USAID
FROM THE AMERICAN PEOPLE

SCALE
Strengthening Capacity in Agriculture
Livelihoods and Environment

Comparing Standard and Market Systems Development Approaches to Rural Employment

July 2021

About SCALE

SCALE is an initiative funded by USAID's Bureau for Humanitarian Assistance (BHA) to enhance the impact, sustainability, and scalability of BHA-funded agriculture, natural resource management, and alternative livelihoods activities in emergency and non-emergency contexts. SCALE is implemented by Mercy Corps in collaboration with Save the Children.

Recommended Citation

Aarons, A. 2021. *Comparing Standard and Market Systems Development Approaches to Rural Employment.* Produced by Mercy Corps as part of the Strengthening Capacity in Agriculture, Livelihoods, and Environment (SCALE) Associate Award.

Acknowledgements

Many people have helped with this report. We would like to thank in particular Andrea Mottram, Chris Maclay, Karri Byrne, Kristin Lambert and Susan Maina for their reviews and advice.

Photography Credits

Front cover photo: Mercy Corps

Contact Information

c/o Save the Children
899 North Capitol St NE, Suite 900
Washington, DC 20002
www.fsnnetwork.org/SCALE
scale@mercycorps.org

Disclaimer

This document is made possible by the generous support of the American people through the United States Agency for International Development (USAID). The contents are the responsibility of the SCALE Award and do not necessarily reflect the views of USAID or the United States Government.

Contents

Summary

Current approaches to supporting rural employment are having a limited impact in terms of supporting large numbers of new or better income generating activities, in particular when compared to the scale of rural unemployment. As a result, there is increasing interest in alternative approaches, including those that incorporate the principles of market systems development (MSD) into rural employment programs. This approach focuses on bringing about sustainable systems change to maximize impact. Though there is limited evidence to date, there are promising signs, and the approach has been successfully used in agricultural development programs to improve the incomes of thousands and hundreds of thousands of farmers. However, efforts to bring MSD principles into rural employment work have led to some confusion, in particular on the key differences between standard approaches and MSD approaches. In response, this document clarifies what an MSD approach to rural employment looks like. It describes how MSD approaches differ from standard approaches, as well as the resulting implications for the implementers, funders and advisors that support rural employment programs. Through this, it aims to help rural employment programs identify opportunities in which taking an MSD approach could maximize their impact on rural employment.

Photo: Mercy Corps

Young man working at a butcher shop.

The Context

This brief focuses on how to support rural off-farm and non-farm income generating activities. Off-farm income encompasses all agriculture-related income opportunities beyond the farm, such as processing and transportation. Non-farm income exists outside of agricultural market systems within sectors such as construction, hospitality, and tourism.[1] These income generating activities are largely in self-employment and microenterprise work, but many are also in wage work. This report from now on will collectively refer to these as "rural employment."[2]

Photo: Mercy Corps

Young man working at a woodworking shop.

Development programs around the world are supporting rural employment. Some of these programs view rural employment as a direct focus and goal in itself, while others see it as a way to support other goals. For instance, though tending to focus on farming, many food security programs also support rural employment. This is reflected in the USAID Office of Food for Peace 2016 – 2025 Food Assistance and Food Security Strategy, which reaffirms a "commitment to enhancing the productivity of resources held by smallholder producers but recognizes that diversification of livelihoods is the path to resilience for many poor households and that increased income is foundational for transformative change."[3]

Program interventions for enhancing rural employment typically include a focus on training, whereby market actors such as Technical and Vocational Education and Training (TVET) centers are paid to provide training in a variety of soft and technical skills to the target group. It is also common for programs themselves to match job seekers to employers; to run apprenticeship or internship schemes; and to provide technical support and grants to participants to set up microenterprises or to grow their businesses and hire more people.

However, there is growing evidence summarized below that these standard approaches typically used in rural employment programming are failing to have a significant impact, in part because opportunities to take an MSD approach—and thus achieve greater impact at scale—are often missed. While this paper recognizes that taking an MSD approach may not be feasible in every circumstance, there are nonetheless

[1] Noronha (2019)

[2] In most rural areas, the large majority of income generating activities are in on-farm activities, namely farming and agricultural production - though there is a high connectivity and dependence between on, off and non-farm employment. However, this report does not focus on on-farm employment as, as will be later argued, there is significant literature already here on how to use an MSD approach and programming here is generally of a higher quality. Any rural employment program should clearly cover on-farm income generation as well.

[3] In In 2020, the Bureau for Humanitarian Assistance was established to streamline USAID humanitarian responses, bringing together the former USAID Offices of U.S. Foreign Disaster Assistance (OFDA) and Food for Peace (FFP). https://www.usaid.gov/who-we-are/organization/bureaus/bureau-humanitarian-assistance

many instances in which an MSD approach could significantly enhance rural employment outcomes. The following sections define different approaches, examine the evidence, and explore in depth the differences the approaches suggest with regards to system change principles, sector selection and across the program lifecycle. It ends by looking at remaining questions on applying an MSD approach to rural employment, noting in some cases donor funding mechanisms and calls for proposals may make standard approaches more appropriate. However, here we suggest many programs can strive to take an Inclusive Market Actors approach, which this report introduces.

This paper is a response to findings from SCALE consultations with USAID Bureau for Humanitarian Assistance (BHA) implementing partners that note a consistent gap[4] in applying an MSD approach to rural employment and different views on what constitutes an MSD approach.[5] It is aimed at people working in rural employment programming, in particular people managing, advising, or funding rural employment programs that are taking standard approaches and want to know what a market systems approach is and how to use it. It is relevant for all development programming, including in fragile and challenging contexts—though not necessarily humanitarian emergencies.

Standard Approaches to Rural Employment

Implementers tend to take one of two approaches to supporting rural employment programming—Direct or Transactional Partner approaches.

