factors at play, and their support cannot truly be described in isolation from those other factors).

How do we set out a pathway to systemic change?

Despite all of these technical difficulties, we are still aiming at changing markets, and we still need to articulate the changes we expect (and want) to see.

It often helps to dissect these changes into multiple tiers. Think of this like the layers to an onion; at the outer-most layer, we want to improve performance in a wider sector. In order to achieve that, we want to bring about changes to a market (or markets) within that sector, often by positively shifting the functions and rules around these market systems.

Below is a simplified way of looking at this pathway. Each of these different levels would have indicators for their success. Changes would need to be assessed by zooming in and out of these different tiers.



Measurement advice

Measuring systemic change is an art and there is no one right way to go about it. Here are some useful tips to get you on the right track:

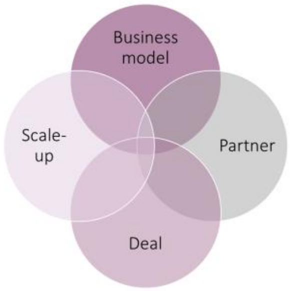
- **Encourage teams to learn to 'zoom in and out' right from the beginning:** all too often, systemic change is considered far later in the life cycle of a market systems programme. This is somewhat understandable in that the early programme days are often taken up with establishing business models and focusing on sustaining them with first generation partners. Yet this risks teams becoming quite myopic and thinking of success only in terms of this direct implementation sphere (i.e., is the partner taking up the model?), rather than considering whether it is an instrument that contributes to a wider market (and ultimately sector) shift.
- This means setting up a system to **monitor changes beyond your immediate partners from the outset**: think of the wider uptake of other actors, and beyond this, signs of how the wider sector is shifting and changing around the sub-market (this is also important for resilience – your market shifts can appear to be flourishing, but if the wider sector is in shock or declining, this won't be sustainable).
- **Don't have too many rigid indicators:** It would be all too easy to get completely overwhelmed with the multiple levels to track. It's better to be flexible and investigate in your approach to assessing these changes, rather than setting up excessively detailed measurement systems that will feel constricting and actually transform the measurement of systemic change into an arduous, bureaucratic process.

- ‘Soft’ in-house qualitative data can be invaluable: Your staff should be developing a deep knowledge of their sectors and markets; after all, they are living and breathing these environments on a daily basis. Try to tap into their tacit knowledge. The same goes for other market stakeholders (including but certainly not dependent on partner knowledge). While this information is not easy to keep (programmes have had more and less success with capturing softer data in wikis and other tools, for example), it is a vital part of the systemic change assessment picture.
- Revise this pathway on a regular basis – as with an adaptive assessment of results, the assessment will need to repeated regularly – with formal and informal forums to discuss progress. Systemic change discussions should be as much an embedded part of regular meeting culture as part of more formal, period, high-level strategic programme reviews.

