

Step 3: Strategic Design and Planning

‘Facilitators prepare a fundable PMSD process’

Summary

This step is about building a **vision** for change in the market system, devising a **strategy** for the PMSD process, and identifying a **set of facilitative activities** to implement.

In these guidelines you will be introduced to the three fundamental principles of PMSD – systemic thinking, participation and facilitation. You will find examples, recommendations and tools for putting these into practice.

You will find insights on how to make the design and plan **fundable**. You will also find recommendations on how to **build flexibility** into the strategy so that you can respond to the aspirations of the market actors as they take ownership of the process.

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Section 1: Preparing a fundable proposal

In order to facilitate a PMSD process you will need funding. You must therefore respond to the interests of the donor with an assured, convincing, accountable and tailored proposal.

Projects and programmes of work

Our experience of the PMSD process at Practical Action has come in many forms. Most of our work has been project-based. There have also been exciting times when we have been able to support wider bodies of coherent work around a particular sector, which we call programmes. How you are able to facilitate a PMSD process depends largely on the source of the funding.

In the PMSD Roadmap, we do not refer to projects or programmes, in recognition of the fact that you may find opportunities to facilitate a PMSD process in different ways. The PMSD process benefits from more flexible, less time-bound support.

However it is funded, the PMSD process involves a set of specific interventions. This step provides guidance on how to design the strategy to plan these interventions. The strategy helps you to make sure that everything you do, big or small, is driven by the key principles of PMSD and contributes to a 'big picture' vision of a market system that is efficient, inclusive and equitable.

Fundability

In proposals, donors look for:

- **Impact:** Donors want assurance that the proposed work is going to have a tangible impact. They look at milestones and targets against objectively verifiable indicators (OVIs) for a sense of ambition and commitment from the applicant.
- **Value addition:** Donors want to understand what sets you apart from other applicants. This is your opportunity to convince them that the PMSD approach described in the PMSD Roadmap adds enormous value in terms of sustainability and scale of impact. You should seek to reflect this added value in the proposal narrative and in the OVIs and targets.
- **Cost-effectiveness:** First of all donors are looking for accounting and budgetary competency: they will check to see that the budget that is submitted is realistic and reflects what is discussed in the proposal narrative. They will also be comparing proposals against each other in terms of value for money: where are resources used for the greatest effect. Once again, you should use the proposal narrative and the OVIs and targets to clearly signal the value for money of your proposal.
- **Relevance:** Donors want proposals to fit with their values, priorities and objectives. Proposals should therefore be tailored to the specific interests of each donor and particular calls.

You will find further guidance on selecting the OVIs and setting milestones and targets in *Step 9: Monitoring, Evaluation and Learning*.

Action Point A – Checklist of good proposal preparation practices

Work closely with your fundraising colleagues in your country and regional offices to collate your existing knowledge about what works best in proposal preparation. Use it to create a “checklist of good proposal-preparation practices” that you can draw on when you transfer the vision and strategy that you design in this step onto a fundable concept note or proposal.

Make sure that the checklist covers how you will best communicate **impact, value addition, cost-effectiveness** and **relevance**.

Section 2: Systemic Thinking, Participation and Facilitation

Systemic thinking, participation and facilitation are the three fundamental principles that underpin the PMSD approach and enable sustainable impact at scale.

Sustainability and impact at scale

Too often livelihoods and microenterprise development efforts **have limited success in delivering sustainable impacts because of weak linkages of marginalised people to their wider systems.** Furthermore, **successes often remain on a small scale**, helping a few thousand households at a time – drops in the ocean in the face of the huge challenge of global poverty.

In 2002, in recognition of our own and others' past experiences in pursuit of sustainable impact at scale, Practical Action adopted a *whole system* approach to markets and how they affect poor people's livelihoods. This was combined with the organisation's long-standing commitment to participatory, bottom-up development. At Practical Action, we understood that as temporary, grant-based actors, our support could not create aid-dependency and had to take a facilitative approach: creating the conditions for the people who participate in and derive their incomes from markets to drive deep and lasting change themselves.

Sustainability as adaptive capacity

What does sustainability of change mean?

Traditionally a change in the market system – such as a new arrangement between market actors or an innovative business model – is understood to be sustainable if it survives after the support from development agencies ends.

Market systems continually evolve however: new challenges and opportunities appear from within the market system and beyond. Appropriate practices – business models and arrangements between market actors – change with prevailing market conditions. Market actors adjust their behaviour and practices to cope and adapt to changing conditions.

It is therefore useful to understand the sustainability in a market system in terms of this adaptive capacity.

Definition – Sustainability in a market system: Changes in a market system are sustainable if the benefits they bring to the system's efficiency, inclusiveness and equitability are maintained as market actors continue to adapt to emerging challenges and opportunities in the evolving market conditions.

Impact at scale as transformations in the whole system

What does impact at scale mean?

Impact on a large scale is about numbers, quality and sustainability:

- **Numbers:** How many people are benefited by the PMSD process?
- **Quality:** What kind of benefits are they?
- **Sustainability:** Are the benefits sustainable?

From our experience achieving real impact at scale involves helping market actors fundamentally transform the way that they interact and depend on each other across the entire system. Such changes can sustainably benefit many people involved in the market system in direct and indirect ways. This kind of systemic transformation can happen in any area of the market system: in the market chain, supporting input and service markets or in the enabling environment.

Examples from the field – Transforming the market system for impact at scale

Adopt, adapt, expand, respond: In Northeast Peru, Practical Action worked on a pilot scheme to help improve youth employment. They worked with strategically selected producer cooperatives in the coffee and cocoa sector, local government line agencies and technical training centres to adopt new skills-based training modules and a three-way partnership model to help youth to develop in-demand skills and gain employment. The idea showed promise but the model did not meet the needs of the partners, so the educational authorities adapted the approach to better respond to the interests of the stakeholders. Initially tested on a small scale, the introduction of the new model has since attracted the interest of cooperatives and training centres in other regions, who have themselves begun to explore how they might adapt the model for their own use. Practical Action is monitoring this keenly, as this promises to expand the impact of the initiative from an isolated success into a fundamental transformation in the way employment markets in the coffee and cocoa sector work. Practical Action is also seeing other cooperatives in the pilot regions seeking to take part in the initiative, responding to the new way of doing things that has been introduced.

