

## **From analysis to action**

What works in designing interventions based on market systems analysis

### **Policy brief**

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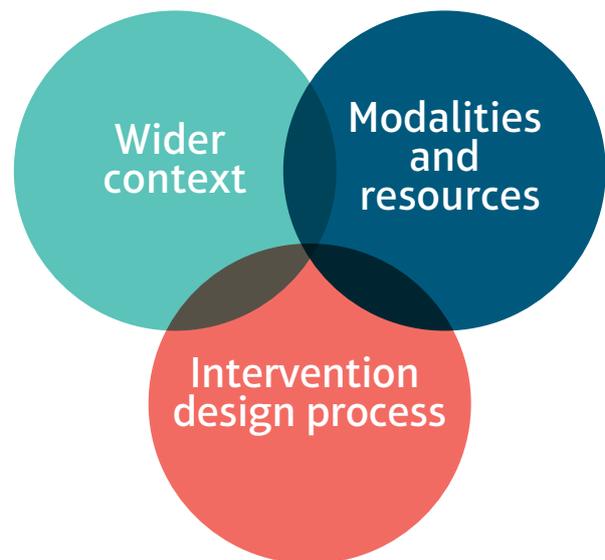
## Introduction

This policy brief draws on recently published research, which set out to understand how practitioners design interventions within programmes using a market systems approach. This key step in moving from inception to implementation has often proved difficult. Programmes have suffered from ‘paralysis by analysis’ or have rushed into interventions that have not delivered the desired results. The research was mainly informed by extensive interviews with practitioners and the results reflect their experience and views. Practitioners focused mostly on the processes of design that they had followed and factors that affect these processes. These processes varied widely, much more widely than our hypotheses assumed.

The research enabled the development of a framework for presenting the key issues with, and approaches to, design. The framework includes three broad areas: wider context, modalities and resources, and intervention design processes. Context includes the wider environment the programme operates in as well as the nature of the underlying markets; modalities and resources include the framework set by the donors, nature of the team as well as the attitudes and expectations of those involved. The intervention design process includes all the approaches and methodologies that are applied to design and adapt interventions. Context can affect modalities and processes, while modalities substantially impact on processes. In essence the answer to our key question as to how interventions are designed was that “*it depends upon the process, which depends on the context and the modalities*”. From a policy perspective, while context is exogenous, modalities and resourcing clearly are not and require careful planning to enable a programme to deliver.

The importance of the wider context is not a surprise. The economic and political environment, nature of the target markets and number and nature of potential partners will clearly affect the intervention design. The programme’s modalities and resources also clearly influence possible interventions. Resourcing, time frame, targets, flexibility, and restrictions on facilitation instruments inevitably frame design options. The experience and capability of the team itself also clearly has an impact on the design process.

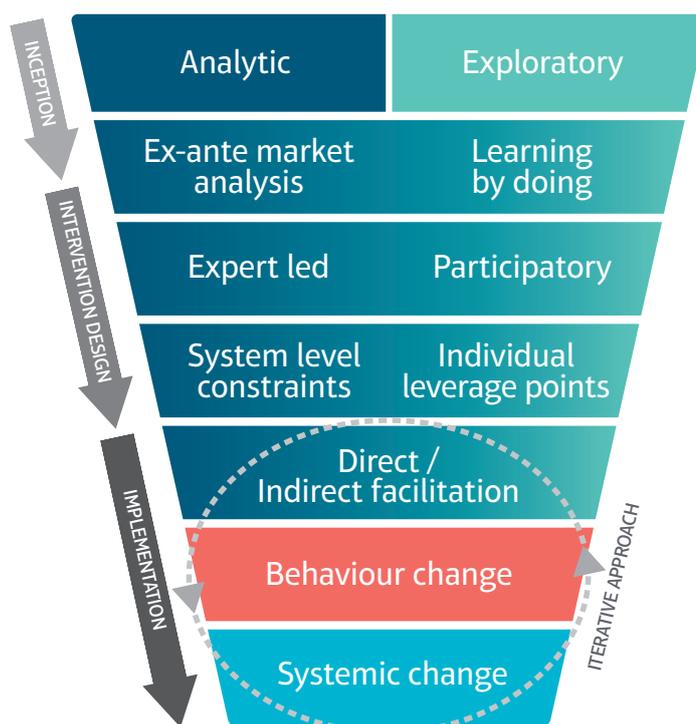
The wide variation in processes was not expected. Approaches ranged from polar opposites, which we have labelled *Analytic* and *Exploratory*. In the analytic approach, extensive ex-ante market analysis is key, interventions are then designed by an expert-led team and are clearly within a pre-determined theory of change to achieve a pre-determined vision of a systemic change. The exploratory extreme is very different. Initial market analysis is minimal and the priority is to get some interventions under way. These are often designed in a very participatory way, by trialling and testing of small hypotheses or mini interventions or by looking for opportunities with a view to seeing what works and what does not. The majority of respondents were somewhere between these limits, mixing elements along the intervention design process journey.



