Impact at scale
The challenge of moving from pilot interventions to sustainable, widespread change

Report

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1. Introduction

One of the biggest challenges facing market systems development (MSD or M4P) projects is designing and implementing interventions that consistently achieve sustainable, systemic change in market systems as the foundation for development impact at scale.

It was clear from the 2016 BEAM Exchange conference and from our engagement with stakeholders throughout this research project that many market systems practitioners share the perception that examples of successful projects and evidence of impact at scale is limited, and that they are looking for ways to increase success rates of pilot interventions and of project interventions moving from successful pilots to impact at scale.

Beyond this fundamental objective, two related strategic objectives are increasingly influencing market systems project design. In the context of ongoing, rapid economic transformation and urbanisation, there is a growing awareness of the value of MSD projects being able to:

- **Broaden engagement** to value adding processing and manufacturing sectors where there is scope to create new and better employment opportunities; and
- **Leverage commercial**, impact or development finance for the investment and growth of such enterprise as a pathway to sector transformation and the development of impact at scale.

Responding effectively to each of these objectives will require that MSD projects are better equipped to work with private sector operators and investors, and to mobilise financial and management resources at scale. Strengthened intervention selection, design and implementation capability depends on MSD projects adopting the mindset and accessing the tools to understand and engage with sophisticated value-adding businesses and the investors that are ready to provide growth capital.

Our research project, which focuses on interventions that work with and through private sector partners, was designed and has evolved in this context. We wanted to understand whether:

1. MSD projects are using robust scale-focused business/investment analysis to guide the selection, design and implementation of pilot interventions, and
2. Does using such analysis increase pilot-to-scale success rates. We also wanted to consider how such analysis might help MSD projects to engage more successfully further up the value chain and leverage third party finance.

At the start of our research project were **two research questions**:

1. To what extent do MSD projects undertake pre-pilot business/investment analysis in line with commercial industry standards?
2. Is there a relationship between the existence/rigour of pre-pilot business/investment analysis conducted by MSD projects, and impact at scale success rates?

Our **hypothesis**, based on established practice, prior experience, observation and intuition, was that the more rigorous the pre-pilot business/investment analysis, the higher the chances of a pilot intervention successfully leading to impact at scale.

Although there is a wide variety in the design of MSD intervention plans, established practice is the “mainstream” two step approach described in the M4P Operational Guide (which we have edited slightly to reflect our focus on private sector interventions):
• **Step 1 Conduct and review pilot interventions**: Engage appropriate [private sector] market players as partners to promote the adoption of [business] innovations and more effective roles that result in pro-poor changes in the market system.

• **Step 2 Conduct supplementary interventions that stimulate crowding-in**: Develop supplementary [public and private] partnerships to increase the scale of outreach and improve other functions and rules that support the piloted [business] innovations, to enhance responsiveness and sustainability.

The approach makes sense, so why are scaling up success rates seemingly low? Our prior experience and observation pointed towards two potential explanations:

• **Intervention selection**: Many MSD projects adopt a "scatter gun" approach to the selection of pilot interventions, rather than using pre-pilot analysis to inform decisions on the investment of project resources.

• **Implementation strategy**: Many MSD projects manage Step 1 more successfully than Step 2, either relying on spontaneous market response to the pilot, or replicating the pilot, rather than developing and implementing a convincing Step 2 scaling-up strategy.

So as well as gathering evidence to better understand the problem, we wanted to apply the research findings in the context of our combined academic and professional experiences in MSD project design, implementation and review, development economics and corporate finance to come up with actionable recommendations.

Our recommendations are primarily suggestions for practice improvements to the way that we select and implement interventions, but they also address the questions of how MSD projects can engage with more sophisticated private sector investment projects and support the mobilisation of development, impact and commercial finance. Essentially, our view is that a significantly strengthened and systematic approach to pre-pilot business/investment analysis could bring significant benefits.

Our research has been used to inform the development of a pre-pilot business/investment analysis tool kit (which is published separately). Together, these recommendations and the tool kit are intended to help MSD projects to:

1. Identify the most promising pilot intervention opportunities in market systems at all stages of the value chain (Step 1);
2. Develop more convincing pathways from pilot to scale, including raising third party finance (transition from Step 1 to Step 2); and
3. Implement supplementary interventions that more consistently deliver impact at scale (Step 2).
Box 1: Impact at scale

For the purposes of assessing and comparing reported results, we have used the Adopt, Adapt, Expand and Respond (AAER) framework, focusing on the Adopt to Adapt to Expand pathway from pilot intervention partner through to competitive response. We have excluded the full Respond stage from our analysis because in a specifically private sector intervention, experience shows that:

- Private non-competitive responsive investment is generally a function of a successful intervention; and
- Public sector responsive investment or change is a complex, policy driven process that goes beyond the scope of our research.

This framework, specifically the transition from Adapt to Expand, allows us to reach conclusions on whether an intervention can be said to have had an indirect impact, and successfully leveraged the level of private investment consistent with reaching impact at scale among the target beneficiary group.

In order to determine whether a piloted business innovation had reached impact at scale, we have therefore sought evidence of investment beyond the pilot intervention by:

- The intervention partner: The pilot intervention partner(s) commits further investment to adapt and develop the business innovation;
- Competitors: Private sector market players with significant market size and share, invest to expand the business innovation; and
- Target beneficiaries: A large number of the project's target beneficiary group (especially those not directly benefiting from interventions) invest in and benefit from uptake of the business innovation.
2. Research methodology

Our research methodology was designed and subsequently evolved over the course of the research project around a number of objectives:

1. To include MSD (or comparable) projects that had completed or reached a stage of maturity where it would be possible to assess the success or otherwise of the intervention;
2. To include projects that were funded by a number of donors, in different locations, and covering a variety of sectors;
3. While realising that we were not seeking to recruit a scientific sample, to find a reasonably representative group of interventions – both successes and failures;
4. To have reasonably comparable qualitative and quantitative data gathered according to a consistent methodology, while accepting that it would not be possible to compare projects/interventions on a like-for-like basis (due to different intervention objectives/environments and different approaches to results reporting);
5. To address and overcome concerns around confidentiality and trust, as projects tend to be guarded especially in front of a research project managed by one of their competitors; and
6. To be able to draw general conclusions around the research questions that would withstand scrutiny.

We chose to conduct the research using a multiple case study approach. The entry point was projects that were willing to cooperate with the research, but the “unit of research” was at the sector intervention level. Each case study was a project intervention or series of complementary interventions targeting a specific sector.

The research process comprised three phases, with a total of six steps, conducted between March and December 2016:

**Figure 1: Phases of the research**

- **Phase 1: Planning**
  - Identification of research sample
  - Design of survey template
  - Approached projects known to researchers or participants in past research
  - Designed to provide consistent project and intervention level data

- **Phase 2: Data collection and analysis**
  - Collection of data
  - Data analysis
  - Iterative process conducted face to face or by phone
  - Comparing reported processes and results within and across projects
  - All draft conclusions checked with survey participants

- **Phase 3: Finalisation**
  - Validation of data and analysis
  - Review and reporting
  - Presentation of early draft conclusions, workshop and peer review
  - Draft findings presentation
  - Donor presentation
  - Practitioner webinar
2.1 Identification of research sample

We began our search for a research sample from two angles:

- Projects known to the researchers, where personal contacts would help secure cooperation; and
- Projects which had previously participated in other research projects, giving reason to believe that they would be willing to participate in the current research project.

We contacted more than 20 projects to assess their interest in participation. While some projects declined to participate, others were cautiously interested and some immediately enthusiastic. Some projects expressed initial interest but subsequently dropped out.

Figure 2: Programmes by design

There was a degree of randomness in the sample; aside from one or two projects, we had no prior knowledge of whether the participating projects had carried out pre-pilot investment analysis and assessment, or whether interventions had been successful or not. Once we had recruited projects to the research sample, we asked them to propose sector interventions for analysis – emphasising that we wanted to look at successful and not so successful interventions.

We do not claim that we had a large enough sample from which statistically significant analysis can be drawn. However, we do believe that the final research sample comprising 11 completed
or mature projects with a total of 26 sector interventions provided a rich and varied range of donors, locations and sectors adequate for the purposes of our research project.

Box 2: Research sample

Our sample comprised 26 intervention summaries, each relating to the sectoral interventions of a particular project, i.e. there are no cross-project comparisons or amalgamations within intervention summaries. All of them cover interventions which are either concluded or, where still ongoing, have been operating long enough to show success or lack of it, or a strong likelihood of success or lack of it. These 26 intervention summaries are based on information from 11 cooperating projects. The projects have been funded by six donors: DFID, SDC, USAID, DFAT, GIZ/BMZ, and the Government of Yemen in cooperation with the World Bank and other donors.