- **A Direct approach** is one in which a program provides goods and services directly to the target group, for instance by training jobseekers, setting up an internship scheme with businesses, or giving grants to businesses.
- **A Transactional Partnership (TP) approach**[6] is one in which this same support is provided through existing private or public sector actors. Here, implementers pay local market actors to deliver the support, such as contracting TVETs to train people in various job-related skills or paying banks to provide grants to microenterprises. By using those actors' networks and resources, implementers can reach more participants than with a Direct approach.
- **Despite differences, these approaches share several characteristics.** Both rely upon market analyses to identify employment opportunities, meaning that people are trained to develop only those skills for which there is market demand. In both, programs provide intensive support to the target group due to participants high vulnerability and needs. Programs also tend to work across many sectors within employment work, rather than focusing in-depth on just a few.

While these approaches are common, findings from recent research suggest most produce limited results. A 2016 review of the evidence on youth employment programs found that two thirds did not show statistically significant positive impacts.[7] While others argue that "*Many [interventions] have limited results and fail to address the structural issues that inhibit the creation of quality jobs."*[8] The literature is particularly critical of the large amount of money going to trainings. "*The sums invested in programs without such evidence is simply staggering—nearly a billion dollars per year in training alone, via the World Bank alone. Yet what little*

[4] Lambert (2021)
[5] SCALE (2019)
[6] Some in the MSD community might call this an" Improved Direct Delivery" approach.
[7] Kluve et al (2016)
[8] Fox and Ghandi (2021)

evidence we have questions whether most of these programs had positive effects on employment."[9] Recent research on business management training shows a positive impact, while highlighting methodological issues in previous studies showing that our expectations have previously been too high.[10] However, the author still holds the view that value for money can be significantly improved, including through supporting sustainable changes in training provision. Though these references do not focus on BHA-funded programs specifically, the programs and activities are very similar. Indeed, the IMPEL award's recent review of the mid-term evaluations from 16 BHA-funded programs show similar limitations, such as the high cost per beneficiary and low sustainability of impact.[11]

There are several reasons for this: At its core, job creation is hard. Enterprises do not employ people for the employee's sake—employment is a cost and is only worthwhile to a business if staff will increase profitability. In the challenging rural contexts in which BHA programs operate, consumer purchasing power is limited, leading to few jobs. Hence, many individuals migrate to urban areas for work. This suggests implementers may need to take a longer-term view and be humbler in their results projections.

While contextual factors are beyond the control of implementers, these results also reflect the limitations of standard employment programming approaches.

- **Programs using standard approaches benefit only the lucky few who receive funded services,** and do not aim for—or generally lead to—sustainable changes in labor market systems that could benefit more people when the program ends. For instance, programs may pay a TVET center to train 100 people on a new course, but when the program ends, there is not necessarily an incentive for the center to keep on providing this training.
- **Programs using standard approaches sometimes focus in areas and sectors of the labor market with low potential for job creation or growth.** For instance, programs may build up labor supply through training people in contexts in which the bigger issue is too few jobs or provide generic support across 20 job sectors rather than focusing on the handful of sectors with the most potential for employment. This is explored more in the report section *How MSD insights can support sector selection*.

Many food security programs take different approaches to on-farm vs off and non-farm jobs. They often commonly apply an MSD approach to supporting smallholder farmers by focusing on (a) a small number of high potential systems, such as specific crops or access to markets or climate-friendly inputs, and (b) supporting sustainable changes in how these systems work to benefit smallholder farmers long after the program ends. However, when it comes to activities related to rural jobs, food security programs tend to favor standard employment approaches over MSD and provide generic support to many sectors. As a result, non-farming impacts are often significantly smaller than farming impacts.

[9] Blattman and Ralston (2015)
[10] Mckenzie (2020)
[11] IMPEL (2020)

A Market Systems Development Approach to Rural Employment

Taking an MSD approach to rural employment is an alternative approach with the potential to help programs significantly increase their impact. Simply speaking, MSD approaches can maximize the impacts of employment programs by driving sustainable changes in how systems work - changes that will continue benefiting the target group after the program ends. Four key principles underlie the MSD approach:[12]

- **Understand target groups as part of broader systems.** MSD programs prioritize understanding the labor system around their target group, including key supporting functions (access to finance, training, online and physical markets, inputs, etc.) and rules and regulations (such as labor laws, formalization laws and ID requirements).
- **Focus on catalyzing systems change.** Though all development programs aim to maximize impact, MSD employment programs seek to do this through catalyzing sustainable improvements in labor system functions and rules, rather than directly funding or bypassing these functions. This demands focusing on sustainable improvements in functions such as access to finance, training, online and physical markets.
- **Support system market actors to develop new ways to work,** such as by launching new products or changing internal processes that: have high leverage (that is, benefit many of the target group); are sustainable—in particular financially sustainable; and are likely to be scaled-up by market actors (such as partners reinvesting in them, or competitors copying them) rather than extra donor funds.
- **Implement through facilitation.** MSD programs view market actors as program partners, not contractors. Partner selection and support is carefully calibrated to try to ensure the sustainability of new operational models after program support ends, for instance by expecting partners to co-invest in the new model.

Some programs struggle to move to a full MSD approach (as discussed further, below) but may be successful in implementing an "Inclusive Market Actors" approach (IMA).[13] The focus of an IMA approach remains on supporting sustainable systems changes and meeting all the above principles. However, the approach has fewer requirements as projected market-led scalability is not necessary for choosing to support market actors—just the sustainability of the business model being supported. As an IMA approach is similar to an MSD approach—and this report makes the case later on, it may be more feasible than MSD in some cases—at several points in this report we group it with MSD in comparison to standard approaches.

