

> **From analysis to action**

What works in designing interventions based on market systems analysis

Report

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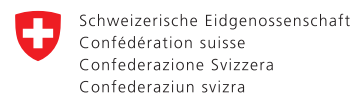
The BEAM Exchange is a facility for knowledge exchange and learning about the role of market systems approaches in reducing poverty.

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1. Executive summary

This research set out to understand how practitioners design interventions within market systems development (MSD) programmes. 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.

We tested a number of hypotheses as to what would influence intervention design through engagement with practitioners who were willing to share their experiences. One central finding is that practitioners found it very difficult to set out clearly exactly how they had selected a particular intervention. Instead responses focused more on the processes of design that practitioners had followed and factors that affect these processes. These processes varied widely, much more so than our hypotheses had assumed.

Our analysis has allowed us to develop a framework for presenting the key issues and approaches affecting design that captures our original hypotheses and adds extra elements that emerged. 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, the nature of the team as well as the attitudes and expectations of those involved. ‘Intervention Design Process’ include 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.”

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 modalities and resources of the programme also clearly influence possible interventions. Resourcing, time frame, targets, flexibility and restrictions on facilitation instruments inevitably frame the design options.

The wide variation in processes was not expected. Approaches ranged from extremes, 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, responding to the constraints of market actors, looking for opportunities with a view to then seeing what works and what does not. The majority of respondents were somewhere between these extremes, mixing elements along the intervention design process.

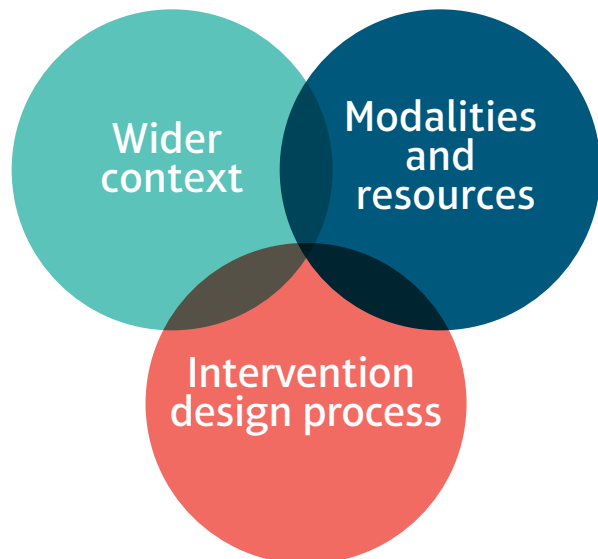


Figure 1. The Context-Modalities-Process Framework

The landscape of various approaches to the design process described to us are presented in this intervention design process framework. 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 extreme position. In reality the majority of processes reported on were in-between. Both 'sides' of the diagram merge at the bottom to deliver systemic change through behavioural change. Respondents were generally agreed that once interventions were in place an iterative approach was required, but 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.

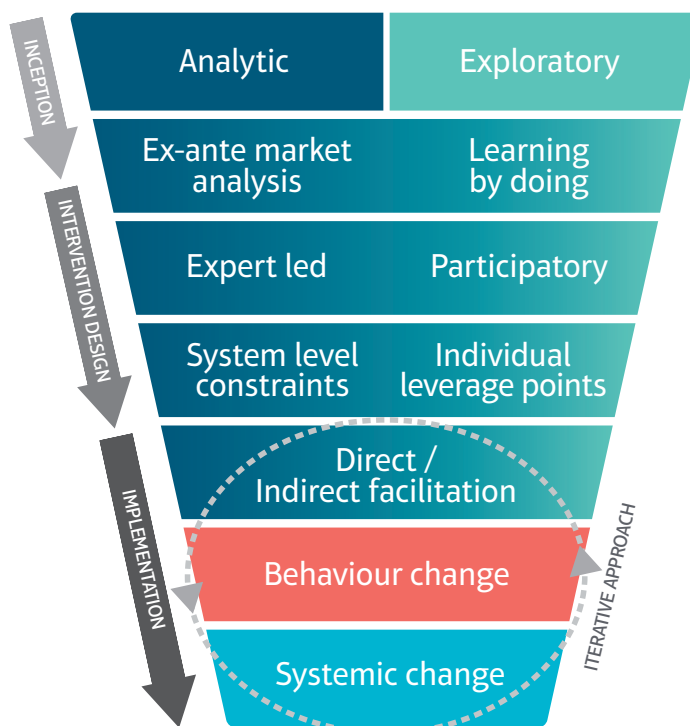


Figure 2. Intervention design process framework

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. Here, we identified another continuum between an experimental approach of rigorous trialing 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. An important issue that emerges from this trend towards exploratory approaches is the question of whether this represents an improvement in the market systems approach – by rigorously trialing and testing 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.

Using the framework, we set out key insights and guidance for both donors and practitioners.

For programme implementers, we identified five key issues within the design process when moving from analysis to action.

Key issue 1: The obfuscation of different exploratory methods: We identified a confusion among practitioners between two kinds of exploratory methodologies. An experimental approach implies a rigorous trialing of ideas to test well defined hypotheses, using close monitoring and results measurement to determine their validity within an overall theory of change. An opportunistic approach, however, can become a coping strategy 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.

Key issue 2: Relating the analytical – exploratory continuum to economic theory: Very few respondents used the clear framework provided by economic theory to underpin their intervention design processes. Markets are prone to suffer from a range of failures that are generally well known and easily recognisable and addressing them can offer a clear underlying theory of change for market interventions, thus sufficient understanding of basic economic principles when designing interventions is key.

Key issue 3: Do practitioners have theories of change for their interventions? A key concern is the little mention of the theory of change by our respondents. Programmes that use a market systems approach should have a theory of change and the little mention could mean that there is a disconnect between the design team and the monitoring and results measurement (MRM) team. Alternatively, it may reflect the difficulties of keeping (within the ToC envisioned) systemic change in mind once interventions are designed, leading practitioners to ‘forget’ about or neglect the importance of the ToC.

Key issue 4: A better understanding of ‘participatory’ methods. The participatory approaches described to us calls 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. 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.

Key issue 5: Selection of facilitation instruments. Interventions should be creatively designed drawing from a wide range of instruments to make the most effective connection between intervention instrument and partner capacity and willingness, and to maximise the chance of achieving the systemic vision of the project. The will-skill framework is a helpful tool to map this out and group market actors according to their characteristics and 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.

Donors and programme managers should keep in mind the following for selecting key determinants of programme modalities to create the best possible environment for effective intervention design.

- 1. Use of pre-determined intervention methods:** Pre-determined interventions for the programme will give little room for adjustment, to engage with and select from various players or design new interventions when markets change or new information is gained, thus clearly limiting programme effectiveness. Donors should, therefore, engage at strategic level and give approval for intervention areas, but the actual design of interventions should be up to the implementers.
- 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. Both analytical and exploratory approaches to market analysis have their justification, donors should give at least three months and up to nine months for the inception phase and give implementers the freedom within this to determine themselves the time they require for the market analysis.
- 3. Programme targets:** Programmes deliver impacts and outcomes through systemic change. 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.

- 4. Resource envelope and budget flexibility:** A limited 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. A portfolio approach, adaptive management and other iterative approaches require a high level of budget flexibility, thus pre-determined resource pots and intervention budgets are unlikely to deliver good results. Flexibility and adaptiveness should, therefore, be embedded explicitly in programme contracts.

1. Introduction

This research focuses on gaining a better understanding of the key steps programmes that use the market systems approach (PMSA) take, when they have to decide on what they are actually going to do, based on the knowledge and understanding of the market systems they have acquired.

For the purpose of this research market systems initiatives are defined largely by two key criteria. First that they are aiming at systemic change, and that it is through changing the system that they aim to deliver sustainable benefits to men and women living in poverty. Secondly, that the implementers accept that to achieve systemic and sustainable change they must remain outside the system themselves and play a role as facilitators of change rather than becoming actors themselves.

The research is based on engagement with practitioners (through interviews and the BEAM Exchange) and the analysis is based on drawing out the issues and approaches that were reported. There is no hard evidence of what works and what does not work. Nevertheless conclusions are drawn and offered to help the community of market systems practice improve their performance in this key area.

The research is relevant as programmes and practitioners that use a market systems approach have often struggled translating diagnostic work into interventions, sometimes known as 'paralysis by analysis'. The existing literature places a strong emphasis on the tools and methodologies to undertake market diagnostics, but is limited in explaining how to develop prioritised and optimal interventions. This struggle and the need for more practical guidance was confirmed by practitioners during the research.

Thus, the objective of this research was to identify the techniques, methodologies and experience that are used to design interventions in market systems programmes, once the analysis of the market systems has been completed. The objective was to discover how this is being done and what affects the quality and effectiveness of this key step, drawing out learnings and best practice.

Our research objective was based on underlying assumptions about the market systems methodology and design process involved. These assumptions were:

- That a sequential approach was used to develop interventions with market systems analyses always first completed and then used to inform intervention design; and
- That programme implementers design the interventions themselves.

We developed a number of hypotheses as to what would be key factors affecting design to give some structure to the engagement. These were based on our own experience in working in market systems programmes, as designers, implementers and evaluators as well as the above mentioned assumptions. They are presented below.

Hypothesis: The key factors affecting the design of interventions are...

Market level:

- Number of failures
(very thin markets vs mainly functional, range of failures of different types vs one clear issue)
- Type of failure
(Natural monopoly, market power, unequal access to information, indivisibility, incomplete

markets, co-ordination failures and hierarchical supply chains that are not accessible, high cost of establishing/enforcing agreements, external effects, public goods)

- Capacity of actors
- Enabling environment (wider enabling environment – security, stability, corruption etc.)