Making the environment more enabling: Kassala in eastern Sudan is home to almost 200,000 pastoralists who produce meat, some of which is exported to the Middle East. They face innumerable challenges blocking their ability to become competitive and viable players. Through a series of Participatory Market Mapping Workshops and further interactions Practical Action facilitated semi-nomadic pastoralists and other market actors to come together to prioritise key issues that affect the entire livestock market system in the area. A border taxation regime between Kassala and Gedarif was identified as one of the crippling issues affecting competitiveness of the entire area, and in turn the incomes of the pastoralists. Through the participatory process 35 diverse market stakeholders agreed that despite their differences lobbying the government together would more likely lead to the removal of the double taxation than if they worked independently. They democratically created a livestock forum which went on to have the taxation situation changed and continues to provide a space for further collaboration and cooperation around animal health, input and market chain issues.

Three legs of a stool

In pursuit of sustainable impact at scale PMSD is based on three fundamental principles that underpin the approach. These are **systemic thinking**, **participation** and **facilitation**.

These three principles are like legs of a three-legged stool. If one leg is missing, then the stool cannot take the weight of a person. Furthermore if the three legs are not all the same length, then the stool is also not going to be able to seat someone comfortably. In a similar way, each of the three principles of PMSD is an essential part of the approach. If any of these principles is neglected, then the process is likely to fail to achieve sustainable impact at scale.

Systemic thinking: Markets are complex systems of interdependent market actors. In order to develop markets sustainably it is necessary to look at the market system as a whole and understand how market actors interact with each other. This perspective uncovers the most effective ways to create deep and lasting changes to the way the system works.

Participation: When market actors come together in an environment of high trust, they are best placed to assess the market system of which they are all a part, they have the strongest incentives to strengthen the system to make it work better for them and their collaborative actions are most likely to have lasting structural impacts.

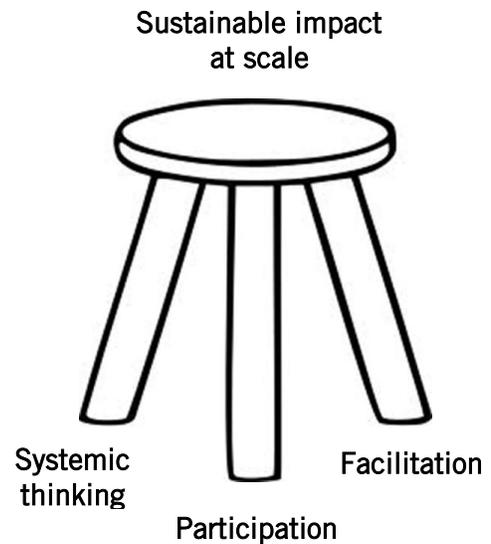
Facilitation: Our role as grant-based actors should be to provide temporary support that builds conditions and for market actors to improve their market system now and capabilities to continue doing so and in the future.

Principles in practice

The practical guidance throughout the PMSD Roadmap is underpinned by the three principles. It is essential that you read all the steps of the PMSD Roadmap and are familiar with the process as a whole before you design and plan the strategy. In particular, you will find specific guidance on:

- Systemic thinking in steps 2, 6 and 7;
- Participation in steps 4 – 8;
- Facilitation in steps 4 – 8 and here.

Figure 1: Fundamental principles – three legs of the PMSD stool



Examples from the field – Principles in action in the dairy market system in Nepal: From its first investigations of the dairy sector in 2008, Practical Action sought the active participation of a range of market actors – local cooperatives, private companies, small dairy enterprises and government departments – to map the dairy market system in Western Nepal and identify bottlenecks that limited the competitiveness of the sector as a whole. These included issues related to smallholder finance, input and information coordination and animal nutrition.

Over the next two years the team leveraged a small fund to facilitate interactions between some of the most enthusiastic and committed market actors. As a result of strengthening relationships between market actors, a number of partnerships were formed to pilot innovations targeting the different bottlenecks across the system: cattle loans, dairy chapters in district chambers of commerce and industry, Nepal’s first low cost, high nutrient cattle feed, and a business plans for investment of large-scale processors in animal health camps.

Practical Action continue to facilitate market actors across the system to interact, find and test out possible collaborative solutions to make the market system more efficient and work better for smallholder farmers. Since 2010 efforts have also focused on facilitating media markets to communicate successful pilots to a wider audience, in order to turn isolated achievements into deep transformations across the system.

(Step 10: Communicating Evidence for Uptake provides guidance on turning isolated achievements into transformations across the system in a facilitative manner.)

You can read more about the three principles in the extract from the *Food Chain* journal article “Facilitating the Dairy Market System In Nepal: A Participatory Approach” by Alexis Morcrette and Sharad Rai in the annex.

Section 3: Build a vision for system change

At this stage you need a preliminary vision for change in the market system. It must be specific and concrete enough to be fundable and it should seek to be as close as possible to the aspirations of where the market actors want to go.

Definition – A vision for change in the market system: This is the improved state of affairs that stakeholders would like to get to and contribute towards.

Importance of a market actor-led vision for donors

It is crucial that the vision for change that you communicate in your proposal to the donor starts as close to the aspirations of the market actors as possible. If the vision for change that you communicate in your proposal is far removed from where the market actors want to go, the vision will have to change in order for the market actors to remain engaged and motivated. There are two things that are likely to happen; neither prospect is attractive:

- **A rigid vision and uninterested market actors:** You do not allow the vision to evolve, committed as you are to objectives and targets that are in-line with the initial vision. The market actors lose interest in your efforts to facilitate change in the system as it does not resonate with their aspirations. The donor is satisfied at first as you continue to deliver against your objectives and targets. Success is short-lived however. The changes are not led by market actors themselves, others do not crowd in and the system is not sustainably transformed.
- **An evolving vision and an angry donor:** The vision evolves to meet the aspirations and interests of the market actors. You allow this to happen because you seek ownership and drive from the market actors to ensure that the changes are systemic and thus sustainable and at scale. The donor however becomes uncomfortable that the process is not delivering what you have promised them. They may threaten to withdraw the funding required to continue the facilitation process.

Perspectives of market actors and intelligent guesswork

An early challenge for a PMSD process is balancing the concrete commitments most donors expect from their implementers and the flexibility necessary in the strategy to permit a facilitative approach driven by market actors themselves to be adopted.

A good PMSD Strategy should incorporate a truly participatory approach that meets the needs of the market actors while also responding to the interests of prospective donors.

The key to meeting this challenge is intelligent guesswork. Use your existing understanding of the market system gathered during the market system selection and preliminary mapping and analysis steps to communicate to donors a vision and strategy that is as close as possible to the aspirations of where the market actors want to go.

While it is never possible to know in advance exactly how the market actors will respond to the PMSD process and what specific solutions may emerge, we have consistently found from our past projects that it is possible to know fairly reliably what priority issues market actors are likely to crowd around, and which opportunities for collaborations market actors are likely to take advantage of.