09 | Learning and managing

- Learning and improving from pilots
- Developing scale-up strategies

Learning and improving from pilots

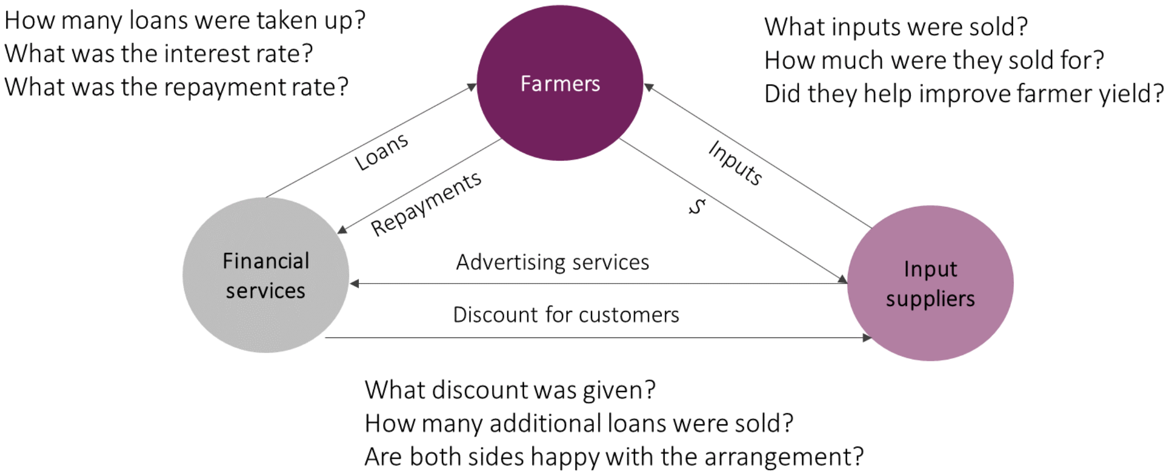


In this chapter, we're going to look at how we can make adjustments to our early pilots. This includes adjustments to the business model, partner selection, as well as the deal. We'll then move to looking at how we can approach scale-up strategies.

Improving the business model

Earlier in this coursebook, we looked at how we can develop visual business models. These models can also be used very effectively alongside our monitoring tools to track progress. We should be able to review the key transaction points in the business model, and ensure these are reflected in our results chain, as this is what will determine sustainability.

Let's look at a basic business model with a three-way transaction between financial services, farmers, and input suppliers, and explore some key areas that will need tracking – which broadly includes the price, quality, and quantity of transactions.

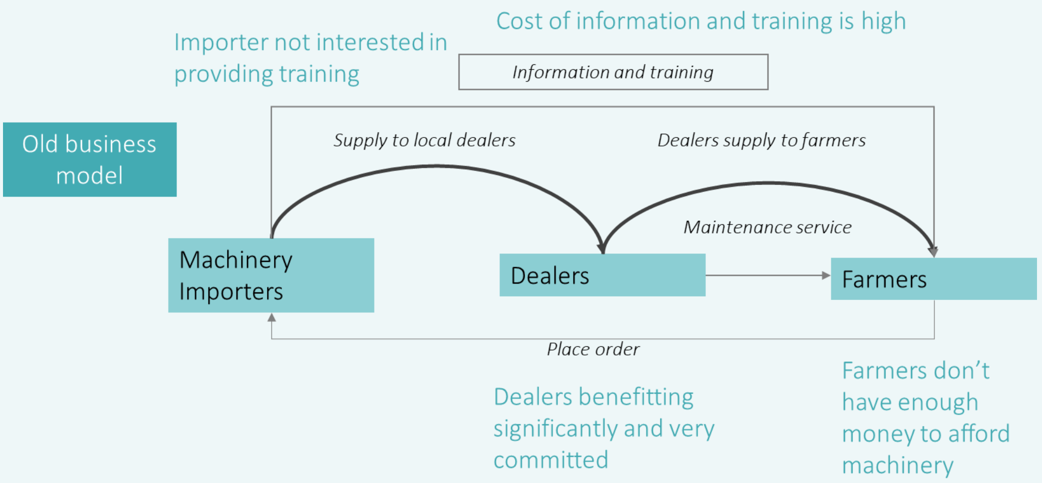


Let's look at a before and after case in practice.

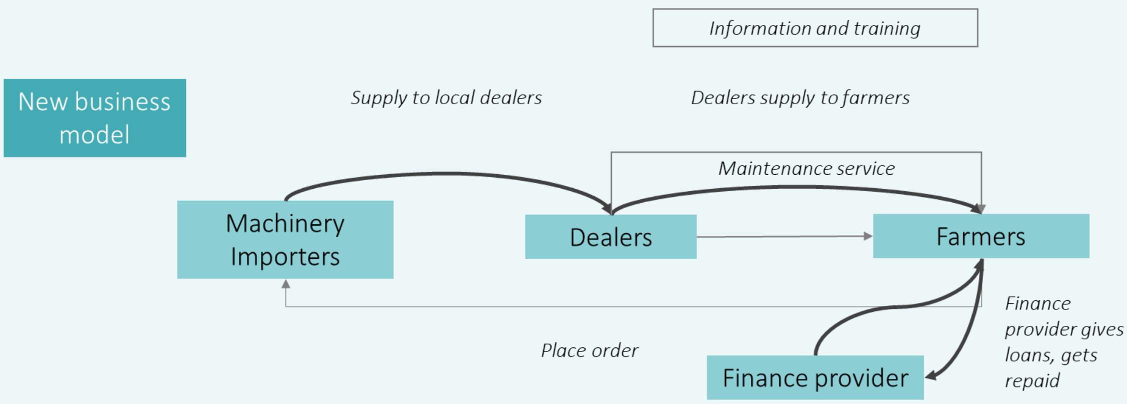
Example: Farming machinery

Let's take the example of a business model involving farming machinery.