Programme level:

- Length of implementation period
- Resource envelope
- Use of instruments (e.g. challenge fund, direct/indirect facilitation)
- Flexibility at the programme and client level (e.g. attitude towards risk/innovation/impact of PbR)
- Institutional set up of the implementing agent (engagement/support)

After setting out the methodology we followed, the report focuses on the results of the research and the conclusions, guidance and learning.

2. Methodology

We undertook a qualitative approach to test our hypothesis and investigate how market systems interventions are designed. This method allowed us not only to determine key factors that affect the intervention design but also to identify critical processes when moving from analysis to intervention design is applied in practice. Further, we were able to investigate why these methodologies were selected.

Our data collection included a literature review and extensive market systems practitioner engagement with key informants across the globe.

2.1 Literature review

Through our literature review, as well as through the engagement with our interviewed professionals, we found little evidence of practical guidance about how market systems interventions are actually designed once the market diagnosis is done. In general, there was modest willingness from respondents to share documents or tools that were used when designing interventions.

The documents and tools that were shared were much more about the (operational) process of moving from market diagnosis to ultimately an exit intervention (such as intervention/process flow diagrams) or general forms of documentation (such as intervention concept notes).

The M4P Operational Guide¹ describes useful tools to identify entry points and potential partners, such as the sustainability analysis framework and the 'will-skill' framework (which is the only place that suggests that different types of intervention will be appropriate for different situations). However we found very little evidence about how data gathered during the market diagnosis can actually translate into the design of an intervention that can achieve systemic change. In the manual as part of the systemic change framework, the recommendation for the piloting phase ('Adopt-Adapt') and crowding-in phase (Expand-Respond) are fairly abstract, mainly based on presenting the 'right sized offer' of support with little mention of how that translates into practice. Although the, "don't make the same mistake I did" section does raise a couple of relevant topics, such as 'outsourcing is risky', 'avoid paralysis by analysis', 'don't be too participatory', there is little practical guidance given about how to exactly avoid such mistakes and what needs to be done instead.

2.2 Practitioner engagement

To investigate our core questions and hypothesis, we conducted two different sets of interviews as well as online discussions using the BEAM Exchange platform.

Market systems programme and practitioners pool

Initially, we developed key criteria to define a market systems approach. Two criteria must be met. First, programmes need to aim to achieve systemic change in the way a market works with the change delivering benefits to poor people. Second, programmes and implementers need to remain outside the system, acting as facilitators of change and not as participants or implementers of projects. These criteria were applied to both programmes and to define practitioners.

However, in reality, the inclusion of programmes and the participation of practitioners in our interviews was largely based on their own assessment of having relevant experience with the

¹ The Springfield Centre (2014) 'The Operational Guide for the Making Markets Work for the Poor (M4P) Approach', 2nd edition <https://beamexchange.org/resources/167/>

market systems approach and their willingness to participate. Despite this, we are confident that our research sample does represent the community of practice. In addition, our second round of interviews (described below) allowed us to feed back some of our initial findings and further probe their validity.

Our target group were experienced market systems practitioners who are responsible for the design of interventions based on a market systems approach and we reached out to various key informants from the selected (and self-selected) programmes, as well as to practitioners.² Four different pools of contacts were used. The BEAM Exchange shared two lists of practitioners. The first list included about 170 practitioners from a previous survey of which we were able to contact 67. The second list had details of team leaders and programme directors of 70 market development programmes of which most were successfully contacted. To engage with a wider range of practitioners, we developed a blog entry³ to encourage practitioners to participate in our research. The response was relatively modest with only about 20 respondents. In some cases we asked people to submit their CVs to get a sense of their level of experience before inviting them to interview. In addition, we used our own networks and interviewed team members from our own projects.

In total, we reached out to over 100 practitioners asking them to participate in our research. Some did not respond and others were unwilling to participate. As a result, inclusion depended on the individual willingness to participate. It should be, therefore, noted that there is potential for 'self-selection' bias. The respondent pool is thus not necessarily a representative sample. We then conducted two sequential rounds of interviews of two different types:

Semi-structured interview⁴

As typical for this approach no leading questions were asked and the responses tended to go into the directions led by the respondent instead of the researcher. This approach minimises potential biases of response by views and expectations of the researcher. We used a check-list to guide our researchers and provide some focus during the interviews.

Follow up interview

To cross-check the findings and to explore themes in more depth, the team undertook further interviews with practitioners applying the Delphi method.⁵ These focused on the areas for further enquiries identified during the first round of interviews.

In total, 61 experts were interviewed. The majority (57) of the interviews were undertaken either via Skype or telephone. We did also undertake 4 face-to-face interviews. Interviews lasted about 1 hour on average. 29 respondents were key informants from specific programmes, while the remaining 32 were speaking from their overall experience. Based on our perception of their level of understanding and relevance of previous answers, we selected 12 for a follow-up interview.

BEAM Exchange platform

Our researchers set up a series of online discussions ('e-discussions') on the BEAM Exchange platform called 'From analysis to action.'⁶ Over a three week period, three topics were released for discussion. These included (and are discussed in more detail in Section 3.3:

2 We differentiate between interviewees that were full-time staff of one particular programme that talked about their experience related to that programme and practitioners that weren't affiliated with one programme that talked more about their general experience with designing interventions that use the market systems approach.

3 Maximilian Schulz, Call for practitioners: What works in designing interventions?, July 2015, see <https://beamexchange.org/community/blogs/2015/7/20/maxschulz/>

4 Drever, E. (1995). Using Semi-Structured Interviews in Small-Scale Research. A Teacher's Guide.

5 The Delphi method is a form of follow up interview where the researcher provides some feedback and own interpretation of previous findings allowing the interviewee to confirm a correct interpretation and refine previous answers [see Brown, B. B. (1968). Delphi process: A methodology used for the elicitation of opinions of experts (No. RAND-P-3925). RAND Corp Santa Monica CA.]

6 Maximilian Schulz, New ediscussion: From analysis to action, March 2016

<https://beamexchange.org/community/blogs/2016/3/3/ediscuss-analysis-action/>

- The balance between analysis and action
- Losing sight of the key role of systemic change?
- Instruments and intervention design

While the response to the first topic was good (8 responses), the responses to the 2nd and 3rd topics were weak (3 and 0 respectively). Despite this, interesting perspectives and information were gathered and a subscription of 95 practitioners to our online discussions clearly indicates an interest in our research topic.

2.3 Analysis of information

Having undertaken the data collection, we processed and analysed the information in relation to our hypothesis. To do this, we completed the following:

Triangulation of results

Given that the evidence collected was based on qualitative research, to ensure that results were as balanced as possible and provided robust answers, we triangulated the findings in order to mitigate biases. We, therefore, analysed the data gathered from engaging with practitioners, specific programmes and using our programme experience to ensure that an objective picture emerged.

Analysis and cross referencing

Having collated all the data, the team identified common themes, patterns and principles across the evidence. As well as looking for evidence that supported or disproved the hypotheses, we looked for key lessons learnt with robust evidence to support them. These themes are presented in further detail below.

Initial findings and tighten research areas

An interim report setting out our initial findings was prepared and shared with BEAM Exchange. This stage allowed us to take stock of what the review had found so far, identify if all the research questions had been addressed and if there were any additional issues that needed to be tackled.

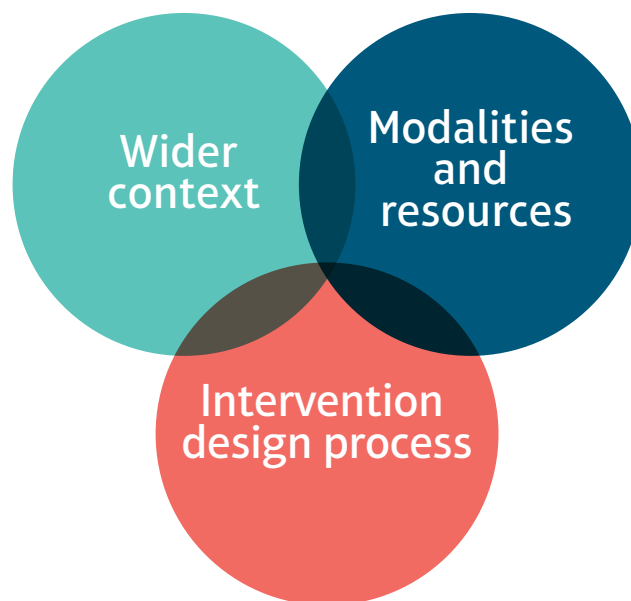
3. Results / Key findings

This section sets out the results from our data collection. Our methodology allowed us to test our hypotheses and identify key factors affecting how interventions are designed. During our semi-structured interviews we were careful not to ask any leading questions on our hypotheses, during follow-up interviews we gathered additional feedback on some of our findings to validate our initial analysis.

Our hypotheses distinguished between key factors at market-level and at programme-level. However, our research has shown that there are additional important factors that influence the intervention design process and affect the various approaches and methodologies that practitioners are using. This has led us to reorganise the results framework to better set out the key influences of intervention design into three interlinked areas. Thus, while the research question remains the same, we believe that this framework provides more clarity, encourages practitioners to think about the effects on the intervention design from these three different angles and will, therefore, serve as a more practical way of guiding the intervention design process.

The approaches and experience of practitioners can be grouped within the three areas as shown in Figure 1.

