



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

TABLE OF CONTENTS

FOREWORD

GLOSSARY

1. INTRODUCTION	1
1.1 What is the <i>M4P Operational Guide</i> about?	1
1.2 Who is the <i>Guide</i> aimed at?	1
1.3 The <i>Guide</i> and how to use it	1
1.4 Notes of caution about the <i>Guide</i>	2
2. GETTING STARTED	3
2.1 Introduction: basic considerations	3
2.2 Why are these basic considerations important?	3
2.3 Characteristics and requirements of successful M4P programmes	3
2.4 Implications of these basic considerations	4
3. COMPONENTS OF THE M4P INTERVENTION PROCESS	7
3.1 Introduction	7
3.2 The M4P lens	8
3A Setting the strategic framework	9
3B Understanding market systems	19
3C Defining sustainable outcomes	31
3D Facilitating systemic change	41
3E Assessing change	59
4. MANAGING AND GOVERNING M4P PROGRAMMES	71
4.1 Introduction	71
4.2 Personnel and capacity requirements	71
4.3 External relations	74
4.4 Systems and structures	76
5. GOOD PRACTICE NOTES	81
5.1 Vision building	83
5.2 Implementing demand-side surveys	85
5.3 Access frontier	87
5.4 Log frame	89
5.5 Developing the offer	93
5.6 Developing BMOs	95
5.7 Making a deal with lead firms	97
5.8 Promoting value chain development	99
5.9 Understanding incentives	101
5.10 Giving grants to business	103
5.11 Guiding participation processes	106
5.12 Livelihoods analysis	108
5.13 Knowledge management system	110
5.14 Intervention impact logics	113
5.15 Interconnected markets	115
5.16 Stimulating demand	117
5.17 Anatomy of a transaction	119
5.18 Rapid market assessment	122

FOREWORD

An estimated 2.6 billion people live on less than \$2 a day. Over a billion lack clean water; 1.6 billion lack electricity and 3 billion lack access to telecommunications. This represents huge unmet needs. As many of the world's poor live in areas with limited state service provision they must rely on private markets for their livelihoods. As consumers, poor men and women rely on markets to meet their needs for food and essential services. As employees or producers, they sell their labour or products in these markets. But these markets are often difficult or costly to access for poor people. These markets may be informal, uncompetitive and may not meet the needs of the poor effectively.

More widely, the world's poor are not well integrated into the global economy and do not get access to its benefits. In *Development as Freedom*, Amartya Sen describes participation in economic interchange as a basic part of social living and argues that economic freedoms are closely tied to political and social freedoms. The poor often lack these freedoms.

Making Markets Work for the Poor (M4P) is an approach to poverty reduction that donors such as the Department for International Development (DFID) and the Swiss Agency for Development and Cooperation (SDC) have been supporting over the past few years. The central idea is that the poor are dependent on market systems for their livelihoods. Therefore changing those market systems to work more effectively and sustainably for the poor will improve their livelihoods and consequently reduce poverty. More accessible and competitive markets enable poor people to find their own way out of poverty by providing more real choices and opportunities. Markets that function well have wider economic benefits too. They stimulate investment and encourage firms to innovate, reduce costs and provide better quality jobs, goods and services to more people. The involvement of poor people in economic growth is the best way to get people out of poverty and represents the exit strategy for aid.

The last few years have seen an upsurge of interest in market development approaches amongst aid agencies. Alongside M4P there is UNDP's *Growing Inclusive Markets*, the IADB's

Opportunities for the Majority and the IFC's *Next Four Billion*. Amongst businesses, there is growing interest in social investment, sustainable business practices, fair trade and engaging with the *Base of the (Economic) Pyramid*. Although terminology and emphasis may differ, all of these approaches see a market-based economic engagement with the poor as essential for sustainable development.

In order to improve the understanding and uptake of market development approaches and to consolidate existing experience, DFID and SDC have commissioned a series of three documents on M4P. Aimed at agency and government officials, consultants, researchers and practitioners, these together provide a comprehensive overview of the approach in theory and practice.

The *M4P Synthesis* paper explains the essence of the M4P approach – its rationale, including evidence of impact, and key features in implementation. *M4P Perspectives* introduces the conceptual underpinnings of M4P and explores its application in different fields including finance, agriculture, water, labour and climate change. These first two documents have been sponsored by SDC. This third document, the *M4P Operational Guide* (sponsored by DFID), provides a substantial operational resource on how to implement M4P, including an overview of good practices, common management challenges and the main lessons from experience.

Development of these documents was led by a team from The Springfield Centre. They were assisted by advice and comments from Marshall Bear, Gerry Bloom, Richard Boulter, Don Brown, Jean-Christophe Favre, Tracy Gerstle, Alison Griffith, Justin Highstead, Joanna Ledgerwood, Marc Lundy, Luis Osorio, Alexandra Miehlsbradt, Mark Napier, Kate Philip, David Porteous, Peter Roggekamp, Prashant Rana, Hugh Scott, Dominic Smith and Jim Tomecko.

All of these documents are also available in electronic form at www.M4Pnetwork.org. We hope you find them helpful in meeting the challenge of developing market systems that benefit poor people.

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GLOSSARY

Agencies: development organisations – funded by aid or other non-commercial sources – that act as funders or facilitators with the aim of developing market systems.

Approach: a set of principles, frameworks and good practice points to guide both analysis of a market system and actions to bring about change.

Asymmetric information: when one party in a market transaction – supplier or consumer – knows more than the other.

BMO: business membership organisation or business association (see Representative organisation).

CBO: community-based organisation.

Core function: the central set of exchanges between providers (supply-side) and consumers (demand-side) of goods and services at the heart of a market system. The medium of exchange can be financial or non-financial (eg through accountability mechanisms).

Crowding-in: crowding-in is the central process in – and purpose of – facilitation through which interventions catalyse or bring other players and functions into the market system so that it works better for the poor. Crowding-in can result in enhanced breadth (more transactions in the core of a market), depth (supporting functions) or reach (new areas or markets).

Domestic: a player (particularly used to refer to government) or function that is part of a specific market system, in contrast to a facilitator which is external to the system.

Embedded transaction: a good or service which is not paid for directly but is included or hidden within an exchange of another good or service which is paid for.

Externalities: negative or positive spill-over effects that are not reflected in a market price.

Facilitation / facilitator: action or agent that is external to a market system but seeks to bring about change within a market system in order to achieve the public benefit objective of systemic change.

Funder: an organisation – such as a development agency – which sets objectives and provides resources for the pursuit of market development, usually in the form of a programme or project.

Impact logic: a model showing the chain of causality through which a programme's activities lead to poverty-reducing benefits. Impact logics are tailored to specific interventions or markets and consequently are more detailed than a strategic framework (see Strategic framework).

Institutions: structures and mechanisms of social, political and economic order and cooperation – formal and informal – in a society or economy which shape the incentives and behaviour of market players. Institutions therefore refer both to the supporting functions and rules – sometimes referred to collectively as 'rules of the game' – in a market system.

Interconnected markets: a market system which, as well as being a market in its own right, constitutes the supporting functions or rules of another market system.

Intervention: a defined package of temporary activities or actions through which facilitators seek to effect change in a market system.

Lead firms: businesses capable of exerting a leading influence on other firms and other players, because of, for example, their size or their reputation for innovation.

LED: local economic development.

M4P: the making markets work for the poor or market development approach.

Market: a set of arrangements by which buyers and sellers are in contact to exchange goods or services; the interaction of demand and supply.

Market player: organisations or individuals who are active in a market system not only as suppliers or consumers but as regulators, developers of standards and providers of services, information, etc. This therefore may include organisations in the private and public sectors as well as non-profit organisations, representative organisations, academic bodies and civil society groups.

Market system: the multi-player, multi-function arrangement comprising three main sets of functions (core, rules and supporting) undertaken by different players (private sector, government, representative organisations, civil society, etc) through which exchange takes place, develops, adapts and grows. A construct through which both conventionally defined markets and basic services can be viewed.

GLOSSARY

M&E: monitoring and evaluation.

MoU: memorandum of understanding.

Organisations: entities with a formal structure that play a range of roles in the market system.

Plausible attribution: an approach to M&E which aims to balance credibility with practicality when assessing a programme's contribution to changes in growth, access and poverty reduction.

Public goods: goods or services which are non-rival and non-excludable and therefore cannot be offered by private firms. Sometimes referred to as merit goods.

Representative organisation: an organisation which acts to advance the interests of a specific group, such as a trade union or a consumer rights body. Also referred to as a membership organisation (see also BMO).

Right-sizing: ensuring that the scale and intensity of a facilitator's interventions and the outcomes they promote are consistent with the norms and context of a market system.

RMA: rapid market assessment.

Rules: formal (laws, regulations and standards) and informal (values, relationships and social norms) controls that provide a key input in defining incentives and behaviour in market systems.

SLA: sustainable livelihoods approach.

Strategic framework: a hierarchy of objectives linking an M4P programme's final goal of poverty reduction with an intervention focus on sustainable market system change.

Supporting functions: a range of functions supporting the core exchange helping the market to develop, learn, adapt and grow including, for example, product development, skills enhancement, R&D, coordination and advocacy.

Sustainability (M4P definition): the market capability to ensure that relevant, differentiated goods and services continue to be offered to and consumed by the poor beyond the period of an intervention.

SWOT: a technique for situational analysis that takes into account strengths, weaknesses, opportunities and threats.

Systemic change: change in the underlying causes of market system performance – typically in the rules and supporting functions – that can bring about more effective, sustainable and inclusive functioning of the market system.

Tools/instruments: relatively standardised methodologies for market analysis (eg value chain analysis or usage, attitude and image surveys) or for intervention (eg vouchers or challenge funds).

Triangulation: looking at a specific market system from multiple perspectives and using multiple sources to develop a more rounded view, testing preconceptions and assumptions and the natural biases of individual tools and information sources.

VCA: value chain analysis.

I. INTRODUCTION

I.1 What is the M4P Operational Guide about?

The *Guide* is intended to provide an accessible operational resource to help put the M4P approach into practice.

The *Guide* is the third in a trio of documents about the Making Markets Work for the Poor (M4P) Approach. The first – the *Synthesis* – introduces the approach. The second – the *Perspectives* – explores the application of M4P in a number of different fields. The emphasis of the *Guide* is on how to implement M4P, but it builds on the first and second documents and assumes that the reader has some familiarity with them.

The *Guide* has four objectives:

- To identify key ‘start up’ considerations for organisations wishing to design, commission or implement M4P programmes.
- To explain the frameworks and principles which guide the process of M4P implementation, setting out common challenges and how they can be dealt with.
- To identify important management and governance considerations associated with M4P programmes.
- To provide an overview of good practices that can be used in implementing M4P, including lessons from their application and references to more detailed resources.

I.2 Who is the Guide aimed at?

The *Guide* is aimed at organisations sharing the public aim of making market systems work more effectively for poor people:

- Practitioners: organisations implementing the M4P approach – facilitators – and their funders.
- Organisations that wish to incorporate M4P thinking and practice into their existing work, rather than set up a separate M4P programme.
- Organisations that play a more strategic role within markets, for instance government agencies and industry associations assuming leadership and coordination roles or think-tanks and consultants playing innovation and advisory roles.

I.3 The Guide and how to use it

The *Guide* is not intended to be read exhaustively from cover to cover. Readers can go directly to the section that is most relevant to their needs without having to read every preceding section.

The *Guide* introduces key M4P frameworks and principles, explains how to put them into practice, identifies common intervention challenges and explains how to deal with them. Throughout the *Guide* key sections of text are identified using the following symbols:



TIP

Tips



DEF

Definitions



RISK

Risks



APP

Application examples



VOICE

Practitioners' experiences

I. INTRODUCTION

The *Guide* contains three types of examples: (a) brief illustrations or emphases within the main text; (b) fuller *examples*; and (c) *application examples* (🔑) which aim to walk the reader through key M4P principles or frameworks. Examples are anonymous, but are all based on real cases or amalgamations of several real cases.

The *Guide* is structured in five parts:

Section	Go here for:
1. INTRODUCTION	Overview of objectives and structure of the <i>Guide</i> and how to use it
2. GETTING STARTED	Basic requirements of effective M4P and implications for programme design and commission
3. COMPONENTS OF THE M4P INTERVENTION PROCESS	Core M4P principles and frameworks and how to put them into practice
4. MANAGING AND GOVERNING M4P PROGRAMMES	Important considerations for the management and governance of M4P programmes
5. GOOD PRACTICE NOTES	Specific tools and good practices used in M4P programmes

1.4 Notes of caution about the *Guide*

The *Guide* is not a step-by-step manual. It aims to be a useful reference upon which practitioners can draw, but recognises that M4P implementation cannot be reduced to blueprints or formulae. Intervention in complex market systems is not about thoughtlessly following checklists: flexibility and creativity are essential. That said, successful interventions are not delivered in an *ad hoc* manner; they are guided by strategy and underpinned by practical frameworks and principles based on experience. When exploring how to implement M4P over the following pages, this (potential) tension needs to be remembered. On the one hand M4P is a strategically coherent and rigorous approach. On the other – within this overarching ‘strategic framework’ – flexibility and creativity are required.

The different components of the M4P approach relate to a typical project cycle and Section 3 is structured to reflect the chronology of such a cycle. However, while this explanation may give the impression of M4P as an orderly linear progression, in practice there is a requirement for continual learning and adaptation in interventions – taking steps backward in order to go forward.

2. GETTING STARTED

2.1 Introduction: basic considerations

Organisations wanting to design, commission or implement programmes which follow an M4P approach (see Box 1) need to recognise some basic considerations if they are to be successful:

- M4P programmes need to be capable of dealing with diversity, dynamism and risk; they need to be opportunistic and responsive; and they need to be catalytic.
- Facilitators need to be close to markets; they need to possess good knowledge and insight; they need to be able to behave entrepreneurially; and they need to be independent.

This section (a) outlines the characteristics of effective M4P programmes; (b) establishes the basic requirements for programme design and implementation which feed into the rest of the *Guide* and (c) identifies the immediate implications of these criteria for programme design, positioning, funding mechanisms, intervention portfolio and timeline.

Whilst the *Guide* is aimed mainly at programmes designed specifically as M4P interventions, the considerations described below are important for any public-funded initiative trying to develop markets in a systemic way. The *Guide* is therefore also relevant to:

- Programmes already up-and running which were not specifically designed as 'M4P' but wish to adopt a more market-oriented approach.
- Governments considering their role in different situations and seeking guidance from M4P.

Equally, some organisations might want to ascertain whether they are suited to pursuing a market development approach at all. The basic considerations set out below can help organisations gauge their existing practices, people and structures to see how they can become more oriented to stimulating systemic change.

Box 1

What is M4P?

M4P is an approach aimed at effectively and sustainably improving the lives of poor people by understanding and influencing market systems. Applicable to development agencies and governments working in economic and social fields, it is defined by several characteristics:

- An **approach** that provides guidance on understanding the poor in market systems (analysis) and how to bring about effective change (action).
- A focus on developing **market systems**, by addressing underlying **causes** (rather than symptoms) of weak performance.
- An ambition to unleash **large-scale** and systemic change.
- A commitment to **sustainability**. This means considering not just the existing alignment of market functions and players but how they can work more effectively in the future, based on the incentives and capacities of players to play different roles.
- A **facilitating role** for external agencies; seeking to catalyse others in the market system (while not becoming part of it themselves).
- A means to **complement** and strengthen established development methodologies.

2.2 Why are these basic considerations important?

- *For funders*: these basic considerations shape preliminary decision-making about programme, design and the contracting of facilitators.
- *For facilitators*: these basic considerations reflect the operational realities of market development which they have to deal with if they are to be successful. Frequently these can be sources of tension between funders and implementers and need to be addressed from the outset during negotiations and the contracting process.

2.3 Characteristics and requirements of successful M4P programmes

What are the critical ingredients of a successful M4P programme? Experience shows that M4P programmes are context-dependent and therefore need to be strongly process-oriented. To catalyse sustainable systemic change M4P programmes should be:

- *Capable of dealing with diversity and dynamism*: a focus on improving market systems requires sufficient flexibility to deal with complex and changing situations.
- *Opportunistic and responsive*: achieving sustainability means promoting local ownership. Programmes must be able to understand the capacity and incentives of diverse market players and respond to them in a way which is consistent with programme strategy.
- *Able to manage risk*: programmes try to promote change in

2. GETTING STARTED

uncertain situations, often working through local players. Some degree of failure is to be expected; therefore programmes need to be able to spread their activities to avoid 'putting all their eggs in one basket'.

- *Catalytic*: programmes try to leverage wider change through relatively small, focused and finite actions. They must therefore be able to start small and then build on successes to achieve scale and sustainability by crowding-in market functions and players.

What does this mean for facilitators? To be effective they should be characterised by:

- *Closeness to markets*: their relationships with market players should be based on understanding and informed empathy, but they should not be 'captured' by them. Facilitation can be seen as acting as a bridge between the public objectives of funders and the narrower aims of individual market players.
- *Good knowledge and insight*: sufficiently informed to be able to analyse market systems and assess opportunities to stimulate change.
- *Entrepreneurial instincts*: an orientation that allows facilitators to spot opportunities and rapidly convey an 'offer' to different players in the market that not only responds to their situation but also addresses systemic constraints.
- *Independence*: a status that allows facilitators to be regarded as impartial in the eyes of market players so that the facilitation role is understood and accepted.

2.4 Implications of these basic considerations

The characteristics and requirements described above have implications for practitioners, particularly funders, in terms of the flexibility of: programme design; programme positioning; funding mechanisms; mix of intervention activities; and timeline (see Box 2).

- *Funders*: need to ensure that these basic considerations have been incorporated adequately into programme design, contracting and oversight.
- *Facilitators*: need to assess whether potential contracts from funders reflect these basic considerations and respond accordingly in their proposals to and negotiations with funders.

Box 2

Basic M4P programme design considerations

- Is the programme design sufficiently flexible?
- Is the programme correctly positioned in a country's organisational landscape?
- Will the programme fit within agency funding mechanisms?
- Does the programme design incorporate a portfolio approach?
- Is the programme timeline and funding appropriate?

Is the programme design sufficiently flexible?

Achieving change is an unpredictable process, especially in complex, dynamic socio-economic systems. The ability to monitor and periodically adjust the direction of programmes to respond to changes within markets is essential for success. M4P programmes need operational flexibility; therefore mechanisms for feedback and change should be integral to design. In practice agencies have dealt with this through:

- Programme designs which provide a clear framework, main objectives and indicators to guide the overall focus and direction of a programme (ie strategic) and which avoid being too prescriptive or detailed about specific programme outputs (ie not too operational). This is covered in more detail in Sections 3A and 3E and in Good Practice Notes 5.4 and 5.14.
- Management contracts (and budgets) which emphasise outcomes and avoid overly specifying skills and inputs that contracted facilitators are expected to provide. This is covered in more detail in Section 4.

Is the programme correctly positioned in a country's organisational landscape?

Where an M4P programme is located within a country's organisational landscape has important implications with respect to the desired characteristics of flexibility, closeness and independence. If a programme is too close to a specific player (eg if it is based within a specific government department) it might become captured and lose its perceived impartiality, undermining its ability to influence other public and private sector players. Conversely, a programme might only be successful if it has explicit endorsement from a high-profile champion for reform within government, the private sector or civil society.

The positioning of an M4P programme depends on context and on three factors in particular:

- The prevailing 'political economy', ie influential political, legal and social factors.
- The nature of targeted markets and the source of their underperformance.
- The capacity of key players.

For example: How far to involve government in M4P programmes will depend on the extent to which government is – or has the potential to be – influential in a specific sector, the extent to which it is pursuing pro-poor reform and its level of capacity to improve its role. Locating an M4P programme focusing on rural markets within a department for agriculture may make sense intuitively. However, doing this may constrain a programme from addressing rural distribution problems which fall under the purview of the department of transport or public works. Or, key decision-makers within the department may be unable or unwilling to contemplate necessary changes to government's role with respect to (politically convenient) input subsidies or (traditional) extension services. These factors may prevent the department from being a positive force for change.

2. GETTING STARTED

It is essential to distinguish between a programme's political partnership or *ownership* (eg as part of a bilateral agreement) and the variety of partnerships a programme may have for *intervention* purposes (ie co-facilitators or market players). This is discussed in more detail in Section 4.



TIP

It might not be possible during programme design to get a definitive understanding of these positioning factors. In such cases, caution needs to be exercised. Rather than partnering with an operational organisation that has a narrowly defined remit – say a specific government agency – a higher-level and more neutral body, such as a ministry, is preferable. Or, try to define government's ownership over programme outcomes rather than programme structures.

Will the programme fit within agency funding mechanisms?

M4P programmes can take time to achieve impact and their expenditure tends to rise only after programmes have become credible in the market. Experience suggests that programmatic aid may be the most appropriate funding mechanism as it offers flexibility in disbursement.

M4P is also relevant to other donor funding mechanisms such as budget support and sector-wide approaches (SWAPs), both of which are channelled through domestic (ie host) governments. While these may offer limited scope to set up stand-alone M4P programmes, M4P frameworks can be useful to review and define government's role in different markets.

Basket funding of programmes is appropriate for pooling and harmonising donor assistance but experience indicates that it is vital for the donors involved to develop a common vision of outcomes and a shared commitment to the M4P approach as the means of achieving those outcomes (see also Section 4).

Does programme design incorporate a portfolio approach?

Programme design should incorporate a 'portfolio approach' to manage risk and to ensure that programmes are flexible enough to be opportunistic and responsive to a dynamic environment.



DEF

In a portfolio approach a programme maintains a flexible mix of markets, entry points, partners and types of intervention activity. In such an approach, a programme is less concerned with the performance of individual elements of the portfolio than with the overall performance of the portfolio. Unsuccessful elements can be dropped, new elements added and successful elements built upon or scaled up. This drop-add-build approach is harder to achieve with a strategy based on a single partner, entry point or type of activity.

Such an approach has several benefits:

- It avoids the risk of programmes putting 'all eggs in one basket'.
- It permits flexibility to incorporate new partners and activities according to opportunity and changing circumstances.
- It permits programmes to maintain a momentum of activity without relying on pushing a single partner.



TIP

Promoting local ownership often means working at the pace of local partners, whose ability to engage is not determined by the programme timeline but by political or budgetary cycles, a change in senior management or seasonality of production. A portfolio approach permits programmes to pursue multiple lines of activity with different partners, with some advancing rapidly, others on hold pending resumption and others dropped.

It is generally easier for large programmes to incorporate a portfolio approach across multiple markets. However small programmes face the same uncertainties as large programmes and can use a portfolio approach within a single market to spread their risk and reduce their dependency on a single partner, entry point or line of activity.

The lesson from experience is that overly rigid specification of partners, entry points or activities at the design stage can undermine a programme's ability to adopt a portfolio approach and therefore its ability to manage risk.

Is the programme timeline appropriate?

Programme design should anticipate that the timeline (and trajectory of expenditure) of an M4P programme will not necessarily look like a conventional project. A typical timeframe for a M4P programme is approximately five to seven years.

Programmes tend to start small, taking time to build momentum, absorb resources and achieve results. Consequently programme expenditure usually ramps up after the first two years. It is important to emphasise that programmes always retain their 'light touch' approach to intervention: their level of expenditure increases as they move beyond initial interventions to expand the scale and scope of their interventions, not because they become more heavy-handed in their approach.

3. COMPONENTS OF THE M4P INTERVENTION PROCESS

3.1 Introduction

In simple terms the M4P approach comprises (a) a strategic rationale for achieving poverty reduction objectives through market systems development; (b) a framework for understanding market systems and defining a realistic picture of sustainability; and (c) guidance for intervention action.

The Guide addresses the challenge of how to put the approach into practice – how to operationalise it.

In operational terms the M4P intervention process is broken down into five components which correspond to the main stages of a typical project cycle (see Figure 1):

- A Setting the strategic framework.
- B Understanding market systems.
- C Defining sustainable outcomes.
- D Facilitating systemic change.
- E Assessing change.

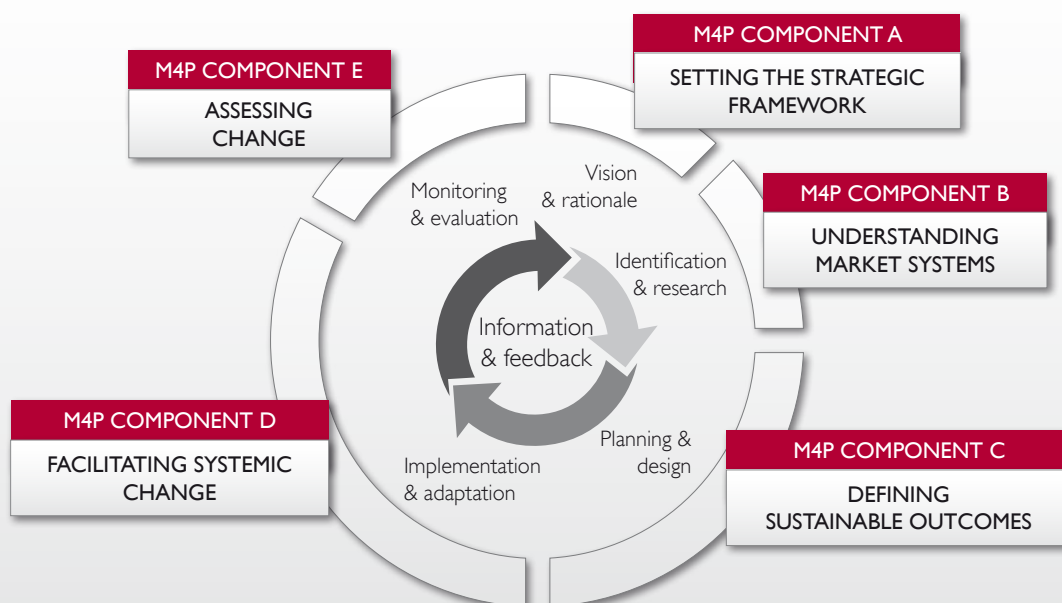
As noted previously, whilst these components are presented in a sequential fashion for the purposes of this guide, in practice implementation of M4P is rarely a linear progression.

This section is divided into sub-sections A-E reflecting the five components of the M4P intervention process. Each sub-section follows the same structure:

- *Summary sheet*: provides an ‘at a glance’ overview of a sub-section’s content.
- *Introduction*: highlights key points.
- *Why important?*: indicates the relevance to practitioners.
- *Key M4P principles and framework*: explains the essentials.
- *Putting it into practice*: examines in more detail how to operationalise the principles and frameworks.
- *Key challenges and how to deal with them*: discusses key problems likely to be encountered.

Each sub-section contains *application examples*  which illustrate the application of key M4P principles and frameworks within a mini-case experience.

Figure 1
Components of M4P intervention process and the project cycle

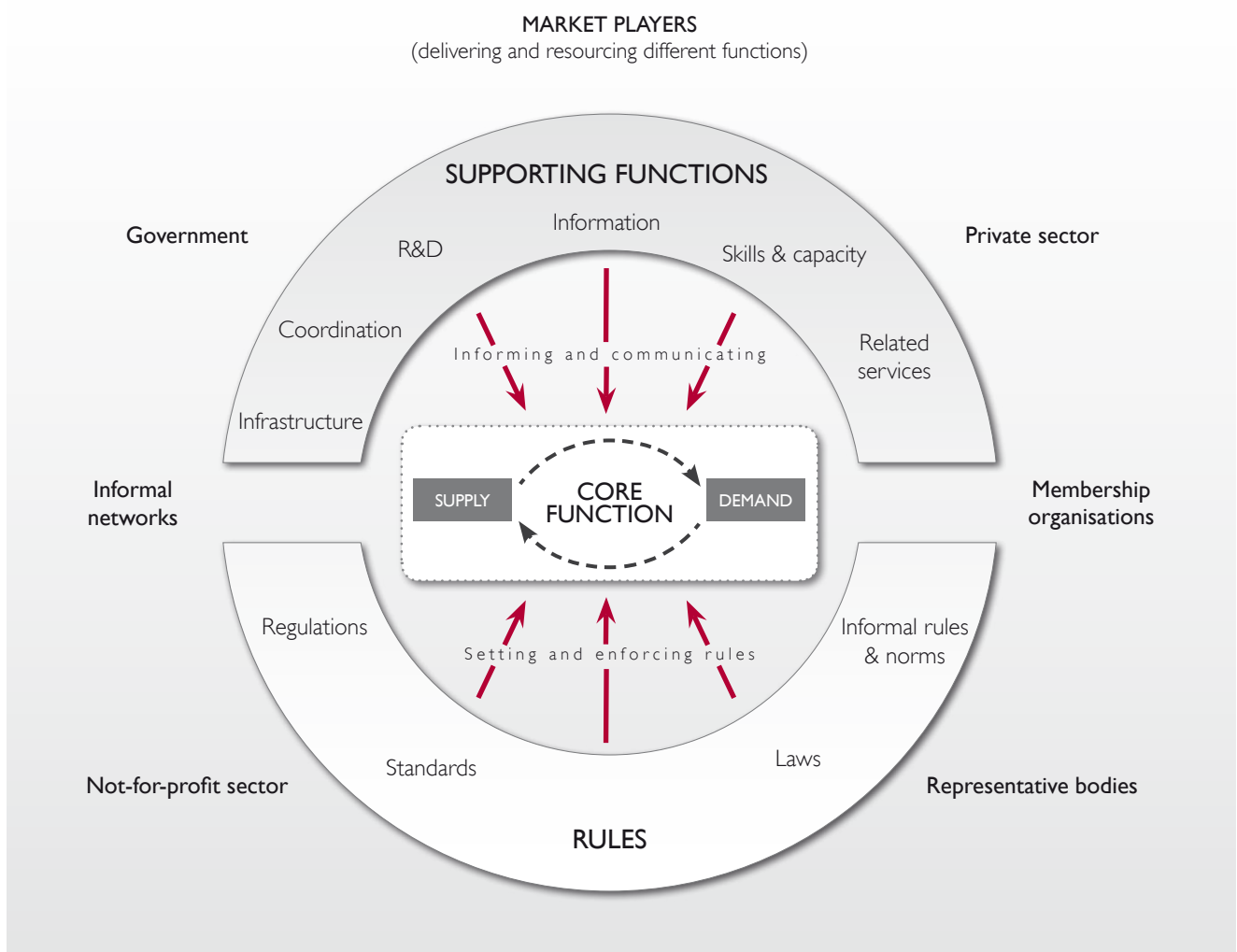


3. COMPONENTS OF THE M4P INTERVENTION PROCESS

3.2 The M4P lens

M4P is concerned with changing the way market systems work so that they offer more opportunities and benefits to poor people. Programmes therefore have to make sense of market systems so that they can shape market development in the interests of the poor: In order to do this, as outlined in more detail in the *Synthesis*, M4P uses a simple model of market systems that represents their multi-function and multi-player nature (Figure 2). Implementing M4P effectively means applying this lens. It forms a continual reference point in all components of the M4P intervention process.

Figure 2
Stylised view of the market system: the M4P lens



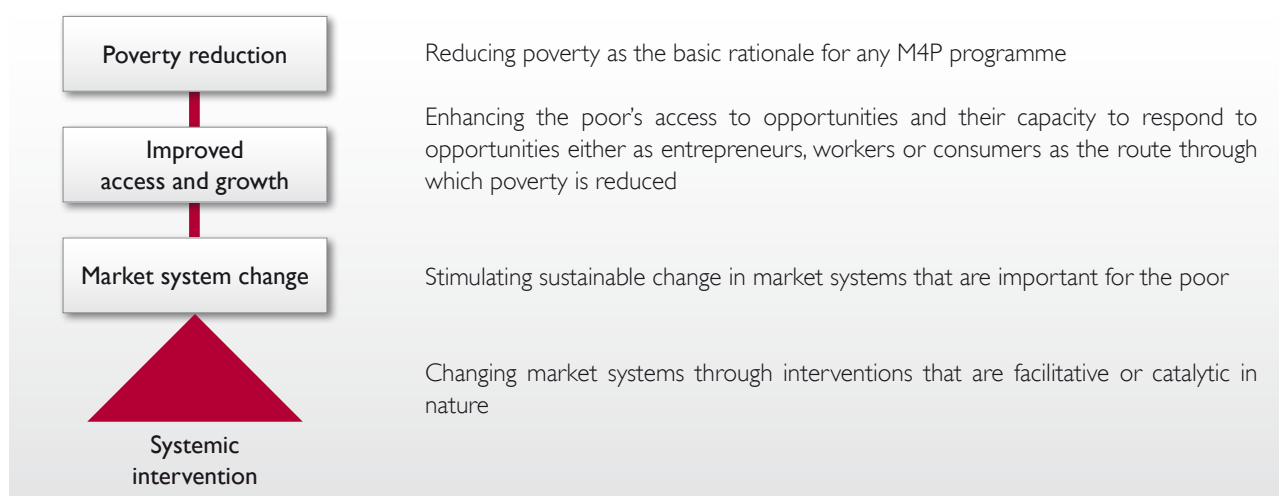
3. COMPONENTS OF THE M4P INTERVENTION PROCESS

3A: SETTING THE STRATEGIC FRAMEWORK

Key points

- A strategic framework is a hierarchy of objectives linking the final goal of poverty reduction with a focus on sustainable market system change
- Facilitators and funders should set a strategic framework which provides a clear, overarching direction and establishes the basis for monitoring and evaluation

Key M4P principles and framework: strategic framework



Putting it into practice: main steps

- Step 1:** Define poverty reduction objectives - profile of target group; nature of market exclusion or inequality; anticipated final impact
- Step 2:** Define growth and access objectives - pro-poor opportunity; potential to improve the target group's position in the market system
- Step 3:** Define systemic change objectives - change needed in the market system so that it better serves the poor
- Step 4:** Define broad thrusts of intervention strategy and approach - avoid rigidly defining operational detail and inputs

Key challenges and how to deal with them

- To what extent can the strategic framework be established in detail at the design stage?
- Which target group and which markets?
- How many markets?

Good Practice Notes (Section 5)

- Logical framework (log frame) (Note 5.4)
- Impact logic (Note 5.14)

3A: SETTING THE STRATEGIC FRAMEWORK

3A.1 Introduction

M4P programmes need a clear strategic framework – a hierarchy of objectives – which coherently links the goal of large-scale poverty reduction with a focus on sustainable market system change. The direct objective of M4P interventions is to stimulate market systems to work better for the poor: an objective of systemic change therefore should be made explicit in a strategic framework. A strategic framework establishes the overarching direction and rationale of a programme and shouldn't go into specific operational details.

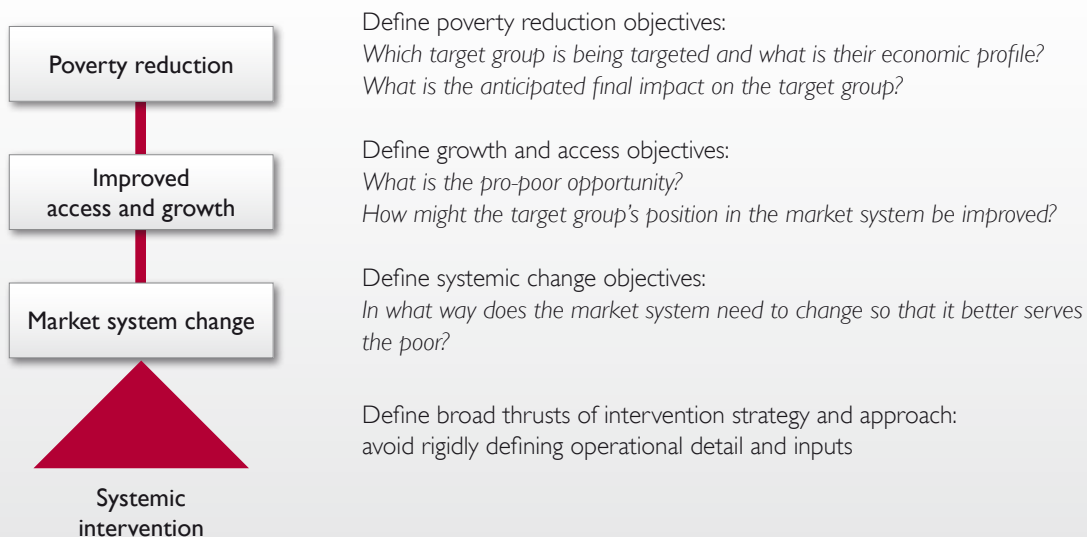
3A.2 Why important?

A strategic framework provides facilitators with a clear, overarching direction for intervention and establishes the basis for monitoring and evaluating the effects of intervention. It provides funders with the basis to oversee M4P programmes. It also sets the parameters for assessment of specific markets and prospects for sustainability and provides the basis for more detailed market and intervention impact 'logics' (see Box 3 and Section 3E).

3A.3 Key M4P principles and framework

The strategic framework is a simple logic model (eg contained in a logical framework, see Box 3): it lays out the flow of cause and effect of how a programme will achieve its objectives and the chain of different achievements necessary if interventions are to result ultimately in the realisation of a programme's final goal (see Figure 3).

Figure 3
Strategic framework for M4P



3A: SETTING THE STRATEGIC FRAMEWORK

3A.4 Putting it into practice

Setting the strategic framework follows a top-to-bottom flow of logic. This means defining a programme's final poverty reduction objectives first, before defining intermediate objectives for improved growth and access and direct objectives for market system change.

The strategic framework should not be defined in a tightly specific, operational way – it is about setting out a programme's strategy for poverty reduction (hence the term 'strategic!'). It should outline the rationale of the programme, its key objectives and general approach to intervention.

In practice this means:

- *Recognise the practical reality.* Typically there is insufficient information available at the design stage to set details in stone.
- *Use the strategic framework to establish the main objectives of the programme.* Once set these shouldn't change (if they do, the entire rationale for the programme changes).
- *Ensure that the strategic framework has an objective of market system change.* But don't try to specify precisely what changes might be required unless detailed market diagnosis has already been completed.
- *Start with 'ends' and not 'means'.* At the design stage it is generally not possible to be prescriptive about which intervention approaches (eg a voucher scheme) a programme might use – again, unless detailed diagnosis has already been completed.
- *Refine indicators associated with each level of objectives throughout the course of a programme's life.* As a programme's market understanding develops, constant 'reality checks' are needed to ensure that indicators (contained in a programme's logical framework) remain relevant and up-to-date.

For example: A market development programme was designed to stimulate more appropriate financial services for 100,000 poor consumers over 5 years, providing direct financial and non-financial support to non-bank providers. During intervention it became clear that wider industry change was both needed and feasible. Consequently the programme shifted its focus to large mainstream private and public players and to information services, regulatory reform and wider influencing. The programme's means changed and indicators were redefined more broadly with impact targets of 2m consumers. However, its overall objectives remained the same because the strategic framework remained valid: market system change (more appropriate financial services) → improved access (to financial services) → poverty reduction (benefits to poor consumers).

Box 3

Strategic frameworks, impact logics and logical frameworks

Because they are all forms of logic models, there are obvious similarities between strategic frameworks, impact logics (see Section 3E) and logical frameworks. How are they different?

- A *strategic framework* establishes the overall rationale and direction for a programme – the programme's strategy for achieving poverty reduction. It doesn't contain detailed operational considerations (like an impact logic) or indicators and assumptions (like a log frame).
- An *impact logic* is more operational. It expands the number of 'boxes' in the strategic framework, which allows for a more detailed flow of cause and effect towards impact on poverty reduction. An impact logic is used to map out the intended and actual effects of individual interventions for planning and measurement purposes.
- A *logical framework* or 'log frame' is a generic (often formal) planning and management tool used widely by development agencies to design and implement projects and to allow oversight and accountability. The objectives in a log frame will reflect those of the strategic framework, but it also includes indicators for those objectives, means of verification and key assumptions.



RISK

This is not just an exercise in filling boxes! The strategic framework is about thinking through the overarching rationale and direction of a programme. It is not just a formality to be completed at the design stage. It provides a programme with a coherent strategy and the discipline to assess the consistency of its actions with its objectives throughout its life.

Each step in the strategic framework is explored in turn below, illustrated by an example from an M4P programme. At the end of the section, each step from the example is brought together in a complete strategic framework (see page 14).



APP

Context: An agriculture development programme is focused on improving the livelihoods of rural households, whose main source of income is the raising of livestock. Their incomes are constrained by low output and productivity; unless these are addressed livestock producers' incomes cannot rise. Poor output and productivity result from inappropriate knowledge and practices and limited access to urban markets. These producers are currently poorly served by private and public providers of services such as market information, animal health, production advice and transportation

3A: SETTING THE STRATEGIC FRAMEWORK

Step 1

Define poverty reduction objectives

The first step is to define specific poverty reduction objectives. Generally M4P interventions will have a final objective related to improving the socio-economic welfare of disadvantaged people, regions or countries.

This needs to be defined specifically, based on context and programme type. This means defining a target group and an objective for improvement in their poverty condition – 'more' of something positive (eg income or assets) or 'less' of something negative (eg deprivation, exclusion or inequality).

Key questions are:

- Which group of poor people is being targeted and what is their economic profile?
- What is the anticipated final impact on the target group?



Poverty reduction objective:

Improvement in the household incomes of small-scale livestock producers and those working with them, often family members.

APP

Step 2

Define growth and access objectives

The next step is to define how the poor's position might be improved. This entails understanding how obstacles to the poor's access to opportunities or their capacity to respond to those opportunities can be overcome, represented as objectives for either growth or access. The 'poor' might be producers and entrepreneurs (ie businesses or farmers), workers (ie employees) or consumers, depending on context.

Key questions are:

- What is the pro-poor market opportunity?
- How might the target group's position in the market system be improved?

This entails defining where pro-poor opportunities lie (see also Figure 5 on page 16), in terms of:

- *Stepping up:* potential improvements in the poor's positioning within **existing** market systems (eg by increasing their productivity as producers, improving their level or quality of employment and/or gaining access to more appropriate goods and services).
- *Stepping out:* potential shifts of the poor into **new** market systems (eg by gaining access to new markets, new employment or new goods and services).
- *Hanging in:* for extremely disadvantaged groups 'opportunity' can often mean the potential to reduce vulnerability to risk.



APP

Growth and access objective:

Improved and sustained access to (and use of) a range of formal and informal public and private services is needed to enable small-scale livestock producers to step up their output and productivity.

Step 3

Define systemic change objectives

The direct focus of interventions is to stimulate sustainable change in market systems. The next step is to identify specific dimensions of those systems that need to be changed. The two key questions therefore are:

- Why isn't the market working?
- In what way does the market system need to change so that it better serves the poor?

Systemic change objectives obviously vary according to context. Generally it is not possible to define these in detail at the design stage. Market system change might include:

- Improved delivery of the market's core function – a better 'deal' for the poor (eg increase in access or participation rates, improved quality or levels of satisfaction).
- Changed attitudes, perceptions or relationships of players.
- Changes in capacity and practices (eg investment, roles or performance) of players and functions in the system.
- Demonstrated incentives and ownership of players (eg responsiveness to changed conditions in the system).
- Independent and continuing activity in the system (ie the extent to which changes are maintained after direct intervention support has ceased).



APP

System change objectives:

On the supply-side, the awareness of service providers (eg vets, input suppliers and trading companies) about opportunities to serve rural producers is low and must increase. On the basis of changed understanding and incentives, their services need to be adapted to suit the target group. On the demand-side, small-scale livestock producers' understanding of the potential benefits of services and knowledge about how to access them must be enhanced. These changes should continue in the absence of programme intervention.

Step 4

Define broad thrusts of intervention strategy and approach

M4P programmes are characterised by responsive and multi-faceted interventions. This makes it difficult – in fact undesirable – to lock down detailed intervention outputs and activities at the design stage. The strategic framework should establish the primary focus and overall direction of a programme in a way which is sufficiently clear to guide decision-making, monitoring and evaluation in a dynamic context.

3A: SETTING THE STRATEGIC FRAMEWORK

Typically, this means establishing a programme's strategy and general approach to intervention, within which multi-faceted intervention activities that are responsive to prevailing conditions can be pursued.



APP

Intervention strategy:

Interventions should be concentrated on a number of potential areas. These include improving producer and service provider awareness by better availability of information about market scale and opportunities; linking demand- and supply-sides through facilitated

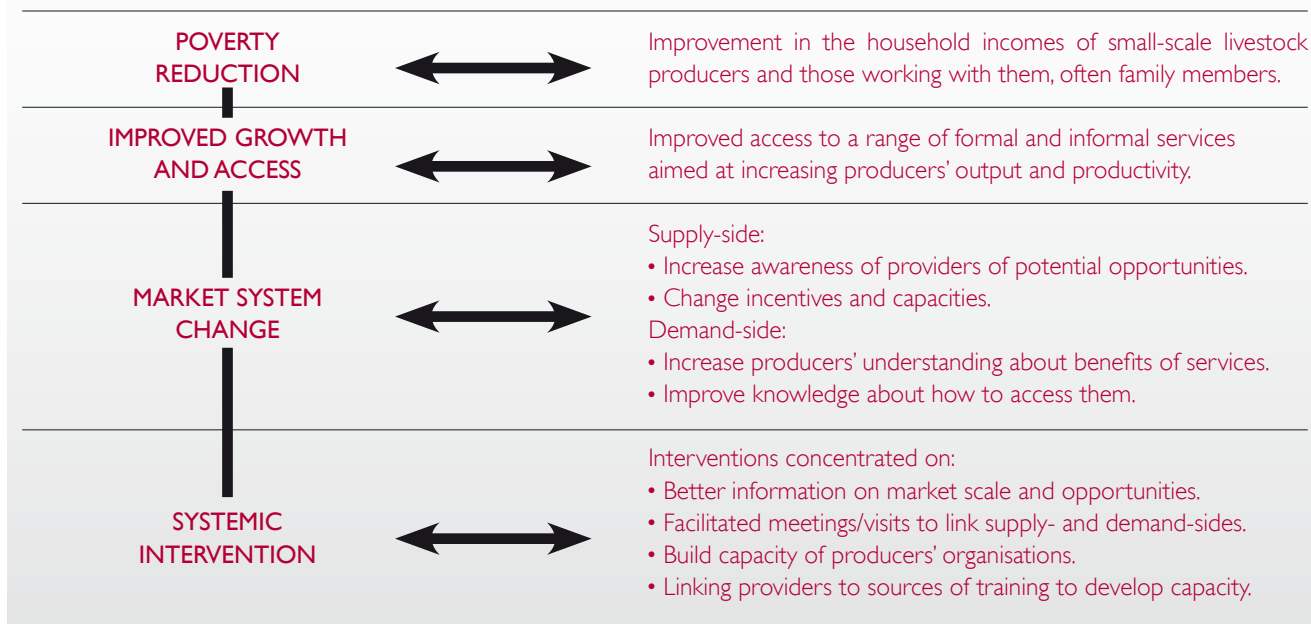
meetings and visits; building the capacity of producers' representative bodies to secure services collectively in order to reduce delivery costs; and developing service providers' capacities to deliver services by linking them to sources of training.



APP

The strategic framework in practice:

A programme focused on improving the livestock-based livelihoods of rural households. Incomes are constrained by low output and productivity – in turn caused by poor practices. Producers are currently ill-served by providers of services such as market information and animal health.



RISK

Flexibility at the intervention level does not mean 'anything goes'. Individual interventions need to be guided by a clear and rigorous logic, which is consistent with the programme's overarching strategic framework. This need not be defined at the design stage but as part of individual intervention formulation throughout the course of the programme.

3A.5 Key challenges and how to deal with them

To what extent can the strategic framework be established in detail at the design stage?

There is an obvious tension which needs to be dealt with. Funders will want to lock down as much detail as possible in advance for *accountability* purposes (contracting, planning and budgeting). Facilitators also want certainty for contracting purposes and to provide clarity and direction for their work. However facilitators will face an ever-shifting reality on the ground, which will require considerable *flexibility* to respond effectively.

So, what can be done to manage this tension?

- *Balance accountability and flexibility requirements.* At a minimum funders need to set the basic programme design parameters.

3A: SETTING THE STRATEGIC FRAMEWORK

This means taking some key decisions, such as:

- Defining target group and usually some combination of geographic area or sector selection and ensuring consistency with wider country strategy or policy.
- Setting the 'big picture' objectives in terms of poverty reduction and improved growth and access, usually entailing comparison of poverty, growth or access dynamics and overall intervention feasibility.
- Emphasising systemic change and sustainability in programme design.



TIP

Funders should be clear about what is really needed to satisfy their accountability requirements. It is common for initial programme designs to be excessively detailed, when usually only key objectives and main budget line items are required. Such detail is often insufficiently accurate for accountability purposes and unnecessarily restrictive for facilitators. It serves little purpose.