The more you seek the perspectives of strategic market actors in the early steps of the PMSD process, the more likely your guesswork will capture their aspirations. In [Step 1: Market System Selection](#) and [Step 2: Preliminary Market Mapping and Analysis](#) you are encouraged to seek the input of a range of different market actors, from leading decision-makers to small-scale market actors, who you hope will change their patterns of behaviour. You will also find it very valuable to engage with these market actors as you build a vision for change to communicate with prospective donors.

An evolving vision

The most important stakeholders in the visioning process are the market actors themselves. When the vision is close to where the market actors want to go themselves, they are likely to take ownership of the PMSD process and drive the changes that need to happen.

It is natural and desirable for this vision to evolve once the facilitation work begins in the next step. This is because from Step 4 onwards the PMSD process becomes more participatory, including a greater number and diversity of market actors. As the perspectives, attitudes and ideas of these other market actors come in and begin to influence the PMSD process, and market actors take ownership and begin to drive change themselves they will shape the vision and it will naturally evolve.

Representing marginalised actors in the vision

It is common to find differences in aspirations between market actors. In particular powerful actors are not likely to see greater inclusion of the poor as something that is important to them unless it is specifically linked to the growth of their own businesses.

It is important that you actively seek to build a vision for the market system where marginalised actors not only face greater opportunities to derive an income from the market system but also have greater power to choose how to participate on their terms and to influence how the system changes and evolves.

Action Point B – Build a preliminary vision

Use your preliminary Market Map, analysis of key actors and table of systemic issues to help you with this Action Point. In your team answer the questions below about what a more efficient, inclusive and equitable market system could look like. Use the answers to write:

- A one-page vision for change for the market system to include in longer proposals;
- A one-paragraph description of the vision that you can use in an email or as part of a concept note;
- A one-line headline statement of the vision that grabs attention and excites the reader.

Present it in a language that you are happy to share with a donor as well as an interested market actor.



Seek the input of a range of market actors across the system as much as possible to answer the questions!

- **Market Demand:** What is the demand for the market system's products expected to be in the future? Are there realistic new markets that will be accessible?
- **Issues:** What are the systemic issues that will be addressed in the future? In what area of the Market Map do they come under: market chain, supporting inputs and services, or enabling environment? Are these issues constraints that will be unblocked, or opportunities that will be taken advantage of?
- **Market Actors:** If the systemic issues were addressed, how would the market actors change? Would there be more of them or fewer? Would the proportion of actors playing different roles change? Would the existing roles involve new practices and business models to add value (processing, storage, transport, quality assurance, volumes)? Would there be new opportunities for the poor, vulnerable and marginalised?
- **Relationships:** If the systemic issues were addressed, how would the relationships and trust between the market actors change? How would the improved relationships and trust change the way that the actors could respond to shocks? How would the improved relationships affect the actors' ability to innovate and adapt to new challenges and opportunities? How would power structures change to give marginalised actors greater choice and self-determination in their participation in the market system?
- **Market supply and upgrading:** If systemic issues were addressed, how would the supply of products to the end-markets change? How would the products be different, in terms of quality, volume and variety?

Our recommendations for building a vision for change

Seek the input of a range of market actors: It is unlikely that it will be possible to involve many market actors at this stage, but the greater participation you secure at this stage, the closer the vision communicated to the donor will be to the vision you facilitate. Try to consult with both market actors who are 'knowledge-rich' (know a lot about the market system and those that are marginalised in the system). You can use focus group discussions for this.

Balance ambition and realism: Stakeholders should get excited about the vision for change. Ambitious visions nurture the motivation in the market actors to commit to the process and in time take lead. However if the vision is unrealistic and is not achievable, neither the market actors nor the donor will buy it. You will struggle to get commitment from the market actors, and it is unlikely that your proposal will be funded.

Stay focused and relevant: Use the information from the preliminary Market Map, analysis of key actors and systemic issues to keep your visioning process specific and relevant to the market system in question.

Put in a time-frame: Set goals in the format of "In 5 years time..." or "In 8 years time...". Being time-bound will help you be realistic, and will help motivate stakeholders to support action to change things now!

Create a Market Map vision: Map out the market system of the future. This is a great way of visually showing what you hope will change between now and then!

