THE OPERATIONAL GUIDE
FOR THE MAKING MARKETS WORK FOR THE POOR (M4P) APPROACH

01 STRATEGY
IS YOUR PROGRAMME FOCUSED ON PRO-POOR SYSTEM CHANGE?

Second Edition

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01

1.1 KEY PRINCIPLES AND STEPS

"The secret of success is constancy to purpose" Benjamin Disraeli

"Because the problem of poor business environments is systemic, genuine solutions must also be systemic" Scott Jacobs

Market systems development is an approach that aims to improve the long-term efficiency and inclusiveness of the systems that matter most to poor women and men: those systems upon which their livelihoods rely and those that provide access to basic services. Programme strategy needs to be consistent with this aim.

Funders and implementers can achieve this consistency by setting out a strategic framework to guide programme analysis, action and measurement. This should explain how intervention will bring about changes in market systems, which result in improvements in the poor's performance in markets or their access to basic services, and consequently contribute to a reduction in the poverty they face. This is the programme's theory of change.

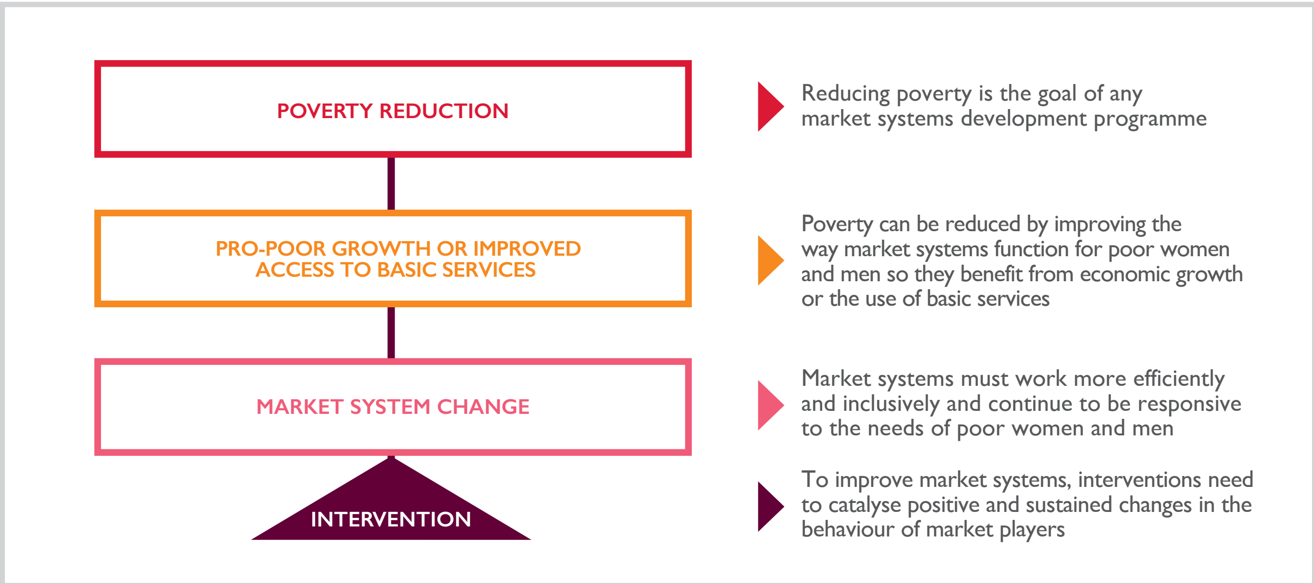


Figure 2: Strategic framework for market systems development

The strategic framework guides programmes to select and analyse market systems where: (a) there is potential to reach significant numbers of poor women and men, ie the target group, (b) there are prospects for significant change that can benefit poor people, and (c) inducing positive, lasting changes in systems appears feasible. Outlining the programme's strategic framework entails four initial steps:

Step 1: ***Define the poverty reduction objective:*** The social and economic profile of the target group and anticipated poverty reduction impact on that target group

Step 2: ***Identify opportunities to benefit the target group:*** To improve the target group's performance in growing markets or their use of basic services, which can contribute to reduced poverty

Step 3: ***Assess the feasibility of inducing system-level change:*** A context conducive to intervention, as well as funding and implementing agency readiness to implement a market systems development programme

Step 4: ***Establish the programme's main parameters, seek funding approval, and guide a detailed design process***

For funders, these steps will be sufficient to establish the main parameters of the programme, seek funding approval, and begin a more detailed design process. However, these steps are not sufficient to inform the programme's vision for change in selected market systems, nor interventions and their measurement. For this, the strategic framework needs detailed elaboration based on a comprehensive understanding of how the poverty of the target group manifests itself in selected market systems, the constraints that restrict pro-poor outcomes, and the political economy of change. This guidance is presented in Chapter 2, Diagnosis and Chapter 3, Vision.