- *Clarify who defines what.* Beyond these basic requirements it is a question of who is best placed to do what. How far are funders able to undertake detailed diagnostic work as a pre-cursor to project or programme design? How far should the detailed diagnosis be left to facilitators? (ie how far should funders try and go through the diagnostic process, outlined in Section 3B?) For programmes which focus on a single, well-established sector (eg finance) more extensive pre-design diagnosis is possible. For larger, multi-sector programmes such detailed diagnosis is more difficult to do upfront. There are a number of advantages and disadvantages of doing detailed diagnosis as a precursor to programme design (see Figure 4).

Once design is up and running, managing the accountability-flexibility tension requires good communication between funders and facilitators. Funders need to maintain an active involvement in programme oversight: they can't just contract and withdraw. Facilitators need to actively ensure that their funders are informed about programme development and do not simply rely on routine reporting.

Figure 4
Advantages and disadvantages of detailed diagnosis prior to programme design

ACCOUNTABILITY	←————→	FLEXIBILITY
Detailed diagnosis by funder prior to design		Detailed diagnosis by facilitator post design
ADVANTAGES		
Tighter framing of objectives and budget		Permits stronger facilitator ownership; allows local players to be brought into assessment process
Ensures consistency with wider funder or government country strategy		Intelligence and insight is vital for intervention so facilitators must have a role in assessment
Clearer guidance to bidders		Reduces time delay between analysis and action
DISADVANTAGES		
Separates analysis from intervention; time elapsed between getting information and taking action		Less specific planning and budgeting
Detailed planning creates unrealistic rigidity		More time-consuming to ensure accountability
Tight specification to bidders encourages overly narrow response (eg skills and solutions)		Funders become distant from 'what's going on'

3A: SETTING THE STRATEGIC FRAMEWORK



RISK

Even if funders are able to undertake detailed diagnosis as part of initial design, things inevitably change during the course of implementation. It is impractical to regard programme design as fixed in stone. The need for flexibility is always there; design and plan for it.



TIP

For many funders revising log frames after contracts have been awarded is problematic (particularly the upper levels, ie goal and purpose). In these situations the important thing is to concentrate on getting the overall logic right (so that it doesn't need to be revised once implementation has begun) and avoid being overly prescriptive about operational details at the output and activity levels. This may mean leaving identification of specific market constraints, intervention focus and methodology to facilitators.

Key questions for market selection are therefore:

- Are there reasonable prospects of affecting significant numbers of poor people?
- How do poor people engage in those systems (as producers, labourers, consumers)?
- In what ways might improving the market system(s) enhance growth and access?
- Is intervention likely to be feasible given the resources available?



TIP

The presence of 'triggers' or 'drivers' for change which might be leveraged by intervention is also an important consideration in market selection. There are few markets which present a 'perfect storm' of circumstances for intervention but there may be particular developments which make them more amenable to change – for example, new regulations, technologies, competitive or political pressures or the presence of potential allies for a programme.

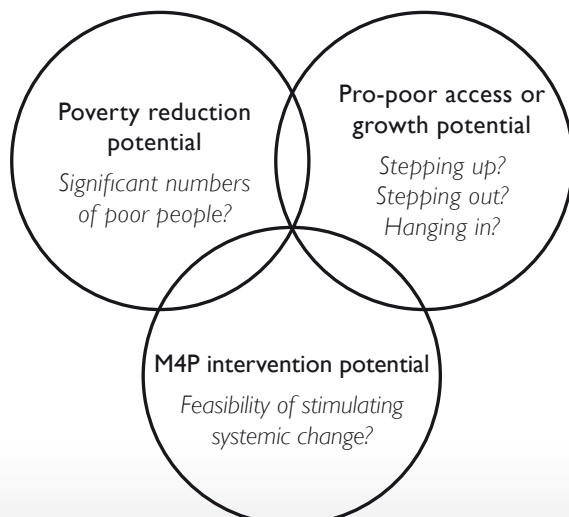
Which target group and which markets?

To achieve large-scale pro-poor impact funders and facilitators must identify market systems which are relevant to and have the potential to work well for significant groups of poor people and where there is a reasonable prospect of bringing about durable pro-poor change.

Selection of target group and markets is usually determined by three factors (Figure 5):

- Potential for achieving large-scale impact (large numbers of poor people).
- Markets with potential for achieving improved growth and access.
- Feasibility of achieving systemic change within the short to medium term (three to five years).

Figure 5
Key factors for target group and market selection



When choosing a target group it is important not to rush to where the poor are without first understanding whether there is realistic potential for change. It is essential that target groups are selected which have some measure of potential to engage within the economic mainstream, where population numbers are sufficiently high in terms of potential outreach and where intervention appears realistic. There is often a tendency to focus on the most extreme circumstances and ignore the lower of the three circles in Figure 5, with little consideration of how lasting change will be achieved.

Equally, when choosing a market, practitioners can't just define a market focus without having a clear view of why that market is relevant to the poor: Programmes need to have transparent criteria for market selection. There is often a tendency to focus on obvious markets for commodities or goods that the poor produce directly (eg agricultural value chains) and ignore other markets for goods and services which support those value chains (eg seeds or transportation) or which are important to the poor as consumers or citizens (eg media).

Programmes need to reconcile these factors when selecting markets and be prepared for some tough trade-offs and painful decisions.

For example: A programme identified the broiler sector within the poultry industry as a potential focus for intervention. It was initially chosen because large numbers of poor households were involved in rearing broilers and, because the industry was growing, it appeared to offer good prospects for raising their incomes. Closer analysis revealed that the medium-term (5 year) prospects did not favour small-scale producers because of an increasing trend towards industry consolidation around centralised large-scale producers with networks of well-established outgrowers. The programme decided not to pursue intervention because outgrowing opportunities for poor households would be few.

3A: SETTING THE STRATEGIC FRAMEWORK

How many markets?

A related challenge is the breadth of coverage a programme should have (ie how many markets should it aim to work in?). This is determined by consideration of several factors:

- *The potential for significant outreach.* In particularly 'weak' or 'thin' market situations a single market focus might not offer prospects for significant outreach, necessitating work in several markets.
- *The nature of specific markets.* Certain types of market may be highly specialised and have little commonality with other markets (eg land or finance) that require specialised expertise or credibility, in contrast to other types of market where there might be greater economies of scale from working in multiple markets (eg agriculture or manufacturing).
- *Mitigation of risk.* A single market focus exposes programmes to an 'all eggs in one basket' problem. There is also a danger – for larger programmes in particular – that in focusing on too few markets there is bureaucratic pressure to push excessive resources through market systems without properly considering what is required. There are real dangers of saturating markets with external resources and stifling initiative in the process.
- *Span of management control.* A multi-market focus can impose heavy management burdens on a programme, particularly if those markets are widely dispersed.
- *Spreading efforts too thinly.* Operating in many markets – and being seen to be busy doing many small things within them – can present an image of superficial achievement. The risk is that programmes spread themselves too thinly and don't develop the knowledge and 'closeness' they need to really understand markets. Those concerned with leveraging more substantial change are more likely to focus on a smaller number of markets.



TIP

Multi-market programmes can be successful, but impact is enhanced when working in groupings of related markets; where markets are closely related or share similar geographic concentration or where the constraints and/or solutions are somewhat similar. This enables cross-fertilisation of ideas and impact. Where the portfolio is made up of isolated and unrelated markets and interventions, substantial impact is harder to achieve.

It is important to note that even when a programme has a single market focus it is likely to end up working in multiple markets, as it addresses constraints in markets which support its principal market of focus.

For example: A financial services market development programme aimed at improving financial services for the poor (principal market: transaction banking) focused on strengthening market research services for the banking industry (supporting market: business services), as lack of market information about low-income consumers was identified as a critical obstacle to pro-poor product development.



TIP

For smaller programmes it may make sense to have a single market or sector focus. In these cases it is critical that programme design is not defined too narrowly (eg by product type or market segment). Facilitators need to be able to operate a portfolio approach within a single market focus, examining different combinations of market segments, product types, entry points and partners to maximise impact and minimise risk.

Criteria for market selection and coverage will vary from agency to agency in terms of ambitions for scale and scope of market coverage, type of markets chosen and their relevance to agency objectives and priorities. To some extent, agency capacity and competence will also dictate scale, scope and market choice.

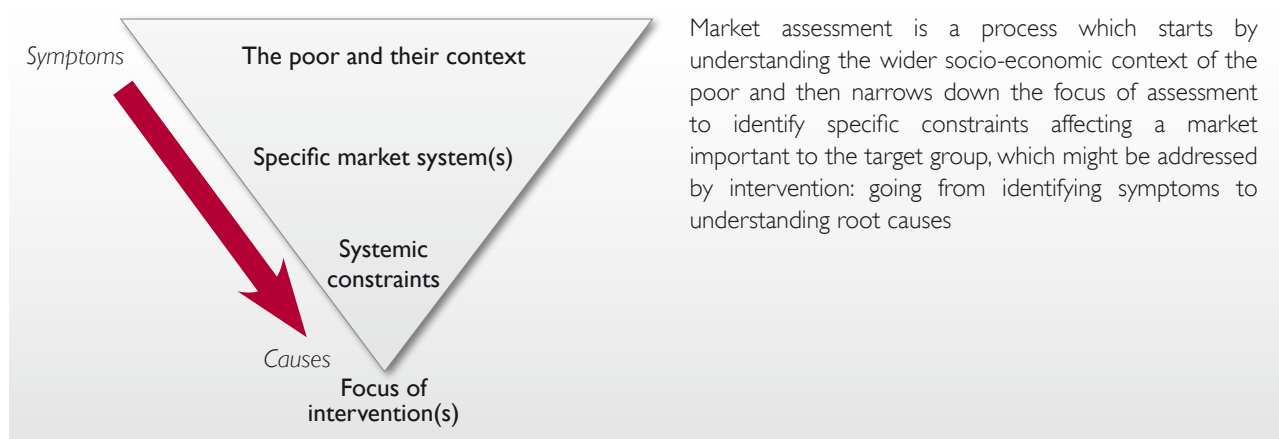
3. COMPONENTS OF THE M4P INTERVENTION PROCESS

3B: UNDERSTANDING MARKET SYSTEMS

Key points

- Programmes need to be shaped by a good understanding of the operations of market systems and how they affect poor people
- Programmes should go through a diagnostic process that narrows down to identify specific market system constraints to be addressed by intervention
- The process should distinguish symptoms of underperformance from their root causes

Key M4P principles and framework: diagnostic process



Putting it into practice: main levels

The diagnostic process involves developing a good understanding across three levels:

- Level 1:** Understand the profile of the poor and their wider context - including overall economic opportunities and key drivers of change
- Level 2:** Map out the specific market system, its dynamics and the position of the poor - specifically how the market is failing to serve the poor currently
- Level 3:** Identify specific systemic constraints - the underlying causes of underperformance and opportunities and obstacles for achieving change

Key challenges and how to deal with them

- How much assessment is enough?
- When should you do assessment?
- Should market assessment be outsourced or done in-house?
- How do you decide which tool to use for market assessment?
- How many markets should be assessed?

Good Practice Notes (Section 5)

- Implementing demand-side surveys (Note 5.2)
- Access frontier (Note 5.3)
- Promoting value chain development (Note 5.8)
- Understanding incentives (Note 5.9)
- Guiding participation processes (Note 5.11)
- Livelihoods analysis (Note 5.12)
- Understanding interconnected markets (Note 5.15)
- Understanding transactions (Note 5.17)
- Rapid market assessment (Note 5.18)

3B: UNDERSTANDING MARKET SYSTEMS

3B.1 Introduction

M4P programmes need to be guided by a good understanding of specific market systems. Poor people are affected by the market systems in which they operate, which in turn are affected by other market systems and the broader socio-economic context. Programmes therefore need to understand how specific market systems work (or don't work) and maintain an awareness of the wider socio-economic context. This requires a diagnostic process which enables programmes to move from broad awareness to sharper understanding of specific systemic constraints to be addressed by their intervention. This process seeks to distinguish the symptoms of underperformance from their root causes.

3B.2 Why important?

Appropriate information – and its effective interpretation – shapes intervention design, enables programmes to ascertain prospects for sustainability and guides interventions throughout the life of a programme. Market assessment should:

- Help programmes understand the capacity and incentives of market players to determine prospects for change and sustainability.
- Identify potential drivers of change and partners for intervention.
- Generate intelligence and insight which can be used to influence market players.
- Provide information for baseline and measurement purposes.

3B.3 Key M4P principles and framework

The diagnostic process is like a filter, which starts with understanding the wider socio-economic context and then narrows down the focus of assessment to identify specific constraints affecting a market important to the target group.

The process is about moving beyond a superficial description of the symptoms of a market's underperformance to understand the root causes of this underperformance – which can be addressed by programme intervention (see Figures 6 and 7).

The diagnostic process focuses on the types of information required for decision-making and action, not on the use of specific tools to collect information. Once practitioners are clearer about the types of information they need, choices can then be made about where to get information, what tools to use and who should do what.



VOICE

Try to write a paragraph or two describing the market, its relevance to poverty and the systemic constraints. Then see what information you require to come up with the intervention focus. Only then determine the market research tools to be used.

Experience indicates that, rather than a specific tool or methodology, the most useful quality facilitators can bring to bear is the spirit of curiosity: not to take market underperformance at face value, but to continually ask "why?". In other words, facilitators need to keep digging down to identify the real causes of market underperformance rather than stopping at the superficial symptoms.

3B: UNDERSTANDING MARKET SYSTEMS

Figure 6
The diagnostic process

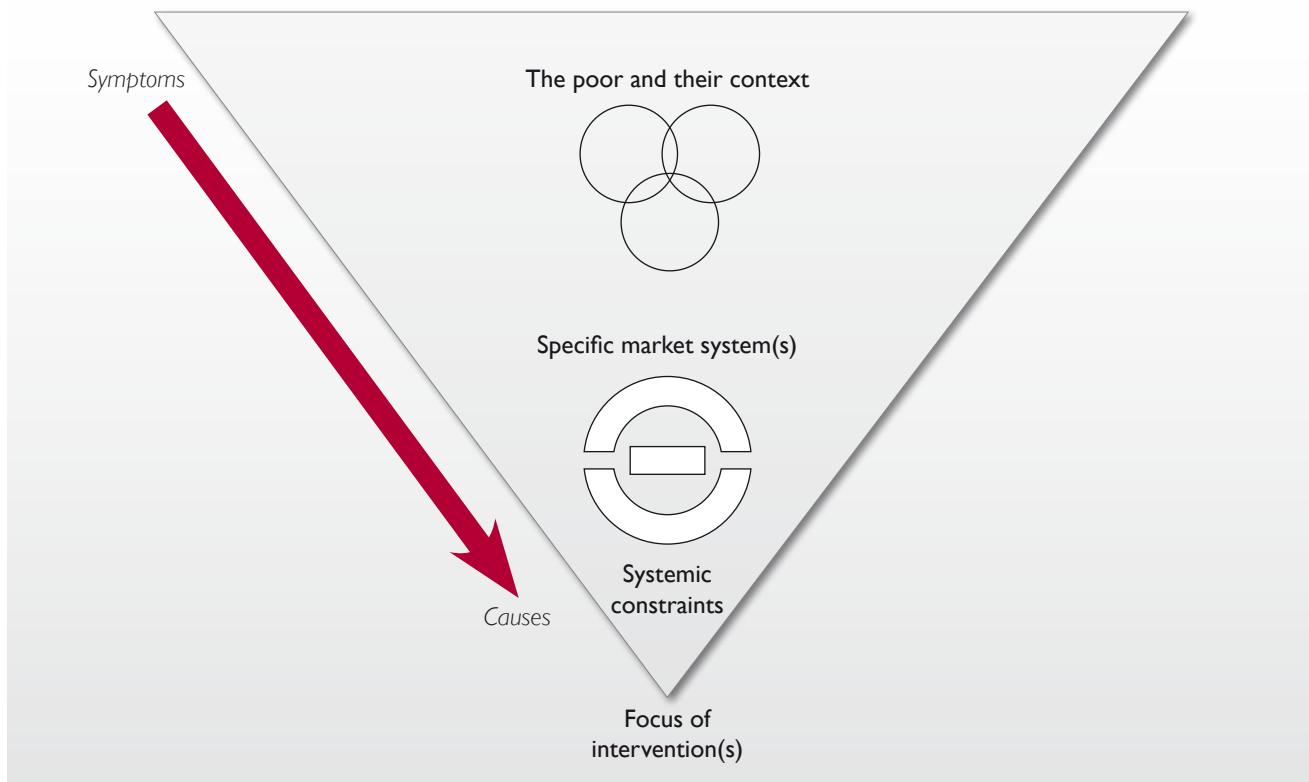


Figure 7
Information required from the diagnostic process¹

Key information types	Need to know what...?	In order to...?
The poor and their context <i>(Target group, area etc)</i>	<ul style="list-style-type: none"> • Socio-economic, demographic, geographic 'picture' • Growth, competitiveness potential and challenges • Key trends, prospects, drivers and barriers to poor's participation in economic mainstream 	Identify specific markets which offer pro-poor opportunities which might feasibly be unlocked by intervention
Specific market system <i>(Where the poor conduct their economic activity and who they engage with)</i>	<ul style="list-style-type: none"> • The structure of the market system • The dynamics of the market system and dimensions of its performance • The poor's position within the market system 	Identify where the market isn't working for the poor: 'symptoms'
Systemic constraints <i>(Supporting functions and rules around the core of the market)</i>	<ul style="list-style-type: none"> • Key market functions and players • Who does what and pays for what • Incentives, capacity and relationships • Interconnected markets 	Identify underlying reasons for market underperformance and possible intervention points to stimulate systemic change: 'causes' (There may be multiple causes in more than one market!)

¹ Note that the levels shown are indicative of a process of filtering down; they should not be regarded as absolutely fixed.

3B: UNDERSTANDING MARKET SYSTEMS

As discussed in Section 2, programme design will not necessarily identify specific market constraints at the outset. Funders must ensure provision is made in programme planning and budgeting for this kind of diagnostic process throughout the period of intervention. It is an integral part of what M4P programmes do.

3B.4 Putting it into practice

The diagnostic process is about starting with the 'big picture' and narrowing down assessment until underlying market constraints – which can be addressed feasibly by intervention – have been identified.

For the sake of clarity, this diagnostic process is presented in a linear manner, with distinct levels of market assessment. In practice, the process is not entirely linear and the various levels are likely to overlap. Programmes will find that they move up and down through the various levels of the diagnostic process as their understanding develops and they are forced to reappraise their initial assessment (see Figure 9 on page 29).

The levels of the diagnostic process are presented in more detail below and illustrated by an *application example* from an M4P programme. This example is then summarised on page 27.



APP

Context:

A major M4P programme is mandated by its funders to work in selected rural regions and to promote the competitiveness and growth of selected value chains. Its goal is to achieve large-scale pro-poor change in these regions. The facilitator has considerable experience and competence in developing rural value chains.

Level 1

Understand the profile of the poor and their wider context

The assessment process starts by establishing an understanding of the profile of the poor and their wider context. To some extent this may already be given by programme design, usually based on a combination of:

- *Geographic focus:* eg a neighbourhood, town, province, country.
- *Product focus:* eg a specific type of goods or service such as financial services or insecticide-treated mosquito nets.
- *Target group focus:* eg garment sector workers or female business owners.
- *Sector focus:* eg agro-processing or small-scale manufacturing.

Initial programme focus will also be shaped by the characteristics of the funding or implementing agency in question:

- *Strategic focus of funder:* eg a priority target group or environmental protection.

- *Capacity of implementing agency:* ie what the agency can do, its experience and competence in certain types of intervention (eg challenge funds) or with specific sub-sectors (agricultural technology).



RISK

While it is sensible to consider facilitators' competence when selecting markets, there is a risk of shaping the view of the market problem (and thus intervention) by what facilitators can do, not what the problem really is – in other words 'a solution in search of a problem'!

This means that most programmes do not start with a blank sheet of paper when deciding on their overall focus. This stage in the diagnostic process corresponds to the Strategic Framework described in Section 3A, particularly the three market selection factors: (a) overall pro-poor potential, (b) growth potential and (c) feasibility of bringing about change (described in Figure 5 on page 16).

As discussed in Section 3A, depending on how much pre-design diagnostic work has been conducted this can be an opportunity for facilitators to examine more rigorously the basics of programme design and adjust programme focus as appropriate (for instance during the course of a pilot or orientation phase).

Programmes need to ensure that they have a reasonable understanding of:

- *How the targeted population participates economically – as producers, consumers or employees?* This means developing a clear profile of the poor and the nature of their livelihoods. An indication of potential outreach is also necessary.
- *Overall economic opportunities and prospects.* Sources of growth, important trends and, if possible, the dynamics of key sectors which are relevant to the poor.
- *'Drivers'.* The triggers for change within the wider context, for example policy reform, institutional or technological innovation, a critical incident or crisis or powerful potential allies, which shape the momentum for change in a market. This can help practitioners determine the feasibility of stimulating more specific changes.

For example: An M4P programme was able to build successfully on a high-profile multi-party pledge between industry, government and civil society to improve the poor's access to good quality, affordable services. Another programme used industry leadership potential as a selection criterion for markets.

As a result of this first level of assessment, facilitators should have a clearer idea of specific markets that offer pro-poor opportunities which may be unlocked by intervention and some of the wider drivers of change.

3B: UNDERSTANDING MARKET SYSTEMS



APP

Profile of poor:

The main source of income for most households is agriculture but incomes are low with a high proportion of households below the poverty line. Vegetable cultivation is an increasingly important crop and income source. Vegetables are relatively easy to grow, can be cultivated on small areas of land and are employment-intensive (with a high proportion of women labourers). Consumer demand for vegetables is growing fast, prices are rising and, as consumer tastes change, this trend is set to continue. Since average consumption is well below recommended levels, increased production is good for the poor as consumers. In this context, it is recognised that the biggest problem for the sector is low productivity – less than half the level of international competitors. The potential of the vegetable sector to generate more growth and incomes will not be realised until productivity is increased.

- How does the market system work, what are its key functions and who are its key players (private, public, formal and informal)?
- What are the dynamics of the market in terms of its overall effectiveness, for example its competitiveness, productivity or level of coverage or access?
- More specifically, in what ways is the market failing to serve the poor (ie what are the symptoms of underperformance) or where are potential opportunities for the poor?

The starting point is to map out the basic structure of the market system:

- Identify the functions played by different players and map the relationships between players (for example in a value chain, between consumers, retailers, processors, producers, input suppliers).
- Where possible identify alternative or competing structures, channels and relationships.
- Don't neglect the possibility of 'embedded' or 'hidden' transactions and other forms of informality.



TIP

How the parameters of market assessment are delineated determines the nature of assessment and its outputs. Generally speaking, for a given set of resources, if the market is delineated narrowly (eg small farm users of leaf testing services in the palm oil sector in region X) analysis can be much more specific, detailed and manageable – but might neglect the bigger picture. Conversely, with the same resources a broader market delineation (eg the entire palm oil sector nationwide) will generally yield an overview level of analysis and not be able to get into detail. It is important to be clear about what information is required and what resources are available for assessment when delineating the market.

Next, programmes should try to understand the dynamics of the system (ie where the system has come from and where it might be heading in future). This can include:

- Changes in the flow and nature of goods or services over time (eg value, volume, type, profile of suppliers and consumers).
- Performance relative to competing, complementary or similar sectors and regions (eg productivity, value-added, customer satisfaction, level of competition).
- Major events and changes (eg new entrants, new legislation or technological innovation).

Then, programmes should understand the poor's position within the market system and ascertain how the market is currently serving them – or not serving them.



RISK

There is a risk that programmes draw market system boundaries too narrowly around the core transactions of the market and ignore supporting functions and rules or interconnected markets. The risk of narrow delineation is that interventions often focus on symptoms rather than the root causes of underperformance.

Assessment should focus on the core of the market initially: transactions (see Box 4). In what ways are the poor not getting what they need from this market – and what are the potential opportunities for the poor?

Assessing transactions requires quantitative and qualitative information² from actual or potential market players on the demand-side or supply-side. Note that the poor may be on either side of the transaction, depending on how they participate or potentially participate in the market, eg on the demand-side as consumer of a good or service, like vocational training or a loan, or on the supply-side as a worker or producer, selling their labour or rice.

As a result of assessment at this level programmes should have a clearer idea of where the deal or transaction involving the poor is breaking down – but not necessarily a clear idea of why it is breaking down.

Level 2

Map out the specific market system, its dynamics and the position of the poor

Once a picture of the poor's context and a preliminary market focus is established, programmes need to develop a sound understanding of the structure and performance of the specific market system(s). More specifically:

² Quantitative information is vital to describe the market as it is currently working, eg in terms of its scale or levels of participation. Qualitative information is important to help understand why the market is working the way it is.

3B: UNDERSTANDING MARKET SYSTEMS



APP

Market system:

A number of factors contribute to the productivity problem, including market structure and farm size. But the most prominent factor is inappropriate use of inputs (seeds, fertilisers, pesticides) and poor practices by farmers. Vegetable cultivation is relatively new for farmers and there is widespread lack of understanding about best practices and input use. Farmers buy inputs from local retailers. Their sources of information are varied: small numbers of (usually larger) farmers have access to government extension workers and NGOs. However, retailers and other farmers are the most widespread source of information. There is general dissatisfaction with the quality and usefulness of information available. The productivity problem is, to a large degree, an information problem.

Key questions are:

- What are the underlying causes of a market system's underperformance?
- What are the primary obstacles and opportunities to overcoming these problems?

To answer these questions, programmes usually need to explore the range of other functions which support and govern the core of the market – ie rules and supporting functions. This may lead programmes to explore an interconnected market system (see Section 3C).



TIP

Remember that underperformance in the core of the market is often caused by underlying problems with supporting functions and rules. So, programmes need to go beyond the symptom of the problem (eg transactions are not happening) to understand the causes – from the 'what' to the 'why'.

Box 4

Factors that determine or inhibit transactions

When assessing transactions – including those which are 'embedded' – it is vital to explore beyond current participation or non-participation (ie the 'deal' the poor are getting currently) to understand the factors that lead up to or inhibit the deal:*

- Consumers' awareness and understanding of their requirements.
- Consumers' awareness and understanding of a good or service that could meet their requirements.
- Consumers' valuation of and satisfaction with the good or service.
- The nature of the good or service and its appropriateness to the requirements of consumers.
- Sources of supply and their acceptability to consumers/users.
- Suppliers' awareness and understanding of consumers.

Affordability is often identified as a barrier to transactions. It is important to identify whether there are genuine affordability problems or whether price is a symptom of an underlying constraint.

* The factors apply to actual or potential consumers, suppliers and goods or services.

At this level programmes should avoid simply describing specific market functions and the players that are currently performing those functions. It is essential to go deeper than that: to get an insight into players' capability and motivations for performing specific market functions and how well they are performing them. This means understanding:

- Incentives of players.
- Capacity of players.
- Relationships between players.

For example: In a value chain where small producers suffer from low working capital, a programme might need to explore the nature of relationships between various players and identify and understand reasons for differences between, say, one large buyer that pays small producers cash on delivery whereas the industry norm is to pay after 30 days. What explains the difference? Is that buyer particularly altruistic? Is the deal only extended to certain small producers with social ties to the buyer? Is there a commercial benefit to offering preferential payment terms? If so, why don't other buyers do the same?

Incentives and capacity are critical. Programmes need to explore the reasons why players are acting the way they are and their motivations and ability to change. Assessment must help programmes to understand the 'political economy' of change, which is grounded in the incentives and capacities of market players in the private and public sector; be they formal or informal, large or small, local, national or international.

Level 3

Identify specific systemic constraints

Once an understanding of the structure and dynamics of the specific market system has been established – and the poor's position within that – assessment needs to focus on identifying the specific causes of market underperformance.



TIP

In order to understand incentives programmes often need to understand political, legal and social and cultural factors – ie the 'political economy' – as well as economic factors: what is valued and why; how values are shaped by prevailing norms and behaviour; and how these social factors encourage or inhibit change.

3B: UNDERSTANDING MARKET SYSTEMS



APP

Systemic constraints:

The accessibility of retailers makes them the most common source of information for farmers. Farmers seek advice from retailers but often are suspicious of the value of information received – retailers push products rather than solve problems. Retailers in the main don't recognise the value of the information 'service' they provide. The retailers in turn are reliant on large input supply companies for their information but currently this information is narrowly focused on products – not on vegetable cultivation practices per se. It is in the interests of input suppliers and retailers that farmers are more successful; for that to happen more and better information needs to be provided by the input supplier to retailers and from retailers to farmers. The information problem is a business model problem. The logical intervention focus is to work with input supply companies – with the capacity and incentive to change – to improve the quality of information and advice available through retailers to farmers. For input suppliers and their retailers this can enhance their reputation, strengthen customer loyalty and increase sales.



TIP

Don't forget the end-purpose of market assessment: to identify the underlying causes of market underperformance and potential entry points for intervention. Information gathering can draw from a variety of sources but, whatever the source, M4P places a premium on intelligence and deploying it effectively. Programmes don't do market assessment out of academic interest. Information shapes intervention strategy and guides actions to change the nature of the core of the market – a better deal for the poor – usually by altering the way in which supporting functions and rules work.

Market assessment tools and sources of information

At the first two levels of the diagnostic process – the poor and their context and specific market systems – a range of relatively assessment standard tools can be used (see Figure 8) with greater or lesser degrees of adaptation. As facilitators get further through the diagnostic process, to explore the systemic constraints affecting performance, they rely less on standard tools and more on focused interaction with a limited number of selected informants, which have emerged from the preceding assessment. This interaction might take the form of one-to-one meetings, focus group discussions or brainstorming workshops, depending on the nature of the players involved.

3B.5 Key challenges and how to deal with them

How much assessment is enough?

A programme's understanding of market systems will never be perfect. Understanding has to be sufficiently strong to provide the basis for informed action, but 'paralysis by analysis' must be avoided. It is not the case that before any action takes place, exhaustive, formal market assessment needs to be conducted. In reality the extent and nature of market assessment is a function of knowledge gaps (ie a consideration of what we already know and what we still need to know) and the resources available to bridge these gaps.

The means by which programmes acquire information need not be formal or comprehensive. It is also often possible to draw on secondary sources of information which are already available or to participate in the ongoing research activities of other organisations.

As a rule of thumb, the more distant an organisation is from a market in question, and the larger its scale, the more formal, extensive and periodic market assessment needs to be (eg funders). However, scale and distance from markets make it harder for such organisations to get and use information promptly.

Smaller organisations, which have shorter feedback loops and which are closer to the market, are more immediately responsive and are able to acquire and rely on informal and regular assessment, learning-by-doing and pilots (eg facilitators).



RISK

Practitioners sometimes lose sight of why they're doing market assessment in the first place. They get carried away with the process, generating lots of information of limited practical value, but at considerable time and expense. They fail to consider how assessment is going to shape potential intervention strategy and actions, so tend to be too broad and descriptive and miss the dynamics and systemic dimension.

The diagnostic process is not a fixed, sequential market assessment but a way of thinking through information needs (what do we really need to know?) and organising information (what is information telling us?) to guide programme strategy and action in a practical way.

When should you do assessment?

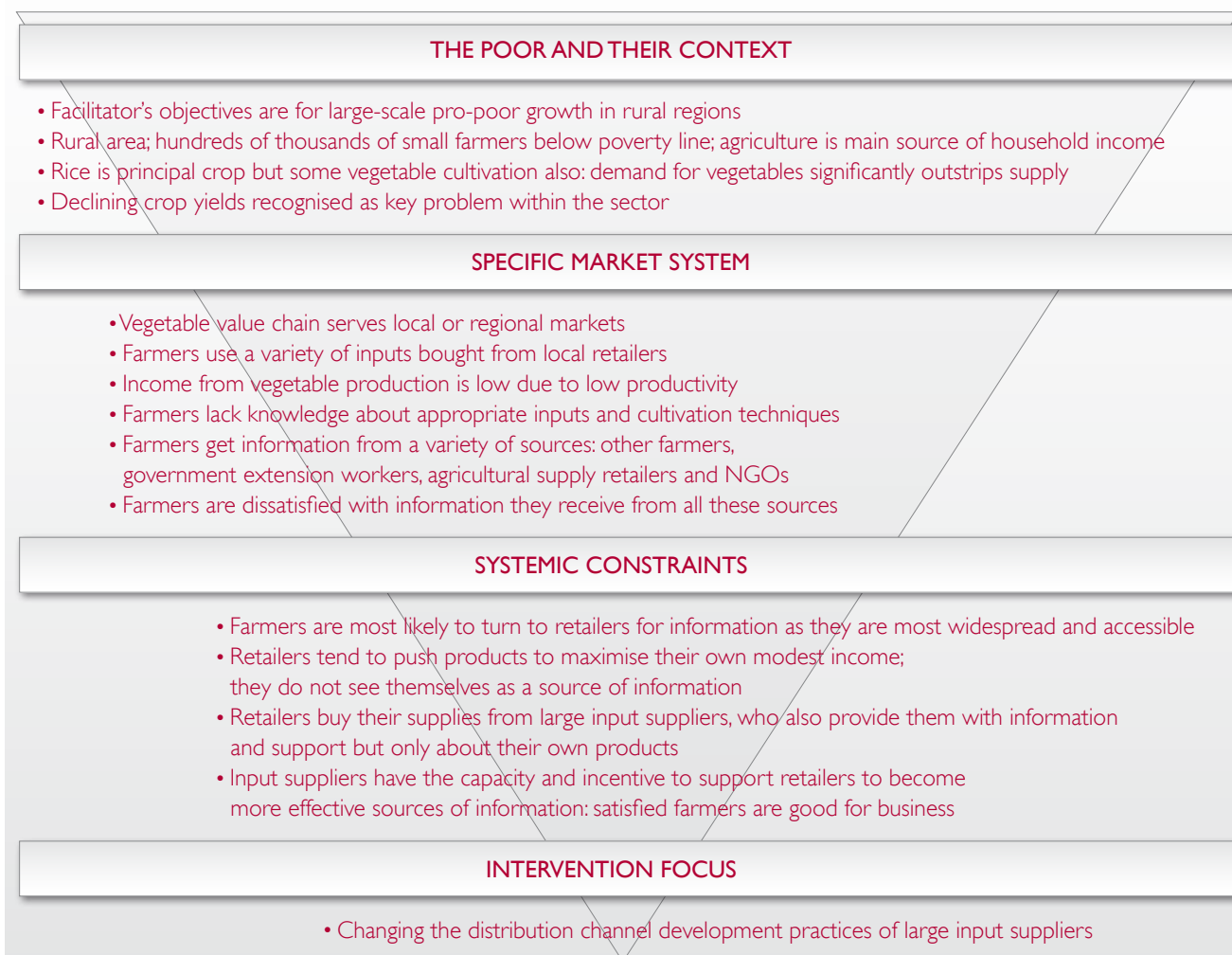
There is a tendency to regard assessment in a rigid manner, something that is done at the start of a programme. In practice, information is required throughout the life of a programme.

3B: UNDERSTANDING MARKET SYSTEMS



The diagnostic process in practice:

APP



Market assessment needs to be an iterative and affordable process – not just a large, one-off formal study. Acquiring and using relevant information is a central part of the M4P intervention process, not just for design, planning and measurement but to guide a programme's actions. It is something that continues throughout the period of intervention and adequate resources need to be made available for it. Intervening in dynamic socio-economic contexts requires constant feedback and adaptation (see Figure 9).

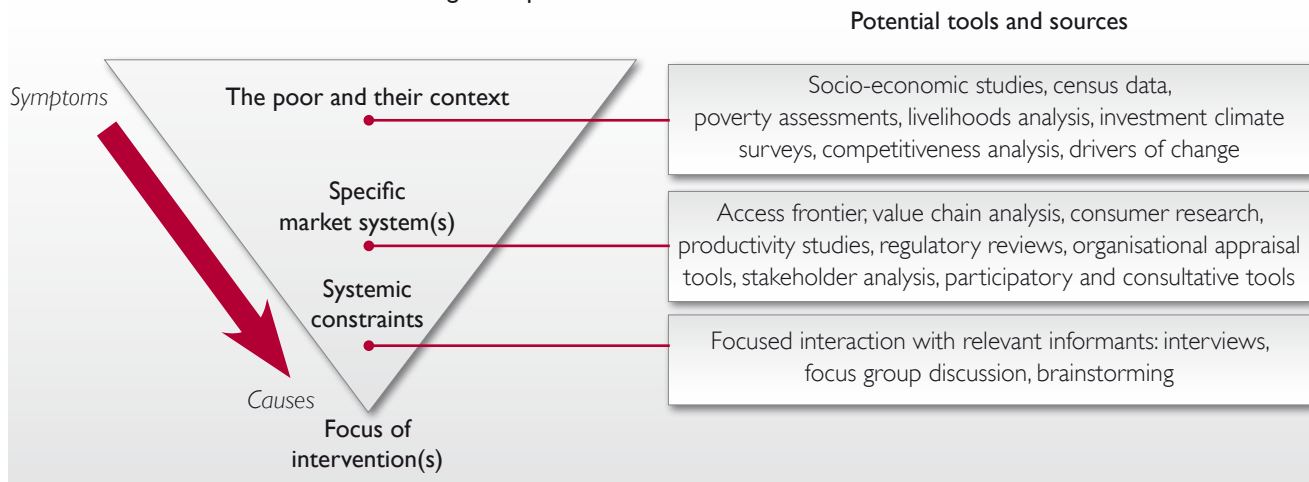
Information is also valuable to facilitators as a way of developing credibility and influencing others. An intervention's new insights developed through assessment can enrich weak information

environments and serve as a powerful tool for changing the perceptions or behaviour of market players, often more effectively than financial support. This continuing need for information has implications for how it is collected and by whom (see below).

Developing greater market understanding through pilot intervention is also critical to achieving wider and sustainable market change (see Section 3D).

3B: UNDERSTANDING MARKET SYSTEMS

Figure 8
Tools and information sources for the diagnostic process



TIP

Use market assessment to identify market players and their interests and so their appropriateness for engagement. This helps reduce the tendency of many programmes to engage with as broad a range of stakeholders as possible in the interests of ensuring participation and building consensus, and sometimes therefore wasting resources on the wrong people. Market assessment can help facilitators approach stakeholder engagement and participation in a more targeted and efficient manner.

Should market assessment be outsourced or done in-house?

Information is the stock-in-trade of effective facilitators, so it is a mistake for facilitators to outsource market assessment completely. External specialists or secondary sources can be important sources of technical expertise and can be used to undertake some of the analysis feeding into decision-making. But the process of market assessment should always involve programme personnel to a considerable extent. External specialists can only give a limited perspective in their reports and presentations.

As far as possible, programme staff should undertake regular assessment themselves. If external specialists are used, staff should work closely with them so that no barrier is created between staff and market realities. Doing assessment in-house is especially important to identify (and respond quickly to) opportunities and establish relationships with market players – in other words, market assessment should be regarded as part of a programme's process of engagement in the market.



TIP

Recognise that a paucity of information in weak market situations is often an indication that information gathering and analytical capacity within market systems is limited. It can be useful

for facilitators to draw in selected market players into assessment processes to build ownership and develop the analytical capacity of market players – for example by working hand-in-hand to conduct analysis – so that the information function (gathering, interpretation and distribution) might continue in the future.

How do you decide which tool to use for market assessment?

The range of tools and sources of information available for market assessment is extensive (see Good Practice Notes, Section 5). All tools have their advantages and disadvantages, depending on context and type of information required. The key point for practitioners to remember is that seldom will a single tool, assessment approach or source of information be sufficient to develop good understanding of a market.



RISK

Programmes can easily become tool-led rather than information-driven. Choice of tools needs to be determined by the context and objectives of assessment (ie the information required) – not the other way around!

Recognise that some tools are better suited to certain contexts, such as:

- *Geographic, political or public administration focus.* In situations where key market players define themselves by geographical boundaries (eg a district or province) certain kinds of participatory or stakeholder-based assessment tools, which have emerged in the field of Local Economic Development (LED), are well suited for information gathering. Public sector stakeholders often have explicit geographic boundaries and remits and tend to be comfortable with the openness and time required for participatory discussions. Conversely, geo-

3B: UNDERSTANDING MARKET SYSTEMS

graphically defined approaches are less useful in situations where key players operate across defined boundaries (eg a value chain).

- *Population density.* Certain kinds of tools, such as formal surveys, are easier and cheaper to conduct in locations with high population densities. In more remote areas, the costs of achieving appropriate levels of coverage can be prohibitive.
- *Nature of players.* Assessment approaches which are formalised and require direct interrogation, such as large-scale surveys, can be intimidating for micro- or informal enterprises or marginalised groups, who often fear they are a form of scrutiny by the authorities. Informality also presents a challenge for accurate sampling and identification of potential respondents because, by definition, these groups are seldom included in formal public records. Large commercial players tend to be uncomfortable with 'open' participatory approaches (eg PRA) and find them overly time-consuming.
- *Nature of activity.* Certain tools are better suited to assessing specific kinds of activity. For instance, value chain analysis tends to be easier to apply to sectors where there are clear stages of production or transformation. It is more difficult to map out sectors which are less linear or transformational in nature, for instance service industries. Moreover such tools – unless modified considerably – tend not to assess the operation of supporting functions and rules. Tools for assessing regulatory conditions are well suited to formal policies and regulations, but less able to explore non-statutory or informal rules.



TIP

Specific tools generate specific types of information. Over-reliance on a single tool tends to restrict understanding and bias potential solutions. The diagnostic process helps programmes decide what information is needed and what kind of tool might help get that information. Whilst programmes may start with a 'dominant' tool they should recognise that they'll need to use other tools from time to time according to context and information requirements.

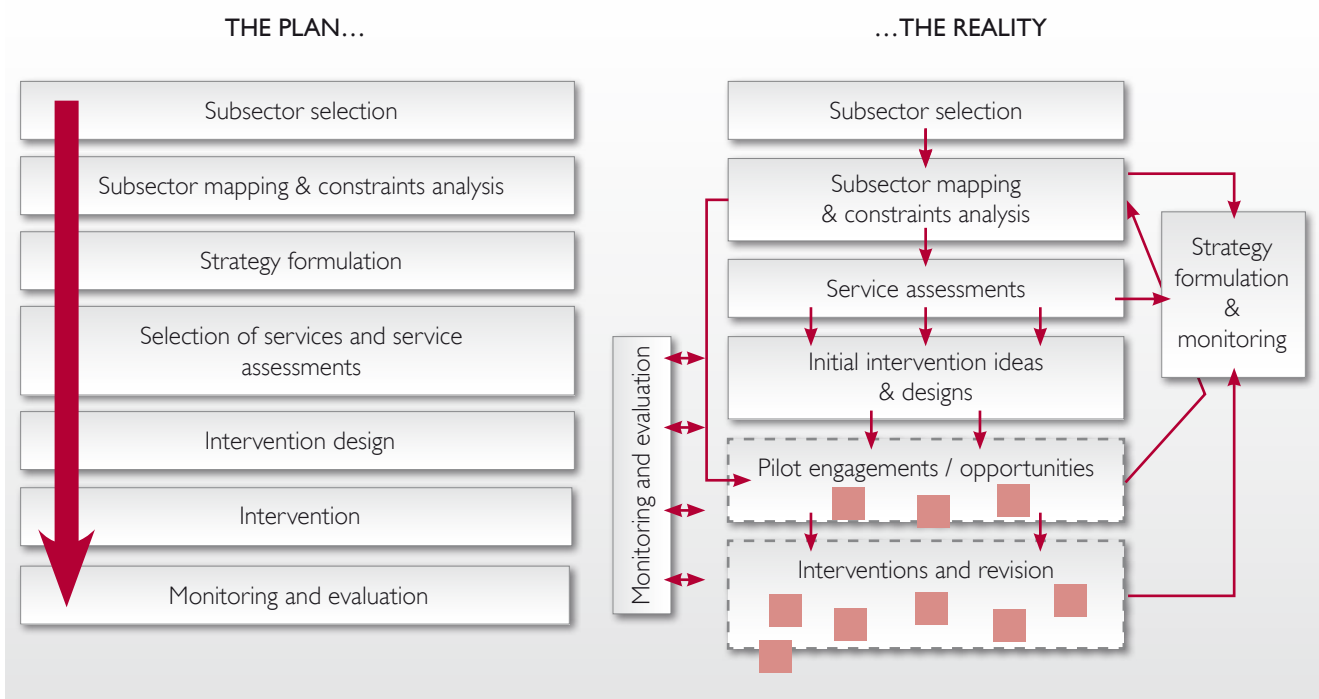
Facilitators need to be smart about their use of tools. Recognise that a combination of tools and sources of information are likely to be more effective than a single tool or source. 'Triangulation' is a useful concept to apply in market assessment: always looking at a specific market from multiple perspectives to develop a more rounded view, testing preconceptions and assumptions and the natural biases of individual tools and information sources.



DEF

Triangulation is a technique used by navigators when unsure of their position. One identifies a number of distinctive landmarks (ideally three) and then derives a compass bearing from each. The intersection of the three sets of bearings results in a triangle, within which the navigator is located. In a similar way, market assessment using multiple tools and sources – for example, project-commissioned or secondary analysis, information from key informants and action research or pilots – is a good way of cross-checking the veracity of information and narrowing down more accurately on the information that is really required.

Figure 9
Understanding markets in reality – an iterative process



3B: UNDERSTANDING MARKET SYSTEMS

It is important to emphasise again that what matters for effective intervention is good, up-to-date knowledge of the market system in question, however it may have been acquired. While programmes can always learn from the information gained by these tools, people with experience and a practical feel for a market situation may not need such extensive investigation of the market through these techniques.

How many markets should be assessed?

The underlying causes of one market's underperformance may lie in the weaknesses of another market system (ie markets are interconnected). This raises a practical challenge. Market assessment is like peeling an onion – how many layers (ie market systems) do programmes need to peel back to understand root causes? How many market systems should be assessed?



VOICE

My rule of thumb is that one target group leads to two to three markets, which lead to five to eight main interventions, each of which may have two or three phases of activity.

Programmes need to continue to ask why the market isn't working and avoid leaping into a market system and delivering a solution themselves. However, asking 'why' could become an endless quest. The point is to arrive at an analysis of constraints that allows effective action to be taken; this is a key judgement for facilitators to make.

In practice, how far programmes need to keep 'peeling the onion' depends on the identification of critical 'leverage points' – ie key market functions which, if introduced or strengthened, offer a programme the best prospects of large-scale and sustainable impact (see Good Practice Note 5.15 in Section 5).

For example: To improve the productivity of small farms (Market 1) farmers needed access to better information. A programme could not achieve sufficient scale, or sustainability, if it provided this information directly: its leverage was limited. It recognised that improving the flow of information to farmers through the input supply chain offered better prospects for scale and sustainability (Market 2). This entailed improving the supply chain management practices of large agriculture input suppliers: the programme could achieve better leverage by working through a few large suppliers to reach many farmers, sustainably. To achieve greater leverage still, the programme might focus on a third market: research, information and specialised services in supply chain management for large firms provided by business schools or management consultants. By doing this the programme could stimulate wider diffusion and continued upgrading of more pro-poor business practices across industry as a whole.

3. COMPONENTS OF THE M4P INTERVENTION PROCESS

3C: DEFINING SUSTAINABLE OUTCOMES

Key points

- Sustainability is central to the M4P approach
- In parallel with an analysis of market constraints, it is important to develop a clear view of how the market system will operate sustainably in relation to market functions and the roles of market players
- Sustainability shapes intervention actions; it ensures consistency between actions and ambitions

Key M4P principles and framework: sustainability matrix

Definition of sustainability: the market system capability to ensure that relevant, differentiated goods and services continue to be produced and/or consumed by poor people beyond the period of intervention



Putting it into practice: key steps

- Step 1:** Recognise sustainability as part of market assessment - as facilitators' understanding of a market system develops they need to think through how the market might work more effectively in the future
- Step 2:** Understand the current picture of the market - what functions – core, rules and supporting functions – are being performed by different players and who is paying for them?
- Step 3:** Identify and analyse interconnected markets - understanding the current market picture often leads to the identification of an interconnected market as a supporting function
- Step 4:** Take account of the 'given' factors influencing a future view of market systems - the nature of the market, its historical context and the innovation landscape beyond the market in question
- Step 5:** Take account of the 'open' factors shaping a future view of market systems - capacity and incentives, which can be shaped directly by interventions

Key challenges and how to deal with them

- When to consider sustainability?
- What is a realistic timeframe for achieving sustainability?
- Observing and measuring sustainability
- Winning partners over to a view of the future

Good Practice Notes (Section 5)

- Vision building (Note 5.1)
- Developing BMOs (Note 5.6)
- Understanding incentives (Note 5.9)
- Guiding participation processes (Note 5.11)
- Interconnected markets (Note 5.15)

3C: DEFINING SUSTAINABLE OUTCOMES

3C.1 Introduction

Sustainability is central to the M4P approach. The focus of interventions is determined by understanding the constraints that inhibit pro-poor market development. In parallel with this analysis, programmes need to develop a clear view of where an intervention is going; an exit strategy which transparently envisages how the market system will operate in a sustainable manner in the longer term.

