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# **THE OPERATIONAL GUIDE**

## FOR THE MAKING MARKETS WORK FOR THE POOR (M4P) APPROACH

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# 03

### **VISION**

HOW WILL THE SYSTEM CONTINUE TO  
WORK BETTER AFTER YOU EXIT?



### 3.1 KEY PRINCIPLES AND STEPS

“Any development that is not sustainable is not development” Dr Manmohan Singh,

“People respond to incentives. The rest is commentary” Steven Landsburg

Sustainability is central to the market systems development approach. Sustainability is defined as: the capability of a market system to continue to adapt and provide the means by which poor women and men can continue to derive social and economic benefits, beyond the period of intervention.

The diagnostic process has identified what is not working in the market system and why it is not working. Programmes must now look forward and think through how the system will work better in future. Programmes should plan for their exit before intervening. This means developing a clear and realistic vision of how the principal, as well as any supporting market systems in which the programme intervenes, will continue to serve poor women and men effectively, after intervention in that system(s) has ended.

Functioning market systems are never static: they have within them the capacity and incentives to be dynamic, to respond to change. Determining how this dynamism and responsiveness will take place in future without further intervention is central to taking sustainability seriously.

This is done by defining market system capability in detail, by identifying: (a) market functions that need to work more efficiently and inclusively if the system is to benefit poor women and men, and (b) specific market players who have the requisite capacity and incentives to perform those functions more effectively. In simple terms, this means answering two sets of questions:

- Who ‘does’ what currently, and who will do what in future?
- Who ‘pays’ for what currently, and who will pay for what in future?

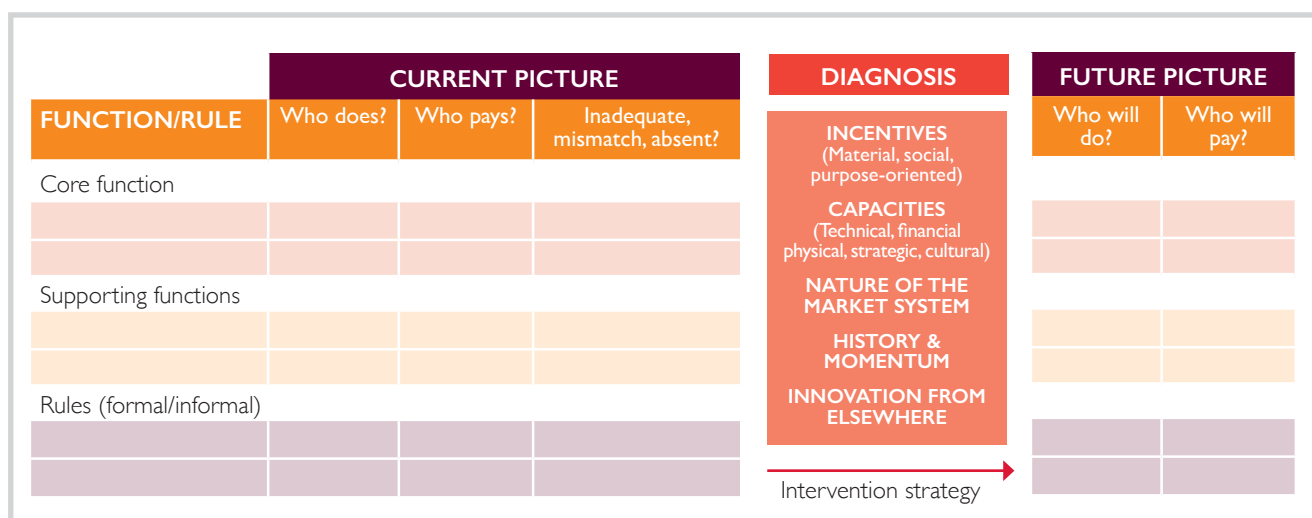


Figure 11: Sustainability analysis framework

Taking sustainability seriously imposes discipline on a programme’s strategy and interventions. Without a clear picture of what it intends to leave behind, there is a risk that a programme’s actions will distort systems rather than develop them. Developing a credible vision of how market systems can continue to function in future entails four steps:

- Step 1: Take stock of the current picture:** Review your understanding of how the market system functions at present, in terms of who does what, who pays for what and their capacities and incentives
- Step 2: Develop a realistic picture of how the system will work after intervention, ie the future picture:** Define which players will perform or pay for which functions, to ensure that the system better serves the target group
- Step 3: Decide the main focus of programme intervention needed to bring about the vision:** Specify the support required to strengthen the incentives and capacity of market players to take on new or improved roles
- Step 4: Elaborate a more detailed strategic framework for the market system:** Construct a causal logic linking interventions to system-level change, benefits for the target group from economic growth or access to basic services, and poverty reduction

### 3.2 PUTTING IT INTO PRACTICE

#### Step 1: Take stock of the current picture

To establish a realistic picture of the future, ie where you want to end up, first understand the current picture of the market system, ie where you are now.