1.2 ESSENTIALS OF SCOPING, APPROVAL AND COMMISSIONING

Funders face a challenge when scoping and preparing a new programme. Some decisions need to be made before a programme can be approved and commissioned (ie contracted to an implementing agency), but deciding exactly where and how to intervene requires in-depth analysis of the root causes, rather than symptoms, of a market system's underperformance, as explained in Chapter 2.

If you are responsible for scoping and preparing a new programme for approval and commissioning you will need to answer three ***key questions:***

What information is needed, and how much analysis is required to generate this information?

This depends on your agency's procurement procedures and on the proposed scope of the programme (will it focus on a single, well-understood market system or multiple, complex systems?).

How much detail actually can, and should, be decided before implementers start work?

This depends on:

- When you know enough to be able to define your programme's key parameters; eg objectives and level of funding
- The risk that initial decisions to fix certain details will restrict the flexibility of programme staff to respond to lessons learned and changes in context during implementation

Who should undertake the analysis, and when?

There are three options:

- The funder conducts analysis and designs the programme in detail, before contracting an implementing agency
- The funder hires specialists to conduct analysis and support the funder to design the programme in detail, before contracting an implementing agency
- The funder awards a 'design-and-implement' contract to an implementing agency, who then helps the funder to develop a detailed programme design, based on comprehensive analysis

There are three important lessons from experience:

- Funders rarely have the time or staff to develop a comprehensive programme strategy or set accurate targets based on the kind of detailed market systems analysis outlined in Chapters 2 and 3
- Even if funders are able to plan in detail (eg using specialist designers) there is a risk that information is outdated by the time the implementation contract is awarded. Undertaking comprehensive analysis before implementation often results in the analysis being done twice. This wastes time and money
- Implementers always need to do their own analysis: they require up-to-date information to intervene effectively and their ownership of analysis and resultant programme strategy is vital

Reality Check

The greater the level of detail required for funder procurement needs, the greater the depth of analysis required before the programme begins. Funders must be mindful of designing programmes on the basis of insufficient analysis, and implementers equally mindful of accepting detailed programme designs not based on credible analysis.

For funders, unless comprehensive analysis has been conducted, detailed programme design can give you an illusory sense of precision and certainty. You should be realistic from the start about how much analysis you can do. Don't aim for detail in the first place if sufficient analysis isn't possible.

Experience is leading many funders to limit their role in programme design to a few well-researched key decisions. This means defining the programme's poverty reduction objective, its scope (which geographic areas, groups, or types of market systems to prioritise) and its indicative budget. Contractors then bid to design and implement the programme.

During the first six to twelve months the implementer selects specific market systems, analyses them in detail, determines more specific objectives and targets, and plans how to allocate its budget and set up the systems it needs for implementation.

This design-and-implement model is suitable when funders intend to work in multiple market systems or are unable to conduct thorough analysis before commissioning a programme. If this type of model is pursued, regular dialogue between funder and implementer is vital.

If funders intend to focus on a single, well-understood market, it is possible to design a programme with detailed targets and interventions, although there are risks in doing so, as discussed above.

Implementers must check carefully the information on which programme design was based. At the outset, verify that objectives are realistic and, where necessary, refine them based on changes in context and understanding.

Example 1: Clarity of objective

In West Africa an agriculture sector-focused programme was commissioned to increase incomes for poor people, 50% of whom should be women. During its detailed design phase the implementer found that women's involvement in agriculture was less than 15%. The programme and funder were forced to adjust targets to a lower, more realistic range and broaden the programme's scope beyond agricultural sectors, in order to have prospects of substantial impact on women.

The guidance which follows is therefore directed at funders who are scoping and preparing a new programme to establish its key parameters, and at implementers who are elaborating their strategic framework in more detail.

1.3 PUTTING IT INTO PRACTICE

To set the strategic framework, start at the top, and follow these four steps.