For this ‘view of the future’ to provide coherent direction to interventions, sustainability in market systems needs to be defined. In practical terms, this means defining market capability in detail, linking specific market players with specific market functions by addressing two key questions: *who does (and, in the future, who will do) and who pays (and who will pay)?*

3C.2 Why important?

- Sustainability is the essence of development and of M4P: addressing underlying causes of underdevelopment through short-term interventions, to achieve long-term, lasting change.
- Functioning market systems are never static; they have within them the capacity and incentives to be dynamic, to grow and to change. Determining how growth and change will take place in the future without further aid intervention is a central sustainability challenge.
- A clear view of sustainability imposes discipline and direction on interventions. If this longer-term picture is not clear there can be inconsistency between a programme’s actions and what it is trying to achieve.
- Sustainability needs to be operationalised into all components of M4P intervention. Market assessment initially identifies which players are currently performing and paying for different market functions. To define sustainability transparently, programmes need to consider who will do and who will pay for these functions in the future.

3C.3 Key M4P principles and framework

Sustainability in M4P can be defined as:



DEF

The capability of the market system to ensure that relevant, differentiated goods and services continue to be produced and/or consumed by the poor beyond the period of an intervention.

A transparent view of sustainability is one that defines market capability in depth, linking market players with market functions by addressing two key questions:

- *Who does (and in the future who will do)?*
- *Who pays (and who will pay)?*

These two questions, together with the basic market system concept, can be used to form a simple sustainability matrix which can be used to examine the specific combinations of market functions and players which are necessary for a market system to work better in the future (Figure 10).

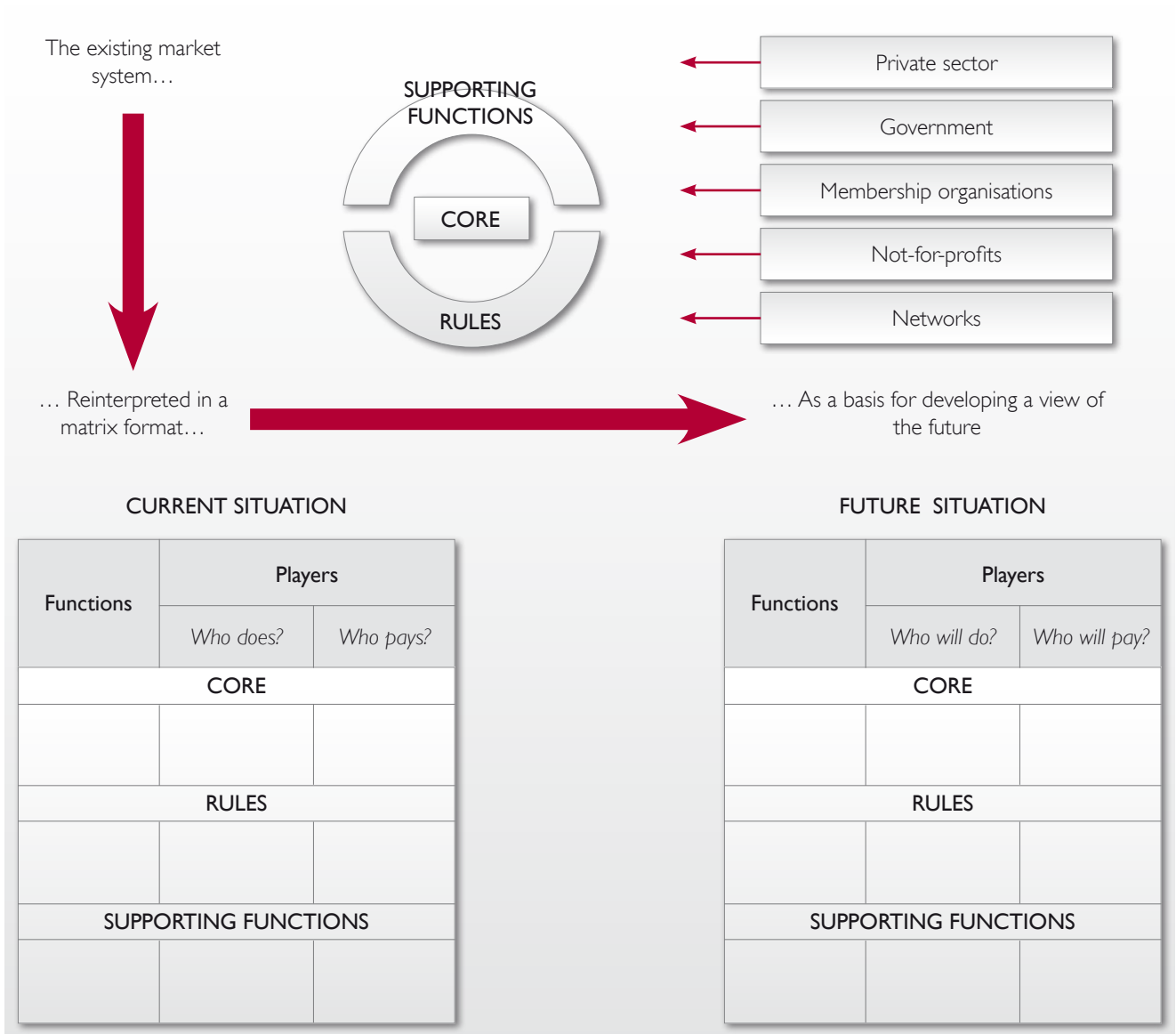


RISK

The consequences of not considering sustainability are clear: Not to develop a vision of market system sustainability is to tacitly concur with the status quo and endorse the continuation of market systems in paths of under-performance. This blunt truth has to be accepted by facilitators and funders who sometimes fret over suggesting a different role for market players (such as government or membership organisations). Intervention brings with it inescapable responsibilities – one of which is to have a considered view of what the future should be.

3C: DEFINING SUSTAINABLE OUTCOMES

Figure 10
From market systems to a view of sustainability



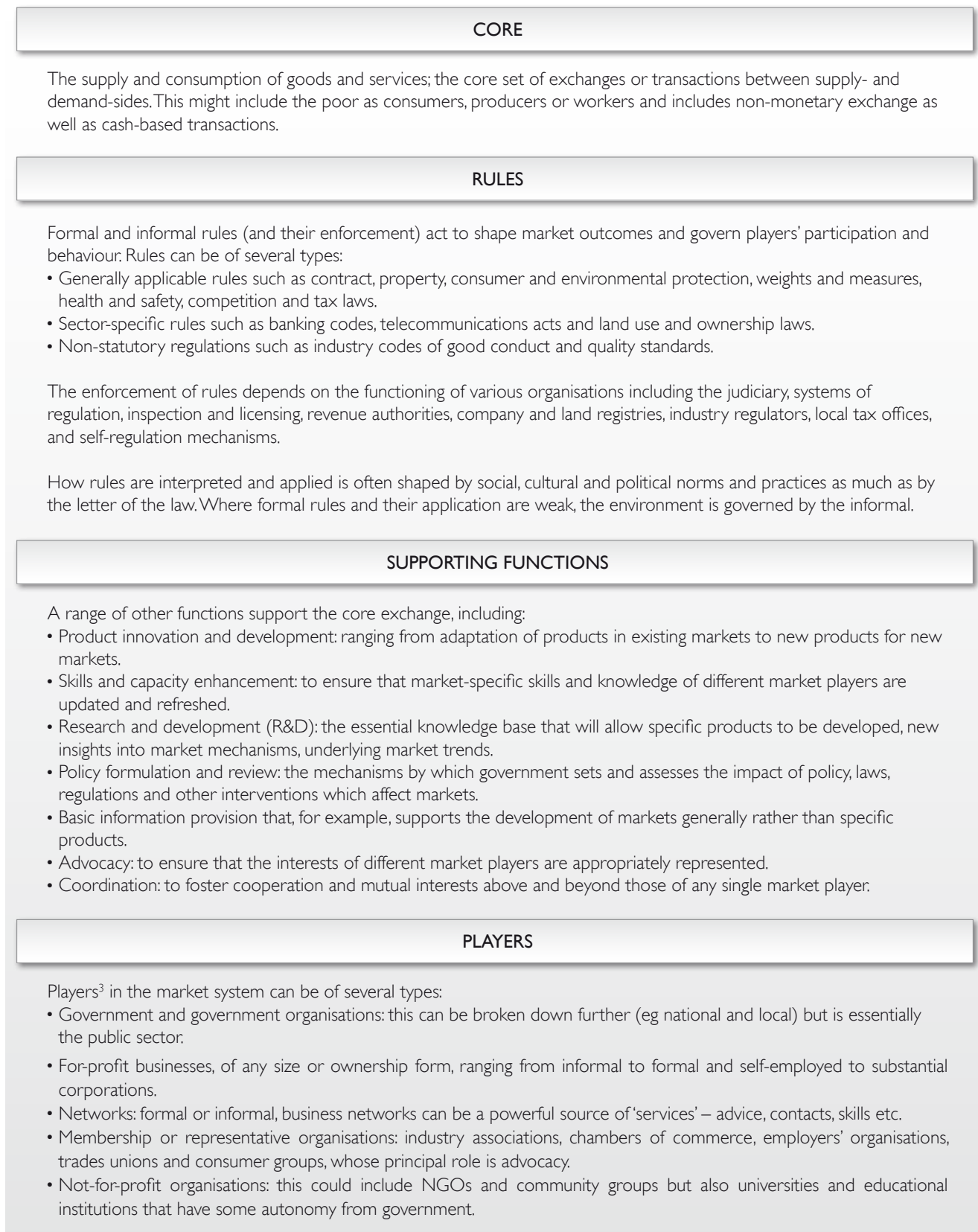
3C.4 Putting it into practice

Most market development facilitators have a strong intuitive sense of sustainability – M4P’s emphasis on stimulating local ownership and light touch facilitation stems from a concern with sustainability. The matrix is a more formal way of operationalising this concern.

The purpose of the sustainability matrix is to link functions and players. This first involves identifying potential functions and players which are important for the market in question (Figure 11).

3C: DEFINING SUSTAINABLE OUTCOMES

Figure 11
Functions and players in market systems



3C

³ The matrix focuses on the main supply-side functions in the market and the players that perform them. It doesn't consider the demand-side (ie the function of consumption and consumers) explicitly. However these are captured by 'who pays' for the core function.

3C: DEFINING SUSTAINABLE OUTCOMES



TIP

Development agencies should not be included in a view of the future. Their role is regarded as facilitative and short-term without a valid longer-term rationale. Of course, foreign-funded aid agencies may continue to be active in developing countries but building them into a picture of sustainability as long-term players runs the risk of cementing developing countries into debilitating dependence.

To use the framework a number of steps are required.

Step 1

Recognise sustainability as part of market assessment

The sustainability matrix helps programmes take an understanding of specific systemic constraints in the existing market system and develop it into a realistic vision of change – of how the market can work better in the future. In practice, therefore, defining sustainable outcomes is inseparable from the ongoing process of understanding specific market systems and the constraints that affect them.

Assessment of market systems should:

- Not be static: it needs to be analytical and capture the dynamics of the market system.
- Identify constraints, but also the potential and feasibility of change.
- Help programmes understand different players, functions and relationships both as a source of market weakness and as a source of potential solutions to improve market performance.



RISK

The matrix is not an exercise in box-filling. It has to be used hand-in-hand with developing understanding of a specific market system, as facilitators engage with an emerging array of functions and players and need to think through how they might work more effectively in the future.



VOICE

There is always a risk of just describing an existing market system and not identifying priorities or pathways to change.



APP

Context:

Water supply is a major concern for people in a war and famine-afflicted country. Urbanisation is increasing but the public organisations that administer 'public services' in urban areas are in a state of near-collapse. Water supply is intermittent and of a poor quality. Aid organisations are active in a number of ways but their activities are scattered and focused primarily on relief – they are short-term. In this context, a severe water shortage is causing mounting public concern. A local university takes the initiative to bring organisations –

from government, civil society and the private sector – together to consider what can be done. It is clear that short-term 'fixes' are not wanted. People want a lasting solution; this is central to their discussions and to their request for assistance from a development agency.

Step 2

Understand the current picture of the market

The main question here is: *who's doing what?* That is to say: *what functions – core, rules and supporting functions – are being performed by different players?*

It is important to identify not just the formal providers of functions but – especially in weak markets – informal or 'embedded' provision between different players. Facilitators need to be wary of the 'there's nothing there' reaction to market assessment.

For example: Most small-scale businesses will not have formal fee-paid advisors – yet they have informal sources of information that they draw upon. In such cases, it is wrong to think of services as free. 'Payment' will be included within the cost of another product or through the quid pro quo nature of the relationship.



TIP

Informal rules are often more important than formal ones in understanding markets. For example, legally binding targets for lending to disadvantaged groups in many countries have largely failed; the informal (and formal) rules impinging on bank staff – management pressure on risk and client portfolio linked to individuals' career prospects – have been more important than government targets.



APP

Current picture:

The existing situation is – on paper – simple to understand. The supply of water is the responsibility of the local municipality operating under rules set by the Ministry of Water. Various parts of government are also responsible for other supporting functions, including maintenance and monitoring quality. Government, in one form or other, is supposed to provide everything to consumers. In reality, due to the intermittent supply and poor quality of mains water, consumers are forced to rely on alternative, informal mechanisms of water provision.

Step 3

Identify and analyse interconnected markets

Understanding the current market picture often leads to the identification of an interconnected market as a supporting function. Sustained better performance in the initial market is dependent on sustained better performance in the interconnected market. For instance, business services are commonly arrived at by facilitators through another initial market focus, such as a commodity sector (see Box 5).

3C: DEFINING SUSTAINABLE OUTCOMES



APP

Interconnected markets:

Interconnected markets such as human resource development, maintenance and security are all supposed to be taken care of by government. But these, as with the core function of water supply, are – by common consent – not working.

Box 5

Interconnected markets – the example of business services

For economies to move beyond competing solely on the basis of price they need to find other means of adding value. This requires the development of a range of business services, eg design, logistics, training, process consulting, etc. Improved competitiveness requires that market systems for business services develop and function effectively.

A facilitator may start with analysis of the initial market system – textiles, furniture, agriculture, finance etc – and undertake a ‘who does/who pays’ analysis of it. However, if the competitiveness issue lies with the services which are supporting functions to the market system in question, then these services should also be examined through the same analytical lens.

If facilitators don’t do this the risk is that they:

- Intervene inappropriately by performing supporting functions themselves.
- Do not address sustainability in an effective manner.

Interconnected markets such as business services are features of all market systems, often providing the means for learning, change and growth.

Step 4

Take account of the ‘given’ factors influencing a future view of market systems

For facilitators considering the future the main question is: *what should the alignment of key functions and players look like in a market system which is working more effectively and inclusively?*



VOICE

You’ve got to look beyond the obvious. Examine who your target group is interacting with and who they could interact with so that they get a better deal.

It is usual to start with the core function of the market – the deal the poor are currently getting; the vision of change starts here. However, for the core to develop – to meet the changing needs of consumers – a variety of rules and supporting functions need

to work effectively too. So, in considering who does what in the future, a programme must also consider the respective roles of private, government and civil society players for the range of functions required in a market system.

A number of factors influence the view of the future. Some of these factors are ‘open’ to influence through interventions (see Step 5, below); others are ‘given’. This latter group includes three main sets of factors: (a) the nature of the market system(s) in question; (b) the historical context of the market system(s); and, (c) the prevailing ‘innovation landscape’ which may have implications for the alignment of players and functions that make up the market system.

- *The nature of markets.* Certain markets have inherent characteristics, such as the degree of information asymmetry or externalities (the extent to which the actions of one party impact on others in the market). These characteristics vary between different types of market.

For example: Public health issues pertaining to agriculture and food demand a public concern beyond individual consumers. Other markets – such as finance and land – also have externalities associated with them which require significant public roles. Conversely, there are other types of markets – such as textiles or advertising – where public roles are more limited.

These differences mean that there is no single specific government role in market systems but there are some markets where government (or other players acting in the wider public interest) has a clear, legitimate role.

- *The historical context.* The evolution of market systems varies between countries, with different traditions associated with, for instance, government, representative organisations or business-to-business cooperation. The past is always a factor in shaping the roles of players in the future; in some cases opening up new possibilities, in others acting as a barrier to change.
- *The innovation landscape.* The arrangements – the combination of public and private roles – by which market systems work change over time. Most obviously, as technologies have become more complex, the regulatory arrangements required for markets have become more demanding, and the appropriateness of a direct provision role by government in market systems more open to question. Facilitators need to be aware of the nature of the wider changes in the ‘innovation landscape’ around markets. These are regarded as given, in the sense that they emerge from outside the market system in question. The challenge for facilitators is to recognise that the nature of innovations in one market can help provide an impetus for change in another market.

3C: DEFINING SUSTAINABLE OUTCOMES

In considering the roles of different players in the future, facilitators have to be aware of these factors and ensure that their vision of the future takes cognisance of them.



APP

Given factors:

In considering the possible future picture of the water system, the development agency and all the stakeholders are aware of a number of factors. The failure of government to play an all-encompassing provision role is obvious – no one believes that this can work in the future. So history does not restrict future options. It is equally clear that health, pollution and 'right to access' concerns make some form of public role vital. If private providers are to be involved, this could only be on a regulated basis with detailed agreements on prices and quality and supply targets. In other words, if, after a competitive process, a private firm was awarded a time-defined contract to supply water on a monopoly basis, stronger rules and enforcement would be required to shape the firm's behaviour. Fortunately, there is wider awareness of the many institutional innovations in water internationally as well as in other markets where government once played a dominant role (eg telecoms).



TIP

Use the sustainability matrix to think through the 'difficult' issues in considering the future. The matrix does not provide answers for facilitators but, because it leaves 'nowhere to hide', forces programmes to openly take a view on where market systems should go in the future.

Step 5

Take account of the 'open' factors – capacity and incentives – shaping a future view of market systems

The 'given' factors above are beyond the scope of facilitators to influence directly. Capacity and incentives, on the other hand, can be shaped directly by interventions and are therefore critical in shaping a realistic future view of market systems.

A future view of the market, therefore, needs to consider how facilitators can bring about change in these factors.

- *Incentives for change.* Interventions must strike a balance between striving for change that is ambitious and change that has a realistic chance of success. The process of change therefore is as important as the vision of the future. For this reason, the incentives of different players are central to any consideration of the roles they play now and might play in the future. Understanding these incentives is important so that interventions can be aligned to them to pursue a valid and realistic vision of the future (see Box 6).



TIP

Understanding incentives is central to any process of change. A key entry point for intervention has to be to identify and leverage the principal 'drivers of change' in any market system to stimulate a momentum for change. This means understanding different groups and key individuals within organisations and considering how to take advantage of emerging circumstances (eg crises, elections) to engage with them.

- *Capacities for change.* A player's role has to fit with its capacity. Interventions need to be guided by a realistic assessment of the distinctive core competence of market players – of what they can do. This is a function of both technical and organisational capability – know-how and know-who – and is related to organisational structure and culture.



RISK

Beware of exporting organisational roles from high- to low-income economies – there are two problems. In high-income contexts: (a) organisation performance is often not explored in depth, so the 'model' being promoted often lacks efficacy even in its country of origin; and (b) vastly more resources are usually available so organisations can do more. In low-income contexts, more limited capacities make it more important to focus on priority roles for organisations – especially government – and to guard against encouraging them to do 'too much'.



APP

Open factors:

Consideration of the capacities and incentives of key players confirms the general direction of change required for the future. The private sector is competent to deliver water services and – given the right agreement with regulators on connections, prices, production and quality, and appropriate accountability arrangements – is motivated to deliver. A 10-year agreement gives them appropriate incentives to invest and to reap the return on that investment. To balance this private sector monopoly tight regulations are required which only government is in a position to impose and enforce. Supporting functions around water supply – security of pipelines, monitoring water quality and environmental control – are also public roles best performed by government. The natural monopoly given to the private utility also requires arbitration between consumers and the firm and this will be provided by an independent committee from civil society. The university will be available to offer business and management advice. This future picture provides the basis for technical support and capacity building from the development agency.

3C: DEFINING SUSTAINABLE OUTCOMES

Box 6 Making incentives real

For change processes to be effective, they need to be understood in relation to the individuals and groups who make up organisations and who contribute to decision-making. The nominal, formal incentive of organisations may differ from the real-world incentives of their stakeholders:

- *Business membership organisations (BMOs)*: are supposed to be concerned with advancing their industry but in practice are also driven by the power, social esteem and personal business interests of office bearers.
- *Departments of Agriculture*: are supposed to be concerned with an effective role for government but in practice are often driven strongly by staff (eg extension officers) concerns over maintaining their existing roles and positions.
- *Businesses*: are supposed to be profit-maximising but, in reality, are often happy to pursue low-risk and moderate return options, especially when the downside to innovation – failure and individual blame – are penalised in corporate cultures.

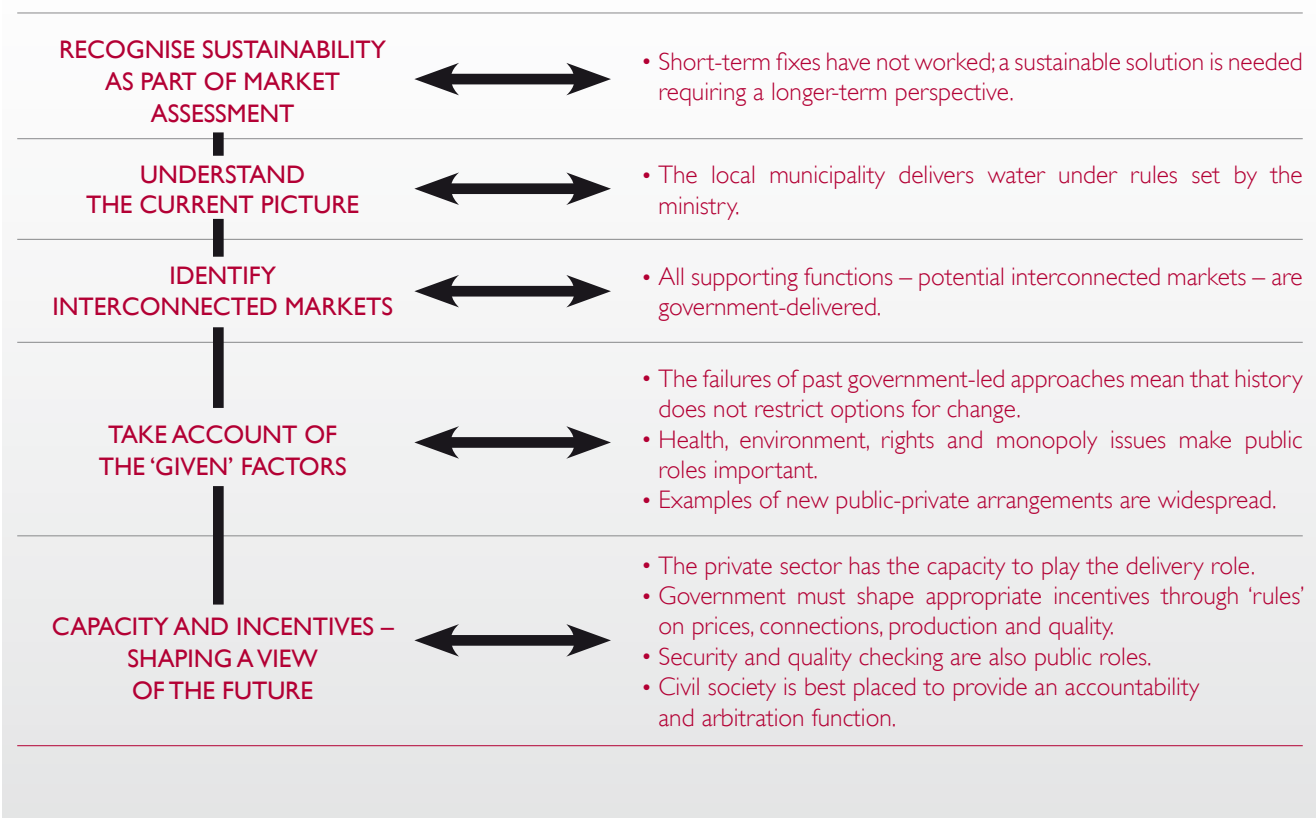
3C



APP

Developing sustainable outcomes in practice:

In this war- and famine-afflicted country, water services – delivered by the government – are near collapse and there is an emerging consensus that short-term relief interventions are not appropriate.



3C: DEFINING SUSTAINABLE OUTCOMES

3C.5 Key challenges and how to deal with them

When to consider sustainability?

There is a tendency for programmes to consider sustainability towards the end of their life. Consequently it is relegated to an afterthought. Successful M4P programmes, rather than only considering sustainability at a point in time, see sustainability as an intrinsic part of their facilitation approach, enabling others 'to do' rather than doing directly by themselves. Ultimately, the real benefit of developing a view of the future is the impact this can have on facilitators' orientation and approach.

What is a realistic timeframe for achieving sustainability?

There is no stock answer here: it is highly context dependent and determined by the scope and difficulty of the intervention challenge. The bottom line is that programmes should be concerned with what they leave behind after the period of intervention. Most market development programmes have a timeframe of three to seven years. The key consideration is: *what change is feasible within a given period?*

If timeframes are short, the vision of change needs to be adjusted accordingly. Where the proposed programme duration is very short, there may be no realistic possibility of achieving sustainable impact – in which case the rationale for intervention needs to be revisited.



TIP

The sustainability matrix can be used for any point in the future. Indeed, it is possible to use the matrix in an iterative manner to develop a 'mid-point' as well as a final picture.

Observing and measuring sustainability

A central premise of sustainability is that functions and players continue to survive, thrive and adapt after the period of intervention. The problem is that 'after the period of intervention' means that nobody is around to observe and measure such activity! Funders need to ensure that programme design and mechanisms for oversight establish clear objectives for achieving 'independent activity' and provide sufficient space and resources during the programme term to observe and measure whether independent activity has actually occurred. Two implications flow from this:

- Make sure that programme objectives explicitly include sustainability, meaning indicators related to, for instance, new products and relationships or independent activity.
- Focus in particular on market 'depth' – on supporting functions and rules. The capability that market systems require to adapt, learn and grow is usually located here. Increased 'depth' provides the basis for wider 'breadth' of access.

Winning partners over to a view of the future

A view of a sustainable, inclusive and effective market system is important not just for facilitators; it can also be important for other market players if they have a strategic, coordination role – usually governments, representative organisations or think tanks. How to work with market players to develop a coherent and justifiable view of the future is a key challenge. Scenario building approaches (and other tools) can be used in this process. However, it is important that facilitators are not passive partners; informed by analysis and research they must be able to engage knowledgeably to influence the shape of a future vision.

3. COMPONENTS OF THE M4P INTERVENTION PROCESS

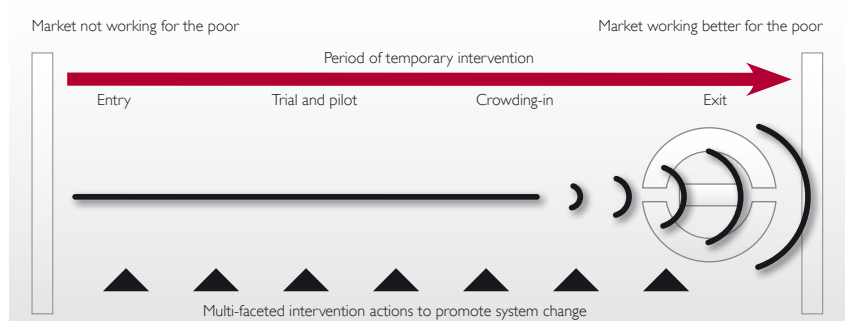
3D: FACILITATING SYSTEMIC CHANGE

Key points

- M4P programmes are facilitative or catalytic: they try to bring about change which alters the way in which a market system operates into the longer term so that it better serves the poor
- They do so by stimulating market players to perform market functions that they are either currently not performing or performing inappropriately
- The strategy of M4P intervention is to determine a pathway which leads to ‘crowding-in’ of market functions and players, using their resources to leverage a response from market players

Key M4P principles and framework: pathway to crowding-in

Pathway to crowding-in



The strategy for M4P intervention is to determine a pathway which leads to the ‘crowding-in’ of market functions and players to increase the breadth and depth of a market system

Putting it into practice: main steps and factors

There are three main steps to pursuing a ‘pathway to crowding-in’:

Step 1: Assess and identify the key achievements from initial interventions - what is there to build on?

Step 2: Define the size and nature of the market system in the future, given initial intervention experience

Step 3: Design and implement supplementary interventions to stimulate wider market development

In pursuing a pathway to crowding-in facilitators should be guided by five factors:

- Where a facilitator intervenes in relation to functions in a market system
- Who a facilitator engages with in the market system
- How facilitators conduct their relationships when they engage with the market system
- How much support facilitators should provide in seeking to stimulate market change (right-sizing)
- The consistency of actions with the pathway to crowding-in

Key challenges and how to deal with them

- When is it ok for a facilitator to subsidise?
- How to find and select appropriate partners?
- What if there’s nothing there or no one to work with?
- How can facilitators demonstrate the quick results that many funders demand?

Good Practice Notes (Section 5)

- Developing the offer (Note 5.5)
- Making a deal with lead firms (Note 5.7)
- Giving grants to business (Note 5.10)
- Stimulating demand (Note 5.16)

3D: FACILITATING SYSTEMIC CHANGE

3D.1 Introduction

M4P programmes are facilitative or catalytic: they try to bring about change which alters the way in which a market system operates into the longer term. They do so by stimulating market players to perform market functions that they are either currently not performing or performing inappropriately.

The strategy of M4P intervention is to determine a pathway which leads to 'crowding-in' of market functions and players. Facilitators use their resources to leverage a response from players within a specific market system.

To implement this strategy successfully a facilitator's actions need to be guided by consideration of five guiding factors:

- Where a facilitator intervenes in relation to functions in a market system.
- Who a facilitator engages with in the market system.
- How facilitators conduct their relationships when they engage with the market system.
- How much support facilitators should provide in seeking to stimulate market change.
- Consistency of their actions with a 'pathway to crowding-in'.

3D.2 Why important?

Any form of intervention is, by definition, active: it is about doing something. Consequently M4P interventions always have the potential to influence market functions and players in either positive or negative ways, ie they can *develop* or they can *distort* market systems. It is vital that facilitators continually assess the potential and actual influence of their actions on the market system and ensure they are consistent with their objectives for market development.

3D.3 Key M4P principles and frameworks



DEF

A facilitator is an action or agent that is external to a market system but seeks to bring about change within a market system in order to achieve the public benefit objective of systemic change. A facilitator is a 'catalyst' that stimulates the market but does not become part of it. A facilitator should have a clear, realistic view of the future functioning of a market system.

Intervention strategy: a pathway to crowding-in

The strategy for any M4P intervention is to determine a pathway which leads to the crowding-in of appropriate market functions and players into the market system. Facilitators use their resources to leverage a response – changes in behaviour, practices, investment, relationships – from players within a specific market system.

This 'pathway to crowding-in' recognises:

- That interventions are *finite* in terms of time and resources. Genuinely sustainable outcomes can only be achieved if market functions are undertaken by players who are actually part of the market system in question.
- The importance of indigenous *ownership* within the market system. Market systems need to survive and thrive based on the capacity and incentives of players within the system. Therefore new market solutions need to be sufficiently innovative to change the status quo but in a way which is consistent with local norms and conditions.
- That large-scale and sustainable impact depends both on the 'breadth' of the market (ie volume of transactions in the core) and on its 'depth' (ie diversity of supporting functions and rules).

3D: FACILITATING SYSTEMIC CHANGE

A pathway to crowding-in requires that facilitators think through and make explicit how their initial interventions will induce changes that result in widespread, large-scale and sustainable change in the market system (see Figure 12).



DEF

Crowding-in is the central process in – and purpose of – facilitation through which interventions catalyse or bring in other players and functions into the market system so that it works better for the poor. Crowding-in can result in enhanced breadth (more transactions in the core of a market), depth (supporting functions) or reach (new areas or markets).

Key factors to guide facilitation actions

Whilst facilitation is often 'light touch' compared to conventional intervention approaches, it is not passive: it is an active role. However, given the diversity of market contexts in which facilitators operate and the array of potential market problems that they face, a blueprint for what a facilitator should actually do (or not do) is unrealistic. Facilitators will always face choices on how best to structure their interventions so that they develop rather than distort market systems. To implement a strategy for crowding-in effectively they should be guided by the considerations contained in Box 7.

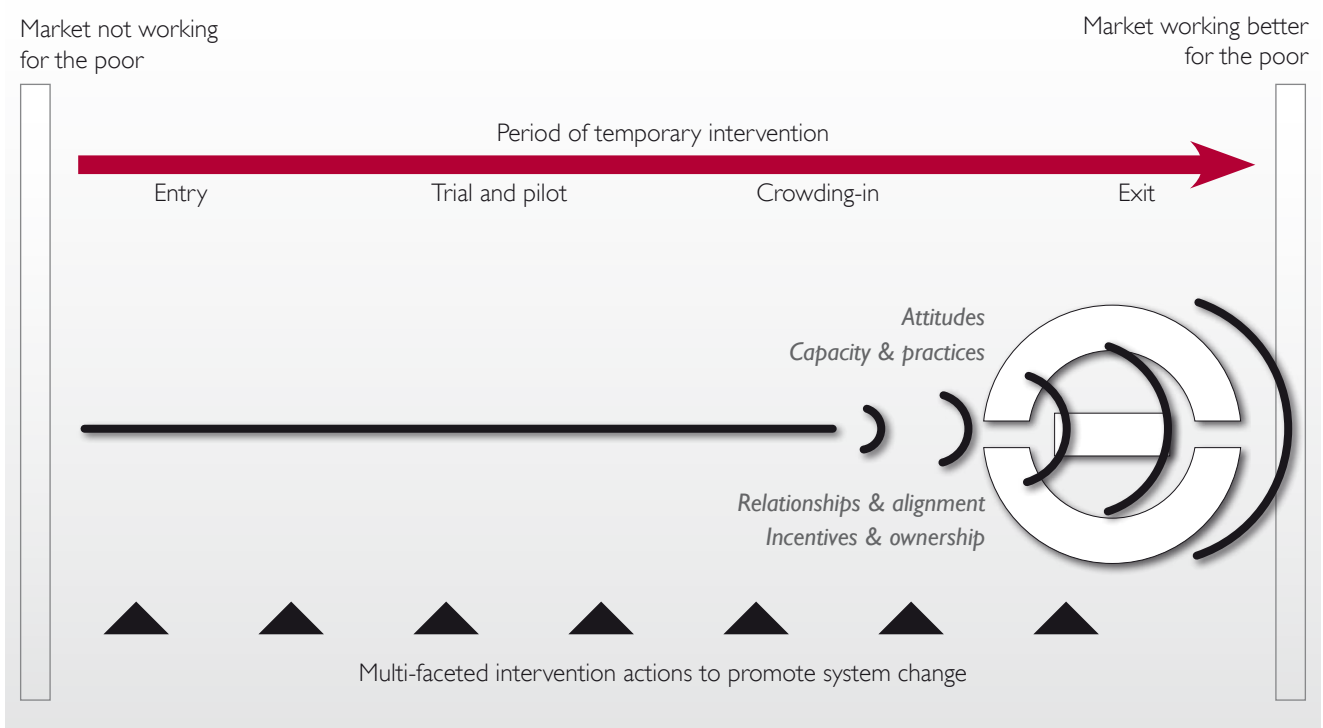
Box 7

Factors to guide facilitation actions

- Where a facilitator intervenes in relation to functions in a market system: *are intervention activities likely to be a market function in the future or are they purely temporary?*
- Who a facilitator engages with in the market system: *is there someone appropriate to work with?*
- How facilitators conduct their relationships when they engage with the market system: *is there potential for an effective relationship?*
- How much support facilitators should provide in seeking to stimulate market change: *is there potential for 'right-sizing' support to market norms?*
- Consistency of actions with a pathway to crowding-in: *is there potential to pull others in?*

These considerations represent the guiding factors against which facilitators need to continually check the influence of their actions. It is possible to frame key intervention decisions with regard to these factors, with the purpose of transparently thinking through, appraising and if necessary revising, actions in relation to the pathway to crowding-in.

Figure 12
The pathway to crowding-in



3D: FACILITATING SYSTEMIC CHANGE

3D.4 Putting it into practice

Pathway to crowding-in: building on initial interventions

M4P interventions typically start with an initial, relatively small intervention, such as research or some form of pilot, as programmes try to find their footing to initiate a change process. Some of these will work and some won't. The challenge is how to build on successful initial interventions to induce wider and sustained change.

To do this three steps are required (see Figure 13):

Step 1

Assess and identify the key achievements from initial interventions: what is there to build on?

There are two main criteria for assessing an initial intervention's results:

- Are initial outcomes substantial and new?
- Are initial outcomes consistent with incentives and the capacity of market players to change behaviour, practices, investment or relationships?

The extent to which these criteria are fulfilled determines the validity of initial interventions and therefore the potential for crowding-in and the nature of further interventions required. If the quality or relevance of initial interventions is weak, crowding-in measures will not be successful. Initial outcomes that might be the basis for further change could include:

- Research that changes government's awareness of the impact of existing regulations on the poor's access to a product.
- Vision-building that encourages an association to reappraise its role in response to emerging trends.
- Constructive collaboration with a lead firm on new pro-poor product ideas in a particular sector.
- Well-received pilot testing of a new product directly by a project.



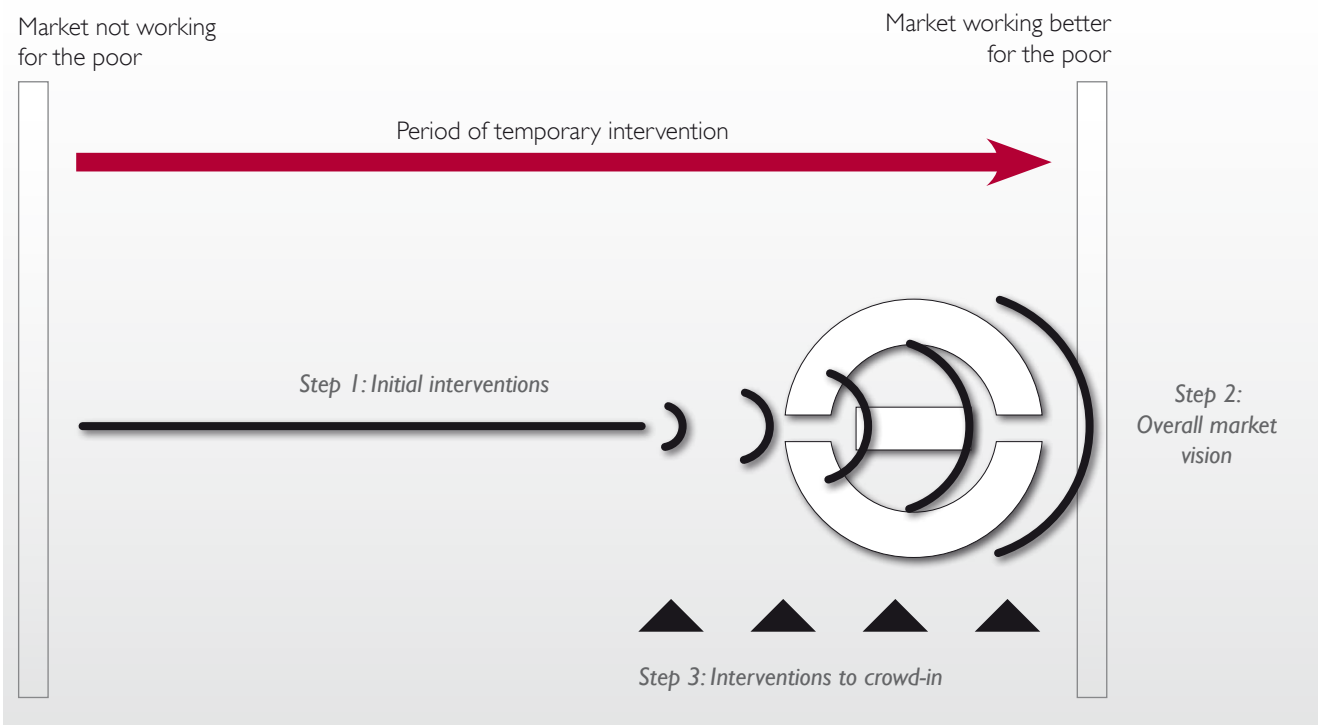
APP

Context:

Research conducted by a programme focused on improving rural livelihoods revealed that small farmers are unaware of the potential of mechanised rice threshing, despite the fact that research also indicated that significant numbers of farmers complain about the inefficiency of manual threshing. Most threshing machines currently available are imported, large and expensive.

The objective of intervention is to stimulate a more vibrant market for small, low-tech threshing machines, in terms of local manufacture, affordable and sustainable availability and increased and sustained use by small farmers. A facilitator decides to collaborate with a local manufacturer to adapt an existing simple design from another country and pilot a new low-cost threshing machine.

Figure 13
Operational steps along the pathway to crowding-in



3D: FACILITATING SYSTEMIC CHANGE

To demonstrate the effectiveness of the new machine the facilitator provides 100 machines to farmers on a subsidised basis, in the belief that once a few farmers have benefited from the new machine, a demonstration effect will encourage others to buy and use them without programme support, leading to a functioning market. The facilitator's initial thinking is: pilot machines developed and delivered to farms → machines used by farms → 'benefit' of machines assessed by farmers.

However, while direct delivery may demonstrate benefits for the user of the machines, it is necessary to ask: how will these initial interventions achieve the facilitator's market development objectives?

Step 2

Define the size and nature of the market system in the future, given initial intervention experience

The next step is to develop a picture of how the market should operate in the future. This is driven by the ambition of a facilitator with respect to different features of market change:

- *Breadth*: will more transactions take place in the core of the market?
- *Depth*: will supporting functions around an initial change develop?
- *Reach*: will an initial change in one area, sector or target group spread to others?



TIP

Step 2 is a natural point – after initial interventions – at which programmes can revisit some of the gaps in their strategic framework (Section 3A) and preliminary market assessment (Section 3B) to gauge the potential scale and scope of intervention and more tightly define indicators (Section 3E).



APP

Size and nature:

So far the pilot has only been conducted in one district with one manufacturer and the programme has distributed 100 machines directly. How will threshing machines reach the 45,000 other rice farmers who are the feasible target market? What about a further 100,000 farmers in other grain sectors that require threshing technology too? It is not healthy or feasible for one manufacturer to supply the whole market – how will the 4 other manufacturing companies take advantage of this new market opportunity? How will machines be distributed, financed and maintained in the future? Different farmers have different and evolving requirements – will the same threshing machine work for all?

In reality, the pathway to crowding-in for a demonstration-based intervention is more complex, requiring other facilitation actions to encourage take-up of manufacture, distribution and consumption.

Step 3

Design and implement supplementary interventions to stimulate wider market development and progress

The market system needs to be encouraged to move towards the future picture developed in Step 2. In doing so, facilitators need to consider:

- The processes through which natural crowding-in could happen and, in particular, the incentives, capacities and relationships required for this to happen.
- The constraints that might prevent this process from taking place, eg information about potential benefits from change, 'how to' knowledge and perception of risk.

Supplementary interventions to support crowding-in might typically include:

- *Demand-side stimulation*. Targeted measures to overcome consumers' resistance to trying new products or engaging with new suppliers. This might include actions to familiarise consumers with a new product (eg demonstrations of new equipment or social marketing) or limited financial subsidies (eg vouchers) to induce trial.
- *Social marketing*. Used to promote widespread awareness of an issue and stimulate behaviour change. Unlike product marketing, which commercial players use to promote their own specific (branded) products, social marketing focuses on more generic issues in the wider public or collective interest. It has been widely used, for instance, to raise awareness of the need for use of condoms or insecticide-treated mosquito nets. Consumer education in financial services is another example. Individual firms producing these products might then advertise their own branded products at their own cost.
- *Newsletters*. Requires a common focus for readers – ideally a specific market niche – that builds on other facilitator activities, events and networks (ie they are not an isolated event). Successful newsletters can be news- or research-focused – each requiring a different writing style and content but only succeeding when presented in a professional manner that fits the newsletter audience.
- *Stakeholder forums*. Similar to newsletters but a more active measure requiring considerable organisation. As with newsletters, attracting interest requires a strong message – either coming from direct programme experiences or from other innovation. More likely to be successful when focused on a specific market (finance, agriculture, water) rather than multiple markets.
- *Supply-side engagement*. Direct technical (and financial) support for one or more market players to take advantage of new opportunities revealed by a programme (ie to deepen the market system). Partners here are likely to be consultants, researchers, think tanks, specialist service providers, representative organisations or government, depending on the nature of the market and specific functions in question.
- *One-to-one replication*. Repeating a successful experience with other partners, say from one lead firm to other competitors.

3D: FACILITATING SYSTEMIC CHANGE

This may appear relatively straightforward but, in practice, relationships with partners are rarely the same. Interventions here may encourage more critical mass to develop but also (a) strengthen the precedent for direct subsidy and (b) do not address how the market will learn without subsidy.



APP

Supplementary interventions:

The network of agricultural equipment supply through which natural crowding-in might occur is risk-averse and prone to poor information flows. The programme might need to pursue a range of other actions to promote crowding-in:

- *'Signpost' success stories so that other farmers understand the benefits of the new machines.*
- *Encourage other manufacturers, distribution agents and equipment leasing companies to produce and sell similar technology to ensure competition and maximise outreach.*
- *Improve information flows between suppliers and potential consumers.*
- *Stimulate further transactions between suppliers and consumers using demand incentives (eg vouchers), rather than direct delivery.*
- *Strengthen supply-side capacity for further research and product development of equipment.*
- *Persuade the Department of Agriculture to endorse the new equipment and play a role in coordinating wider market take-up.*



TIP

In practice, successful crowding-in interventions take a number of forms, with varying degrees of resource intensity. In each case, these are concerned with developing the market system's capacity to learn and to act on the basis of learning. Facilitators have to address the difficult question: in future, who's going to do what we have done?



RISK

Facilitators should recognise that a 'do nothing' option based on the belief that an initial spark will result in a large-scale demonstration effect is usually over-optimistic. Other than in the most innovative and resource-rich environments, change does not happen in this manner:

Facilitator guidance factors

For an intervention strategy to be successful facilitators need to ensure that their actions are consistent with that strategy – the pathway to crowding-in. In practice there are a number of guiding factors that can provide discipline to facilitators as they confront the inevitable dilemmas which emerge during their interventions. These factors – questions – are a mental checklist for facilitators (see Figure 14).

Once again, these factors are presented sequentially in the *Guide*. In reality, facilitators will find themselves asking these questions in a different order, at different times. The first question – where – is probably the most significant, as it triggers the subsequent questions.

Each question will now be considered in turn.

Where - Are intervention activities likely to be a market function in the future?

Where facilitators focus their interventions in relation to key market functions and players can positively or negatively affect progress along the pathway to crowding-in and the attainment of market development objectives.

The critical consideration here is whether or not the actions performed by a facilitator are (potentially) likely to be part of the market in the longer term (see Figure 15). If the activities are genuinely of a one-off nature, there is more scope for a facilitator to undertake these directly. If it is envisaged that activities (or those closely related to them) are likely to be needed in the future, facilitators need to proceed with more caution and, if possible, look to engage with appropriate market players who have the potential to assume such functions in the future.



TIP

It can sometimes be difficult to ascertain definitively whether an activity might be a market function or not. That being the case, facilitators should err on the side of caution and try and 'leave the door open' for market players to assume activities in the future. That means subjecting all intervention activities to scrutiny against the guidance factors.