**Figure 1: The context-modalities-process framework**

These various approaches to the design process are presented in this intervention design process framework diagram (Figure 2). It illustrates the continuum between the highly analytical and expert led approach on the left to an exploratory approach based on learning by doing through experimenting and testing of either pre-defined hypotheses or identified market opportunities on the right. The shading of colours is conceptual rather than descriptive, such that the darkest colour stands for the more extreme position. In reality, programmes hardly ever followed either extreme entirely. Both 'sides' of the diagram merge at the bottom to deliver systemic change through behavioral change. Respondents were generally agreed that once interventions were in place an iterative approach was required. However, they were very unclear on how that actually translated into scaling up and the achievement of systemic change. The focus was largely on the early stage of the process and in many cases the central tenet of the approach – that the benefits stem from the achievement of systemic change - was not emphasised.

Figure 2: The intervention design process framework



From our research the majority of practitioners are leaning towards the exploratory side of the figure. In fact, two or three interviewees referred to a very analysis-driven approach towards intervention design as the “traditional” approach to M4P/market systems development. On the exploratory side we identified another continuum between an experimental approach of rigorous trialling and testing of well-defined hypotheses and an approach built on identifying opportunities presented in a market or with a particular partner. Again, the responses showed a wide range of interpretation of what an exploratory approach actually entails. The challenges of complexity within market systems has in itself led some practitioners to move away from the analytical side. An important issue that emerges from this trend is the question of whether this represents advances in the market systems approach – by rigorous trialling and testing of well-defined hypotheses in-line with a clear vision and theory of change – or whether there is a risk that it is simply a pragmatic response from practitioners to the pressures placed on programmes to get interventions going.

## Policy implications

The approach to the intervention design process has a major influence on the eventual intervention designed. In other words, it is important to follow an effective and appropriate process to achieve good interventions. We have, therefore, identified five key issues to highlight possible implications of selecting each particular process at various stages and provide guidance towards the best processes that can lead to effective interventions. Further, the modalities of a programme turn out to be very influential on the design process. Thus, we set out some guidance for donors and programme managers for selecting key determinants of programme modalities that create the best possible environment for effective intervention design.

### Insights into the design process

#### Key Issue 1: The obfuscation of different exploratory methods

Many respondents talked about piloting, undertaking trial interventions or looking for opportunities based on finding willing partners as part of their design process, often seeing this as an iterative process to learn what was working. It was not always clear to what extent this was a well thought through experimental process as opposed to simply taking advantage of opportunities that were discovered. Thus, exploratory approaches covers a wide range of methodology and the logic behind the chosen approach was often not clearly set out.

An experimental approach implies a rigorous trialling of ideas to test well defined hypotheses, using close monitoring and results measurement to determine their validity. This is a valid method of strengthening analysis in 'complex' systems where ex-ante data is unreliable; there is a lot of uncertainty, and engagement is needed to gain real insight.

A purely opportunistic approach – on the other hand – is by definition driven by the opportunity that is found. Within many market systems programmes it is clear that finding partners willing and able to implement interventions designed by a programme is not easy. It is not impossible that opportunities arise that are in-line with the aims of the programme, however, opportunism can result in an approach mostly driven by perverse incentives and short-term pressures on teams, e.g. to show activity, to spend money quickly, or to cope with a lack of capacity to do good analysis or sound experimentation. When this is the case, it is a coping strategy that might often contribute to poor programming and implies a need for changes in procurement policies and management.

