

MARKET SYSTEMS DEVELOPMENT OVERVIEW

Key Takeaways

1. Market systems development (MSD) is an approach to international development that emphasizes sustainability, scale, and systemic change.
2. A market system refers to the range of actors and institutions that impact the delivery of a given commodity or service in a market. To be functional, market systems must be competitive, inclusive, and as resilient.
3. Market facilitation is a key component of the MSD approach, in which development actors collaborate with local market actors to promote sustainable outcomes.
4. The MSD approach has been applied across a range of sectors, including agriculture, water and sanitation, finance, labor markets, and health, amongst others.

Rationale for this Brief

The MSD approach has increasingly become mainstream within development practice across a range of donors, non-profits, and implementing organizations. As [this map](#) highlights, it has been applied across sectors in most lower- and middle-income countries in the world. Despite its widespread application, concepts within MSD can be difficult to grasp. Newcomers often struggle with the many difficult new ideas and expansive jargon that MSD specialists use, and MSD specialists can struggle to explain MSD quickly and in accessible terms. Yet—[backed by a growing body of evidence](#)—MSD offers a compelling framework for sustained, scaled, locally-driven impact.

Developed by USAID, through the Feed the Future Market Systems and Partnerships Activity (MSP), this brief aims to describe MSD to USAID and implementers, promoting a common understanding of market systems, as well as some of the implications for activity (i.e., project) interventions.

What is a Market System and Market Systems Development?

The roots of systems thinking come from the study of complex adaptive systems, which had early applications in biology, physics, and sociology. Core to systems thinking is a recognition of the dynamic and adaptive nature of systems, meaning that the actions of actors within a system, whether they are species in an ecosystem or sellers in a marketplace, impact and change the behaviors of others in often unpredictable ways.

Common Terms and Jargon

MSD is a minefield of complicated terminology and jargon. Some of this is necessary. However, promoting MSD to a wider audience requires that core concepts are clearly articulated and well understood.

In a [previous publication](#), the Feed the Future Market Systems and Partnerships Activity (MSP) has attempted to define some core MSD concepts (adapted here for simplicity):



Sustainability: The extent to which impact or a proposed change in behaviors/norms persists beyond the life of a activity.



Scale: The number and proportion of a target population in a market system affected by activity activities. Meant to be subjective.



Systemic change: Deep shifts in a market system's underlying structure and predominant behaviors of individuals and groups.



Facilitation: The action of working in collaboration with a market actor(s) to solve problems as opposed to attempting to solve the problem directly using activity funds.

Other useful terms include:



Market actor or player refers more specifically to associations, businesses, governments and/or government entities, researchers, consumers, and others, who participate or interact within a particular market system.