3D: FACILITATING SYSTEMIC CHANGE

Figure 14
Facilitator guidance factors

<p style="text-align: center;">WHERE?</p> <p><i>Are intervention activities likely to be a market system function in the future?</i></p>	<p>Assess whether current intervention actions are likely to be required in the market in the future... Are they really temporary?</p>	<p style="text-align: center;">CROWDING-IN?</p> <p><i>Are actions consistent with pathway to crowding-in?</i></p>
<p style="text-align: center;">WHO?</p> <p><i>Is there a market system player appropriate to work with or through?</i></p>	<p>If action is a market function, identify market players with incentives and capacity to play this role (or seek to 'leave the door open' for this to happen in the future)</p>	<p>Keep asking "should we be doing this?": always look for opportunities to crowd-in market functions and players that better serve the poor</p>
<p style="text-align: center;">RELATIONSHIP?</p> <p><i>Is there potential for an effective relationship with market system player?</i></p>	<p>Interactions between interventions and market players should encourage them into roles and practices consistent with the market system, building on indigenous incentives and ownership</p>	
<p style="text-align: center;">INTENSITY?</p> <p><i>Is there potential for effective right-sized support to market system player?</i></p>	<p>Actions must be consistent with local norms not development norms: otherwise facilitators distort functions, displace ownership, disorient players –'crowding-out' not 'crowding-in'</p>	



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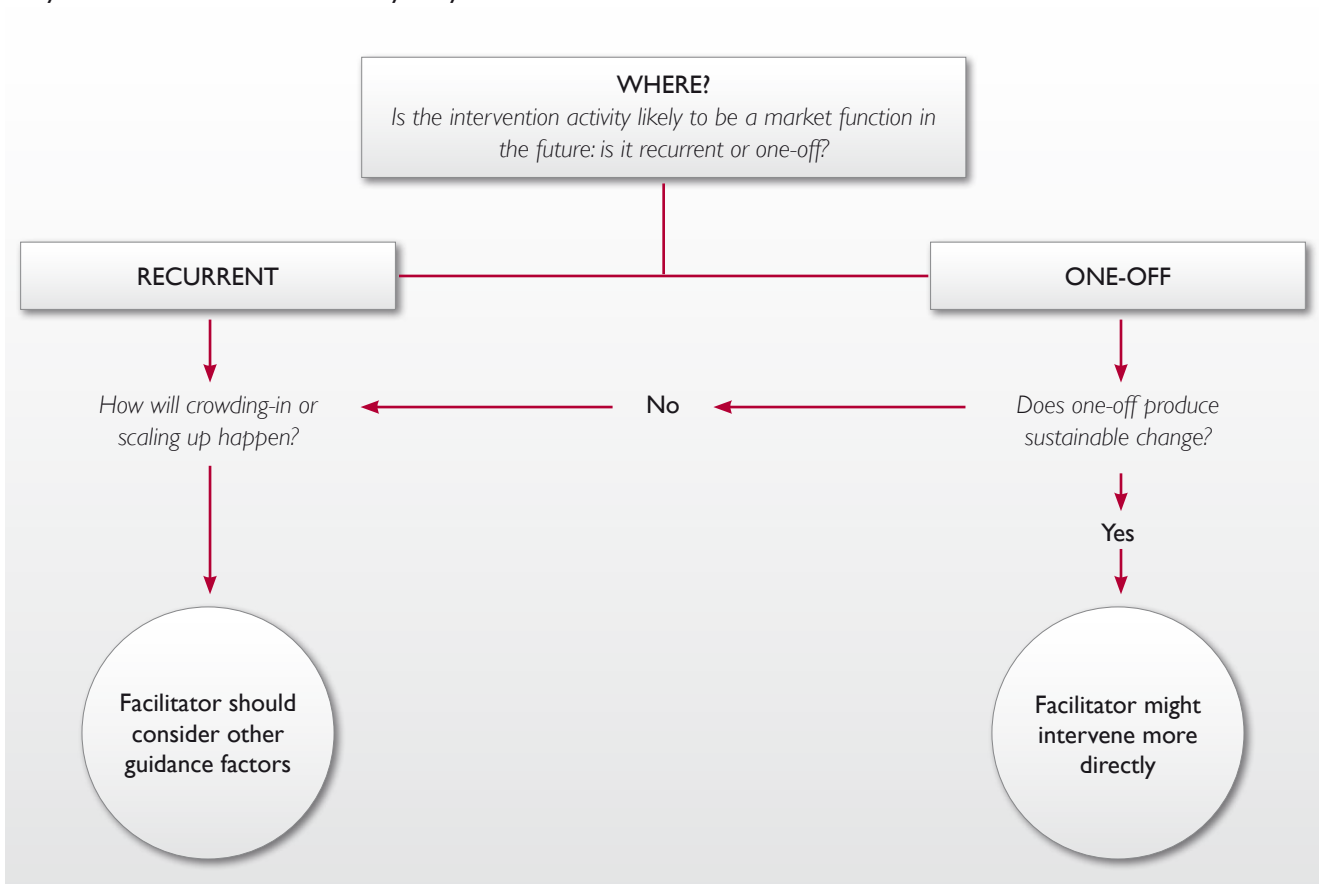
Where?

The facilitator might undertake a nationwide social marketing campaign to raise awareness about small-scale threshing mechanisation. Unlike specific product marketing, social marketing is unlikely to be a regular activity in the market. It might be justified for the facilitator to do this on its own. However, other players with a strategic interest in the market – say the Department of Agriculture or the Association of Manufacturers – might have an interest in the profile the campaign generates and their endorsement of the new equipment may be valuable. Therefore, whilst the facilitator covers the bulk of the costs it might be pragmatic to involve these players and ensure they also engage with

the social marketing specialist – keeping the door open. Conversely, product design and development are recurrent requirements: existing designs will need to be updated, new machines will be needed. The facilitator must take care not simply to give the technology to other manufacturers but try to link them to sources of design or expertise who can help them develop their own products, whether that is a freelance designer or engineer, a university technical design department or a source of information from overseas. It is important that manufacturers and other relevant players are crowded-in to take ownership and invest in the product development function.

3D: FACILITATING SYSTEMIC CHANGE

Figure 15
Key decision – is intervention activity likely to be a market function in the future?



Who - Is there someone appropriate to work with?

If a programme is focused on stimulating a market function, inevitably it means thinking about who can perform that market function ('who does?' and 'who pays?' – see Section 3C). A shift in the focus of intervention towards the development of market systems calls for a shift in thinking regarding who interventions work with. In a multi-function and multi-player market system there tends to be a greater range and diversity of market players with which facilitators might need to engage in order to pursue market development objectives.

In practice, that means that facilitators are faced with a much 'messier' and less rigid picture of partner⁴ choice than in conventional programmes, within which the following trends are emerging:

- The need to work with multiple partners, with less focus on any single specific partner organisation or individual.
- The need to work with a greater diversity of types of player, including:
 - Private and public sector players
 - Increasingly specialised and differentiated players

- Smaller, informal and non-organised players (eg informal networks or individuals), especially relevant in weaker markets

Such diversity has positive and negative implications for facilitators: it offers greater flexibility, but also increases uncertainty about the appropriateness of potential partners. In conventional programmes partners are often given as part of bilateral agreements or on the basis of a historical relationship. In such cases a key consideration is for a partner which serves as a 'safe pair of hands' in which a project implementation unit can be housed.

In M4P, whilst recognising that facilitators will often have 'political' partners, the main concern is to engage with partners that are appropriate for the prevailing market norms and in relation to the specific functions upon which the programme is focusing. Specifically:

- Which market functions is the programme focusing on?
- Does the partner(s) have the actual or potential incentives and capacity to perform that function appropriately? (see Box 8)

⁴ Here 'partner' is used to refer to market players. Of course facilitators have other partners: their funders, co-facilitators and specialists who help them implement interventions (see Box 9 on page 51 and Section 4).

3D: FACILITATING SYSTEMIC CHANGE

Box 8 Considerations for partner selection

Given the diversity and dynamism of market systems, there is no fool-proof approach to partner selection. Personal factors (such as the character and motivation of individuals running organisations) will play an important role, but are difficult to capture in a list of criteria. However there are a number of considerations that facilitators should bear in mind:

- *Appropriate capacity to perform and continue performing specific market functions.*
- *Clear incentives (eg to reform, to improve practice or perform a new market function).*
- *Demonstrated ownership or initiative over a reform process or market function.*
- *Existing momentum upon which engagement can be built (assuming that it is in a direction consistent with facilitators' objectives and strategy).*
- *Potential for viability to continue to perform and adapt market functions.*
- *Responsiveness to facilitators' overtures, vision and way of working.*



TIP

Start with an open and pragmatic view about partners; recognise the need for multiple and changing partners over time; avoid getting locked into long-term partnerships.



APP

Who?

The Department of Agriculture (DoA), with an official mandate to develop small-scale agriculture, seems the obvious candidate to coordinate wider take-up of small-scale threshing technology. However the DoA operates schemes to subsidise distribution of agricultural equipment (usually imported) in regional centres. These tend to be captured by well-connected individuals and rarely result in improved access for small farmers, contradicting the DoA's official objectives. Given its vested interests in the existing schemes it is unlikely that DoA would be an appropriate partner in this case. The Association of Manufacturers has new energetic leadership, agricultural equipment manufacturers are active in the Association and they (together with the Department of Industry) are concerned by rising levels of manufacturing imports (implicitly supported by the DoA scheme). The Association may be a more fruitful partner for activities focused on coordination.

Relationship - Is there potential for an effective relationship?

Facilitators work with partners as a means to an end: to stimulate wider and sustained market system change. Therefore the relationships facilitators have with partners should foster appropriate behaviour in partners to accomplish objectives of market system change.

In practice an effective relationship typically has to balance two considerations:

- Providing the right incentives to a market player partner to ensure their engagement and commitment and sustainability.
- Achieving wider market system change and avoiding unfair competition or disproportionate capture of benefit – in other words 'keeping the door open' for others.



VOICE

Working with industry innovators or role models is an important part of a strategy for crowd-in. However there are also risks to 'picking winners' and raising entry barriers for competitors – this has to be carefully managed. When negotiating with partners, facilitators need to make it clear that the deal on offer isn't exclusive and that they intend to work with others in the future.

To do this facilitators need to ensure (a) that their support to partners is 'transactional' and (b) that their 'offer' to partners is clear and credible.

Ensuring support to partners is transactional

If programme support is to crowd-in market functions and players, it is important that it should be structured in such a way as to stimulate commitment and ownership (ie it gets market players to invest in the market system).

This typically means making support transactional, ie it should involve a *quid pro quo* – something in return for something. This might mean matching financial contributions, some form of in-kind contribution like personnel or premises or a significant level of effort ('sweat equity'). Support that is transactional has a number of benefits:

- It requires reciprocity and therefore has the potential to leverage partner resources and commitment.
- It fosters more realistic incentives and behaviour.
- It links support to performance and attaches a value to support, encouraging prudent and effective utilisation and ensures appropriate 'intensity' of support (see below).
- It mimics and reinforces relationships in a manner that is consistent with market norms.

Conversely, unconditional or 'soft' support can send the wrong messages to partners and the wider market system; it undermines market signals or incentives and is more likely to distort rather than develop markets.

3D: FACILITATING SYSTEMIC CHANGE



DEF

Transactional support. The core of a market system is about exchange or transactions between two parties. Transactions are the means by which consumers signal their demand, preferences and valuation to suppliers and the way in which suppliers are made responsive and accountable to consumers. The relationship between a facilitator and a market player is not in the market system *per se*, but the effectiveness of the relationship between them can be enhanced if it is also transactional in nature, ie there is a reciprocal deal which fosters commitment and responsiveness in both parties.

A clear and credible offer to partners

“What’s our offer?” is a critical question for facilitators in market development. Because M4P programmes rely less on providing direct financial support, their offer – what they provide, what they expect in return and how that deal is presented – to partners needs to be clear, well-understood, credible and valued, if it is to result in productive engagement. Turning up without a chequebook forces facilitators to think more creatively and tangibly about the value they can add. Note that facilitators tend to have more than one offer (see Box 9).



VOICE

Facilitators need to take care when entering the market. It is easy to be seen as an arrogant outsider if you approach an experienced market player and say “I understand your market better than you do” or “I can help improve your organisation”. This needs to be handled sensitively and smartly. For example, your offer is much more credible if you work with respected industry experts or insiders as consultants to your programme.

Box 9

Multiple relationships in the market... and outside it

One important lesson from experience is that facilitators have to deal with multiple relationships. On the one hand a facilitator might need to engage (and have different offers to) a range of market players during the course of an intervention. At the same time facilitators also have a contractual relationship with their funders, in the world of development (see Section 4).

The key point to understand here is that the development world often has different objectives, norms, structures, capacities and resources from those of the local market system. Arguably, the *raison d'être* of a facilitator is to act as a bridge between these two worlds, ensuring that their requirements are met in a manner consistent with their own norms, but also ensuring that inappropriate influences, signals and practices are not transmitted from one to the other. For instance, a funder may require a facilitator to report on the gender dimensions of a programme’s interventions. It is entirely appropriate that the facilitator monitors this kind of impact. It would not be appropriate to transfer the burden of assessment to a market player (eg a private firm) for whom gender objectives are not a concern.



APP

Relationship:

If the facilitator chooses to work with the Association of Manufacturers it should look carefully at how it structures that relationship. BMOs often have the potential to play important – and typically absent – coordination functions in market systems. However their capacity is usually limited. Programmes often form substantial relationships with BMOs at the heart of their intervention strategies. Many BMOs have been encouraged to expand, assuming inappropriate roles beyond their capacity and the interests of their members. As a result their orientation shifts away from their members and towards development agencies, and their new roles can only continue with aid funding.

In this case the facilitator should ensure its support to the Association is carefully targeted on specific technical assistance to bolster the Association’s ability to coordinate. For instance, organising meetings of key industry stakeholders or briefing the media – activities that are consistent with its likely future role. The facilitator should not try to channel other intervention activities aimed at other market players through the Association (eg technical support to other manufacturers to produce new equipment, arranging lease financing or operating a voucher scheme to stimulate consumption) as these would be inappropriate and potentially distorting.

3D: FACILITATING SYSTEMIC CHANGE

Intensity of support - Is there potential for effective right-sized support?

An important factor determining the extent to which an intervention develops or distorts a market system is the intensity of interventions by a facilitator towards either market functions, players or the market as a whole – ie how much support is provided. Too much (or the wrong kind of) support can 'overload' market players and functions in ways that are inconsistent with market development objectives (see Box 10).

Box 10

Overloading market players and functions

Overloading players: Facilitators need to find ways to operate which are consistent with the mandate and practices required by their funders (eg in terms of objectives, resource allocation and reporting requirements) and at the same time operate sensitively in weak market situations. Experience suggests that by transferring the norms of the development world to market systems facilitators can overload market players in a number of different ways:

- Transferring development objectives to partners that are inconsistent with market norms, diluting their focus, adding to costs and undermining their sustainability by moving them away from their natural roles and competencies.
- Excessively influencing partners, reducing the relative value of ownership.
- Unrealistic reporting requirements requiring partners to develop burdensome systems and procedures.
- Excessively support for equipment, staff, products or systems, resulting in costly structures and recurrent financing requirements that undermine partners' sustainability.

Overloading functions: By the same token, facilitators can overload market functions by pursuing standards or processes which are inappropriate for local conditions, resulting in functions that are overly comprehensive, unwieldy, expensive and unsuited to ongoing maintenance and adaptation through local capacity. Such overloading can also crowd-out more appropriate initiative and investment.

Examples of overloading include: agricultural market information systems using sophisticated data compilation and dissemination technologies, which collapse on withdrawal of international funding; or the introduction of regulatory impact assessment methodologies which require a level of technical competence, resources and bureaucratic coordination that is far beyond the capacity of domestic government.

It is essential that facilitators 'right-size' their support so that it is consistent with the norms and context of a market system. Right-sizing support requires:

- *Assessment of prevailing market norms.* Such as comparable products and organisations, common institutions and prevailing levels of capacity, costs and prices. This knowledge allows interventions to be geared towards supporting appropriate and viable products, organisations, people and mechanisms.
- *A portfolio approach.* This entails working with multiple partners and interventions, rather than just one (see Section 2). As with an investment or lending portfolio, the performance of the entire portfolio is more critical than any single constituent part. The benefits of such an approach are that:
 - It reduces pressure to achieve results through a single partner or intervention, hence support can be less intensive, and it reduces a programme's dependency on a single player or course of action.
 - A portfolio of partners or interventions means that overall programme objectives (eg gender outcomes) can be assigned and assessed on the portfolio in aggregate, rather than on the basis of a single partner or intervention.



APP

Intensity of support:

The facilitator might wish to introduce a system of certification – either of the manufacturers' production processes or of the final product – to ensure quality. The facilitator would have to ensure that the burden of compliance for manufacturers was realistic given their resources, and beneficial to small farmers. It is common for standards to be introduced which are beyond the levels needed in weak market situations because they are modelled on international norms. Such standards can drive up costs and affect affordability.

The facilitator would also need to assess how the standard could continue to operate in the future: who can set the standard, who can enforce the standard, who can help firms to comply with it? If resources are insufficient to permit such a sophisticated system, it would be better if the facilitator considered a more right-sized solution, perhaps promoting an information-based approach where consumers are informed about 'what to look for in a good rice thresher' and use demand-side pressure to assert quality control.

3D: FACILITATING SYSTEMIC CHANGE

Crowding-in - Are actions consistent with the pathway to crowding-in?

Cutting across all the factors discussed above is consideration of the potential for crowding-in. A pathway to crowding-in requires that facilitators think through how their actions *today* will stimulate positive market changes in the *future*. This means explicit and active consideration and actions to crowd-in from the outset. Facilitators should continually assess the consistency of all actions with the pathway to crowding-in and keep asking: “*should we be doing this?...*” or “*is there potential to bring others in?*”

In simple terms, facilitators should be concerned with stimulating new or improved take-up of market functions by market players. This is most easily defined in terms of sustainable activity, independent of development assistance. In practice crowding-in might mean both breadth and depth of the market (see also Section 3C).

- *Breadth* of crowding-in is concerned with increasing the level and diversity of transactions in the core of the market which results in greater access and participation for the poor.

It is also useful to think in terms of crowding-in players, not just activity levels. For instance, in very weak market situations crowding-in may entail stimulating new entrants (eg from more developed areas). Another consideration regarding crowding-in players is competition: more activity is not necessarily a good thing *per se*, if it comes about as a result of increased market dominance by one player.



VOICE

We use pathways as a management tool to assess the progress and impact of our interventions. Besides outreach and sales, we monitor the adoption and ownership of desired changes in behaviour over time. We have found that significant changes in firm behaviour (eg outsourcing services, better internal systems and operations, etc) have been more reliable predictors of sustainability – firms' readiness to continuously upgrade as a strategy for growth – than just outreach or sales.

- *Depth* of crowding-in recognises that competition is often not enough to make markets work better for the poor. For instance, in weak or ‘thin’ markets or in the case of many public functions, strong competition may not be feasible or desirable. In these cases crowding-in may mean the take-up of other market rules or supporting functions which can ensure transparency, scrutiny and means of redress, and compensate for a lack of competition.

The key point is that programmes should always start by identifying the market functions required – the ‘where’ question. Thinking through sustainability then leads to the ‘who’ question and the other factors to guide intervention.

3D.5 Key challenges and how to deal with them

When is it ok for a facilitator to subsidise?

The point for facilitators to remember is that subsidies are not all the same. It is crucial to differentiate between two forms of subsidy:

- *Public finance from public bodies which are part of the market system* for ongoing functions required by the system (eg recurrent government expenditure on a customs authority or funding for public infrastructure). This can be regarded as a legitimate feature of a market system and needs to be sustainable from within the capacity and resources of domestic government revenues.
- *Temporary, stimulating finance of an ‘external’ agent* such as a development agency, which is time-bound and not sustainable and therefore not part of the market system.

This distinction is important when thinking about what a facilitator does. It is generally recognised that direct financial intervention in the core of the market – transactions of goods and services – has a high potential for distortion and is best avoided (see Box 11).

However, it is important to recognise that any form of direct injection of cash into market systems is potentially distorting. Subsidies for transactions in the core of market systems carry the highest risk, but there are also considerable risks if facilitators directly finance or perform rules and supporting functions. These too can be distorted, ownership crowded-out and sustainability undermined (be those private or public functions).

For example: *It is generally accepted that agencies should not subsidise the provision of financial services. However, if agencies conduct consumer research or product development in the place of banks or assume scrutiny functions in the place of regulatory authorities, the integrity and sustainability of the market system is also likely be impaired.*

A number of general lessons can be drawn for facilitators considering subsidising any market function or player:

- *Justified openly in relation to market constraints.* As mentioned above, support has to have clear justification and objectives for overcoming market constraints and developing sustainable access to goods or services.⁵
- *Finite period of support.* There has to be a clear end point to support related to measurable and achievable objectives. For instance this might focus on volume of transactions taking place between consumers and suppliers without any subsidy.

⁵ For further consideration of subsidies and private firms see Good Practice Notes 5.7 and 5.10 in Section 5.

3D: FACILITATING SYSTEMIC CHANGE

Box 11

Why are direct subsidies for transactions risky?

The more directly an intervention becomes involved in transactions between consumers and suppliers, the more it influences incentives and signals in the core of the market, where the potential for distortion is greatest. This does not mean that subsidies for delivery of goods and services cannot be justified. However, it does mean that facilitators need to be aware of the risk and act with caution. Such subsidies are typically justified for the following reasons:

TYPICAL JUSTIFICATIONS	COMMENT
Provide tangible incentives to change behaviour.	<i>Where resistance is entrenched or an idea is new, limited delivery subsidies to test ideas or demonstrate value may be effective.</i>
Overcome risk and demonstrate benefits of change.	<i>However there is a danger that 'limited' can become 'longer-term' and that subsidies undermine the connection between price and value, and crowd-out initiative and ownership.</i>
Can reinforce market forces and stimulate further market development.	<i>Possibly, if used sparingly, to reinforce transactional relationships and address specific constraints.</i>
People are poor – they can't afford to pay and therefore need subsidy!	<p><i>Many dangers here:</i></p> <ul style="list-style-type: none"> • <i>Is this emergency relief?</i> • <i>Is this social protection?</i> • <i>How will activity continue in the long term?</i> • <i>Potential for endless subsidy.</i> • <i>Limited outreach and potential for scale-up.</i> • <i>Undermines poor consumers' sovereignty.</i>
Direct support is highly 'visible'.	<i>Subsidised delivery does have higher visibility and permits greater disbursements, but this is a bureaucratic rationale, not a developmental one.</i>
We need to find a way to spend our money!	

- *Limited in scale.* There are real dangers of flooding a market system with funds causing long-term distortion.
- *'How delivered' is important.* Careful consideration needs to be given to the structure of the support, what incentives it creates, and how support is expected to achieve objectives.
- *Consistent policies and approaches* - need to be developed with other facilitators and funders. For instance, as the lessons from microfinance demonstrate, widely differing approaches and policies on subsidy among agencies can hinder progress towards market system development. There is a need for openness and coordination between agencies to develop consensus and avoid damaging undercutting between agencies.

How to find and select appropriate partners?

As noted above, there is no ideal organisational form for a partner in market development, so finding and selecting partners inevitably involves trial and error and needs to be grounded on the basis of 'what works' in any given context.

Typically facilitators use a combination of the following types of identification and selection processes:

- Relationship-based selection.
- Tender-based selection.
- Market assessment-based selection.

Relationship-based selection

Partners can be identified through the personal knowledge, existing networks and acquaintances of funders and facilitators. This approach has much to commend it: it is cheap, working relations may already exist, and uncertainty can be reduced. It does have a number of drawbacks:

- It limits the field of selection – you only work with those known to you.
- There is some risk of continuing established relationships and expectations: this is particularly problematic if a funder or facilitator has a high profile or a history of more conventional intervention approaches.

3D: FACILITATING SYSTEMIC CHANGE



RISK

A relationship-based approach to partner selection underlines the importance of facilitators being business-like themselves; developing linkages and maintaining networks in the marketplace, and not operating from the confines of a 'developmental vacuum'.

Tender-based selection

A tender-based approach invites applications to bid for facilitator support. In an open or competitive tender, opportunities to apply are advertised, tender documents are drawn up and made available for a fee payable on application, selection criteria and processes established, and selections are made on the basis of information provided and qualitative assessments.

The advantages of this kind of selection process are that it:

- is transparent (which may be important to comply with funder accountability);
- allows a wider range of applicants to be considered, which may be useful when a facilitator's networks are limited;
- permits a facilitator to project a business-like, focused image towards potential partners.

The disadvantages of tender-based selection include:

- If done properly it can be expensive and time consuming. It often requires sifting through a large number of inappropriate applicants to identify a few good ones.
- If criteria selection and assessment are not rigorous, the success of the process is jeopardised.
- It creates a 'big splash' which may be unwelcome when a programme is still trying to find its footing.

A closed tender strikes a balance between the two approaches, where invitations to bid are extended to a number of potential partners, most or all of which are relatively well known to the facilitator.



RISK

Formal selection criteria and approaches are often unsuitable and difficult to comply with for the small and informal partners with which facilitators often have to engage in weak markets.

Market assessment-based selection

As a result of market assessment, information on appropriate partners often comes to light. Indeed, market assessment and sustainability analysis (see Sections 3B and 3C) should actively consider the potential for partner engagement as an integral part of their processes.



TIP

Ultimately, successful partner identification and engagement is based on a combination of informed market understanding, opportunism and trial and error (hence the value of multiple partners!). There is simply no substitute for facilitators being close to and engaged in a market situation, with their 'finger on the pulse'. No amount of formal research and selection processes can overcome the isolation of a distant and desk-based facilitator.

What if there's nothing there or no one to work with?

M4P is about making market systems work better for people who are currently disadvantaged by the current market situation: it is always about markets which are weak in some way or another. However some facilitators may ask "what about really weak markets – what should we do if there is nothing or no one there?"

In these circumstances facilitators need to:

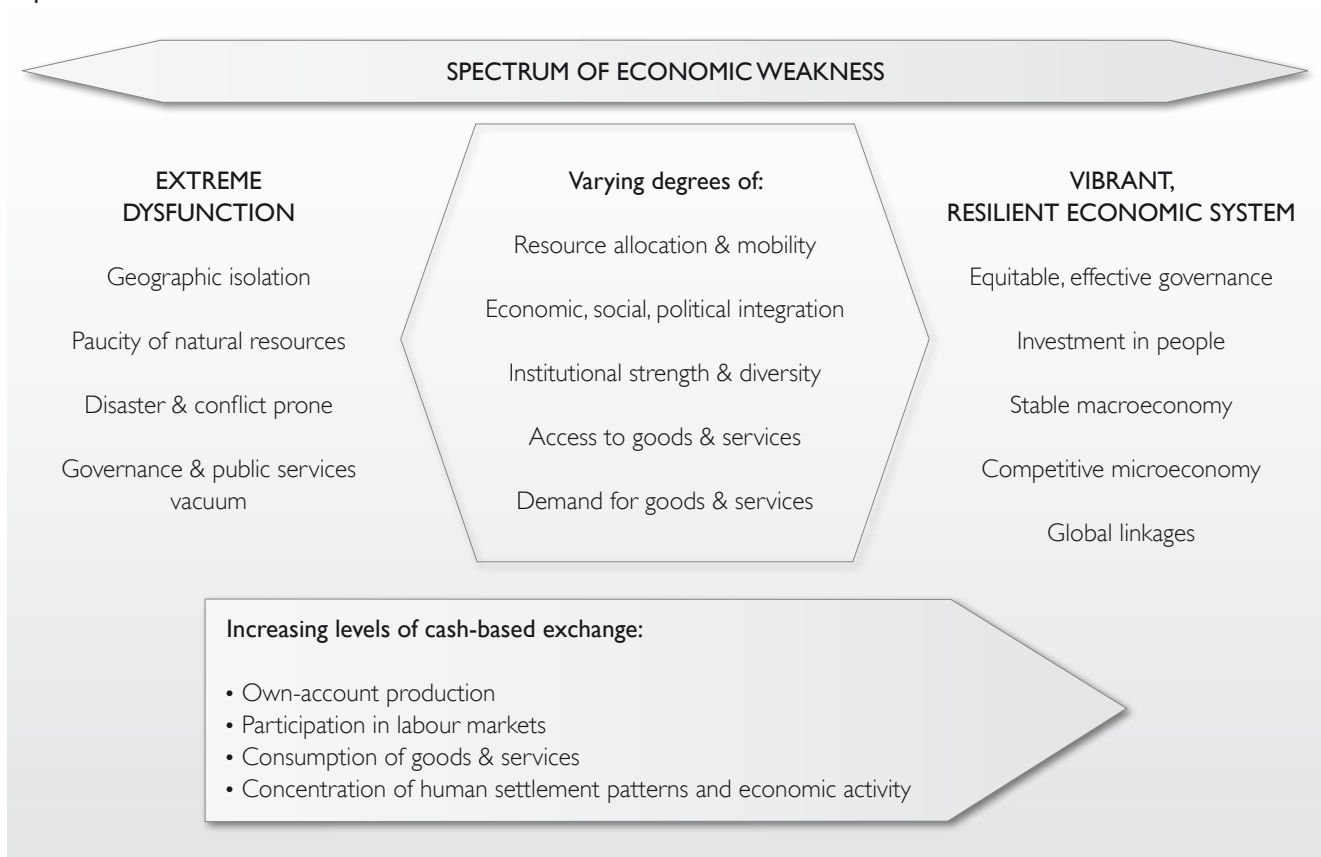
- *Look again or rethink how the market really works.* In very weak markets what initially appears to be completely absent is often hidden or works in a less-than-obvious way. For instance, services are more likely to be embedded within other types of transactions or provided informally rather than sold on a stand-alone fee-paying basis. Key 'drivers' may be located outside the area in question (eg a lead firm, a trader or an influential politician). People may travel to the market rather than the market coming to them (eg nomadic livestock herders visiting regional markets periodically). In very weak markets a facilitator's approach to market assessment has to be adjusted to capture informality and invisibility.
- *Reconsider the feasibility of change and the rationale for intervention.* If a context is genuinely so weak that there is nothing going on – ie a 'viability void' exists – then facilitators need to be honest with themselves and their funders: what can intervention realistically achieve?

There is a risk that intervention ends up being about providing emergency relief. Whilst such relief is vital to saving lives, it is about coping with symptoms rather than addressing underlying causes. This is not the realm of the M4P approach or indeed any form of development which seeks to promote lasting change.

In such situations if M4P intervention is warranted, it is more likely to focus on improving government's redistributive policies and mechanisms or other forms of merit goods. However, weakness typically extends to the government: it will often be absent or dysfunctional as well. In these circumstances interventions might focus on improving the poor's access to information about migration opportunities and enhancing their mobility, eg by increasing the availability of identity cards,

3D: FACILITATING SYSTEMIC CHANGE

Figure 16
Spectrum of economic weakness



access to travel and accommodation services or mechanisms for remittance of income. Such interventions will require considerable time and effort from a facilitator:

- *Weigh up the level of effort required to bring about change.* Assuming that there is not a complete viability void, facilitators will face a spectrum of weakness which might affect how they intervene – or indeed whether they intervene at all (see Figure 16).

Towards the right end of the spectrum, market development becomes less challenging. Here the role of the facilitator is likely to be more light touch in nature, focusing on improving information and awareness, linking players, stimulating new kinds of relationship and promoting competition. The level of effort required from a facilitator might be relatively low and the duration of intervention short. Self-evidently, in well-functioning markets intervention is not justified at all!

At the left end of the spectrum, the market development challenge is more pronounced and likely to require greater effort from the facilitator, in terms of time, resources and nature of activities. The facilitator’s role will necessarily be more direct and intensive and entail interventions aimed at, for instance:

- Influencing the underlying culture or attitudes of the potential demand- and supply-sides.
- Informing basic understanding about the market, how it works, its opportunities and constraints.
- Encouraging market entry by new players from other established markets.
- Developing and testing new products, players or delivery mechanisms.
- Developing supporting functions and rules.

3D: FACILITATING SYSTEMIC CHANGE

For example: Two market development programmes stimulated the integration of thousands of poor, small-scale producers into the economic mainstream on more favourable terms, resulting in improved quality, productivity and sales. One programme operated in a sparsely populated and geographically inaccessible area, in a sector historically characterised by high barriers to participation. Its cost of intervention was approximately US\$80-100 per producer affected, reflecting this complex intervention challenge. The cost of intervention for the second programme was less than US\$1 per producer affected. It operated in a more densely populated and accessible area and in a sector with fewer barriers to the poor's participation. Both interventions were valid and both were successful in their own contexts, but they required very different activities and levels of resources to respond to different market development challenges.

How can facilitators demonstrate the quick results that many funders demand?

It is common for facilitators to find themselves under pressure from their funders to demonstrate results (and disburse funds) quickly. The challenge for facilitators is to demonstrate progress sufficiently quickly without intervening in a heavy-handed, potentially distorting way.

To overcome this dilemma it is essential that facilitators are smart about 'sequencing'. They need to think through what is likely to happen and when during the course of a programme, and signal and explain this clearly to funders.

The pathway to crowding-in helps facilitators do this:

Step 1

At this stage of intervention considerable effort is directed towards research, identifying and engaging with partners and undertaking initial interventions to test the market and create 'quick wins' which might generate interest and credibility. Such activities will absorb resources from a disbursement perspective. More importantly, elements of the intervention process can quite legitimately be measured and presented as short-term results.

For example: Research-related activities can be framed in terms of raised awareness and buy-in of important market players; joint activities with partners as strengthening capacity; stakeholder consultation processes as establishing new mechanisms for advocacy and representation. Mini-case studies can be developed from successful initial activities and quick wins to give an indication of types of impact the programme will achieve.

Step 2

Following initial interventions facilitators are in a position to start adding more detail to the strategic framework in terms of targets for both market system level and higher-level impact. If properly communicated, this detailed framework can be the first opportunity for a funder to get a concrete sense of what to expect from a programme.

Step 3

Pursuing a variety of interventions to stimulate crowding-in usually sees a programme ramping up its activities and consequently its impact. Note, however, that this increase does not occur because interventions become more resource-intensive during the course of programme implementation. It happens because the scope and diversity of interventions tends to increase as facilitators pursue a strategy of broadening and deepening market development.

3. COMPONENTS OF THE M4P INTERVENTION PROCESS

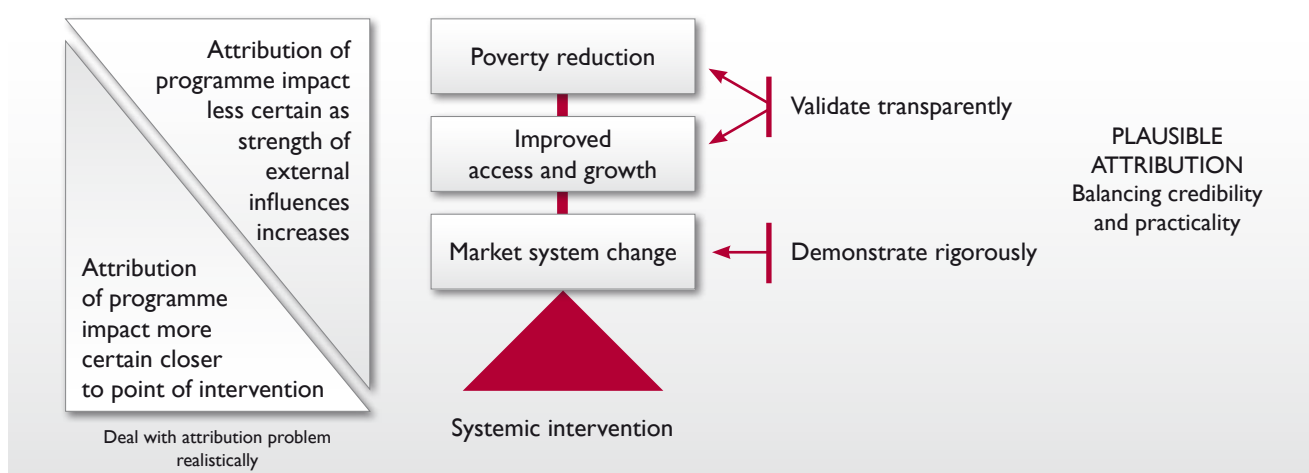
3E: ASSESSING CHANGE

Key points

- M4P programmes must rigorously assess their direct impact on market systems: it is critical to capture their contribution to market system change as the basis for assessing wider impact
- M4P programmes need to credibly and practically attribute changes across the chain of causality to their intervention, based on a clear strategic framework: they must establish 'plausible attribution'

Key M4P principles and framework: measuring across the strategic framework to establish plausible attribution

It is not feasible to measure with complete certainty a programme's impact at higher levels. Assessment should aim to balance credibility with practicality to achieve 'plausible attribution' of programme impact



Putting it into practice: main steps

- Step 1:** Develop impact logics for each market system and related interventions in that market system, based on the overall programme strategic framework
- Step 2:** Use the impact logics to identify appropriate indicators to monitor the outcomes of specific interventions and their impact on the market system
- Step 3:** Establish a baseline for key indicators
- Step 4:** Predict at the beginning of intervention the amount of change in each indicator that may be expected to result from each intervention
- Step 5:** Design and implement a plan for collecting data to monitor and measure performance
- Step 6:** Analyse the information generated and feed into regular decision-making (internal) and report the appropriate outputs of analysis (external)

Key challenges and how to deal with them

- Can small programmes measure rigorously?
- Should M&E be outsourced?

Good Practice Notes (Section 5)

- Logical framework (log frames) (Note 5.4)
- Knowledge management system (Note 5.13)
- Intervention impact logics (Note 5.14)

3E: ASSESSING CHANGE

3E.1 Introduction

M4P programmes have several characteristics which influence the way in which they assess change. Assessment needs to:

- **Rigorously assess the direct impact of programmes on market systems.** M4P programmes focus on developing market systems that surround and affect the poor, but they do not directly interact with each beneficiary. It is critical to capture definitively a programme's contribution to market system change as the basis for assessing wider impact.
- **Establish 'plausible attribution' of programme impact.** M4P programmes address the causes of market underperformance, which means that the 'chain of causality' linking their interventions to poverty reduction can be lengthy and subject to many influences. Programmes need to credibly and practically attribute changes across the chain of causality to programme intervention, based on a clear strategic framework.⁶

3E.2 Why important?

Assessing change serves two main objectives⁷:

- *To prove.* So that programmes can be transparent and accountable to their funders and other stakeholders.
- *To improve.* To provide programmes with feedback on implementation so that they can improve their performance and contribute to wider learning.

3E.3 Key M4P principles and frameworks

Assessment – or monitoring and evaluation (M&E) – of M4P programmes needs to comply with the same general principles of M&E as for any other development programme. It is not possible for the *Guide* to explore these principles in depth, but they are summarised in Box 12.

Measuring across the strategic framework to achieve plausible attribution

The starting point is to accept that it is not feasible to measure with complete certainty a programme's impact at higher levels (ie growth, access and poverty). M&E therefore should aim to balance credibility with practicality to achieve plausible attribution of programme impact (see Figure 17). That is to say:

- *Credibly* demonstrate a programme's contribution to market system changes and validate the relationship between those changes and improvements in growth, access and poverty reduction.
- *Generate useful* information for programme decision-making within the practical limits of a programme's resources.

The foundation for M&E in M4P is the strategic framework (See Section 3A). This sets the overarching assessment logic for a programme. The strategic framework establishes a hierarchy of objectives or levels of achievement – assessment at each of these levels requires different approaches and levels of resources.

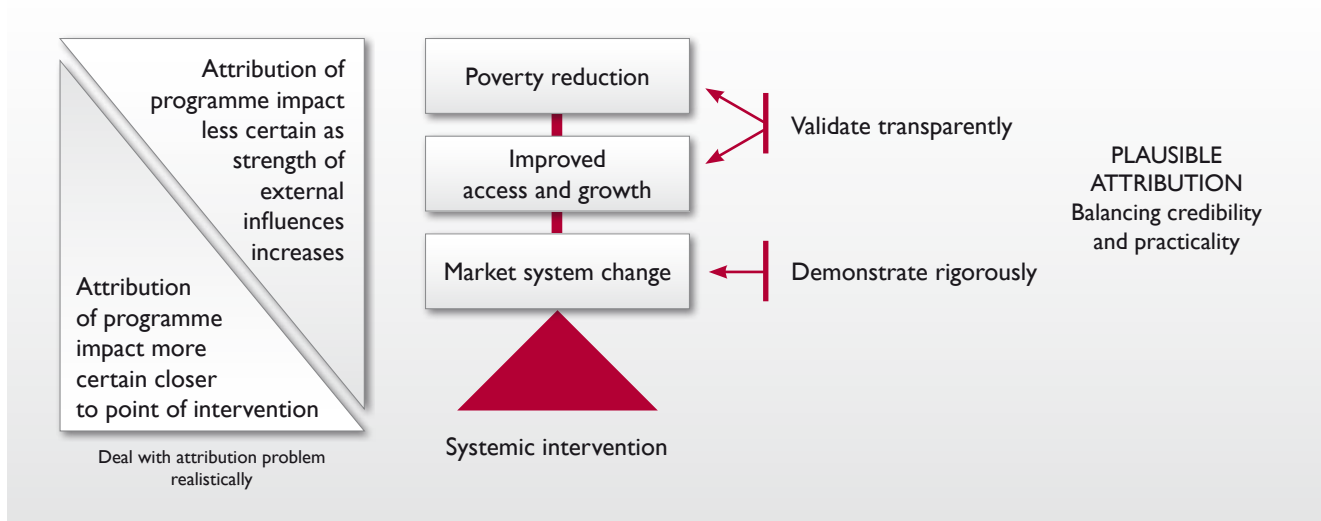
- M&E should rigorously assess the programme's contribution to changes in market systems – the levels at which it engages most directly. M&E should generate robust information on changes resulting from intervention in specific markets systems.
- Based on this information, reasonable estimates – rather than definitive proof – should be made of the contribution of market-level changes to overall changes in access, growth and poverty reduction.

⁶ See GTZ reference in Good Practice Note 5.4 on log frames in Section 5.

⁷ Terminology derived from David Hulme's paper *Impact Assessment Methodologies for Microfinance: Theory, Experience and Better Practice*; Institute for Development Policy and Management, University of Manchester.

3E: ASSESSING CHANGE

Figure 17
Measuring across the strategic framework to achieve plausible attribution



Box 12 General principles of M&E

- Clarity about the rationale and requirements of M&E:
 - *Who needs to know?*
 - *What do they need to know?*
 - *When do they need to know it?*
 - *How will information be collected and analysed?*
 - *Who will be responsible?*
- Balanced assessment: M&E should assess the overall balance of programme performance – outreach, efficiency, effectiveness and sustainability.
- Adherence to the basic ‘rules’ of M&E, especially with regard to the development of indicators:
 - *Relevant?* M&E should throw light on the right areas.
 - *By when?* M&E should define the timescale for measurement.
 - *How much?* M&E must contain targets and assess change.
 - *How well?* M&E should offer insight into the quality of the change that intervention achieves.
 - *Feasibility?* M&E needs to be appropriate given the practical limitations of resources available.
 - *Intermediate dimensions of change?* M&E should measure changes closer to the point of intervention and not just final impact (which may be influenced by many other factors).
 - *Precise?* M&E needs to be specific – without this assessment is impossible.
 - *Context-specific?* M&E needs to reflect the realities of the specific context of intervention.
- Provision of guidance to implementers: M&E should set appropriate incentives for the implementers of interventions (ie facilitators).

As M4P programmes tend to make multiple interventions in one or more markets, the strategic framework needs to be further broken down so that change can be tracked against a series of chains of causality or ‘impact logics’ developed for specific markets and specific interventions within those markets. Impact logics are, in effect, mini-strategic frameworks (see Box 13).



TIP

In M&E for M4P it is essential to frame objectives in terms of achievements at the market system level, not just at the levels of growth, access and poverty reduction. If these higher levels take precedence, facilitators are encouraged not to follow the systemic rationale of a market development approach and may neglect the underlying causes of underperformance. Facilitators may then pursue higher-level objectives and neglect the systemic changes necessary to secure sustainable and large-scale impact. If funders want sustainable outcomes these have to be framed and prioritised in programme objectives and M&E

3E.4 Putting it into practice

The process

The process of M&E for M4P can be broken down into six basic steps (see Box 13):

3E: ASSESSING CHANGE

Box 13

The main steps in M&E for M4P

- *Step 1:* Develop impact logics for each market system and related interventions in that market system, based on the overall programme strategic framework.
- *Step 2:* Use the impact logics to identify appropriate indicators to monitor the outcomes of specific interventions and their impact on the market system.
- *Step 3:* Establish a baseline for key indicators.
- *Step 4:* Predict at the beginning of intervention the amount of change in each indicator that may be expected to result from each intervention.
- *Step 5:* Design and implement a plan for collecting data to monitor and measure performance.
- *Step 6:* Analyse the information generated and feed into regular decision-making (internal) and report the appropriate outputs of analysis (external).

Each step is considered in more detail below and is accompanied by an Application Example from a market development intervention in the freshwater pond fishery sector.⁸

Step 1

Develop impact logics for each market system and related interventions in that market system, based on the overall programme strategic framework

Programmes need to have impact logics for individual interventions in a market ('intervention impact logic'). Typically, programmes will make multiple interventions in a market, so they will also have an impact logic to capture the changes expected from all interventions in a market ('market impact logic'). Impact logics should be consistent with the programme's strategic framework (see Box 14).

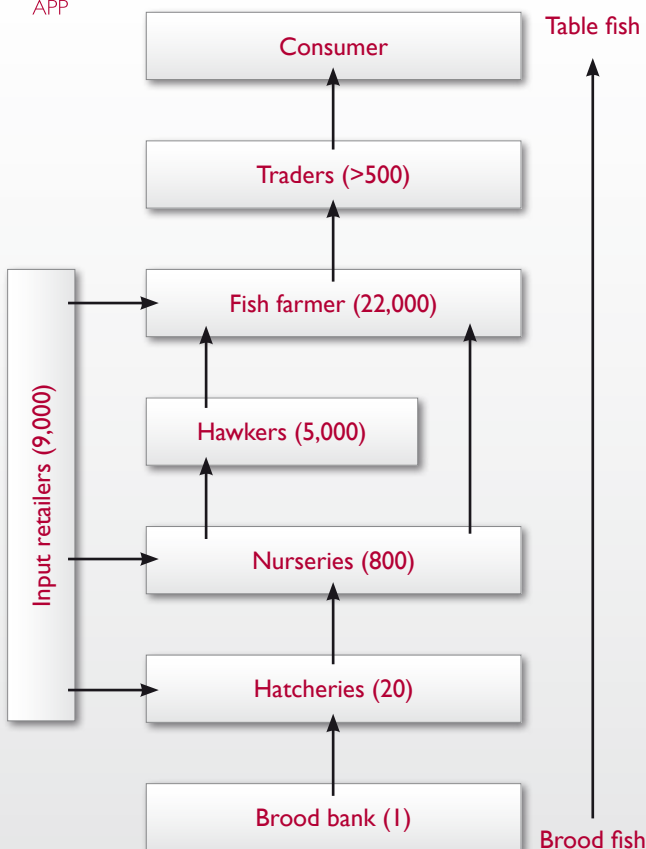
Impact logics ask explicitly: *What are the series of expected changes leading from intervention to impact on growth, access and poverty reduction?*



APP

Context:

POND FISH VALUE CHAIN



Freshwater fish are a key source of protein and the sector is important for poor farmers who raise fish in ponds as additional source of income. Changing diets mean that demand outstrips supply considerably, despite sector growth of 15% per year. Fish rearing is complicated, involving many different stages of rearing (see simplified value chain on left).

The sector is failing to meet demand because of low productivity, in terms of slow growth of fish and high mortality rates. Low productivity is the result of pervasive problems across the sector:

- Farmers lack knowledge about pond preparation, stocking practices, disease identification and use of inputs.
- Transportation methods are unsuitable.
- Fingerlings (which farmers buy to rear into fish for sale) are of poor quality.
- Hatching techniques (for fry which grow into fingerlings) are inappropriate.
- Brood stock is limited and of limited quality.

An M4P programme pursues a multi-faceted intervention strategy across the sector, working with a range of partners. This example focuses on a single intervention, to address a single constraint: poor practices at the farmer level.

The programme targeted nurseries who are critical players in the sector. Working in partnership with the Fisheries Association the programme trained nurseries in better pond management practices. It was anticipated that, in turn, nurseries would serve as source of information and support to farmers (and hawkers).

3E

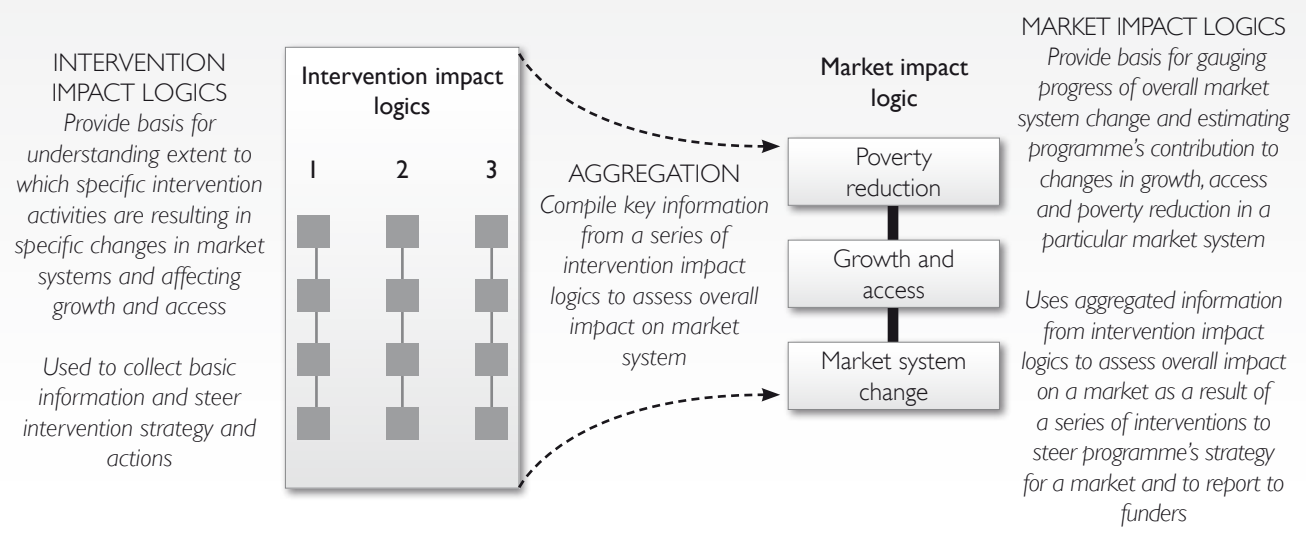
⁸ This example has been simplified considerably. In practice, the M&E system described is highly specific and extensive, requiring a level of detailed explanation that cannot be accommodated in the Guide.

