

Good Practice Note

Market System Diagnosis



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November 2021

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MARKET SYSTEM DIAGNOSIS: GOOD PRACTICES

Market system diagnosis is not a fixed, linear process. It is a way of thinking through information needs – what do we really need to know? – and organising and interpreting information – what is information telling us? – to guide programme strategy and action in a practical way. It is a ‘searching’ process, not a ‘planning’ step.

‘Historically poverty has never been ended by central planners. It is only ended by ‘searchers’, both economic and political, who explore solutions by trial and error, have a way to get feedback on the ones that work, and then expand the ones that work...’ -- William Easterly

Development agencies have expended a vast amount of time and resources developing an array of tools and methodologies to understand poor people, their socio-economic contexts, specific sectors and so on. Market systems development does not seek to substitute for these. It provides a framework and guidance on how to best utilise them to generate knowledge that can be used to shape interventions that can help make markets work better for the poor.

The following is some practical guidance gained from experience of trying to do this :

- **Recognise market research is on-going:** Diagnosis is an integral, on-going part of the market systems development approach. Up-to-date information is required throughout the life of a programme in order to guide action, generate intelligence to influence other players and provide the basis for monitoring and evaluation. It’s not something that is only done at the start of a programme.
- **Avoid paralysis by analysis:** A programme’s understanding of market systems needs to be sufficiently strong to inform action, but it will never be perfect. The goal is to identify a key leverage point – where a facilitator can exert sufficient influence to achieve a ‘critical mass’, which results in large-scale, sustainable impact. Market diagnosis is about narrowing down options, framing questions and concepts that can be tested through pilot activities – it’s not about finding a single correct answer or eliminating all risks.
- **Develop a theory of change and related assessment questions:** Don’t research in a vacuum! With limited budgets and time, it is important to develop clear questions which explore a theory of change. This focuses information gathering on a key aspect of market system performance and provides a focus on how a programme can facilitate change. It is important for managers to remain open to changes in hypotheses and adjust assessment questions accordingly.
- **Conduct market diagnosis incrementally with fast feedback loops:** Initial information gathering often leads to changes in direction and new or refined assessment questions. The most useful market analyses tend to be incremental, either with discrete small studies that use information already gained to generate appropriate questions for subsequent studies, or a rolling analysis that feeds new questions and ideas into on-going diagnosis. Keeping market diagnosis responsive to a project’s needs ensures a focus on gathering only that information which is relevant. Plan for flexibility and adaptation – things change.
- **Be creative in determining how best to gather information:** Creativity and innovation in choosing, adapting and applying diagnostic tools can enhance the value of resulting information. Curiosity and constant probing – asking ‘why?’ and ‘how?’ – help reveal the underlying causes of problems, but also uncover players and relationships worth building or lead to potential solutions that others have missed. Facilitators need to ‘get out there’ to understand incentives, capacity, informality and ‘hidden’ features. This requires flexibility, but also a team culture and capacity which encourages exploration and critical thinking (see below) – even in market systems that we feel we already know well. Challenge yourself!

- **Triangulate data sources:** Don't rely on a single tool or source. Programmes generally operate in information- and capacity-constrained environments, so information can often be unreliable – it needs to be cross-checked. There is also a danger that staff use market analysis to confirm preconceived notions rather than exploring market systems with an open mind. Utilise a variety of qualitative and quantitative data (including primary and secondary sources), stakeholder information and action research. Qualitative information is essential: it provides a richer understanding of the market context and relationships among market players and helps understand the reasons for market players' behaviours – incentives – and thus helps determine if and how these behaviours might be changed.
- **Focused pilot interventions are part of the diagnostic process:** It is not possible to anticipate all information needs before intervening. Some aspects of markets can only be understood by acting in the market. A pilot intervention shouldn't be considered simply as a small trial step before going to scale. A pilot should have a tightly-defined hypothesis which is to be practically tested. It is important to think carefully about what the programme wants to learn from a pilot – what information gaps it wants to fill. Rigorous information gathering and measurement during a pilot can then help a manager develop or refine intervention plans – rather than making mistakes on a large scale.
- **Be involved in the market diagnosis:** Information is intelligence, insight and influence – it is central to what a facilitator does. Data is only part of what is valuable about market diagnosis. Just as important are the intangible benefits that come from being actively involved in the process of understanding markets: hands-on learning, developing a feel for how markets work, meeting and establishing credibility (as an informed, but non-partisan facilitator) with market players.

Practical diagnosis is a core competence for market development practitioners. This means investing in building diagnostic skills and practices, and developing a culture that values exploration and critical thinking. You can't do this whilst sat at a desk. A common mistake is to outsource market diagnosis to external specialists. While they may bring expertise, as specialists they can often be 'a solution looking for a problem'. Programme staff need to shape the diagnostic process, remain engaged at all times and own the information that is generated. In practice, blending outsourcing and in-house resources is best.

- **Involve market players – but judiciously:** Market diagnosis is not a neutral exercise. Questioning market players about their activities, plans, constraints and opportunities can change their perceptions. It is often the case that a diagnostic exercise is the first opportunity to influence market players, so explicitly involving them can raise their awareness of opportunities and help them see the potential of specific markets for themselves. It can help gain buy-in to programme objectives and pave the way for market players' involvement in interventions. Programme staff can get to know market players and assess their strengths and weaknesses more thoroughly. However, getting it wrong – involving the wrong players or too many types of players or engaging with players at the wrong time – can damage rather than build credibility and send distorted signals. It is vital to prepare carefully, act tactically and behave smartly when engaging with market players.

Market diagnosis utilises a variety of tools for diagnosis including (but not limited to):