The eleven projects are located in a total of nine countries; four in Asia, one in the Middle East, one in Europe, and three in Sub-Saharan Africa. Of the projects, four are concluded while the remaining seven are still ongoing. Although they exhibit a considerable range of sizes, all are or were significant sizeable multi-year operations, with four years being a typical project life.

Not all of the eleven participating projects can be described as conventional MSD projects. Two were livelihoods projects making a transition to an MSD orientation in their final stages. One was a value chain development project working with a range of public and private partners but not singling out the private sector as the predominant change agent, and one involved direct financial partnerships with specific private enterprises to boost the operations of those enterprises.

However, all of the participating projects focus on pro-poor economic goals of which MSD practitioners would broadly approve; achieving sustainable market changes through profit-driven private sector partners, in order to engage men and women living in poverty more intensively as economic agents (producers or consumers) and significantly increase their material well-being.

The 26 Intervention Summaries cover 22 sectors:

- **Agricultural**: Horticulture, onions, rice, maize, ginger, coffee, contract farming (maize, cotton, rice), post-harvest, pigs, dairy, cattle, mango, honey;
- **Agriculture related**: Financial services for farmers, processed foods marketing, cashmere processing; and
- **Non-agricultural**: baskets, beauty parlours, software development, tourism, and pharmacies/retail.

Of the business innovations piloted by the projects in the research sample, those in 25 of 26 interventions involved facilitating the supply of goods or services to target beneficiaries as producers/sellers (or employees in producers/sellers). Only one (pharmacies) sought to benefit target beneficiaries as consumers.

All of the business innovations involved the distribution and/or aggregation of physical products (23 interventions) or deliverable services (3 interventions: financial services, software development, marketing services). Of these services, only software might be regarded as being delivered virtually, and one, marketing services, was tied specifically to boosting production and sale of a physical product (processed foods).
2.2 Design of survey template

In order to bring structure and consistency to the data gathering process, we designed a survey template – which we call an intervention summary (attached as Annex 1 to this report):

- Section 1 provides essential general background data on the project as a whole; and
- Section 2 focuses on selected interventions of each cooperating project.

Section 2 asked projects to provide responses covering:

- Partner selection and the pre-pilot analysis undertaken during the intervention selection and design process; and
- The direct and indirect results achieved, or reasonably expected to be achieved, by the intervention(s).

Interventions are considered at a sector level. Depending on the availability of data and on how the project conceives its intervention strategy (stand-alone or mutually-supporting initiatives), the intervention summaries cover either individual interventions within a sector or a number of interventions targeting the same sector.

Our questions about pre-pilot analysis were deliberately broad. Although we had our own views about the kind of analysis that we considered to be useful, we did not want to shut down alternative approaches or try to fit variations into a single framework.

We structured the questions about results in line with the Adopt, Adapt, Expand, Respond (AAER) framework of the M4P Operational Guide (2014). For the purposes of the research we focused on Adopt, Adapt and Expand, based on the premise that investment in expansion of the business innovation by the partner’s competitors would be strong evidence of an intervention achieving impact at scale.

In accordance with the AAER framework and the researchers’ own perceptions of what is needful, the results data to be provided covers quantitative outreach and benefits to direct and indirect beneficiaries, and almost entirely qualitative data on the operation of the relevant markets.

We also asked projects to provide information that would help us to trace how interventions were implemented in order to 1) establish credible mechanisms factually linking pre-intervention procedures with the results of interventions, and 2) take account of modifications and/or successive follow-on interventions, which might (and very frequently did) come between the pre-intervention procedures and the eventual results.

2.3 Data collection

We collected data from participating projects through a number of mechanisms:

- Face-to-face meetings during field visits to projects;
- Telephone/Skype calls and email communications with projects; and
- A review of published and unpublished project and intervention reports.

We originally intended to initiate the data collection process through intervention summaries, with the idea that we would clarify/add details through field visits or distance communication. In practice, we soon found that data gathering was more efficient and effective if we worked with each project to complete the intervention summaries during a field visit or through distance communication.
All of the data we have used was provided by the projects themselves, mostly extracted from their monitoring and results measurement (MRM) systems, frequently supplemented by extensive discussion and clarification from project management and senior staff.

We encouraged projects to provide data not only on interventions which the projects regarded as successful, but on less well-performing ones as well. In this way, the data and experiences were intended to cover both what worked well and what didn’t work well. We had imagined that projects would be reluctant to discuss failure, but in fact, most projects were willing to do so.

2.4 Data analysis

We analysed the data provided by projects covering pre-intervention procedures, the implementation of interventions and discernible results, on a clear and, as far as possible, consistent basis across all the participating projects. This was an exercise in qualitative research, rather than quantitative analysis and statistical correlations.

We typically had access to large volumes of written reports. However, detailed comparative scrutiny and assessment of interventions was problematic for two principal reasons:

- Individual intervention selection and design documents are generally complex and evolving; and
- The research sample comprised projects funded by a number of donors, each with their own processes and reporting requirements.

We should also note that whilst the quantitative data provided and entered in the intervention summaries was adequate to reach significant research findings, there were cases where it was not possible to complete the intervention summary to the level of detail that we would have liked. We found that some projects either had not gathered the data we requested, or they were unable to retrieve collected data from their MRM systems. The significance of these gaps is discussed in Sections 4 and 5 of the report.

For each intervention, the researchers therefore relied to a significant extent on the project management's narrative summary of pre-intervention procedures, and on anecdotal accounts of systemic market changes, copying by indirect beneficiaries and crowding-in of competitor enterprises.

2.5 Validation of data and analysis

Once completed to the extent possible, we shared draft intervention summaries including our own judgments with the participating projects for their comment, along with clarification and supplementary data requests.

This validation process frequently involved sustained and productive discussions with project staff, continuing the discussion started during the data collection phase. These discussions usually provided (a) new insights to the researchers as to the processes and dynamics of the interventions and projects (b) valuable additions to and clarifications around the data provided (c) increased understanding by the project staff of the scope, purpose and utility of the research, and occasionally a deeper appreciation of the strengths and weaknesses of their own project procedures and results.

2.6 Review and reporting

The final step in the process was to review the data and analysis captured in the intervention summaries in order to compare and contrast the reported experiences of the projects and interventions in the research sample.
Our report draws on the patterns that emerged, with key points being illustrated by representative or particularly noteworthy examples. In line with the agreement reached with participating projects, all of the individual examples have been made anonymous unless we had specific permission to refer to the project or intervention by name.

Our findings and recommendations are set out in the following sections. The recommendations also tie into the practitioners' tool kit that we have developed and which is published separately.

2.7 Limitations of the sample

We are aware of a number of limitations arising from the size and selection of our research sample, and that there will be MSD projects that do not necessarily recognise their own individual approach or experience reflected in our findings. We suggest that readers allow for the following limitations:

- **Selection bias**: The sample was chosen independently of (previously-reported elsewhere) successes and failures, because we wanted to have a good degree of randomness in our sample selection. However, the random selection was limited to some extent by the simple requirement that MSD programmes had to be willingly and knowingly part of this research project, as well as general limitations to data availability.

- **Representativeness**: We recognise that the findings set out in this report are not representative of all MSD projects, and therefore do not necessarily reflect the whole of the MSD experience. For example, there are several reported instances of success at scale that were not included in the sample, as well as failures (reported or unreported), due to resource and time limitations.

- **“Omitted variable” bias**: We also acknowledge that there may well be factors that impact on success rates that have not been reported by our sample.

Nevertheless, we believe that the sample of projects participating in the research has provided a range of experiences and results that have allowed us to draw valid conclusions and offer valuable recommendations that are more widely applicable.

2.8 Wider stakeholder engagement

The above series of activities was supplemented by more general consultations with practitioner and donor representatives of the MSD community, primarily through:

- A donor-focused face-to-face presentation (April 2016) in London soon after the commencement of data collection
- Participation in the BEAM Conference in Lusaka (May, 2016), which was devoted to a large-scale and wide-ranging consideration of pro-poor MSD;
- A practitioner-focused webinar conducted from London (July 2016), through which we presented interim research findings and thoughts about the proposed tool kit for feedback and comment;
- A workshop presentation (November 2016) in London, at which we talked through the research process and findings and outlined elements of the tool kit; and
- Significant interaction with the BEAM Exchange research-commissioning team, who provided valuable support, advice, and feedback to the research team.
### 3. Research findings

In the table below, we summarise the key research findings (1a and 2a) in relation to the original research questions. All of these findings are discussed at more length in the following section.