[12] MSD approaches build on other approaches and may just seem like common sense to some readers. Here, MSD brings a further discipline and resources - see http://www.beamexchange.org for more on the approach.

[13] This is not a currently recognized term in the industry but is adapted from the more common Inclusive Business approach label with an awareness that partners are not always private sector actors. Internally within Mercy Corps Employment work, we are increasingly calling this "MSD-lite." Feedback and other suggestions are welcome.

MSD vs IMA: MSD programs support new innovations that are likely to lead to "market-led" scale, i.e. where without significant donor support, market forces will scale-up new ideas across regions. Scaling could be due to various mechanisms: the original partner may reinvest in the model, competitors may copy the model, or other market actors may change what they are doing in response. However, just because a new way of working is sustainable for a partner does not mean market-led scale will happen. For instance, a program could support an input company to develop a profitable distribution system to rural microenterprises, but if the profit margin is lower than borrowing costs, the company may not borrow money to expand. Other barriers may include a lack of demand in other parts of the country or a lack of actors to copy the model. While an IMA program would accept the new distribution system as satisfactory, an MSD program would drop the intervention, amend it, or focus on other constraints to allow scale-up. IMA thus promises less scale. However, for existing Direct or TP programs, moving to IMA could present a more feasible way of increasing results and be the basis of future programming to reach market-led scale. The report ends by looking at how to do this.

Table 1 illustrates the four different approaches by showing what interventions would look like for three labor system functions—access to training, finance, and microenterprise inputs. The Direct approach is commonly used by rural employment programs for finance and the Transactional Partnership approach for training (the red boxes) (microenterprise access to inputs is rarely a focus). Both involve programs funding immediate activities, with less likelihood of sustainability. An Inclusive Market Actors approach requires supporting partners to provide new services in a sustainable way. The true potential of MSD is the fourth approach, supporting innovations that can transform the whole function (the green boxes). To increase the scale of employment created, programs need to shift to the right (as illustrated by the orange arrows in the diagram).

Table 1: Four Intervention Approaches to Rural Employment

Function	#1 Direct Approach: "We do it"	#2 Transactional Partnership Approach: "We pay market actors to do it"	#3 IMA Approach: "We support market actors to do it sustainably"	#4 MSD Approach: "We support the whole function to do it sustainably"
Finance	We provide micro grants to micro-enterprises (MEs).	We may MFIs to provide grants to MEs.	We help an MFI and insurance company partner to provide loans to MEs that require no collateral and are profitable to all parties.	The MSD-lite partnership is used to prove the business model as part of a logical strategy to transform local MFI provision to MEs. We then share the model and provide light-touch support to other MFIs to copy the model.
Training	We train jobseekers on business management skills.	We pay TVET centers to train jobseekers on business management skills.	We support TVET centers to incorporate business training into existing technical courses, paid for by increased enrollment.	We support the national curricula office to make business training part of national technical curricula with targeted advocacy based on their budget, cost-benefit analysis and co-funding pilots, such as the MSD-lite example.
Inputs	We provide MEs with goods to sell	We pay manufacturers or distributors to give MEs goods to sell	We help a manufacturer develop a sales channel via microenterprises to reach low-income consumers	We use the success of the partnership in #3 to successfully make the case to more manufacturers to develop the same sales approach for different products and in different parts of the countries

There are some common challenges in moving to a more MSD approach:

- **Many implementers that aim for an MSD approach end up taking a Transactional Partnership approach as they focus on capacity and overlook market actor incentives.** For instance, implementers may buy equipment or fund curricula development for TVETs to carry out a new training, thinking the key constraint on sustainability is TVET capacity. However, the bigger issue is often that TVETs have no incentive to keep on doing this training—in particular, that no-one will pay them to deliver it after the program ends. In contrast, MSD approaches are clear not only on who will perform the service after the program ends, but also who will pay for it.
- **Many intervention ideas will have to be dropped or significantly changed in the move towards an MSD approach.** For instance, programs may want to support microenterprises to access business

advice. Under a Transactional Partnership approach, a program may pay business development service (BDS) consultants to provide these services. Moving this idea to the right would suggest helping BDS service providers develop more basic and low-cost products for rural microenterprises. However, most microenterprises are often unwilling to pay for even basic BDS services; a better approach may be to support MFIs or input dealers to provide business management advice to businesses alongside their core offer to increase customer retention.

Table 2 below helps to outline and explain the differences between approaches in Table 1:

How does MSD fit alongside Market-Based Programming (MBP) approaches: MBP can mean different things to different people, but one of the most common uses has been developed in the Markets-in-Crisis community, where it corresponds to a spectrum of approaches involving different levels of engagement with the market. A recent BEAM report defined it as a "broad framework for understanding initiatives that work through or support local markets in humanitarian crises. The framework covers all types of engagement with market actors, ranging from actions that deliver immediate relief to those that strengthen and catalyze local market systems (including using MSD)."[14] In this sense, all columns in Table 2 could be considered part of Market-Based programming. However, it is often the case that though MBP aspires to approaches 3 (IMA) and 4 (MSD), it more often involves using approach 2 (Transactional Partnerships)—partially due to the reasons noted in this report.