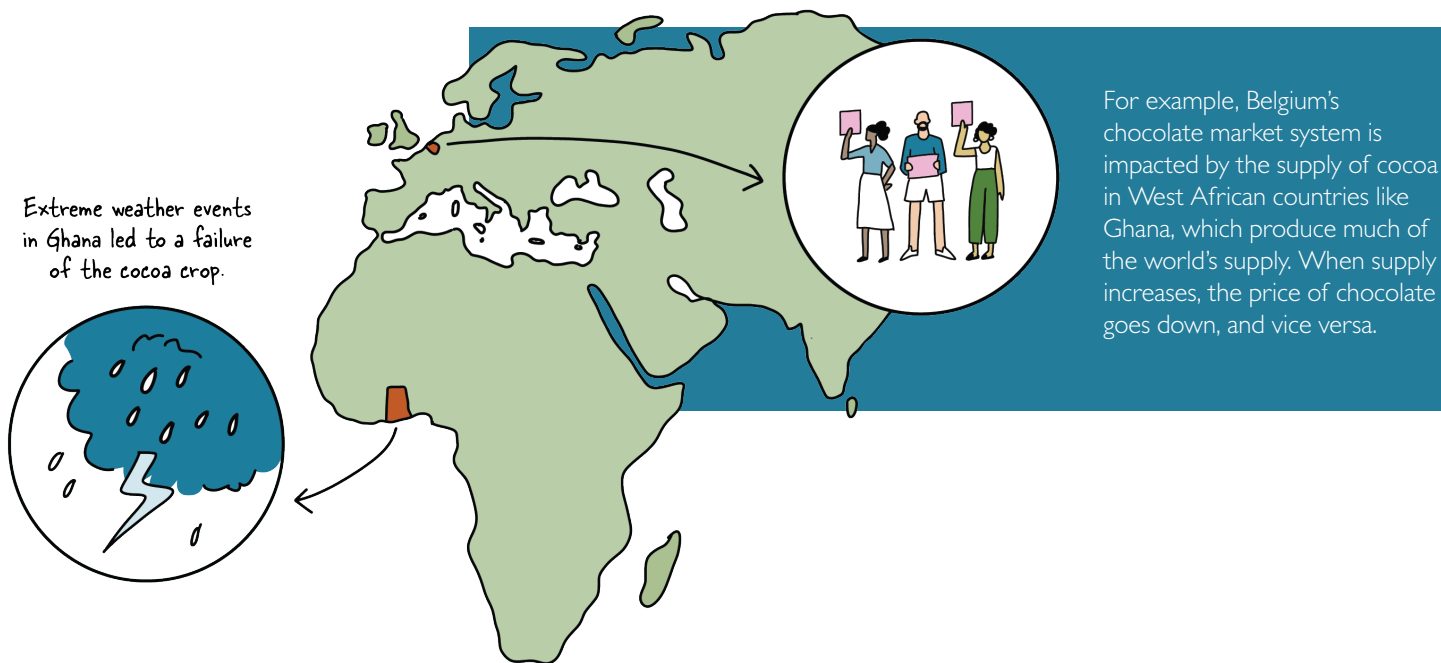
Leverage point refers to an opportunity to have a disproportionate impact within a system by working with a strategic entity that will have a ripple impact on the behaviors of others.

A longer list of terms and definitions can be found [here](#).

A market system refers collectively to the range of individuals, organizations, institutions, regulations, and cultural norms that influence behavior within a given market. This should be considered as a dynamic system or process rather than a static whole.