**Table 1: Research parameters**

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<th>Research questions</th>
<th>Research findings</th>
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| 1. To what extent do MSD projects make use of structured pre-pilot business/investment analysis as a basis for intervention strategies and decision making? | 1a. We found considerable variations in the quality of pre-pilot business/investment analysis across the research sample, and in half of the sample (13 out of 26) no scale-focused investment analysis had been undertaken.  
1b. We also found that a considerable proportion of project intervention strategies had objectives and targets limited to achieving Step 1 Adopt, rather than aiming for impact at scale at Step 2 Adapt and/or Expand. |
| 2. Is there a relationship between the existence/rigour of pre-pilot business/investment analysis conducted by MSD projects, and impact at scale success rates? | 2a. We found that interventions designed and implemented by projects that did undertake scale-focused pre-pilot analysis were much more likely to achieve impact at scale than those that did not. Of the 13 sector interventions based on pre-pilot analysis, 8 showed evidence of impact at scale, compared to only 2 from the remaining 13 that did not undertake pre-pilot analysis.  
2b. We found that two fundamental commercial/financial considerations were particularly associated with successful scaling up:  
  - Transaction capability: The business innovation could operate through existing business networks linking partners, competitors and target beneficiaries; and  
  - Profitability: The business innovation was profitable for all parties involved (partners, competitors, enablers and target beneficiaries).  
2c. We found that the choice of pilot partner according to strategic fit between the pilot and their existing business, and their financial and management capability were important to intervention success and achieving impact at scale.  
2d. We found that business innovations developed largely by the partner, or by the partner and the project together, were more likely to be successful than innovations developed by the project which then induced the partner to adopt. |
3.1 Research finding 1a: Variations in quality of pre-pilot analysis funding

<table>
<thead>
<tr>
<th>What we were looking for;</th>
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<tbody>
<tr>
<td><strong>Demand and supply analysis:</strong> Had the project looked beyond the pilot to the sector level to assess likely demand and potential supply levels for the new product or service arising from the proposed business innovation?</td>
</tr>
<tr>
<td><strong>Profitability analysis:</strong> Had the project looked beyond the pilot to assess the longer-term profitability of the business innovation to all of the private sector players involved (partners, enablers and target beneficiaries)?</td>
</tr>
<tr>
<td><strong>Investment opportunity analysis:</strong> Had the project looked beyond the pilot and considered the likely attractiveness of the investment opportunity and the opportunity costs of investing in the business innovation?</td>
</tr>
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</table>

We found significant variations in the rigour (quality, depth and scope) of pre-pilot business/investment analysis across the research sample, and in half of the sector intervention sample (13 out of 26), there was no scale-focused analysis.

Although in practically every case there was involvement of one or more private sector companies as direct partners in the pilot stage, we found that pre-investment analyses of business innovations tend to pay more attention to the benefits accruing to the target beneficiary group (typically increased income), than they do to the commercial interests and incentives of the type of partner that they wanted to attract (at either Step 1 or 2):

- Project analysis covered the potential economic benefits to beneficiaries, specifically, potential outreach and potential income increases per beneficiary from adopting the innovation;
- In some cases, the analysis also covered the technical feasibility of the innovation, looking at whether the beneficiaries and the pilot partner had, or with the project’s assistance could acquire, the technical capacity to make the innovation work;
- There is little evidence of projects’ analysing the profitability of pilot partnerships, which were almost always (and often significantly) subsidised;
- There is very limited evidence of projects looking at the availability of internal or external funds to finance the business innovation, or the strategic attractiveness of the business innovation from the private sector’s point of view, particularly at scale and for crowding-in (follower) non-partner competitors;
- The only evidence of pre-planning of supplementary steps to encourage crowding-in that we found was general publicity of the pilot’s success, if it materialised;
- Although there are some instances of effective supplementary steps by projects to assist Expansion, these have been designed and implemented based on the pilot experience and there is no evidence that projects specifically anticipated from the outset that variations of the business model might be needed to make it attractive for followers, or projected and planned for what the variations might be.
3.2 Research finding 1b: The ambition gap

One of the factors that appeared to inhibit achievement and reporting of success at scale was an implicit or explicit move away from a focus on achieving impact at scale. When we were unpicking the data from the research sample, we were looking for:

- **Impact at scale objectives**: Credible objectives for crowding-in by the partner’s competitors and copying by indirect target beneficiaries; and
- **Scaling up strategy**: A two stage differentiated intervention plan – pilot intervention followed by supplementary interventions designed to increase the pilot effect

We found a mixed picture when we looked at the level of ambition projects display in their approach to the challenge of achieving impact at scale.

While projects within the research sample are typically very aware of the MSD ambition to achieve sustainable, systemic change and impact at scale, none of the research sample projects had well-developed scaling-up strategies designed around Step 2 supplementary interventions, or ambitious indirect effects targets.
We found that in some cases the scaling-up strategy was to replicate the original pilot intervention. But the most common scaling-up strategy in practice was almost entirely passive: self-driven expansion by the partner enterprise and/or spontaneous profit-attracted entry by other, non-partner, enterprises and profit-attracted take up by indirect target beneficiaries. The success of this passive approach implies that the demonstration effect of the profitable business innovations facilitated at pilot was quite sufficient to attract spontaneous crowding-in.

It is reasonable to conclude that for a significant proportion of MSD projects there is evidence of an "ambition gap" between the stated aims of the MSD approach (sustainable, systemic change as a foundation for development impact at scale) and practice. This is reflected both in targets and results, and in strategies:

Table 2: Market systems practice and ambition

<table>
<thead>
<tr>
<th>Targets and results</th>
<th>Strategies</th>
</tr>
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<tbody>
<tr>
<td>Targets for indirect effects (where there were any) were generally modest and subject to downward revision.</td>
<td>We found some projects whose scaling-up strategy relied on expansion being sustainably and spontaneously self-driven by economic interests in response to the demonstrated business innovation, with – ideally – no further intervention by the project.</td>
</tr>
<tr>
<td>Data on indirect beneficiaries – their numbers, and still more the quantified benefits accruing to them – are often not available, and if available, do not generally inspire confidence.</td>
<td>We found other projects focused only on sustainability of the pilot intervention as a measure of success. In other words, their ambition was limited to the operations of the direct partners and the direct beneficiaries continuing self-driven at approximately the pilot scale, after the project intervention has ended.</td>
</tr>
<tr>
<td>Data on the numbers and scale of investment by crowding-in competitors are rarely specified, whether formally in reports or informally in comments by project staff.</td>
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In the terms of the AAER framework this limited strategic ambition encountered in some projects can be regarded as a "sustainable adopt" strategy/objective; there may be some further changes in companies or beneficiaries at the margin, but to these, such projects give little emphasis or attention. Project managers gave various explanations for this lack of emphasis on indirect effects and monitoring them – reasons attributed to donors, but which are sometimes assented to by the
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project’s management, sometimes not:

- **Risk aversion**: Indirect effects are more difficult to predict than direct targets, and hence they are set low to reduce the risk of not meeting them.
- **Donor direction**: Donors simply did not require them to systematically monitor, enumerate or report either intervention effects on indirect beneficiaries, or evidence of crowding-in competitor companies.
- **Data difficulties**: It is methodologically complex, costly and/or beyond the scope of the project or the capacity of the project team to collect data on indirect effects.
- **Timing and attribution**: Donors want attributable results that they can report with confidence during the lifetime of the project, whereas indirect effects tend to be observable late in the intervention or even after the end of the project life.

### Box 5: Getting to scale: lessons in reaching scale in private sector development programmes

In this context we note the findings of a recent report by [Adam Smith International](#), which sets out five strategies for getting to scale:

1. **Achieve scale through big [and capable] actors**: Described as “the simplest strategy”, typically (and with some notable successes) used by impact investors and challenge funds, but one that carries its own risks (e.g. creating barriers to entry for competitors).

2. **Work with first movers to create a demonstration effect**: A “commonly used” strategy that relies on spontaneous crowding in or “light touch” interventions to accelerate diffusion among competitors.

3. **Actively support second movers**: A strategy appropriate to situations where the demonstration effect is not strong enough, essentially replicating, and possibly intensifying, the pilot intervention.

4. **Create or strengthen supporting functions**: Supplementary interventions to support the development and delivery of public and private services.

5. **Strengthen or reform rules and regulations**: Supplementary interventions to create incentives or reduce barriers to scaling-up.

These are all to a varying degree valid strategies (or components of strategies):

- Strategies 1 and 2 relate to the choice of intervention partners within mainstream model Step 1;
- Strategy 3 is pilot replication, a direct expansion of the Step 1 intervention (presumably because the original pilot was not persuasive enough to competitors or there were no competitors willing and able to compete); and
- The last two strategies relate to Step 2.