[14] Byrne (2021)

Table 2: Four Approaches to System Change Principles

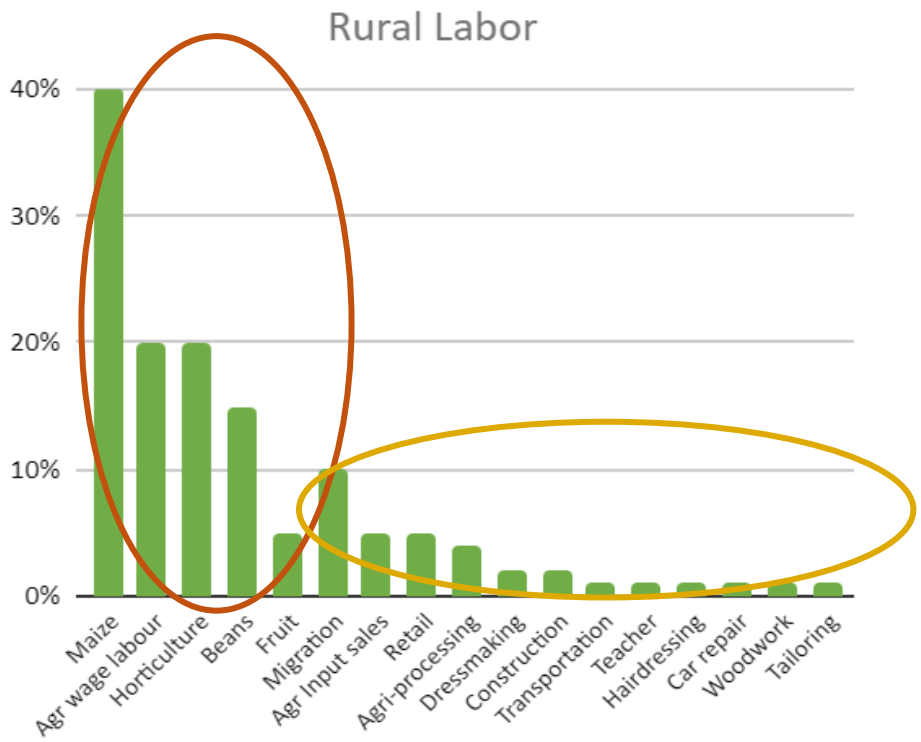
MSD principle	Direct	TP	IMA	MSD
Goal of systems change	Nice to have but not a focus		Necessary step on the way to achieving large impact.	
Intervene through leverage points that benefit many of the target group	Works directly with the target group which provides no leverage i.e. fewer people can be reached	Gives more leverage as it works via market actors, such as TVETs, to reach more target group participants.	Key to the approach. Opportunities to reach more of the target group (aka "higher leverage" points) always sought e.g. if focused on training, implementers may try to work with a national curricula office or teacher training center to influence many TVETs.	
Sustainability	Only considered at target group level (e.g., if trainees will keep jobs).	Largely considered at target group level e.g. if trainees will keep jobs. At partner level e.g. new training provided by TVETs, nice to have but not a focus.	Considered both at target group and partner level. Sustainability assessment before interventions start. Interventions dropped if partner sustainability is not possible.	
Scalability	Program-led scalability where the same idea is funded in more and more places.		May assume learning about partner success is enough for other actors to change their models, or view partner sustainability as sufficient.	Market-led scalability where innovations are only supported with a clear path to scale without intensive program support.
Partnerships	Does not work with market actors.	Tendency to treat market actors as contractors and pay them to do things without considering long term incentives to keep doing them.	Market actors treated more as partners. Behavior changes are only encouraged when it is likely they will be sustained after the program ends.	

How MSD Insights Can Support Sector Selection

The introduction noted that rural employment programs struggle in part because they focus on strategic areas or sectors with little potential. For instance, they might provide training in places without jobs or spread resources out across too many sectors.[15] Where programs focus is not a key MSD principle - however, insights from MSD of how to pick high potential strategic sectors are valuable for all programs.

Rural employment programs tend to start by using market assessments to review trends and compare the potential of different traditional goods and service sectors. All rural contexts are naturally different, but there are some common dynamics—the image below uses fictional data to represent these. Most income generation opportunities are likely to be in on-farm sectors. Smaller numbers of jobs exist or could exist in rural employment sectors, largely in microenterprises. This is one reason many people migrate to urban areas. A challenge is that while there are farming sectors (in the red circle) that employ a large proportion of the population, in rural employment (the orange circle), jobs are rather spread out thinly across a large number of sectors, and it is rare to find a sector where a high percentage of the population does or could work.