Chapter 2 describes how to narrow your focus from the principal market system (in which your target group exists) to supporting market systems, in order to identify the functions and rules which disadvantage your target group.

To understand how a principal or supporting market system currently works, consider its core function and each underperformed supporting function or rule by asking the following **key questions**:

**Who does (which player is performing which function or setting which rule)?**

**Who pays (which player is resourcing which function or rule)?**

Using the sustainability analysis framework – current picture (Figure 12) is a helpful way of doing this.

FUNCTION/ RULE	CURRENT PICTURE		
	Who does?	Who pays?	Inadequate, mismatch, absent?
Core function			
Supporting functions			
Rules (formal/informal)			

Figure 12: Sustainability analysis framework – current picture

The framework assists you to document firstly who performs and who pays for core functions in a supporting market system and, secondly, how this aligns with who performs and pays for the supporting functions and rules identified as problematic in your diagnosis.

Using the framework ensures that your programme’s picture of the future is adequately informed by the findings of your market diagnosis.

Note that at this stage, ‘who’ will be a type of market player (eg input suppliers or low cost schools) rather than a specific player (eg Acme Fertiliser Co., or Happy Days School).

You might include development agencies in the current picture, as this could be an accurate reflection of who is doing and paying for what in the system at present.

#### Step 2: Develop a realistic picture of how the system will work after intervention, ie the future picture

To set out a future picture where the market system works more efficiently and inclusively you need to think through which players are best suited to perform which functions. Take into account the willingness (ie incentives) and ability (ie capacity) of market players to change.

The **key questions** to ask now are:

**Who will do in future (which player will perform which function or set which rule)?**

**Who will pay in future (which player will resource which function or rule)?**

Re-aligning functions and players is not a theoretical exercise. Be pragmatic: balance ambition with realism about feasibility, and consider the local context when assessing the likelihood of change.

There are three important factors to consider when you are assessing the feasibility of moving from the current picture to a future picture:

- The nature of the selected market system
- The history (past actions) and momentum (present and planned actions) of players within the system
- Innovation from elsewhere. Changes that have occurred outside the system but which might inform the feasibility of change within it

In considering these factors you are deepening the assessment of feasibility you made initially in Chapter 1 and then built upon in Chapter 2.

#### Nature of the market system

Some markets have inherent characteristics such as ‘externalities’ or ‘transaction costs’ that determine how important certain kinds of function will be. Such characteristics vary between different types of market and context.

Transaction costs are the costs of participating in exchanges in market systems. Common transaction costs include:

- Search and information costs: in some types of market system it is difficult for buyers and sellers to find out about each other (eg because of distance). In this type of system, information and intermediation functions are essential
- Bargaining costs: in some market systems there are barriers to buyers and sellers reaching an acceptable deal (eg because of unequal power). Functions that rebalance power through aggregation, collective representation, coordination, standards or regulation are therefore important
- Enforcement costs: some market systems are prone to a lack of trust between buyers and sellers (eg because of unfamiliarity or unequal information between buyers and sellers). In such systems, functions that support resilient relationships to develop, or functions that establish assurance, guarantees, or rights of redress are critical for the market to function

### Example 15: Transaction costs in market systems

Contract farming is often inhibited by high transaction costs. In some rural areas contracts are unenforceable so there are no penalties for farmers or buyers if they fail to fulfil their promises. Problems like 'side-selling' and default are common. To avoid this, buyers incur high search and enforcement costs. They need to invest effort to identify and build trust with farmers, to compensate for the lack of effective enforcement. This reality explains the emergence of local intermediaries – 'middlemen' – who know farmers and have informal or social means of enforcing deals.

*Externalities* occur in market systems where the actions of one player can affect many. To restrict negative outcomes or to ensure favourable outcomes for the many rather than the few, regulatory, coordination or compensatory functions are necessary. Externalities thus increase the need for 'public' functions and the role of government in particular.