In the old business model, we see a number of limitations – and opportunities - connected to this pilot. These learning areas have been captured and are highlighted around the model in blue.



In the new business model, the team has adjusted the business case to take learnings into account. Under this model, dealers now provide information and training (as they are closer to farmers, and can provide this more cheaply and easily), and a finance provider has entered into the picture (as they have the right incentives to lead this component of the transaction).



Changing partners

Once we have carefully assessed the business model, we might find that there are problems with the partners. It can often be quite tricky to get to the bottom of whether it is the model or the partnership that is causing the issue, as these are often so interrelated, so adequate time should be taken to carefully consider this before making any decisions about changing partners (or assuming the partner is the root cause of the problem).

If we think the partnership has key flaws, we should start by reassessing whether the initial diagnosis of the partner's capacity and incentive was accurate, and whether these factors have shifted over time (and if so, what caused that shift). We also need to assess whether it will be feasible to work with alternative partners, including whether other partner options are even available.

Remember that partnerships fail for all sorts of reasons, from the exit of a key contact, through to a shift in priorities of the business – while we can mitigate against some causes of failure, we are working in a live market, and this will never be fool-proof. What matters more is that we are reflective and responsive when things aren't working, and we adjust course when we need to.

We must also be careful to remember that **partnerships are usually structured commercial transactions – we cannot exit them without careful planning - operationally, contractually, and reputationally.** Exiting partnerships requires a carefully considered strategy, which seeks to find the best possible exit for the programme and the partner alike. This should be considered at a senior management level, so that our approach is consistent, and so that we avoid getting a reputation in the wider market as an unreliable actor (either because we leave partnerships too abruptly, or on the contrary, because we are seen as 'hanging on in there' with bad partners for too long).

So, what are the signs of a committed partner? There is no simple checklist, but (below) we can see that this involves a mix of actions and attitude, and it heavily depends on the case. No one factor is definitive. We might, for example, see a case where the partner can easily commit heavy resources initially (being a bigger outfit), but will never fundamentally see the business case as anything other than a small side project. Alternatively, we might see a smaller partner, with far less ability to demonstrate heavy resource inputs at the outset, yet completely committed to incorporating the innovation into the organisation's long-term vision.

Tips and Tricks

Partner commitment – useful indicators

The partner…

- …makes independent investments and improvements to the business model…
- …experiments with, improves, and/or expansion of business model…
- …mainstreams the innovation within its work…
- …dedicates staff and other resources to the business model…
- …incorporates the business model in key budgets, business plans, strategy planning, and other institutional documents or processes…
- …team shows wide acceptance of the business model…
- …recognises that the business model generates revenue, profits, and meets other incentives…
- …is generally responsive, engages with programme, and is enthusiastic…

Example: Fruit seedling market, Ethiopia

A programme in Ethiopia was working with a seedling provider in the fruit market. The partner already sold to commercial farms, and the idea was that they would shift to working with smallholders. The partner proved very difficult to work with, with a lot of arguments with the programme. The partner prevented the programme from monitoring the progress of the intervention (partly as a result of legitimate security concerns). The partner did not deliver on time. In hindsight, the programme realised that their initial analysis of the partner was incorrect – the partner did not have the requisite capacity and incentives.

The programme decided to try again with several new partners simultaneously, and this time things worked out much more successfully.

Changing facilitation tactics

There are times when the business case and partnership indicate that a different facilitation approach is needed. For example, we might need to move from more light touch facilitation approach to more intensive facilitation, if the lighter touch approaches prove too limiting. Or vice versa.

Take care to make this decision consciously – it's very easy to slide from a light to an intensive facilitation approach quite unconsciously – especially as we get to know our partners and become personally committed to them, and/or when we spend a lot of time on a business model and don't want to see it fail.

Example: BOSS programme, Timor-Leste

The BOSS programme, run by the ILO Labs, partnered with Josephina Farm, a company supplying organic vegetable produce for onwards retail in the capital, Dili. The aim was to pilot a contract farming model – where buyers and farmers enter into a forward agreement for agricultural production – to better link smallholders to value chains.