Figure 1: Illustrative Rural Labor Market

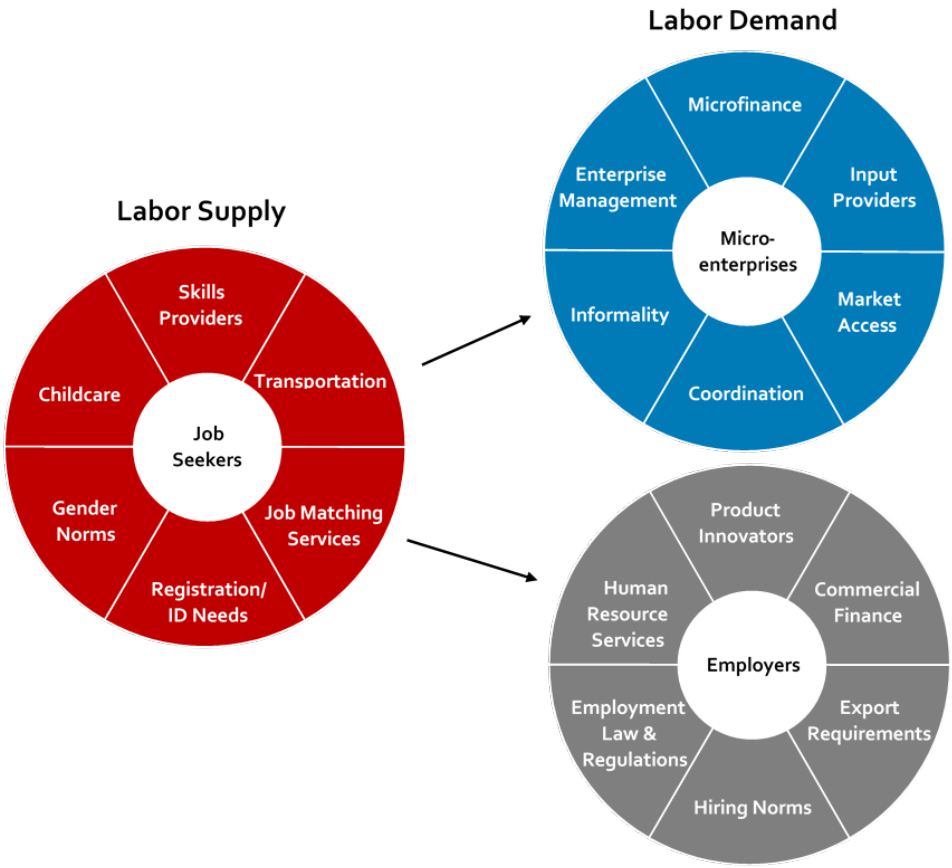


[15] Following the pareto principle that 80% of impact can come from 20% of activity, some pathways will have significantly more potential than others. Programs will have a much larger impact by focusing on the pathways with most potential rather than spreading out across many more pathways. A more in-depth focus can inform a program of the exact constraints and opportunities, allowing a highly targeted approach—rather than generic support to a sector.

Due to this spread across sectors, it can be difficult for standard programs to identify a small number of high potential sectors, and instead they often provide support to a large number of traditional sectors. With 10 to 20 sectors and the same research resources, it is a challenge to analyze them in-depth to really understand core problems and opportunities, and so analysis focuses on counting vacancies in each sector. Similarly, activities become more standardized across them, focusing on particular training, but also matching and access to finance.

MSD programs use their understanding of how labor systems work to focus on a small number of high potential cross- cutting sectors. Figure 2 below represents a typical labor system. Labor supply is on the left and labor demand on the right, separated out into demand at microenterprises and wage employers. Across sectors, jobseekers, microenterprises, and wage employees often require the same system function to be performed well- which are illustrated in the three outer rings.

Figure 2: Diagram of Labor Supply in Relation to Labor Demand and Wage Employment



To determine pathways to focus on, MSD programs use this systems thinking in two ways:

- **Systems thinking helps to identify where programs should focus,** building labor supply, building labor demand (i.e. enterprise growth) or both.[16] Indeed, where BHA works, the bigger issue is often one of too few jobs than too few skilled people. Labor systems thinking also allows for differentiation of labor demand by microenterprises and wage employment. Some programs tend to think more about

[16] As opposed to Direct and MBP, which tend to focus on labor supply (training and job matching).

the latter, but the former is significantly more prevalent in rural areas.

- **Systems thinking shows high potential cross-cutting sectors that can help employment across traditional sectors.** If microenterprises in different sectors face the same constraints, then by addressing these constraints programs can help microenterprises in multiple sectors. The same holds for jobseekers and wage employees. For instance, if microenterprise hairdressers, vendors, and carpenters are all struggling to access finance, markets, and operational space, then improving access to these will lead to benefits for multiple sectors. A program can thus benefit many more people by focusing on these specific functions as cross-cutting sectors e.g. improving access to finance across sectors, or more broadly focusing on common microenterprise constraints.

The typical sectors standard and MSD programs choose[17]: Standard approach programs tend to focus on 10 to 20 rural employment sectors, such as tailoring, beauty work, carpentry, food processing, retail, masonry, and phone repairs. Across these, training, in particular by TVETs, is often the key focus, plus job-matching and access to finance. MSD programs tend to focus on just a few cross-cutting sectors. Most common is microenterprises and the constraints holding them back across sectors. Also common is small-scale value addition and processing or rural sale models for products like solar energy panels, again looking at constraints across products—these sectors are likely to benefit a smaller number, but jobs are likely to be new, higher quality, and more productive. Training is unlikely to be a sector—where chosen, rather than working via TVETs, instead better return may be provided by supporting apprenticeships, business training in schools or market actors such as input dealers to embed training in their service offer. Local job- matching is unlikely to be a sector, though migration to urban areas for jobs may be and programs can look at job-matching mechanisms and relevance of TVET training within this sector—as in the example below.

Taking an MSD Approach to Rural Employment: Program Example from Kenya

Using MSD to support rural jobs is a new approach and there are few examples to draw on. A promising approach that several programs are using is rather than providing training or grants directly to people to set up microenterprises (a Direct approach) is to work with lead firms in rural areas to help them set up profitable labor-intensive distribution or sourcing models. This work can largely be seen as IMA though, as it involved one partnership after another with lead firms, rather than finding other mechanisms to reach scale.

The new Swedish International Development Cooperation Agency (SIDA)-funded, Resilience and Livelihoods Improvement for Youth through Systems (RALIYS) program is one of very few programs starting to take a full MSD approach to youth employment in rural areas. Led by Mercy Corps, the RALIYS implementing consortium includes Agora and TechnoServe. Focused on rural, Northern Kenya, RALIYS works in six sectors, half of which are traditional goods and services sectors (camel milk, livestock, and solar products). The other half are cross-cutting sectors, such as business types with the same constraints (microenterprise) and labor system functions (migration and access to savings). RALIYS' portfolio of interventions in rural employment sectors is listed below, with the projected number of youth impacted.

For all, the program is supporting market actors to expand their current activities sustainably, rather than doing these activities itself or paying market actors to provide them. This involves pilots where a new sustainable business model will be tested out with partners (this matches IMA). The bigger scale though will come from expanding certain pilots. Here for each intervention, there is a clear logic in place, such as geographical expansion by market actors, competitors copying business models, and governments changing regulations in response.

Photo: Mercy Corps

Young women working at a recycling plant.