Figure 1. The context-modalities-process framework



The 'context' includes the wider environment the programme operates in as well as the nature of the markets in which it is working. The programme modalities and resources include the framework set by the donors of the programme (the resources, the particular objectives, the time frame, pre-determined markets and instruments) but also include the nature of the team and the attitudes and expectations of those involved. The intervention design process includes all the approaches and methodologies that are used to design and adapt interventions. All of these appear to affect the design of interventions. They also each can affect the other. For example the context can affect the design process as well as the modalities and resourcing of the programme

In the following section we set out what we have learned from our informants about how elements within these three areas have affected intervention design and describe how and why

practitioners have responded to the challenges involved. We are reporting what we have been told and it is important to stress that we do not have hard evidence to compare the relative effectiveness of the wide range of intervention design approaches and processes that emerge.

3.1 The context

Several factors form the context in which interventions are designed and implemented. They are usually found at the market or wider level and are usually beyond the control of implementers. The proviso here is when implementers have the choice of where to work (which markets/sectors) and are thus able to address some contextual issues through this choice. Since addressing the market failures/systemic constraints in a market system is at the heart of the market development approach, it is unsurprising that contextual factors significantly influence how interventions are designed and must be addressed at the beginning of the design process.

There is extensive literature on how to undertake a market systems analysis which provides detailed guidance on how to systematically identify and analyse systemic failures, constraints and opportunities. This section describes the most frequently discussed, and shows how context-specific challenges affected and were addressed in intervention design.

Type of market failure

While our hypothesis was that the nature of the systemic failures in a market would be a key determinant of intervention design, in fact there was (almost) no mention of market failures and respondents did not specifically use economic theory to underpin their intervention design processes. Respondents did not (with one exception) explicitly use the terminology 'market failures' when talking about systemic issues. Most of the interviewees spoke much more about 'constraints' in the system and tended to focus on identifying specific constraints and opportunities of their market actors and potential partners.

However, although not labelled as such, a few respondents raised the following market failures:

Market distortion by donor programmes and crowding out

Respondents pointed out that market distortion by donor programmes and local governments, for example through grants and subsidies, affects the design of market development interventions. Most of the practitioners who mentioned this were currently working in countries with extensive donor activities, such as Afghanistan, Albania, Kosovo and Malawi, or in sectors with a high level of public sector service provision such as health.

When designing interventions in such a situation, practitioners felt they had to adapt to other programmes' interventions. Some implications were:

- To provide free demonstrations at the beginning of the programme and then to gradually step out over time. The justification was that this helped to 'open ears', while maintaining a path to a system without subsidy;
- To provide technical assistance in the form of free consultancy services by a local consultant to analyse companies business models and build capacity and sensitivities to make them sustainable; and
- To address the issue of donor coordination, accepting it is not only the responsibility of the donors but also of practitioners themselves and advocate for sustainable solutions.

Clearly in several cases the nature of the intervention was affected by the pressure to compete with different types of donor interventions. Some talked about the difficulty of establishing credibility in a crowded donor space and how this added pressure to include grants in intervention design.

Incomplete/ Thin markets

Two practitioners discussed difficulties and potential solutions when designing interventions in thin (or pre-commercial) markets. Both acknowledged that it takes more time to develop interventions when markets are incomplete. They emphasised that, in their experience, this required a focus on interventions to address the provision of public goods to support the enabling environment for the markets to deepen. One recommended that programmes should engage with as many stakeholders as possible in the implementation but to leave them out of the design stage, focusing here more on the key public sector actors.

Other market failures

Only one respondent mentioned monopoly and oligopoly as a market failure without further stating how this might affect intervention design. No mention was made of information or coordination failures per se, although one did identify market information as a key constraint, as their analysis showed how surprisingly little stakeholders knew about other actors along their value chains.

Market actors and suitable partners

Our hypothesis was that the capacity and interest of market actors would have a major effect on intervention design (as suggested in the use of the will-skill framework for example). We received a strong confirmation from respondents that interventions are easier to design when there are more capable actors in the market to work with, but the link between the type of intervention and the capacity and interest of the partners was largely missing. Many respondents pointed out that finding a suitable partner is key for the design of interventions, some going as far as saying that the most successful intervention ultimately came down to the partners that were found.

Actor and partner characteristics

Many mentioned the importance of stakeholder analysis and mapping as well as political economy analysis. These should not only identify market players and indicate the connections and power relationships between them but also assess their capabilities (i.e. 'skill') and incentives (i.e. 'willingness' or 'will'). Many referred to the 'will-skill' framework as a useful tool to map out stakeholders' capability and incentives which helped them to identify their partners.

Respondents mentioned various key indicators of capabilities and skills:

- **Size/market share:** Some practitioners chose the partners with the widest outreach based on their size and market share. However, one respondent warned that working with large enterprises to bring big scale oversimplifies and is too narrow in thinking.
- **Leadership role:** Respondents chose potential partners strategically by assessing if they were capable of becoming a 'champion of change' and lead by example.
- **Capability to change/do things differently**
- **Financial capability**
- **Good reputation**
- **Good quality of product/service**

Respondents highlighted several types of indicators of willingness:

- **Commercial incentives:** However, keeping in mind that incentives are not always commercial and are often more subtle (see following).
- **Social, cultural context (e.g. trust/distrust, etc.)**
- **Informal social rules and norms**
- **Willingness to change/do things differently**
- **Differences between short-term and long-term incentives**
- **Management vision / Shared understanding of sustainability**

Assess 'willingness to adopt inclusive business models'

To assess market actors' 'willingness to change' and to adopt innovative business models that are inclusive, one practitioner introduced a framework that distinguishes between two types of behaviour that shape most of the decision making within market systems. Relational incentives/biases include interpersonal considerations that affect people's and businesses' decisions when interacting and forming interpersonal relations. There are two kinds of biases: Loyalty/Patronage biases result in favouritism towards members of their own group and the active exclusion of others and Merit/Interest-based biases mean that actors form their relations based on merit and serving their interests e.g. hire people with relevant technical qualifications. Strategic biases include considerations of self-preservation and mitigation to external shocks. There are extractive biases where actors withdraw revenues and extract rents from commercial and political activities that strengthen small group ties and capital reserves. Solution seeking/value can add concerns where agents form connections and build their own and their institution's capacity to innovate, solve problems and take advantage of new opportunities.

Source: Eric Derks, Michael Field (May 2016) Shifting institutional biases: Using value chain governance to address a market's underlying systemic structures, <https://beamexchange.org/resources/725/>. © 2016 The BEAM Exchange

However, respondents did not make a connection between these criteria and the type of intervention that would be most appropriate for the different capacities and willingness of the actors. This is further discussed below under Section 3.3.

Enabling environment

Our hypothesis that the wider enabling environment has an effect on how interventions are designed was partly confirmed. Most of the comments were about the policy and regulatory framework with some reference to infrastructure and access to markets for the target group.

In weak and pre-commercial markets, the enabling environment is the crucial factor for the intervention design. Interventions tend to be viewed as more of a public good type.

On the policy environment, some pointed out that interventions on regulatory or policy issues may be a pre-requirement before private sector interventions can be undertaken. In particular in finance, regulatory changes can have large impacts and the triggered systemic effects can be large scale. One respondent affirmed that in markets that are strictly regulated the funnel approach of the market diagnosis, described in the M4P manual, does not always work, as it is sometimes required to 'open doors' at (higher) governance/policy level first before being able to address the 'real' root causes. This can only be achieved by building trust with government officials and openly communicating the actual intentions of the programme and its interventions. One respondent suggested engaging with regulators right from the beginning to start the process of intervention design. However, establishing these kinds of relationships and building a reputation is a lengthy process which some design teams tend to underestimate both, ex-ante and ex-post.

In conclusion, the enabling environment is an important complementary but a very context specific factor for the design of interventions. However, one respondent raised the concern that it has now become a trend of market systems programmes to intervene in the 'rules of the game' or 'supporting functions' while too little attention is paid to the core of the market system. Another warned that constraints found in the regulatory environment often cannot be addressed within the time frame of the programme.

3.2 The programme modalities and resources

The programme modalities and resources cover all factors that frame the programme. These include the basic parameters of the programme – time frame, resources, beneficiaries, targets, markets, results measurement (most already even set at the tender stage) but also the attitudinal, cultural, and institutional influences that are determined by the location, the donor and the team.

Donors/ Development partners

Donors and the modalities that they set will ultimately create the environment under which a programme is implemented, and thus often influence and sometimes limit the design of interventions. Perhaps therefore unsurprisingly, donors and their attitudes towards the market systems approach was one of the most discussed determinants of intervention design.

Many respondents noted that it is crucial that donor agencies are real advocates of the M4P/ market systems approach and display a good technical understanding of it, to avoid creating tensions. This includes having realistic expectations and a required level of flexibility about various factors at different stages of the programmes. The most relevant factors are:

Length of implementation period

Our hypothesis that a longer implementation period affected the type of intervention was partly confirmed.

At inception phase, some respondents mentioned that if the given time period was too short (e.g. three months), they were forced to outsource their market analysis, risking biases in the design from outside the programme context. Others stressed that giving too much time risks 'paralysis by analysis.' One practitioner mentioned that when the market diagnosis takes a long time (two years in this case), donors and practitioners come under pressure to spend money, which has an impact on intervention design.

At implementation phase, some respondents acknowledged that the time it takes for an intervention to show impact was a consideration for the intervention strategy and general design. One respondent noted that programme length was relevant for the selection of an iterative design process, as this approach sometimes will need longer to produce change.

