



MARKET SYSTEMS DEVELOPMENT

Mercy Corps' Approach

APRIL 2023

Mercy Corps recognizes that to achieve our vision of supporting communities – and the most marginalized within them – to emerge from crisis and build towards a more inclusive, resilient future, we need to do more than just plug gaps in failing systems. Economic wellbeing and resilience can only be achieved sustainably and at scale when farmers, entrepreneurs, businesses, governments, and financial service providers make lasting changes that enable the most marginalized to participate in market systems more fully as customers, entrepreneurs, and employees. We work to catalyze such changes, even in the most fragile and complex environments.

Where possible, Mercy Corps seeks to achieve its objectives through implementation of a **market systems development approach (MSD)**. The approach involves identifying opportunities for people to improve their economic well-being, analyzing *how* and *why* these opportunities haven't been met, and then partnering with existing market players to unlock the opportunities, for good.

Characteristics of MSD

- i) a focus on underlying constraints that drive systemic failure and exclusion;
- ii) a commitment to achieving impact that lasts beyond the program's closure;
- iii) short-term facilitative partnerships with existing market players, including public, private and civil society actors; and
- iv) embracing adaptive management

MSD programs start by taking time to understand specific communities' needs and constraints, and then assess different sectors within the broader market system to identify opportunities to meet those needs sustainably and at scale. Interventions are then designed based on the findings, and programs move into an implementation phase. It is important to note, however, that as MSD programs are inherently adaptive, the initial portfolio of interventions – and even of targeted sectors – is not seen as final or exhaustive. As new opportunities are presented or pilots demonstrate that current interventions are unlikely to yield results, sectors and interventions may be added, merged, or removed.

Illustrative implementation process

Mercy Corps' MSD approach leaves no intervention tool off the table, as long as it is only used temporarily to stimulate long-term change in partners' ways of working. An MSD program may use research, analysis, grants, guarantee instruments, relationship brokering, technical assistance, or advocacy to catalyze changes in the way market actors do things that lead to greater inclusivity of the most marginalized. An illustrative example of a typical MSD implementation process is outlined below.

Phase 1 – Community Assessment:

Focused on building a deeper understanding of the communities the program is intended to benefit, this phase includes assessing communities' current livelihood strategies, the opportunities they see, the constraints they face, and their felt needs and aspirations. No group is homogenous, so this phase usually includes 'segmenting' people into smaller groups based on shared opportunities, constraints, and aspirations. Findings from this phase contribute to a long-list of sectors to assess.

Phase 2 – Sector Selection:

Sectors are assessed based on their *relevance* to people experiencing poverty, marginalization, or other specified forms of suffering (including an assessment of which and how many people might benefit from changes in the sector and by how much); the extent to which there is genuinely an *opportunity* for change in the sector (including an assessment of demand-side trends); the potential to support people's *resilience* in the face of shocks and stresses; and the *feasibility* of achieving impact with the available resources, given drivers or blockers of change.

Phase 3 – Market System Analysis:

Selected sectors then undergo further assessment to explore and validate the indicative opportunities already identified (and capture any that may have been missed), deepen understanding of what has constrained change in the past, map market players, and identify partners with whom to pilot interventions. As part of this process, the program assesses potential partners' incentives and capacity to perform critical market systems functions more effectively and inclusively.

Phase 4 – Partnership Formation and Piloting:

Piloting interventions begin, starting with small-scale pilots and action-research to test proof of concept, with a limited number of partners who have an incentive to do things differently. Program teams then adapt intervention design based on pilot results, and pilot again at an expanded scale (e.g., with additional partners, or greater market penetration). Though the iterative learning phase reaches its peak early in the program, ongoing piloting and learning are expected to extend (less intensively) into later years in some intervention areas. This partnership approach is also responsive to changing context, particularly in fragile areas where the constraints of marginalized groups and partner incentives can change quickly.

Phase 5 – Scaling-Up:

The focus then shifts to analyzing the impact and potential sustainability of the pilots and identifying areas to scale results. For a change to scale across a system, new (similar) players need to adopt the change that has been piloted. For example, if a finance provider has successfully piloted an affordable loan product for micro and small enterprises, the MSD program would look for ways to get other finance providers to offer similar and competing products. A scale-up strategy might also include supporting the original partner to expand their offering to new market segments or into new geographies. For example, the original finance provider might make the new piloted product available in all their branches. Monitoring, learning, and critical reflection during this phase, in addition to changes in the operating contexts, may lead to pivots in scale up plans and piloting of additional innovations. This phase represents the bulk of program implementation, where the most significant economic impact and resilience is realized.

Phase 6 – Monitoring and Close Out:

Phase six focuses on gradually - but fully - withdrawing program support, monitoring existing interventions (with particular attention on how actors respond to shocks and the extent to which change continues without program support), capturing learning, and closing the program.

Phase 7 – Sustainability Assessment:

Donors who fund MSD programs are increasingly investing in a final assessment 3-5 years after the program's closure to assess the sustainability of results within the targeted systems. These assessments are critical for building the evidence base in the field and stimulating further learning.

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About Mercy Corps

Mercy Corps is a leading global organization powered by the belief that a better world is possible. In disaster, in hardship, in more than 40 countries around the world, we partner to put bold solutions into action — helping people triumph over adversity and build stronger communities from within.

Now, and for the future.



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