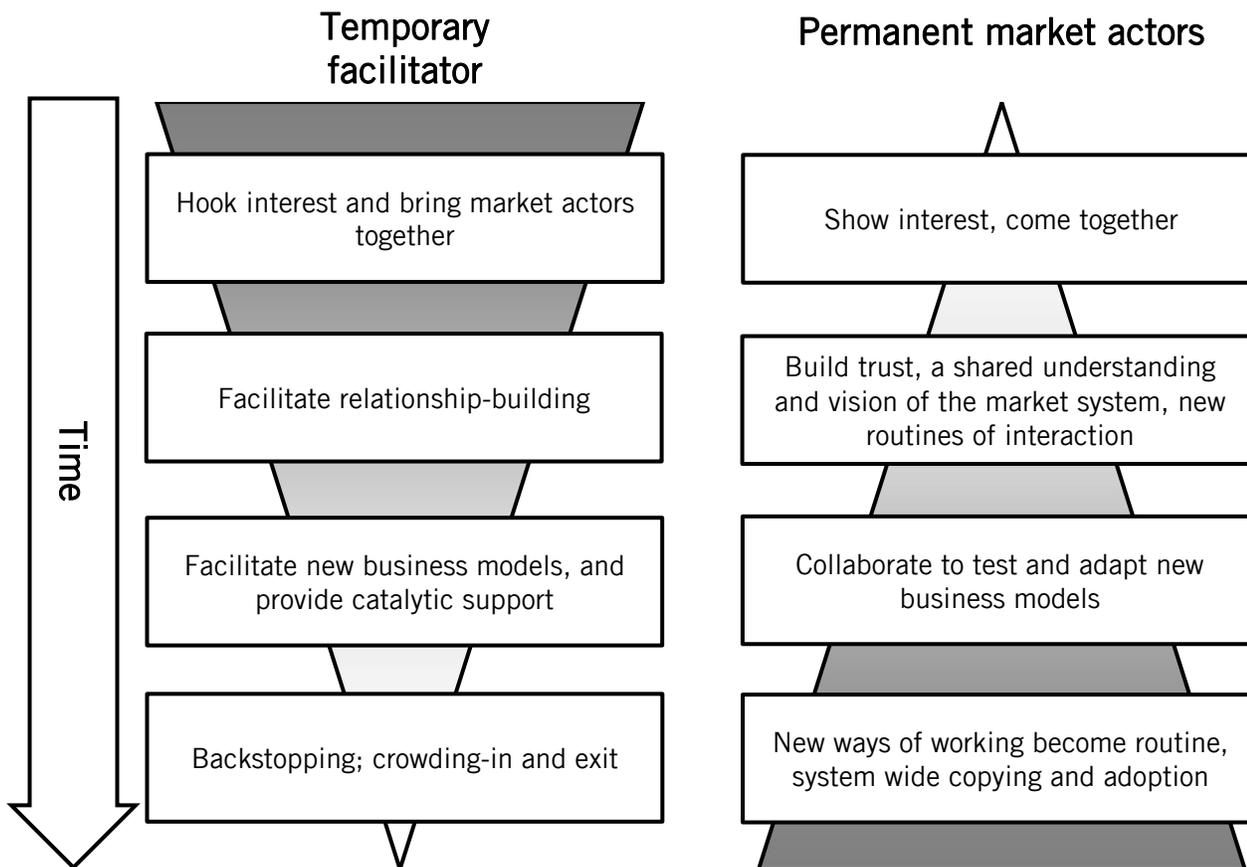
Section 4: Exit before you enter

In order for them to be sustainable, improvements in the market system must not depend on your on-going support. This is why it is essential that you devise the facilitation strategy around the time-bound nature of the interventions.

Plan to facilitate

As a grant-based actor your support is inevitably temporary. It is therefore very important to design the interventions accordingly, planning ahead for the withdrawal of your support. Figure 2 shows how the facilitation approach plays out over time. It is adapted from Bernet et al. (2005)¹.

Figure 2: Facilitation - Planning your exit before you enter (adapted from Bernet et al, 2005)



At the beginning of the PMSD process the temporary facilitators take a lead in attracting markets actors to come together. At every opportunity the facilitator builds the trust between the market actors towards greater collaboration. As trust builds and new business models are tested and adopted, the process of change becomes increasing led by the market actors themselves. The facilitator is therefore able to wind down the intensive support and focus on facilitating communication across the system to encourage

copying and adoption widely. You can find a more detailed narrative of the facilitation process described in Figure 2 in the annex at the end of the step.

'Plan your exit before you enter' is an exercise that will help you design your interventions to be sensitive to their temporary nature, and to support the changing leadership in the process described in Figure 2. You will find it at the end of this section in *Action Point C*.

Wheels of change

Some of our teams also find it helpful to think about three 'wheels of change' that enable a market system that is efficient, inclusive and efficient to maintain these characteristics as it continues to evolve. If you are interested in learning more about these wheels of change, consult the *Supplementary Guidance Note: Market Systems' Three Wheels of Change*.

Examples from the field – Animal health meetings in Nepal and Bangladesh:

Dairy Chautaris in Nepal are 'meetings under the tree' that occur on a regular basis between smallholder dairy farmers and veterinary service actors. Activities at the *Dairy Chautaris* include awareness-raising and information-sharing about cattle diseases and recommended precautionary action, learning sessions about animal health and nutrition, and publicizing of de-worming, vaccination and AI camps. At first Practical Action and its partners sponsored and facilitated these meetings with a lot of hands-on organisational and technical support. After 18 months of demonstrating the benefits of these interactions, market actors have taken charge of running the events. They are often sponsored by large-scale dairy processors and sometimes input suppliers, organised on the ground by local cooperatives and the Chamber of Commerce and Industry, and are supported technically by the government line agency for Livestock Services.

Practical Action's dairy work in Bangladesh has been running for longer than in Nepal. In Dinajpur, partnerships similar to Nepal's *Dairy Chautaris* have shown good signs that they increase the ability to respond to emerging challenges. When livestock disease epidemics such as anthrax and foot and mouth disease hit the region, para-veterinarian associations acted as facilitators to bring emergency vaccination camps to the areas they served. Many paravet associations originally established through the facilitation of Practical Action have now registered as companies, and have evolved to take advantage of new opportunities not foreseen by Practical Action's facilitators: rent-sharing arrangements with input supply companies and veterinary coverage partnerships with government livestock services line agencies for example.

Action Point C – Plan your exit before you enter

Read the final section – *Section 5: Facilitative activities – some ideas* – of this step before you carry out this Action Point. Carry out this exercise and those in Action Point D together. Both Action Points help you to plan a set of facilitation activities for the PMSD process.

Even when it is very ‘light-touch’ the PMSD process involves delivering a set of interventions in the market system, and supporting market actors to transform it. This exercise helps you to think about how the market system will continue to evolve after the end of the PMSD process. It enables you to strategise from the beginning how processes that you help to kick-start will continue to happen after your activities have ended.

In your team, use the template below to consider who you expect will take over activities that you facilitate through the PMSD process.

Activities	At the beginning of the PMSD process		At the end and after the PMSD process		What needs to happen for this to take place?	What are you going to do to ensure this happens?
	Who does?	Who pays?	Who does?	Who pays?		

Note: There may be activities that you facilitate in the PMSD process that are intended to catalyse, or kick-start, change. You may feel that these activities do not need to continue after the end of the process. However, be careful! As market systems continue to evolve and market actors adapt to new challenges and opportunities these catalytic activities may continue to be relevant. They might provide a function in the market system that must continue in order for the market system to continue to evolve in an efficient, inclusive and equitable manner.