There are several issues that can push programmes away from the analytical and experimental continuum towards opportunistic approaches:

- Pressure from donors to spend money and show results at an early stage of the programme;
- Lack of ideas, experience, capacity and innovation among the team;
- Lack of a clear strategy for stakeholder engagement;
- Unwillingness or lack of support from donor to take risks;
- Predetermined interventions

Good opportunities and luck can play a significant factor in the success of an intervention, with some practitioners admitting that some of their most successful interventions were pure luck. However, we would advise pursuing an opportunistic approach only with extreme caution, as this method risks designing interventions (and ultimately spending resources) that are not necessarily in-line with the overall aim of the programme, i.e. the change envisioned in the theory of change (ToC). We, therefore, recommend:

Before designing an intervention, be clear about the market development strategy and how the intervention strategy will contribute within the ToC. Always be clear about why you work with a particular partner and how they can help towards achieving the market development strategy and vision.

## Key Issue 2: Relating the analytical – exploratory continuum to economic theory

There is a clear link between the analytical vs. exploratory approach to intervention design and the theoretical functioning of markets within economic theory.

Very few respondents used the framework of market failures provided by economic theory to underpin their intervention design processes. This was surprising as the introduction of market systems approaches has essentially been a response to the near universal dominance of the market economy as the optimal way of organising economic activity, coupled with the recognition and acceptance that liberalised markets will not necessarily deliver economic efficiency and are prone to suffer from a range of failures. These failures are well known and easily recognised and addressing them can offer a clear underlying theory of change for market interventions. The following table shows some of the most common market failures<sup>1</sup> and what can be done about them:

**Table 1: Common market failures and potential solutions**

Market failure	Consequence	Corrective action required
Market power	Actions by dominant suppliers discourage new entrants and collude to restrict supply or demand and distort prices	<ul style="list-style-type: none"> <li>• A legal framework that enables administrative or court based action to obtain redress</li> <li>• Supporting new entrants or building the capabilities of smaller suppliers</li> </ul>
Unequal access to information	Raises transaction costs to acquire information, limits cost discovery, may cause failure to meet the needs of some parts of the market. For those with low access, may increase possibility of exploitation by those with better access	<ul style="list-style-type: none"> <li>• Publicly funded information systems bring about equality</li> <li>• Kick starting private sector supply of information (radio stations, ICT centres)</li> <li>• Private sector supply of information (e.g. credit bureau) to reduce adverse market choices</li> <li>• Collective action by business organisations and representatives of the poor to disseminate information</li> </ul>
Coordination failures and hierarchical <sup>1</sup> supply chains that are not accessible	Lack of co-ordination causes inefficiencies that may prevent growth. Supply chain requirements may be set too high causing exclusion	<ul style="list-style-type: none"> <li>• State intervention to co-ordinate</li> <li>• Collective action by small market players</li> <li>• Supporting businesses with business models that can improve co-ordination/access for the poor.</li> <li>• Reducing requirements of buyers or increasing ability of suppliers to meet supply chain requirements</li> </ul>
Incomplete/thin markets	The needs of some participants, especially the poor, are not met	<ul style="list-style-type: none"> <li>• Provide information on the market opportunity to serve the excluded</li> <li>• Trigger innovation in new products and services that will serve the poor</li> <li>• Increase access for the poor by public investment to reduce transaction costs</li> </ul>

<sup>1</sup> For the complete list see: *Market failures and what may be done about them*, Nathan Associates, BEAM Exchange 2014 [www.beamexchange.org/resources/454/](http://www.beamexchange.org/resources/454/).

Depending on the level of interaction between programmes and market actors, applying a more analytical or exploratory approach, thus veering more towards one or the other end of intervention process continuum, will be more appropriate:

- At macro level, within (and often across) many market systems, the overarching system-level constraints are most likely market failures, thus stable and ('easily') identifiable. The overall intervention strategy should be, therefore, informed through more economic and social analysis and a move more towards the left-hand side of the Intervention Design Process diagram. Economic analysis can also inform the programme aim and targets, where clarity will further benefit the actual design process.
- At micro level, where individual incentives and interactions are more complex, a move more towards the experimental – not opportunistic – side of the Intervention Design Process diagram will make sense. This will require creative use of the whole range of facilitation approaches and constant testing and adjusting (on a small scale).