The contract farming model initially worked well. Following the initial out-grower pilot, the company replicated the same arrangement with a further three farmer groups, reaching a total of 125 farmers in Ainaro and Ermera Districts.

However, the model began to break down after the director of Josephina Farm was taken sick in 2014. At the same time, farmers started to complain about the lack of sustained technical assistance from the company, and – following the promising start - the original group reverted to subsistence farming behaviours, failing to meet their agreed-on volumes of cash crop production.

Why did this happen? One reason was that Timor-Leste is an extremely thin market in terms of private sector actors. BOSS found few alternatives other than to partner with Josephina Farm. This, however, created a situation where BOSS became dependent on Josephina Farm for the success of the intervention – and therefore for pro-poor impact.

When the contract farming model started to break down, the BOSS response was to provide Josephina Farm with even more support. The end result was that one fragile company could scale-out their operations, but it raised the barriers for other competing firms to copy the business model. With shifting lines in the sand, BOSS moved from a systemic change objective to individual firm support.

Matt Ripley and Annie Major (2015), The BOSS Project in Timor Leste: Thin markets, thick impact? ILO Labs

Closing an intervention

There are times when an entire intervention might need to be closed. It's important to remember that intervention closure is a healthy part of portfolio management. Our programmes work on innovations, and so it would be highly unrealistic to expect all of them to succeed. Closing interventions allows us to divert our efforts away from sub-optimal towards more promising work.

As with changing partners, closing an intervention takes some planning and care. It's useful to conduct an assessment to step back and see what is going on, and to document key factors you learnt for your future work. It's a time when multiple levels of staff involvement should be sought, from the direct implementation team (as they have the on the ground knowledge), to the MRM and senior management teams (as they can add fresh perspectives and some degree of objectivity). It's also important to consider the contractual, legal, and reputational issues.

Tips and Tricks

Reasons for closing an intervention:

- Shift in programme strategy
- Failure of intervention to meet expectations
- Unlikely that intervention will meet expectations in future
- Limited potential to change business model or find new partners
- Limited potential for scale

Scaling back involvement

There are alternatives to dropping or changing partners, or closing interventions. Sometimes, you might want to put partnerships of 'freeze', or consciously let them drift just a little, with minimal resource involvement from the programme's side. This can be done more actively (having a meeting with partners and discussing the benefits of placing things on hold until conditions change), or passively (allowing partners to come back to the programme when they are ready, without necessarily having an explicit discussion about it – obviously this needs to be considered carefully so the programme doesn't risk appearing complacent).

Scale-up strategies

Earlier in the course, we spent a lot of time discussing pilots and how to capture learning from them. The next important question is how we use that learning and how we design scale-up strategies.

What is a scale-up strategy?

A scale up strategy has two major aspects. In practice, we should be looking to combine both of these aspects in order to bring about the most sustainable results.

MORE ACTORS TAKE UP THE BUSINESS MODEL

For example:

> A new seed variety has been launched in the market targeting small holder farmers via company A. Company B and C is their competitor. Based on the success of the intervention, company B and C realizes that they can also launch similar products and make money.

Often, non-competing partners can also be inspired by the business model and adjust their business to make money. That is also scale-up. For example:

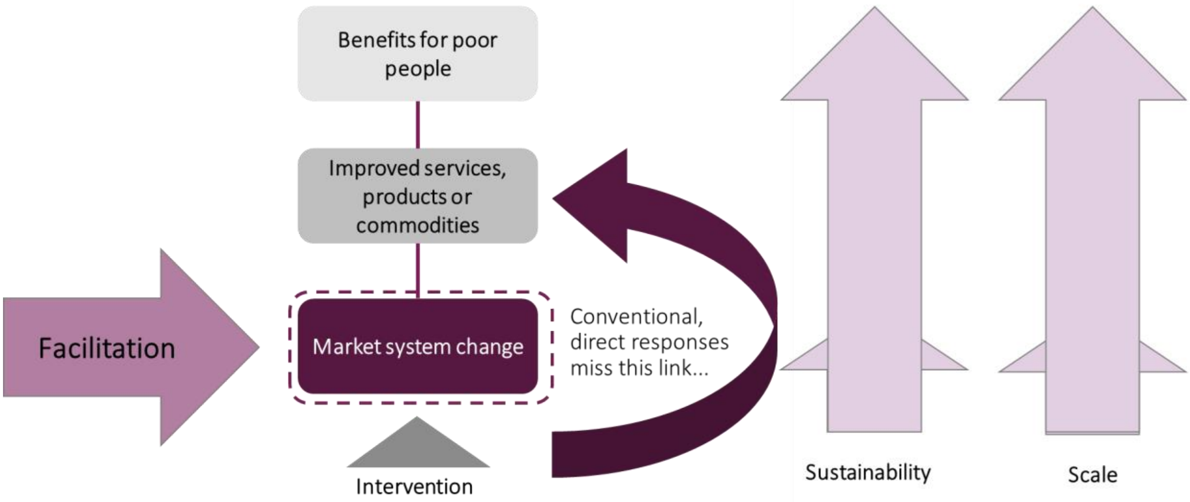
> A rural distribution company that was previously focusing on selling consumer products, has started the distribution of the new seed variety to the small holder farmers.

MORE OF THE TARGET GROUP BENEFIT FROM THE BUSINESS MODEL

This can result from the continuation of the pilot partner, or from crowding-in of new actors. So, if your pilot model benefitted 100 farmers, the scale-up strategy should aim to benefit thousands, or even millions.

Why a scale-up strategy is so important

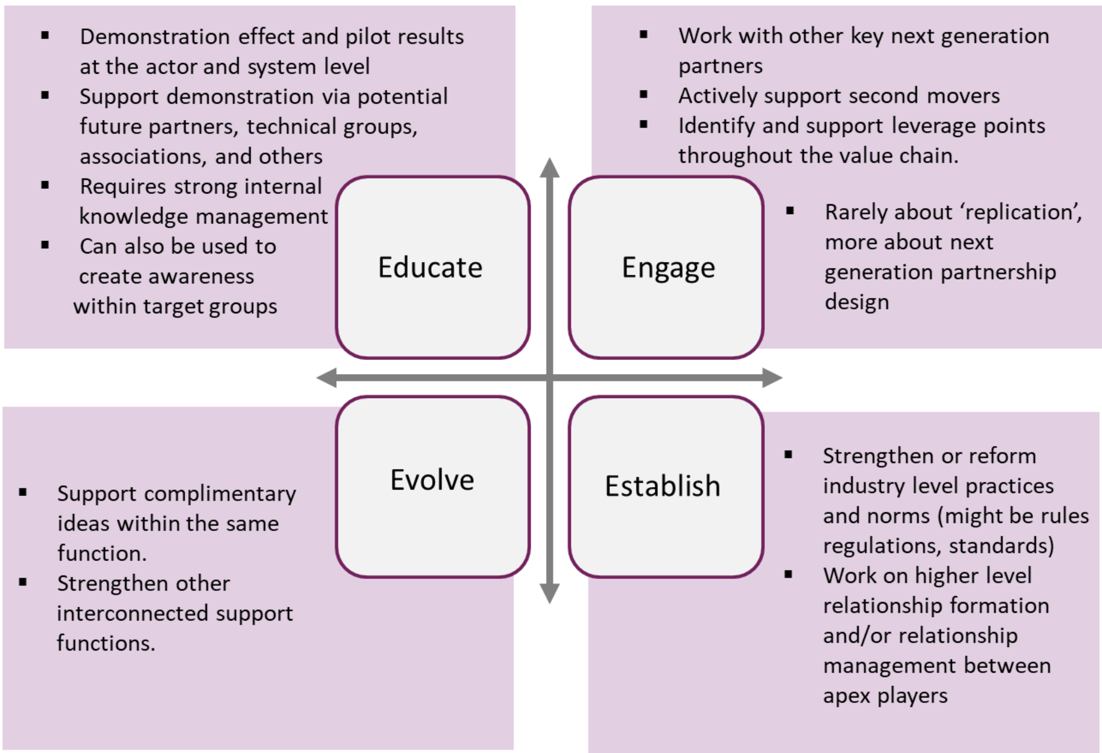
Let us remind ourselves about the value of Market Systems Development programmes – sustainability and scale. Scale-up strategy is key to achieving these aims.