Section 5: Strategic activities

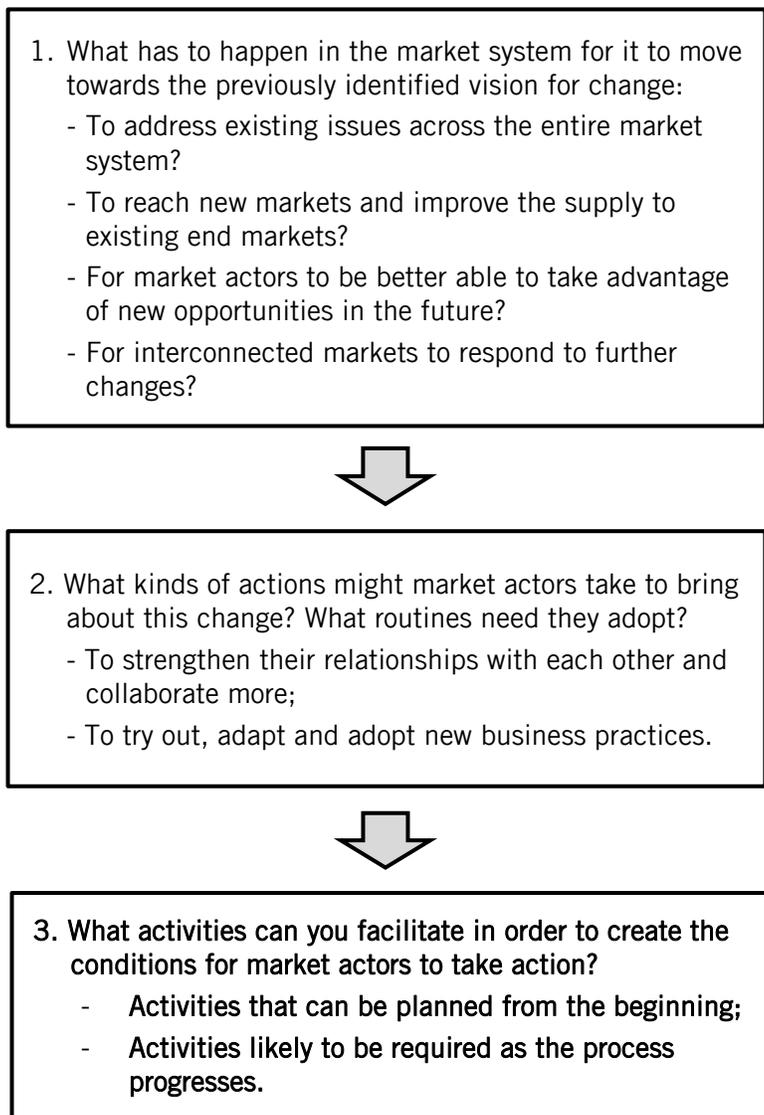
You should select activities to implement strategically as part of the PMSD process. The objective of these activities is to facilitate market actors to adopt new routines of behaviour and practices that will move the system towards the vision for change.

What's the logic?

Before you identify appropriate activities to facilitate, you should first think about what has to happen in the market system to move towards the vision that you have built earlier in Section 3. From there you can work backwards and consider what kinds of actions market actors might take to bring about this change. Finally you can work backwards again to think about activities you, as facilitator, can carry out that will create the conditions for the market actors to take action.

Figure 3 lists a set of questions that will uncover the intervention logic and help you to identify an appropriate set of activities for the PMSD process.

Figure 3: Questions to uncover the intervention logic



Planning ahead and remaining flexible

Market facilitation is a ‘learning-by-doing’ approach. You should try things out, measure and observe their outcomes, build on successes as you go along and learn from failures.

Instead of designing and planning all activities and outcomes of the process from the beginning, you should try to take a more flexible approach. This flexible way of implementing development work will enable stronger, more sustainable results.

You will find more guidance on how to adopt this ‘learning-by-doing’ approach in [Step 8: Facilitating Change](#), and more on how to harness monitoring information to support this process in [Step 9: Monitoring, Evaluation and Learning](#).

Despite this, in order to prepare a fundable proposal it is necessary to identify and communicate a number of activities that you will facilitate as part of the PMSD process. You also need to predict the kinds of activities that are likely to be required as the process progresses, in order to budget for them.

Examples of facilitation activities

Table 1 describes activities that have been used in previous PMSD processes. You can use these examples to help you identify activities that you can communicate in your proposal and budget for.

Examples 7 – 15 are all forms of subsidies. Make sure you read the following segment about using subsidies smartly to ensure that they do not undermine the facilitation process.

Table 1: examples of facilitation activities

Examples of facilitation activities		Description of activity
1	<p>Participatory market mapping workshops</p> <p>e.g. Chitwan district dairy sector participatory market mapping workshops, Nepal</p>	<p>Participatory market mapping workshops bring together all the key market actors in a single space to build levels of trust and strengthen relationships between market actors.</p> <p>Over a series of participatory workshops, facilitators can help market actors to form a shared understanding and vision of the market system, identify and prioritise blockages and opportunities, develop collaborative solutions and plan for action.</p> <p>Lots more guidance on participatory market mapping workshops can be found in Step 6: Participatory Market Mapping.</p>
2	<p>Multi-actor interest forums and groups</p> <p>e.g. Livestock Forum in Zimbabwe; District (dairy) Enterprise Development Networks in Bangladesh; informal group of dairy market actors interested in improving cattle health in Nepal</p>	<p>As market actors begin to ‘crowd around’ priority issues in their market system, facilitators can encourage groups of actors to form interest groups to provide the focus often required for market actors to agree and take action to address an issue.</p> <p>Depending on the context and the interest of market actors, these groups or forums can focus on single issues or an agenda covering more than one issue.</p> <p>Further guidance on facilitating multi-actor groups and forums can be found in Step 8: Facilitating Change.</p>
3	<p>Market opportunity groups or other producer representation approaches</p> <p>e.g. Community election of new leaders of fishery, agriculture and livestock groups in Bangladesh; Re-establishing defunct dairy cooperatives in the hilly districts in Nepal</p>	<p>How large numbers of producers are represented in the PMSD process and more generally in the market system is a very important question that affects how inclusive and equitable changes in the market system turn out to be.</p> <p>Facilitators must help producers work within existing or new groups and organisations to appoint or elect trusted representatives.</p> <p>You’ll find more about effective representation approaches in Step 4: Empowering Marginalised Actors.</p>

Examples of facilitation activities		Description of activity
4	<p>Activities with marginalised actors to build competencies and skills to engage with other market actors. For example: market system game, market mapping, market actor role-plays, dialogue and negotiation skill-building</p> <p>e.g. Market system game with women hibiscus harvesters to understand the volume and quality requirements of buyers.</p>	<p>Representatives of marginalised actors (including but not limited to producers) often need support to build core competencies to help them engage with other market actors as well as to mobilise the constituencies they represent.</p> <p>Working with the people who are represented by others on these skills can also improve accountability between the representatives and their constituents.</p> <p><i>Step 4: Empowering Marginalised Actors</i> provides further guidance on this.</p>
5	<p>Exchange visits, field visits and ‘market system’ tours</p> <p>e.g. Facilitating coffee and cocoa cooperatives to provide tours of their facilities to training institutes Peru.</p>	<p>Visits facilitate the flow of information between market actors. They can be used to strengthen relationships between market actors who do (or could do) business with each other.</p> <p>They can also be used to encouraging copying and replication, by showing the new practices of innovative market actors to others. More on how visits can help ‘crowd-in’ actors and promote copying and replication can be found in <i>Step 10: Communicating for Uptake and Impact at Scale</i></p>
6	<p>Local reporters and other media market engagement activities</p> <p>e.g. Market mapping workshop and dairy ‘market system’ tour for reporters in Nepal; skills-training events for reporters (which incentivise innovative reporting on agricultural issues)</p>	<p>You should always treat media as a function of the market system, and reporters as market actors: Inviting reporters to market actor workshops and interest groups can encourage journalists to report on issues in the market system and contribute to the communication required for scaling up isolated success in system-wide changes. Engaged reporters can also be a powerful force to represent the interest and needs of marginalised actors.</p> <p>It is often necessary to build the awareness of reporters about the market system in the same way you might with marginalised actors: the market system game, market mapping and market actor role-plays are useful for this purpose.</p> <p><i>Step 10: Communicating for Uptake and Impact at Scale</i> provides further guidance on engaging with the media markets.</p>