However, the little use of market failures or other economic terminology by our respondents, raises the question as to whether practitioners have a sufficient understanding of basic economic principles when designing interventions. We, therefore, propose that at least some general explanation on economic concepts and how to map these concepts onto real world phenomena should be a part of training and guidance on the market systems approach.

### **Key Issue 3: Do practitioners have theories of change for their interventions?**

A key concern from our interviews is the little mention of the theory of change (ToC) or strategic framework (as describe in the M4P Operational Guide Chapter 1). As our researchers did not ask any leading questions, it's hard to say whether the interviewed programmes and practitioners did not have a ToC for how their interventions could lead to impact or if they felt the ToC was not relevant to the questions asked about intervention design. Both scenarios are alarming.

For the first scenario, good practice is clear, and we can only reiterate established guidance: programmes that use the market systems approach should have a theory of change.

For the second scenario, we see two possible explanations:

- First, we specifically targeted practitioners for our interviews that are responsible for designing interventions. The fact that most of this sample did not talk much about ToCs could mean that there is a disconnect between the design team and monitoring and results measurement (MRM) team.
- Second, the difficulties to keep the (within the ToC envisioned) systemic change in mind when the rubber hits the ground and first interventions are designed, may get practitioners to 'forget' about or neglect the importance of a ToC.

This also relates to our observation that most of our respondents focused much more on early stages (Adopt-Adapt type interventions) rather than on how to design the interventions to achieve scale/systemic change (Expand-Respond). Designing pilot interventions is much simpler than interventions to drive systemic change. The process to design interventions specifically aimed at scale-up/crowding was rarely described to us,<sup>2</sup> and this area needs attention from the research and practitioner communities. As mentioned in Key Issue 2, the main causes of market failure will normally point practitioners towards a theory of change to address the constraints they discover in any market system.

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<sup>2</sup> Although our researchers did not specifically steer the semi-structured interview towards the design of scale-up interventions, the fact that most of the respondents did not talk about these kind of interventions indicates a lack of scale-up intervention (design).

#### **Key Issue 4: A better understanding of ‘participatory’ methods**

The participatory approaches described to us call for the need to better understand ‘participatory’ methods in general, how and where they can be effectively applied, as well as the implications for the composition of the eventual interventions.

Several key pitfalls can be avoided:

- Unless practitioners operate in very thin markets, it is operationally impossible to invite all market actors to a workshop. The participants, therefore, only reflect a (small) sample of the market systems and practitioners have to keep in mind that identified constraints and possible solutions, i.e. interventions, are not always representative of the whole market system, thus achieving system-wide change might be a challenge. Participatory approaches, therefore, can lead interventions to address only the individual needs of particular firms or interest groups rather than create a change that will be scalable across the whole system.
- Equally, if experts design programmes without sufficient engagement with market stakeholders, then behavioral change will be unlikely.
- There is a risk that teams will move towards more participatory approaches because they do not have their own ideas or understanding of what the underlying systemic constraints are and which interventions are best suited to address them.
- Participants may not be aware of the whole range of solutions. It is, therefore, important that practitioners bring in possible solutions, e.g. different kinds of facilitation instruments, from outside (external), and observe if and how participants react to those.

Although we had examples where the design was entirely expert-led and others that were completely participatory, in reality, a balance will always be needed. The key is to maintain the right balance throughout the design process. Ideally, the design process should be developed by the team with a clear strategy for stakeholder engagement within it. Participatory contributions to intervention design should be within this strategy, with triangulation to confirm that information received reflects the sector. The team must decide whether interventions proposed will contribute to a process to deliver the systemic change vision that the programme is aiming to achieve.