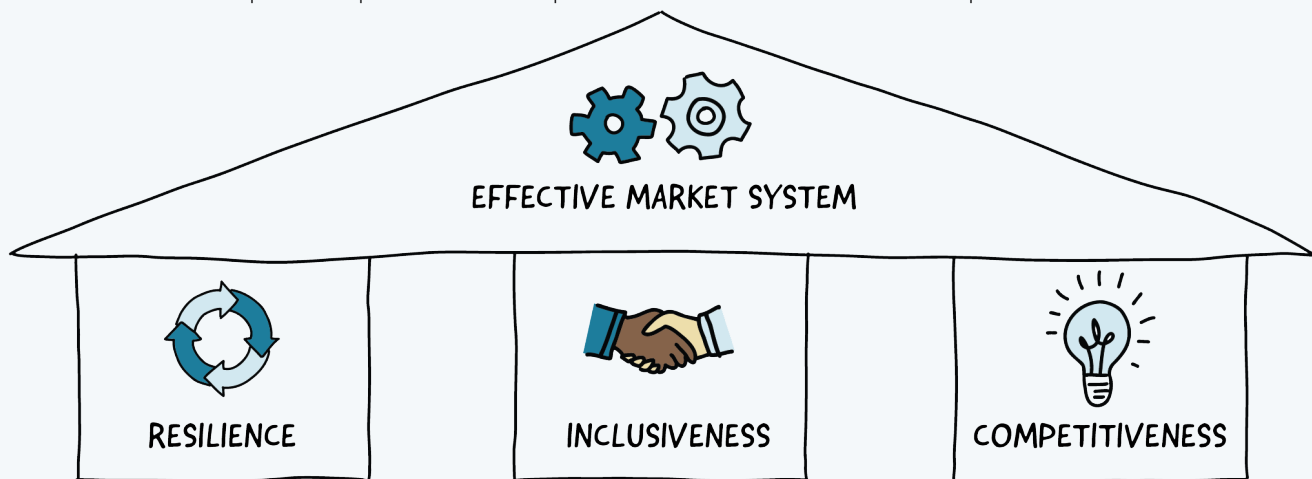
Market System Dynamics

Because of this, the global price of cocoa skyrocketed and Belgian chocolate factory workers were laid off



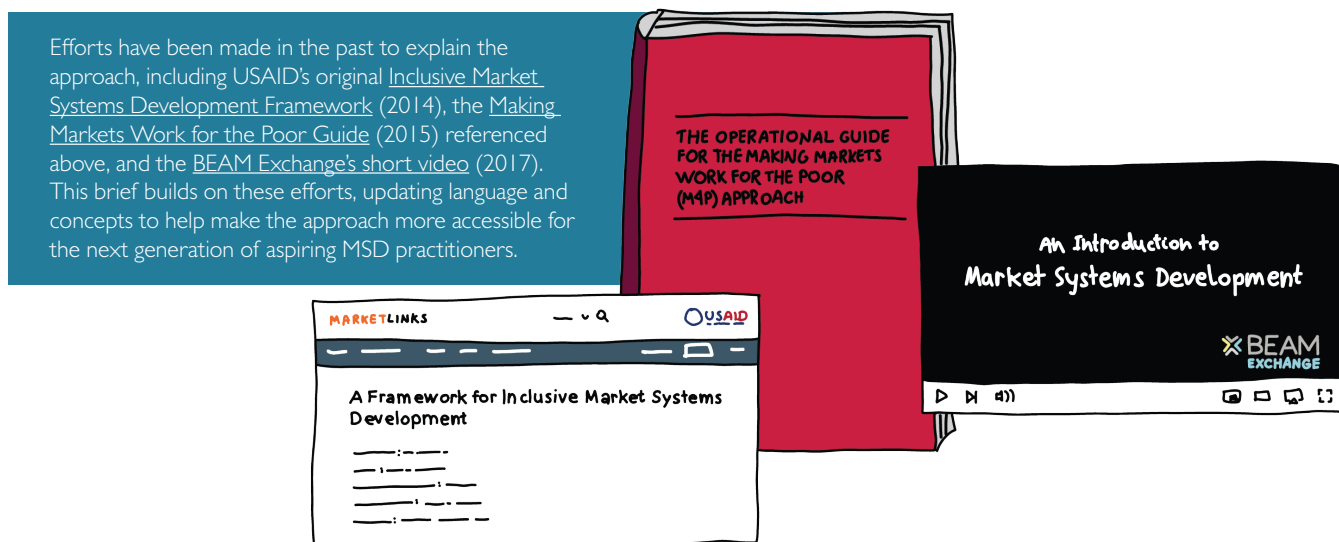
An effective market system has three key pillars:

- **Resilience:** Functional market systems are resilient, meaning that actors within the systems can identify threats, manage risk, coordinate, prioritize action, and respond to shocks and stresses. For more on this, see this [Market Systems Resilience Learning Resources Series landing page](#).
- **Inclusiveness:** Well-functioning market systems do not lead to developmental impact unless benefits are shared widely by market actors, including households with limited income and historically marginalized groups as consumers and producers. Thus, social inclusion is core to MSD.
- **Competitiveness:** Market systems need to be competitive to be functional. Without the ability to profitably deliver value to consumers over time, markets cease to function or become reliant on subsidies. This concept also encapsulates fair competition, where firms can compete on equal terms without political interference or unfair market capture.