### Example 16: 'Merit good' functions

Schools have a strong incentive to bias test results in favour of their own pupils. This undermines the credibility of the test system for all pupils. Therefore a functioning school system requires an impartial, trusted means of assessing learning outcomes and school performance. This assessment and information function is a public role, usually performed by government or an association of schools, or contracted out to an accredited examination board.

## History and momentum

*History*: the evolution of market systems varies between contexts, with different traditions associated with, for instance, the role of government, representative organisations or business-to-business cooperation.

The past can provide insight into the capacity and incentives of market players, and therefore their potential to change. Consider if there is anything in a system's history that gives you confidence that a revised alignment of functions and players is feasible:

- Do certain players adhere strongly to long-established roles or norms? This usually signals a resistance to change or affects how other players in the system view the player in question
- Do certain players hold positions of entrenched power or influence? If so, they are likelier to be potential 'blockers' or 'drivers of change'

### Example 17: Market system history

A cause of the lack of competitiveness of the export market of one African country is its supporting system of logistics, particularly costly freight-forwarding. No formal barriers to competition exist, but alternative providers are not entering the market to drive down costs and improve quality.

Closer scrutiny reveals that there is an entrenched association between existing freight-forwarders and the political elite, resulting in informal barriers to competition. A programme's only option in this situation was to identify a partner with a vested interest in improving export competitiveness, but that also had its own political connections, to act as a countervailing power.

*Momentum*: understanding trends and developments in a market system, ie its 'direction of travel', can also help you predict its potential for change. You should ask:

- Are there any clear trends or events within the system which might indicate that change is feasible? For instance, increasing consumer sophistication or more demanding buyer behaviour; new entrants to the market, more favourable policies and regulations, technological advances, or signs of positive deviance

### Example 18: History, momentum and incentives in education

The opportunity to improve low cost private schools in a large city in Africa is shaped by political economy factors. The municipal authority's success in raising taxes depends on it being responsive to local citizens. Two-thirds of all children attend these private schools and senior politicians and officials recognise that the authority's historical role as the provider of schooling is becoming less important, and actually a barrier to improving low cost private schools. The same officials know that other large cities face a similar challenge. Being seen to deal practically with this new schooling reality and shifting its role from provider to an enabler of education is important to the authority's tax-raising ability and the city's international prestige.

These political-level incentives and momentum for reform provide an opportunity for a development programme to engage with the authority to work towards a pluralistic education system, with more private provision but shaped by stronger government standard-setting and oversight. The programme must align itself with the history, momentum and incentives of this context. This may be best achieved by helping it recognise this historical provider role is relevant to a decreasing number of children, rather than directly questioning that role. It should work with the authority to develop a new, more relevant enabling role (eg regulations, standards, testing, information) which will impact on the majority of children, and also satisfy political stakeholders.

## Innovation from elsewhere

Innovations in comparable contexts can inform your view of what might be possible within the market system on which you are focusing. The comparable context might be a similar type of market (eg agricultural commodities), type of function (eg enforcement of service standards) or socio-economic situation (eg post-conflict environments).

### Example 19: Transferring innovation

A programme in West Africa 'borrowed' from East Africa the idea of selling small packets of fertiliser through a network of village-based agents. Agents were also tasked with educating farmers about correct usage. A key intervention was to organise East African experts to train executives in the West African partner firm in this new sales model.

It is important therefore to keep informed about wider changes which might be relevant to the market system(s) on which you focus. You should ask:

- Is there any evidence of positive innovations in comparable contexts which might provide inspiration and impetus for change in the market system on which the programme is focusing?

**Step 2** is the most challenging step. Completing the sustainability analysis framework – future picture (Figure 13) forces you to think through sustainability realistically before intervening.

Note that development agencies should never feature in a future vision of a market system: their role is only temporary.