Many stressed the importance of having realistic expectations about when impact can be achieved. Pressure to see quick results and to scale-up quickly as well as setting targets in a short space of time will not lead to effective interventions. Tensions particularly arise when donors lack local knowledge and, therefore, don't understand the complexities of the market system. As respondents pointed out, this also requires the flexibility to extend time frames in some cases.

Other time-related factors mentioned that affected the design were the sequencing of interventions and accounting for seasonality (in particular for agricultural market systems).

Resource envelope

Our hypothesis was that a larger resource envelope leads to more innovative and effective intervention design. Respondents were divided on this. While, generally (and perhaps unsurprisingly), it was agreed that the resource envelope does influence what types of interventions can and cannot be undertaken, there was disagreement about whether or not more resource intense interventions are the most effective. This also reflects the disagreement within the practitioner community on the effectiveness or even the validity of using direct interventions within market systems approaches.

Advocates of more direct market facilitation⁷ stressed the need to have sufficiently large amounts of funds available to ‘make things happen’ i.e. create change in the market system. On the contrary, others observed that money was rarely the constraint, especially for the private sector, and that the focus should be on indirect facilitation. Furthermore, advocates of ‘market testing’ and piloting claim that this approach is much less resource intensive, but still could generate innovative and effective interventions. Many raised concerns that the more money is spent on an intervention, the greater the risk that it will not lead to sustainable change.

Flexibility

When respondents were asked about attitudes of the donors, the most frequently raised factor was the importance of flexibility, that market systems programmes require. Flexibility is needed at different stages. One respondent noted that if donors pre-design too much of the programme, there will be little room to change and select players or design new interventions when markets change or new information is gained.

When designing interventions, practitioners often stressed the need to have enough ‘space’ from donors. Some went as far as saying that the more space implementers have, the better the interventions. One respondent admitted that significant geographical distance between the donor’s headquarters and project gave them the necessary flexibility. Therefore, one practitioner suggested that donors should engage at strategic level and give approval for intervention areas, but that the actual design of interventions should be up to the implementers. According to some respondents, donors should not be too prescriptive and allow designed interventions to adjust if market situations change.

Others highlighted that flexibility is required when reporting to donors and particularly when setting indicators and targets, e.g. in the log frame, early at the beginning of the programme. The fact that markets change over time requires donors to be flexible and allow targets of the log frame to be adjusted over time. If donors are very indicator-orientated, as highlighted by another respondent, hitting targets could become the primary focus of the intervention design with the team only working towards achieving those targets distorting incentives away from systemic change goals and sustainability.

Risk

Other than what was anticipated in our hypothesis, there was little consideration about how potential risk aversion by the client or implementer affects the intervention design. However, a few respondents mentioned that donors’ risk attitude/appetite affects the quality of the intervention portfolio. As mentioned by one respondent, one strategy when dealing with very risk averse clients is to spread the interventions such that some provide significant (target) numbers, while others improve economic impact. The intervention portfolio should also include some high-risk interventions because, in many cases, these have the greatest potential for driving change.

Balances of experience and skills in the team

Aspects of the team, in the form of the balance of experience, key skills and overall team structure, were the most frequently mentioned factors during our interviews. All respondents confirmed our hypothesis that the team is an – if not the most – important factor for the design of successful intervention

Respondents listed a variety of skills that are critical when designing market systems interventions:

- Understanding of M4P/market system development
- Understanding of businesses and speaking the business language

⁷ 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

- Ability to be entrepreneurial
- Networking skills
- Experience of working interventions
- Facilitation skills
- Understanding of local context and political economy
- Analytical and logical thinking
- Credible communication skills and excellent interpersonal skills
- Energy and flexibility

Regarding the balance of the team, many respondents declared the need to build a team where individual skills complement each other. Combinations that were often discussed are:

- Junior and senior staff members
- International and local staff members
- Balance of professional backgrounds

The balance of skills and experience in the team will strongly influence the nature of the interventions designed.

Furthermore, respondents identified the importance of the institutional arrangements and the management styles of programmes in influencing the design process. According to respondents, sometimes interventions are designed by short-term consultants, sometimes senior management takes the key decisions and on other programmes there is a more participatory approach both within the whole team and even with participation from market actors. These differences will clearly affect the design process and the resultant interventions.

Respondents mentioned that having a flat hierarchy encourages members from all levels of the design team to come up with ideas of how problems can be solved and interventions designed. In some cultural contexts, however, a non-hierarchical team structure will not work, as junior staff are not prepared to engage directly with senior staff members.

3.3 The approach to intervention design

The approach to the intervention design process emerged from our research as an absolutely key determinant of the eventual intervention. While we had assumed that the process within a market systems approach was fairly standard and linear, in fact it emerged that there is wide variation in approach. A clearly defined ‘design stage’, that we expected to come once the market analysis is completed, or a tool that could be used to convert the data gained during market analysis into the design of effective interventions, did not emerge. Respondents were much more ‘fluent’ in talking about the various approaches and methodologies they applied, than in explaining exactly how a facilitation approach, partners, scale, time frame was chosen for a particular intervention.

Figure 2 illustrates the landscape of the various approaches described to us in a way that shows a continuum between a highly analytical and expert-led approach to an approach based on testing and learning by doing. These various processes are set out chronologically. The shading of colours is conceptual rather than descriptive, such that the darkest colour stands for the extreme positions – the *analytical* and *exploratory* approach. In reality, however, most of the respondents’ processes were situated in-between, with the majority leaning towards the *exploratory* side of the figure. Here, we identified another continuum between an experimental approach of rigorous trailing and testing of well-defined hypotheses and an approach built on identifying opportunities presented in a market or with a particular partner. We discuss the implications of these different exploratory approaches in Section 4. The move towards the right side indicates a trend in the intervention design process away from a very analytical, linear formal process led by the programme team to a more experimental iterative learning process and participatory intervention design. In fact, two or three interviewees referred to a very analysis-driven approach towards intervention design already as the “traditional” approach towards market systems.

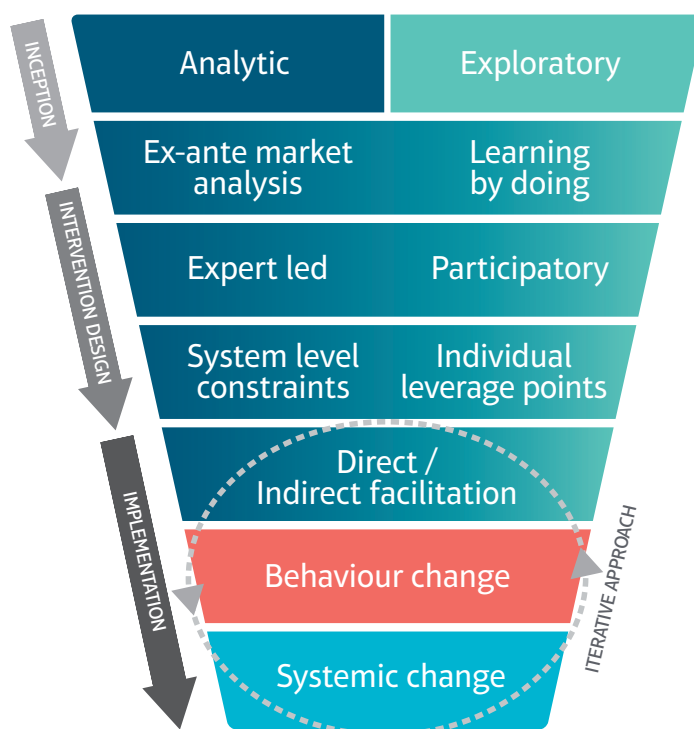


Figure 2. Intervention Design Process Framework

In some cases practitioners chose an appropriate approach according to what they felt was the best fit given the ‘context’ and ‘programme modalities’ they were operating in. Other practitioners chose particular approaches based on previous training in market systems development that they had received or on what they were told to do during project visits and annual reviews. Others’ decisions were based more on ideological principals, such as their own or their companies’ interpretation of the ‘best’ approach towards market systems development methodology and the intervention design process.

Despite the variety of processes and methodologies, all of them had one aim in common – that they would spark an idea or opportunity as to how an intervention can be designed. Thus, an understanding of the underlying processes and their implications will ultimately explain how programmes design interventions.

Further, in Figure 2, both 'sides' of the diagram merge at the bottom to deliver systemic change through behavioural change. Respondents were generally agreed that once interventions were in place an iterative approach was required, but were very unclear on how that actually translated into scaling-up and achieving systemic change. The focus was largely on the early stages of the programme and in many cases the central tenet of the approach – that the benefits stem from the achievement of systemic change was not emphasised. In other words, it was not clear how the design processes described actually lead to interventions that achieve systemic change.

This section sets out the various process issues that were raised by respondents.

Ex-ante market analysis vs. 'learning by doing'

As mentioned, one of our assumptions was that a linear sequential approach would always be used to develop interventions where the market systems analysis would be completed before (i.e. ex-ante) the design of an intervention. The information gathered would then drive the intervention design. An important discovery from our interviews was that this is not always the case. Respondents informed us of situations where intervention design was conducted alongside market analysis which we are calling a '*learning by doing*' approach.

Ex-ante market analysis

Some respondents stressed the need for sufficient time to conduct in-depth research to achieve a detailed understanding of the market system during the inception phase. Respondents talked about a time frame of between six months and two years of analysis in some cases.