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Key Components of an MSD Approach

“It’s about keeping both the forest and the trees in sight at the same time. We’re great at working with the trees, but the trees live in an ecosystem. We haven’t been great at understanding and influencing the ecosystem. That’s what the MSD [approach] tries to do.”

MSD Survey Response

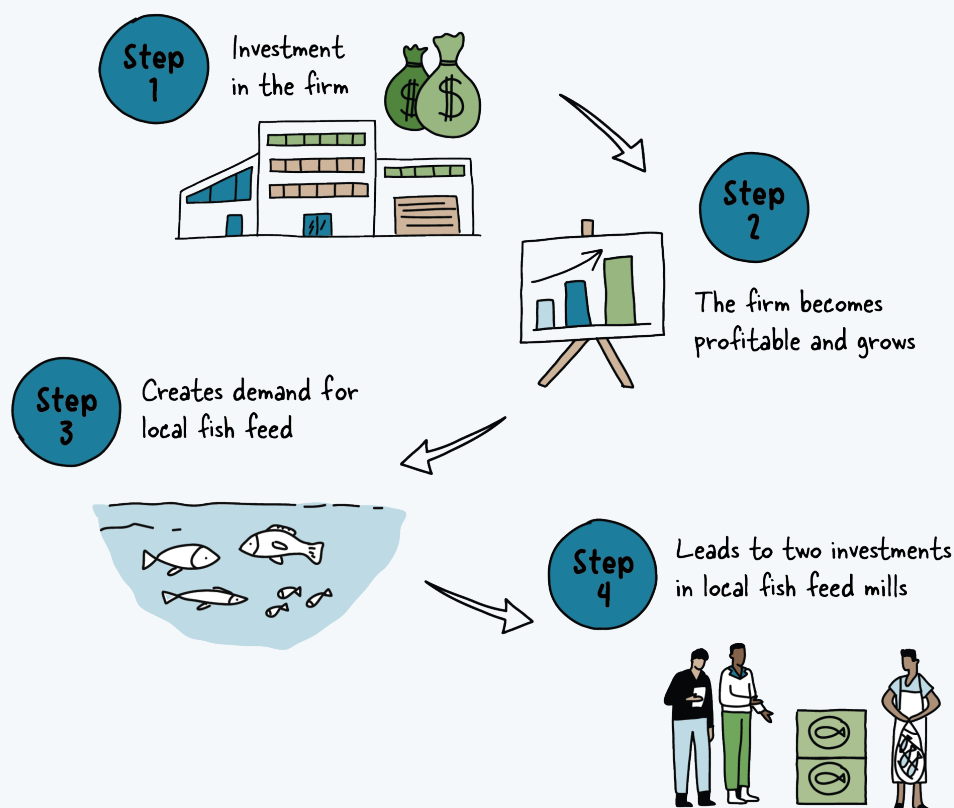
The origins of the MSD approach arose from a recognition that aid was failing to deliver on its promise of widespread poverty alleviation and, in many circumstances, was having a counter-productive impact by inadvertently displacing or crowding out local businesses and governance structures. In response, early proponents of market systems-based approaches argued that for aid to be effective, it needed to recognize, make sense of, and then work within systems of existing relationships and institutions to drive positive change. This meant an emphasis on both applying a systems lens to development work and ensuring that we co-develop solutions with local actors as opposed to driving the agenda.



