



Swiss Agency for Development
and Cooperation SDC

What to consider when assessing and approving MSD project proposals

Introduction

The Swiss Agency for Development and Cooperation (SDC) and other donors have been championing the market systems approach – an approach also known as Making Markets Work for the Poor (M4P). Market Systems Development (MSD) addresses the underlying causes why markets are not performing for people living in poverty and unemployment. Removing so called bottlenecks then translates into lasting changes that have a large-scale impact.

The adaptive and facilitative way of intervening that is typical for MSD makes planning, approving and managing these projects different from projects following other approaches.

The SDC e+i network has produced a 2-page brief that introduces the MSD approach as well as a longer guidance for planning and managing MSD projects for SDC.

This brief is specifically written for decision-makers who approve MSD projects – either entry proposals with opening credits or credits for main phases. It will guide you through the different phases of MSD projects and how they are linked to the SDC Project Cycle Management (PCM) – with a focus on phases relevant for approval.

What is MSD? And why is it different?

MSD aims to improve the conditions in market systems so poor and marginalised people who are commercially active can benefit more. Yet directly supporting that target group, for example by handing out inputs or training them, often only alleviates symptoms. MSD focuses on the root causes that distort the markets. These root causes are difficult to find as they might be a few steps removed from the target population. For example, there might be no pharmacies that serve more marginalised people not because it is not commercially viable to do so, but because there is a lack of trained staff or of organised supply chains. Also, often there are interest groups that are benefitting from the status quo and are hindering attempts to change it – which is generally only discovered when engaging with the market trying to change things.

The consequences are that

- ▶ MSD needs more upfront analysis to discover root causes.
- ▶ MSD needs to analyse different markets to find one in which change is feasible at scale.
- ▶ One does not always know at the start of the project which bottlenecks can successfully be removed, which is why MSD projects need to be adaptive. They might abandon certain sectors and move into new sectors during their lifetime.

MSD projects are not providing simple solutions but are modifying the incentives and behaviour of market players as well as rules and regulations. This ensures lasting and large-scale systemic change.

Does the MSD approach work?

Existing projects have proven that the approach can provide great value for money compared to other approaches. In addition, its principles go beyond employment and income creation and traditional sectors like agriculture. MSD can and is applied to basic services like water and sanitation and health. For example, the SDC-funded Katalyst project has benefitted 4.69 million small and medium enterprises and farmers between 2000 and 2017 in Bangladesh, with an income increase in USD 689 million. In the agricultural sector specifically and looking at the period from 2013 to 2019, SDC funded 275 projects featuring major elements of MSD¹.

When is the MSD approach appropriate?

Using the MSD approach is appropriate when you are in a situation in which markets do not work for poor people and when aiming for systemic change is technically possible and politically feasible. Furthermore, it is important to be in a situation where an implementer can be found that is experienced and able to deliver systemic change interventions. This can be done through tender but generally often still requires capacity building of the project teams.

How does MSD work in practice?

MSD projects carefully select market systems or sectors in order to find the ones where change is most feasible and can best reach a large number of people from the target population.

Project teams together with the local stakeholders need to thoroughly analyse the real bottlenecks that exclude poor populations from market systems. It also needs a good understanding on capacities and motivation of local system actors to make market systems more inclusive.

MSD projects work with partners to develop new products like inputs or services like advice, or to shift constraints for the target population, like regulations or access to information. Hence, it is a catalytic approach with the potential to reach a large number of people and aiming at long-lasting, systemic changes instead of providing short-term solutions.

Why do MSD projects generally have an inception phase and how long is it?

The in-depth analysis described above needs time and intensive engagement on the ground and generally cannot be done in a short preparation phase. To get this initial understanding of the system and major constraints, it is accepted as good practice to start with an inception phase that focuses on context analysis and design.

Inception phases have proven to be extremely valuable to set up MSD projects properly and give the project teams enough time to analyse the selected sectors and build relationships with the relevant actors in the system. Also, inception phases tend to include initial pilot activities together with partners in order to test their willingness and capacity to come up with solutions.