Some respondents referred to this approach as 'traditional' given that it is based on the assumption that understanding the underlying systemic constraints and triggering the systemic change can only be achieved through extensive in-depth market analysis.

'Learning by doing'

Several respondents had experience with programmes that had heavily invested time and money in the market analysis, and had then still struggled to get traction with their interventions leading to donor and team frustration. There was a view that up-front analysis can only get you so far and that some information can only be gained through implementation.

There were two types of more exploratory of responses to this – one of them an indication of an experimental approach and the other one of opportunistic behaviour.

Some practitioners were trying out different kinds of pilot interventions to test various short hypothesis and 'learn through failure' as costs and potential harm are low. Pilots were, therefore, sometimes undertaken during the inception phase and seen as part of the data collection process of the market analysis. A 'trial and iteration' process with quick feedback loops allowed practitioners to constantly re-adjust interventions based on the context and further improve them.

While it was acknowledged that this process was most likely to start with weaker interventions, the learning based approach was claimed to be a better way to build the programme and obtain a deeper understanding of the market system as the interventions develop. One practitioner went as far as saying that the 'real' systemic constraints are unlikely to be identified at the infancy stage of an intervention and this can only be achieved through constant iteration. Accordingly when programmes move directly from the market analysis to intervention design they will not have enough experience, knowledge and evidence to be effective.

Others focused much more on getting started with the actual intervention design and moved to a much more pragmatic and opportunistic approach (see 'Leverage and entry points' below).

Complexity

Some respondents rejected a detailed up-front market systems analysis because they see markets as complex adaptive systems (one person explicitly mentioned complexity theory) and therefore as too complex to obtain enough information to develop single solutions through analysis. One respondent said that it is impossible to identify stable root causes as they are continually evolving. Practitioners, therefore, state that market systems are too complicated to find single explanations and solutions (“magic bullet”) through analysis and systemic change can only be achieved through constantly adjusting interventions.

Market analysis is an intervention

In the view of some practitioners, the market systems analysis is already an intervention as the moment practitioners enter the market system and engage with market stakeholders inevitably they react and interact in a certain way to the programme. This is important for two reasons: a) the information (for example about constraints and/or need for support) that stakeholders provide will be biased by their perception of the programme staff, and b) their behaviour might be different once they are being ‘observed’ and questioned.

Sector strategy / Intervention strategy

A few respondents highlighted the importance of developing a sector strategy that falls between the (up-front) market analysis and intervention design. Such a strategy would list the underlying constraints and opportunities and define which ones and how to address them considering the length of the programme. Some mentioned that the strategy should also include a vision of how the market system would look after the programme had ended and the systemic change had occurred (although the latter was rarely mentioned). Several respondents highlighted that the sector strategy and vision would then largely influence the design of the interventions.

Again, we encountered a range of approaches and methodologies, which has important implications for the design of the subsequent interventions.

Focus on constraints

Based on the sector strategy, some practitioners would look at the constraints they found to select, and prioritise a list of key constraints that need to be addressed to achieve their vision. In this sense, tackling these key constraints would become the principal motivation/objective for designing an intervention. Practitioners would consider how long it takes to address a constraint and whether an intervention could offset multiple constraints or various interventions were required to counter a single constraint.

Leverage and entry points

For a different group of practitioners, the focus is much more on market opportunities. When developing the concept for their first interventions, they focused on finding leverage points or entry points, expecting sequential interventions to follow. These entry points were mostly identified opportunistically by looking for market opportunities, such as sectors where change was already happening or likely to happen and working with partners who had already spotted an opportunity. In one programme, interventions were started where there was ‘least resistance’. However, some warned that there is a risk of supporting opportunities that are not going to be helpful in achieving the project’s objectives.

Many practitioners preferred this approach as it moves away from focusing on problems and constraints towards opportunities and solutions.

Portfolio approach

Many practitioners stressed the need to be entrepreneurial and to take risks. A few mentioned that they apply the same philosophy as a venture capitalist in market systems development and

diversify risks at various levels. Some spread risks *across* their intervention portfolio including some low-risk interventions to show quick success and meet log frame targets followed by some high-risk interventions which, according to one respondent, are most likely to unleash systemic change. (This was also mentioned as a strategy when 'dealing with risk adverse clients'- addressed earlier). However, this comes with the acceptance that some interventions will fail entirely and need to be dropped. One programme even met annually to decide whether to continue, drop or add a sector.

Others would diversify risks *within* the context of an intervention. Practitioners would work with various partners simultaneously and quickly end a partnership if it is not working. However, when using this approach, programmes need to take in to account how ending a partnership is perceived by other stakeholders, particularly the government.

Establishing credibility

Respondents stressed that programmes needed to build credibility by acting quickly and start with 'low hanging fruit'. For example, one said they found two willing partners and began to work with them using an iterative monitoring process to assess the effectiveness of their intervention as they progressed. Respondents stated that with this approach the programme is seen as a credible player and is more likely to be accepted by other market stakeholders. It also avoids long periods of analysis that frustrates partners (especially private sector ones) and eventually puts them off the programme. Furthermore, it helps build a critical mass and some traction for subsequent interventions. It also enables a later focus on market players with higher risks, as these are usually the 'champions of change'. As discussed above, achieving some 'quick wins' will also satisfy expectations at the client level.

Who designs?

Our second assumption about the market systems methodology was that programme implementers do (exclusively) design the interventions. However, responses by interviewees were much more varied. While some practitioners designed their interventions themselves, others were open to including market actors in this process, with some practitioners handing the entire design process over to their partners. There were combinations all along a continuum in between.

Expert-led intervention design

Although rarely stated in the extreme, some practitioners felt that intervention design should be (exclusively) led by the design team, especially where innovation needs to be found elsewhere or if stakeholders have too strong a vested interest and so need to be excluded.

Actor-led intervention design (participatory approach)

A participatory approach did not necessarily involve a market systems analysis. In some cases workshops led directly to strategies and then to interventions. Some respondents preferred interventions to be entirely designed by market actor partners. This ranged from a challenge fund approach (with a systemic change criteria in the challenge) to a 'fishing for ideas' approach, to statements that (in some situations) partners would only do what they believed in and wanted to do.

Other approaches involved participatory processes to jointly develop interventions. Processes varied in the degree that the lead was taken by the programme or the actors. Respondents talked about the need to create ownership of interventions by the actors. Participatory approaches were also useful when there was distrust among, and between, market actors.

Workshops

The most common participation tool was workshops. Practitioners engaged with market actors through workshops at various stages. Some respondents conducted *design* or *market linkage* workshops where they invited different actors along the value chain, to talk about their problems

and constraints, then from collective solutions to design the respective interventions together. Others said they undertook *validation workshops* where they presented their identified systemic constraints and potential solutions to key market actors to get feedback and confirm that their findings were correct.

A couple of practitioners warned of the need to always back up the information provided during the workshop with one-to-one discussions as (due to social norms/pressure) stakeholders may say different things in group situations. Another respondent hinted that one should not be overly participatory as too many different opinions can hinder the process. As a broad rule it was suggested to have no more than 10-12 people from no more than five different types of stakeholders.

Partner engagement

Despite different opinions on the market analysis and sector strategies, all respondents agreed that partners were essential to undertake the interventions. Everybody worked through partners. However, when deciding at what stage of the programme practitioners should start to engage with potential partners, we found a continuum of answers between two different scenarios. In the first scenario, practitioners undertook the market analysis, developed the sector strategy and designed interventions themselves, before looking at suitable partners to implement what they had envisioned. Others had concerns about this approach. They stressed the importance of engaging partners from the outset, building on their understanding of the market. In line with the piloting approach, practitioners would form partnerships at early stages undertaking small market scoping projects together. In one case a partner and a programme conducted the entire market analysis together (see *participatory approach*). Two respondents pointed out that many markets, in particular in countries with a high donor presence, are over-researched and market actors are over-questioned but rarely consulted when finding solutions (i.e. the design process) – a further argument for the *participatory approach*.

Partner identification

To identify the best suitable partners, two different approaches were discussed:

Expert-led partner selection

According to this method, the most suitable partners were selected by the implementers based on their market systems analysis and their relevance to achieving the respective intervention strategy. In such cases, practitioners applied simple rules and focused on required characteristics (see partner characteristics) to identify the most suitable partner.

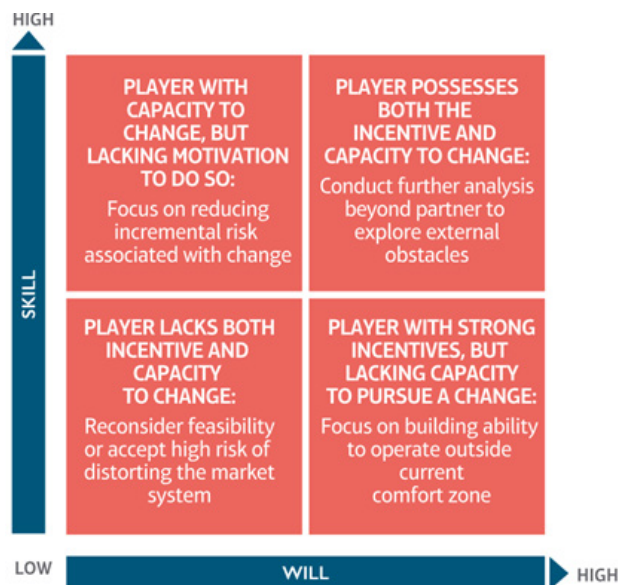
The most critical factor for selection was the partners' willingness to be involved in the intervention. Many practitioners said willingness rather than a lack of capacity, was often the key issue. One indicator to assess a partners' willingness and commitment, is to ask if they are ready to share their budget and to investigate how much they invest in human resources. Such investment indicates that partners anticipate long-term profits (beyond the project support) from their involvement.