Step 1: Define the poverty reduction objective

To define your programme's poverty reduction objective you need to consider the potential for reaching large numbers of poor women and men, specify your target group and identify how your programme might impact on their poverty.

The 'poor' are not homogeneous. They are disadvantaged in different ways, according to their gender, ethnicity, age, physical capacity, geographic location or degree of poverty. For instance, women may face discrimination based on their gender. Some programmes therefore target women or girls specifically. Nevertheless, you should identify gender-specific factors that might prevent poor women from benefiting from your programme wherever feasible.

For your targeting to be useful you need to go beyond generic terms like 'the poor'. You must specify groups that are sufficiently identifiable for expected impacts to be measured, but also large enough to constitute significant impact for the funding agency.

You should define a basic social and economic profile of the target group, by answering the following ***key questions:***

What is the poverty status of the group of poor women and/or men that is being targeted?
Eg the middle three income quintiles, or those seasonally poor due to flooding.

Are the target group producers, workers or consumers?
Eg producers (smallholder farmers with X hectares / head of livestock), employees (unskilled and semi-skilled urban workers), consumers (pregnant and nursing mothers and infants).

How will you reduce the target group's poverty?
Eg raising income or reducing mortality.

Funders should establish the poverty reduction objective in line with their country-specific priorities and 'local' needs. The objective is likely to be shaped by a combination of:

- Geographic focus, eg a region or community
- Target group focus, eg agricultural producers, industrial workers or consumers of health services
- Sector focus, eg agriculture or primary education
- Product focus, eg a specific type of good or service such as mosquito nets or financial services

Reality check: The importance of a clear objective

Programmes should have a single, clearly defined poverty objective. Multiple poverty objectives (eg increased income and reduced environmental degradation) dilute focus and create practical consequences that tend to make programmes less effective:

- Multiple objectives translate into multiple 'theories of change' and a diverse range of interventions
- Significant additional analysis is required
- Broader skills sets are needed within programme teams
- Staff and partners can be confused about the programme's focus or priorities
- Management, measurement and communication all become more complicated

Step 2: Identify opportunities to benefit the target group

Once your poverty reduction objective is defined, identify opportunities to reduce the poverty of your target group.

Opportunities will be specific to the context of each programme and its poverty reduction objective, but they can usually be categorised as improving the poor's performance in markets so they can benefit from growth (ie economic), or improving their access to the basic services they need (ie social).

To identify poverty-reducing opportunities, answer this ***key question:***

Where is the greatest potential for benefiting poor women and men?
Identify the market systems that are most important to the target group's economic livelihoods or basic needs, and where the prospects are greatest for reducing poverty (eg raising their profits or productivity as *producers* in the poultry market, or improving their terms of employment as *workers* in the construction industry, or increasing their use of appropriate rural antenatal services as *consumers*).

It is important to check that your target group has the potential to benefit from more efficient and inclusive market systems, and that projected outreach is sufficiently high to justify an intervention.

Example 2: Assessing potential to benefit the poor

A horticulture programme in Central Asia focused on improving the poor's participation in soft fruit (strawberry) markets, particularly women in settlements for Internally Displaced Persons. A review after one year of pilot activity recommended closure of the (USD 1m) intervention, having found that fewer than ten households had directly benefited and that outreach was unlikely to exceed 90 households. Initial scoping had focused on identifying a target group, but estimates of outreach were not based on a realistic assessment of growth potential.

Funders should research such opportunities to the extent that the poverty reduction objective for the target group is linked to the way in which poverty is expected to be reduced. This research needs to be sufficiently accurate to allow realistic targets to be set.

Step 3: Assess the feasibility of stimulating system-level change

Once you have found potential for substantial pro-poor benefit, you should assess if it is feasible to achieve lasting change within the life of a typical programme, ie three to five years.

Your assessment should take into account the likelihood of achieving change within the social and political context as well as the capability of the funding and intervening agencies. It is not a detailed analysis of a specific market system.

This assessment should cover three ***key questions:***

What is the likelihood of achieving pro-poor system change?
Look for evidence that the pro-poor change in the market system(s) identified in **Step 2** is likely to be feasible (see also Chapter 3).

For change to be sustainable, it must be led by market players, so it is important to assess which market players have incentives to support or to block change.

Look for momentum, ie changes in or around the market system that might lead to further, positive change. For instance, policy reforms, institutional or technological innovations, a critical incident, shifts in alliances between key players, new investors or entrants.