FUNCTION/ RULE	FUTURE PICTURE	
	Who will do?	Who will pay?
Core function		
Supporting functions		
Rules (formal/informal)		

Figure 13: Sustainability analysis framework – future picture

Applying the sustainability analysis framework leaves you with nowhere to hide. Challenge and justify any assumptions that you make by asking the following **key questions**:

**Why would market players continue to undertake their new role without programme support?**

**To what extent will players identified be motivated and able to change how they behave with (modest) programme inputs?**

**Can the new configuration of functions and players result in sustainable system change within the lifespan of the programme?**

**Step 3: Decide the main focus of programme intervention needed to bring about the vision**

When satisfied you have developed a realistic vision of the way in which the market system should work in future, consider what your programme needs to do to achieve this vision. In other words, outline the main focus of your programme's interventions. The **key questions** you need to ask are:

**Which market player has both the incentive and capacity for change?**

**What type of support might help catalyse sustainable behaviour change?**

As a result of the 'who will do, who will pay' process in **Step 2**, you will have identified the type(s) of player with which you might need to partner; based on their incentives and capacities, to try to get them to work in a different way. Determining what your support should focus on cannot be separated from this: it is the next logical step.

The 'will-skill' framework (Figure 14) is useful in helping identify which player you might partner with and the nature of support required to change their behaviour.

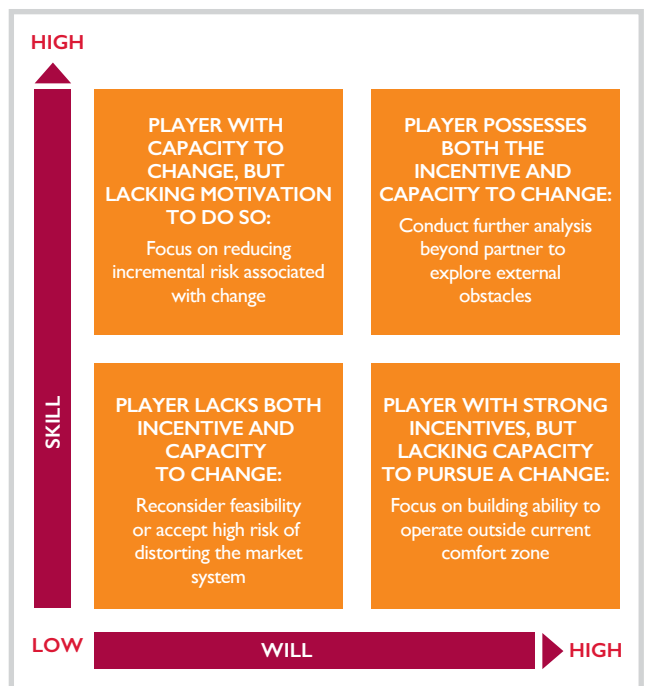


Figure 14: 'Will-skill' framework

Depending on how strong their incentives ('will') and capacity ('skill') are, different kinds of support might be required:

**High will, low skill scenario:** a prospective partner displays strong incentives, but lacks the capacity to pursue change. Focus support on strengthening their capacity to operate outside their 'comfort zone', eg through advice, training or mentoring.

Review your prospective partner's long-term access to capacity building inputs. You might work through local service providers, enabling them to work with players other than your partner in future.

**Low will, high skill scenario:** a prospective partner appears to have the capacity to change, but lacks the motivation to do so. Support should focus on 'making the case' for change to the partner or reducing how risky they perceive the change to be.

This might involve jointly undertaking research to build understanding and evidence, co-funding trials to test a concept and instil confidence, or contributing temporary financial support to 'buy down' the initial risk of making a change.

**Low will, low skill scenario:** a prospective partner may lack both the incentive and capacity to change. So, why work with them?

In a 'thin' market such a partner may be the only option (eg a public agency, a sole supplier of a basic service like a regional water board or a commercial oligopoly). Here, intensive support addressing both capacity and incentives may be required to achieve change, but the risks of such an intensive approach should be recognised (see Chapter 4).

**High will, high skill scenario:** a prospective partner appears to possess both the incentive and capacity to change. So, why aren't they doing it already? Their lack of action might be caused by dysfunctions elsewhere. For instance, the profitability of a new venture is hindered by the regulatory environment, or a new role depends on relations with other players which are inhibited by a legacy of conflict.

In such a scenario, you might realise that the type of player you are considering working with may not be the right one after all. You

simply may not have analysed the market system deeply enough. Or it could be that you require a pilot that involves working with multiple types of player to test and build new relationships.

Note that weakness on the demand-side of transactions can often be addressed through supply-side players. For instance, if your target group is unaware of the benefits of a new service, improving consumer education provided by government, a consumer protection organisation, or the marketing practices of service providers could be potential 'solutions'.