Others mentioned more strategic considerations, such as getting partners' business models aligned with the sector strategy and the change that the implementers want to achieve. Can the partner lead by example? How large is their market share? Do they have the ability to influence the market? (i.e. change makers, multi-nationals). One practitioner said that they would always start working with the market leader if possible. However, others had concerns about market distortion when working with the market leader.

To identify the best suitable partner, many mentioned the importance of stakeholder analysis and mapping. These should not only identify market players but also assess their capabilities (i.e. 'skill') and incentives (i.e. 'willingness' or 'will'). Many referred to the 'will-skill' framework (see

Figure 3) as a useful tool to map out stakeholders' capability and incentives which helped many with the selection of the most suitable partners.

Figure 3: The will-skill framework



Source: M4P Operational Guide (2015), op cit.

However, some practitioners warned that the partner selection is not a ‘ticking the box’ exercise and that effective partnerships only emerge through continuous learning from constant partner engagement and the flexibility to end inefficient partnerships.

Self-selection mechanisms

A few respondents revealed that public announcements, through open tenders or call for proposals, are an effective tool to identify and select willing partners. Another mentioned that one way to overcome problems when dealing with actors with low incentives was to invite them to join the design process (see participatory approach) as this approach ensures continuity and creates ownership.

Discussion on participatory and piloting approach

Our analysis indicates that the ‘learning by doing’ and participatory approach often eclipses ex ante detailed analysis in determining the design of interventions. An entirely linear approach with a detailed market systems analysis driving the intervention design was rare among the interviewees. A more common approach regards stakeholder engagement as central to the process of both market analysis and intervention design. This sees that the stakeholders and the information provided by them play the lead role in determining the intervention design.

Recent developments in the application of complexity and systems theory to market system development seem to support such participatory approach (Jenal and Shawn, 2015). The risk with this approach is that the programme can be driven by the self-determined and self-serving needs of stakeholders, and interventions are designed so they change their individual behaviour rather than feed into a clear strategy that delivers systemic change for the whole market system.

Overall, there was a clear focus to work with willing actors that show commitment or look out for individual leverage points rather than selecting a partner based on their relevance in addressing overall systemic constraints.

System-level constraints vs. individual leverage points

As mentioned, respondents spoke of “constraints in the system” as opposed to different types of systemic constraints or market failures. We were not expecting such little use of market failure terminology and can only speculate about the reasons. One possible explanation could be that practitioners felt that a basic understanding of market failures was not relevant for the design of interventions and, therefore, abandoned the terminology.

In general, practitioners were much more concerned with finding individual leverage points, thus changing individual behaviour, as opposed to changing the system as a whole. Many respondents referred to the Adapt, Adopt, Expand, Respond sequence as set out in the [M4P Operational Guide](#) (op. cit.). However, practitioners almost exclusively talked about the design of initial or pilot (Adopt-Adapt type) interventions, very few of them talked about how to design interventions specifically targeted at the crowding-in phase (Expand-Respond).

Practitioners pointed out that system-level change can only begin with individual behavioural change. Therefore interventions should address individual constraints that are somehow aligned with industry-wide ones thus leading to individual actions that ultimately change the system. However, very few respondents were able to provide clear answers to how and why their designed interventions feed into a theory of change that can ultimately unleash systemic change. The exception here was when an intervention was specifically aimed at a change in the regulatory environment, which could trigger a systemic change directly.

Balance between analysis and action

There was general agreement that sector selection and intervention strategies should be developed exclusively by experts. They need a holistic view from the macro level on how the market systems have to change and should, therefore, determine the overall objectives of the programme. Theoretically, guidance from economic, political and other social sciences should inform the macro-level strategies and visions. On a practical level, especially with large programmes that are multi-disciplinary and multi-regional, stakeholder participation seems infeasible.

ILO project in Timor Leste

“In an ILO project in Timor Leste, a lead firm (trader in organic horticulture produce) was part of the research team for the MSA. The project’s logic was that this firm knew the market, and would be a great information resource and networker – especially as the project team were quite new to the Timor context. This seemed to work well for the initial analysis ‘phase’ (they took quite a linear approach to analysis-then-action), but it created problems further down the line. Predictably, the constraints identified in the analysis were firm constraints, not industry ones (i.e. they weren’t systemic). And since the project partnered with this firm, when things didn’t go well during implementation, the team was reluctant to drop the partner as they felt beholden to the firm’s owner (and saw market dynamics almost exclusively from his point of view).

“The risks of becoming captive to vested interests are high both during analysis and sector selection. ILO guidance used to place strong emphasis on sector selection and MSA (previously, VCA) stakeholder consultation workshops, where things like market mapping would be done collaboratively and in a very bottom up way (involving individual businesses, associations etc.). The loudest (and sometimes the most unrepresentative) voices in the room dominated; project staff struggled to facilitate; and projects were often left with a set of constraints/interventions that again were not really systemic in nature. A wish list of needs/demands, but not much else.”

Quote: Matt Ripley ILO, BEAM E-Discussion on Analysis to Action, March 2016

Several market practitioners warned that undertaking the market analysis together with a market actor may lead to a serious misrepresentation of the underlying root causes of the market system as self-determined and self-serving (vested interests) behaviour can bias how the market system is represented. In these circumstances, bias would mean that programmes would therefore *only* identify root cause at individual, firm-level rather than as industry-wide or system-level constraints.

At the implementation stage, however, a participatory approach is better suited. This ensures that activities are tailored towards context-specific aspects, such as partners' needs and perceptions. Although, some practitioners stressed that these collaboratively designed activities need to be fed back to management teams to assess if they fit with the overall strategy. It is also at this level where the iterative approach was suggested. As this method allows programmes to judge if a designed intervention is leading towards the desired change of behaviour needed to drive systemic change. Practitioners, therefore, stressed the need to blend analysis with action.

Understanding systemic change and impact on design

Many respondents acknowledged that the concept of systemic change is not well understood. Reasons for this mentioned were:

- It is a difficult concept to understand (especially for those with little experience in using a market systems approach)
- It is therefore often open to individual interpretation, thus misunderstanding
- It is difficult to sense/feel/understand unless it actually happened and has been practically experienced, so easier to understand retrospectively, but many team members have not been working on the project long enough to do so.
- Focus and interest get easily lost while being caught up in day-to-day operational tasks.

For a few respondents, the concept of systemic change was manifested throughout the vision that programmes initially set out. This vision should guide the team throughout the programme, but the reality is that it often gets lost under day-to-day operational activities and the need to focus on meeting log frame targets. It therefore needs to be constantly re-iterated.

Discussion on systemic change

Although several respondents mentioned systemic change, they did not set out an approach which included achieving systemic change as the key programme output. There was plenty of discussion about piloting but little reference to strategies for scaling-up or assessing when systemic change has been achieved. There was almost no discussion of systemic failures and the different types of market failure. Instead the focus was on constraints/problems being faced by market actors. Results chains were commonly referred to (mention of DCED was rare), but results chains appeared to be often seen as separate entities and rarely as part of a framework for the sector strategy (i.e. theory of change) that leads to systemic change.

Similar to our findings on expert vs. actor-led solutions but in contrast to a practitioner in favour of defining a clear vision for change before starting the design process, some felt that a first design stage is too early to develop interventions that have systemic change at their core. A few went as far as saying that the 'real' systemic constraints can only be identified once some of the interventions are under way and observations can be documented on how the systems react. One practitioner stated that programmes cannot identify the desired systemic change ex-ante to try then to find a business solution, but that you need to find a business solution that gives a real development impact and sustainable systemic change.

One practitioner had some concerns about systems literature, which is mostly concerned with changing the system, but may risk losing sight of the ultimate purpose – which is achieving pro-poor change. Furthermore, another warned that programmes sometimes risk losing sight of achieving change at the core market system by going from one sub-sector to another and designing interventions that are only very loosely linked to the core market.

The choice and use of instruments

Two key areas emerged with respect to the choice of instrument in intervention design. One is differences of opinion on the value of direct and indirect approaches. The other is in connection with a general failure to match the instrument to the specific situation and needs of the partner. We found little evidence of a flexible situation where the design process was able to use a wide range of approaches within a single programme. Our impression was rather that practitioners either tend to use more *indirect facilitation*,⁷ or preferred the use of *direct facilitation*.

Several advocates of the participatory approach seemed to prefer indirect facilitations, such as conducting (*linkage*) workshops which served as both a design tool and form of facilitation. Others were much more willing to intervene more heavily in the market with one practitioner arguing that without sufficiently large financial support nothing can be achieved in a market system.

Two respondents pointed out that when engaging potential partners, a useful practice is to present different options (e.g. providing technical assistance or cost-sharing) and then see what kind of (business) ideas partners come up with. In general, when offering financial support, a few respondents stressed the need to communicate that funding will be only on a cost-sharing basis, from the start. Furthermore, they stated that when sustainability is the goal, programmes should never give money away but to bear in mind the ‘money spent and sustainability’ trade-off.

In the [M4P Operational Guide](#) (op. cit.), the assessment of partners’ interest and capacity is a key step in determining what sort of instruments should be used. Different types of instrument are appropriate for different quadrants of the will/skill framework. What we observed from our respondents was that this was never set out as part of the reason for instrument selection. Although some mentioned the use of will/skill as a partner identification tool, none of them refer to the implications for the selection of the ‘right’ type of facilitation instrument. In general, the dominant discussion was on the identification of willing partners (who might then be subject to a set of selection/due diligence criteria) instead of working with various partners from both quadrants – ‘high will, low skill’ and ‘low will, high skill’.