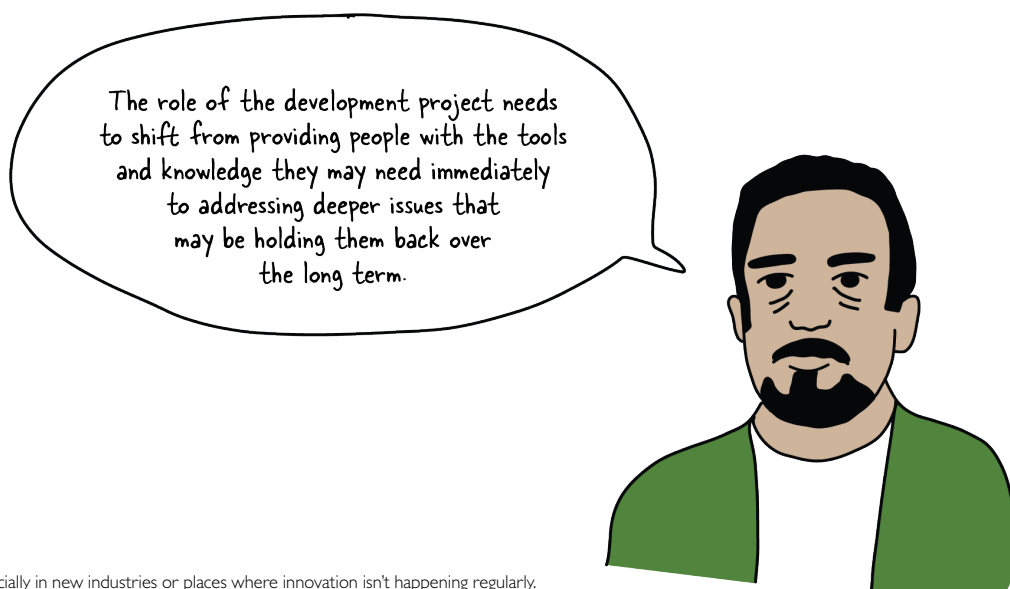
If we borrow the common analogy—give people fish and they eat for a day; teach them to fish and they eat for a lifetime—the argument goes that too much emphasis within the aid industry had been focused on teaching individuals to fish, or ‘capacity building’ in development jargon. If we take the analogy one step further, some development practitioners began to ask why we were teaching farmers to farm and fisher people to fish at all when the challenges they faced often had nothing to do with knowledge. Rather, they stemmed from deeper, systemic issues, like a lack of adequate markets for fish, inadequate cold chain to move fish to urban centers where they could fetch higher prices, or that lakes were overfished to the point where fishing was no longer a viable livelihood.

CASE IN POINT: Victory on Victoria

[Gatsby Africa works in the aquaculture sector](#) where it has invested \$2.5 million into a large-scale fish farm called Victory Farms. The investment was made, not with the view of seeing Victory grow and thrive and thus create some small employment benefits, but to demonstrate the viability of aquaculture in East Africa, with Victory serving as a pioneer for the rest of the industry. Now Victory is the largest aquaculture farm in East Africa, and this has led to other major international players moving into the region and spill-over benefits, such as the establishment of two new fish feed mills, which will lower the cost and increase quality of feed for all producers in the region.



This recognition of these wider issues and existing relationships has meant a shift in roles for development activities, from doing to facilitating. Borrowing from the example above, the role of the MSD activity shifts from providing people with the tools and knowledge they may need immediately to addressing deeper issues that may be holding them back over the long term.¹ These issues are often context-specific, and so it requires a lot of time and effort to understand them, make sense of what can be done, and then find the right partners to address them.



¹ Caveat: capacity building is often still needed, especially in new industries or places where innovation isn't happening regularly. However, MSD thinking challenges us to ask: "Is this our place, or can someone else do this better and for a longer time?"

How do MSD Activities Work in Practice?

A activity aiming to drive systemic change in market systems should look different from one that is providing a product or service directly to households. This has a significant impact on the way we fund and govern programming, as well as how our suppliers implement. Specifically, there are differences in:

01 Staff backgrounds and staffing structures. Activity staff must be able to coach and mentor businesses, make business cases, investigate key questions regarding market failures, build relationships, and seek out new skills on an as-needed basis. This is a different staff profile than, for example, an agricultural activity that hires a maize expert and a cadre of agronomists. The [roles a facilitator can play](#) have been captured well by Engineers Without Borders Canada, and the BEAM Exchange has [developed a useful competency framework](#) for MSD activities.

