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# How to develop effective and realistic market systems strategies in a donor-heavy environment



Helvetas Eastern Europe

All blogs

**Helvetas Eastern Europe share some key strategies in working successfully under a donor-dependent/distorted market context.**

Using practical cases, we share three different strategies of effectively tapping into and leveraging available donor resources without losing the vision of ensuring large-scale sustainable impacts. The examples given are all from youth employment projects in Eastern Europe funded by the Swiss Agency for Development and Cooperation (SDC) and implemented by HELVETAS Swiss Intercooperation and its local partners.

## The challenge

Many market system development (MSD) projects find it difficult to motivate potential project partners to take part in an intervention when they have become overly accustomed to large sums of 'easy to use' financial support. Projects that apply the market systems approach will need to develop innovative mechanisms to collaborate with a range of actors – from the private to the public sector and others.

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## Two types of distortions

From experiences worldwide, we see two main types of donor distortions that have an effect on market systems projects:

1. The 'us vs. them' type: projects try to facilitate systemic changes using the MSD approach, while others are readily handing out money and giving away services for free
2. The 'MSD partnership competition': there are too many MSD projects competing with each other for the same, limited, pool of partners.

The second type of distortion has become a challenge in countries where market systems projects have been operating for longer, such as Bangladesh and Nigeria. In these countries, the private sector has realised that partnering with MSD projects can be very profitable. As a result, a type of market for partnerships has emerged. Potential partners will go to the highest bidder. Other projects are told that they need to offer more (financial) support if they want to win them over.

We will focus on the first type of distortion. Our examples all come from the Balkans where the 'MSD partnership competition' is not a common phenomenon (yet).

## The 'venture capitalist' strategy

One strategy used by MarketMakers in Bosnia and Herzegovina (BiH) is to act like venture capitalists, embracing risk and providing 'seed support' to partners wanting to launch new ideas. An example of this approach is BIT Alliance, an IT industry association currently made up of eight of the largest IT companies in BiH.

MarketMakers facilitated the establishment of BIT Alliance at its earliest stage – prior to any other donors' involvement. With assistance from MarketMakers, BIT Alliance's core operations very quickly became financially self-sustaining (with MarketMakers paying dues as an associate member), and the organisation created a solid business plan that included well defined concepts for new services for its members.

The value of this seed support was evident when BIT Alliance began its first initiative, an IT boot camp called BIT Camp. For the Camp's first cycle, significant investment funds were needed, but internal financing was insufficient. Like any other fast growing start-up, it was time for BIT Alliance to go for financing.

Because BiH is 'rich' in donor funds, BIT Alliance decided to finance BIT Camp partly through a bank loan to buy equipment, and partly through donor funds to pay upfront operating costs. MarketMakers helped BIT Alliance identify and approach donors who could provide the financial input to kick-off the first BIT Camp cycle. As a private sector business association, BIT Alliance was new to the donor world, and MarketMakers helped the association navigate it.

In just over a year, BIT Camp has become a valued and recognised training programme whose graduates IT companies are keen to hire. Currently training the

second batch of IT-professionals, the association projects to be financially self-reliant in its fourth cycle.

With enough financial resources to cover its core operations, BIT Alliance has learned to distinguish donor-money to avoid donor funding schemes that would compromise its mission or negatively influence its strategy. This means it selectively participates only in donor-funded programmes that furthers their vision of transforming BiH into a vibrant IT destination.

### The 'accept-adapt-respond and influence' strategy

Albania experiences a high prevalence of donor-funded grants, free consultancies and technical assistance services. Despite this, the RisiAlbania project tried at first to stimulate the development of a sound commercial market for marketing consultancy services in the food-processing sector – with limited results. Support schemes are there to stay: between government subsidies, EU pre-accession funds and other donor grants, it makes more sense to consider these support schemes as part of the market system.

But donors have difficulties in disbursing their grants: the project decided then to work towards improving the impact and effectiveness of the support schemes. This is done in two ways. First, ensuring a better flow of information for businesses on the grants available as well support for the application process. Second, stimulating the private sector's influence (via an association) on the nature, procedures and requirements of the grants. Sometimes, simply changing the timing of a call for grants can make a difference!

In an ideal situation, RisiAlbania would have gone one step further and advocate MSD principles and practices among donors that are potentially interested in collaborating with the project's partners. However, it is not realistic for a small project to push large funding agencies to change their usual methods and use a more market-'sensible' approach. For other, larger MSD projects, this is certainly a strategy worth exploring.

In Kosovo, the Enhancing Youth Employment (EYE) project has engaged with (large) donors to influence their spending behaviour. The Female in IT (FIT) intervention at the American University of Kosovo is a good example. EYE co-financed the initial training costs for women IT-trainees, which helped to increase the interest for IT trainings among women and enabled them to find jobs more quickly. At the early stage of the FIT project, EYE also supported the University in finding a sustainable economic model for financing the IT trainings. EYE engaged the Ministry of Economic Development and the World Bank to create a training fund to stimulate higher inclusion of women in the IT sector. USAID provided additional funds for the period in between: agreeing to take part in the project in a limited and temporary

role. This was important to secure the bridge funding without the donor adjusting or compromising basic principles of the approach. This way, EYE was able to steer the intervention and ensure sustainability of impacts.

## The 'boldly-go-where-no-donor-has-gone-before' strategy

Another strategy adopted by the projects to 'cope' with the distortions of subsidies is to focus on (sub-)sectors that have not yet caught the interest of other donors. This gives projects more flexibility. Projects often find that the attitudes and expectations of potential partners have not yet been 'spoiled': their readiness to co-invest and the ownership of the change promoted are certainly higher.

An example from RisiAlbania is the intervention to the development of Business Process Outsourcing (BPO). The BPO sector in Albania is at the moment dominated by call-centres and telemarketing companies, which generate jobs that, somewhat undeservedly, are regarded relatively poorly. As a result the Government and donors have largely ignored this sector. RisiAlbania is working to support the sector in developing added-value services (such as accounting, HR management, etc.) that will not only create more jobs, but also 'higher-quality' employment compared to the traditional jobs in the call centres.

It is clear that finding a niche means going into uncharted waters, which brings certain risks, but to succeed in a donor-distorted market you sometimes need to take a chance and find innovative solutions.

## To summarise

There are four main takeaways from this blog. First, the need for financial support from donors remains. MSD projects will have to accept that some of these donors can have a distorting financial effect on the private sector in developing or transition countries.

Second, MSD projects need to find innovative ways to make this market reality work, and work better. Projects will need to prepare partners on how to access financial investments, including donor support, while not letting their mission or agenda be altered by these funds. Donor money is most effective when it can be used to further partners' goals and strategic vision.

Third, MSD projects should also negotiate and discuss with donors on how grants can be provided and used in a more sustainable manner. By sharing their experiences, MSD projects can provide insights into how donor funds may compromise partners, such as the private sector, and how this can be prevented or at least reduced.

Finally, MSD projects should dare to take some risks. This constitutes going into a niche where other donors have not shown much interest (yet), or supporting a partner that may be considered risky - but has high potential.

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**Register for the [BEAM webinar on coping with donor distortion](#).**

*The blog is a joint effort of the Helvetas Eastern Europe team: Nathalie Gunasekera and Andrew Wilson (BiH); Edlira Muedini and Isabelle Fragnière (Albania); Argjentina Grazhdani (Kosovo); and Zenebe Uraguchi and Rob van Hout.*

*For more information please visit the Eastern Europe section of [HELVETAS Swiss Intercooperation's website](#).*

[> BEAM Programme Index: EYE: Enhancing Youth Employment](#)