Table 3: RALIYS Interventions with Projections of Youth Impact

Sector	Intervention	Pilot (no. participants)	Scale-up (no. participants)
Micro-enterprises	Partner with the Kenya National Chamber of Commerce and Industry to facilitate access to low-cost capital for COVID-19 business recovery and continuity	250	6,000
	Support manufacturers and distributors to develop village-level supply chains	50	5,000
	Facilitate streamlining of the licensing regime for youth-owned microenterprises	0	4,000
Savings	Work with Savings and Credit Cooperative Organizations (SACCOs) and other financial providers to develop and roll out sustainable promotional and marketing strategies	500	25,000
	Facilitate financial service providers to develop youth- focused savings products, including sharia compliant products	500	50,000
Migratory labor	Work with jobs agency companies to pilot sourcing talent from rural Kenya	250	25,000
Solar	Support solar manufacturers and financial services providers to facilitate development of last mile delivery models of solar products	100	2,500

Growing experience in taking an MSD approach to urban jobs: Though taking an MSD approach to rural jobs is new, there are an increasing number of programs taking an MSD approach to urban areas that provided important insights for this report that are implemented by organizations such as Helvetas, Swisscontact, and SNV. The ILO provides a review of a number of these in a recent review, such as the Livelihoods Improvement for Women and Youth (LIWAY) program, focused on Addis Ababa, which aims to increase the income of 200,000 poor people.[19] In-depth case studies of Helvetas' MSD work with labor market information in Albania[20] and job matching services in Kosovo[21] highlight the potential impact of taking an MSD approach to jobs, with the former leading to over 50,000 youth changing their employment behavior and the latter helping match 25,000 people with jobs. Though rural areas have very different dynamics, this does suggest taking MSD approaches to rural jobs is one of the next frontiers in economic development programming.

[17] ILO The Lab (2020)
[18] Anderson (2016)
[19] Burns (2016)

Differences between MSD and Other Approaches across the Program Cycle

Across the different approaches, programs often have a similar structure, with a focus on vulnerable groups, lengthy assessments, sizeable budgets, teams, several years of implementation, high quality measurement, and management.[20] However, there are important differences in their approach to sustainability, most significantly between Standard approaches and MSD approaches, outlined in Table 4.

Table 4: Different Approaches to the Program Cycle

Program Cycle	Direct and TP	IMA and MSD
Target group	Focus on vulnerable groups. More able to specifically select who benefits.	Focus on vulnerable groups. However, as they work via independent market actors, have less control over whom they benefit.
Assessments	Standard labor market assessments that focus on counting sector opportunities and describing the surrounding labor system.	System labor market assessments that focus on analyzing how the broader labor system works and the potential and requirements for change.
Program start-up	Fewer expectations of significantly amending program goals, targets, and interventions based on assessment.	More flexibility to make amendments after assessments. Initial interventions seen as just that, with anticipation of more interventions as program proceeds.
Program activities	More intensive activities, such as paying for training, giving grants, or paying for equipment. Programs tend to use regular procurement mechanisms.	Activities determined by needs of model - preference for more light-touch (such as business modeling) but grants also a common tool. Programs need flexible contracting mechanisms.
Pilots and scale-up	Scale-up is through taking successful pilots and repeating them in more places.	Pilot and scale-up activities are different. In scale-up, program support decreases significantly as part of costs and involves new activities such as introducing the model to new actors.
Exit strategies	In some cases, this is an afterthought, developed as they end and not in design phase. For some TP, this is important and developed early on, but focused on the capacity of market actors, not their incentives to sustain activities.	Do not have stand-alone exit strategies. As they focus on supporting sustainable business models, models should sustain when program support ends.

[20] Clearly this does not always hold with resultant difficulties. In the next section, we outline the importance of multi-year programming to an MSD approach.

Program Cycle	Direct and TP	IMA and MSD
Monitoring, Evaluation, and Learning (MEL)	Impacts are often quicker as it's easier to set up partnerships when you are paying for all activities.	MEL is harder as partners may be less willing to share data and measuring attribution can be more difficult as program activities are more removed from impacts. MEL needs to be sustained after interventions end.
Budgets	Lower program internal costs, meaning higher percentage of program expenditure goes to target group.	Higher program internal costs, such as staffing, staff training and market research. Flexibility needed to allow budgets to move between interventions.
Management	Easier to develop detailed workplans early on, with focus on rolling these out and continuous detailed improvement.	Greater management role in starting, dropping and scaling-up interventions. Bigger focus on flexibility and adaptive management.

Questions on the MSD Approach to Rural Employment

Does the approach work in highly poor, fragile, or humanitarian contexts? There is currently a lack of examples of programs taking an MSD approach to rural employment in such contexts. However, insights from MSD approaches in other sectors suggest yes, it is likely to work and that the core principles still apply.[21] Impact will be smaller and slower in absolute terms though it can be proportionally just as large or larger than an MSD approach in a less difficult environment. The system starting point will determine to some extent how much the system can change. However, impact should still be larger than standard approaches for the reasons presented earlier, that as sustainable systems change are supported, positive impacts will continue to accrue after the program ends. On a more practical level, programs should still look to intervene at points that maximize leverage, but they may have to settle with less leverage. Facilitation will likely look different, with more intensive support going to partners (due to high risk and low-capacity environments) and strategies for sustainability may need longer timelines, with the expectation that further shocks may require additional program pivots. In the face of immediate shocks, employment may not be a priority, and MSD strategies should be sequenced and layered with humanitarian interventions.[22]

Does it benefit the most vulnerable? This question typically stems from two factors: 1) MSD programs rarely pick specific people to benefit and 2) the most vulnerable have less assets or skills -factors that affect their employability and the incentives of actors to work with them. The response though is similar to the one above, that yes, the approach can benefit the most vulnerable and have a larger impact than standard approaches. It is important, though, that the facilitation approach be adapted and that expectations are realistic. Clearly defining and profiling the target group is also a critical first step in analysis. Programs need to be specifically designed to focus on the most vulnerable, with sectors selected based on those populations. For instance, agricultural wage labor is often a key income stream for the poorest rural households, but rarely a rural employment focus. For the truly most vulnerable, such as people unable to