3E: ASSESSING CHANGE

Box 14 Impact logics

Impact logics show the chain of causality through which a programme's activities lead to poverty-reducing benefits. The logic describes key changes that are expected at each level of the strategic framework as a result of these activities. Each logic should be tailored to a specific intervention or market and consequently has a more detailed chain of causality – ie more links in the chain than a strategic framework (or logical framework). Each market has a set of impact logics; one market impact logic and within that several intervention impact logics (see below).

While both market impact logics and intervention impact logics map out changes expected or achieved, intervention impact logics provide greater detail on a programme's activities, their immediate outputs, as well as expected changes in markets and expected changes in growth and access. (See also Section 3A and Good Practice Notes 5.4 and 5.14 in Section 5.)



TIP

Market and intervention impact logics do not need to be established at the start of a programme; they will need to be established throughout the course of a programme's life, as market focus and interventions are refined or new markets are entered and new interventions initiated. Impact logics map out and measure the changes in the market system along the pathway to crowding-in (see Section 3D) and assess how these changes result in impact on growth, access and poverty reduction.



DEF

Intermediate indicators: Indicators that measure change along the chain of causality from intervention to final impact (eg new product introduced → consumer awareness of a new product → consumption of new product → satisfaction with new product → demonstrated benefit of new product).

Proxy indicators: Indicators of one dimension of change that tell us something useful about another dimension of change that may be difficult to measure (eg housing improvements as a proxy for increased household income).

Step 2

Use the impact logics to identify appropriate indicators to monitor the outcomes of specific interventions and their impact on the market system

By definition impact logics are a series of links (see Figure 18). This means that indicators should cover both intermediate and final change.



TIP

Intelligent selection of proxy indicators is important in M4P. Some dimensions of change are inherently difficult to assess, so programmes have to find more readily identifiable and measurable substitutes. Markets are about interdependence: what one player does affects another; one market function relates to another. This inter-dependence means that proxy indicators have extra significance in assessing market systems.

3E: ASSESSING CHANGE

Figure 18
Impact logic and typical types of indicators



TIP

One of the most important considerations in M&E for M4P is an assessment of sustainability applied to all areas of change. Sustainability might be assessed in a variety of ways, but essentially it is about ascertaining the extent to which market activities continue independently without programme support.

Step 3

Establish a baseline for key indicators

This is something that is frequently omitted by programmes. Without a baseline, programmes can only count outputs delivered; they cannot assess the level of change they have caused. Baseline data on key indicators should be obtained from market assessment (see Section 3B) or as a result of initial interventions (eg Step 2 of pathway to crowding-in, see Section 3D). If additional data is required, baseline studies may need to be commissioned specifically.

Step 4

Predict at the beginning of intervention the amount of change in each indicator that may be expected to result from each intervention

Predictions only need to be realistic 'best estimates' based on current information. Although such estimates can never be precise, they are important to give programmes a sense of something to

aim for and to gauge whether interventions are likely to result in sufficient impact to justify expending resources. Such estimates are required during the development of strategies for crowding-in (see Section 3D).

Step 5

Design and implement a plan for collecting data to monitor and measure performance

This means thinking pragmatically about how information can be collected and by whom. It also means thinking about how information can be gathered to assess the relationship between the observed changes and programme interventions.

Quantitative information needs to be complemented by qualitative information. Qualitative information helps programmes to understand the reasons behind changes in quantitative indicators, to assess the sustainability of change and to estimate attribution. Combining quantitative and qualitative information can help programmes to understand:

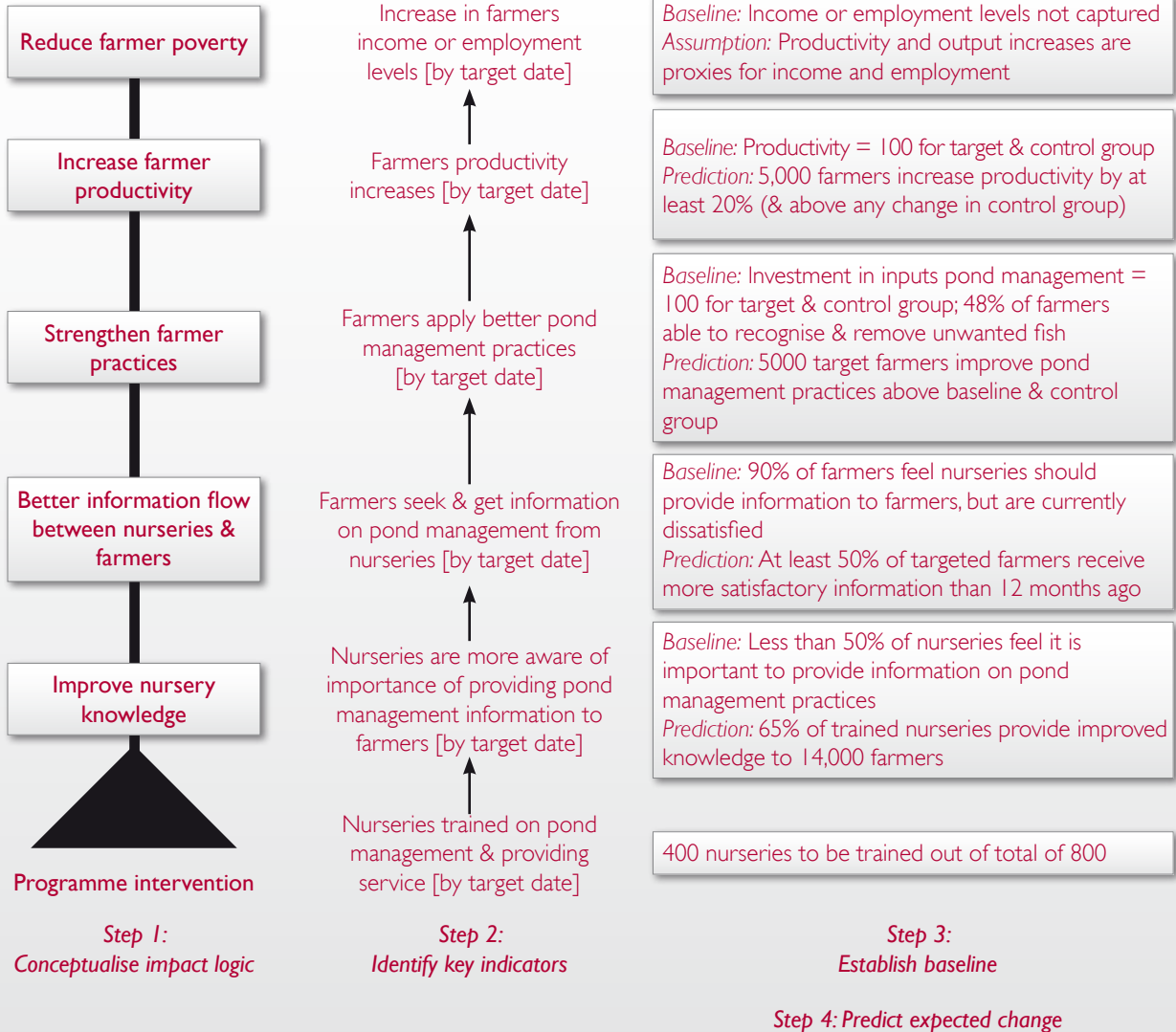
- *Are expected changes happening?*
- *To what extent are expected changes occurring?*
- *How and why are changes taking place?*
- *To what extent are changes sustainable?*
- *To what extent are changes attributable to the programme?* (see Box 15).

3E: ASSESSING CHANGE



Impact logics, indicators, baseline and prediction (Steps 1-4):

APP



Box 15
Measuring attribution

Changes at higher levels of impact logics are a result of many factors and complex inter-relationships beyond a programme's control. Programmes not only need to know what changes have taken place over time, but also to what extent changes are a result of programme interventions as opposed to other factors, ie they must be able to attribute changes to intervention.

This is never straightforward to achieve (see 'Tools for M&E'), but in simple terms programmes should:

- Assess the situation before the programme intervention.
- Assess changes after the programme intervention.
- Estimate the amount of change that would have occurred anyway without intervention.
- Compare actual changes that did happen with the estimate of what would have happened without intervention in order to isolate the results of intervention.

3E: ASSESSING CHANGE



APP

Collecting data to monitor and measure performance (Step 5):

Preliminary baseline data is compiled through initial market assessment, a combination of value chain analysis, secondary sources of industry data, surveys and focus group discussions and interviews with key informants. Initial interventions add to this information. Information derived also enables the programme to make assumptions for predicting outcomes (eg average outreach of a nursery is 60 farmers and 30 hawkers). At this stage possible control groups or areas can be identified.

During intervention, staff maintain field diaries to record their observations and complete routine intervention reports. As well as maintaining records of their activities and interactions with stakeholders, these capture information about intermediate and qualitative changes and significant changes in the sector and its environment. This information helps shape the design of more substantial quantitative assessments.

Towards the end of the estimated target date for the end of intervention, and once there have been concrete indications of change, formal surveys of a statistically valid sample of the target group and control group are conducted, using external specialists. The survey covers over 500 individuals (nurseries, hawkers and farmers) split evenly between control group and target group, and assesses changes in practices, values and volumes, investments, relationships, information and productivity or output.

Step 6

Analyse the information generated and feed into regular decision-making (internal) and report the appropriate outputs of analysis (external)

Programmes are likely to generate a diversity of data from a host of sources. Individually, none of these are likely to be complete and some data may appear to contradict other data. Therefore it is important that programmes use 'triangulation' (see Section 3B) to cross-check individual data and derive best estimates.

The nature of analysis and reporting will depend on intended use:

- *For internal programme management purposes, key questions are: Have existing interventions worked and is the intervention strategy working?*

Programmes need to be able to use information to update their understanding of market dynamics, adjust the programme's vision of market development and review and revise

interventions accordingly. For larger programmes, managers need to review the overall portfolio of markets in which the programme is operating and whether the current market mix is generating sufficient impact to achieve programme objectives.

- *For external reporting purposes, programmes need to extract and present data which is relevant and accessible to funders and external stakeholders. Reporting should be tailored to the specific requirements of different users.*

To do this, data from individual interventions and markets must be 'aggregated' across the whole programme: bringing together key market changes and estimating their contribution to improved growth, access and poverty reduction (see Box 14). Cross-cutting dimensions of programme impact (eg gender balance) should be presented as part of this overall picture of programme impact. Aggregation requires that there is commonality across high-level indicators across all markets and interventions – the strategic framework helps ensure this commonality.



RISK

There is a tendency in development to share all information with everybody in the interests of that elusive term 'participation'. In reality this scattered approach is unhelpful and can even be damaging. It leads to information overload which can undermine the credibility of data generated, put inappropriate information in the hands of people who are not in a position to interpret it correctly and adversely affect perceptions and expectations.



TIP

Programmes need to be sophisticated in their treatment of information, taking real care to think through who needs to know what, understanding the specific requirements of prospective users of information and package information accordingly (see Section 4).



APP

Analyse and use information generated (Step 6):

The routine information generated is used for intervention steering and adjustment (eg alterations to nursery training and new measures with the BMO to increase farmers' awareness and demands towards nurseries).

The programme uses 'headline' impact data and qualitative information for its routine reporting to donors. It prepares mini-cases (which give the basic story-line of intervention) aimed at time-constrained funders. It commissions external specialists to prepare a more comprehensive case study for wider public consumption.

3E: ASSESSING CHANGE

Impact data generated includes:

- 89% of trained nurseries state that providing information to farmers is important for their business.
- 80% of target group farmers state they receive more information than they did 12 months ago. 72% of these report being “satisfied” or “very satisfied” with the service they receive from nurseries.
- 68% of target group farmers are able to recognise and remove unwanted fish.
- Target farmers’ investment in pond management inputs increased by 20%, compared to 10% in control group.
- Target farmer’s productivity increased by 25%, compared to 5% in control group (and mortality reduced by 15% compared to 3% in control group).

Tools for M&E

As in market assessment (see Section 3B) the range of tools that can be used for M&E is diverse and cannot be covered in the Guide. Choice of tools for M&E is partly dependent on the nature of specific markets and target groups, but should also be guided by two considerations:

Consistency between tools used for market assessment and intervention and those used for M&E

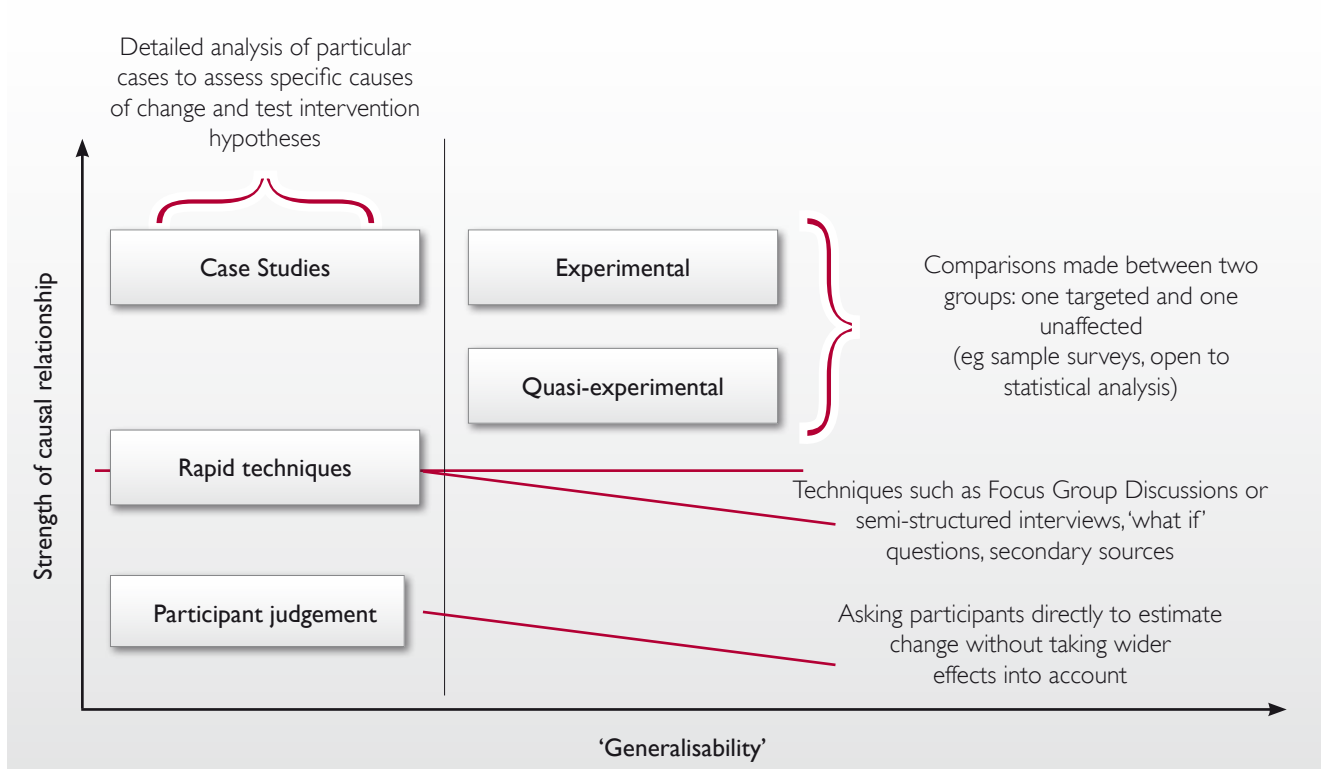
For reasons of coherence and efficiency, market assessment and M&E need to be closely linked. Tools used for market assessment can also be used to provide evidence of overall market change and, in particular, of the specific dimensions of the market changed by intervention. Tools might have to be selected and adapted to suit different dimensions of the market system. This is the priority focus for M&E in market systems – and relatively more rigour and resources are justified here.

Whether information is needed for prove and improve purposes

The issue of attribution is important in market development when trying to ‘prove’ impact, particularly in terms of poverty reduction. There is no magical fix for this issue. Methodologies for proving final impact need to be able to determine strong:

- *Causality.* Where the link between an intervention and market level (cause) and consequent higher-level change (effect) is plausible.
- *Generalisability.*⁹ Where it is reasonable to draw wider conclusions on the basis of analysis of an observed change (ie to extrapolate).

Figure 19
Types of tool for measuring attribution



⁹ A term coined by Eric Oldsman.

3E: ASSESSING CHANGE

As can be seen from Figure 19 there are very few measurement methods that are able to ascertain both causality and generalisability. Experimental and quasi-experimental approaches are difficult, requiring expertise and resources. Yet, if programmes are serious about proving final impact, there is no real alternative to these approaches.

A mix of methodologies is therefore usually required to estimate attribution:

Quasi-experimental methods

Comparative assessments (eg surveys) of affected and control groups should be used when practical and when the scale of intervention justifies the cost of assessment. Quasi-experimental methods allow for the comparison of changes between a target group affected by programme intervention and a group that has not been targeted. Differences in the level of change between these two groups can be used to estimate the degree of change resulting from programme intervention.

Quasi-experimental methods are not valid when the targeted group is unique and does not have a suitable comparison group or when interventions can influence the control group as well as the targeted group. Methodologies using control groups work best for specific interventions and well-defined target groups within a homogenous population rather than across entire markets or areas.

Trend analysis

Programmes should compare change in areas where the programme is active with changes in other areas as well as national and historical trends. Again, any differences between the changes identified in programme areas and non-programme areas (or national and historical trends) can be used to estimate the change attributable to programme intervention.



TIP

Programmes should also track other critical incidents that might cause changes such as macroeconomic factors, new infrastructure or regulations or climatic events. The effects of other aid programmes should also be taken into account. If such factors might also have influenced change, programmes should adjust their estimates of the degree of change which can be attributed justifiably to programme intervention.

Qualitative methods

Qualitative methods are useful to investigate change processes (eg intermediate changes in terms of behaviour or practices). Qualitative assessment can help understand the role of programme interventions in contributing to observed changes and identify other contributing factors unrelated to the programme. For instance:

- Field diaries of observations during staff field visits can be used to document what changes are really happening and why.
- In-depth interviews or focus group discussions can be used to capture the opinions of relevant market players in order to explore why changes have occurred and the factors that contributed to change, including the role of programme intervention in any change.

Level of effort required

Plausible attribution is about balancing credibility with practicality. Programmes typically only have limited resources with which to conduct M&E. Therefore programmes should focus their effort on measuring some levels of the strategic framework and indicators with more rigour than others.

The starting point is to recognise that if change is happening at one level of impact logic, but not at the next, then the chain of causality is broken. Before a programme can estimate its higher levels of impact in terms of growth, access and poverty reduction, it is vital to establish that change has occurred at lower or intermediate levels, ie market system change; only then is it possible to establish that change has occurred at each subsequent, higher level.

The emphasis of measurement changes as focus shifts up the strategic framework, from attributing change definitively to programme intervention at the lower or intermediate levels to transparently testing the validity of the links in the chain of causality or impact logic at the higher levels:

- Changes at the market level as a result of interventions should be measured rigorously. At these levels, programmes should aim to assess the intervention's impact – be that direct or indirect – with certainty.
- Changes at the growth and access level should be measured to estimate the extent to which they have resulted from identified changes in the market system. Measurement should not try to prove definitively the programme's contribution to improved growth and access but gauge whether the link in the causal chain between market systems and growth and access is valid.
- Changes at the poverty reduction level should be measured to estimate whether they have resulted from improved growth and access amongst the targeted population. Measurement should aim to gauge whether the link in the causal chain between growth and access and poverty reduction is valid.

3E: ASSESSING CHANGE

3E.5 Key challenges and how to deal with them

Can small programmes measure rigorously?

Rigorous measurement undoubtedly requires resources and this has to be accommodated within programme design. However, it is not the case that a rigorous approach is something that only large M4P programmes can do.

If programmes are genuinely so small that they lack the resources to measure what they do appropriately, then more fundamental questions should be asked of programme design. On the one hand, such limited resources are unlikely to result in meaningful impact. On the other hand, programmes will be starved of the information necessary for effective intervention and assessing and demonstrating impact to funders.

That said, programmes can often use the resources at their disposal more smartly:

Make sure that the prove and improve objectives of M&E don't get blurred

Many programmes tend to focus on accountability requirements and allocate the bulk of their scarce resources to this. This tendency often causes them to focus disproportionately on measurement at the higher levels of the strategic framework, because "that's what funders want to hear about". However, as this section has made clear, definitively attributing higher-level impact to programme intervention is extremely difficult, irrespective of the level of resources available.

Consequently M&E may fail to achieve both its objectives: it does not generate the information that programmes need for decision-making (improving) nor does it generate credible information for accountability purposes (prove).

The concept of plausible attribution is explicitly about trying to tailor M&E to the level of resources available to a programme. The emphasis is on generating a credible impact story-line for funders rather than providing scientific proof. In this way programmes need not sacrifice the collection and analysis of information for their own intervention-steering purposes, which is vital for effective intervention.

Be smart, be selective

Programmes also have a tendency to try and collect as much information as possible, which is expensive and unproductive. A clear strategic framework and impact logics can help programmes to focus on information that is essential rather than 'nice to have'. A distinction between improve and prove uses can also help efficiency. Information for routine internal consumption does not need to be 100% accurate, comprehensive and polished. Information for external consumption tends to focus on a small selection of indicators or success stories captured and presented periodically.



VOICE

Information has to be 'good enough for now' to allow you to make timely decisions and estimate and report progress. Otherwise you run around endlessly collecting and measuring, trying to get it perfect – by the time you're finished it is usually too late! Our experience has been that regular reality checks using multiple sources of information are more useful.

Build M&E into regular work

Finally, M&E need not be left to large-scale, periodic assessments conducted by (expensive) external specialists. Most of the information can be collected routinely by programme staff involved in programme intervention – it should be something that everybody can do. Clear impact logics can help staff do this.

Should M&E be outsourced?

M&E does require some level of technical expertise. If that does not exist within the programme team then this may need to be outsourced. However the routine nature of M&E in M4P means that some form of in-house capacity is desirable, to establish impact logics, support staff in basic monitoring and information collection (see above), interpret and aggregate information for reporting purpose and maintain appropriate rigour.

However, some aspects of M&E can be usefully conducted by external parties, if resources permit. This provides programmes with access to a larger pool of technical expertise, frees up programme staff time and can ensure a measure of independence in M&E which may be important to ensure information has credibility in the eyes of funders (eg external evaluations). One of the most common areas to outsource is large-scale data collection (eg surveys), which require specialised methodologies and considerable human resources. Another area might be where a programme needs to 'hide' its involvement in assessment processes, perhaps for cultural reasons or due to political sensitivities, and so uses a third party which is regarded as more impartial or acceptable.

As with market assessment, the key point is that outsourcing does not mean handing over all elements of the M&E process. Programmes need to set the overall framework for M&E, supervise data collection and, in particular, ensure that they are involved in the interpretation of data. Experience indicates that the more closely programme staff are involved in the process the more useful the results are.

4. MANAGING AND GOVERNING M4P PROGRAMMES

4.1 Introduction

The management and governance of development programmes is a broad and important topic that cannot be codified into hard-and-fast rules which are common across all agencies and contexts. This Section focuses only on salient implications that arise from operationalising the M4P process as outlined in the *Guide*. For the sake of simplicity these implications are grouped under three headings:

- **Personnel and capacity requirements:** skills sets and orientation, leadership, balance between in-house and outsourcing and building facilitation capacity.
- **External relations:** differentiating types of partner, relationship management, and credibility and branding.
- **Systems and structures:** budgeting and financial management, contracting, programme structure and programme steering.

Some of the implications covered in this section relate closely to the 'Getting Started' considerations covered in Section 2.

4.2 Personnel and capacity requirements

As an approach that requires insight, innovation and influence rather than financial firepower, M4P is especially dependent on good people. Finding, training and motivating the right people is therefore critical.

There are four issues in particular that programmes need to get right: (a) skills mix; (b) leadership; (c) balance between in-house and outsourcing; and (d) building facilitation capacity.

Skills mix

Facilitating market system change requires a blend of skills sets or personality types: generalists and specialists, innovators and strategists, planners and searchers.

The general experience is that the M4P approach can be learned and does not need specific technical expertise. Some programmes have successfully hired non-specialist, bright and dynamic people and then developed their capacity to pursue an M4P approach in specific markets. They haven't relied solely on specialists with lengthy CVs (who can sometimes be resistant to new ways of working).

A balance of skills sets is likely to be needed in a typical M4P programme:

- **Management skills.** Particularly in larger programmes, with multiple interventions in a range of markets. Some ability in M&E is also important for all staff.
- **Political economy skills.** The status quo often represents a 'political' settlement which favours vested interests. Pro-poor change tends not to favour entrenched vested interests, which may resist change. M4P programmes therefore need a sound understanding of the political economy of change and to be skilled in overcoming resistance to change.
- **Analytical skills.** The ability to stand above individual market players' perspectives and look at the wider sector context (an economist's perspective). Programmes need to be able to analyse and identify constraints and opportunities at a systemic level.
- **Business knowledge and skills.** It is essential for programmes to understand the private sector. Many interventions are through or with the private sector, so having people with the right skills and credibility with private sector is important.
- **Technical skills.** People who possess a strong interest in a target sector or specialised function or tool.

It is not possible to find people who have this complete package of skills. Even in the largest programmes, it is not feasible or practical to maintain a team of staff which covers the entire range of skills and orientations described above. Depending on the nature of specific markets and interventions, programmes need to use external people to supplement the core competence of programme staff with specific technical or sectoral knowledge (see below). These requirements tend to change over time as interventions evolve and programmes shift their focus.

4. MANAGING AND GOVERNING M4P PROGRAMMES

Leadership

The role played by managers of M4P programmes can be different from conventional development programmes. Conventionally, managers are typically tasked to deliver specific outputs. The role of M4P managers is to serve as catalysts of change. Managers need to be entrepreneurial, anticipating and reacting to developments in the market and the ambitions and ideas of market players. Managers need to have credibility and vision and be able to act entrepreneurially, investing in the ideas and ambitions of others. Their personal credibility and ability to create an effective programme culture and bring stakeholders together is often critical to programme success.

The selection of managers should emphasise their ability to think strategically and display entrepreneurship rather than focus solely on technical skills or track record in managing inputs and outputs within conventional development programmes. Terms of reference for managers will need to reflect these differences.

M4P programmes are often organised around major themes corresponding to particular markets or market segments (eg housing or insurance in a financial market development programme or wool and textiles in a commodity and service market development programme). Other M4P programmes are organised around particular market functions (eg market research or regulation). Each of these themes typically has its own budget and intervention strategy, but otherwise has considerable freedom to develop their own lines of work. For such flexibility to work, a ‘theme champion’ might also be needed drive work forward with consistent focus and energy and also represent the programme to market players. Consistency and continuity is needed to build a programme’s profile and credibility with relevant market players.

Sub-dividing programme leadership in this way allows larger M4P programmes with broad remits to specialise and, in so doing, to penetrate deeper into the development of specific markets or parts of markets. However, to be successful theme champions need to be guided by an overarching programme strategy to ensure that all lines of work add up to a coherent whole and contribute to programme goals.



VOICE

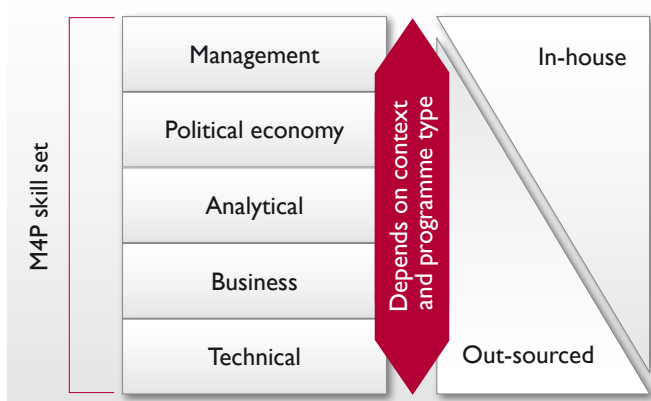
Getting good people is part of the challenge. But once you’ve got them and agreed a strategy, you’ve got to give them space, resources and support to get on with it (within reason, of course!).

Balance between in-house and outsourcing

It is not realistic for most programmes to recruit staff with all the requisite skills or orientations for the duration of a programme. Programmes need to strike a balance between maintaining in-house core competencies and outsourcing specialised roles for defined periods of time.

Experiences differ in this regard depending on context and programme type (see Figure 20). What is clear is that specialised inputs need to be delivered within a wider process of facilitation. Therefore, someone needs to decide what skills are needed, when, how they will be used and where they will come from. Programme staff need to be competent to make such determinations, ie as a basic minimum they need to have clear ownership and understanding of the process of market facilitation. Specialist skills can be recruited as needed.

Figure 20
Skills sets and sources



TIP

Beyond core competence in the M4P approach and programme management, it is difficult to be definitive about which skill sets are best done in-house and which are best outsourced. For instance, with regard to political economy, influencing government may be better achieved by well-placed political advisers which the programme contracts temporarily rather than a full-time lobbyist on the programme staff.

The extent of outsourcing can vary (according to context and programme type) from the commissioning of specific tasks to specialised suppliers to contracting-out entire parts of the facilitation process to ‘sub-facilitators’.

Commissioning specific tasks

Programmes need to contract a range of suppliers to provide specialised services. This might include working with market research companies to generate market information or conduct impact assessment surveys, using a communications specialist to conduct awareness-raising campaigns or hiring a technical specialist to analyse a specific market constraint.

The key lesson from experience is that programmes cannot outsource the ‘thinking’ behind market facilitation to such suppliers. Programme managers must understand exactly what they need, in what form and for what purpose and translate that into tight

4. MANAGING AND GOVERNING M4P PROGRAMMES

terms of reference against which suppliers can be contracted and their performance monitored.

For example: Many programmes have tried to outsource their market assessment and impact assessment functions, with mixed experience. Market research companies cannot design survey methodologies and questions in response to a loosely defined concept of market analysis. They need to be briefed on background (eg preliminary analysis conducted) and what the programme wants to achieve with market research. Most importantly, programmes cannot expect them to interpret information generated.

Similarly, M&E and information management is integral to effective intervention, to improve performance and prove impact. External specialists can provide specialised technical advice, independent assessments or human-resource intensive information gathering. But programmes cannot expect suppliers to understand (let alone define) their strategic frameworks and impact logics.

Outsourcing facilitation

By contracting sub-facilitators programmes can scale-up their coverage more quickly than by working alone. Sub-facilitators may also bring new networks, connections, expertise and resources. If sub-facilitators are well placed in a local context they can be a means of rapid localisation and ownership over the market development agenda and help a programme build credibility more quickly than it could coming in 'cold' to a situation.

Despite these apparent benefits, the experience of working through sub-facilitators has not proved straightforward. Unlike outsourcing tightly defined specific tasks, outsourcing facilitation requires that sub-facilitators 'buy-in' to the M4P approach and are competent in facilitating systemic change. Unfortunately, the advantage of sub-facilitators – being well placed in a local context – can also be a source of disadvantage: they tend to

have established patterns of working, structures and systems and other paying clients which are not consistent with M4P (see Figure 21). In practice therefore, the extent to which facilitation has been completely outsourced has been limited.

Building facilitation capacity

The reality is that M4P is a relatively new and distinctive approach. In many contexts, market facilitation skills are not readily available in local labour markets, and 'ready-made' sub-facilitators (or even specialised suppliers) are not available for contracting. In some countries it has proved necessary for funders and facilitators to commit resources to building effective facilitation capacity as part of programme intervention, either within programmes or in other organisations. The extent to which this is necessary will vary from country to country.

Some programmes have taken the step of scaling up staffing numbers initially to implement preliminary interventions in-house, but with a view to helping staff to spin off at a later date and thus create a pool of M4P expertise to which the programme can outsource tasks or which can be used by other programmes pursuing market development objectives.



RISK

If a staff spin-off strategy is pursued, it is important to ensure that remuneration rates within the programme are consistent with prevailing rates for consultants or NGOs. If rates inside the programme are significantly higher than outside, there is a risk that a spin-off strategy will be unattractive to staff or if they do spin off, they are likely to remain dependent on the programme.

Such a personnel and capacity building strategy correlates with the idea of large M4P programmes acting as 'supra-facilitators' so they can achieve significant coverage and impact without having to main large organisational structures in their own right.

Figure 21 Pros and cons of outsourcing facilitation

Advantages	Disadvantages
SMALL PROGRAMME OUTSOURCING FACILITATION	
<ul style="list-style-type: none"> • Manageable span of control • Transparency of contracts with established players • Building on local facilitators • Appeals to funders as programme 'overheads' are kept low and fund disbursement is predictable 	<ul style="list-style-type: none"> • Programme reduced to role of grant manager • Limits learning about what's going on in markets • Limits flexibility to adapt to changing markets • Capable facilitators with M4P vision and competence may not exist and may have to be developed • Risk that programme becomes a scattered and incoherent mix of outsourced interventions
LARGE PROGRAMME WITH LIMITED OUTSOURCING OF FACILITATION	
<ul style="list-style-type: none"> • Flexibility and scope for adaptation and learning high • Development of market-specific knowledge and methods • Ensures strategic coherence and consistent application of M4P approach 	<ul style="list-style-type: none"> • Manageability of large and complex range of interventions and activities • Less appealing to funders as programmes perceive staff costs as high

4. MANAGING AND GOVERNING M4P PROGRAMMES



TIP

Ideally a programme should begin with strong in-house implementation, so that it can learn and make the case for M4P. It should then shift to a more outsourced approach, accompanied by measures to inform and build the capacity of potential sub-facilitators.

4.3 External relations

M4P programmes operate in complex environments and tend to interact with a diverse range of external partners or stakeholders. The complexity of this stakeholder picture can present challenges for programmes. There are three important issues that programmes need to deal with: (a) differentiating types of partner; (b) relationship management; and (c) credibility and branding.

Differentiating types of partner

The terms 'partner' and 'partnership' are overused in the development field; like the term 'stakeholder' they can encompass a variety of relationships. M4P experience indicates that it is useful to be clear about what partner or partnership means in different circumstances and for different purposes (see Figure 22).

Specifically, it is essential to differentiate between a programme's political or legal partnership (eg as part of a bilateral agreement) and the variety of partnerships a programme may have for operational purposes (ie with co-facilitators or market players) to intervene in market systems.

- *Political or legal partner.* Depending on the country, funder and type of programme, a programme is often obliged to have a political partner or official counterpart, usually a government department or agency, for the life of the programme. The programme may be housed within and funded through government or government may only have a steering and oversight role (see Section 4C and also Section 2).
- *Operational or intervention partner.* Depending on its type and context a programme may have an operational partner or partners, eg a joint venture with a co-facilitator or a contract with a sub-facilitator for the duration or substantial part of the programme.

In addition, a programme will have an array of shorter-term intervention partnerships with market players for the implementation of specific interventions.

Differentiating between these types of partners is important when it comes to managing relationships and expectations effectively:

- A *political partner* is important because it gives the programme its 'licence to operate'. In principle a political partner should

share a programme's objectives and support its strategy, but that is often not the case. Political partners can have complex, politicised agendas and lack capacity and flexibility to engage substantially in the diverse range of interventions of a typical M4P programme. So, in practice the role of a political partner is likely to be about oversight or endorsement of the programme or activities focused tightly on roles that only government can play (eg regulation). However a programme cannot afford to ignore a political partner: if it wants a licence to operate, a programme needs to maintain good relations with its political partner. This usually means supporting the political partner to undertake activities which it regards as a high priority – even if they are sometimes peripheral to the programme's main strategy. M4P has to deal with *realpolitik*.

- Programmes have more flexibility when it comes to *operational or intervention partners* (see Section 3D). As far as possible 'why' should lead 'who', ie partner choice should be driven by a consideration of their capacity and incentives to perform specific roles: it's not just about partnership for partnership's sake.

Operational partners may take two forms: (a) another development agency external to the system, eg an international NGO; or (b) a player from the market system, eg a business or a university. In the latter case, facilitators need to ensure that the relationship is conducted in a manner consistent with the guidance provided in Section 3D.

In both these forms, the partnership is temporary. The programme is engaging with an appropriate partner, over a finite period, with the intention of catalysing some form of change in market system.

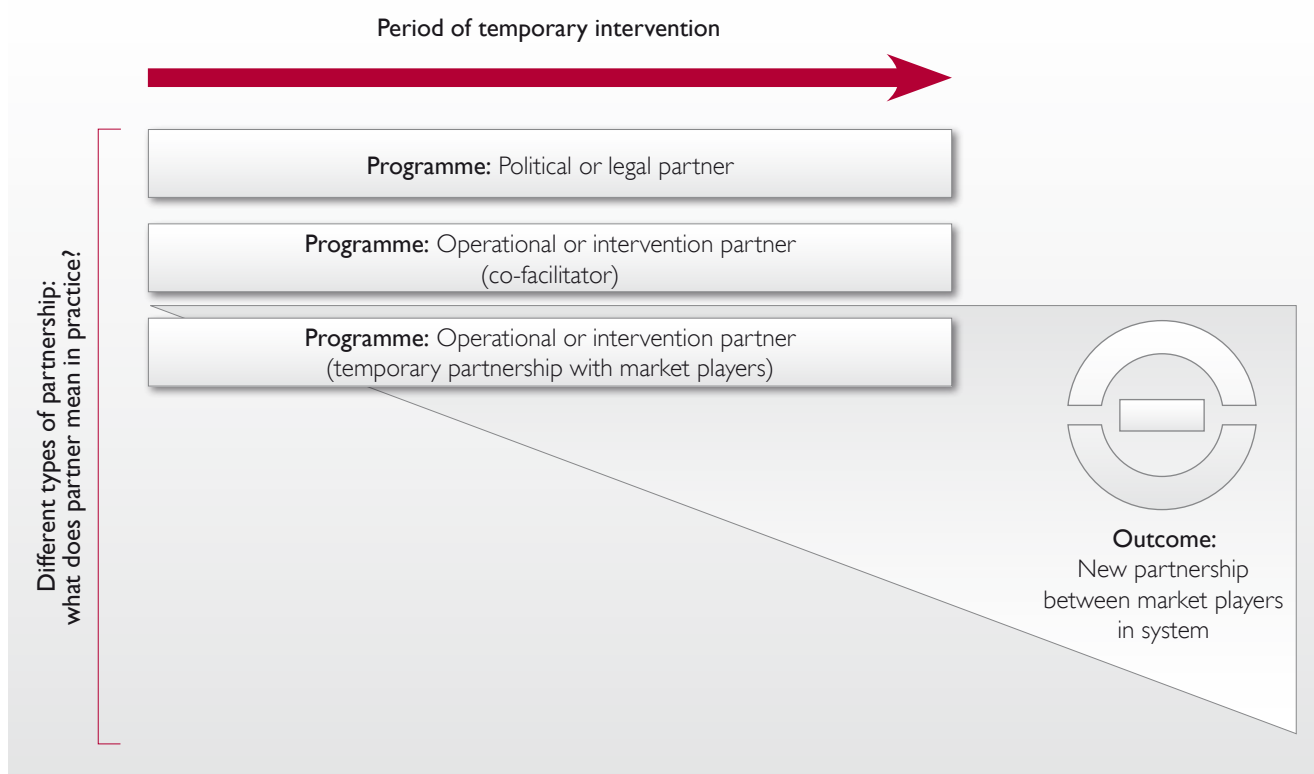
- There is another type of partnership to be considered: partnerships as *outcomes*, ie new arrangements between players in the market system that emerge as the outcome of intervention. For instance, government might form a public-private partnership with a BMO to delegate to it licensing issuing and fee collection authority as part of an improved regulatory framework for an industry.

Relationship management

Smart public relations and communications and management of stakeholder expectations is essential in M4P. The market development task can be complex and is not always easily communicated to stakeholders, whether they are direct partners or other local or international stakeholders. Simple and clear messaging is therefore vital. However, different types of stakeholders will have markedly different expectations about a programme's work, so a one-size-fits-all approach does not work. Programmes have to be effective at stakeholder analysis and packaging and communicating messages in a tailored way to suit different stakeholder groups.

4. MANAGING AND GOVERNING M4P PROGRAMMES

Figure 22
Differentiating types of partner



TIP

Programmes should avoid falling into the 'tell everybody everything' trap which is common in development. Whilst such an open approach might be seen as transparent, in reality the vast volumes of information – much of it technical and jargon-laden – generated in development programmes are more likely to be seen as a smokescreen and result in confusion or suspicion rather than understanding.

The portfolio approach (see Section 2) is important in this regard, as it can be used to ensure and demonstrate diversity and balance in a facilitator's work (especially important if a programme has different stakeholders with multiple objectives). A portfolio approach can allow a project to maintain a mix of interventions which achieve different criteria (eg gender representation, geographic locations or consistency with government or funder policies): different criteria can then be highlighted in targeted communications to respective stakeholders.

Regular review is required to assess and revise the portfolio mix. This allows the programme to shift the direction of the overall portfolio in a way which meets stakeholder concerns while still allowing it to pursue diversity.

Credibility and branding

M4P programmes need to be credible in the eyes of market players. Establishing credibility and influencing players in the public and private sectors is vital to successful facilitation of systemic change. Credibility may be established in several ways:

- Ensuring staff profiles are credible amongst key stakeholders.
- Initiating and developing the programme through a joint process with stakeholders.
- Involving credible stakeholders in the governance of the programme.
- Working through credible market players or outsourced suppliers or sub-facilitators.

Managers and staff should have, or develop rapidly, the credibility to influence stakeholders across the public and private sectors. In countries where government is sceptical of new, more market-oriented approaches, it may be useful for programmes to build credibility by demonstrating how markets can be made to work better for the poor through private sector initiatives before attempting to influence policy-makers. However, systemic change will be reinforced if the new business models introduced by the private sector are underpinned by policy and institutional change.

4. MANAGING AND GOVERNING M4P PROGRAMMES

Branding can help establish a programme's credibility. Some programmes have achieved this by trading on their development links. In other contexts, programmes have done this by pursuing a strategy of localisation, in terms of positioning within the domestic context, as well as through staffing profiles.

Successful programmes also develop a 'brand' or distinctive voice with which to project their influence in a sector – often connected to a programme's reputation for insight or innovation. It is harder for broad, multi-sector programmes to obtain such credibility and build a brand since their broad coverage requires that they communicate with a diverse range of stakeholders. For these programmes it may be more effective to build a voice or brand at the intervention level. This relates to the idea of 'theme champions' (see 4.2).

The need to stimulate local ownership means that programmes often seek to be invisible to the final target group or 'beneficiaries' – ie they avoid waving a funder's flag – so as not to come between the target group and the market players who serve them. However, for a number of reasons, invisibility may not be a realistic or desirable strategy with direct partners, such as government, BMOs or large firms. Funders will often want to see a programme with a certain profile that matches their expectations (see Figure 23).

Figure 23
What should a programme brand?

	To brand	Not to brand
Activities with market players		✓
Market research	✓	
Events on programme experience	✓	
Capacity building of other facilitators	✓	
Case studies	✓	

It is often useful therefore for programmes to develop multiple brands – towards market players (where the development image is downplayed) and towards funders (where the market image is downplayed).

4.4 Systems and structures

The flexible and facilitatory nature of the M4P approach – involving multiple interventions and multiple partners – differs from conventional development programmes and does not

always fit easily within conventional systems and structures for programme management and governance. Four areas in particular can be problematic: (a) budgeting and financial management; (b) contracting; (c) programme structure; and (d) programme steering. There are no definitive ways of dealing with these areas, but some of the key issues are considered below.

Budgeting and financial management

Budgets and financial management systems of development programmes are usually split into overheads (ie management and administration costs) and intervention costs (ie expenditure directly related to outcomes or beneficiaries). Concerns about aid effectiveness and efficiency mean that funders want to keep the level of overheads as a proportion of overall programme expenditure as low as possible. For programmes that deliver things directly to beneficiaries (eg vaccinations or seeds) this separation is relatively straightforward and the concern with delivery efficiency is warranted.

For M4P programmes this separation – as it is handled conventionally – can cause problems. M4P programmes do not deliver things directly, but work indirectly to influence others. This is a human resource intensive process. The problem is that programme staff costs typically fall under the heading of overheads, so there is a tendency for M4P programme to over-report overheads and under-report intervention costs – in effect, activity by staff is regarded as waste, something to be kept to a minimum. This distorts the picture of programme performance, from both a management and a governance perspective.

It is imperative that funders and facilitators understand the nature of the facilitation process from the outset and ensure that facilitation costs are located appropriately in budgeting and financial management systems, ensuring that they are included within intervention costs and not overheads.

A second issue is the level of detail required in budgeting and financial management. M4P programmes tend to undertake a significant number of interventions with a diversity of partners, none of which individually may require significant amounts of money (indeed they often entail matching contributions from partners). Unlike single intervention, single partner programmes, it is therefore difficult to plan each of these interventions in detail far in advance, making accurate budgeting a challenge. Moreover, the sheer volume of activities can make financial reporting onerous in the extreme (eg in terms of number of budget lines).

The experience has been that it makes more sense to define budgets and financial reporting on the basis of broader areas of intervention (eg on basis of cost per market or main areas of intervention). The corollary of this broader definition of budget lines is that programme management needs to ensure stringent in-house financial monitoring, scrutiny and cash-flow management.

4. MANAGING AND GOVERNING M4P PROGRAMMES



TIP

Initial interventions (Step 1 of the pathway to crowding-in) can help programmes and their funders estimate market or intervention costs and enable budgeting to become more accurate through the life of the programme.

Contracting

As discussed in Sections 3D and 4.3, M4P programmes tend to have a variety of partnerships, which require different forms of contracts.

Most obviously, any M4P programme will be subject to a single overall contract between a contractor responsible for implementing the programme and a funder who is financing the programme (for larger programmes there may be several contractors and funders). This contract lays out the fiduciary responsibility of the contractor and provides the basis for its legal accountability to the funder. The contract for an M4P programme will be similar in most respects to that for any development programme. However it should make provision for the flexibility requirements of the M4P implementation process described throughout the *Guide* and, as far as possible, emphasise outcomes and sustainability rather than the minutiae of inputs and activities.

Once a programme is up and running within its main contract, the programme will need to engage a diverse range of different partners, which will require different contracting considerations:

- *Sub-facilitators.* Some programmes may outsource substantial elements of the facilitation process to other parties – sub-facilitators. These are likely to be well-established organisations and familiar with formal contracting arrangements. The key point is that unlike commissioning a supplier for a specific technical task (such as market research) which can have very tight terms of reference, a sub-facilitator will be required to exercise creativity and discretion. Therefore it is important that the contract transfers the M4P impact logic and facilitation process to the sub-facilitator to ensure their genuine commitment and ability to facilitate systemic change. Experience suggests that this may require capacity building of the sub-facilitator and some level of ongoing support, which should be reflected in the contract.
- *Market players.* Most intervention activities are likely to involve working with some form of market player, such as a lead firm, a government agency or representative organisation. In some cases the level of interaction may not be sufficiently high to warrant a contract – a simple MOU may be sufficient. However if a contract is required it is important to use the principle of ‘right-sizing’ (see Section 3D).

For all partner types, contracts should try to reflect and build on incentives for good performance rather than penalise bad

behaviour, partly to ensure ownership over activities and partly because in many countries enforcement of contracts for non-performance is expensive and time-consuming.

Because a programme’s involvement with a market player will be relatively short-term and of a low financial value, the levels of risk involved do not warrant burdensome contracts and bureaucratic contracting processes. Lengthy competitive tendering processes may not be appropriate in weak environments where there is a scarcity of competent market players or where players lack the capacity to engage in such processes. Contracting needs to preserve a facilitator’s ability to respond to partners who often operate on a different timeframe to a development programme (eg private firms). Contracting at the local level – for low-risk contracts at least – can help ensure rapid turnaround.

It is important to build in checks and balances if local contracting processes are used.