Determining the main focus of your support, and its potential recipients, allows you to elaborate a more detailed strategic framework for the system in which you are intervening (see also Chapter 4 for more detail on intervention support and planning).

### Reality check: Prioritising interventions

Some programmes consider a large number of intervention ideas because the system on which they are focusing could be improved in many ways. You can't fix everything; you need to prioritise.

First, consider the feasibility of achieving each intervention. Take into account potential partners' history and momentum. Second, project the results that each intervention could realistically achieve (see **Steps 1-3** in Chapter 5). Give each intervention idea a score for feasibility and another for the size of its expected results. Consider assigning additional points for intervention ideas that meet other criteria which are important to your programme, such as benefiting large numbers of poor women. Compare the scores of your intervention ideas, and prioritise.

### Step 4: Elaborate a more detailed strategic framework for the market system

You have now developed a realistic vision of the way the market system should work in future, and outlined the main focus of your interventions. You can now elaborate your strategic framework for this system (see Figure 15).

Add more detail to the logic linking your programme's main interventions to system-level change(s) and your programme's poverty reduction goal. The **key questions** to ask are:

#### Are the links between each level of the strategic framework realistic?

As Chapter 1 explains, the strategic framework must lay out realistic causal links, making plausible connections between your main interventions and the chain of results expected at output, outcome and impact levels (to use logframe terminology).

#### Are changes at the system-level elaborated precisely?

What you write in the boxes for *pro-poor growth* or *improved access to basic services* and *market system change* must describe a changed behaviour and practice. For instance, 'community water enterprises finance operational and maintenance expenditure' or 'input supply firms implement a new curricula for training retailers in their distribution network'. The aim is to provide an unambiguous, concise description of the anticipated change and therefore a basis for measuring and communicating market system change to programme stakeholders.

Your strategic framework for the market system does not require exhaustive detail about each activity and output. It should be sufficiently detailed to be informative and to enable