Having observed this disconnect in the first round of interviews, more direct questioning during the follow up interviews still failed to get responses showing the link between facilitation instrument and the will/skill assessment of the partner. Responses ranged from a) being unfamiliar with the will/skill framework, to b) statements that practitioners would certainly adjust facilitation instruments towards the individual characteristics of their partners and even c) stating that they used the will/skill framework only to identify partners but not during the design.

Iterative approach

Many practitioners said that intervention design should not be a one-off task but should be constantly being redesigned and improved using an iterative approach. Crucial to such an approach is close collaboration between the technical and M&E teams to ensure that feedback loops are working as part of programme management.

Intervention design tools

As previously mentioned, only a few interviewees were willing to share their documents and tools. The tools that were shared were much more about the (operational) process of moving from market diagnosis to ultimately an exit intervention (such as intervention/process flow

diagrams) and about general forms of documentation (such as intervention concept notes). The following were the most relevant tools mentioned:

Intervention process flow and screening

Two respondents developed an intervention process flow tool to guide them through the design of the intervention. As the example⁸ shown in Annex 6.1 indicates, starting from a “potential intervention identified,” the process flow leads through various stages putting key decision-making steps in place. At these stages, key questions and screening processes are put in place to decide if an intervention should be given the ‘go ahead’ or steered to the ‘exit’.

An example of such intervention screening is the R-I-E-D⁹ model presented in Annex 6.2. The model includes four key questions (including sub-questions under each question):

- Is the intervention **relevant**?
- Does the intervention have **impact**?
- Is there partner **engagement**?
- Does the intervention ‘**do no harm**’?

Any “no” answers to the above lead to the potential intervention being rejected.

While this is certainly useful tool when going through the (operational) processes of moving from market diagnosis to an exit intervention, it is based on the assumption that a potential intervention has been developed. It does not provide guidance on how the data generated at the market analysis stage can be used to develop the first idea for a potential intervention.

Results chains

Results chains were the most frequently mentioned design ‘tool’. Practitioners often developed the underlying result chain first, as it helps them to bring all the relevant information together and to clarify the intervention’s objectives. Result chains help identify the target group, likely constraints and changes as well as show which market actors are relevant.

Some pointed out that the result chain should be in line with the log frame and theory of change (although the later was rarely mentioned) and the result chain needs to be constantly adapted (using the DCED Standard). However, one practitioner noted that the design team sometimes struggles to translate the result chain into the design of an actual intervention.

⁸ The Private Sector Innovation Programme for Health (PSP4H), IMPLEMENTATION SERIES # 1: The Intervention Process Flow – A Systemic Approach to M4P Implementation Email: info@psp4h.com|www.psp4h.com| +254(0)708 771 545

⁹ The Private Sector Innovation Programme for Health (PSP4H), IMPLEMENTATION SERIES # 2: Intervention Screening – The R – I – E – D Model Email: info@psp4h.com|www.psp4h.com| +254(0)708 771 545

4. Insights and guidance

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 get to the design of good interventions. Accepting this and using the intervention design processes framework set out in Section 3, this section highlights some key insights and sets out some guidance on the best intervention design processes based on the responses we received in our interviews and our own interpretation of them.

First, we discuss, identifying issues and offering guidance, five key issues that programme implementers face in the design process when moving from analysis to action. We then 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.

4.1 Insights into the design process

We have observed that a wide range of approaches and processes to intervention design are used in practice. In this section, we share some insights to highlight possible implications of selecting a particular process at various stages of intervention design. We then provide some guidance towards the best processes that can lead to effective interventions. We have identified five key issues.

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 cover 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 might often contribute to poor programming and implies a need for changes in procurement policies and management (see Section 4.2).

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
- Pre-determined 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 intervention were pure luck. However, we would advise pursuing a purely opportunistic approach with extreme caution, as this method risks designing interventions (and ultimately spending resources) that are not necessarily in line with the overall programme aim 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.

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

While not explicitly stated by respondents, there is a link between the analytical vs. exploratory approach to intervention design and the theoretical functioning of markets from 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 and what can be done about them. (For the complete list¹⁰ see Annex 6.3):

Table 1: Factors affecting design

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"> • A legal framework that enables administrative or court based action to obtain redress • Supporting new entrants or building the capabilities of smaller suppliers
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"> • Publicly funded information systems bring about equality • Kick starting private sector supply of information (radio stations, ICT centres) • Private sector supply of information (e.g. credit bureau) to reduce adverse market choices • Collective action by business organisations and representatives of the poor to disseminate information
Co-ordination failures and hierarchical 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"> • State intervention to co-ordinate • Collective action by small market players • Supporting businesses with business models that can improve co-ordination/access for the poor. • Reducing requirements of buyers or increasing ability of suppliers to meet supply chain requirements
Incomplete/thin markets	The needs of some participants, especially the poor, are not met.	<ul style="list-style-type: none"> • Provide information on the market opportunity to serve the excluded • Triggering innovation in new products and services that will serve the poor • Increasing access for the poor by public investment to reduce transaction costs

¹⁰ Market failures and what may be done about them, Nathan Associates, 2014 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 a 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 (see Point 3 under Section 4.2), where clarity will further benefit the actual design process.
- At a 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 adjustment (on a small scale) (see Key Issue 5).

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 to include at least some general explanation on economic concepts and how to map these concepts onto real world phenomena to the general training and guidance on the market systems approach. The table in Annex 6.3 provides a first step in this direction.

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 Manual 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 re-iterate established guidance: Programmes that use the market systems approach should have a theory of change.

For the second scenario, we see two possible explanations:

Firstly, 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.

Secondly, the difficulties (already described in Section 3) 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 designing interventions to drive systemic change. The process to design interventions specifically aimed at scale-up/crowding-in was rarely described to us,¹¹ and this area needs attention from the research and practitioner communities.

¹¹ 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).

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

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 behavioural 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 kind 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 (see Section 3 and ILO project in Timor Leste).

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 (see point 4 under Section 4.2) 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.

We encourage more research, sensitisation and dissemination on the importance of tailoring the type of facilitation towards the specific characteristics of potential partners and would advise BEAM to bring this topic towards the attention of the market practitioner community, e.g. through a webinar.

4.2 Guidance on programme modalities

The modalities of a programme turn out to be very influential on the design process. Essentially these will set the framework of the intervention design stage. By pre-selecting sectors, defining targets regarding beneficiaries (number, gender, disadvantaged etc.), time frames, resource envelopes, pre-determining instruments and combinations of the above, the scope of the programme will be more or less defined and constrained before implementation.

However, setting certain parameters is not only a logical operational necessity, it can, in fact, 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.

This section summarises what we learned about how donors – by setting certain modalities – have a strong influence at each stage along the analysis-to-action spectrum. 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. As set out in detail under Section 3, 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, implementers falling 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 a maximum of nine for the inception phase and within this, give implementers the freedom to set the time they require for the market analysis themselves. Which ever 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 programme must allow for continuous learning through MRM and "knowledge gaining" interventions during the 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 has also 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 log frame 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 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 features¹² :

1. A failure rate of 30%;
2. Fixed overall project goals and, to some extent, project outcomes;
3. Start with a preliminary milestone table (output, outcome, impact), thus milestone based contract;
4. 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.

¹² Expect the unexpected: Anticipating through Adaptive Management Model Presentation by Dr. Daniel Nugraha, BEAM Conference May 2016; see: www.beamexchange.org/resources/730/

5. Conclusion

This research was primarily based on interviews with practitioners using a market systems approach. Hypotheses were tested as to how the design of interventions was undertaken and influenced, with an underlying assumption that the process was essentially linear and based on analysis of the market systems in which the programme wished to work.

Implementers in fact had difficulty in fully explaining their design processes. It was clear that when projects tackle this challenge in the reality of their context, a multitude of pressures and problems affect their design processes and the decisions they make. Many of these are well known to the practitioner community already and were reiterated - the quality of the team, time pressures, particular donor requirements for example. Our analysis allowed us to describe key factors influencing design under three headings, the context, the modalities and resources available, and the design process itself.