For example:

- *Ensure negotiations and contracting are handled by a team from the programme, rather than an individual.*
- *Ensure that financial offers from partners are signed by the head of the organisation in question (not just communicated by email correspondence).*
- *If competitive processes are not realistic, ensure that the reasons for non-competitive awards are documented and maintained alongside the contract.*

Programme structure

In M4P local ownership is critical for fostering credibility and the ability to influence others to change practices and take risks. An important success factor in M4P programmes has been the extent to which key stakeholders in the public or private sectors have taken ownership of a programme’s objectives and strategy. Experience shows that ownership depends upon the extent to which concerned stakeholders are empowered and able to exercise strategic leadership rather than on a specific structural or legal form. This is borne out by the range of institutional and legal forms that define various M4P programmes.

M4P programmes can take a variety of legal forms:

Projects or programmes

Are a common legal form. Typically, contractors (international in the main) are contracted directly by a single funder. For accountability reasons, inputs and outputs are often highly specific and detailed. Such tight specification conflicts with M4P’s requirements for: flexibility and access to diverse skills; incremental growth at a pace defined by opportunity; and longer timeframes. Contracting is typically conducted ‘off-shore’ and projects often operate outside of local governance arrangements. Projects can be co-financed by many donor agencies. However, this in itself has further

4. MANAGING AND GOVERNING M4P PROGRAMMES

implications, as most agencies have specific accountability and process requirements. This can lead to tensions between funders and put pressure on programmes to be 'all things to all funders'.

Trusts

Have been used by a number of programmes. Country-specific programmes are established as trusts 'on-shore' in the host country. Multi-country and multi-funder programmes have more often been established as trusts 'off-shore'. Trusts can be legally complex, challenging to establish and costly to manage. In principle, they can offer a number of advantages (over projects) in respect of the localisation agenda:

- Trusts can offer a more convenient vehicle for pooled donor agency funding arrangements. By appointing trustees a trust can reduce the cost and management time spent by funder staff on oversight. This can be particularly attractive in pooled funding arrangements.
- Projects are often subject to oversight from a form of steering committee. Trusts on the other hand have the option of appointing a Board of Trustees. The responsibilities of a board member are often legally defined and committed, unlike those for steering committee members. As such, trusts can offer stronger management, advisory and oversight commitments than projects.
- If trusts can attract the right calibre of board member, the benefits can be immediate and lasting. Board members can help programmes to establish networks, credibility and profile quickly and visibly. They can offer opportunities for government partners to take a real and committed interest in M4P programmes.
- Finally, trusts can offer longer-term career opportunities for national staff. This assumes that the trust manages to generate longer-term funding streams, but staff will be working for a local organisation and not under contract to an off-shore project management company. This can help attract staff candidates from outside the typical pool of labour from which donor-funded projects usually draw.

Government

In principle, it is feasible and even desirable for certain aspects of facilitation to be financed, owned and housed within government. Facilitation is a non-commercial activity and it therefore requires public funding of some kind. Whilst the facilitation focus will change and adapt, such is the scale of the challenge in many lower income countries that the facilitation function itself (ie specialist facilitation expertise and skills that might be applied to a range of challenges) may be required for many years. Getting government on board is therefore important – notwithstanding that government will often be a major focus for change itself!

In practice, it is not always easy for a market development facilitator to be located close to or within government and still perform effectively. To do so, a number of conditions need to be met:

- Facilitators need to maintain the independence of their analysis, their dynamic, flexible and entrepreneurial operating culture, and their relationships with key non-government players in markets.
- Facilitators need to access and lever key contacts and relationships across government, afforded by a proximity to government.

There are examples of (semi-)autonomous agencies of government that are tasked with private sector engagement and development functions (eg investment promotion agencies, export development agencies, competitiveness commissions). However, facilitating market change goes beyond each of these narrowly defined functions. As such, it might be desirable and possible for facilitators to be close to or within government, but in practice this is often difficult to achieve without compromising the independence of the facilitator:

Programme steering

In addition to programme structure, the way the strategic direction of the programme is steered can be crucial to establishing an M4P programme's credibility in a local context. An important distinction needs to be made between single-sector and multi-sector programmes in this regard. Because change is an unpredictable process, the ability to set and, periodically, adjust the strategic direction of the programme to respond to changes in market conditions is essential for success. In the case of single-sector programmes, committed stakeholders serving on the governing body are well placed to track and respond to such changes. They may also fulfil the useful roles of acting as champions and facilitators of pro-poor change and provide the programme with the legitimacy and credibility needed to be successful.

Where programmes address multiple markets, it is more difficult to find informed, legitimate and credible stakeholders across the markets to be addressed. The boards of multiple market programmes should be made up of people who are champions of a market-based approach to development but their role could be limited to setting guiding principles and the exercise of fiduciary oversight. Strategic leadership over individual market interventions may be left to informed, committed and credible stakeholders within each market. In some instances champions of a market-based approach may be few and hard pressed to devote the time needed to provide effective leadership. In such cases, funders may have no alternative but to provide strategic leadership themselves. They will need to fulfil the role of multi-sector programme boards, involving stakeholders in providing leadership in individual market interventions.

4. MANAGING AND GOVERNING M4P PROGRAMMES

Some programmes have established advisory committees of key stakeholders to steer the programme. The efficacy of such committees has been mixed.

The advantages of these committees are:

- They are popular with funders as they are associated with local ownership.
- They usually comprise prominent and well-connected members, giving the programme credibility and entry points.
- They can help funders develop good local networks.
- Their multi-stakeholder make-up can provide the programme with balance, eg avoid over-reliance on just government.

However advisory committees have disadvantages, too:

- Prominent members are usually busy people and cannot devote sufficient time and effort to the steering role; membership may simply become a matter of prestige rather than value-addition.
- Powerful members can exert pressure on the programme to support their 'pet' projects.
- Members, by their very prominence, may actually be quite distant from the types of market in which many M4P programmes operate and therefore might not be the market players that the programme actually needs.



TIP

An alternative or supplement to a single programme advisory committee is an informal sounding board of market players which can guide a programme's interventions in individual markets in which the programme is active, rather than a highly formalised structure.



RISK

Programmes are sometimes anchored in government with a view to giving government ownership over the programme. However in practice government is given no fiduciary power or steering role. This lack of clarity about what ownership actually means can raise false expectations and adversely affect a programme's licence to operate.



5. GOOD PRACTICE NOTES

Successful applications of M4P require broad consistency with the principles, frameworks and overall process outlined in preceding sections. Ultimately, as in any programme situation, what matters is what people and organisations do in carrying out the specific activities required at each stage of implementation to bring about specific change; in turning an approach into reality. In some cases this is concerned with adjusting standard tools and methods; more commonly it is about applying M4P thinking to analysis and actions.

This section presents a range of operational good practices which organisations have used, are using or which are likely to be of use in the future. These good practices relate to:

- The ‘codified’ experience of programmes – organisations’ activities condensed into a recognisable form.
- Organisations’ experience in adapting and using standard tools.¹⁰

For each good practice, the notes summarise what the good practice is and why it is important, how it is used, the factors that are important for successful use and signposts to more information.

This is not an exhaustive list – nor does it deal with the many generic management practices that are as applicable to M4P as to any other programme. The notes here focus on the most important and M4P-specific experiences and present these in a summary format.

5.1	Vision building
5.2	Implementing demand-side surveys
5.3	Access frontier
5.4	Log frame
5.5	Developing the offer
5.6	Developing BMOs
5.7	Making a deal with lead firms
5.8	Promoting value chain development
5.9	Understanding incentives
5.10	Giving grants to business
5.11	Guiding participation processes
5.12	Livelihoods analysis
5.13	Knowledge management system
5.14	Intervention impact logics
5.15	Interconnected markets
5.16	Stimulating demand
5.17	Anatomy of a transaction
5.18	Rapid market assessment

¹⁰ Tools are discussed generically rather than with respect to branded versions – although these are cited where appropriate.

5. GOOD PRACTICE NOTES

5.1 Vision building

What and why?

How to develop 'pictures' of how market systems should/could work in the future, to provide the basis for planning and intervention design.

Without a vision of how market systems should work in the future – broadly, of who should carry out and who should pay for different market functions – interventions can lack direction and ambition. Many do lack this vision and are unclear of how to work with partners to develop it.

How does it work?

In practice, vision building includes a spectrum of different tools. These vary in terms of the analytical frameworks used and, more important, the extent to which they emphasise (a) participatory processes as opposed to (b) externally driven (product) analysis. Vision building approaches¹¹ differ according to where they lie in this process-product spectrum (Figure 24).

- *Process-orientated.* The emphasis is on capturing the perspectives of market participants and building future visions and plans around these. Workshop facilitators balance the bottom-up views of market players – often focused on business-specific problems – with wider analysis from their own/other experiences.
- *Product-orientated.* Primarily using desk-based analysis and discussions with key informants, the emphasis here is on developing a tight 'product' of a detailed view of the future or several different future scenarios.

Key factors for successful use

Process orientation

These tend to revolve around workshops with key market participants and require:

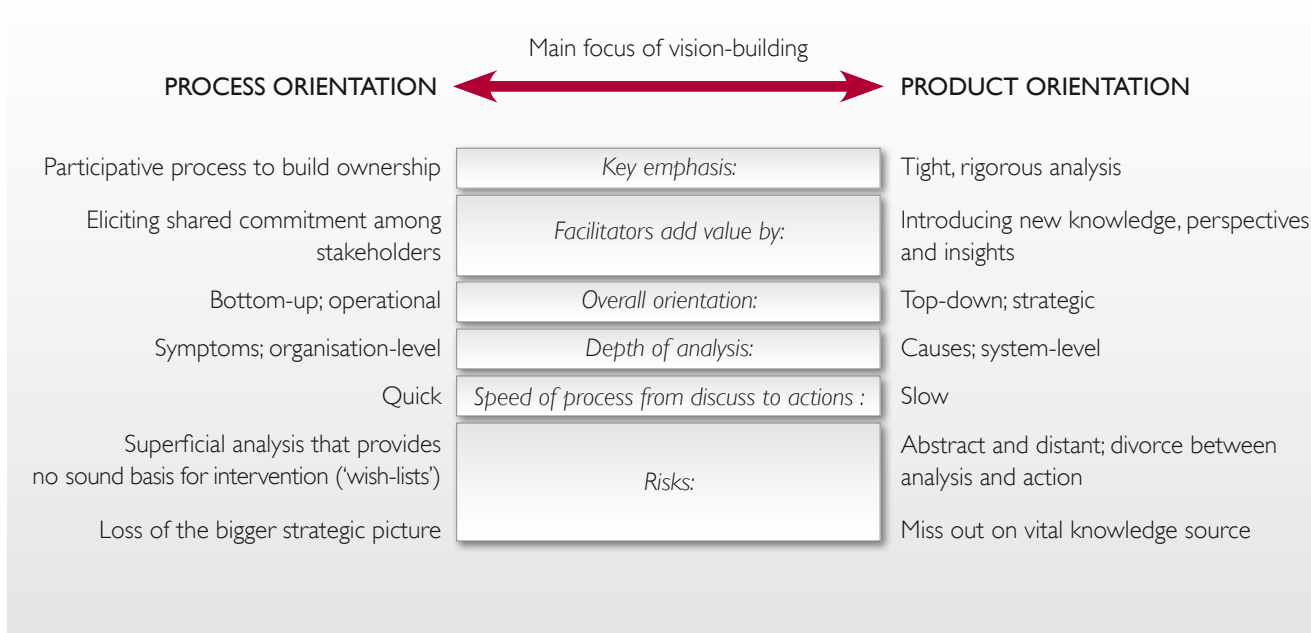
- Appropriate participants. Representative but ensuring that existing and potential leaders and change agents are present.
- Communication with participants. Prior communication to participants establishes the key objectives of (a) the workshop and (b) the wider process of intervention of which it is a part.
- Competent and informed moderator. Skilled in, at minimum, the process of workshop facilitation and – depending on the objectives of the process – knowledgeable on content.
- Informed by initial analysis. How much prior analysis is necessary also depends on the objectives of the process. More emphasis on gaining a consensus for immediate actions requires less attention to analysis. For instance, one well-known approach – PACA – envisages a process of analysis and fieldwork including a series of workshops taking only two weeks. Another – SHAPE, a process aimed at developing sector strategies – takes 4-5 months.

Product orientation

These tend to be based on desk-based analysis and discussions with key informants and require:

- Correct identification of the strategic factors impinging upon market system performance. This might include trends related to competition, technology, market opportunities, consumer tastes, regulations and standards, environmental pressures and governance issues.

Figure 24
The continuum of approaches to vision building and market analysis



¹¹ In practice, building a vision of a market system in the future and analysing current market conditions are closely linked.

5. GOOD PRACTICE NOTES

- Projection of the impact of likely future trends on market system performance – establishing a ‘no intervention’ scenario of the future.
- Projections of the future if key systemic constraints are addressed – establishing a ‘with intervention’ view on the basis of actions to enhance market performance.

At their most developed, these analyses can result in the development of different scenarios under different sets of assumptions. These can then form the basis for dialogue with stakeholders on future directions and the implications of these for immediate decision-making (as has been done successfully in the South African financial sector; for example).

Achieving an appropriate process-product balance

Good practice in vision building requires both rigorous analysis and a process that engages with market players.

- An analysis that is not sufficiently deep means that facilitators cannot bring overview, insight or guidance to their interventions – and they can become dangerously dependent on the instincts of market players only.
- A process that is not sufficiently participative misses out a vital source of ideas (market players) and prevents facilitators from making the link from analysis to actions; the point of analysis is to do something with it.

Further reading

- FinMark (2003); *Vision 2010 scenarios of the South African financial sector*; FinMark, South Africa
- Mesopartner (2006); *How to introduce PACA; a guide for donor organisations in international development cooperation*; www.paca-online.de
- Illbury, C & Sunter, C (2001); *The mind of a fox: scenario planning in action*; Human & Rousseau, Cape Town

5. GOOD PRACTICE NOTES

5.2 Implementing demand-side surveys

What and why?

How to design, implement and disseminate the findings from demand-side surveys of consumers – actual and/or potential.

These are used primarily to throw light on systemic constraints, establishing an information base with which to influence stakeholders and provide initial guidance on intervention processes. However, in practice the quality of these surveys and the reliability of data and findings emerging from them has been mixed and their usefulness limited.

How does it work?

There are three broad stages:

- *Agreeing on overall objectives.* In particular, whether this (a) will be a public document (product) or be used only by a facilitator and (b) is seen as a one-off activity or might be repeated in future as a function internalised within the market.
- *Implementation steps.* The main 'how to' list of tasks to be undertaken from initial scoping through sampling and questionnaire design to data processing and analysis.
- *Dissemination.* Taking the raw information and turning it into useful products that can feed into interventions.

Key factors for successful use

Agreeing on overall objectives

If the aim is to develop a product that will be in the public domain, relatively more attention needs to be paid to the product's final design and utility, and to ensuring a process that is rigorous and involves potential users.

If the facilitator wishes to 'keep the door open' to internalising within the market, this will require a process that confers more ownership on potential 'owners' of a final product (eg research companies) by:

- Involving them in tasks and decision-making from the outset.
- Requiring part-payment either by sponsors or final users.

Implementation steps

Assuming that the aim is to produce a public document, there are a number of relatively standard factors to be considered¹²:

- *Scope the opportunity and obtain the buy-in.* Activities might include desk research, interviews with stakeholders and market assessment workshops.
- *Develop key relationships.* Establish a formal (or informal) advisory committee comprising individuals and organisations who have relevant technical knowledge of the subject area or

the process of doing surveys and can (a) act as a sounding board throughout the process and (b) influence other stakeholders on the potential value of the final product. Typically this might include government, regulators, commercial firms, statistics bureaux and researchers.

- *Establish key budget headings.* These are likely to include:
 - Administration costs: including logistics, travel, paperwork, premises, equipment hire etc.
 - Survey-specific costs: including cost of a research company (interviewers, data inputting, questionnaires, etc), project management and fees for the central statistics office.
 - Promotion of final product: publication, launch, marketing etc (see 'Dissemination' below).
- *Create structures and procedures to ensure quality control.* These relate to questionnaire design, sampling procedures, fieldwork supervision, communication between researchers and managers and data capture and management.
- *Contract a research organisation.* These should have appropriate experience in managing similar surveys and strong networks with the central statistics bureau.
- *Develop sampling structure and design.* A range of technical issues need to be agreed on including the rules for sampling, how to weight data, appropriate precision levels, etc.
- *Design the questionnaire.* Use focus groups initially to develop questions and pilot the draft questionnaire before finalising.
- *Prepare and undertake fieldwork.* Train interviewers and establish survey administration procedures relating to, for example, survey objectives, sampling methodologies, understanding of each question, roles and responsibilities, procedures for dealing with errors, etc.
- *Process data.* In particular, procedures for ensuring good quality of data input such as the percentage of 'back checks' to be done on each interviewer's work.
- *Analyse data.* This should be focused on the main analytical outputs that have been planned from the outset – for example, the proportion of different target groups that use, are aware of and understand particular products.

Dissemination

This is often considered almost an afterthought and consequently the potential of surveys to spark changed attitudes and behaviour is seldom fulfilled. In advance of survey completion, facilitators need to consider:

- *The launch process.* Including events, contacts with the media and with key networks.
- *Publications.* Not just the main output but also 'derivative' products – summaries, niche analyses etc. Accessible presentation is especially important for survey data.
- *Organisation-specific presentations and discussions.* Taking findings to particular audiences and highlighting their potential relevance. Passively hoping that stakeholders understand and act on survey findings is, at least initially, optimistic.

¹² Taken from the FinScope Technical Manual.

5. GOOD PRACTICE NOTES

If facilitators envisage that the survey product should be internalised within the market system as, essentially, a commercial product, then part (or full) pricing is required. This might be done, for example, as a syndicated service with buyers investing upfront to shape the survey content and others buying the survey report(s) after completion.

If this is seen primarily as a one-off activity, a decision must be made about pricing. Surveys are a 'hard sell', especially in low-income economies. However, if users pay nothing, it may be more difficult to ensure that they see value in and take ownership over the survey results.

Further reading

- FinMark (2007); *FinScope Technical Manual*, FinScope, South Africa
- Miehlebradt, A. (2001); *Guide to market assessment for BDS program design*; ILO, Geneva

5. GOOD PRACTICE NOTES

5.3 Access frontier

What and why?

How to use this analysis tool for understanding how markets work over time and their potential to serve poor people as consumers.

Based on the idea that market growth takes place through a number of stages – in relation to structure, performance and size – the access frontier establishes the current limits of the market (the access frontier) and the potential to reach more underserved people. In doing so it provides guidance to facilitators on actions to push the frontier outwards. The access frontier can be used at any point in an intervention process but is most useful at the start.

Improving access is a central objective in M4P, yet – especially for consumer markets – there have been few attempts to analyse the process of extending access in detail; the access frontier potentially fills this gap.

How does it work?

The level of development of the market for any product can be tracked in relation to usage as a percentage of the eligible population against time (Figure 25) with different categories of user/non-user identified, those who:

- Use it now.
- Could have it but don't want it or, for other reasons, who have not yet used it – these lie within the access frontier.
- Are within reach of the market in the foreseeable future based on expected changes in product or market features in a 3-5 year period.
- Are beyond the reach of the market: the 'supra-market' group who are currently outside the reach of market solutions.

In order to define a market's current access frontier five steps need to be followed:

Step 1

Define the market. Specify the market in functional (rather than product-specific) terms and the user 'unit' (eg individual or household).

Step 2

Determine current usage levels and trends. The level of usage (as percentage of eligible consumers) currently and over recent years.

Step 3

Segment non-usage to assess the current access frontier and natural limit. Non-users typically fall into two main categories: those choosing not to use the product and those who don't know about it.

Step 4

Assess positions of the future access frontier in the medium term. Estimate how foreseeable changes will affect the access frontier, including both demand- (eg consumer tastes) and supply-sides (eg technology and competition).

Step 5

Identify those in the supra-market group. Those, who, for 'non-choice reasons' (chiefly low incomes) do not have access.

The current and projected position of a market shape the nature of interventions required (Figure 26). More immediate measures to bring in those on the fringes of the market (in the market enablement and development zones) might include competition and regulatory policies. For those in the supra-market zone, where the most severe market development challenge lies, additional interventions may be required.

Figure 25
Access frontier

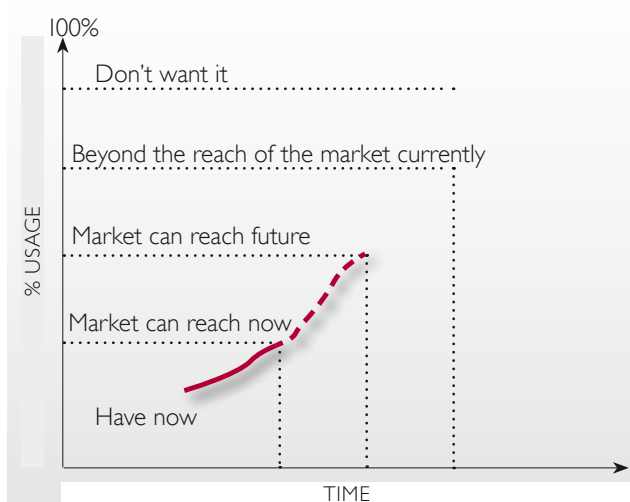
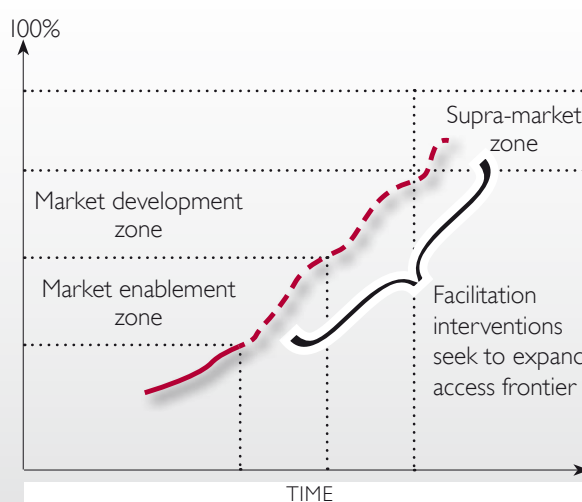


Figure 26
Market policy zones¹³



¹³ Adapted from Porteous (2005).

5. GOOD PRACTICE NOTES

Key factors for successful use

Acquiring proper data. The best use of the access frontier requires significant data. Some of this can be derived from national census statistics and some from commercial providers. Accurate data on reasons for non-usage requires detailed surveys but, in the absence of this, estimates can be made based on industry discussions and projections.

If accurate quantitative data are not available the tool still has value in providing a useful framework to allow facilitators to understand the state of the market and to shape their strategy for achieving market development. In practice, the access frontier may be used widely for this informal role.

The tool has been used principally in relation to different strands of financial and insurance services development (including transaction banking, insurance and housing finance), most notably by FinMark in Southern Africa. However, it can be used in any market where extending access to poor people as consumers is a policy priority, including those markets which might have some merit good characteristics such as mobile phones, water and health care.

In principle, use of the access frontier might be extended to markets where the poor participate as producers – for example, extending the opportunity to sell to specific markets (although this has not yet happened in practice).

Further reading

- Porteous, D (2005); *The access frontier as an approach and tool in making markets work for the poor*; DFID, London
- Meltzer, I (2006); *Exploring access to insurance in South Africa using the access frontier*; available via www.finmarktrust.org.za

5. GOOD PRACTICE NOTES

5.4 Log frame (or logical/project framework)

What and why?

How to use this generic planning and management tool, used widely among development agencies, to design and implement projects (facilitators) and to allow oversight and accountability (funders).

Based (usually) on a matrix of four columns and four rows (16 boxes)¹⁴, the log frame is a systematic way of organising and presenting information related to a project design. The 'logical' dimension is derived from the relationship between each of the boxes in the matrix, especially the flow of cause and effect which joins each of them.

Although log frames are widely used, the potential of the log frame to offer useful strategic management guidance and to act as the basis for accountability is seldom realised.

How does it work?

The log frame links three elements found in any project situation (right-hand table in Figure 27):

- *The project itself*: its resources, what it does and what it achieves directly.
- *The impact* that the project is seeking to have on the real world.
- *The wider environment*: factors outside the project's control that impinge directly on it.

In using the log frame, there are three main steps:

- *Going from impact to actions*. Plan down column 1, develop the initial hierarchy of objectives.
- *Take account of the wider environment*. Think up column 4, identify the assumptions being made in the flow of objectives and, if necessary, change these to make them more realistic.

- *Focus on the M&E core*. The essential planning platform for thinking about indicators (column 2) and measurement methods (column 3).

Key factors for successful use

The rules that apply to using log frames generally apply to M4P as well. These relate to, for example, having one goal and one purpose only, the importance of process, and keeping assumptions focused on external factors beyond projects' control.



However, there are two specific factors to bear in mind in developing log frames related to M4P: (a) ensuring consistency with M4P's strategic framework and (b) balancing accountability and flexibility. Both of these procedures expose the limitations (and origins) of log frames – namely, the log frame ideal of a relatively fixed and predictable project (such as a construction project) where most internal and external factors are known. This is not the complex and dynamic world of market systems that M4P is seeking to influence and the use of log frames needs to be adapted to reflect this reality.

Consistency with M4P strategic framework

Column 1 of the log frame should conform with the underpinning logic of market development – system change resulting in growth and/or access benefits in turn causing a reduction in poverty (Figure 28). In writing objectives, there are a number of practical considerations:

- *Focus on the problem and not the solution at the goal and purpose level*. Don't add a 'by' or 'through' to the objectives statement (eg "to increase incomes through improved market access"). The solution is provided by the next 'lower' objective.
- *Keep impacts at purpose level and above*. Outputs are what a project delivers – beyond that are 'real world' changes caused

Figure 27
The log frame – a 16-box matrix covering three elements in a project situation

	1. Summary	2. Indicators	3. How measured	4. Assumptions		1. Summary	2. Indicators	3. How measured	4. Assumptions
Goal						The impact			The wider environment
Purpose									
Outputs						The project			
Activities									

¹⁴ An extra *supergoal* level is often added to create another, final, level of impact.

5. GOOD PRACTICE NOTES

by these outputs. A common mistake is for outputs to focus on the first level of impacts. While technically this is wrong, in practice, as long as the overall flow of log frame logic is consistent with the strategic framework, it is an error that can be accommodated. Overall logical flow matters more than precise labelling.

- *Dealing with the 'not enough boxes' problem.* Three levels of real world change (system – growth/access – poverty) need to fit in to the log frame. To do this, either insert a supergoal level or merge the growth/access and poverty objectives at goal level. This might be done by a formulation such as “To improve the pro-poor performance of the financial services sector” (ie combining growth/access and poverty objectives) and by ensuring that indicator choice reflects this broader objective (see Good Practice Note 5.14: Intervention impact logics).

Balancing accountability and flexibility

Facilitators are accountable for their performance and this requires assessment against targets. However, one of the central tenets of M4P is that interventions are driven by an understanding of market system constraints and need to be designed and implemented iteratively to reflect learning and changing conditions. This key tension – between accountability and flexibility – is seen clearly in how projects design and use their log frames and, in particular, how they use column 2: indicators. A number of factors emerge from experience (see Figure 29):

- *Be specific 'enough for now'.* The level of detail possible in a log frame is determined by how much is known, what data are available on the prevailing situation and the degree to which specific intervention tasks have been fixed. So, for example, at the outset it might be possible to use information from other published and industry sources to estimate the overall scale of performance improvement required – but only to describe in more general terms the nature of market system changes needed, not the specific detail of interventions.

By being 'specific enough for now', designers and funders therefore are committing themselves to final ends without knowing in precise detail the means to those ends. This (unsatisfactory but unavoidable) reality needs to be recognised. Attempts at fixing too much at purpose and outputs level inevitably results in a tacit game of collective make-believe and self-delusion where significant detail is specified without justification or credibility.

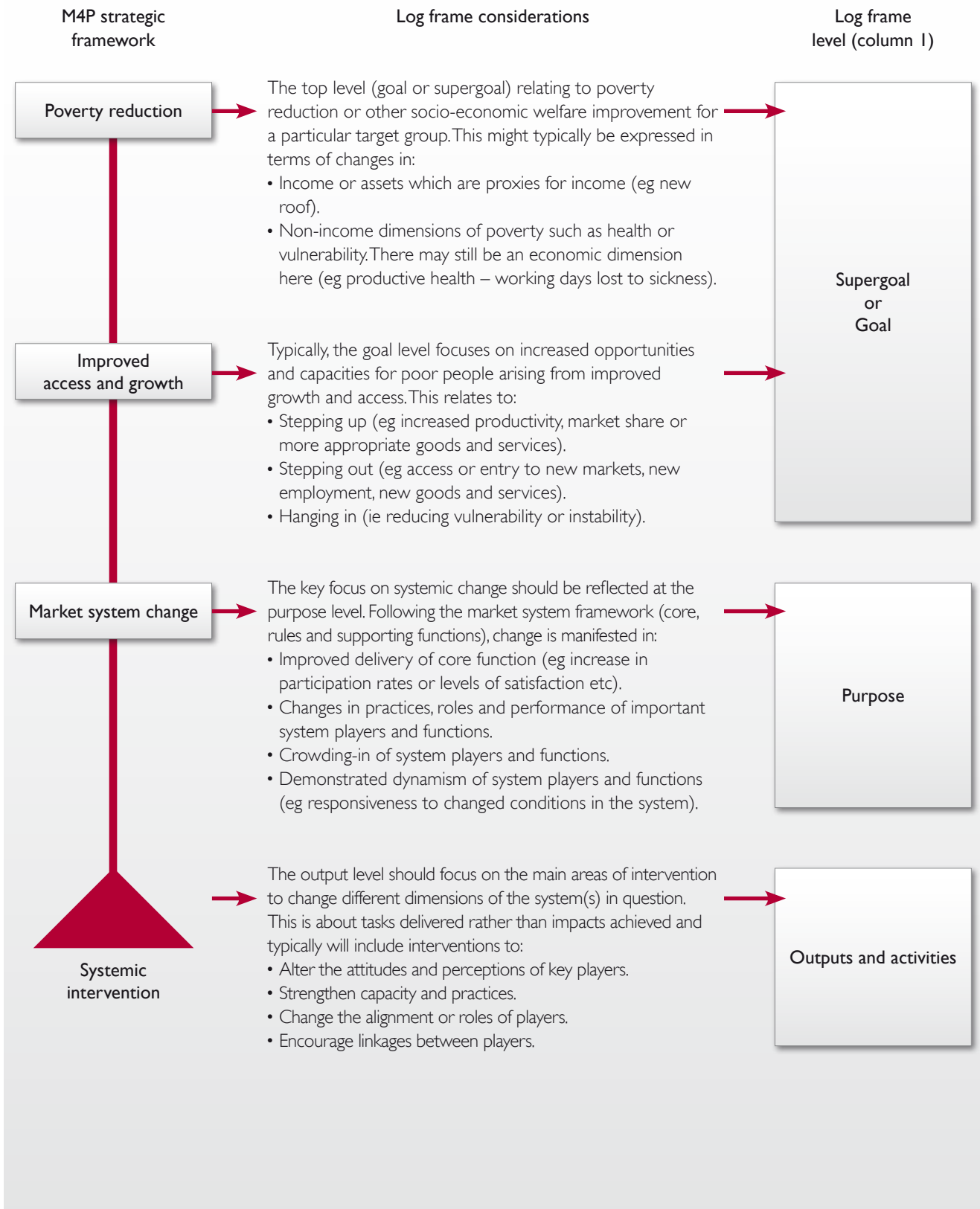
- *Learn and revise.* Log frames are not intended to be fixed throughout an intervention period. They should be adapted to reflect new information, circumstances and results from pilot interventions. Rolling workplans – for example, annual or six-monthly – that allow more detail to be developed on

what a project will do and achieve directly are desirable. What should be fixed in a log frame is essentially column 1; indicators in column 2 should be the subject of regular review, especially those related to the critical purpose level. Changes in a log frame should of course be the subject of discussion between different parties.

- *Accountability through performance against purpose (and goal) targets.* The traditional view of facilitator accountability – compliance with output deliverables – is less relevant in a context where deliverables cannot be fixed in detail in advance. As a project proceeds, more output detail becomes possible and this becomes the basis of accountability. However, the overall principle remains: M4P accountability is not primarily about 'hitting' output targets.
- *Intermediate indicators.* Indicators need to reflect the nature and chronology of change in market systems. For example, in introducing a new service, a project might first be interested in consumers' and providers' awareness and understanding of this but, over time, take-up and usage become more important. These changed indicators should be captured in new workplans (and log frames).
- *Balanced indicators.* Indicators need to ensure that balanced and significant market change is achieved. In practice this means that they need to reflect key dimensions of market development outreach (how many?), impact (how effective?) and sustainability (will it last?). For sustainability, which is often neglected, this means considering incentives, behaviour and services that support further development and the extent to which market activity continues independently of project support.

5. GOOD PRACTICE NOTES

Figure 28
Fitting the M4P strategic framework to the log frame



5. GOOD PRACTICE NOTES

Figure 29
Stylised summary M4P log frame for value chain project where the key constraint is related to services

	Summary	Indicators	How measured	Assumptions
Goal	To increase pro-poor business competitiveness in three value chains	Against initial benchmarks, by the end of the project period, average and small-scale producer performance improves by xx % in relation to: <ul style="list-style-type: none"> • Output • Productivity • Employment 		Wider technology and consumer trends do not shift the prospects for and incentives within the market significantly
	Change infrequently			
Purpose	To improve the performance of the market system impinging on three value chains	In each value chain, by the end of the project period: <p>Among SMEs</p> <ul style="list-style-type: none"> • Higher awareness of services • Greater use of and satisfaction with specified services <p>Among providers</p> <ul style="list-style-type: none"> • Increase in no. of providers • Greater independent service innovation • Greater use of supporting services/information 		The poor's interaction with the market remains primarily as producers and employees
	Change regularly as more knowledge on nature of constraints emerges			
Outputs	Market facilitation process designed and implemented	<ul style="list-style-type: none"> • Initial demand- and supply-side research undertaken • Key constraints identified and analysed • Workshop held with key stakeholders • Intervention strategy designed • Interventions implemented – eg new ideas introduced with selected partners, social marketing campaigns undertaken 		Government strategy does not change markedly
	Change regularly to reflect emerging workplans			Donor engagement remains generally non-distortional
Activities	Not usually specified initially			

Further reading

- Gibson, A (2001); *Developing indicators in small enterprise development projects. A tool for people involved in designing, implementing and evaluating SED projects*; SED Working Paper No 1, SDC, Berne
- GTZ (2004); *Results-based monitoring. Guidelines for technical cooperation projects and programmes*; Corporate Development Unit, GTZ, Eschborn, Germany

5. GOOD PRACTICE NOTES

5.5 Developing the offer

What and why?

How to develop the service or activity that a facilitator 'offers' to its partners in exchange for a defined change in behaviour or actions.¹⁵

Interventions usually have to be with someone – a partner – in a market system. The offer represents the essence of a facilitating organisation – what it *is* and what it *does* in relation to these partners.

Although central to how businesses – and business-like organisations – must behave, for many agencies that are more accustomed to doing things themselves rather than with others, developing their offer is a discipline and process that does not emerge easily.

How does it work?

Four key questions need to be addressed in developing an offer:

- *Who is our offer aimed at?* The types of individuals or organisations, their location and context.
- *Why should someone want our support?* The direct benefits that they could expect to derive from working with 'us'.
- *What could they expect to get?* The specific service or activity that is undertaken.
- *What do we expect in return?* The price charged or other form of *quid pro quo*.

In answering these questions, facilitators should apply both operational and strategic criteria (Figure 30).

Key factors for successful use

Is it consistent with the main operational criteria?

Successful offers meet three main criteria:

- *Clarity.* Both facilitators and partners should be clear about what each will get from a relationship and how this will contribute to their goals. In the absence of clarity, partners will give their own meaning to the offer, guided by their own and wider impressions of what 'development agencies commonly do' (for some, giving handouts). This can be the source of misunderstanding and eventual failure.
- *Specificity.* Unlike a 'simple' commercial transaction, exchanges here are likely to involve different activities and commitments as well as finance. Offers therefore need to go beyond general descriptions to provide sufficient detail for each party to know what they will get, what they will give and why and how this is different from other relationships.

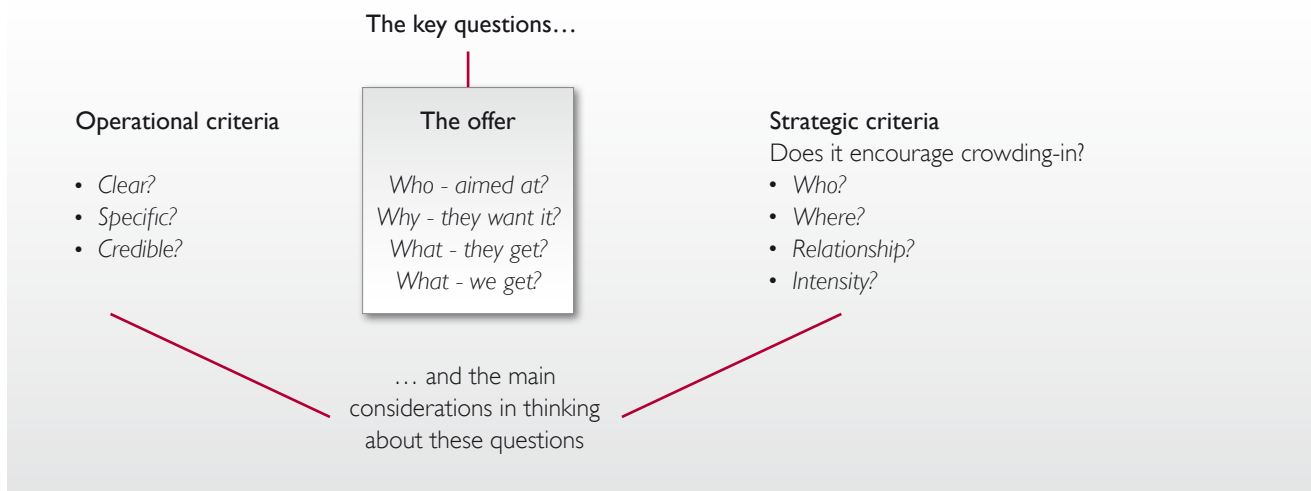
- *Credibility.* Partners need to have the necessary skills and knowledge to deliver the offer and – as important – be seen to have this capacity by potential partners so that they have confidence that they will deliver.

Is it consistent with the main strategic criteria?

Successful offers promote wider crowding-in of other market development beyond the immediate partner. In practice this means that they should:

- Be clear over whether this is 'one-off' temporary activity or required in the market in the future.
- Be with the right market player in relation to their capacity and incentives.
- Have an appropriate relationship with a partner which also allows others to crowd-in (ie, is not exclusive)
- Be of the right intensity and scale to develop rather than distort the market.

Figure 30
Developing an offer



¹⁵ 'Offer' is a term used commonly in commercial situations; its use here emphasises the need for facilitators to be 'business-like' in their activities and in their orientation to partners.

5. GOOD PRACTICE NOTES

In practice, there are a number of more detailed 'do and don't' rules in developing a successful offer (Figure 31).

Figure 31
Do and don't rules in developing an offer

DO	DON'T
<p>Be business-like – facilitators are not necessarily profit-making businesses but do need to approach the transaction contained in the offer in a business-like manner.</p> <p>Strike a balance between (a) the direct (private) perspective of a partner and (b) the wider goals of bringing in others in the market system.</p> <p>Be specific about ownership questions – where innovation is supported, ensure that the ownership does not lie exclusively with the partner.</p> <p>Use partner's context to shape the offer – don't seek to impose an external agenda but begin with partner's objectives and build influence and the offer from that starting point.</p> <p>Strike a balance between (a) the expressed needs of the partner (what they say they need) and (b) their objective needs (what they actually need – but don't know it yet!).</p>	<p>Confuse an offer with a mission statement – it has to be tighter and more focused than the loose sentiments and wording associated with mission statements.</p> <p>Always insist that it is written down – this might be required (for example with a lead firm) but presenting an offer is often as much about a facilitator's orientation as about written agreements.</p> <p>Focus too much on the financial element – this may often be required as a sweetener but is seldom critical to success.</p> <p>Overly define initially – leave sufficient 'space' to allow tailoring for specific partner context.</p>

5. GOOD PRACTICE NOTES

5.6 Developing business membership organisations (BMOs)

What and why?

'How to' rules on understanding and working effectively with BMOs to enhance their role within market systems.

This note builds on two facts. First, as organisations of and representing business, with an apparently natural market development objective and (at their best) bringing business skills to the wider market development task, BMOs would seem to be an obvious ally for M4P. Second, experience over many years in working with BMOs has been mixed and appropriate lessons must be drawn from this experience.

How does it work?

Working with BMOs requires two broad steps:

- Understand the potential roles a BMO could play in a market system. This involves assessing the current position of the market and the constraints impinging on it.
- Follow key principles emerging from on-the-ground experience.

Key factors for successful use

Understand potential BMO roles

From an M4P perspective, BMOs' value lies in how they can serve market development (not the other way around). Therefore:

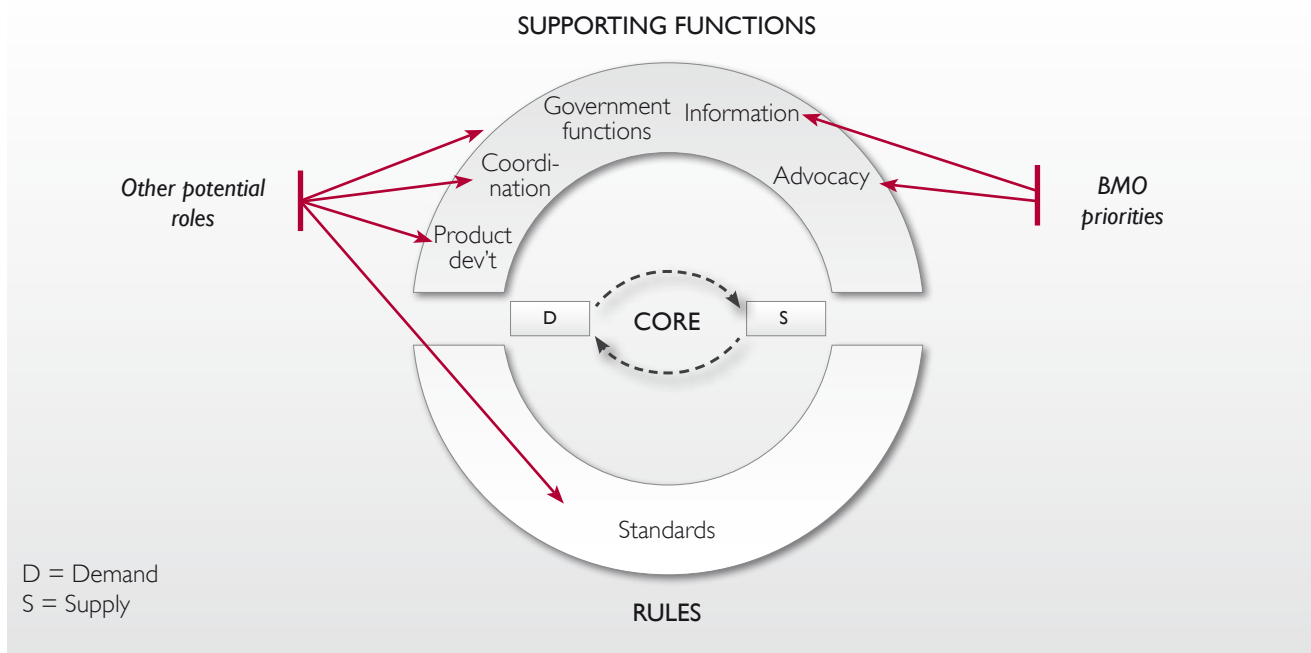
- Identify the key constraints in the market system. Any engagement with a BMO must be based on a detailed knowledge of a market – not a superficial sketch.
- Identify potential areas where BMOs may be able to play a role. Although there is no blueprint, typically BMO roles are related to their core competence in (Figure 32):
 - Advocacy - representing members and communicating with stakeholders.
 - Information - on trends, linkages, new ideas and opportunities.

Other roles might also be played depending on capacity and context, such as:

- Coordination: a strategic role requiring oversight and linkage of key players.
- Standards setting and enforcement (eg industry codes of conduct).
- New technology/product development: sponsoring new ideas in practice.
- Delegated government functions (eg export certification).

A key consideration is to allow BMOs to play appropriate roles – to encourage their development but not to lure them into inappropriate roles beyond their competence.

Figure 32
Potential roles for BMOs in markets



5. GOOD PRACTICE NOTES

Follow the rules of engagement with BMOs

- *Ensure that the BMO represents a genuine shared interest.* Is the BMO concerned with bringing more people into the market or has it been captured and is protecting narrow vested interests?
- *Check that the balance between private and public interest is acceptable.* Understanding incentives is critical to BMO development. BMO leadership is usually driven by both self-interest and wider (public) goals – a workable overlap between these two goals is the basis for development.
- *Build around key people.* As with small businesses, the potential of BMOs is often shaped by the competence and motivations of key leaders. Conversely, if leadership is weak, there may be little basis for collaboration.
- *Use workshops to influence the BMO vision.* Collective vision building workshops are useful in providing an open and transparent platform to explore the BMO's view of the market development challenges ahead and the BMO's role within this.
- *Find an initial focus.* Build support around a logical area where collective action (rather than by individual firms) is the only feasible approach.
- *Allow the facilitator offer to emerge.* Rather than approaching BMOs with a fixed offering, let this emerge in a context of a process of assessing the strategic challenges in a market and the potential role of the BMO within this.
- *Balance ambition with pragmatism.* While the wider experience has been for external support to extend BMOs beyond their realistic limits (with failure the result), given the right people, incentives and encouragement, BMOs' role can be more strategic and influential.
- *Engage over a period of time.* Rather than investing significant amounts of support, intervene in small, iterative ways so that the level and nature of intervention is appropriate to the level of BMO development. Let intervention support grow with the organisation.
- *A 'tough' line in intervention negotiation.* The facilitator's stance shapes the incentives framework for the BMO. Make support conditional, don't give too much and focus on technical (non-cash) inputs. Establish interventions' value-added as knowledge and skill based – not finance.
- *Accept a degree of financial opacity.* Changing BMOs into models of financial probity is often an impractical aim, requiring a degree of external support that would change their nature (and increase their overheads). Small, specific interventions may increase transaction costs but have a better chance of maintaining the integrity of the relationship.
- *Cost-share to increase BMO ownership.* Although there is no formula, more of the cost burden should be met by the BMO over time.
- *Remember that BMOs are not always necessary!* BMOs are a means to an end; their value extends only as far as the roles that they can play. Don't set out to work with them as a matter of principle; only do so if they have the potential to be useful.

5. GOOD PRACTICE NOTES

5.7 Making a deal with lead firms

What and why?

How to develop a successful 'deal' with lead firms so that both developmental (M4P) and commercial (lead firm) objectives are met.

Lead firm interventions tap into the resources and incentives of established businesses and support them to change their 'business model' in a direction which encourages wider systemic change and pro-poor benefits. At the heart of these interventions is a mutually beneficial deal between a lead firm and a facilitator.

Agencies increasingly see the potential benefits of engaging with lead firms. However, they are less clear on how to interact with lead firms productively – going beyond merely subsidising private operations.

How does it work?

There are three broad steps in a lead firm-based intervention:

- Identify and approach potential lead firms within a market system.
- Develop a pilot project with one (or a small number) of these that has the potential to bring both private (lead firm) and public (market system) gains.
- Build on these initial activities to crowd-in other market players and stimulate wider, more sustainable change.

This practice note deals with the first two points above – making a deal with lead firms (see Section 3D of this *Guide* for detailed information on crowding-in).

Key factors for successful use

Balancing public and private benefits

Change and innovation in process or product is introduced by an intervention with a lead firm partner, which results in commercial benefits for the lead firm, but more importantly, lays the basis for wider systemic change among other market players – so achieving greater and more sustainable impact through the market system.

Interventions that result only in commercial gains for the lead firm are giving a private, anti-competitive 'captured' subsidy that, in the longer term, does not achieve pro-poor market system change. Balancing public and private benefits is central to successful intervention (Figure 33).

Ensuring facilitator capacity and practice

To engage effectively with lead firms facilitators must:

- *Have sufficient knowledge and confidence to engage credibly with firms.* Initial market assessment needs to be sufficiently

Figure 33
Shared goals in leads firm agreements



detailed to give facilitators a good understanding of the key competitiveness issues – trends, threats, impending challenges, etc – that will shape the future performance of the sector as a whole.