Developing a scale-up strategy

There is no specific formula or rule for developing a scale-up strategy. The facilitation principles we learnt earlier remain relevant. DevLearn has developed a simple framework to help you come up with scale-up strategies - the 4E framework. It has four components – Educate, Engage, Evolve, Establish - to help teams explore their options for scale-up. It is presented below.

The 4E Framework



As we can see, the 4E Framework gives four broad potential options:

Educate: Here, we take the results of an effective pilot, or in-depth business data or study findings, in order to influence others to engage with the model or function. Critical to this is using the right 'packaging'; sometimes this can be as simple as meeting for a coffee to share experiences with a potential scale-up partner, other times this might require a full-blown business presentation in front of a board room of senior managers. It completely depends on what will effectively convince the other party. For example, in the Bangladesh fish market, an MSD programme supported the improvement of hatchery production, leading to the increased farmer production of fish. The project scaled up the intervention by developing a case study and handbook on hatchery management, and made it available to all hatcheries in the country via the website of a hatchery association.

Engage: Here, we engage with potential partners in a variety of different ways. This might involve full partnerships with new partners, or the expansion of work with the same partner in a new way (for example, into new product ranges supporting the same business model, or expanding the model into new geographic regions, or new consumers). This will involve a wide range of facilitation techniques, ranging from light touch to intensive. This is rarely about replication of the same pilot, yet there are times when we might want to send a generic 'offer' out to a wider pool of partners, and test out how the same pilot works in a range of different conditions and partners. For example, in Egypt, a programme worked with two major packhouses to introduce soft-skills training to improve worker productivity and the work environment. In a matter of one year, an additional seven packhouses copied the model.

Evolve: Here, we might find that other interconnected functions still need to be developed in order for the overall sub-sector to work as effectively as possible. For example, in the digital financial service market in Egypt, the programme worked to increase financial literacy amongst women, working with a fintech company. After the pilot, the project learned that another critical support function was access to agents, in order to open up a digital wallet. Subsequently, a scale-up strategy was designed to introduce 'female agents'. In turn, a combination of financial literacy and female agents led to over 100,000 mobile wallets opened by females.

Establish: We might come across the situation where there is a need to work at a higher level to strengthen industry practices, such as changing a bottleneck regulation or industry rule, or improving relationships between industry actors. For example, in the cotton market in Ethiopia, a pilot was set up to introduce seed multipliers to produce and supply quality seed. The scale-up strategy included certification of seed multipliers to ensure quality.

HAZARD WARNING

The 4E Framework is not intended to be used in a step-by-step manner. We are not supposed to work through all quadrants in all cases.

We will also find that what we might place in one quadrant (Educate) might be defined by our colleague as light facilitation within another (Engage). We often seen that one quadrant (Educate) might in turn lead to another (Establish). Hours upon hours of good consultancy time have been lost arguing over definitions and placement within the boxes – don't fall into this trap. Remember these models offer a short-hand way of thinking things through, they are there to be used flexibly, rather than rigidly.

Tips and Tricks

Below are some key lessons captured in the publication, 'Getting to scale: Lessons in reaching scale in private sector development programmes' by Gareth Davies, for Adam Smith International

- Stay in touch with the market in order to design scale-up strategies
- Getting to scale takes time, it's rarely going to be a matter of scaling up 6 months after the pilot
- Only a few interventions are likely to get to scale, given that a lot of innovations will not succeed or will only lead to sub-optimal results, so you need to manage your portfolio well and make tough decisions
- Early on, check the business case, or else it will be too late to learn and adjust
- The quickest route to scale is through one/a few 'big actors', but this is risky
- Do not take the demonstration effect for granted. This is a common assumption by many Market Systems Development programmes. Things rarely just happen by themselves. You need to support demonstration, but in a facilitative way. Light touch facilitation tactic should be deployed so that you steer things in the right direction, but don't always become too heavy/overly invested in your wider support facilitation approaches.
- Barriers to scale often lie outside the direct partner, so it's important to understand the rules and norms
- Getting to scale requires different facilitation tactics at different times
- Industry structure and country-context is important (dynamic market vs weak market). Accordingly, we need to develop scale up strategy and facilitation tactics.