Among our research sample, strategy 2 was indeed the most commonly used. We saw some examples of strategy 3, but very little evidence of projects using strategies 4 or 5.

However, these strategies all rely on the commercial fundamentals of the business innovation (profitability for all concerned and transaction capability) to succeed – bringing us back to the question of how to select the right intervention in the first place.
3.3 Research finding 2a: Business/investment analysis, and success rates

The research questions concerned the scope, quality and depth of pre-investment due diligence carried out by MSD projects and the relationship between such analysis and eventual results. With reference to the second research question, we looked at whether pre-investment analysis correlated with evidence that projects had gone on to achieve impact at scale:

- **Adapt**: Beyond the immediate intervention, the partner had invested in the business innovation independently of project support;
- **Expand**: As the intervention moved to scaling-up phase, the intervention partner’s competitors copied, developed and improved the business innovation; and
- **Uptake**: Direct beneficiaries within the pilot phase, and indirect beneficiaries in the scaling-up phase, had invested their own resources in uptake of the business innovation.

Of the 26 sector interventions in the research sample, only 10 describe interventions which can claim to have achieved or have a reasonable expectation of achieving impact at scale, with significant qualification (limitation of one sort or another) in four of these ten cases. Collating these results with the results discussed under finding 1a, there were notable differences in the success rates of those projects that had conducted pre-pilot investment/scale analysis and assessments and those that had not:

- Of the 10 interventions that achieved impact at scale, eight had conducted pre-pilot analysis and assessment and/or develop a scaling strategy.
- Of the 16 interventions that did not achieve impact at scale, 14 did not conduct pre-pilot analysis and assessment and/or develop a scaling strategy.

There were two interventions that achieved impact at scale without conducting structured scale-sensitive pre-pilot analysis.

**Figure 4: Pre-pilot analysis and success at scale**

In one case, it could be said that the expansion through crowding-in, whilst dramatic and widespread, was unforeseen and not based on a pre-conceived analysis of route to scale. The project can justly claim credit for introducing the business model (along with others in a related sector, which did not achieve impact at scale) but it was the profitability of the model itself, supported to some extent by supplementary interventions, that appears to have been the decisive factor.
Likewise, in the second case, the project used the same modality to support interventions in two related sectors (milk and beef cattle). The milk intervention did not work well because of the logistical, profit-killing obstacles to deliveries of a perishable product from small and relatively remote farmers. Meat, which was transported live to market, was much more successful, but this was because many very poor farmers proved capable of growing beef cattle and selling them to traders profitably, rather than a scaling-up strategy designed by the project for the sector. Nevertheless, the project deserves credit for efficiently implementing its intervention, and also for concentrating its attention on the beef cattle sector when it became evident that it was outperforming all others. This concentration might be regarded as this project’s opportunistic and adaptive route to scale.

This latter intervention is also an example of how a profitable M4P business model may sometimes be combined with and introduced by non-market interventions (in this case, grant asset-transfer) for very poor beneficiaries. The conditions for effective combination would appear to be:

- The beneficiaries have sufficient economic resilience (including a tolerable household debt-burden) to continue the pursuit of profit using the business model
- They have, perhaps acquired with the project’s assistance, sufficient and sustainable technical competence to operate the model, and
- Markets and trading networks exist to buy the output in quantity at prices significantly profitable to both sellers and buyers.

If these conditions hold, most poor beneficiaries will feel adequate incentives and opportunities to operate the model as an ongoing profitable enterprise and to buy at full cost replacements for the inputs - in this case, cattle - which, at the introduction of the model, they received as grants or partial-grants.

Meanwhile, five interventions failed to achieve pro-poor impact at scale despite conducting structured scale-sensitive pre-pilot analysis for a number of reasons:

- Such impact, if it eventually came, would require many years of investment by partners and other enterprises;
- The scale impact came from primarily serving wealthier consumers, rather than the intended poor target beneficiary group;
- The targeted companies did not generally find the MSD project’s offer sufficiently attractive;
- The business innovation was not sufficiently commercially attractive to generate competition beyond the original two direct partners; and
- The project made no distinction between piloting and scaling-up phases, and in implementation, it concentrated almost exclusively on assuring sustainable adopt by a range of direct partners – nevertheless, the project reports heavy investment in the sector.

It is noteworthy that in the majority of these interventions it would seem that an outcome of significant value (market changes and/or economic benefits for the poor) was achieved, or was likely to be achieved in the future. So although it cannot be said that their structured pre-pilot analyses were associated with full success at scale, they were nevertheless productive.

We compared our overall findings with a number of other factors that could also potentially explain variations in success rates:

- Of the 10 successful interventions, three were or are in non-agricultural sectors, the
remaining seven in agricultural sectors. The record of mixed success applies both to agricultural and non-agricultural sectors.

- In none of the continents or regions do all of the intervention summaries describe success, and in none do they all describe lack of success. The success rates by continent or region indeed seem broadly comparable.

- All but one of the business innovations involved the distribution and/or aggregation of physical products.

- For none of the eight projects that provided information for more than one intervention summary, did all of their intervention summaries describe interventions which can claim to have achieved or look like achieving success. Thus, the record of success is mixed within, as well as across, projects.

We found that once the intervention was underway, typically it did not take much time for those interventions that eventually proved successful to show signs of success. We found eight examples – from the 10 interventions judged to have had success at scale – where clear indications of success were observable within 1-2 years of the start of the intervention, and sometimes in the first few months. The delay in achieving impact at scale reported elsewhere appears to fall more in the Adopt phase, than in the Adapt or Expand phase, suggesting that evidence of success could be more readily available within the time frame of MSD projects than thought, if the initial partner selection and pilot implementation can be accelerated.

Of the remaining two cases, where success did not become apparent for a longer period, it may be observed that:

- In one case, the project did not monitor crowding-in systematically so that signs of success were less clear and less early than they might have been; and

- In the other, that this intervention was not wholly market-based – it rested on grant asset-transfers – and that it was exploratory innovation by a project not primarily based on M4P, both factors which may have somewhat slowed down market response.

We found little or no evidence that projects which had a structured approach to pre-pilot analysis, altered their post-pilot scaling-up strategies to implement supplementary steps which materially strengthened expansion and its impact. However, this lack of evidence may reflect the general focus on direct, rather than indirect, effects observed across nearly all the participating projects.

Giving interventions a fair chance is critical to reaching a reasonable conclusion on impact at scale. In 21 of the total of 26 intervention summaries, there was evidence that the business innovations had been given sufficient and appropriate support by the project as intended in the intervention plan, to allow an adequate chance to achieve success or fall short of it, based on the business innovation’s intrinsic commercial merit or lack of it.

It is noteworthy that 11 of the interventions that we identified as not achieving success at scale fell within this group of 21. The inference arising from this pattern is that in many cases, failure was a result of the wrong business models being implemented through project facilitation rather than lack of support or time for implementation, lending further strength to the conclusion that pre-pilot analysis and assessment is an important success factor.
3.4 Research finding 2b: Commercial considerations matter

It became apparent during the course of our research that a strong emphasis on commercial considerations for all of the market players involved or connected to the intervention marked out successful MSD interventions. Based on prior experience of commercial investment due diligence, we were looking for:

- **Transaction capability**: That the project had identified viable business networks linking the partner to large numbers of target beneficiaries that could be developed or exploited as part of a coherent scaling-up strategy; and
- **Profitability**: That due attention was paid to the profitability of the business innovation for the partner and enabler firms, as well as target beneficiaries.

Our research led to a series of insights into the features of MSD intervention design and management that appear to have an effect on eventual success rates. In short, we found that interventions work better when:

- There are existing business networks linking partners, competitors and target beneficiaries; and
- The business innovation is clearly profitable for partners, competitors and target beneficiaries.

These features may appear to be obvious in the extreme (e.g. of course a business innovation has to be profitable), but the fact that they emerged as issues in a significant proportion of the research sample suggests that MSD projects are either overlooking these issues or do not have the appropriate tools or skills to reach reasonable conclusions on these quite fundamental questions.

**Transaction capability**
The starting point for a scalable business innovation is that it should be possible to transact with large numbers of target beneficiaries. We found that the presence and strength of commercial trading networks linking the partner with the target beneficiaries to be a strong indicator of likely success:

- **In large sectors**, and where thriving and dense trade networks exist in adjacent locations, the chances of extending the networks to target group are reasonably good; but
- **Thin markets** are usually a sign that such networks do not exist or cannot be exploited profitably, as is frequently the case in large, poor and remote areas, and in small sectors.