- *Have developed areas of potential project 'offer'* or an initial idea of where opportunities for engagement might lie – often innovations in product, service or process. Interventions based around a financial offer only usually don't work – firm constraints are more likely to be about 'how to' rather than money only. Facilitators shouldn't have a fixed view of their potential offer – but neither should they have a blank canvas (see Good Practice Note 5.5: Developing the offer).
- *Identify appropriate potential partners.* Market assessment should highlight the identities of key firms and, ideally, they will already have been contacted as part of the process. A lead firm is one that has the potential to influence a market as whole on the basis of its size, innovativeness or reputation (ie there's no point in dealing with the 'small, dull and dubious').
- *Approach potential partners in an appropriate manner.* Approaches should generally be personalised rather than through a remote procedure (such as invitations to tender). Successful lead firm engagement emerges from personal discussions – and the initial approach needs to be similarly direct.

Structuring the right kind of deal

A successful deal between lead firm and facilitator is one which has a number of characteristics:

- *Is clear on the transactional process – 'who does what'.* The main contributions (financial and non-financial) of each party should be understood clearly, usually stated in a formal agreement.
- *Is clear on the objectives – 'who gets what'.* A deal has to recognise (a) the commercial incentive of firms – often concerned with allowing firms a head start, (b) discernible benefits for disadvantaged people and (c) the scope to catalyse wider change with other players in the market system. Any agreement must therefore 'keep the door open' to working with others in some way.
- *Tests commitment and builds ownership.* For a deal to work, the lead firm has to have appropriate capacity and incentives.

5. GOOD PRACTICE NOTES

The first is a function of resources – technical, financial and organisational – but the second depends on the nature of the agreement that is struck. In deciding on the allocation of tasks and, in particular, cost-sharing, precise ratios or figures are less important than the overall aim: a lead firm partner committed to the pilot project.

- *Is with one firm (or several).* Ideally, facilitators should work with more than one partner – to reduce risk and enhance the chances of more successful crowding-in. However, in competitive markets and with especially innovative projects working with one firm will often be the only realistic option.
- *Ensures ownership in implementation.* A successful implementation process requires continued collaboration between facilitator and lead firm. The deal itself should be formally monitored but, more important, it should encourage close relationship between each party.

Further reading

- Gibson, A (2006); *Enhancing the supply-side in the maize market*; Catalyst Case Study No. 4, Dhaka, Bangladesh

5. GOOD PRACTICE NOTES

5.8 Promoting value chain development

What and why?

How to adapt 'standard' value chain analysis (VCA) so that it is consistent with M4P and contributes to the development of more effective and sustainable value chain systems.

Although there are different variants of VCA, it is always based on the analysis of the flow of value added that is created as raw material is transformed into final products. Most firms are either located in value chains or interact with them. Interest in value chain development has grown significantly as governments and agencies realise the importance of focusing on changing systems (rather than individual firms) to achieve significant scale and that, for many firms, their value chain constitutes their most important system.

However, despite the 'systemic' character of the value chain, many value chain-focused interventions do not achieve their potential, in practice stimulating only limited change. Limitations in VCA lie at the heart of this problem.

How does it work?

Adapting VCA to take account of M4P requires that its strengths and limitations in relation to its three main stages be understood:

- *Mapping of the value chain.* This requires that the main stages in value added are assessed to generate a quantified picture of the different channels of the value added process including number of firms, employees and margins at each stage as well as supporting services, including relevant national/international comparisons.
- *Analysis of the key constraints.* Identification of 'gaps' that undermine the performance of the value chain and, therefore, the opportunities for intervention.
- *Specification of actions.* Given the above analysis, recommendations for action by governments or agencies.

Key factors for successful use

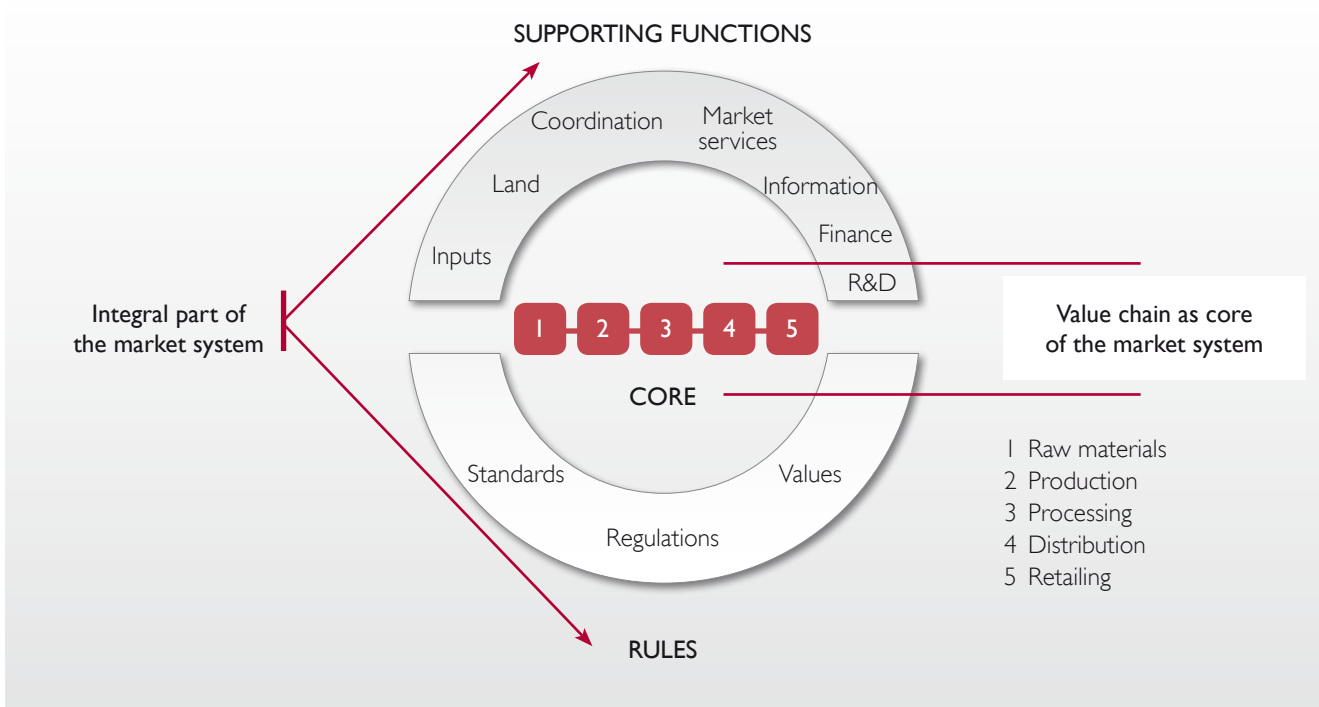
Adapting VCA requires that several factors are taken into account.

Recognise the common ground

Many firms exist within value chains. In an increasingly competitive global environment, VCA is a valid and practical way of examining the world around firms sharing a number of similarities with M4P:

- VCA recognises that the development task is concerned with changing systems (it has a systemic perspective).

Figure 34
The value chain as a market system



5. GOOD PRACTICE NOTES

- VCA fits within the M4P markets system construct, with the main value added process in the core and the value chain environment corresponding to rules and supporting functions (Figure 34). However, unlike many versions of VCA, the supporting functions and rules are seen to be an integral part of the market system – not a secondary consideration.¹⁶
- Recent innovations in VCA thinking have emphasised the importance of power and governance in value chains, especially in relation to the position of small producers. This corresponds closely to M4P's recognition of formal and informal rules and power and information asymmetries in market systems and the need for supporting functions (for example, advocacy and regulations) that address these.

From this observation of the common ground between M4P and VCA, the following points are concerned with how VCA can be adapted – or extended – by M4P.

Extend the analysis to interconnected markets

The solutions to value chain problems often lie in interconnected markets. These may be factor markets – for example land and finance – in agriculture or, increasingly, as knowledge and information become more important in determining competitiveness, they may be services – either fee-paying services or informal services embedded within value chain relationships. Similarly, the process of regulatory reform can be regarded as a 'political market'. Interconnected markets can be viewed through the same analytical lens as the main value chain to identify and address underlying causes (see Good Practice Note 5.15: Interconnected markets).

Distinguish between causes and symptoms

A common weakness in VCA is the disconnect that appears between mapping the value chain and analysis of key constraints. VCA always generates maps, but these only serve a descriptive purpose if they do not provide the basis for an analysis of the systemic constraints that determine overall performance.

This emphasis on the value chain map rather than on analysis can lead to 'analysis as firm wish-lists' – a failure to distinguish between a firm's problems (not the direct focus of a facilitator) and the root causes of these (the correct focus). Problems in the core of any market system – including value chains – often have their cause and solution in its supporting functions and rules. If these are under-emphasised there may always be tendency to focus on superficial analysis and action.

Include sustainability in the analysis

The lack of emphasis given to sustainability in VCA means that there can be a tendency to underplay the importance of establishing clear forward direction for future value chain development. Value chains, as with any market system, are multi-function, multi-player processes. Any valid view of the future has to consider in depth the roles of players such as the private sector, government and BMOs in relation to key functions. M4P provides a framework to allow this view of the future to be developed.

Provide guidance on the 'how to' of interventions (from analysis to approach)

VCA is a means of examining the world but it does not provide guidance on how to take action – on how to intervene – to address the constraints identified. Analysis is useful of course but, for agencies and governments, it is only a means to an end.

VCA stops at analysis – it is an analytical tool.¹⁷ M4P provides analysis and guidance – frameworks, good practices, principles – that can allow facilitators to intervene effectively; it is an overarching approach. If this is not borne in mind, there is a danger that facilitators will take the loose prescriptions – such as the need for upgrading – emerging from VCA and act in a way that does not produce effective and sustainable change.

Further reading

- FIAS (2007); *Moving toward competitiveness. A value chain approach*; Foreign Investment Advisory Service, World Bank, Washington
- GTZ (2007); *Value links manual*; GTZ, Germany
- Herr, M & Rogovsky, N (2008); *Value chain development for decent work – a guide for private sector initiatives, governments and development organisations*; ILO, Geneva
- Kula, O, Downing, J & Field, M (2006); *Globalisation and the small firm: an industry value chain approach to economic growth and poverty reduction*; USAID micro report 42, Washington
- Schmitz, H (2005); *Value chain analysis for policy-makers and practitioners*; ILO, Geneva

¹⁶ Strictly speaking, each link in the chain of value added is a separate market system in its own right and should be subject to a separate analysis. This more detailed breakdown is often required but it is, nonetheless, useful to conceive the whole value chain as one system.

¹⁷ In this sense references to the value chain 'approach' are misleading. VCA does provide a framework for analysis but it does not provide a framework to shape the design and management of interventions.

5. GOOD PRACTICE NOTES

5.9 Understanding incentives

What and why?

How to identify, and take into account, the incentives of key market players¹⁸ in the process of intervention design and implementation.

The role of incentives is increasingly recognised to be critical in explaining the development experience to date and in shaping development potential in the future. Many interventions fail because they:

- Make loose assumptions about market players' motivations and do not explore the underlying causes of behaviour; for example, assuming that change processes only need a champion rather than recognition of the multiple factors driving change.
- Use methodologies for programme design which commonly focus on the symptoms level of analysis¹⁹ and fail to reach the underlying political economy of market systems.
- Don't take incentives into account in their visions of how market systems can operate in the future.

Conversely, interventions that are grounded in detailed knowledge of incentives and ensure that they are aligned with incentives have been shown to be capable of successfully unleashing the power of market systems.

How does it work?

There are four general steps required to take account of incentives (Figure 35):

- *Identify key stakeholders.* This obviously includes the intended final 'beneficiaries' but also all those groups that have an interest in the outcome of an intervention.
- *Identify stakeholders' interests.* These might be, for instance, sympathetic or negative towards the objectives of an intervention or, more likely, a more nuanced combination of both.
- *Determine the importance and influence of stakeholders.* How much do stakeholders matter in relation to intervention goals and what is their potential impact on intervention achievements?
- *Determine priorities for action.* Given the above analysis, which stakeholders are the priorities for intervention (and what form might this intervention take)?

Figure 35
Blank stakeholder table

Stakeholders	Interests	Importance and influence	Priorities for action

Whether using a formal framework – such as Participatory Stakeholder Analysis, in which a numerical scoring system is used – or through less formal, more intuitive processes, taking account of incentives always involves these steps.

Key factors for successful use

Adapting stakeholder incentives analysis to the M4P requires that a number of points are recognised:

The wide range of players in a market system

M4P is built on a multi-function, multi-player view of markets that also recognises their interconnected nature – the fact that one market (eg media) impinges on another (eg agriculture) – see Good Practice Note 5.15: Interconnected markets. The implication here is that interventions that seek to address underlying causes can take facilitators to a set of stakeholders seemingly a long way from where they start! For example, a problem of low productivity in agriculture might easily lead facilitators from an initial focus on, say, poor farmers to a final priority of business schools and consultants (Figure 36). Incentives need to be understood throughout these interconnections.

The importance of informal rules

While all market players operate within sets of formal rules that are supposed to guide actions, in practice informal rules are often more important. For example, firms are seldom as risk-taking and profit-maximising as economic theory would indicate; balancing risk with operating comfort and personal career objectives may be more important. Inter-firm cooperation is frequently undermined by cultural divides. Business associations often demonstrate an amalgam of personal, business, political and altruistic aims. Different levels of government hierarchies have conflicting priorities. Informal incentives are critical in adapting M4P to different environments.

The shifting nature of forces for change

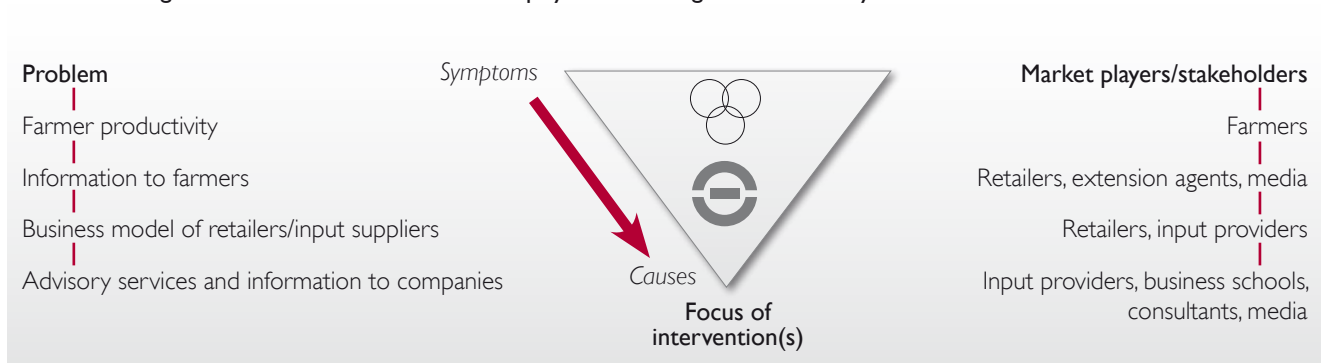
The dynamic nature of market systems means that the relative importance of different influences also changes. Problems, crises, pressures, etc may create opportunities for interventions. For example, emerging issues linking climate change and food prices and corporate social responsibility all impact on the incentives impinging on players and have implications for the focus of interventions. There are, in reality, very few 'perfect storm' situations where a confluence of factors creates the ideal scenario for interventions, but there are often new opportunities – time and context-bound – that can build on players' incentives. In this sense, successful interventions are always opportunistic.

¹⁸ The terms 'stakeholder' and 'market player' are used interchangeably here.

¹⁹ See for example DFID Briefing Paper, *Using Drivers of Change to improve aid effectiveness*, 2005.

5. GOOD PRACTICE NOTES

Figure 36
Understanding the incentives of different market players in the vegetable market system



Placing incentives at the heart of planning and vision building

The 'who should do – who should pay' matrix linking players and functions that is central to considering the future sustainability of market systems is based around assessment of why market players should behave in a particular way. Visions of the future should be ambitious but realistic, meaning they take into account (a) what players can do and (b) what they will want to do. In other words, incentives analysis is central to intervention design but also to planning for the future.

Further reading

- DFID (1995); *Stakeholder participation and analysis*; DFID, London
- Jacobs, S (2006); *Broad reform of the business environment: drivers of success in three transition countries and lessons for South Asia*; paper prepared for the conference on *Creating better business environments for enterprise development*; Donor Committee on Enterprise Development, Bangkok
- MacArthur, J (1997); *Stakeholder analysis in project planning: origins, applications and refinements of the method*; Project Appraisal, Vol. 12, No. 4, Beech Tree Publishing, UK

5. GOOD PRACTICE NOTES

5.10 Giving grants to business

What and why?

How to give financial support to businesses, of various sizes, so that individual firm-level change is stimulated, and wider sustainable benefits throughout the market system are stimulated.

For many agencies, their main resource and the easiest type of offer they can make is financial support to businesses – for example, grants to try a new service, develop a new product, invest in a new process or link with a new set of suppliers. In the spectrum of potential types of intervention (Figure 37), grant-giving is an obvious option.

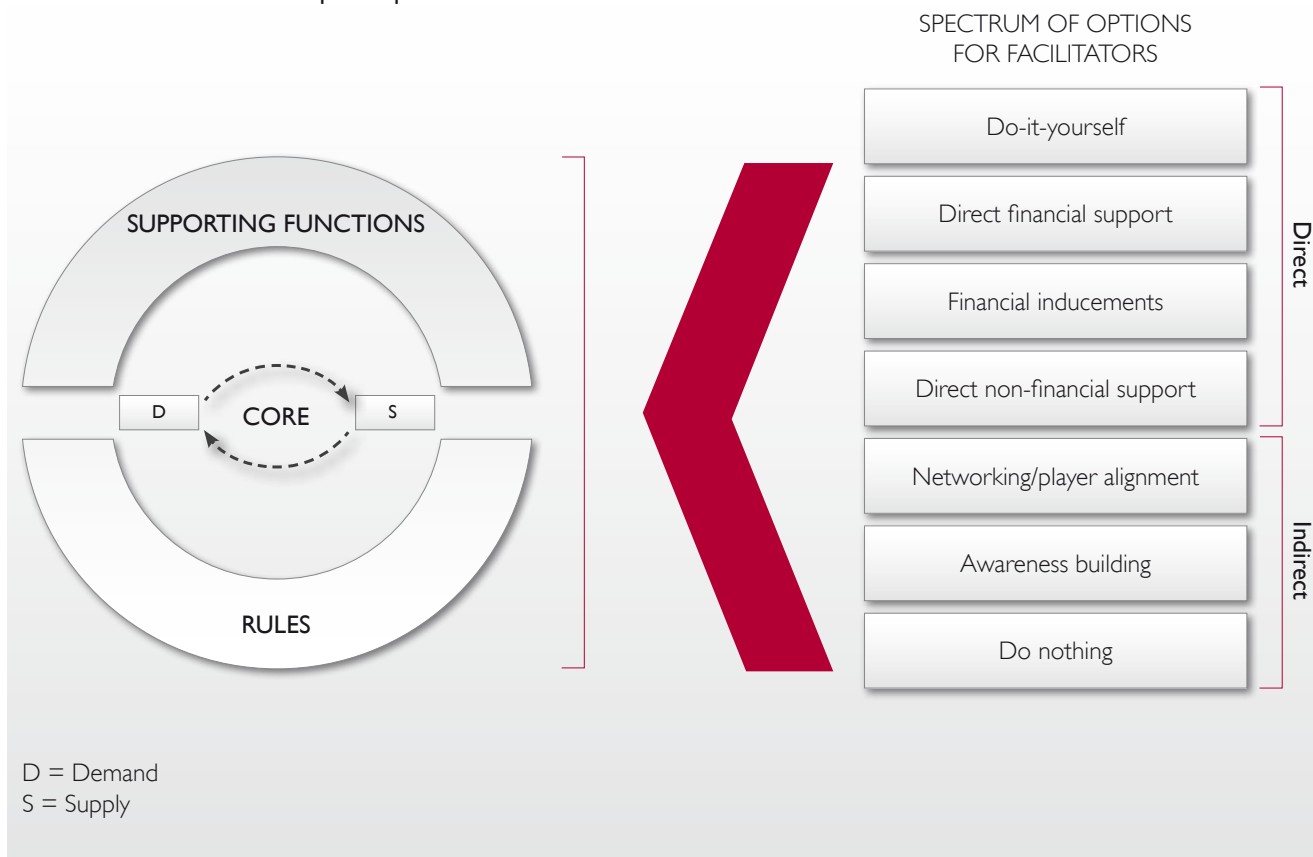
The argument for grants is that they provide a direct incentive for pro-poor business innovation and kick-start a process of change which others can follow. The argument against grants is that they can result in gross distortion in market systems, undermining the information and incentives that are central to effective market functioning.

How does it work?

Grants for business can take a number of forms, such as:

- *Matching grant schemes* are aimed at stimulating business' use of consulting services and based on a cost-share (50:50 usually) between firms and agencies. They have been used extensively.
- *Voucher schemes* give coupons equivalent to a defined proportion of the cost of a good or service (up to 100%) to potential consumers and have been used in business services and extensively for individuals in education and health interventions.
- *Direct grants* for individual firms, usually for a proportion of project cost, and generally aimed at supporting innovations or pro-poor investments. Challenge funds offer such support through a competitive bidding mechanism.
- *Direct grants plus technical support* are offered as tailored packages to firms, usually as part of a wider programme of market development, in a process led by facilitators.

Figure 37
Grants as one intervention option open to facilitators



5. GOOD PRACTICE NOTES

Key factors for successful use

In all the above situations, adapting grant-giving to M4P is aided by consideration of a number of factors:

Recognise the mixed experience

All types of intervention have the ability to change market systems. This change can be assessed against a distort (negative) or develop (positive) continuum (Figure 38). Grants are, by their nature, an invasive form of support, especially when they are focused at the core of a market system, since they seek to influence the incentives, prices and relationships central to market functioning. The develop-distort dilemma is present whether or not grants are offered on the demand- or supply-sides of the market.

Proponents of matching grants, for instance, see them as inherently better than support to consultants (suppliers) because they empower the demand-side and make suppliers more responsive to it. However, grants for service users can easily undermine their willingness to pay more commercial rates while encouraging suppliers to inflate their prices to take account of the grants offered. The net result can be to drive supply- and demand-sides further away from each other.

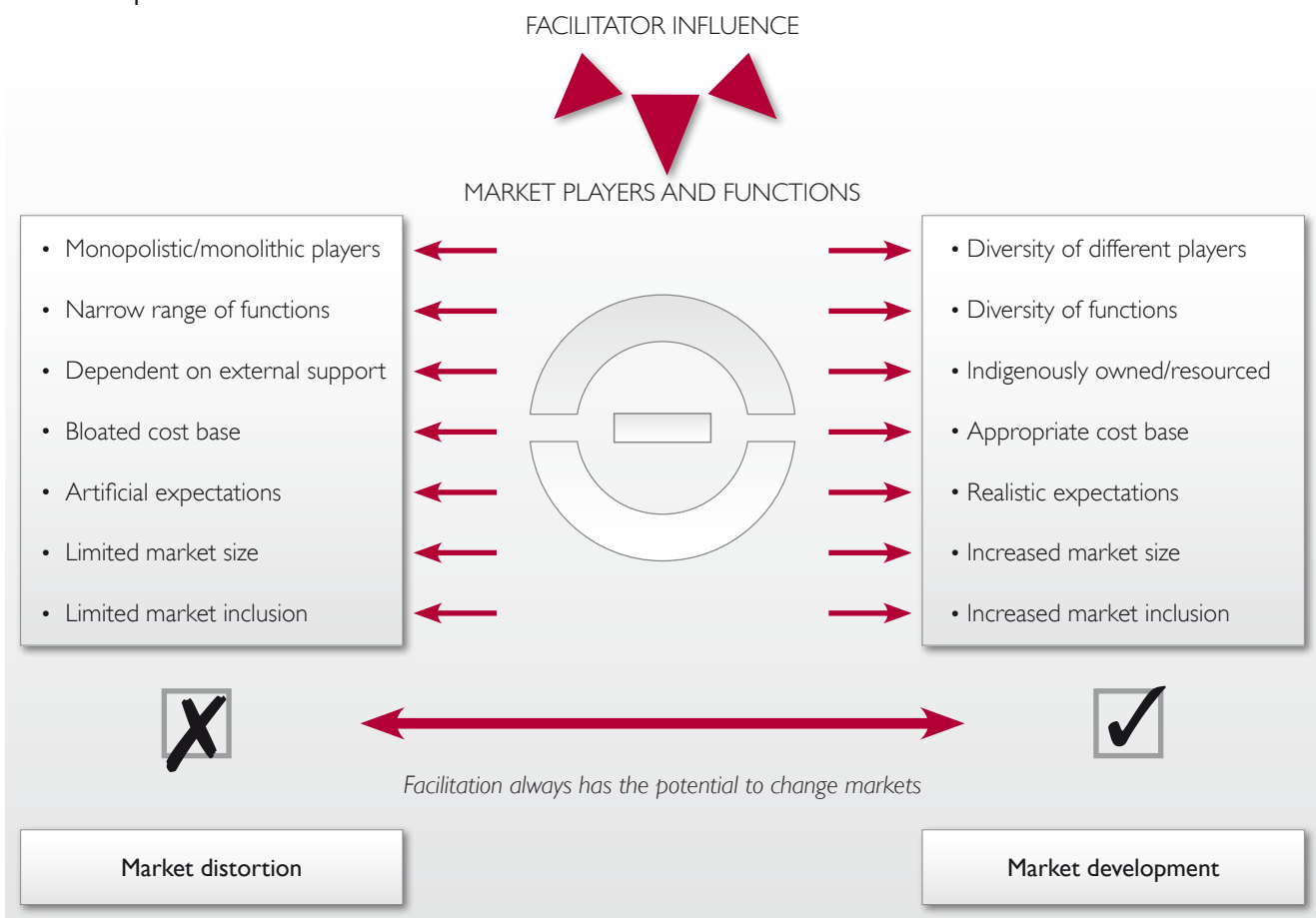
Focus grants on systemic constraints

As a basic principle of M4P, grants (as with all interventions) should address the causes of poor market performance (or systemic constraints). Not every problem a firm faces is due to a systemic constraint – often they are attributable to internal factors (eg owner-managers' attitudes and ambitions). Grant support, sometimes in response to the knee-jerk responses or the expressed needs of businesses, can easily see problems and solutions only in terms of lack of money. In doing so they address symptoms only and miss causes – a fatal error for any intervention. For example, matching grant and voucher programmes assumed implicitly that problems are concerned with incentives and information; if constraints are more related to supply-side capacities or offers they do not address these directly.

Build other interventions around grant mechanisms to crowd-in system change

Grants on their own can induce change, but without conscious efforts to complement them, the benefits of change can be captured only by the direct grant recipient. Ultimately, grants that have a negative impact on competitiveness are not in the

Figure 38
The develop-distort continuum



5. GOOD PRACTICE NOTES

interests of the poor.²⁰ Acting to bring about greater change – beyond the immediate recipient – may require a number of steps. In some case, the ‘buzz’ created by initial support may induce a range of other market activity. In other cases, interventions to encourage changes related to information, services, attitudes, etc may be required which might also involve some grants but in combination with other interventions. Challenge funds, for example, were conceived simply as a grant mechanism but increasingly recognise the need to support wider systemic change (Figure 39).

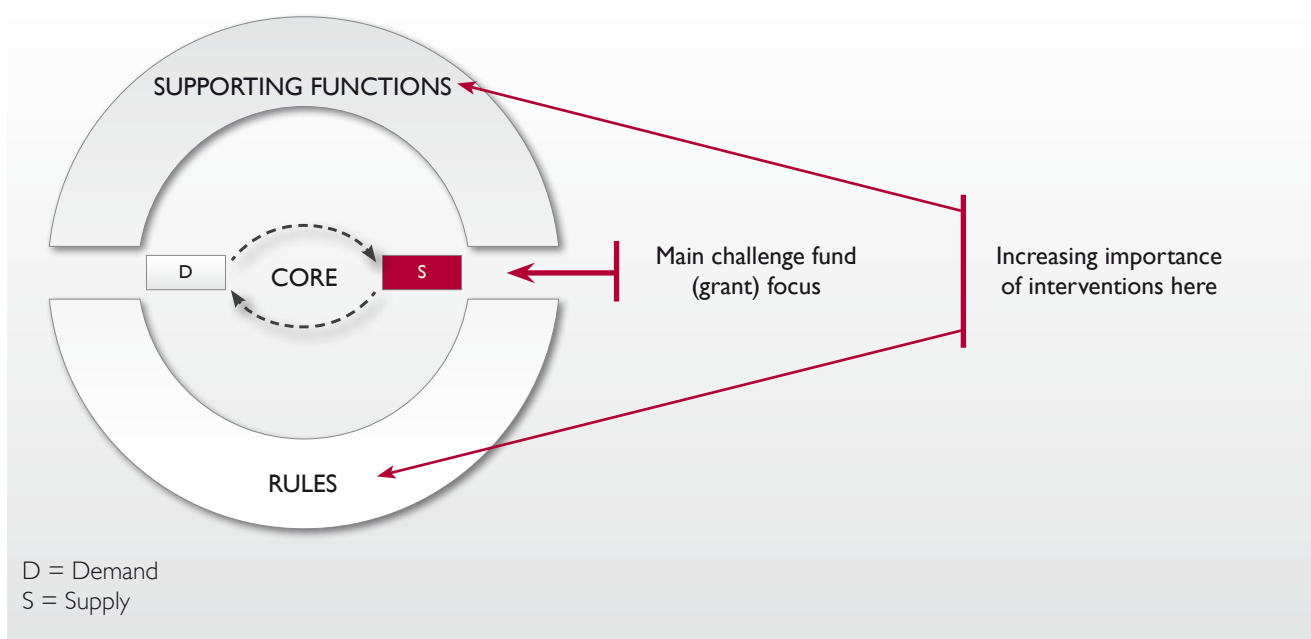
Size and duration matter!

As a rule, grants that are larger in size and longer in duration are more likely to be distortional. Rather than prompting changed behaviour; they incentivise market players to seek more grants. However, in other situations, too much attention to precise costs is less relevant. For example, in lead firm collaborations, what matters is making ‘the deal’ work – since these are, by their nature, one-off interventions intended to stimulate other activity.

Grant mechanisms to promote sustainability

In most situations grants should be seen as temporary interventions to stimulate sustainable change. However, in some instances, grants to individuals can be seen as legitimate features of the market system. In health and education, for example, where there is an obvious valid public interest, vouchers may have a role to play in re-orientating supply to the demand-side. In these situations, where the long-term picture of the market is for continuing public finance, sustainability analysis assesses the reliability of this funding from domestic governments.

Figure 39
Evolution in challenge fund focus



Further reading

- Christensen, C & Raynor, M (2003); *The innovator's solution*; HBS Press, Cambridge
- The Committee of Donor Agencies for Enterprise Development (2001); *Business development services for small enterprises: principles for donor intervention*; www.bdsknowledge.org

²⁰ Grants that are essentially to support one company's operations with no ambition to stimulate wider change have limited validity in M4P.

5. GOOD PRACTICE NOTES

5.1.1 Guiding participation processes

What and why?

How to use participatory approaches, commonly used in local economic and community development, so that they are more consistent with M4P.

The potential benefits of more participatory approaches in development are well known. In principle they should lead to better-focused interventions, more local ownership of the development process and greater impact and sustainability. Yet 'standard' participatory approaches are often criticised for (a) confusing means (participation) with ends (impact); (b) their perceived lack of depth and (c) the lack of efficacy of the quasi-'democratic' mechanisms established. How can M4P make the best use of participatory approaches without inheriting their negative attributes?

How does it work?

There are typically four phases in participatory approaches, often consisting of a series of workshops and other participatory tools:

- *Set-up.* This might include training of local facilitators, initial assessment of target sector and networking with local stakeholders and initial introductory workshops to understand general opportunities and constraints.
- *Research.* Focus group discussions, interviews and other participatory methods involving local stakeholders for in-depth assessment of opportunities and constraints (SWOT) and local competitive advantage.
- *Analysis.* Evaluation of research findings in a planning workshop, and formulation of interventions that address needs and that promise quick returns.
- *Implementation.* Presentation of proposals to the relevant community, setting priorities through participatory planning processes, setting up of steering groups to guide implementation.

Key factors for successful use

Adapting participatory approaches requires that several factors are taken into account:

Fit participatory approaches to the market diagnostic and implementation process (not the other way around)

As Figure 40 shows, M4P and participatory approaches do not necessarily exclude each other. The key frameworks for understanding the poor – for market selection and for assessment, for example – can be used as diagnostic tools in the initial phase of participatory processes. However, it is important that participation serves the diagnostic process, and that it is seen as a means to the end of more inclusive, effective market

systems. This is a more tangible, meaningful form of participation. For example, setting up community-based organisations (CBOs) or steering groups as a fixed starting point in the process – a common approach – might not serve any functional M4P purpose. In many situations, meeting with key individuals and existing groups/associations is more useful.

Address the lack of rigour in participatory analysis

Participatory processes are often useful only in identifying needs of the poor – the symptoms. However, poor people mostly have only a vague understanding of systemic constraints that underlie these symptoms. Understanding market systems in which the poor are participating requires that agencies go beyond the community borders – the confines of the poor's own understanding – and speak to other market players; for example, buyers, suppliers, government, service providers, etc.

Within a participatory approach therefore, technical expertise is required that will lead to interventions addressing systemic constraints. This process does not need to be entirely 'expert-driven' – it could include measures that make it more transparent to target groups. However, agencies need to understand that what they offer is more than simply a process – it is ideas, knowledge and resources as well.

Go from immediate results to systemic change

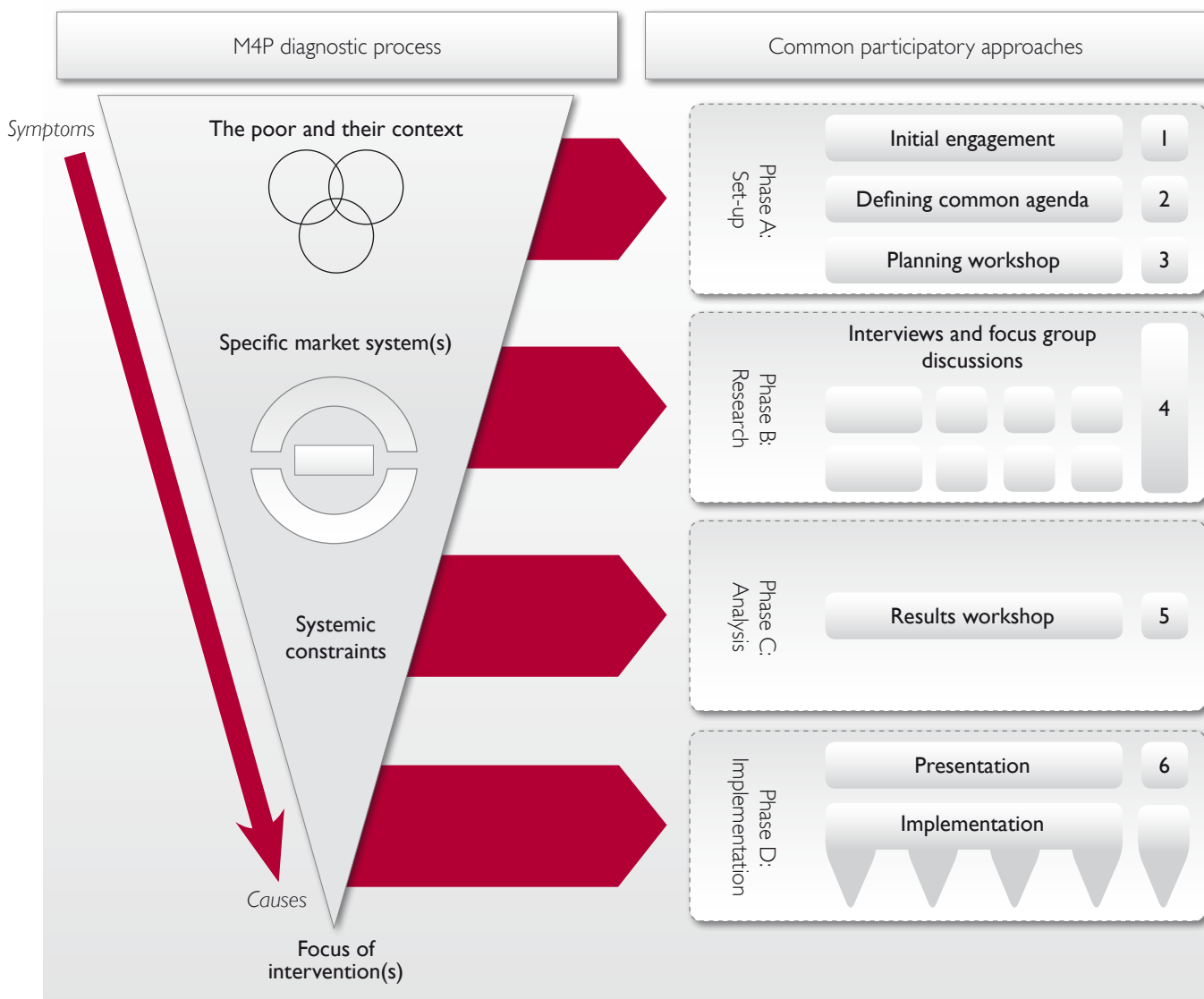
Participatory processes often aim at short-term and visible outcomes that motivate local stakeholders to take on new and more demanding challenges. The problem is that these often do not lead to sustainable solutions addressing systemic constraints but rather create dependency on external funding. Managing this tension between the expectations for immediate results, often stirred up by participatory processes, and the need to address underlying constraints is a central implementation challenge. In essence, this is concerned with balancing operational tactics and strategic goals. Planning for 'quick wins' is often an important operational priority – and can serve as a platform for a more strategic focus on underlying causes. Appropriate participation can assist in achieving this balance by creating the right expectations among market players.

Go from pilot tests to crowding-in

Participatory approaches by nature are restricted to a limited geographical area (there are practical limits on how many people can participate) and therefore are limited in the scale that they can reach. However, participatory approaches can be useful in pointing interventions in the right direction. Relatively intensive and small-scale pilot-testing interventions that identify key constraints and trigger points for change can serve as a basis for (a) creating a future market vision and (b) building other interests to 'crowd-in' more activity.

5. GOOD PRACTICE NOTES

Figure 40
Participatory approaches in relation to market system diagnosis²¹



Further reading

- Albu, M (2008); *Comparing M4P and SLA frameworks – complementarities, divergences and synergies*; in *Making markets work for the poor – market development and sustainable livelihoods – a comparative assessment*, The Springfield Centre, SDC
- Herr, M (2008); *Local value chain development (local-VCD) – a guide*; International Labour Organisation (ILO), Enterprise for Pro-Poor Growth project (www.entergrowth.com), Sri Lanka
- Meyer-Stamer, J (2003); *Participatory Appraisal of Competitive Advantage (PACA) – effectively launching local development initiatives*; Mesopartner, Duisburg, Germany

²¹ The right side of Figure 40 is adapted from the PACA procedure framework (Meyer-Stamer, 2003).

5. GOOD PRACTICE NOTES

5.12 Livelihoods analysis

What and why?

How to utilise the Sustainable Livelihoods Approach (SLA) to allow more detailed understanding of the position of the poor in market systems and better design of M4P programmes.

The starting point for M4P is a detailed understanding of the poor. However, M4P has, on occasion, been criticised for not addressing this ‘start with the poor’ requirement rigorously. In particular, some have seen it as top-down in its analysis and placing too much emphasis on monetary and economic exchange rather than on developing the more diverse livelihood strategies of the poor.

SLA on the other hand is criticised for its limited understanding of the wider market system of which the poor and their communities are a part. Its emphasis on participatory processes can further lead SLA to assessing symptoms rather than underlying systemic constraints. Its efficacy as an approach to intervention is consequently of limited value.

However, SLA potentially offers value not as an approach to intervention but as an analytical framework that can be used to better understand the livelihoods context of the poor as part of the market system.

How does it work?

SLA is based on the premise that putting the poor and their livelihoods at the centre of development increases the effectiveness and social sustainability of development interventions. It seeks to gain an understanding of people’s strengths (assets or capital endowments) and how they convert these into positive livelihood outcomes. Although different methodologies are used they all are based around common features which form the SLA framework:

- At the centre of this framework are people’s assets, which they require to achieve positive livelihood outcomes. Assets include not only financial resources but have social, human, natural, physical and even psychological/spiritual dimensions (represented graphically by constructs such as the asset pentagon).
- The way people move into and out of poverty links assets to the livelihood strategies that people choose in order to achieve the livelihood outcomes they seek.
- Crucially, people’s asset accumulation, their choice of strategies and the outcomes they achieve are heavily influenced by powerful external factors (the vulnerability context).

SLA envisages scenarios in which people and communities can better maintain or enhance the assets on which their livelihoods depend (empowerment), can cope with and recover from stress and shocks (responsiveness) and can provide for future generations (sustainability). Participation becomes an important means by which to achieve this goal.

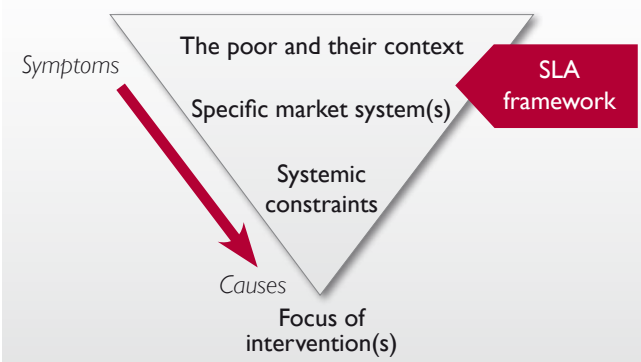
Key factors for successful use

Three factors are especially important in bringing SLA – with its characteristic participatory diagnosis focus on household, family and community assets – constructively into M4P programmes:

The poor’s engagement with the external world

Although the SLA framework has clear limitations in understanding the external environment – the wider market system – it can provide useful insights into perceptions the poor have about the ‘wider world’, and how they interact with other market players. This is especially useful in understanding the poor and their context at initial stage of the M4P diagnostic process (Figure 41) – for example, in understanding the poor’s perception of service providers, reasons for use/non-use and comparison with informal sources.

Figure 41
SLA framework within the market diagnostic process



Intra-household dynamics

SLA can be useful in allowing a window on groups within households – for example women and children. Both may engage with the economy and wider social processes in ways that are different from the ‘average’ household response. For example, some types of economic activity may be more accessible for women (and vice versa) and economic gains for households may result in differential benefits for family members in relation to education, health and decision-making.

5. GOOD PRACTICE NOTES

Community and group dynamics

As an approach that focuses on community participation and empowerment, SLA frameworks can offer useful insights into how members of a community interact. This is particularly important, for example when trying to understand mechanisms of knowledge and information dissemination within communities and target groups (eg farmers sharing knowledge about cultivation techniques amongst each other) or of resource allocation (eg distribution of land for rental or sharecropping). Agencies have had mixed success in organising the poor in groups – and groups can often fail if there is no common interest. However, there are many situations in rural areas where there is a compelling logic to collaboration – for instance, to access technical and market services for agriculture or to exert appropriate pressure on public organisations. For such collaboration to be effective it has to build on group incentives and relationships.

SLA, as a means of analysis, can be useful in M4P. The wider challenge for SLA is to address systemic constraints rather than the symptoms of problems appearing in communities and households. For this to happen, the frameworks and processes outlined in the *Guide* need to be taken into SLA.

Further reading

- Albu, M (2008); *Comparing M4P and SLA frameworks – complementarities, divergences and synergies*; in *Making markets work for the poor – market development and sustainable livelihoods – a comparative assessment*, The Springfield Centre, SDC
- DFID (2001); *Sustainable livelihoods guidance sheets*; DFID, London
- Dorward et al (2002); *Critical linkages: livelihoods, markets and institutions*; paper presented at the seminar on *Supporting institutions, evolving livelihoods*, Bradford Centre for International Development, UK

5. GOOD PRACTICE NOTES

5.13 Knowledge management system

What and why?

An internal management system, developed in M4P programmes and used chiefly in promoting more competitive and inclusive industries. Its purpose is to regularly compare actual versus expected changes in market incentives, relationships and capacities at two different stages in a planned systemic change process:

- *Transactions to relationships.* Are interventions fostering more productive interactions between market players – moving from one-off transactions to longer-term commercial relationships based on learning/innovation and shared benefit flows?
- *Scale-up/exit.* Is there increasing evidence of ownership of the change process among more market players and is this ownership resulting in a significant shift in the norms/rules that will drive market development and allow facilitators to scale-up and exit?

Effective facilitation requires an organisation with the capacity to read and react to local market signals. This helps in understanding the fine line between facilitating change and directing change and in capturing and using knowledge to determine if interventions are progressing in the right direction and at an acceptable pace.

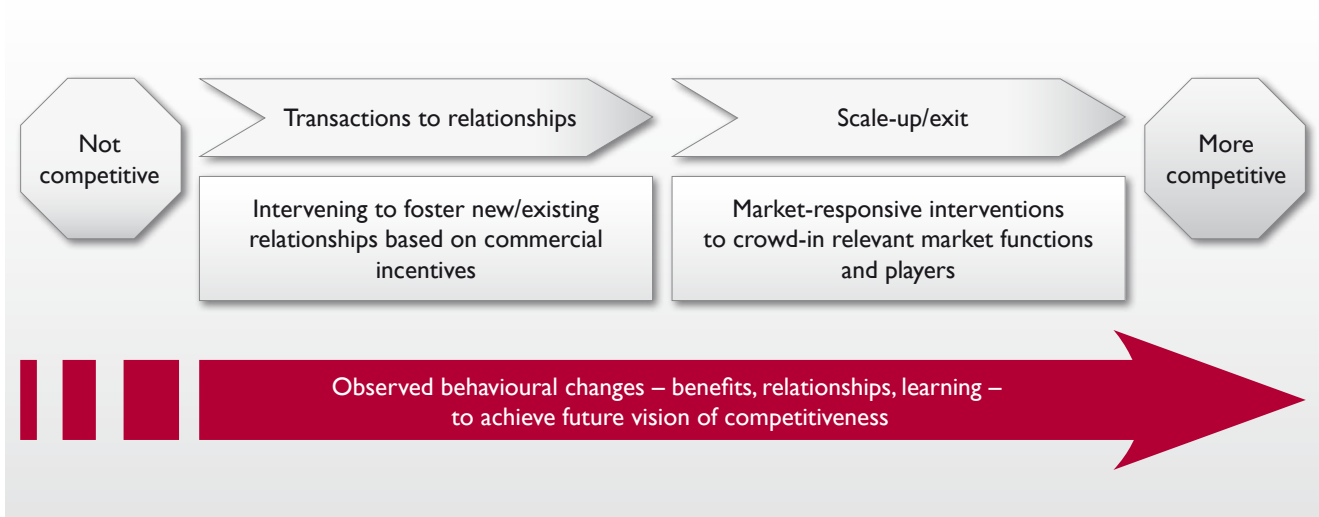
How does it work?

There are two key steps in developing a knowledge management system:

- *Lay out industry pathway.*²² A knowledge management system starts by laying out expected changes along a change process leading to a vision of competitiveness (Figure 42). These observations are based on local and international analyses of effective behaviour patterns in competitive industries and then are applied to the local market/industry context. Pathway observations provide a benchmark against which a facilitator can compare expected with actual observations to determine direction and pace of progress.
- *Establish knowledge capture system.* A knowledge capture system is required to compare how market players react to opportunities and threats catalysed by the interventions. Of course there are other potential factors that, if changed, will result in shifting incentives and new behaviour patterns. To deal with this complexity, a project needs to constantly compare actual versus expected observations to assess nuanced differences and determine if/when shifts in its interventions should be considered (Figure 43).

The usefulness of the knowledge management system is dependent on the project's ability to understand both tacit knowledge (knowledge that is held internal to an individual) and explicit knowledge (knowledge that is defined through a report or presentation). It is also critical to have confidence in the information that it is capturing to make sure it is accurate within a reasonable range of variability.