Example 3: Assessing intervention (in)feasibility

A West African cassava market was widely believed to offer potential for thousands of smallholders. It is an easily grown crop and a key contributor to national food security. After closer examination, a programme found the market structure to be highly localised for 'fresh', 'fermented' and 'pounded' cassava (eg short supply chains, few intermediaries, few players of any scale). Other processing opportunities (eg cassava flour) were not supported by policies and few bread or biscuit products were consumed locally. Given the number of smallholders engaged, government and numerous development agencies were already active in the market with a range of potentially distortive initiatives (eg free processing machinery, direct extension services). The programme concluded that there was limited scope to intervene systemically at that time and chose to focus on other market systems instead.

The roles that poor women and men play in market systems, the risks they take and the rewards they gain are all influenced by the distribution of power and resources between different groups and individuals. Understanding this political economy is vital if you want to understand your target group's situation and the opportunities to improve it.

Example 4: Establishing a conducive operating environment

In South Asia, a programme set out to scope opportunities to increase the use of mechanisation in remote areas. The programme entered into the consultation process for the country's new Agricultural Development and Agricultural Mechanisation Strategies. Engagement at policy level prior to market system selection sought to encourage future government policies compatible with market systems development interventions.

Is the funder in a position to commission and oversee a market systems development initiative?

A programme is partly shaped by the agenda of its funders, the resources they make available and how appropriately they commission and oversee the programme. If you are a funder, four factors can help you or hold you back:

- *The decision-making environment:* your agency's attitudes, expectations and behaviour must be supportive of a market systems development approach and, in particular, a genuine commitment to sustainability
- *Management systems:* your agency's procurement, oversight and administrative systems must be flexible enough to allow a programme to be responsive to the dynamism of market systems
- *Budget:* sufficient funds are needed for implementation, although excessive funding can create distortionary pressure to spend. The level of flexibility about how funds are allocated over time is more important, if programmes are to be responsive
- *Coherence:* the programme's strategy should not conflict with other programmes in your agency's country portfolio, to reduce the risks of distortion or duplicated effort

You might not be able to alter these four conditions radically, but by identifying them in advance, you can at least try to find ways around them if they are a problem.

Reality check: Signs that funder procedures may not be fit for purpose

Adopting the market systems development approach can challenge the procedural norms of many funders. Signs that a funder may not yet be 'ready' to commission a market system development project include:

- Inherently hierarchical/micro-level decision making
- Activity-level accountability requirements
- Headline target-setting without sufficient analysis
- Multiple initiatives seeking to address diverse and/or conflicting objectives under a single programme vehicle

Does the implementing agency have the capability to pursue the market systems development approach?

Experience indicates that the capabilities of implementing agencies (ie their ethos, experience, staff capacity, management and learning environment) are as important, if not more so, than the specifics of design. These factors are explored in Chapter 6.

The questions raised in **Steps 1-3** provide the basic considerations for selecting specific market systems, which can then be analysed in more depth to determine where the programme might intervene (see Figure 3).

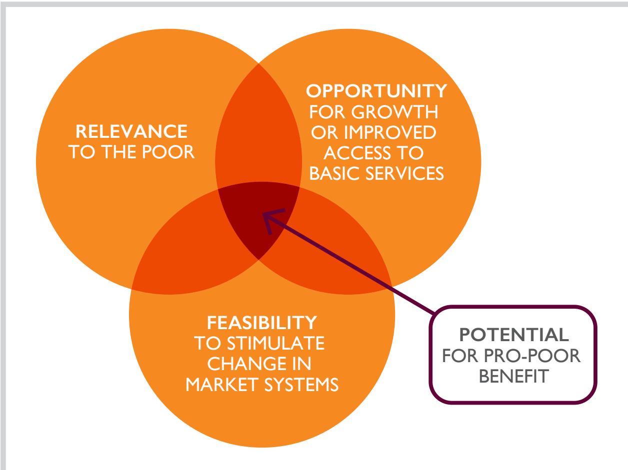


Figure 3: The basis for market system selection

The application of these basic considerations for selecting market systems is discussed further in section 1.4.

Reality check: Applying selection basics with parity and rigour

Relevance, opportunity and feasibility considerations are of equal importance, although they have been presented as sequential steps. You often start by defining your target group because that is a funder's priority, but it is essential to explore opportunities and feasibility at the same time. If you don't, there is a risk that you define a large target group, but without a realistic prospect of impact. In practice, pragmatically assessing opportunities and feasibility helps you define your target group more tightly.