Subsidies and direct delivery of market functions

e.g. Input subsidies and training to support high value vegetable production in Northern Province of Sri Lanka

When they are used as part of a strategic facilitation process, subsidies can be powerful instruments to achieve sustainable changes in the market system. Subsidies can finance demonstrations of innovative practices, reduce risk for poorer actors, and can unlock critical supporting inputs and services. When they are used badly however, subsidies can also undermine the efforts of the facilitator. They can create significant risks for the sustainability and the potential for impact at scale of the PMSD process.

Read the guidance below this table on designing such activities carefully before considering their use.

The following ideas are specific activities and variations on subsidies direct delivery of market functions, so make sure you read the guidance on these carefully before considering their use.

Examples of facilitation activities	Description of activity
<p>7 Challenge funds and other catalytic funding for innovation in the private sector</p> <p>e.g. Co-funding feed manufacturer on research, development and field testing of first low-cost, high-nutrition cattle feed in Nepal</p>	<p>Funds can be disbursed on a flexible basis to support actors to overcome the financial barriers to experimentation and innovation. How flexible they can be depends on the demand for these funds and how accountable the donor expects you to be.</p> <p>Challenge funds are a competitive, accountable way of disbursing funds where there is a demand for them. Discretionary funds are more flexible but are more at risk of misuse and corruption.</p> <p>It is important to think carefully about the incentives of the recipients of the funds. We strongly recommend risk-sharing approaches where the fund only covers part of the investment and recipients must cover the rest of the costs.</p>
<p>8 Risk guarantee funds</p> <p>e.g. Stimulating credit-providers to develop and pilot beef-fattening loans in Bangladesh</p>	<p>Risk guarantee funds are a special kind of catalytic fund for credit-providers and insurers. Facilitators guarantee part of the risk taken by credit-providers and insurers as they pilot new financial products.</p> <p>Risk guarantee funds are a subsidy for insurers and credit providers. Read the guidance on designing such activities carefully before considering their use.</p>
<p>9 Technical training to producers and other market actors</p> <p>e.g. Training on two-cycle pond fisheries in Sri Lanka</p>	<p>Technical skill-building is almost always an important component of changing the market system.</p> <p>Technical training is a critical, on-going function of the market system. Read the guidance on designing such activities carefully before considering their use.</p>
<p>10 Input subsidies using vouchers</p> <p>e.g. Agricultural input vouchers schemes between input suppliers, small traders and producers in Zimbabwe</p>	<p>Subsidising inputs and services reduces the risk for market actors to try out new practices.</p> <p>Read the guidance on designing subsidy activities carefully before considering their use.</p> <p>Take a look at the Impact Award 2011 case study from Zimbabwe for more details an example of a voucher scheme.²</p>

11	<p>Productive asset transfer</p> <p>e.g. Giving calves for beef fattening to landless households in Bangladesh, alongside animal health training, savings groups and market facilitation</p>	<p>Like subsidised inputs and services, the transfer of productive assets reduces the risk for market actors to try new practices. Additionally it increases the assets of the recipient, which can – if it is supported with complementary support – contribute towards their pathway out of poverty.</p> <p>Read the guidance on designing subsidy activities carefully before considering their use.</p>
12	<p>Trade fairs, business fairs, seed fairs</p> <p>e.g. Nepal National Dairy Sector Convention; District livestock trade fair in Chitwan, Nepal</p>	<p>Fairs that bring together market actors from within a single market system are a powerful way of building relationships between market actors.</p> <p>They work well when they are promoted to market actors as an opportunity to do business rather than as a space to solve problems. From our experience we have found that it helps to seek a professional organisation such as a chamber of commerce and industry to host and promote the fair instead of an NGO, to signal the professional, business nature of the gathering.</p> <p>These fairs provide a coordinating function that is critical to the market system, and you should consider how you can encourage market actors to organise these fairs after the end of the PMSD process. Read the guidance on designing such activities carefully before considering their use.</p>
13	<p>Technical advice and extension delivery centres</p> <p>e.g. Facilitating the animal health clinics 'under the tree' in Nepal, encouraging them to become institutionalised</p>	<p>Advice and extension services are a critical function in the market system. Some of our past projects have facilitated the strengthening of these systems, sometimes by demonstrating new models.</p> <p>Read the guidance on designing direct delivery activities carefully before considering their use.</p>
14	<p>Sales centres</p> <p>e.g. Sales and Service Centres in agriculture, fisheries and livestock in Bangladesh</p>	<p>Centres where demand for inputs and bulking of produce are coordinated play a critical function in the market system. Some of our past projects have helped market actors to establish, re-establish or strengthen these centres and demonstrated new models of working.</p> <p>Read the guidance on designing direct delivery activities carefully before considering their use.</p>

Using subsidies smartly

When they are used as part of a strategic facilitation process, subsidies (and direct delivery of market functions) can be powerful instruments to achieve sustainable changes in the market system. Subsidies can finance demonstrations of innovative practices, reduce risk for poorer actors, and can unlock critical supporting inputs and services. When they are used badly however, subsidies can also undermine the efforts of the facilitator. They can create significant risks for the sustainability and the potential for impact at scale of the PMSD process.

Definition – Subsidies: In the PMSD Roadmap subsidies refer to any investment made with development aid funding that directly supports (financially or in-kind) functions that are essential to the market system.

For example subsidies include asset transfers, sharing cost of inputs, delivering services including training, providing marketing assistance and providing start-up funding or finance.