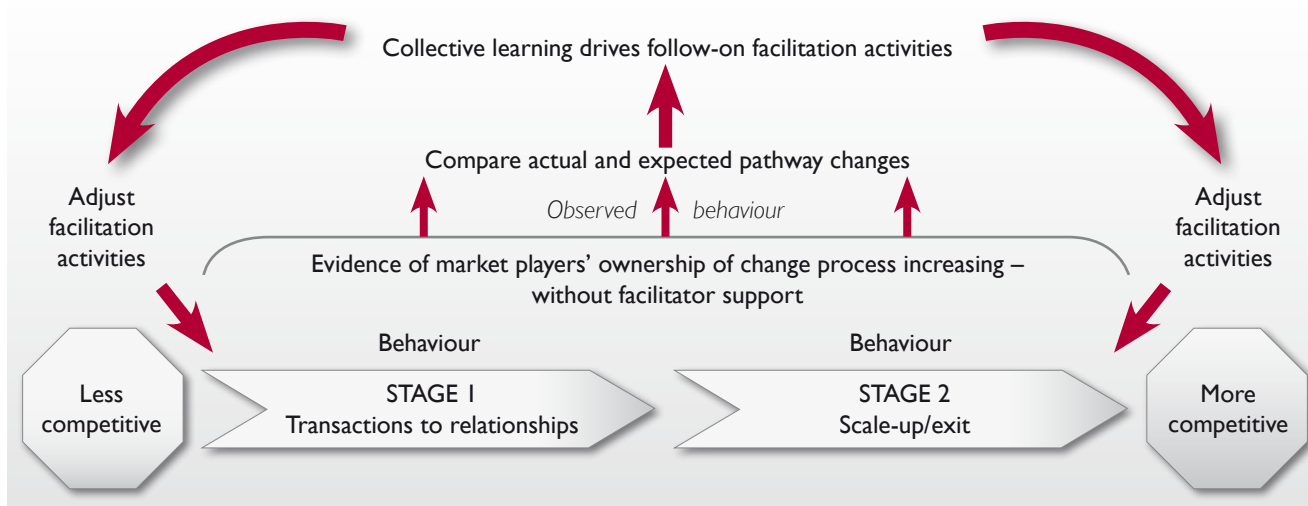
Figure 42
An industry pathway



²² The industry pathway is closely related to the pathway to crowding-in referred to in Section 3D of the Guide.

5. GOOD PRACTICE NOTES

Figure 43
The knowledge management process



To capture *tacit knowledge* different qualitative methods can be used:

- A knowledge or learning-based operating culture – with appropriate incentives (bonuses or kudos) – encourages team members to share information and question why they are doing a specific activity.
- Regular team meetings encourage the sharing of experiences, capture success stories and learning and promote new ways of addressing challenges.
- Staff-led exchanges with other team members foster increased ownership and social pressure to share and use information for improved performance.
- Participatory small-group learning workshops are effective tools to extend learning and increase team member interaction.

Different levels of *explicit data capture* can be used to ensure that quality of knowledge flows into project progress reviews:

- Monthly tracking reports on a set of quantifiable indicators – investments, contracts, promotional events, sales – shows if behaviour change is being adopted and becoming entrenched in a lead firm and other market players.
- Quarterly and annual reports aggregate monthly tracking report data and compares it against national level data collection on industry-wide performance.
- Twice yearly household evaluation (to different standards of rigour) provide a credible level of attribution to guide strategic project decisions.

No single indicator or source of information is sufficient to guide decisions in complex and evolving markets. The mix of tacit and explicit data sources/methods offers checks and balances to assure quality and timely information for decision-making.

Key factors for successful use

Two factors need to be borne in mind in developing a knowledge management system:

Effective market system facilitation is effective knowledge management

To effectively facilitate a change process, agencies must understand and adjust to the adoption and crowding-in processes of local players. The triggers that cause social shifts which in turn alter behavioural norms are dynamic and rarely occur in a smooth and predictable fashion. This has implications for managing projects, both inside the market system with market players and outside with funders.

Effective facilitation is highly dependent upon a management culture and structure that actively pushes information from the ground up to agencies' headquarters and then back down to the field. Empowering a facilitation team with the knowledge and skills to fulfil this role is critical and highly dependent upon all team members having ownership of the agency's systemic change objectives and approach.

Knowledge management for decision-making

At any point in time, facilitators may be at different points in the change process (from market entry to exit to re-entry) and engaged in a range of different roles (from direct to indirect to actively taking a 'wait-and-see' position). The knowledge captured from the system is used to guide them in confronting intervention challenges along the pathway. For instance:

- Will this intervention foster increased competitiveness at a systemic level?
- Will it be conducted in a way that crowds-in local players to take on responsibility?

5. GOOD PRACTICE NOTES

- What role and related level of facilitator support is required?
- Will the facilitator be able to finish the intervention given resource and time constraints?

Further reading

- Bear, M & Field, M (2008); *Managing the process of change: useful frameworks for M4P implementers*; Enterprise Development & Microfinance, Vol. 19 No. 1, June 2008

5. GOOD PRACTICE NOTES

5.14 Intervention impact logics

What and why?

How to use impact logics as a planning and management tool for specific interventions to ensure consistency with the overall strategic framework for M4P.

M4P programmes need to have credible and practical ways of planning what they do, of ensuring that this fits overall objectives and of assessing performance. Impact logics are a way of planning interventions within the overall logic for market development.

Typical programme planning tools such as log frames, while useful in establishing strategic clarity (see Good Practice Note 5.4) are often not sufficiently detailed to be of operational value. Impact logics are complementary to these and serve two practical purposes²³:

- As an internal planning tool they provide information on how specific interventions fit into the overall strategic context and how changes in the market system lead to changes in growth and access.
- For external reporting purposes, they help to demonstrate plausible attribution between interventions and overall goals.

How does it work?

There are several steps in developing impact logics:

Establish the overall market logic

Impact logics must be set within a context of the overall strategic framework - which enshrines the market logic. The market logic is however not sufficient in itself to provide guidance for specific interventions hence the need for impact logics that focus on more detailed and immediate changes 'further down' the strategic framework.

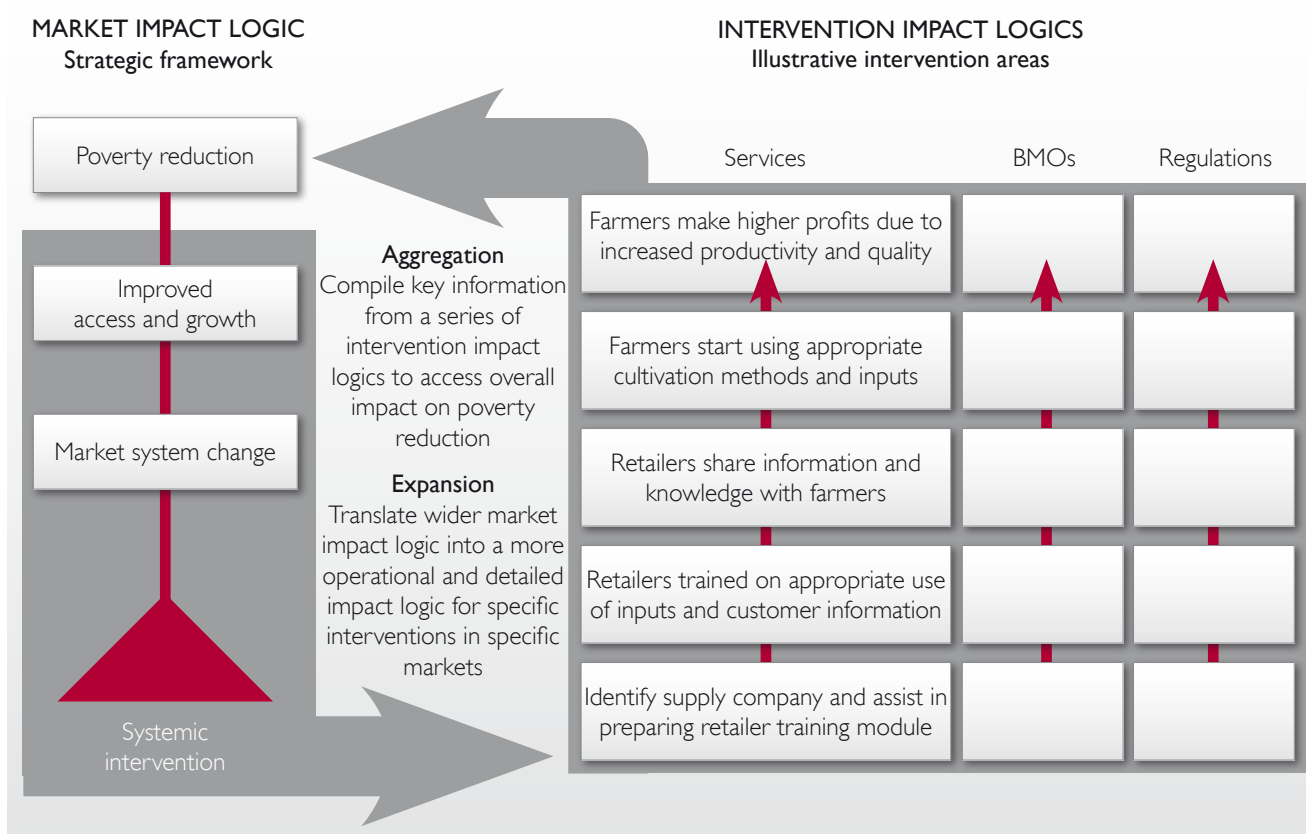
Develop the logical cause and effect flow for specific interventions

Breaking down the overall market logic into more detailed, operational steps requires that the different constraints in the system are addressed through different actions – for example related to services BMOs and regulatory change. Each intervention requires its own logic, linking activities to expected outcomes related to systemic change and growth and access (Figure 44 provides an illustrative example of one of these).

Ensure that each impact logic contains realistic causality links

The connections between specific activities and their immediate effects on the market system and then to growth and access for the poor must be plausible.

Figure 44
Intervention impact logics in relation to overall market logic



²³ Section 3E highlights impacts logics in relation to M&E. Here the focus is on impact logics as a planning tool, and linking them to M4P's overall strategic framework.

5. GOOD PRACTICE NOTES

Using impact logics for M&E

Appropriate indicators and expected impacts (predictions) are selected at each level of change. Various means of information collection can be used to assess progress against indicators.

Key factors for successful use

Focus on systems

Impact logics are concerned with ‘exploding’ the details of changes at the system (the priority) and growth and access levels – ie with giving specific meaning to what is meant by systemic change. Rather than ‘getting lost’ in trying to prove the link between specific interventions and the overall poverty reduction goal, impact logics should be here.

The achievement of the poverty reduction goal is addressed through correct selection of markets that provide opportunities for increasing growth and access and through correct analysis of the systemic constraints that prevent the poor from participating fully in markets. Interventions together all contribute to the poverty reduction goal.²⁴

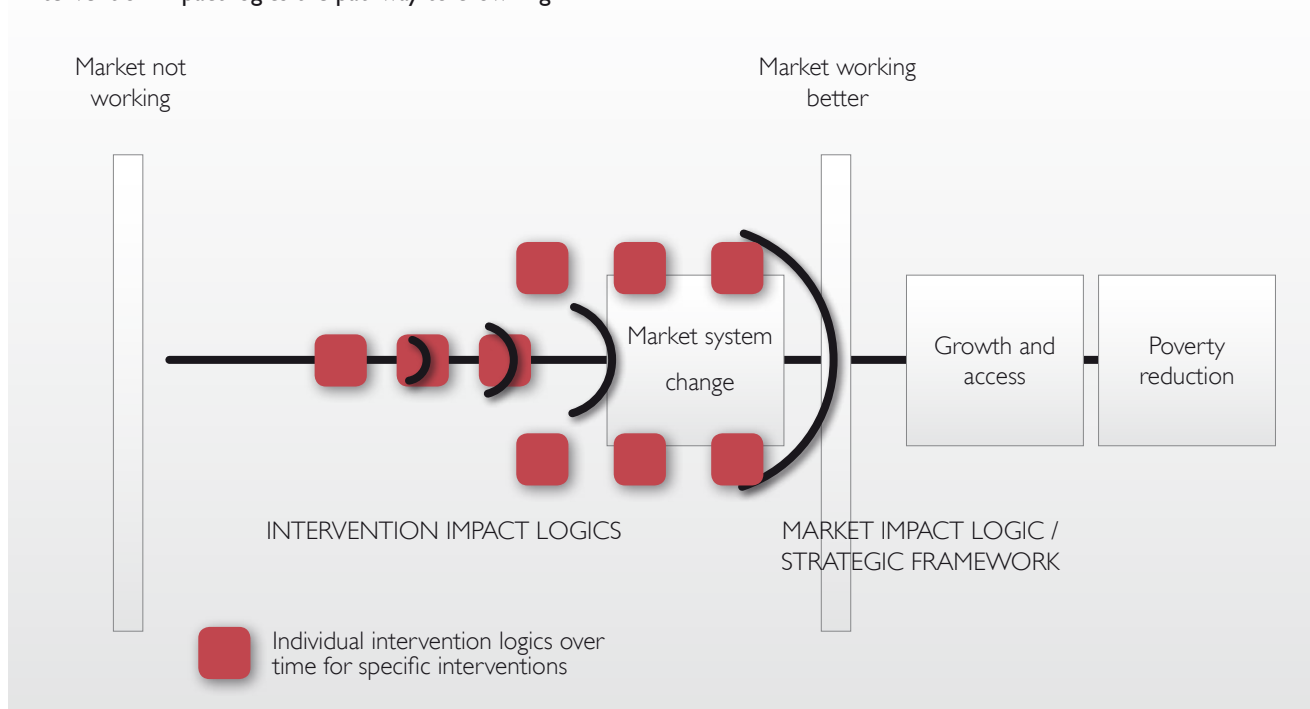
Focus on the practical

Although impact logics also serve external purposes – such as reporting to funders - they primarily fulfil a management and planning function. Impact logics need to reflect a practical view of how project managers and staff see change happening. Indicators and assumptions therefore need to be grounded in a clear idea of how market system change takes place and must be ‘owned’ by managers.

Link to pathways to crowding-in

When constructing impact logics, facilitators need to reflect on how specific interventions link to systemic change and to the other M4P frameworks related to systemic change. For example, impact logics help facilitators to think through the roles and incentives of market players (who does what – and why) and the pathway to crowding-in (ensuring that other market players and functions are brought in to the market development process – see Figure 45).

Figure 45
Intervention impact logics the pathway to crowding-in



Further reading

- Katalyst (2008); *Impact management system manual – a guide to monitoring, impact assessment and reporting*; Dhaka, Bangladesh
- Team Technologies (2001); *The logframe handbook: a logical framework approach to project cycle management*; World Bank, Washington

²⁴ This relationship between market and intervention logics is comparable to the distinction between programme and project log frames, sometimes referred to as 'nested log frames'.

5. GOOD PRACTICE NOTES

5.15 Interconnected markets

What and why?

How to understand the relationship - the interconnection - between different market systems in the process of market analysis and intervention.

Markets do not exist in isolation from each other – players, functions, relationships and transactions overlap from one to another. Interconnected markets refer to market systems which, as well as being a market in their own right, constitute the supporting functions or rules of another market system.

Their significance is that, as M4P programmes move through the diagnostic process towards identifying underlying constraints, they often find that causes and the focus of their interventions are in different markets apparently distant from those where they started.

While the complexity of interconnected markets is sometimes unwelcome, it is no more than a reflection of the complexity of the 'the real world'.²⁵ Moreover, by taking account of interconnected markets facilitators can potentially increase both the scale and sustainability of their interventions. Agencies therefore need to be able to understand and act on the reality of interconnected markets.

How does it work?

Understanding and intervening in interconnected markets is an iterative process that has a number of key stages:

Understanding the initial market system

The starting point is to understand the key elements of the market system of immediate interest (Market 1 in Figure 46) focusing, as in any M4P situation, on which rules functions and players are currently underperforming and preventing the poor from fully participating in markets. Underlying causes of problems in the core market usually lie in supporting functions and rules.

Going from priority constraints to a 'new' market system

Supporting functions/rules that have been identified as major constraints in the initial market are seen as the core of a new market system. Whatever the constraint is – training, finance, seeds, information, regulations etc – this can be seen as the 'core' of a new market (Market 2). And around this core, new supporting functions and rules emerge. Different market players are also now entering the field of view, responsible for the performance of various functions and rules in the interconnected market.

Understanding key constraints in the interconnected market

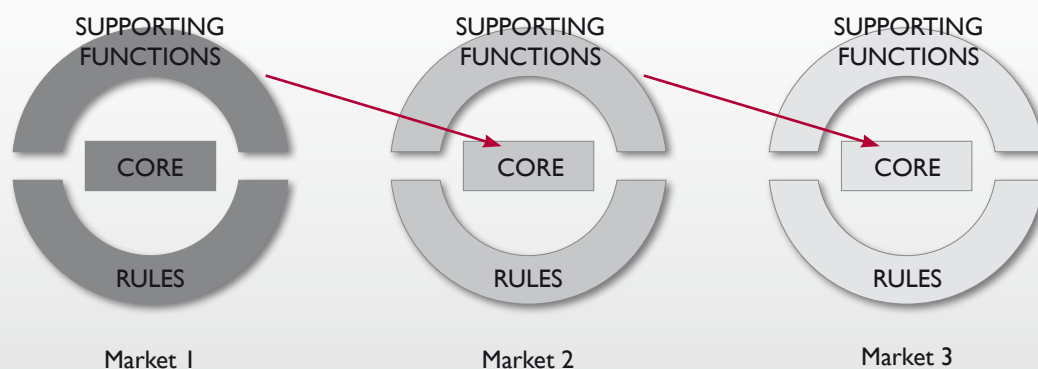
The interconnected market system is then subject to a market analysis, using the same frameworks as in Market 1, in which again supporting functions, rules and the roles and incentives of market players are analysed.

Repeating the process if necessary

Steps 2 and 3 can be repeated if necessary thus seeing the M4P programme moving from one market to another (Market 3 and beyond).

Two brief and different examples illustrate interconnected markets in practice. Problems of small business finance (Market 1) often lie with the quality of business financial reporting and proposals presented to providers which is a function of accounting services (Market 2) – where low levels of transactions may be explained by a number of factors, including inappropriate financial regulations impinging on small business (Market 3). Second, low levels of income for farmers (Market 1) might be explained partly by low productivity caused by poor quality seeds (Market 2) which, in turn, might be caused by weak market coordination and information (Market 3) which does not allow seed purchasers and producers to differentiate on the basis of quality.

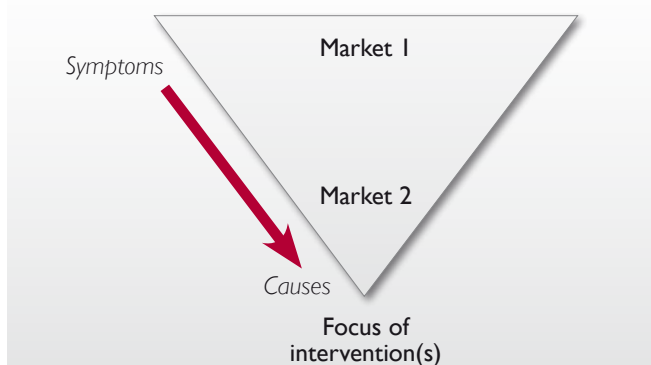
Figure 46
Interconnected markets



²⁵ Facilitators delude themselves if they pretend interconnected markets are – somehow – not there!

5. GOOD PRACTICE NOTES

Figure 47
Interconnected markets in the diagnostic process



Key factors for successful use

Understanding the interconnection between market systems requires consideration of some key factors:

Set interconnected markets within the market diagnostic process

The driving motivation for programmes to move from one market to another is to focus interventions on causes not symptoms. M4P programmes thus often find themselves intervening in markets that are seemingly unrelated to the market in which the poor are located – but the connection is clear in a context of the diagnostic process (Figure 47).

Use interconnected markets to increase impact and sustainability

As programmes move from one market to another, the potential for reaching impact at scale increases. Figure 48 illustrates the point for an example where farmers' low incomes are caused by poor practices. With limited resources, providing direct training to farmers can only result in limited impact and sustainability. Moving progressively from one cause, market and potential set of interventions to another (Markets 2, 3 and 4), and to working directly with other players – for example, retailers, retailer trainers (suppliers), service providers etc – allows the prospects for leverage, scale and sustainability to increase.

Analysis and actions together

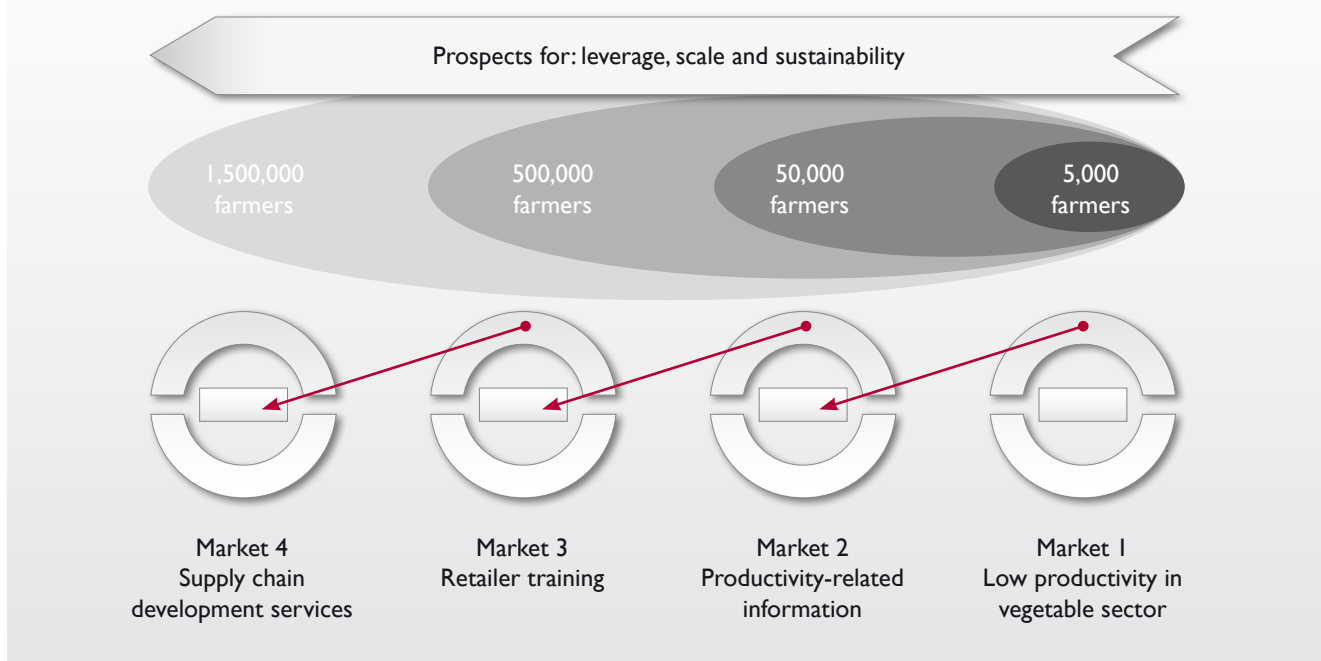
Understanding interconnected markets is not only an analytical process but should be connected to concrete action. In practice, analysis and action are interwoven. The process of intervening allows facilitators, as well as achieving impact, to learn how they can go further from a platform of greater knowledge and improved networks. Programmes often begin with limited operations but then can go to a next level, refocusing interventions on interconnected markets to seek wider impact.

Balance ambition with pragmatism

The question often asked in this context is how often should M4P programmes go through the iterative process of moving from one market to another. Where are the limits? While there is no definitive answer to this, in responding facilitators need to balance two factors:

- Their capacity and resources (what they can do).
- Their ambition (what they want to do).

Figure 48
Increasing impact through interventions in interconnected markets



5. GOOD PRACTICE NOTES

5.16 Stimulating demand

What and why?

How to simulate demand in weak markets for new ideas, practices or products, in particular through use of social marketing techniques.

'Weakness' in market systems can be manifested in a range of constraints. On the supply-side, providers may lack incentives and capacity to innovate and deliver the appropriate offer for consumers. And often interventions need to focus on these issues.

However, demand-side constraints are also especially apparent in weak markets. Consumers' willingness to change behaviour or knowledge of the benefits of change and how to change may be deficient. In an ideal situation, demand drives change in the supply-side, so bringing about change here is especially important.²⁶

Stimulating the demand-side can be pursued through a variety of approaches (Figure 49²⁷). One of the most important of these is social marketing. Social marketing refers to the adoption of marketing principles (used to sell products) to 'selling' ideas, attitudes and behaviour not for the direct benefit of the marketer but for wider development purposes. In essence, it is about improving the knowledge and information in market systems that allow consumers to learn, make more informed decisions and change.

Social marketing has been used extensively in the development of health systems but also in other spheres such as business services.

How does it work?

Facilitators using social marketing to stimulate demand in weak markets should follow a number of basic steps.

Understand the message to be delivered

As in any marketing campaign, be specific about the nature of the message to be delivered. In particular, the potential benefits of change – for example, from trying a new service - and the evidence to support this message need to be clear.

Be specific about the audience to be reached

Marketing campaigns should be transparent about the audience(s) – the demand-side segment – they are trying to reach and be based on a good understating of their audiences' existing perceptions.

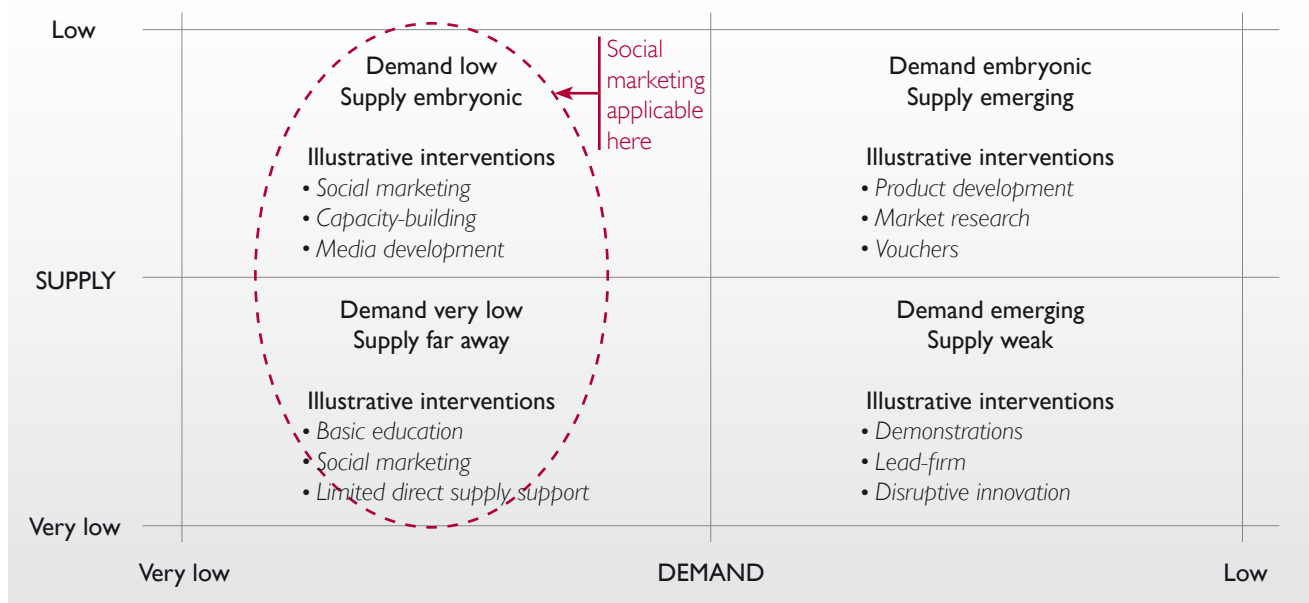
Use appropriate media

The most relevant media will vary with different audiences. In many African countries, radio is the most important mass media, in others it may be TV or newspapers. In more niche markets, it may be specialist sector-based journals. Often a variety of media need to be used.

Be specific about indicators

Social marketing is aimed ultimately at increasing demand (ie changing behaviour) but more immediately it is concerned directly with raising awareness and changing perceptions. Indicators need to be developed that assess these characteristics – without this there is a danger of social marketing as a 'black hole' for resources with little feedback on their level of usefulness.

Figure 49
Illustrative options for social marketing in different market situations



²⁶ Suppliers, however, are not passive in market systems and are often the leading source of change.

²⁷ Adapted from materials developed by Jim Tomecko for the Making Markets Work training programme offered by The Springfield Centre.

5. GOOD PRACTICE NOTES

Key factors for successful use

A number of factors need to be considered in successfully using social marketing.

Balance (narrow) individual versus (broader) developmental goal

Social marketing is often undertaken along with other supply-side interventions, eg to initiate a new service. In these situations, a balance must be struck between benefits for the provider (awareness of them and their service) and for the market as a whole (awareness of the service in general). Certainly, if the campaign is focused on the provider – the so-called ‘manufacturer’s mode’ referred to in social marketing in health systems – benefits can be captured by them at the expense of the (more important) overall market. Equally, however, there must be enough specific benefits for direct organisational partners.

Emphasise the tangible benefits from change

Messages must be in a form and language that is meaningful to consumers. In particular, the positive reasons (with evidence) why they should change need to be stressed. ‘Development-speak’ must be avoided! Identifying and working with appropriate marketing and communication firms is therefore important. Experience suggests that active management of these contractors – especially understanding the nature of the task – is required.

Don’t brand as a ‘development project’

While some providers may believe that there is extra credibility to be gained from an association with a facilitator, marking a new product/service as a development initiative is more likely to lead to development-dependence than ‘normal’ market behaviour.

Be clear about how this fits into systemic change

Innovation, calculated risk-taking, educating consumers and new product development are all necessary continuing elements in vibrant and sustainable market systems; they are not simply one-off activities. There are convincing arguments that can be made for more generic social marketing interventions to address (essentially information-based) market constraints. However, continual judgement needs to be made on whether these are spilling into tasks that should be undertaken by providers.

Don’t use social marketing to undermine media development

The development of many market systems is often undermined by weaknesses in mass media markets. Developing more innovative, diverse and responsive media can potentially address the information weaknesses in many markets, in particular by highlighting new ideas and practices. ‘Buying’ awareness through social marketing runs the risk of further dis-incentivising the media from seeing their role to be information providers in market systems. If resources permit, therefore, facilitators should seek to build mass media markets as a means of addressing broader information constraints.

Further reading

- Weinreich, N (1999); *Hands-on social marketing: a step-by-step guide*; Sage Publications, USA

5. GOOD PRACTICE NOTES

5.17 Anatomy of a transaction

What and why?

A tool to understand the initial factors explaining the dynamics and nature of transactions at the core of a market system.

Markets that are functioning effectively for disadvantaged and poor people have:

- high levels of transactions – exchange between consumer (demand-side) and provider (supply-side); and
- high levels of inclusiveness – a significant proportion of poor people included on either supply or demand sides.²⁸

Understanding transactions – especially if transaction levels are low – is a critical first step in assessing markets and identifying underlying market constraints. This tool offers a means of gaining an understanding of the dynamics – or anatomy – of transactions in markets.

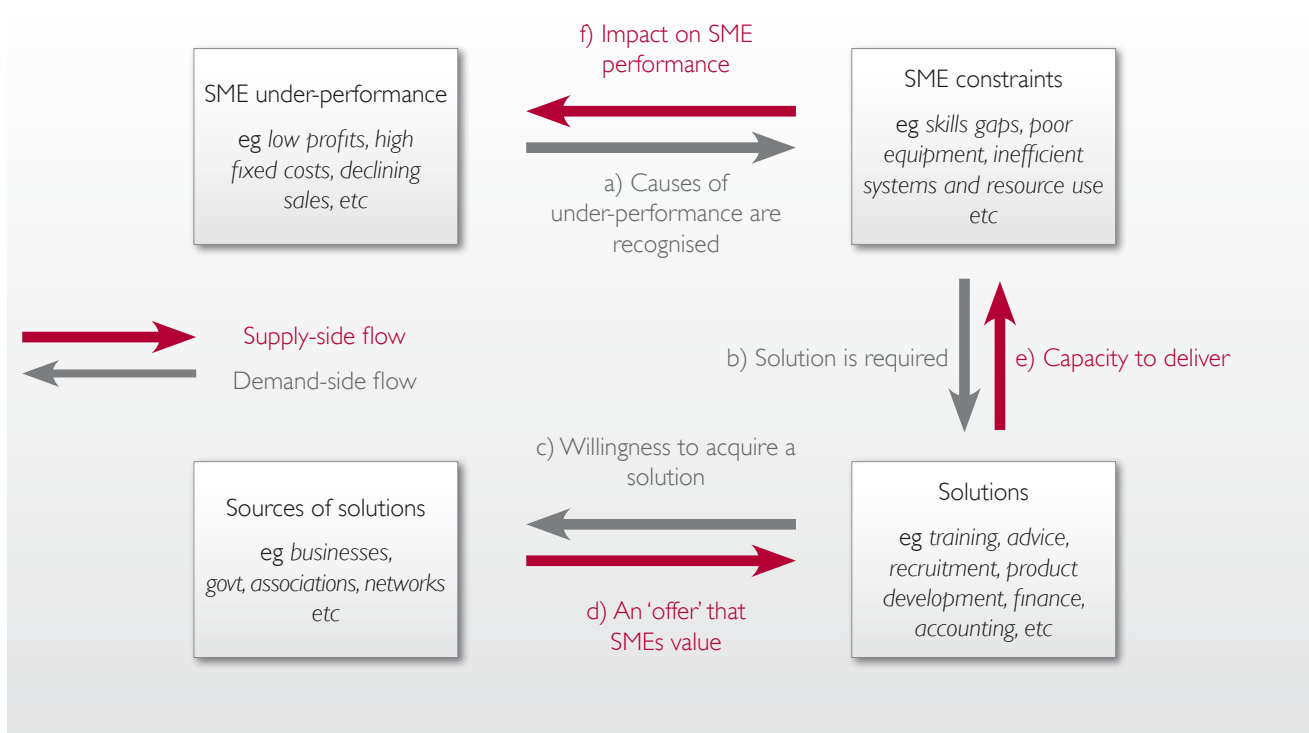
How does it work?

In any market system, supply and demand-sides exchange successfully when a number of factors are present.

With respect to Figure 50, taking the example of small businesses experiencing under-performance and potential services to address this²⁹, from a demand-side perspective (→), transactions occur successfully when:

- SME can identify the immediate causes of their underperformance – skills, processes, finances, products etc.
- SMEs can identify potential solutions – services, equipment, information etc.
- SMEs are willing to acquire this solution from appropriate providers – businesses, informal networks etc.

Figure 50
The anatomy of a transaction (for an SME service market)



²⁸ Although benefits often come indirectly through interconnected markets. For example, the poor may not be direct participants in improved agriculture input markets – but benefit as farm employees (labour markets).

²⁹ The tool can, however, be applied to any market context.

5. GOOD PRACTICE NOTES

From a supply-side perspective (→), transactions occur when:

- d) Providers can develop and present an ‘offer’ that SMEs value – a package that is accessible and relevant to reach SMEs.
- e) Providers have the capacity to deliver – having reached SMEs, the technical capacity to deliver value to SMEs that can positively impact on their performance.

If factors (a) - (e) are evident, final benefits should flow to SMEs (f).

If, therefore, strong transaction activity is **not** taking place, two conclusions follows. First, a range of constraints will be in evidence in relation to:

- Consumers – unable to identify the cause of underperformance and unwilling to act to do something about this.
- Providers – without an appropriate offer and without the necessary capacity to deliver this.

Second, interventions logically need to focus on these identified constraints.

Key factors for successful use

Using the anatomy of a transaction tool requires a number of steps.

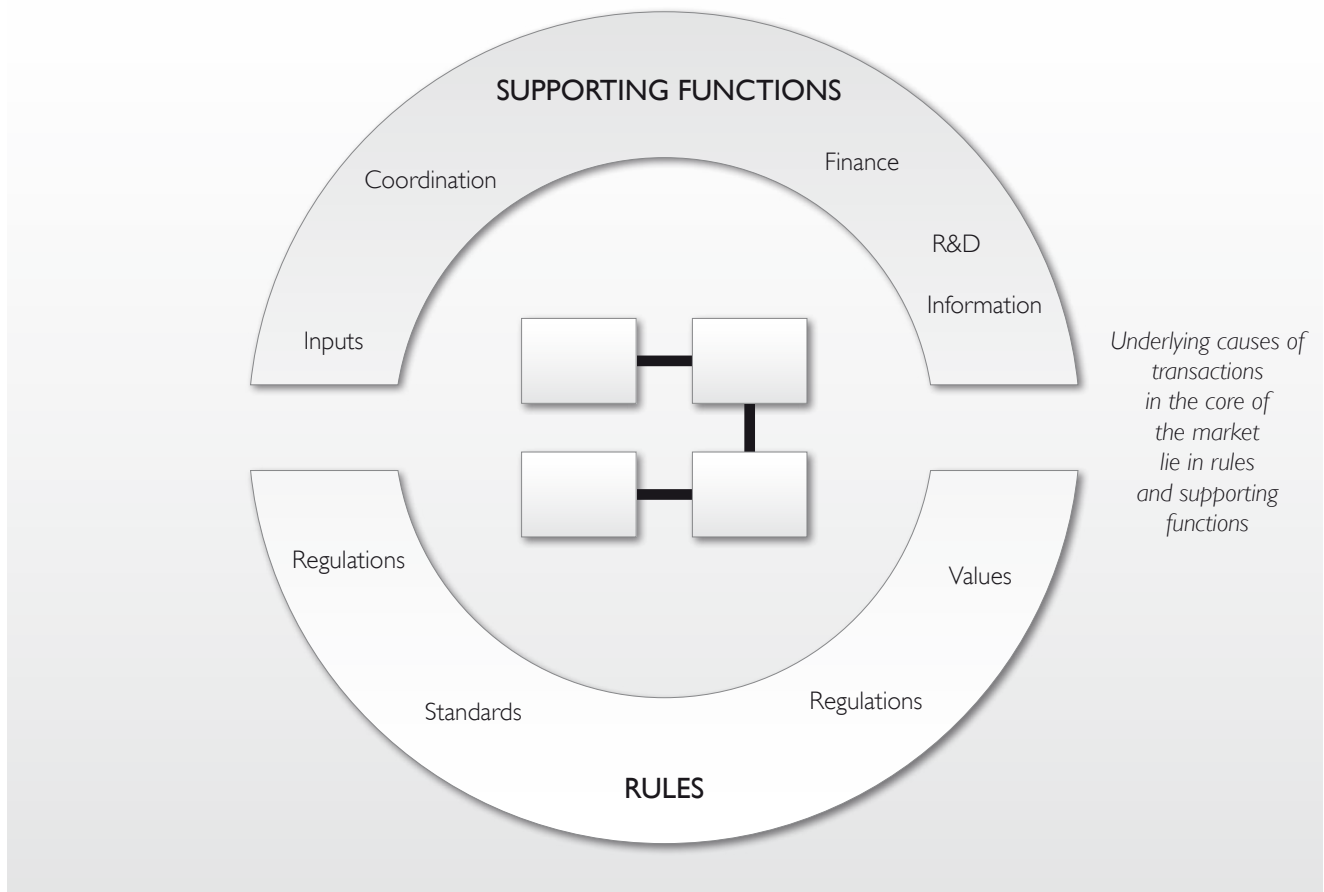
Recognise this as a first step

Identifying the immediate causes of low levels of transactions is a necessary step in understanding any market system – and in providing an initial guide to what the focus of interventions should be. For some markets it may be appropriate to use different consumer research tools to expand this analysis - for example, the demand-side perspective can be subjected to more detailed examination of awareness and understanding and image. Whatever the complexity of methods used, the overall process of understanding market systems can be seen essentially as a process of continually asking “why?” – and this tool offers a useful starting point for doing so.

Apply to hidden or embedded services

The tool can be applied to cash-based exchange and to non-cash transactions. In both cases, the general requirements on demand (recognition of problem and willingness to actively to do something about it) and supply-sides (offer and capacity) are the same.

Figure 51
Core transactions in the wider market system



5. GOOD PRACTICE NOTES

Fit transactions into the wider market system

Beyond the initial analysis of transactions, gaining sufficient understanding of markets to guide actions requires that the underlying reasons for weak transaction flow are assessed (Figure 51). This means looking at the supporting function and rules in markets, such as:

- The quality, relevance and accuracy of information impinging on consumers' knowledge.
- The services available to develop providers' capacity.
- The attitudes and norms influencing consumer and provider behaviour.
- The role of government in shaping provider incentives.

Further reading

- Field, M, Hitchins, R and Bear, M (2000); *Designing BDS interventions as if markets matter*; Microenterprise Best Practice Project, USAID, www.microfinancegateway.org

5. GOOD PRACTICE NOTES

5.18 Rapid market assessment

What and why?

How to better understand complex market systems in a short time with limited resources. Rapid market assessment (RMA) is a generic term referring to use of iterative and interactive research methodologies. It can be applied in a variety of contexts:

- *As entry point to markets.* A way in which relief or development programmes get a 'first picture' of specific markets. RMA enables a programme to make decisions on whether it should engage in a market or not and the direction it might initially pursue. For this reason RMA is commonly used in post-crisis situations, where quick action is required.
- *For product testing and placement.* Businesses use RMA to conduct basic market research before testing or launching a new product - and agencies have supported SMEs to develop their capacity to conduct RMA. In other cases facilitators use RMA in pilot testing new products/ideas that they wish to introduce to a market system.
- *As intervention strategy.* Used as a participatory tool in LED processes as a means of enabling local stakeholders to assess their markets and jointly plan interventions (thus creating a sense of local ownership).³⁰ RMA here becomes part of the intervention itself.
- *As a management tool.* Used as part of an iterative process by which facilitators refine their understanding of complex market systems on an on-going basis, in order to adapt their interventions (ie monitoring). RMA is a means of testing pilot interventions and informing crowding-in strategies, providing a feedback loop from target groups to facilitator.

How does it work?

The application of RMA depends on the context in which they are used. However, in practice RMA processes share some common characteristics in the way they are implemented.

Process

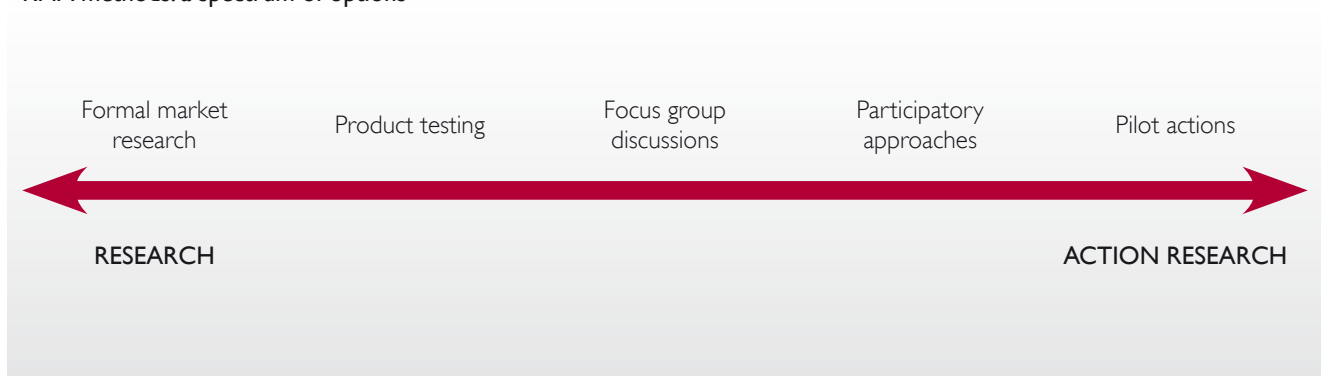
RMA goes through similar stages, differing in time (for example, from 2-3 days in a post-crisis situation to several weeks in the case of participatory approaches to LED) and scope of research. The main stages tend to be:

- *Stage 1: Setting objectives and framework.* This involves some form of market selection in which the objectives and target group are defined and RMA strategy is outlined.
- *Stage 2: Doing the analysis.* The actual RMA itself is often divided into preliminary mapping and then more detailed (or participatory) research and analysis through various means of information collection.
- *Stage 3: Moving from analysis to action.* The information derived from RMA can be used for a range of purposes, such as a strategic decision, the launch of a new product or refinement of intervention etc.

Purpose

Methods used in RMA can be seen on a scale ranging from formal survey-based research at one end to 'assessment-by-doing' at the other, each fulfilling different purposes (Figure 52). The degree to which participatory approaches are used depends on whether the outcome of an RMA is intended for planning purposes or seen as an intervention itself.

Figure 52
RMA methods: a spectrum of options



³⁰ Such as the Participatory Appraisal of Competitive Advantage (PACA) tool by Mesopartner, or the Helvetas Guide on RMA (2002).

5. GOOD PRACTICE NOTES

Tools and sources for RMA

RMA encompasses a diverse range of different tools, assessment methodologies or sources of information (eg value chain analysis, socio-economic studies, livelihoods analysis, etc). RMA uses these tools and sources within a limited timeframe and therefore does not necessarily claim scientific rigour, but to enable and inform fast decision-making and action. Specific tools tend to be better suited to understanding specific elements of the market system (ie the core of the market, supporting functions and rules) rather than understanding the entire market system.

Key factors for successful use

Four factors need to be considered when using RMA within M4P programmes:

See RMA as process leading from symptoms to systemic causes

Market assessment needs to be an iterative and affordable process – not just a large, one-off formal study. RMA – in whichever form – should help programmes to understand market systems without the burden of formal and time-consuming studies. The critical point here is that RMA should be conducted frequently throughout the life of a programme, to build the depth of analysis, identifying systemic constraints as well as roles and incentives of market players, and steering interventions.

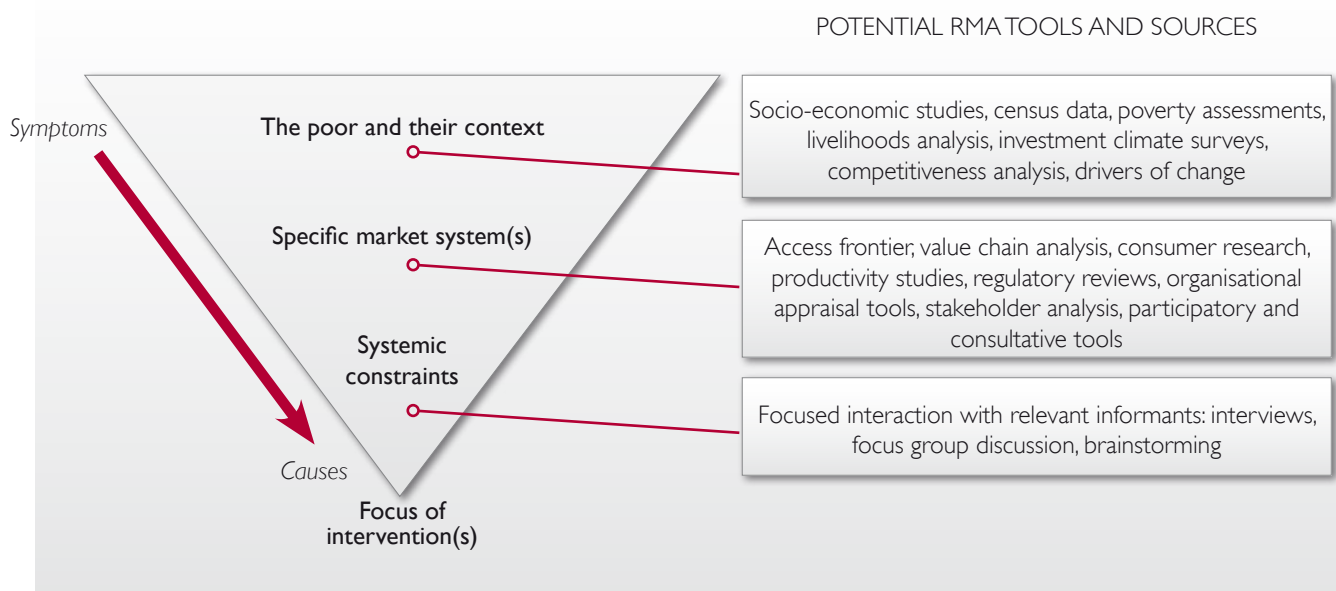
Triangulation by using different tools

Seldom will a single tool, assessment methodology or source of information be sufficient to develop good understanding of a market system. RMA needs to be seen within the overall M4P diagnostic process (see Figure 53), so that programmes have a clear understanding about what information is needed and which tools can be used to collect this information. In practice the combination of several tools or sources is likely to be more effective than a single tool or source in generating essential information about market dynamics. This is often referred to as ‘triangulation’, a method that looks at a specific market from multiple perspectives to develop a more rounded view, testing preconceptions and assumptions and the natural biases of individual tools and information sources.

RMA for strategic planning

Market assessment needs to guide a facilitators' action (ie market assessment is not conducted out of academic interest alone). RMA should enable facilitators to take decisions about market selection, to identify underlying causes of market underperformance and narrow down potential entry points for intervention. RMA can also be used to develop a programme's intelligence which can be used to influence market players. Facilitators therefore need to be clear from the outset about how RMA are going to be used to shape intervention strategies and actions.

Figure 53
RMA within the M4P diagnostic process



5. GOOD PRACTICE NOTES

Distance from the market

The 'distance' of an organisation from a specific market determines the extent of market assessment requirement and in particular the utility of RMA. RMA are best suited to organisations that are close to a market, which have short feedback loops and are able to respond immediately to informal and regular assessments (eg facilitators). Organisations that are more distant from a market (eg donors) tend to be better served by more formal, periodic and larger scale market assessment, which are used to determine higher level strategy or assess impact, rather than steer specific interventions.

Futher reading

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