Good Practice Note

Sector Selection & Portfolio Development

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In their quest to achieve sizeable and sustainable change in how a market fundamentally serves poor people, the activities in which market systems development programmes engage are riskier than those of programmes that deliver benefits directly. Some interventions will succeed, some will fail.

Informed by experience of what works best, market systems development programmes are increasingly adopting a portfolio-based approach to market system intervention, to offset less successful interventions. Such an approach also allows programmes to be less sentimental about dropping underperforming interventions and deepening efforts in the more promising ones.

Portfolio development process

The portfolio development process has three main steps, each of which refine programme focus, ultimately shaping the opening portfolio.

- Sector long list development
- Establishing selection criteria to short list sectors
- Market system diagnosis to set the opening portfolio

1. Developing a long list

The first step involves compiling a long list of market sectors to investigate in greater detail. Programme design documents and the technical proposals of contracted parties may have already specified a long list of sectors for programmes to explore further in their design phase. If this is the case, the sector long list is a given, although programmes should verify that the sectors identified remain relevant, given the lengthy gap (anywhere from 6 to 24 months) that often elapses between initial programme scoping, design and tender, and inception.

In other cases, long list development is informed by some pre-defined basic criteria, which guide desktop research and consultation with key programme informants (eg many host governments have national development policies and strategies or diagnostic studies outlining national priorities, which provide useful reference materials). In formulating the long list of market systems, programme teams should begin by reviewing existing sources of information on priority and emerging sectors, delineating the following:

- **Target group:** female/male, producers/employees/consumers, poor/ultra poor?
- **Geographic boundaries:** city, district, province or nationwide?
- **Sector focus:** agriculture, industry or service sector?
- **Product focus:** specific commodity, product or service?

Building on the existing information reviews, it is necessary to consult the key informants. Programmes typically use a workshop format to do this, following the preparation and advance distribution of a 'briefing pack' containing a succinct overview of each of the sectors the programme has long listed. Informants invited to the workshop are requested to prepare comments on the briefing pack and suggestions for any sectors unaddressed. Programme management typically lead stakeholders in a discussion concerning the potential of the sector, comprising the three short listing criteria:

- Potential for intervention to reduce poverty at a large scale
- Potential for intervention to allow the poor to take advantage of growth opportunities or improve access to basic services
- Feasibility of stimulating lasting change in how a market serves the poor

2. Getting to a short list

The second step entails the application of a set of criteria to assess the long-listed sectors relative to each other in order to produce a short list for more detailed analysis. The purpose is to ascertain which sectors has the most potential to reduce poverty through intervention, taking into account the likelihood of improved growth or access and the feasibility of successful intervening.

This process is largely reliant upon the availability of good quality secondary information as programme teams will have limited scope or resources to thoroughly examine the long-listed sectors. Programme teams must use the basic quantitative information available and then make qualitative judgements to make decisions, using some form of scoring matrix to compare – often very different – sectors transparently and on a common basis (see example)

Sector potential	Detailed criteria
Poverty reduction potential	– Number of poor households employed/engaged in the sector – Severity of poverty ($/day) facing those employed/engaged in the sector – Conduciveness to the increased participation of women/minorities/youth – Ability for reduced income poverty to impact on non-income poverty
Growth and access potential	– Importance to national and regional GDP – Previous growth trajectory of the good and/or access trajectory of service – Forecast for growth/improved access in the next 5-10 years (consider: demand, revealed preferences, expansion of market) – (Present) ability for the poorest to access growth opportunities and improvements (i.e. with respect to mobility and barriers to entry/access) – Potential to improve key performance indicators (i.e. 'what is possible')
Potential to facilitate systemic change	– Level of competitiveness (or collaboration) in the sector? – Is the sector attracting interest from potential investors (private/public)? – Availability of partners/champions with leverage (ability to hit scale) – (Potential) "thickness" of the market (ability to crowd in players) – Political economy and willingness for change (vested interests and risk vs. ambition) – Level of consistency/conflict with public/national priorities – Extent to which donors are already present in the sector, the level of distortion, and the likelihood of applying market development principles – Whether programme resources (capacities and funds) are sufficient to make a serious impact
Further considerations	– Potential to positively impact upon environmental and resource management – Ability to achieve 'quick wins' – Ability to easily measure/attribute programme impact

Programmes may decide to allocate weightings to specific criterion, should it be deemed more important than other criteria in portfolio development. Programme teams should not wholly rely on the pseudo-science of subjective scoring (with little in-depth insight) – they should exercise judgement on what makes sense. An example of a relative scoring matrix (with weighting) is also presented below. Teams may wish to allocate percentage weightings instead.