Careful design and planning is the best way to ensure that any subsidy you consider applying is used smartly:

- **Keep them minimal:** Don't use subsidies and direct delivery unless you have to. Always look to use the minimum level of subsidy. Are there any market actors who have the incentives to invest and support the function in question? Could you facilitate these market actors to address the blockage themselves?
- **Be strategic:** If you choose to use subsidies and direct delivery, be strategic about them. Be clear about their purpose and the objective of their use. Design and plan the activities to achieve this objective and mitigate the risks of their use. Look at the *Examples from the field* below for cases of smart and strategic use of subsidies.
- **Be cautious:** Be aware of the risks of using subsidies and direct delivery of market functions and mitigate risks as much as possible if you do choose to use them;

Table 2 presents some of the common risks of using subsidies and ways of mitigating against them:

Table 2: Common risks of using subsidies and ways of mitigating against them

Risks of subsidies	Description	Mitigation activities
Dependency on time-bound resources	If market actors internalise subsidies and transfers into the way that they plan their livelihoods or businesses, this creates a dangerous dependency that can harm market actors more than it helps them when the funding for the subsidies and transfers end.	<p>Communication: Be clear to market actors exactly how much they will receive and for how long. Work with them to plan their livelihoods and businesses after the end of the subsidy.</p> <p>Exit before you enter: Use the <i>'Plan Your Exit Before You Enter'</i> tool in <i>Action Point C</i> to help you design a strategic end for the subsidy</p>
Un-scaleable	New business models and arrangements that require subsidies to get off the ground are always more problematic to replicate and copy, reducing the likelihood that demonstrations will scale up into system-wide change.	<p>Work with financial institutions: While financial institutions may not be willing to finance research and development into new business models, they may be willing to finance actors who want to copy or adapt an innovation that has been tested and demonstrated. Financial institutions can be a strategic actor through which subsidised innovations can be scaled up.</p>
Addressing symptoms rather than causes	Subsidies gaps inevitably plug gaps in market systems. It is tempting and easy to use them carelessly as a band aid rather than to seek out the cause of the market failure and facilitate market actors to resolve it.	<p>Systemic thinking: Follow the guidance in the PMSD Roadmap, especially in Step 2: Preliminary Mapping and Analysis, this step and Step 6: Participatory Market Mapping to ensure that the PMSD process takes a 'whole system' view in identifying blockages and search for solutions.</p>
Distortion of existing markets	Subsidised goods and services and asset transfer can severely disrupt existing supply markets by deflating effective demand for the assets, goods and services and providing uncompetitive advantages to participating suppliers.	<p>Work with existing markets: Analyse existing supply markets to understand what actors already exist. Use voucher schemes to encourage subsidy/transfer recipients to transact directly with the suppliers. Choose participating suppliers to avoid disadvantaging weaker suppliers.</p> <p>Take a look at the Impact Award 2011 case study from Zimbabwe for an example of a voucher scheme. Other resources about vouchers are listed in the reference and further reading section at the end of the step.³</p>

Examples from the field – Smart and strategic use of subsidies:

Demonstration effect in poultry in Nepal: In Nepal, the Practical Action team knew that it did not have the resources to transform the poultry market system with large scale transfers of poultry to poor people. The team also recognised that it did not fully understand the complex consequences of doing so. Instead it leveraged its funds to kick start a ‘test, communicate and copy’ approach. Firstly it subsidised a small number of interested producers to invest in and test out new rearing practices and contractual arrangements. Innovations are reviewed by a panel of market actors including the government department for livestock services and natural resource management researchers. Secondly, innovations that are demonstrated to be successful commercially and deemed environmentally sustainable by the panel are communicated across the sector to create wide-spread interest among other producers to take up the new practices. Input and veterinary services companies are leaders in this communication work – driven by their incentives to encourage small-scale producers to place greater importance in their products and services. Finally the team also facilitates producers and agricultural banks to work together to develop appropriate and viable loans for producers wanting to adopt the new practices. These new loans provide the financial support that replaces the subsidies that Practical Action deployed with the first group of innovating producers.

Sequenced semi-commercialisation of poor producers in Bangladesh: The team in Bangladesh identified a number of blockages for very small producers to commercialise part of their farming activities. They devised a set of sequenced subsidies to help poor producers overcome these barriers and join larger producers in supplying bulk orders from district level vegetable buyers. First of all the team adopted a ‘demonstration plot in every field’ approach, reducing the risk of trying new practices by covering the additional costs of new inputs. The team also worked with existing service providers to deliver field schools on new techniques - but often too few service providers showed interest, and so the team delivered much of the training itself. Over the next few seasons returns from new practices consistently proved themselves to be impressive. Practical Action facilitated numerous interactions between producers, service providers and input suppliers. Service providers were far more engaged this time around, now that the demand for their services had increased among small farmers. They took over many of the technical extension services that Practical Action and its partners had previously delivered directly, working with input suppliers and government extension agencies to support them.

Action Point D – Activities checklist

Use the table of examples above to select activities to include in the PMSD strategy and budget for. Remember that as the PMSD process progresses it will be important for you to be responsive and you may need to change activities or facilitate additional ones. Plan your budget accordingly.

When you have completed a first list of activities, review the checklist of questions below and make sure the planned activities follow the recommendations.

Checklist

- **Empower marginalised actors to prepare them for the participatory process:** Have you included sufficient activities to support marginalised actors to build their market literacy, interaction, and representation and mobilisation skills? Consult *Step 4: Empowering Marginalised Actors* for further guidance on this.
- **Engage key actors in the participatory process:** Have you budgeted time and resources to ensure that you are able to ‘hook’ key public and private actors in the market system and engage them into the change process? Consult [Step 5: Engaging Key Actors](#) for more information on strategies of engagement with powerful actors. [Step 8: Facilitating Change](#) provides further guidance on using smart subsidies to catalyse action from market actors.
- **Frequent and intensive interaction for transformation:** Sustainable new business practices and arrangements amongst market actors depend on changing attitudes, increasing levels of trust and strengthened relationships. Have you budgeted sufficient time and resources to facilitate a range of different spaces for market actors to meet to discuss issues in the market system and find solutions? Consult [Step 6: Participatory Market Mapping](#), [Step 7: Participatory Planning](#) and [Step 8: Facilitating Change](#) for guidance on how to plan, prepare and facilitate these interaction spaces.
- **Facilitate scale-up:** Impact at scale happens when the system as a whole is transformed. Have you invested sufficient time and resources to support communication activities? These will ensure that other market actors not involved with small-scale, isolated initiatives hear about, adapt and respond to innovations in order to ensure the expansion of success into transformations of the entire system. [See Step 8: Facilitating Change](#) and *Step 10: Communicating for Uptake and Impact at Scale*.
- **Build in flexibility:** As the PMSD vision and strategy becomes owned by the market actors it is natural for it to evolve. Have you considered how to build in the space in the vision and strategy (and budget) that you communicate with prospective donors to respond to this evolution?