There is no hard and fast rule as to the length of the inception phase but as a rule of thumb, 12 months have shown to be a good length. In addition, having enough time for comprehensive analyses and initial piloting of interventions in the inception phase will help to develop a better and more robust prodoc and credit proposal, which is why some projects have inception phases of 18 months.

How are inception phases funded?

Good experiences have been collected within SDC in funding an inception phase through an opening credit.

The entry proposal with the opening credit would in these cases cover a feasibility study, the tender process and an inception phase, so the chosen implementer can provide a meaningful prodoc, budget and logframe for the implementation phase.

Consequently, MSD projects tend to require relatively large opening credits of around CHF 1 million and relatively long entry phases of up to 18 months, which can be further extended if necessary.

In a few cases, the opening credits were only used to cover feasibility studies and the tender process. In these cases, the inception phase can be designed as a short first phase of a project funded through a credit proposal, followed by a second phase of normal length, funded through another credit proposal.

Why do MSD entry and credit proposals seem to be less concrete with regards to planned activities?

To achieve systemic changes, it is paramount for MSD projects to work adaptively. This includes being able to take advantage of emerging opportunities. A rigidly pre-defined plan of activities hampers the required flexibility. Some things need to be decided once the project team is immersed in the context and has built relationships with stakeholders. Furthermore, to achieve sustainable results, the ownership for changes needs to be strongly rooted in the local system. It is therefore important for MSD projects to be able to adapt to the dynamic stakeholder landscape and engage with new partners as they emerge and/or get ready.

This is particularly true for the entry proposal as the substantive context and market analysis is conducted only during the inception phase. Many aspects of the design of the project, including selection of the market systems (sectors), of local partners (system actors), and the definition of feasible targets depend on the results of these analyses. Therefore, the information available to elaborate an entry proposal is often limited.

What can I expect in an MSD entry proposal?

Entry proposals describe how the interventions are planned to work in principle, substantiated by examples of how it has worked before in other contexts where similar approaches were used. In addition, cost-benefit ratios based on preliminary calculations can be added. This should suffice for the entry proposal to be approved, even with a high opening credit allowing to finance an inception phase.

What can I expect from an MSD credit proposal?

Project document and credit proposal must be much more concrete than the entry proposal. When the entry proposal covered an inception phase, at this stage the implementer has already worked for several months and done more in-depth assessments. Markets/sectors, constraints and preliminary intervention strategies can then be described in much more detail but remain sufficiently open to allow the project to adapt according to the sector dynamics.

Do logframes and budgets of MSD projects look any different?

In MSD, the main role of the logframe is to define the contractual relationship between SDC and the implementer and for overall steering of the project while allowing for the project to remain flexible and adaptive. This means it needs less detail compared to other types of projects. The logframe of an MSD project should be general enough so the project can still adjust its activities and intervention strategies.

Due to its facilitative way of working, MSD projects rely on relatively large teams with experienced team members that are able to analyse market systems and engage with market actors and other stakeholders to jointly develop new ways of working. As a consequence, budgets for MSD projects tend to have a higher share of cost in the project cost parts (parts 1-3) of the SDC budget template as opposed to the fiduciary funds (part 4). Part 4 of the budget should, similar to the logframe, also be built in a way that allows the project to keep its flexibility and adapt activities over the course of implementation. Budgets constructed at activity-level make it very difficult for MSD projects to adapt and take up opportunities or to change strategy if something turns out not to work.

Why is there often a budget line for capacity?

Capacities to understand and implement MSD need to be built both at the level of the implementing teams but also at the level of the SCO. In many countries, MSD capacities are not available locally. SDC can look for the capacities internationally by seeking for an international implementer or an international backstopper for local implementers. Yet even internationally, capacity to implement MSD projects is still limited. Hence, SDC and its implementing partners need to invest in building MSD capacities.