### Implications for interventions in thin markets

This supplementary finding has implications for MSD interventions in thin markets – if the intervention is to be market-based, it follows that the proposed business innovation has to be able to operate on a sustainable, commercial basis. Reaching a “thin” market environment is likely to be much harder, and will most likely require considerably more resources, than intervening in more developed markets.

Where market networks exist and can be harnessed and adapted, or where they can be created, it is possible for MSD projects to implement such interventions. But where markets are thin due to a “market frontier” separating the partner enterprise and the target beneficiaries, market interventions will inevitably struggle.
The market frontier is determined by constraining structural or circumstantial factors, limiting scale potential and/or exacerbating the fragility of success even in locations and sectors where trade could otherwise flourish:

- **Structural factors**: There are physical constraints to networks such as poor transport or communications infrastructure, but there are also intangible constraints such as gender - women are excluded from markets simply because they are women.

- **Circumstantial factors**: Severe political disruption, conflict and extreme climate events could all render an otherwise viable business network inaccessible or unusable.

The question therefore to be asked is: does, or can, a trading network linking the partner and the target beneficiaries operate reasonably well, and can it be exploited profitably?

It is important to note that the same individuals within the target beneficiary group may be able to transact in one market, but be excluded or severely impeded by structural factors from being able to transact in another “thinner” market – clearly this has implications for intervention selection and design.

**Profitability**

We found that the single most important condition for success is that the pilot intervention introduces and demonstrates a business innovation which is profitable for all private parties involved (partners, enablers, competitors and beneficiaries). Such a model was operating in all 10 cases of success at scale.

The finding that profitability turns out to be crucial in a private sector focused intervention might appear to be obvious, but we found 12 interventions where it was judged that profits were low (or non-existent) for at least one of the types of parties involved in the business innovation, none of which led to impact at scale. Nine of these interventions coincided with failures, the remaining three with instances of sustainable adopt.

It is interesting to note that in all 12 instances the problem was low profitability for partners or competitors, rather than target beneficiaries. In the three low profitability cases of sustainable adopt, it appears that the profits were high enough to keep the pilot intervention partners and the direct target beneficiaries in the market, but too low to attract crowding-in competitor enterprises.

We also found some evidence that:

- In cases of sustainable adopt, although the partner’s profitability does not seem to have been sufficient to attract competitor interest in the business innovation, target beneficiaries did experience significant income increases; and
- Instances of success appeared to be characterised by more copying behaviour by indirect target beneficiaries than crowding-in behaviour by competitors.

One plausible explanation for these findings is that due to the way that MSD projects engage with partner(s), they typically pay more attention to the potential for beneficiary income increase than they do to profitability for the partner and its competitors. A more commercially minded, co-investment approach would require a more open engagement with intervention partners, allowing project managers to better understand the financial dynamics of the proposed investment from the partner’s point of view.
3.5 Research finding 2c: Choice of partner

What we were looking for:

- **Partner selection criteria:** That the project had defined and logical selection criteria related to the likely future success of the pilot; and
- **Strategic fit, financial and management capability:** That the proposed business innovation fits with the pilot partner’s existing business, and that the partner has the capability to access the investment and working capital, as well as the management and operational systems capability, required to scale-up the pilot.

We found that “willingness to co-operate” and “market presence” were common primary partner selection criteria, whereas the choice of partner according to their past experience and their financial and management strength appears to be a more reliable predictor of pilot intervention success and ultimately achieving impact at scale.

One project summed up their experience as, “This sectoral intervention programme illustrates the difficulties of achieving success at scale without large scale commercial partners with considerable technical and financial capacities.”

This finding implies that projects are working with sub-optimal partners for one of two internal reasons, either because:

- They are deliberately prioritising willingness to cooperate and market presence over capability to implement and scale-up a pilot – despite the latter being a more reliable basis for intervention investment decision-making; or
- They are unable to make the business/investment case to attract quality partners which are willing to cooperate.

Another example from the research sample points to a series of external factors that led to working with sub-optimal partners. One project, whose intervention was unsuccessful, reported that, “there was a checklist for assessing potential partners, according to a set of criteria. However, the checklist was not always applied due to several reasons: a perceived pressure to engage with new partners each year linked to outreach, time pressure linked to agricultural seasons, and a scarcity of potential partners in a “thin” market…”.

The finding also extends the established will/skill analysis described in the M4P Operational Guide by 1) highlighting the importance of a deep understanding of the skill dimension, and 2) pointing the way to which skills are required in order to implement a successful demonstration pilot. Based on our discussions with projects from the research sample, it is clear that the skill dimension is unlikely to be binary (high or low), and it is most definitely multi-dimensional, e.g. a partner may well have access to a well-developed distribution network (high skill), but be less able to manage an effective marketing campaign or have weak internal management systems (low skill).

When discussing this finding with stakeholders, we heard arguments that if the partner has the experience as well as the financial and management strength to implement the pilot (the “ideal partner”), then why should they receive project support – and conversely, shouldn’t project interventions be supporting businesses that are trying to grow rather than backing winners?
There are three responses:

1. Individual enterprise development is a means to the end, not the objective. The primary aim of the MSD intervention is to achieve impact at scale among target beneficiaries through sustainable, systemic market change – therefore it makes sense to work with and through business partners most able to convert project support into business innovation and impact.

2. MSD projects are not trying to buck markets, they are trying to harness natural market forces to encourage something that, driven by commercial opportunity and in the right hands, would eventually happen anyway by shaping and accelerating investment that will lead to pro-poor sustainable, systemic change to the way that markets work.

3. Despite this finding, the analysis does not suggest that pilot interventions should only be carried out with “ideal” partners, and in some circumstances, there may well be no ideal partner. Rather the finding has implications for intervention planning and target setting. Understanding the capabilities and constraints of the chosen partner helps to allocate resources efficiently and set realistic expectations of what can be achieved.

**Box 6: A take of two partners**

Two projects included in the research sample illustrate the importance of partner experience and capability:

- Two competing partner companies operating in the same sector and in the same location – one established for more than 40 years, with existing market presence, the other a relative newcomer that had received significant support from earlier projects and was beginning to get established; and

- Two partner companies operating in different sectors, but operating in the same location and relying on the same target beneficiary group as suppliers – one a well-established family business with experience of similar markets, the other a small-scale niche business with very strong owner commitment, but limited business track record.

In both of these projects, the established business has proven to be by far the more successful pilot intervention partner, despite significant and prolonged support from the respective projects to the less-established businesses. It is also worth noting in this context that the most widely quoted examples of MSD interventions elsewhere that have achieved impact at scale have all been implemented through partnerships with well-established businesses, already operating at scale.
3.6 Research finding 2d: Origin and ownership of the business innovation

What we were looking for:

- **Origin of the business innovation**: That the intervention was designed by both the project and the intervention partner, rather than being imposed by one or the other; and
- **Ownership of the business innovation**: That the project allowed the business innovation to evolve during implementation.

We found that many of the projects in our research sample expended considerable efforts and resources in developing solutions to the market constraints that they had identified. Yet, our analysis found that whether the origin resides with the partner and the partner has ownership of the intervention design had a significant association with the chances of success:

- **By origin**, we mean that the partner was responsible for, or played a significant role in, developing the essence of the business innovation, building on their existing business activities; and
- **By ownership**, we mean that the partner was given the free range to develop the business innovation in the context of their own commercial experience, both before and during implementation of the pilot intervention.

Business innovations designed by the project together with their intervention partner tended to be successful. In contrast, those that were designed wholly or mostly by the project which then tried to fit the partner enterprises (and even competitor crowding-in enterprises) within them were much less successful.

Business innovations in ten of the interventions (covering several sectors, and in several countries) were essentially designed by the partner private sector enterprises themselves. In seven of the ten, there was success at scale. In the remaining three, success could not be claimed, although the enterprises themselves remained viable. It is further worth noting that in four of the seven, successes were based on crowding-in other enterprises, not on expanding operations by large original ones.

Origin and ownership – the challenge fund debate

The 2016 BEAM Exchange conference included a debate on the merits or otherwise of the challenge fund mechanism as a means for selecting and implementing MSD projects.

One of the principal arguments in favour of the challenge fund was that it encourages innovative responses to a given problem, ensuring private sector ownership of the business innovation. On the other hand, it was argued that challenge funds favour companies with prior experience of engaging with donor programmes and can create private sector subsidy dependencies.