Action Point E – Make subsidies smart

If you are considering using subsidies as part of the PMSD process, work through the template below in your team to ensure that you have designed and planned for these activities strategically.

Subsidy and description	Be strategic		Keep them minimal		Be cautious	
	What are the purpose and objectives of the subsidies?	What measures will you take to ensure that the subsidies serve their purpose and achieve the objectives?	Are there any market actors who have the incentives to invest and support the function in question?	Could you facilitate these market actors to address the blockage without subsidies?	What are the risks of using these subsidies?	How can you mitigate against these risks?
	<i>Look at the examples of our past experiences of using subsidies</i>		<i>Use the preliminary Market Map and analysis to help you explore these questions</i>		<i>Refer to Table 2 for some common risks and ways of mitigating them</i>	



Step 3: Strategic Design and Planning

'Facilitators prepare a fundable PMSD process'

Annexes

Annex 1: Why are these principles so fundamental?

(Adapted from Morcrette and Rai, 2011)⁴

Practical Action adopted a systemic approach to market development in 2002. This was in recognition of the fact that their past enterprise development efforts to improve the access of marginalised people to skills and technology options and later to business development services (BDS) often had limited success in delivering sustainable impacts because of weak linkages of these people to the wider systems.

Systemic concepts of interconnectedness, interdependency and interaction of the parts of the system, and the inherent feedback loops which promote and inhibit change means that in practice, market development practitioners should take into account critical actors, the relationships among them and the context that influences how they behave and interact in the market. Pursuing systemic changes in market development involves developing a vision for a more efficient, inclusive and equitable market system and working from a number of angles with critical market players to achieve this goal in a self-sustaining way.

Since systemic challenges in a market system involve many different actors, and solutions require coordinated action, Practical Action believes that it is absolutely essential that all the actors are involved in the process of developing an understanding of the entire system, identifying and addressing challenges and exploiting the opportunities. Genuine participation, in the sense that the process of intervention planning and action is led by market actors – and therefore that they feel a strong sense of ownership over it – is essential to ensuring that the transformations persist after the end of Practical Action’s involvement in facilitating the market system.

Facilitation of market development aims to assist market actors to build relationships and undertake collaborative action. This enhances their ability to continuously improve their productivity, thus the competitiveness and sustained economic and social gains of market systems. For Practical Action, in practice this means above all to avoid entering the market system and delivering missing or problematic market functions themselves. In particular for example, Practical Action’s teams avoid becoming input or service providers or to act as marketing agents. In the absence of Practical Action and its partners unblocking systemic constraints directly however, the onus of intervention shifts onto catalysing market actors to address blockages themselves. Nurturing tacit characteristics – confidence, trust and influence – of market actors and their relationships between each other becomes critical to achieving sustainable transformations in the market system.

Furthermore facilitation is an essential part of building the capacity of the actors to react adaptively to their often fast-changing market context. The challenges and opportunities identified by Practical Action and market actors at any point in time will most likely not be the same issues that these market actors will face in the future as their system changes. The facilitation approach, by putting the emphasis of development agency intervention on building the capacity of market actors to collaboratively solve their own problems as they encounter them, strives for an in-built adaptive sustainability which direct intervention cannot achieve.

Annex 2: Planning your exit before you enter – A facilitation narrative

Figure 2 shows how the facilitation process begins with much of the initiative and energy for action resting with the facilitators. The facilitator's job at this stage is to nurture the same initiative and energy in the market actors themselves by bringing them together and helping them to see a shared vision for change.

As engagement and energy amongst the market actors builds, the facilitator helps the market actors to identify blockages and opportunities that affect the entire system and seeks to crowd market actors around these shared issues. This process in itself helps to strengthen relationships, change attitudes and build trust.

These changes in the intangible characteristics of the market actors come with time through intensive interaction with each other. At first the facilitator enables these interactions but it is a great sign when actors begin to organise interactions themselves. Facilitating these changes will be bumpy, and when disagreement inevitably happens it may seem that the process is losing ground. A good facilitator will help to smooth the worst of the disagreements and help market actors to move on and continue engaging even in the light of early failures.

As relationships improve, market actors will begin to explore new solutions to meet the challenges in their market system. At this point the facilitator is likely to need to facilitate negotiation, provide technical assistance with the development of new business models, and sometimes provide smart catalytic support and subsidies where necessary so that market actors can test new practices and arrangements. Once again, bumps and failures are likely, and the role of the facilitator is to enable market actors to learn from failure and try again.

Over time, after the false starts successful new arrangements and practices will emerge and become standard practice for the leading market actors. The facilitator should now focus on augmenting this success by assisting less innovative actors to copy and adopt new ways of working, expanding the impact of changes and transforming the system. Only when changes in the system happen on a large scale as a result of this crowding in process will other parts of the system and other interconnected markets respond and adapt in turn.

Through this process, the role of the facilitator will naturally diminish and become more light-touch as market actors, in collaboration with each other, are able to take on new challenges and opportunities by themselves.

References and further reading

Original 'Planning your exit before you enter' diagram

¹ Bernet, T., A. Devaux, O. Ortiz and G. Thiele, (2005), *Participatory Market Chain Approach*, BeraterInnen News 1/2005, <http://portals.wi.wur.nl/files/docs/ppme/MarticipatoryMarketChainApproach.pdf> (Accessed 26 January 2012)

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² Samhutsa, P., (2011), *Agro-dealership voucher scheme in Mashonaland Central Province, Zimbabwe*, Practical Action, 2011 Impact Awards <https://practicalaction.org/second-place> (Accessed 03 February 2012)

³ Goldmark, L., (2003), *Market development versus resource: Lessons from voucher programs in Latin America*, Development Alternatives, Inc. (DAI), ILO Turin BDS Seminar transfer, <http://www.bdsknowledge.org/dyn/bds/docs/177/Goldmark%202-9.pdf> (Accessed 31 January 2012)

Gregory, I. and D. Rohrbach (2012) *Voucher schemes for enhanced fertilizer use: Lessons learned and policy implications*, IFDC and World Bank, Agriculture Sector Council Agrilinks seminar, <http://agrilinks.kdid.org/library/voucher-schemes-enhanced-fertilizer-use-lessons-learned-and-policy-implications-presentation> (Accessed 31 January 2012)

Further reading on facilitating the dairy sector in Nepal

⁴ Morcrette, A., and S. Rai, (2011) "Facilitating the Dairy Market System in Nepal: A Participatory Approach", *Food Chain* 1:2, pp. 156-176