Step 4: Establish the programme's main parameters, seek funding approval, and guide a detailed design process

Steps 1-3 define the programme's poverty reduction objective, identify opportunities to improve the poor's performance in growing markets or their access to basic services, and assess (broadly) the feasibility of stimulating system-level change.

For funders, these steps will be sufficient to establish the main parameters of the programme so that funding approval can be sought and a more detailed design process started. However, these steps are not sufficient to inform the programme's vision for change in selected market systems, or to determine the nature of its interventions or provide a basis for detailed measurement.

Setting indicators and targets for poverty reduction and improved growth or access

At this stage you can define your programme's indicators and targets for poverty reduction: what kind of impact the programme is aiming for, how much, and for how many beneficiaries. You should also be able to set indicators for changes in the poor's performance in growing markets or their access to basic services. Realistic targets can be set as well, so long as accurate information has been gathered.

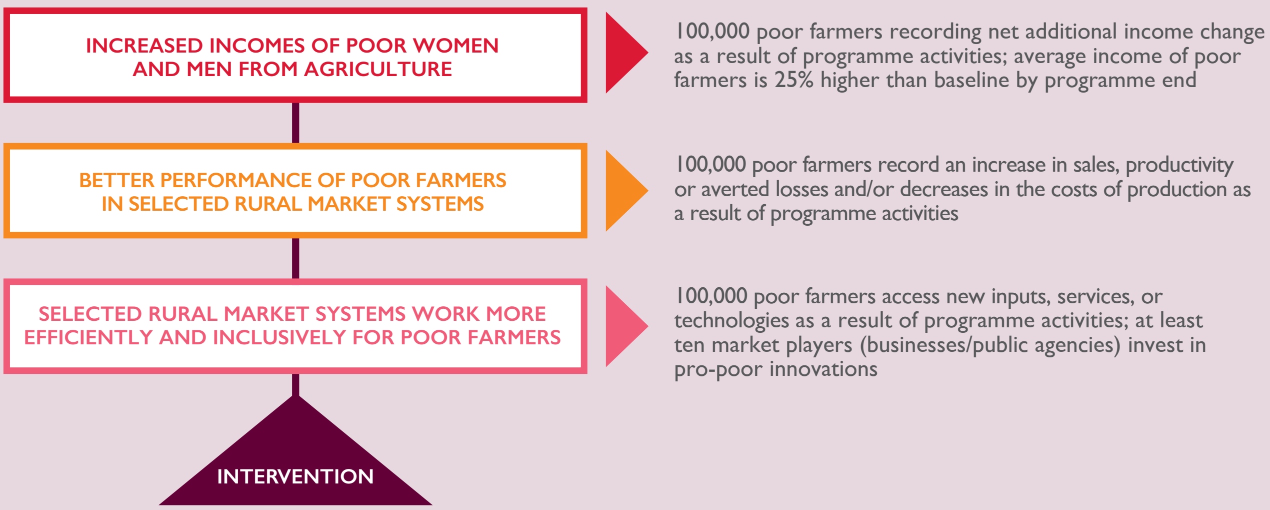
It is important that assumptions and evidence for these high-level targets are established clearly, so that both funders and implementers have confidence in the programme's basic parameters.

As already noted, identifying system-level constraints and changes, and defining their associated indicators and targets, requires in-depth analysis, as described in Chapters 2 and 3. This level of analysis is usually not possible before the programme is commissioned.