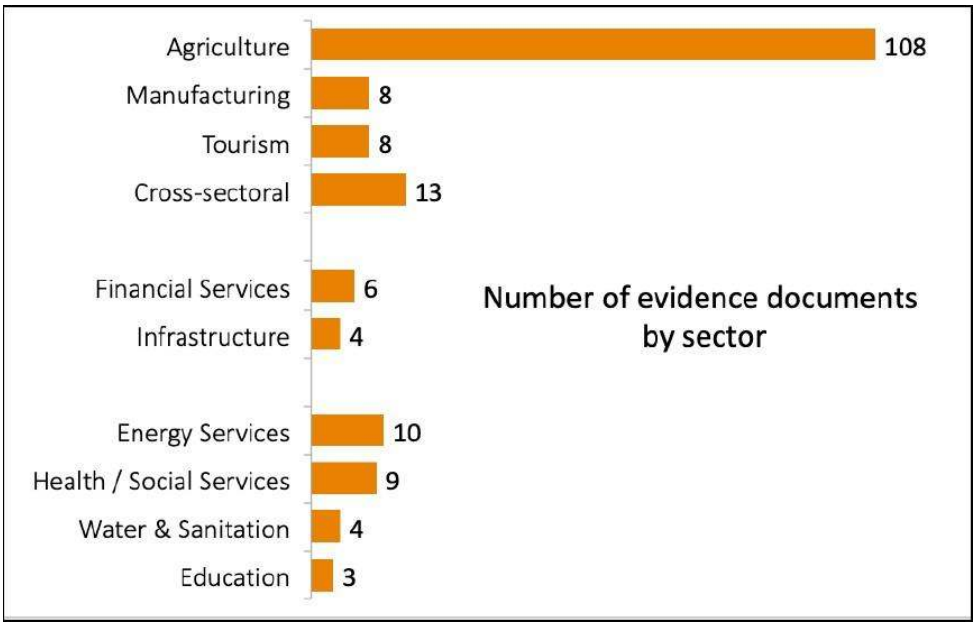
[21] Beam Exchange. Evidence Map

[22] Hemberger et al (2018)

work, a different approach may be warranted such as focusing on social safety nets. It is worth noting that even work with social safety nets can be more "systems-based" (enhancing national social security systems) as opposed to direct (giving out cash transfers).[23]

Is there any evidence? There is currently limited evidence that the MSD approach can be applied successfully to rural employment. However, the MSD approach has been around for 20 years, and there is some evidence justifying the overall approach.[24] Figure 3, from a recent review,[25] shows that most evidence came from the agricultural sector, reflecting MSD's initial focus on farming, with increasing evidence from different kinds of markets and contexts. This suggests it is likely to be valid for rural employment. The lack of evidence is likely because it has not been applied to rural employment.

Figure 3: Number of Evidence Documents by Sector



Source: BEAM Exchange MSD Evidence Review

Challenges for Integrating MSD into Rural Employment Programs

Programs lack skilled staff to carry out the approach. Strong MSD rural employment programs require highly capable managers. Ideally, they would have experience in MSD for rural employment, but as the approach is new, there are few such people. Highly capable managers are wanted who have overseen MSD programs from other sectors, who are quick learners, and able to apply the principles to new sectors - or leaders with a range of MSD-relevant competencies. Experience in employment programming is a positive but less important than these.[26] For senior program staff, we broadly see the importance of three competency categories—program management, strategy, and facilitation e.g. how to build networks, negotiate with market actors, etc. Ideally several senior staff would have the latter. These skills are largely transferable across MSD programs and can often be learned on the job at high quality MSD programs.

[23] Social Protection.org (2021)
[24] Beam Exchange. Evidence Map
[25] Conroy, K. and Kessler, A. (2019)
[26] Beam Exchange MSD Competency Framework

Program managers should have this and a wider strategic vision of how to apply MSD to rural employment. This requires managers with analytical and strategic skillsets and can be supported by extended headquarters or consultancy from advisors with more experience. More broadly, organizations and programs keen to carry out MSD for rural employment should prioritize their capacity and develop specific plans on how to do so.

The structure of rural employment programs may limit change to an MSD approach. In requests for proposals, donors sometimes explicitly ask for a standard approach, for instance requesting a program runs certain activities itself, such as selecting a number of grants to be given directly to enterprises. In other cases, donors may require quick results which may make a standard approach preferable to implementers, given that MSD programs typically take longer to have an impact. Proposals may include requests that inadvertently make achieving system change outcomes harder or less desirable, such as indicative activities with potential sustainability challenges (for instance, as in the section above Common challenges in moving to a more MSD approach, supporting TVETs to launch new courses or BDS providers to develop products for microenterprises); having little flexibility about dropping interventions or scaling-up ones that work; or not including indirect impacts caused by systems change in program results. In some of these cases, requests for applications may result in a standard programming approach making more sense. However, research suggests these cases are the minority and that donors are often more flexible than commonly described,[27] as long as a compelling case is made of how changes will maximize program impact. Where a full MSD approach may not be possible, an IMA approach is likely still to be preferable to standard approaches and may still be viable.