Our finding suggests that MSD projects would benefit if they could find a way to capture the origin and ownership strengths of the challenge fund mechanism, while avoiding the weaknesses. We have observed that the early and effective engagement with partners in designing (rather than simply implementing) solutions to market based constraints is important to eventual sustainability and impact at scale.
4. Recommendations

The recommendations that we set out in this section have been developed in the context of the research findings described in the preceding section and in response to the three objectives set out in the introduction:

1. To increase the success rate of MSD pilot interventions and of pilots leading to impact at scale;
2. To allow MSD projects to engage with more sophisticated, value adding businesses higher up value chains; and
3. To allow MSD projects to successfully leverage third party development, impact and commercial growth finance.

To achieve these objectives, MSD projects and interventions need to be selected, designed and implemented in such a way as to mobilise the resources of a diverse range of market players:

- A partner (or partners) that is/are willing and able to implement the pilot successfully;
- Large numbers of target beneficiaries which are able to transact within the market system and will benefit from uptake;
- The partner’s competitors which will crowd into the market; and
- The banks and investors that will provide the debt and equity finance for investment and working capital.

Engaging with private sector market players requires that MSD projects adopt a more commercially aware and oriented approach than we generally found across the research sample:

1. **Engaging with the private sector**: Identifying growth-driven opportunities during the selection and design of projects and interventions to mobilise the private sector to combat poverty through profitable trade with the poor at scale and driven by its own economic interest.

2. **Understanding commercial considerations**: Recognising that the key characteristic of any successful private sector investment is profitability for all market players involved, and that stimulating a competitive response requires a substantial sustainable market opportunity.

3. **Sharing ownership**: Supporting business innovation through meaningful partnership between the project and the private sector, wherever possible allowing the partner to lead.

4. **Setting systemic and indirect goals and targets**: Making central and explicit their objective of systemic market change at the sector level, bringing benefits beyond the pilot intervention, to be achieved through differentiated scaling-up strategies and supplementary interventions and measured throughout and beyond the lifetime of the project.

5. **Maintaining flexibility**: Retaining an adaptive approach to the design and implementation of interventions, identifying and responding to the private sector’s structure, capacities, requirements and alternative business opportunities.

6. **Accepting failure**: Adopting a portfolio approach, recognising that some interventions will fail and should be wound down with minimum loss, while others will succeed and should attract additional resources where further gains can be achieved.

Each of the following recommendations, which are designed to put one or more of these principles into operation, is intended to strengthen MSD practice, increasing the consistency of designing and implementing successful pilot and supplementary interventions.
4.1 Recommendation 1: Selecting market systems interventions

Our first recommendation is that the starting point for selecting MSD interventions should be:

- A project and sector level analysis to identify a co-investment space where there is congruence of 1) economic growth opportunity and poverty incidence, and 2) viable commercial innovation and developmental intervention; and
- An intervention level analysis to identify viable business innovation and investment opportunities.

**Project and sector level**

Current MSD strategic thinking and practice tends to emphasise developmental over commercial interests, typically focusing on particular groups of target beneficiaries that have the potential for economic improvement and then trying to promote commercial linkages between these groups and larger private sector players.

We readily acknowledge that there are valid, scalable needs-based MSD project and intervention opportunities which can be exploited by better implementation of the micro-level supply-push approach. However, we are suggesting that as a default position, MSD projects should be selected and designed primarily according to where private sector resources can be readily mobilised in response to economic growth and business innovation opportunities at a sector level.

Having understood the economic environment, it is then possible to 1) identify which and how target beneficiaries could benefit from such growth and innovation, and 2) design projects and ultimately interventions to influence investment in a way that will achieve developmental objectives.

It may be regarded as probable that such opportunities exist in sectors in which the engagement of poor people is already recognised by existing MSD practice, but it is also very likely that this change in focus of approach will lead MSD projects in unexpected directions, diversifying and expanding the useful scope of MSD application. In either case, it will ensure that project interventions are going with the flow, harnessing momentum and leading to larger and faster results.

**Figure 5: Axis of commercial and developmental considerations**

<table>
<thead>
<tr>
<th>Private sector commercial objective</th>
<th>Donor project development objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Build a competitive, profitable business that delivers an attractive return on investment</td>
<td>Implement MSD interventions that deliver economic impact at scale among target beneficiaries</td>
</tr>
</tbody>
</table>

Co-investment space
Intervention level
We recommend three levels of analysis that will successively limit the co-investment space from the private sector’s point of view at the intervention level:

- **Commercial viability**: The first assessment focuses on the profitability of the proposed business innovation – is it possible for the pilot intervention partner to transact with the target beneficiary group on a profitable basis;

- **Scalability**: Assuming that the pilot can be commercially viable, the next question is whether the business innovation is commercially scalable – are there market opportunities and economies of scale to encourage the pilot partner to invest and develop the business innovation beyond the pilot intervention; and

- **Financial viability**: For projects that pass the first two tests, the final question is whether the necessary investment and working capital finance is available on the right terms to make the project financially viable as a pilot and beyond.

Figure 6: Private sector and donor objectives

4.2 Recommendation 2: Selecting intervention partner(s)

The identification and choice of credible intervention partner(s) is critical to the success of the intervention, both at the pilot stage and beyond:

- **Pilot intervention**: The project should be confident that the partner has the management and financial capability (already in place or readily acquired with project support) to deliver on its co-investment commitments and see the business innovation pilot through to completion.

- **Scaling-up (Adapt)**: The partner should be able to invest further resources to develop and adapt the business innovation, manage the new, expanded business, and be able to respond to new competitive pressures beyond the pilot.

- **Scaling-up (Expand)**: Where the scaling-up strategy is contingent on crowding-in, the project should pre-identify the competitors among which the project seeks to stimulate a response, and be confident that they have the capacity to respond.
In this context, our second recommendation is that MSD projects should use structured and rigorous pre-pilot business/investment analysis to inform a more strategic approach to 1) selecting and supporting pilot intervention partner(s), and 2) mapping the competitive environment.

While it is clear from high-profile reported cases elsewhere that many of the MSD interventions that have achieved significant impact at scale have been undertaken in partnership with well-established partners already operating businesses at scale, the intention of our proposed approach is not to restrict selection to such “ideal” partners. Apart from anything else, there are circumstances where such partnerships are not even an option.

Rather the purpose of the recommended partner assessment is to allow the MSD project to enter into the partnership with a greater awareness of the strengths and weaknesses of the partner and the partner’s competitors; and consequently, what support and mitigation measures will be required to address weaknesses that could otherwise threaten the success of the intervention.

We suggest that there are three specific areas that MSD projects should evaluate prior to entering into a pilot intervention partnership:

- **Strategic fit**: The proposed business innovation is an extension of (rather than a departure from) the proposed partner’s existing business – either a new product, or a new location or a new business model. Undertaking a pilot that requires a partner to innovate in more than one of these areas simultaneously is much less likely to succeed (See Figure 7).

*Figure 7: Innovation strategies*
• **Financial capability:** The proposed partner has the willingness and ability to attract and manage external investment finance, and to access and manage working capital. While a pilot project may be financed from internal reserves, very few – if any – companies are able to finance scaling-up from their own resources, so inevitably at some stage partner firms will require external equity or debt finance to invest in scaling-up. We are not necessarily looking for a track record of raising external finance, but before embarking on the pilot, the project should assess the partner’s readiness to engage with external finance providers.

• **Management capability:** The proposed partner has the management structures and systems in place, or is ready to develop such structures and systems, to innovate and allow the business to operate at scale. While some partners may be large, publicly owned companies, typically they are owned and managed by the same person, or are family owned and controlled businesses. Such businesses often struggle to cope with the organisational/cultural impacts of business growth as it requires delegating key management functions and bringing in new, professional managers. There are many examples of businesses that operate very successfully at a small scale, but where the owner is unwilling or unable to make the management changes necessary to scale-up. Again, we are not necessarily looking for well-developed management structures and systems, but it is important that the project assesses the partner’s readiness to introduce the changes that will be required to operate at scale.

**Box 10: Is it easier to achieve scale with a big partner?**

One project’s successful intervention was in partnership with a large multinational manufacturer of (among other products) agricultural inputs.

The company had sales and service operations in the project’s country, but was not selling the input the project had identified as needed for its target-group in a particular intervention.

However, the company was known to operate a successful business model based on that input involving small farmers in other countries. So the project offered a partnership for the company to ‘transfer’ the input and the model to its target group, and the outcome has been a success at scale.

**4.3 Recommendation 3: Market-based engagement with target beneficiaries**

Pilot interventions will typically promote market-based solutions targeting a limited sub-set of target beneficiaries (the suppliers or consumers to the partner enterprise).