Scale-up is not an after-thought

The key take-away message is that, being directly linked to systemic change, a scale-up strategy is not an after-thought. As a Market Systems Development programme, we need to factor that in from the beginning and allocate enough time and resource to come up and implement scale-up strategies.

10 Conclusion

- Our words of encouragement
- Annotated bibliography

Conclusion

If you've made it through this coursebook, well done! We really hope you've enjoyed the introduction to Market Systems Development throughout this course.

Our words of encouragement

Have patience. All things are difficult before they are easy.

Saadi

Supporting sustainable changes in complex market systems is never going to be easy. Our work can be quite intimidating at times, particularly in the early days, when you have a huge list of tasks – analyse markets, find partners, design results chains, and more – before you can see any impact on the ground.

We'd like to leave you with two main messages of encouragement.

Find your own way, guided by strong principles: There are no quick, easy, and universal solutions in market systems development. Much of the experience in the development industry is based on trial and error in a particular set of conditions. You will have to judge for yourselves whether those conditions stand in your own circumstances, rather than taking any tools or methods to represent 'best practice'. Our approach throughout this course has always been to explain the core principles behind the methods we propose, in an accessible manner – so that you understand the 'why' behind our thinking first – which should in turn make you comfortable assessing and adjusting what methods will work for you.

It will be worth it, and seeing is believing: It's so easy to revert back to old, easier, less systemic ways of working, even when we know this will lead to unscaleable and unsustainable development solutions. Even when we remain confident and committed as individuals, it can be difficult to maintain the commitment of those around us, especially when they have yet to see results. Try to get out there and get moving, as early as you can. There is nothing more motivating and convincing than seeing something work in practice, in our own context. Things don't need to be perfect. Getting a few strong examples into place – even simple ones - also helps others to understand what we are aiming at. This also greatly overcomes the difficulty of trying to explain market systems development in theory, a notoriously difficult task.

Annotated Bibliography

An ever-increasing range of materials is now available around market systems development, covering everything from useful frameworks to a growing number of successful programme experiences. We've put together a very basic list for you to start exploring below.

Market systems development information hubs

There are a growing a number of well-managed and up-to-date information hubs providing a wealth of market systems development resources. For example, the BEAM Exchange is a platform for knowledge exchange and learning about the role of markets in poverty reduction. They provide useful introductory materials, an evidence map, intervention snapshots, blogs , and webinars , along with a number of good introductory online videos explaining market systems development in easily understandable terms.

The Donor Committee for Enterprise Development also provides a central page of page of relevant resources on MSD, along with details of the DCED Standard, a very useful framework for monitoring and measuring results.

USAID's Marketlinks page will also direct you to a range of resources and practice sharing on US market-based programming and ideas. You can explore their work according to specialist topics (including areas ranging from adaptive management, finance, through to market facilitation), their resource library, or their blog.

Implementing market systems development programmes

The Springfield Centre's M4P Operational Guide remains one of the foundational operational guides in the industry and we highly recommend reading this early on. It has been developed and refined over many years. Another practical tool worth looking at is Practical Action's PMSD Toolkit.

If you want to take a look at live examples, the private-sector funded NGO Swisscontact has been heavily involved in the implementation of market development programmes over many years, and has a range of very useful practical experiences to share, across a wide range of countries, from Bangladesh to Bolivia. Among other experienced market systems development implementers, it is also worth exploring DAI and Palladium's online economic growth portfolios, along with Helvetas' inclusive market systems approach (including in sectors such as skills development), among others.

Women's Economic Empowerment

Excitingly, there is a growing range of literature available around engaging women in market systems development programmes. A strong place to start would be with the Women's Empowerment and Market Systems Framework, which provides useful principles, practical guidance and tools around how to approach women in MSD. USAID's Levering Economic Opportunities (LEO) framework also continues to be a useful starting point.

General papers on Market Systems Development

There is a wealth of good papers on market systems development, many of which can be sourced through the information hubs provided above. These cover everything from specialist topic areas, such as Promoting change in shallow markets: lessons from MDF , or the policy brief Market Systems Development in fragile and conflict-afflicted situations, through to more universally relevant topics, such as Getting to scale.