Potential	Criteria	Weighting (1 to 2)	Range	Sub-Sector			
				SUGAR	MAIZE	MANGO	POTATO
Pro-poor	Number of poor households employed/engaged in the sector	2	8, 6, 4, 2	8	6	4	2
	Severity of poverty facing those employed/engaged in the sector	1	4, 3, 2, 1	3	4	1	2
	Conduciveness to the increased participation of women, etc.	1	4, 3, 2, 1	2	1	3	4
	Ability for reduced income poverty to impact on non-income poverty	1	4, 3, 2, 1	3	1	4	2
Pro-growth	Previous growth/access trajectory	2	8, 6, 4, 2	6	8	4	2
	Forecast for growth/improved access in next 5-10 years	2	8, 6, 4, 2	2	8	4	6
	Ability of poorest to access growth opportunities/improved services	2	8, 6, 4, 2	2	8	6	4
	Importance to national and regional GDP	1	4, 3, 2, 1	2	3	4	1
	Potential to improve upon key performance indicators	1	4, 3, 2, 1	2	1	3	4
	Level of competitiveness	1	4, 3, 2, 1	1	2	4	3
	Current level of investment and attractiveness to potential investors	1	4, 3, 2, 1	3	1	4	2
Feasible	Political economy, risk, and willingness to change	2	8, 6, 4, 2	2	6	8	4
	Availability of partners/champions with leverage	2	8, 6, 4, 2	4	8	2	6
	Level of consistency/conflict with national priorities	2	8, 6, 4, 2	6	4	8	2
	Thickness of the market	1	4, 3, 2, 1	2	1	4	3
	Level of donor distortion present in the sector/wider environment	1	4, 3, 2, 1	1	4	3	2
	Sufficiency of programme resources to instigate change	1	4, 3, 2, 1	1	2	4	3
Other	Potential to impact positively on environmental issues	1	4, 3, 2, 1	4	3	1	2
	Ability of programme to achieve "quick wins"	1	4, 3, 2, 1	2	3	4	1
	Ability to easily measure/attribute programme impact	1	4, 3, 2, 1	3	2	4	1
	TOTAL SCORE		Max = 108	59	76	79	56
	Score Relative to Highest Scoring Sector (index = 100)			75	96	100	71

Instructions:

1. Rank each sector's potential relative to the other sectors using the criteria; 1 = lowest, 2 = second lowest, 3 = second highest, 4 = highest
2. If the criteria is weighted (by a factor of 2), return to that line and multiply your ranking score (1 to 4) by the number in the weighting column
3. Add all of the criteria line scores for each sector together and enter the number in the corresponding box on the "total score" row
4. Index the highest scoring sector at 100. Express the other sector scores as a percentage of the highest-scoring sector

Tips for portfolio development

- **Exercising judgement:** During the steps involved in sector selection programmes have to make subjective decisions based on an incomplete understanding of a sector and largely secondary information. This is not ideal but programmes do not have the time or resources to be any more thorough prior to the short-listing stage. With this in mind, it is important to exercise judgement. Scoring matrices are helpful but shouldn't be followed blindly.

- **'It's complicated' v 'low-hanging fruit':** It is crucial to avoid falling into the trap of simply picking 'low-hanging fruit'. Selection criteria must be sufficiently rigorous to sieve out the implausible, but not so stringent that they preclude working in anything other than already well-functioning markets! The key – practical – points are to build upon a momentum for change, no matter how small, and base interventions on reality and logic. Bear in mind also that market systems development programmes cannot address everything. Corruption, political interference, ideology, insecurity and other donor programmes complicate matters, but there are limits to what a single programme can change. It needn't be that systems with such complications are avoided entirely, but they might need to be approached in a different, indirect or 'smart' way. As a minimum, the presence of at least one ally is crucial.

- **Aim for portfolio coherence:** Programmes should seek a coherent portfolio, comprising markets with thematic and practical overlap. Overall portfolio coherence should be an overarching consideration following application of the selection criteria and the ranking of markets. It is important that markets sit well together and that they have some degree of synergy. A more coherent portfolio allows the programme to leverage learning, existing partnerships and resources for utilisation in other markets. Indeed multi-market programmes operating in groupings of related markets are often more successful – particularly where markets are geographically concentrated or share similar constraints and/or solutions. The programme portfolio should be reviewed periodically to ensure balance is being maintained.

- **Verify programme design documents:** The dynamic nature of markets can frequently result in significant changes in circumstances over short periods of time. If programme design documents have proposed markets that are no longer relevant, it is the role of the programme to scope them, rank them relative to alternatives and – if necessary – propose new markets which are more relevant to programme objectives.
- **How many sectors to begin with?** Programmes have multiple considerations to make with respect to their opening portfolio. The span of management control is one such factor: starting interventions in multiple markets at the same time places a significant burden on managers. Programmes should not spread managers and staff too thinly, particularly if staff have limited experience as facilitators in market system development programmes. At the same time, programmes often have demanding donors and established quantitative targets that must be satisfied. It is crucial therefore that the quest for numbers does not become the 'tail that wags the dog'. Slow and steady is the sensible way to commence implementation, taking few risks with sector selection – perhaps choosing one important support market for the purpose of outreach, leverage and learning, and at least one important, though under-performing commodity or service market, for the purpose of income change.