Standard approach implementers often ask how programs can become incrementally MSD or IMA, in particular if the program already started and/ or is facing the structural issues.
From experience here are some useful steps:

- Even if you don't take an MSD approach, you should still strategically focus on high potential sectors over many low potential sectors, which may mean pivoting to cross-cutting sectors
- Audit your activities against the four approaches to rural employment programming in Table 1—#1 Direct, #2 TP, #3 IMA and #4 MSD. Focus on moving as many as you can to #3 (#4 would be best but may be unrealistic). Try to remove all in #1.
- Examine the financial sustainability of all activities. How much do they cost to deliver? Could this be a lot cheaper without sacrificing too much quality? How much revenue do they receive or could they? Do you see a path for any to be sustainable?
- Do a system labor market assessment to understand the incentives and constraints of key system actors and the potential to work with them.
- Rethink your intervention ideas to see if there are alternative actors you can embed them in. For instance, training provided by buyers rather than TVETs, or access to finance via input buyers rather than banks.
- Be willing to drop 20% of your least sustainable and least effective interventions.

[27] Goeldner Byrne, K. Sparkman, T. Fowler, B. (2016)

We recognize that this is a new area of work and that there are few current examples of taking an MSD approach to rural employment, much less evidence of the approach. We would be grateful for all feedback on this report and readers to share any work they are currently carrying out taking an MSD approach to rural employment. We would also be grateful for feedback on how SCALE can further support MSD approaches to rural employment, potentially through the development of case studies or guidance as MSD rural employment programs progress.

Photo: Mercy Corps

A young man working in a print shop.

References

Anderson, G. (2016). Inspiring and Influencing the Young Job Seekers of Albania. RisiAlbania. https://beamexchange.org/uploads/filer_public/b7/90/b79022fa-5122-4c85-b16d-83c6ac701570/risialbania-media_case_study_compressed.pdf

Beam Exchange. (2018). MSD Competency Framework. https://beamexchange.org/msd-competency-framework/about-msd-competency-framework/

Beam Exchange. Evidence Map. https://beamexchange.org/resources/evidence-map/

Blattman, Christopher and Ralston, Laura, Generating Employment in Poor and Fragile States: Evidence from Labor Market and Entrepreneurship Programs (July 19, 2015). https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2622220

Byrne, K. (2021). MSD in fragile and conflict-affected situations: implementer lessons for COVID recovery, Policy note for discussion, BEAM Exchange, www.beamexchange.org

Burns, J. (2016). Job Matching Services in Kosovo. The Springfield Center. https://beamexchange.org/uploads/filer_public/71/ae/71ae1596-c5f2-46d5-a578-066ea12edd29/eye_casestudy_2.pdf

Conroy, K. & Kessler, A. (2019). The results achieved by programmes that use the market systems approach: a narrative synthesis of current evidence, BEAM Exchange, https://beamexchange.org/uploads/filer_public/a9/b5/a9b5c464-b21a-4537-85b2-aba11ee381a3/beam_evidence_review_2019_final_compressed.pdf

Fox, Louise and Gandhi, Dhruv. (2021).Youth employment in sub-Saharan Africa Progress and prospects. Africa Growth Initiative paper #28. Brookings Institution. https://www.brookings.edu/wp-content/uploads/2021/03/21.03.24-IWOSS-Intro-paper_FINAL.pdf

Hemberger, A., Muench, S. and Algos, D. (2018). Beyond Cash: Making Markets Work in Crisis. Mercy Corps.https://www.mercycorps.org/sites/default/files/201911/CashMarketsMercyCorpsApril2018_0.pdf

Goeldner Byrne, K. Sparkman, T. Fowler, B. (July 2016). The road to adaptive management: knowledge, leadership, culture and rules. The BEAM Exchange. https://beamexchange.org/uploads/filer_public/db/3a/db3a35b4-7fdf-4a61-8426-d05532f5bf1a/the_road_to_adaptive_management_compressed.pdf

ILO The Lab. (2020). Getting Africa's youth working. Taking a systems approach to create more & better jobs for young people in sub-Saharan Africa. https://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/publication/wcms_750935.pdf

IMPEL. (2020). Learning from Evaluations: A Review of 16 Mid-Term Evaluations of USAID-funded Food Security Development Programs from 2015-2020. Washington, DC: The Implementer-Led Evaluation & Learning Associate Award. https://www.fsnnetwork.org/sites/default/files/2021-02/MTE%20Review%20Report_1_4_2021.pdf

Kluve, Jochen and Puerto, Susana and Robalino, David A. and Romero, Jose and Rother, Friederike and Stöterau, Jonathan and Weidenkaff, Felix and Witte, Marc. (2016). Do Youth Employment Programs Improve Labor Market Outcomes? A Systematic Review. IZA Discussion Paper No. 10263. https://ftp.iza.org/dp10263.pdf

Lambert, K. (2021). SCALE Markets-Based Programming Consultation Findings: Key Challenges and Needs for USAID/BHA Implementing Partners. Produced by Mercy Corps as part of the Strengthening Capacity in Agriculture, Livelihoods, and Environment (SCALE) Associate Award. https://www.fsnnetwork.org/sites/default/files/202103/MarketsConsultation_Findings_22Mar2021_FINAL_508.pdf

McKenzie, David. 2020. Small Business Training to Improve Management Practices in Developing Countries: Reassessing the Evidence for 'Training Doesn't Work'. Policy Research Working Paper;No. 9408. World Bank, Washington, DC. © World Bank. https://openknowledge.worldbank.org/handle/10986/34506

Noronha, T. (2019). Alternative Livelihoods Working Glossary. Produced by Mercy Corps as part of the SCALE Award. https://www.fsnnetwork.org/sites/default/files/SCALE%20Glossary%20Final_online%20508.pdf

SCALE. (2019). SCALE Alternative Livelihoods Survey Results. Produced by Mercy Corps as part of the SCALE Award. https://www.fsnnetwork.org/sites/default/files/Alternative%20Livelihoods%20Review%20Summary.pdf

Social Protection.org (2021). https://socialprotection.org/discover/blog/linking-cash-and-voucher-assistance-and-social-protection-forced-%20displacement-contexts