We want to clarify that although our Intervention Design Process diagram puts participatory methods to the opposite of ‘expert-led’, we do not intend to say that participatory methods do not include any expertise – they do in fact require lots of expertise to conduct well – as well as time. However, we do want to emphasise that the actual design process can be led either by external experts or by actual (internal) participants of the market systems which can have very different implications for the eventual interventions.

#### **Key Issue 5: Selection of facilitation instruments**

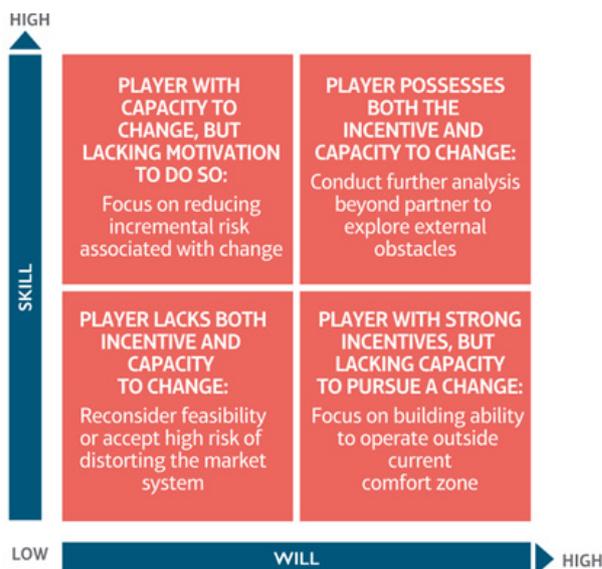
Programmes using a market system approach should consider a wide range of facilitation instruments, both direct and indirect. We define *indirect* market facilitation as organising workshops, developing a vision, networking, communications/advocacy, knowledge sharing; and *direct* market facilitation as funding, in addition to indirect market facilitation, interventions such as action research, pilot demonstrations, technical assistance and cost sharing with private sector firms.

When it comes to determining the type of facilitation to use in an intervention, interventions should be creatively designed considering the whole range of instruments. The key point is to make a connection between choice of intervention instrument and partner capacity and willingness, in order to set the right incentives for behavioural change and maximise the chance of achieving the systemic vision of the project.

Thinking carefully about the intervention instrument and having the flexibility to choose the most appropriate will enhance the effectiveness of interventions. Moreover, tailoring the type of facilitation towards the specific characteristics of potential partners is key. The will-skill framework is a helpful tool for this process as it allows, a) to map out and group market actors according to their characteristics and b) to offer the 'right' kind of incentives to the targeted partners, e.g. offering indirect support to 'high will, low skill' and more direct support to 'low will, high skill' typed partners.

Further, applying an iterative approach will be an effective strategy to identify the right kind of facilitation that triggers the desired behavioural change.

Figure 3: The will-skill framework



## Guidance on programme modalities

Donors – by setting certain modalities – can benefit the design process and steer implementers towards making the 'right' decision within the analytical and exploratory continuum. Thus, donors should be very clear when they set these parameters that they will enable the best possible environment for design of effective interventions. By highlighting the implications of these modalities on how programmes conduct analysis-to-action, we suggest what could be done by donors or programme managers to mitigate undesirable effects. We identified the following relevant decision points:

### 1. Use of pre-determined intervention methods

If donors pre-determine interventions for the programme, there will be little room for adjustment to engage with and select from various players or design new interventions when markets change or new information is gained, which clearly limits programme effectiveness.

Donors should, therefore, engage at strategic level (including impact and outcome targets of the log frame) and give approval for intervention areas, but that the actual design of interventions should be up to the implementers. Donors should not be too prescriptive and allow designed interventions to adjust if market situations change.

### 2. Timetables for inception phases

The inception phase has to allow for sufficient time to identify the relevant market and to understand the systemic constraints within it. Practitioners followed two opposing strategies to gather sufficient as well as the 'right' kind of information: A linear approach where data is gathered through an *ex-ante market analysis* and an exploratory *learning by doing* approach that allows for testing of different hypotheses and mini pilot interventions or for exploring different market opportunities.