A passive approach to scaling-up assumes that a much larger group of target beneficiaries could equally benefit from the same innovation – either through expansion by the partner or through a response to the pilot demonstration by competitors. One explanation for the failure of many interventions to achieve impact at scale is that not all members of the target beneficiary group may be able to take advantage of the same market opportunity as the pilot group.

Our third recommendation is therefore that MSD projects should undertake more rigorous analysis to understand the accessible target beneficiary population, and the circumstantial and structural limitations to their participation in market systems, as a basis for designing effective scaling-up strategies.
To help projects understand the size of the accessible target beneficiary population, we have developed the concept of the “market frontier”.

The market frontier is the virtual boundary which marks the point beyond which intended target beneficiaries are unable to transact within a given market system. It is defined by the attributes of the target beneficiary population:

- **Capital**: Target beneficiaries need to own, or at least have access to, productive tangible assets (e.g. land, machinery);
- **Capacity**: Target beneficiaries need to have the skills and the knowledge to manage and extract value from those assets; and
- **Connections**: Target beneficiaries need to be able to physically transport (at a viable cost) their products to buyers.

**Figure 8: Market based opportunities**

Such analysis serves three principal purposes:

1. It provides a conceptual framework for scaling-up strategies, allowing MSD projects to design and adopt approaches that either push the market frontier outwards (e.g. engaging in markets that do not require sophisticated infrastructure such as cold chains) or bring target beneficiaries within the market frontier (e.g. through supplementary interventions focusing on skills development);

2. It highlights the fact that the target beneficiary population is not homogeneous – there will be different sub-groups (e.g. defined by geography and infrastructure) within the overall population; and

3. It allows MSD projects to work on market systems likely to have the largest impact by being able to reach a larger target beneficiary population.

4.4 Recommendation 4: Understanding scale potential

Our findings indicate that projects do not lack ambition in their stated objectives, it is rather in the practice of implementation of specific interventions that the focus is narrowed to direct
effects. Part of the explanation for this “ambition gap” may well be that projects lack the means to develop effective, differentiated Step 2 scaling-up strategies.

In response to this problem, our fourth recommendation is that projects adopt a systematic way of understanding the commercial/market engagement potential of indirect beneficiaries, partners and competitors/enablers, so that Step 2 strategies and pathways to scale can be developed accordingly. We recommend that the scale potential analysis should examine the three principal variables that determine impact at scale:

- The strength of the competitive potential among firms which could invest to develop and expand the pilot intervention, measured by market presence and the opportunity for sustainable profits;
- The strength of the uptake potential by indirect target beneficiaries that could copy the innovation, measured by the ease of adoption and the value of the benefit; and
- The size of the accessible target beneficiary population that could benefit from the business innovation.

Our conceptual model for this analysis is captured in a simple matrix (see Figure 9), with uptake potential (measured by the attractiveness of the business innovation to indirect target beneficiaries) on the Y axis and competitive potential (measured by the attractiveness of the business innovation to the pilot partner’s competitors) on the X axis. We then map the size of the accessible target beneficiary population against our assessment of these two variables.

We are not suggesting that there is necessarily a trade-off between commercial incentives and development impact, rather that MSD project pre-investment due diligence should include an explicit sector-level assessment to understand where commercial and developmental interests coincide: commercial attractiveness to the partner, its competitors and target beneficiaries, and large numbers of target beneficiaries within the reach of the business innovation.

In the example diagram below, we have plotted four potential interventions:

*Figure 9: Developing pathways to scale*
• **Intervention A**: Attractive to target beneficiaries, but despite a relatively large target market, there are few competitors in the market and the returns are unlikely to attract new entrants (this is the situation that frequently characterises the sustainable adopt strategy);

• **Intervention B**: Attractive to competitors, but less so to a relatively small number of accessible target beneficiaries – could be viable, but less justifiable from a development impact point of view;

**Intervention C**: Very attractive to a large number of accessible target beneficiaries and market well placed to provide competitive response, offering significant impact at scale potential – essentially the “ideal” intervention; and

• **Intervention D**: Not at all attractive to target beneficiaries, which are few in number, and not particularly attractive to competitors.

Based on this analysis, it becomes possible to prioritise potential interventions according to their likely impact at scale (prioritise intervention C; drop intervention D), to develop pathways to scale that clearly demonstrate the potential for scale and to explain how the project will build on a successful pilot (intervention A or B) through supplementary interventions – designed around the factors that led to the conclusions on competitive/uptake potential.

### 4.5 Recommendation 5: Sophisticated interventions and third party finance

Our fifth recommendation returns to the emerging objectives mentioned in the introduction:

• To broaden engagement to more sophisticated projects that involve higher-value adding processing or manufacturing; and

• To leverage the third party development, impact and commercial finance for investment and working capital required to allow such projects to achieve impact at scale.

The pre-investment analysis described in our earlier recommendations provides the basis for MSD projects to maximise their value addition through the selection and development of 1) projects according to economic growth and business innovation opportunities, and 2) impactful and “bankable” projects.

But in order to mobilise private sector investment in innovation, particularly for larger and more sophisticated investment projects, MSD projects require an understanding of how the finance function operates within the market system. Our view is that finance forms an integral, but defined, function within market systems:

• It is integral because MSD projects are concerned with finance to the extent that it allows or constrains investment and transactions within the market system, rather than being concerned with the finance market in a broader sense; and

• It is distinct from other supporting functions as it 1) performs multiple roles in providing the means for investment and transactions, and 2) it is typically highly regulated and is performed by specialist firms and institutions.

We therefore recommend that market analysis should include a detailed look at the finance function within the market system in order to inform the selection, design and implementation of projects and interventions:

Such analysis would allow projects to understand the sources, availability and cost of the investment and working capital finance required if the intervention is to achieve impact at scale.
Such an assessment would look at questions such as:

- Are there finance providers willing to invest or lend to support the level of investment required of the partner, and the partner’s competitors?
- Are the costs of the investment finance justified by the returns on investment?
- How will the business innovation impact working capital requirements for the partner (and competitors) and how can working capital be managed most effectively?
- What is the upfront uptake cost to target beneficiaries, and how can this cost be financed?
- What are the working capital implications (amounts, timing, payment risks etc.) of uptake for the target beneficiaries?

### 4.6 Recommendation 6: Portfolio management and adaptive programming

Our final recommendation concerns the way in which MSD projects view the results of their interventions. We believe that MSD practice would be strengthened if donors and projects were to consistently manage interventions:

- As a portfolio of sector interventions – balancing the allocation of resources, the risk profile and the expected developmental returns, and subsequently measuring direct and indirect results across sectors, rather than looking at the direct effects of individual interventions; and
- In an adaptive manner – using the initial analysis as a basis for experimenting with and learning from alternative approaches, particularly in the Step 2 supplementary interventions stage

**Portfolio management**

Driven by the systemic change objective, MSD projects should find that adopting the mindset of a co-investor with the private sector goes hand-in-hand with a portfolio approach to intervention management.
Some sector interventions require more resources than others, some carry a higher risk than others, some will yield higher returns than others, and ultimately some will succeed and others will fail. The characteristics of the intervention portfolio will vary from project to project, our recommendation is that MSD projects should seek to achieve a balance of resource, risk and exposure taking into account their own environment and available resources (for guidance see ‘A portfolio approach to VCD programmes’, USAID).

Understanding the inherent riskiness of any intervention, including ex-ante uncertainties about the intensity and extent of beneficial results even from those which succeed – implies that good pre-investment analysis, whilst it may (and we think, based on our research results, will) increase the chances of successful interventions, is not enough to maximise the chances and extent of project success.

Pre-investment analysis and its resultant intervention design, must be followed up by active post-investment monitoring of results and corrective or further supportive reactions to those results.

The portfolio management principle, applied both within each intervention sector and across all such sectors in which a project is active, offers the best comprehensive risk-return framework for managing this post-investment process.

A portfolio approach also has pre-investment application, notably in intervention selection. It should provide a means to build a balanced portfolio of sector interventions, each of which will have been informed by rational scale-sensitive pre-investment analysis, and mitigates the risk associated with over-reliance on a single intervention.

This approach has long been in use in the management of commercial investments. It now needs now to be applied on a much more widespread and systematic basis to the investments (interventions) of MSD projects.

**Adaptive programming**

In theory, the MSD approach is inherently an adaptive approach, but in practice we found that the focus on achieving a closely defined development objective led projects to propose pre-determined solutions and subsequently to a rather narrow focus on the direct effects of interventions.

Our recommendations for adaptive programming are that market systems projects should retain the flexibility to:

- Allow partner enterprises to develop business innovations according to their own capabilities, while providing exposure to new ideas and facilitative support to shape those ideas according to the project’s developmental objectives; and

- Use an iterative approach to scaling-up strategies, experimenting with solutions to the structural and circumstantial constraints to impact at scale.