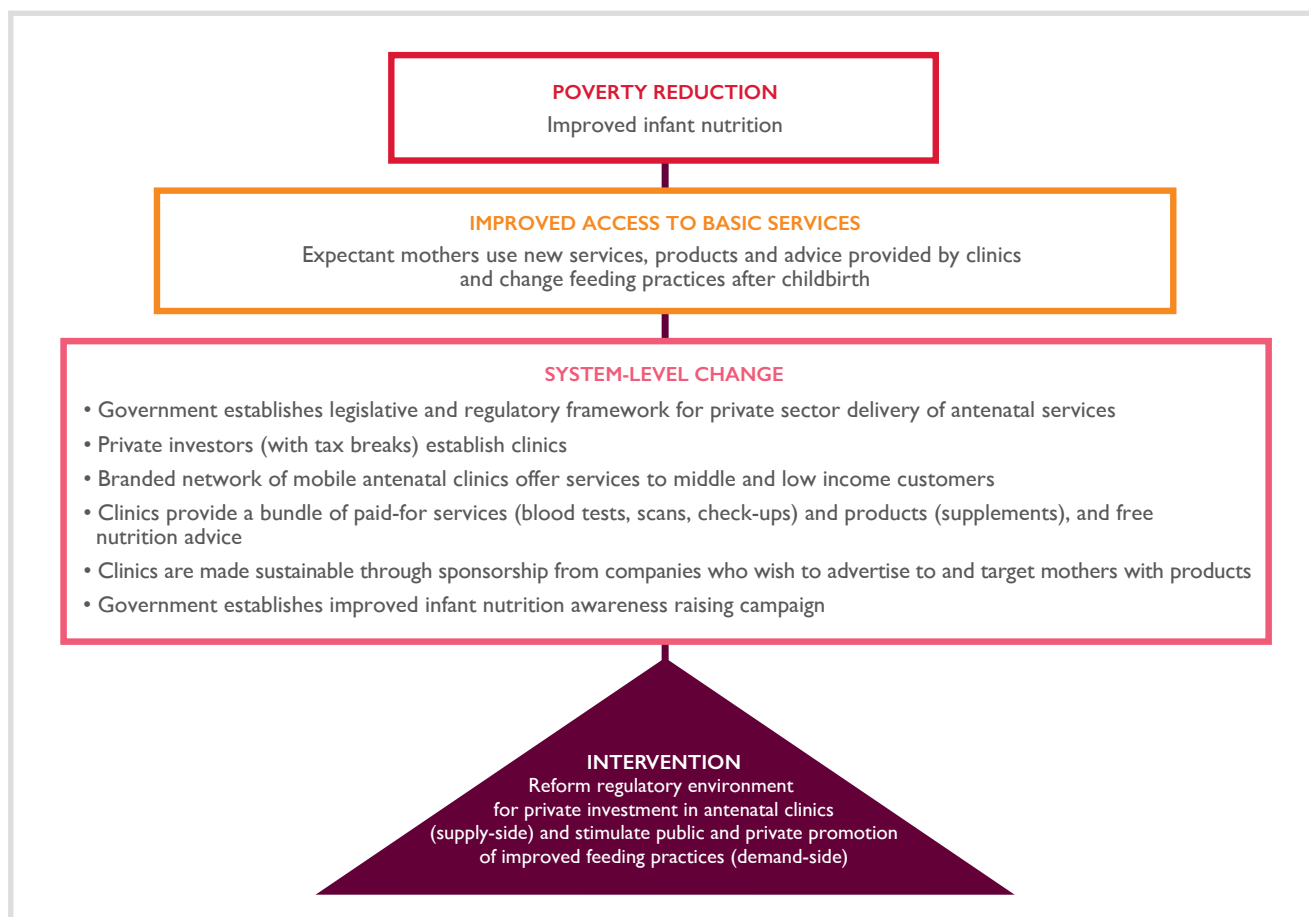


Figure 15: Elaborated strategic framework for an antenatal programme



appropriate indicators of expected results to be assigned for measurement purposes (see Chapter 5).

Each market system that your programme works in will require an elaborated strategic framework. Each intervention within each market system will also require its own results chain. You might find it useful to draw these intervention-level results chains before negotiating with intervention partners, but will often need to revise them afterwards, when your intervention activities are clearer (see Chapter 4).

### **Develop indicators that measure sustainability**

Taking sustainability seriously means developing appropriate sustainability indicators for each of your interventions, which enable you to measure whether or not your interventions achieve outcomes that continue without further programme support (see Chapter 5).

## **3.3 “DON'T MAKE THE SAME MISTAKES I DID...”**

### **Consider sustainability from the start: your exit strategy should be your entry strategy**

Programmes tend to only consider how pro-poor benefits might continue at the point when their interventions are ending. Avoid this mistake. When you first plan how to intervene, consider the day when your programme is no longer there. It takes time to get your partners to take responsibility for changes, so start early. You will only succeed when you send the right signals and establish the right motivations from day one, not in the last few months of the programme.

### **A future picture is not a fixed five-year plan**

There is a risk that when programmes set out a vision of the future functioning of the market system, they treat the vision as a long term plan, which must be rigidly adhered to at all costs. This misunderstands the value of the vision. Developing a credible vision provides your programme with a clear direction and forces you to be realistic about what you can achieve, and what you wish to leave behind after your intervention has ended. However it is equally important to recognise that, in light of experience or changes in context, a vision might need to be revised.

### **Make sure your future picture of the market system is built on realistic foundations**

Building a vision of the future functioning of supporting systems is not a paper exercise. A credible vision can only be achieved through discussions (sometimes tough ones) with market players about the need for change and the nature of changes required. Never forget that it will be market players that drive any changes.

As you narrow down on the changes you feel are necessary for players to adopt, start sharing your ideas. Gauge their openness to change as soon as possible.

When talking to stakeholders, provide clear evidence that justifies why you believe that changes are needed. You can do this by sharing some of your findings from the diagnostic process with more receptive and thoughtful stakeholders.

### **Participation is not an ‘end’ in itself**

When stakeholders help you to define a credible vision of system-level change, they often value this vision more, feeling a greater sense of ownership over it. However, it is common for programmes to interpret stakeholder participation as ‘including everybody in everything’, paying little attention to who needs to be consulted, how and when.

Participation is not an event. Vision-building is not something you do in a workshop with all stakeholders around a table at the same time. Care is required so as to avoid power dynamics disproportionately dictating outcomes, but also to avoid wasting people’s time. For this reason, the opinions and insight from some market players are best sought individually.

Remember that your role is not simply to host a workshop. You should bring clarity, objectivity and a sense of feasibility to the facts and opinions that you’re presented with. Whilst visions will of course be negotiated, they should be brokered by the programme as an objective third party, not delegated to a room of vested interests.