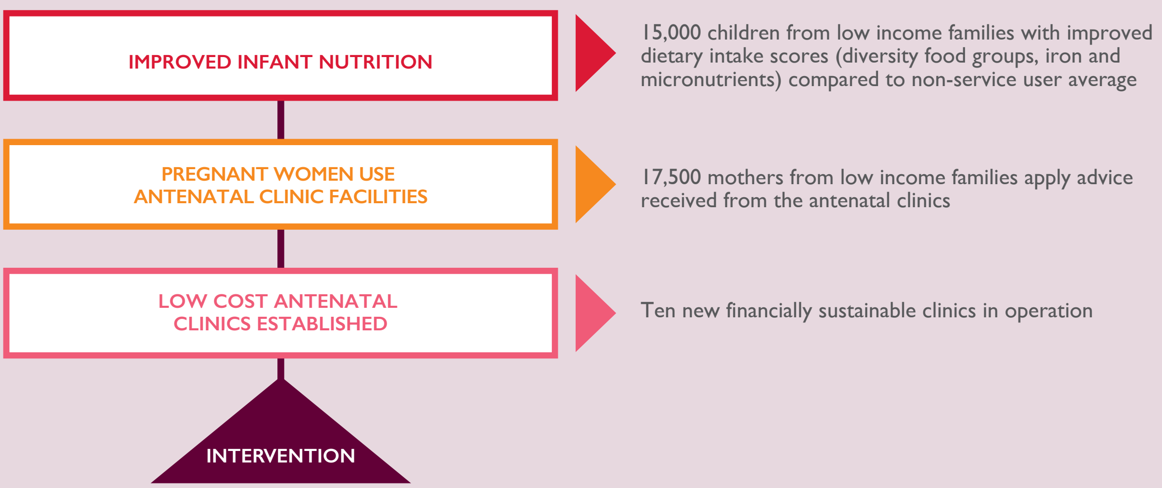
Indicators and targets for changes at the market system level should therefore not be too specific at the start of your programme, unless a particular market system has already been selected and researched to the point that specific system-level changes have been identified.

These indicators and targets can be made more precise as your programme's understanding of market systems grows. Realistic objectives and targets can only be set once sufficient analysis has been completed:

Example 5: Multi-sector strategic framework



Example 6: Single-sector strategic framework



- Funders must consider at what point in the commissioning process sufficient analysis has been completed to warrant detailed objective and target setting, and at what 'level' of the strategic framework
- Implementers must assess the rigour of analysis underpinning any objectives and targets they are provided and not just passively accept them to win a contract. This is particularly important before the programme's 'logframe' is finalised as this can be difficult to re-negotiate

You should avoid trying to elaborate the strategic framework any further unless you have been able to select a specific market system(s) and analyse it to the extent that you can answer two ***key questions:***

Why is the market system not working efficiently for poor women and men?

In what way does the market system need to change in order to serve the poor better?

Unless you have identified system-level constraints and their potential solutions you will not be able to define your strategy for stimulating change, in terms of more detailed intervention design and measurement.

Unrealistic targets can pressurise a programme into taking the wrong actions or intervening intensively to 'buy' quick results at the expense of impact that is sustainable in the longer term.

1.4 TOOLS AND SOURCES OF INFORMATION

Defining the poverty reduction objective

This assessment usually draws on secondary data sources, reinforced by some primary research, using a range of standard poverty assessment tools, including:

- Census data
- Poverty assessments
- Livelihoods analysis
- Socio-economic studies
- Gender analysis

Identifying the opportunity for pro-poor impact

To identify opportunities to increase the poor's performance in growing markets or their access to basic services, you usually use a range of secondary sources of data, verified by primary research, including:

- National or regional development plans and investment strategies
- Market profiles and economic forecasts
- Growth diagnostics and competitiveness analysis
- Consumer research
- Public services assessments

Assessing the feasibility of system-level change

To judge whether pro-poor change is likely to be feasible, you should analyse the local context carefully. Tools used for political economy analysis, such as 'Drivers of Change', can be useful. So can organisation-level focused diagnostic tools, as used in change management processes.

Sources of information can include studies by research organisations and think tanks, information from coordinating and representative bodies, as well as routine assessments by organisations such as the OECD, EIU or World Bank.

Criteria for selecting market systems

You need a basis for choosing market systems and prioritising which one(s) to investigate in more depth, to determine where you will intervene. This is the case whether your programme intends to focus on one market system or several.

Setting and applying selection criteria makes your decision-making more transparent and aids constructive dialogue between funder and implementer on why decisions have been made. It can be helpful if the funder and implementer determine these criteria collaboratively.

Each market system you consider should be assessed for its relative potential to: (a) affect large numbers of poor people, (b) increase the poor's performance in markets that are growing or their access to basic services, and (c) stimulate system-level changes. As noted above, these basic considerations are of equal importance. It is essential to explore opportunities and feasibility at the same time as defining your target group.

These basics can be turned into a more detailed table of questions, which can be used to assess individual market systems or to compare different market systems, using transparent ranking, such as a 'traffic light' scheme (see Figure 4, overleaf).

The selection criteria you establish should also reflect any broader considerations that the funding organisation might have. For instance, funders often give programmes a cross-cutting objective such as promoting gender equity, in addition to a primary objective (eg reducing income poverty). Make cross-cutting objectives part of your selection criteria. If you want to achieve these objectives, you must select market systems which have the potential to contribute significantly to them.