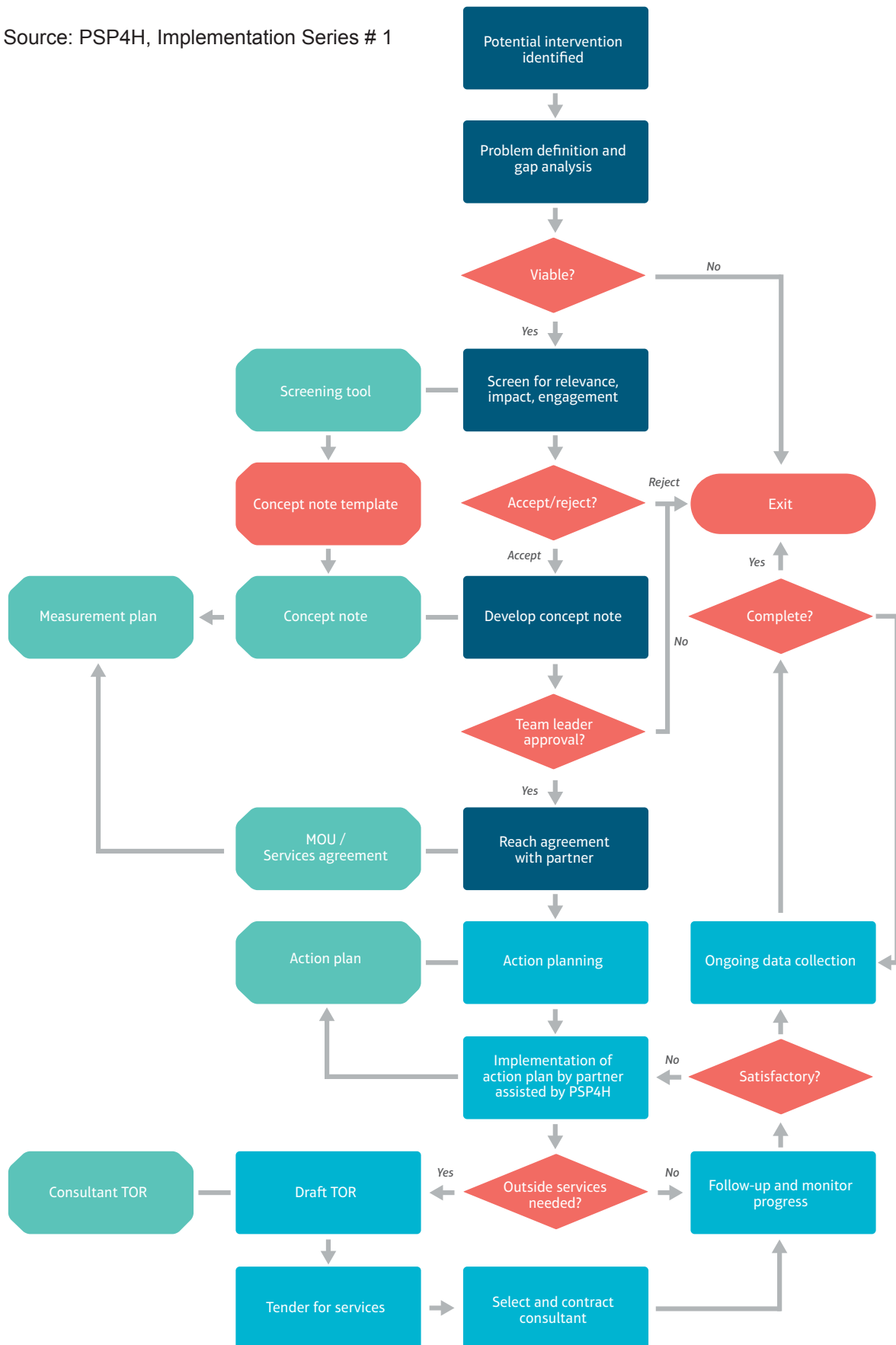
Perhaps the key learning from the paper was that the design process described by practitioners varied considerably. We have captured this variation as a continuum between a linear and analytical process and an exploratory “learning by doing” approach. This latter approach which is increasingly common is itself a continuum between well described hypotheses tested by experimentation, and opportunistic interventions, at the extreme undertaken as a result of time pressure and the need to get something started with a willing partner. While many respondents talked about piloting and iterative approaches, their position on this continuum was often not clear. An important lesson is the need for clarity and the move to a well-defined, experimental approach when an iterative process is used.

Finally, few of our respondents focused on designing interventions to achieve systemic change, instead the language was more about overcoming constraints. Similarly, there was little mention of theories of change. We were also surprised to hear little talk about market failures and the analysis of different types of market failures to understand both the challenge, the opportunity and to offer the basis for a theory of change. We would recommend that the economic theory of markets should be not be forgotten as a key tool in the design of interventions.

6. Annexes

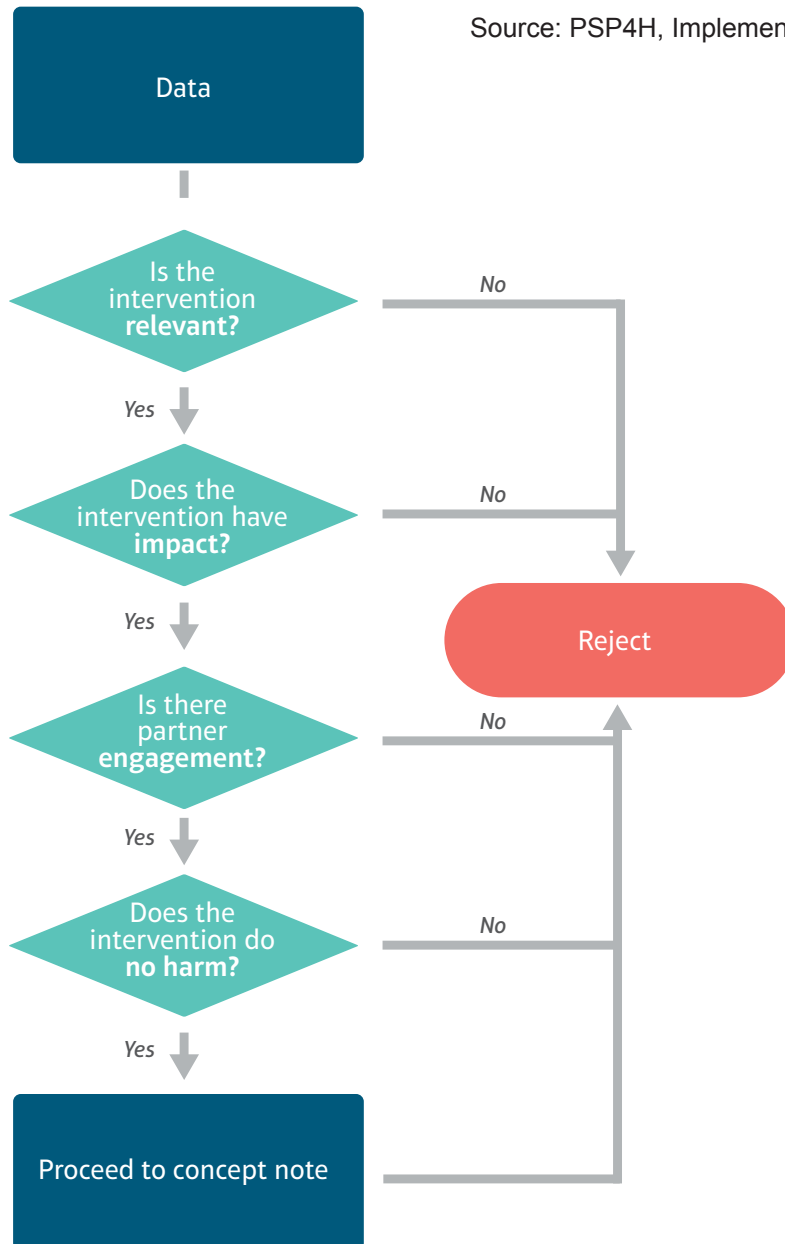
Annex 1. The Intervention Process Flow

Source: PSP4H, Implementation Series # 1



Annex 2. The R-I-E-D Model

Source: PSP4H, Implementation Series # 2



Annex 3. Market failures and what may be done about them

Market failure	Consequence	Corrective action required
Natural monopoly	Economies of scale enable a single provider to dominate whose profits are maximised by limiting supply below the appropriate demand/supply balance	<ul style="list-style-type: none"> • Unbundling to separate functions (i.e. generation from distribution of power) may provide operational efficiencies that overcome loss of economies of scale. • New technologies (e.g. mobile phones) may reduce natural monopoly
Market power	Actions by dominant suppliers discourage new entrants and collude to restrict supply and set prices above market levels	<ul style="list-style-type: none"> • A legal framework that enables administrative or court based action to obtain redress • Supporting new entrants or building the capabilities of smaller suppliers
Unequal access to information	Raises transaction costs to acquire information, 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"> • Publicly funded information systems bring about equality • Kick starting private sector supply of information (radio stations, ICT centres) • Private sector supply of information (credit bureau) to reduce adverse market choices • Collective action by business organisations and representatives of the poor to disseminate information
Indivisibility	Minimum size of transaction too high for the small (need to fill a container or buy a minimum size of shampoo)	<ul style="list-style-type: none"> • Regulatory change to reduce minimum size of transaction • Supporting businesses offering breaking bulk services • Collective action to meet minimum size
Incomplete/thin markets	The needs of some participants, especially the poor, are not met	<ul style="list-style-type: none"> • Provide information on the market opportunity to serve the excluded • Triggering innovation in new products and services that will serve the poor • Increasing access for the poor by public
Co-ordination failures and hierarchical 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"> • State intervention to co-ordinate • Collective action by small market players • Supporting businesses with business models that can improve co-ordination/access for the poor. • Reducing requirements of buyers or increasing ability of suppliers to meet supply chain requirements
High cost of establishing/enforcing agreements	High transaction costs and risk may restrict market to few participants, reduce specialisation and prevent co-ordination	<ul style="list-style-type: none"> • Legal reforms such as standard contracts, alternative dispute resolution • Collective action that will result in better informal dispute resolution
External Effects	Private incentives are not aligned to public benefits resulting in levels of activity being too high (pollution) or too low (investing in skill development).	<ul style="list-style-type: none"> • Fiscal incentives can help to align private incentives to public benefits (environmental taxes) • New technology or business models can do the same (recycling) • Collective action by business organisations can help to ensure that everyone pays for the benefits (skills)
Public goods	Inadequate investment or investment that does not meet the needs of the poor and disadvantaged	<ul style="list-style-type: none"> • Changes in planning and delivery of public services • Private provision of services for profit • Collective action to redress lack of public

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