For a detailed discussion of adaptive management in market systems development, please see the BEAM Exchange report, ‘The road to adaptive management: knowledge, leadership, culture and rules’. 
5. Conclusion

Based on a review of 26 interventions taken from a sample of 11 MSD programmes across the world and funded by different donors, we found considerable variations in the quality of pre-pilot business/investment analysis across the research sample, and in half of the sample (13 out of 26) no analysis had been undertaken.

Regarding the relationship between the existence/rigour of pre-pilot business/investment analysis conducted by MSD projects, and impact at scale success rates, we came to the conclusion that interventions designed and implemented by projects that did undertake scale-focused pre-pilot analysis were much more likely to achieve impact at scale than those that did not.

Our principal research findings therefore support our hypothesis that the more rigorous the pre-pilot business/investment analysis, the higher the chances of a pilot intervention successfully leading to impact at scale. Yet, MSD projects currently appear more inclined and better equipped to analyse and assess potential developmental impact of a pilot intervention than commercial scalability.

Our supplementary research findings extend our understanding of why intervention scaling up success rates are lower than hoped by looking at the way that interventions are designed and implemented. The key findings coming out of our research were:

- There is an “ambition gap” in the strategic objectives of a number of interventions, suggesting that some projects are not actually targeting impact at scale.
- There are two key, but often neglected, commercial/financial determinants of pilot intervention and subsequent scaling up success – transaction capability and profitability.
- The pilot partner’s managerial and financial capabilities played an important role in the success or otherwise of the pilot and the amount of effort that the MSD project had to input in order to support the pilot intervention.
- The way in which the business innovation originated, was designed and developed were all important to success.

Based on the premise that impact at scale is a function of private sector investment in business innovation (by partners and their competitors, enablers, direct and indirect target beneficiaries), these findings provide new and compelling evidence of the need to pay more attention to the commercial aspects of business innovation, and the value of more rigorous commercial analysis and strategic thinking, before investing in pilot interventions.

In accordance with these findings, and drawing on concepts and methods of commercial investment analysis, we develop recommendations in this report on how the selection of sector interventions, intervention partners and target beneficiaries can be improved in MSD practice. We introduce a conceptual model that will help MSD programmes better understand pathways to scale and explain how the project will build on a successful pilot through supplementary interventions. Third party finance plays a vital role in this process, hence we also explain how MSD practitioners can pay more attention to third party development, impact and commercial finance for investment in the design and implementation of their programmes.

Further and more detailed guidance on these aspects will be provided in a separate tool kit for MSD practitioners and donor agencies, published in conjunction with this research report. Taken together, we hope that our research findings, recommendations and tools will lead to an increased success rate of MSD pilot interventions and of pilots leading to impact at scale; allow MSD projects to engage with more sophisticated, value adding businesses higher up value chains; and allow MSD projects to successfully leverage third party development, impact and commercial growth finance.
6. ANNEX 1: Intervention summary template

1. Programme summary

1.1 Overview

| Name of programme |  |
| Country |  |
| Donor agency(ies) |  |
| Total programme budget |  |
| Programme expenditure to date |  |
| Programme start date |  |
| Programme completion date |  |
| Geographical focus |  |
| New or transition programme |  |

1.2 Programme objectives

1.3 Programme target beneficiary groups

| Target beneficiary group profile |  |
| Target beneficiary group poverty profile |  |
| Overall programme/target group assessment |  |
| Programme focus |  |

1.4 Programme focus

Economic improvement (including food security) only; or with additional built-in development objectives: environmental/social/improved governance, etc.

| Planned | Actual to date |
|------------------------------------------------------|
| Number of direct target beneficiaries |  |
| Number of indirect target beneficiaries |  |
| Quantification of benefit |  |

1.5 Programme planning

**Evidence base for programme MSD viability:** What evidence was there that private-for-profit change-agents would be significantly interested in and capable of developing new market opportunities at scale with the target group in this location and broad sector?

| Evidence base |  |
Design/donor environment constraints to MSD viability: Were there any constraints placed on the design and/or implementation of the programme by the donor or by other donor funded programmes (e.g. sectoral or other scope of the project limited by the remits of parallel initiatives)?

Assessment of constraint

Country/ policy environmental constraints to MSD viability: Were there any other highly challenging constraints on MSD viability, e.g. war or extreme instability, very poor local infrastructure/resource endowment, ‘disabling’ government policy environments?

Assessment of constraint

Budget allocation planning: How and at what stage was the project budget envelope determined?

Methodology planning: At what stage was the range of permissible facilitation instruments (grants, matched grants, classes of partners to be worked with) determined?

1.6 Sector planning

Choice of sectors: Who was responsible for the choice of sector/sub-sector (donor in pre-contract design, implementer in design phase, or implementer in implementation phase)?

Process and criteria for sector selection: How was the sector/sub-sector selected (process and criteria)?

Assessment

2. Sectoral1 intervention summaries

2.1 Overview

Sector/intervention field

Sectoral intervention objective
Main intervention components
Key intervention/component partner(s)
Intervention start date
Intervention completion date (actual or planned)

1 For challenge funds, substitute invested company for sector, if appropriate
<table>
<thead>
<tr>
<th>Plan</th>
<th>Actual completion/to date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of direct target beneficiaries</td>
<td></td>
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<tr>
<td>Number of direct target beneficiaries</td>
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<tr>
<td>Number of indirect target beneficiaries</td>
<td></td>
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<tr>
<td>Quantification of benefit</td>
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</table>

2.2 Pre-intervention planning

1. **Intervention design:** What was the nature of the pilot intervention (public/private, target beneficiary group definition etc.)?

2. **Process and criteria for partner selection:** How were the intervention partners identified and selected, what level of commitment(s) was required before partnership agreed?

3. **Scale potential:** Was the scalability of the intervention assessed beforehand, and if so, how rigorous was the evaluation? Was a scaling up strategy prepared by programme and/or partner?

Assessment

2.3 Adopt: Pilot narrative

1. **Pilot implementation:** What happened during the pilot project; did it, including the partners’ activities, go according to plan? If not (positive or negative variance), why not (internal and external reasons)?

2. **Target beneficiary reaction:** How did direct beneficiaries react, did they realise the intended benefit? If not (positive or negative variance), why not (internal and external reasons)?

3. **Preparing for scale:** Was there early indication of commercial viability as basis for scaling-up? Was the scalability of the intervention reassessed based on pilot experience, and if so, how rigorous was the evaluation? Was a scaling up strategy revisited (and amended as necessary) by programme and/or partner?

Assessment

2.4 Adapt: Intervention partner pilot beyond programme support narrative

1. What happened after programme support to intervention came to an end?

2. Did the intervention partner invest own resources to refine the intervention? If not, why not (internal and external reasons)?
3. Was there a need for planned/unplanned complementary interventions?

4. Did target beneficiaries continue to experience benefit after intervention completed?

2.5 Expand: Intervention partner expansion and competitive response narrative

1. Did the intervention partner invest more of own resources to scale up original intervention (or a variation on the original intervention)? If not, why not (internal and external reasons)?

2. Did the intervention partner’s competitors respond to the intervention (if so, how and over what period)? If not, why not (internal and external reasons)?

2.6 Assessment of the success or otherwise at scale of the sectoral intervention

1. Has the intervention achieved success at scale (sustainable and significant systemic changes in relevant market processes and structure, widespread and significant benefits to the target group poor beyond the direct beneficiaries), or at least exhibits very strong likelihood that it does so. What were the key reasons for the success at scale, if present? (e.g. significant income increases perceived credible by beneficiaries direct and indirect, low/affordable investment and/or incremental skill requirements for replication by beneficiaries and/or commercial partner’s competitors, favourable reactions in government policy, etc..) How marked is scope of the success? If success at scale is not present, what is the outcome status of the intervention, e.g. no sustainable benefits assured, sustainable adoption by the direct partners and beneficiaries, etc.? And what are the reasons for this outcome, and by implication for the absence of success at scale?

2.7 Quality of evidence for reported results from intervention

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<tr>
<th></th>
<th>High</th>
<th>Medium</th>
<th>Low</th>
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<tbody>
<tr>
<td>Intervention partner investment</td>
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<tr>
<td>(adopt, adapt, expand phases)</td>
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<tr>
<td>Competitor investment (expand phase)</td>
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<tr>
<td>Direct beneficiaries (adopt, adapt,</td>
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<td>expand phases)</td>
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<td>Indirect beneficiaries (adapt, expand</td>
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<td>phases)</td>
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<td>Quantification of benefit</td>
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