Example 7: Conflict or stability-related selection criteria

Cross-cutting objective: likelihood of creating or exacerbating socio-economic tensions. Criteria might include:

- Will any specific 'constituency' of people be excluded from entrance or meaningful participation?
- Will growth create disproportionate socio-economic benefits for any one specific constituency of people?
- Will growth create or exacerbate 'pressure points' (eg increased reliance on natural resources, transport hubs, crowded market places, etc)?

Cross-cutting objective: potential to promote stability. Criteria might include:

- Are there socio-economic opportunities for unemployed, disenfranchised youth or other excluded groups?
- Do opportunities exist for economic cooperation and building trust between these groups and the more advantaged (eg trading, joint production, investment, business partnerships)?
- Are there opportunities to reinforce institutions that provide stabilising effects or enhance rule of law?

	POTENTIAL CRITERIA	TRAFFIC LIGHT		
		High	Med	Low
RELEVANCE	Number of poor women/men with potential to be active in the market system			
	Scope for poor women/men to improve their incomes or access basic services			
	Ability to address vulnerability and/or disadvantage			
OPPORTUNITY	Economic and/or social value of the market system			
	Previous and forecast growth of market or access trajectory of service			
	Likelihood of economic growth/service access being genuinely pro-poor			
	Apparent dynamism/robustness of the market system			
	Prospects for attracting public and/or private sector investment			
FEASIBILITY	Availability of market player 'drivers' with leverage			
	Prospects for attracting more players or services			
	Conduciveness of political economy (eg absence of conflicts, barriers to reform etc)			
	Willingness of market players to change business model/adopt new practice			
	Likelihood of distortion/inability to apply market system development principles			

Figure 4: Market system comparison and selection

Example 8: Gender-related selection criteria

Cross-cutting objective: return on women's labour. Criteria might include:

- Can greater efficiency be achieved in production and/or marketing to allow women to earn more income with less labour?
- What is the labour time 'saving' and how is it redeployed (eg on next best economic activities or activities of a social nature)?

1.5 "DON'T MAKE THE SAME MISTAKES I DID…"

Begin dialogue at the start

Stimulating change in market systems is complex and unpredictable. Check the information and assumptions upon which your programme was designed, and upon which its indicators and targets are based. If the evidence base for these appears unclear or unrealistic, the funder and the implementer need to discuss the problem as soon as possible.

Too frequently, implementers, as early as the bidding process, accept objectives that are contradictory or unlikely to be feasible. Instead, ensure you make a first feasibility assessment as soon as possible, and then make space throughout the programme's life for the review and adjustment of targets and objectives, as new evidence emerges.

Be alert to conflicting initiatives

Check for other initiatives with conflicting objectives and approaches that operate – or have operated – in the same market system or geographic area as your programme.

You will find it hard to alter how market players perceive and respond to a new market systems programme if other established initiatives have eroded players' incentives to adjust their behaviour and invest in change.

If you spot potential conflicts, first try to engage with those responsible for conflicting initiatives, to avoid the potential clash of approaches. If that fails, you may need to adjust the geographic location or market systems in which your programme is looking to intervene.

Build an appropriate partnership with government

Market systems development programmes often engage with government in two distinct ways; as a market player but also as an implementing partner.

Government is a key player in most market systems whether as regulator and policy-maker or provider of supporting functions (eg research, information, infrastructure etc). The nature of engagement and/or partnership with government, as with any market player, should be defined by your analysis and their envisaged role in market system change.

Consequently it is neither easy nor always advisable for a market systems development programme to be located close to or within government. Nevertheless, for political or diplomatic reasons, formal affiliation with a government partner may be an obligation for some programmes. Affiliation may be beneficial where the government partner's own mandate is of a cross-cutting or coordinating nature (eg a national planning agency). A sector-specific mandate, on the other hand, can restrict a programme's ability to explore wider intervention opportunities. For instance, it may prove problematic for a programme affiliated with a Ministry of Agriculture to operate in the financial services sector that falls under the purview of the Ministry of Finance despite the fact that finance is determined as a constraint.

In building an appropriate partnership with government consider the following: (a) your need to maintain the independence of your analysis and operational flexibility to work beyond the narrow mandate of individual ministries/departments and to access and lever key contacts and relationships across government, and (b) your relationships (and credibility) with key non-government market players.