Both approaches have their justification and should be enabled by donors in principle. However, by setting the time frame for the inception phase smartly, donor can mitigate certain shortcomings:

- A too short time frame for inception of less than three months will force implementers either to outsource their market analysis, risking biases in the design from outside the programme

context or lack of institutional learning, or to move towards the design stage too early, risking undesired opportunistic behaviour of just getting started without having sufficient understanding of the market context and the underlying systemic constraints.

- A too long time frame however, risks, especially when undertaking an ex-ante market analysis, that implementers fall into the ‘paralysis by analysis’ trap where time and resources are wasted. Donors and practitioners will then come under pressure to show impact and spend money, which clearly has a negative impact on intervention design.

We, therefore, suggest that donors should give at least three months and up to nine for the inception phase and within this, give implementers the freedom to set the time they require for the market analysis themselves.

Whichever approach is followed, it should be understood and accepted that the idea that an initial inception phase will result in a complete and final understanding of the selected markets is wrong. Learning doesn’t stop after the inception phase and programmes must allow for continuous learning through MRM and “knowledge gaining” interventions during implementation phase. This is of course in-line with flexible and adaptive approaches to programme management, now recognised by donors.

### **3. Programme targets**

Defining targets and measuring results and progress for programmes using a market systems approach is an ongoing challenge. With respect to intervention design processes, it is clear that targets and the time frame for their achievement can be a positive or negative influence. Programmes deliver impacts and outcomes through systemic change. A focus on beneficiary numbers directly affected by pilots and direct interventions is a poor indicator of success and can distort the incentives of implementers. If interventions are going to be designed to build towards and deliver systemic change, then the focus should be on indicators of progress towards this aim with beneficiary targets measured towards the end of the programme.

At output and outcome level, the fact that markets change over time requires donors to be flexible. The development of outcome and output level indicators should, therefore, be driven by the implementers supported by a high-level of flexibility from donors. Here, implementers should find indicators and targets that reassure donors that undertaken activities are in-line with the overall programme aim and show how it is delivering Value for Money (VfM). Allowing implementers to set these metrics and targets themselves also has the positive side effect that they have to think and (continuously) justify why they are working towards achieving these targets and how they relate to achieving systemic change, thus addressing Key Issue 3.

Setting the level of beneficiary target numbers and other logframe indicators too high too early at the beginning of the programme can negatively affect the intervention design process and, ultimately, distort the programme. If donors are very target beneficiary orientated, hitting targets could become the primary focus of the intervention design, risking more opportunistic behaviour and design of unsustainable interventions. In fact, several respondents talked about satisfying donor requirements almost as a secondary aim of the programme.

### **4. Resource envelope and budget flexibility**

First and perhaps unsurprisingly, the resource envelope does influence the intervention design process. A limited intervention/facilitation budget could mean that resource intensive, more direct types of market facilitation will not be feasible, limiting implementers’ ability to set the right incentives for potential partners. The more a resource envelope allows for a selection from a wide range of facilitation instruments and makes more options available to a programme, the more chances of success, assuming that they are used properly (see Key Issue 5).

Second, a portfolio approach, adaptive management and other iterative approaches require a high level of budget flexibility. This is because, a) successful pilot interventions need additional support for scaling up and, b) unsuccessful interventions may need to be dropped.

Thus pre-determined resource pots and intervention budgets are unlikely to deliver good results. Similarly the more flexibility there is allowing reallocation of resources during implementation the better. Further, donors need to accept that failure is a natural part of the market systems approach and that if an intervention fails, money is not wasted, but more knowledge – to make the next intervention more cost-effective – is gained.

Therefore, flexibility and adaptiveness should be embedded explicitly in contracts. For example, the AIP-Rural programme holds a contract with DFAT that includes the following features<sup>3</sup>:

- A failure rate of 30%;
- Fixed overall project goals and, to some extent, project outcomes;
- Start with a preliminary milestone table (output, outcome, impact), thus milestone based contract; but
- Iterative: allows milestone table to be adjusted and updated by the project.

We believe that a contract of this (or similar type) sets a good balance between the required level of flexibility and achieving targets and delivering VfM.

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<sup>3</sup> *Expect the unexpected: anticipating through adaptive management model* presentation by Dr. Daniel Nugraha, BEAM Conference May 2016; see: <https://beamexchange.org/resources/730/>