02 Tasks involved. Facilitation involves an upfront investment in learning, relationship building, and exploring possibilities with partners. Many activities cannot be determined ahead of time but emerge over the course of the activity. This is different from a activity delivering services or products directly, where activities can be predicted and planned for, which means that it's very difficult to define the activities in a traditional log frame style or in highly detailed work plans.

Test: Is this really facilitation?

Firstly, define your exit strategy at your entry point. If your activity is undertaking activities that need to be transferred to the private sector or government when the activity ends, especially when thinking about how this will happen without additional funding, then these activities are unlikely to sustain over time. Facilitation, alternately, involves a clear plan for the removal of development funding and an idea of how activities will continue after a activity ends (e.g.: [who does, who pays](#)).



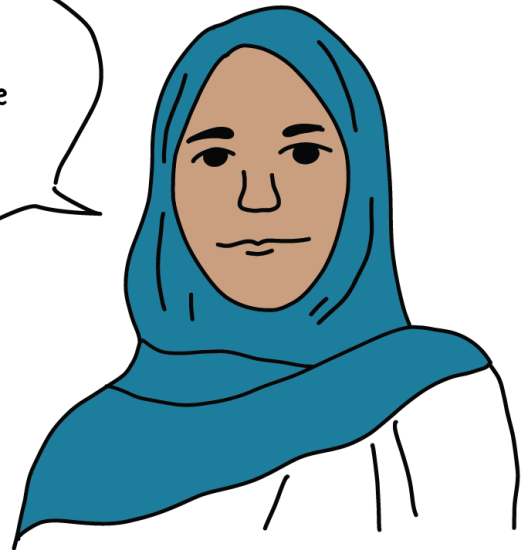
03 Costs and spend rates. Facilitation can be less expensive than direct service delivery. However, money is often spent disproportionately on knowledge: on research, staff capacity development, and convening local stakeholders, as opposed to activities with clear and immediate impact. This means MSD activities require comprehensive learning and measurement systems to identify whether progress towards objectives is being made. It also means that pushing implementers to spend money at a specific pace can undermine what an MSD activity is trying to achieve.

04 How activities are managed. Given it is not always clear how change is going to happen at the outset of a activity, many market systems practitioners stress a need to manage their activities adaptively, by being responsive to their partners as well as broader changes in market dynamics. This means that implementers require flexibility in being able to adjust their focus, targets, and spending. Many are also increasingly investing in [monitoring approaches that help them assess emerging system change during implementation](#) to refine their hypotheses about what systemic shifts are needed to see lasting results.

05

How impact is measured. Working through an intermediary, who in turn is expected to change some aspect of its behavior and approach, can be challenging when trying to attribute a clear cause and effect. It can also take much longer to demonstrate quantifiable impact as attitudes and behaviors take time to adjust to new ideas and ways of doing things. This is why MSD practitioners tend to rely on a mix of standard performance indicators (e.g., increased incomes, yields) alongside specialized studies, rubrics, and qualitative measures to inform whether they are seeing change in the markets in which they operate.

No one knows how to change complex systems. We must discover how to do it. Assessing systems change is the process of generating insights into what works to change systems.



From [The Practitioner's Guide to Assessing Systemic Change](#)

Alignment with USAID Priorities

MSD has not evolved in a vacuum and has overlapped with other recent ideas gaining traction within the aid industry, including the Organisation for Economic Co-operation and Development's Development Assistance Committee (OECD-DAC) donors and leading implementers. Specifically, the MSD approach relates to USAID priorities, including:

Locally led development. Working with partners to change behaviors means that MSD activities are heavily dependent on others to drive change. At its core, MSD is about empowering local actors to make change happen, which aligns well with a movement to [shift the power dynamics](#) in development assistance to elevate local leadership.

Collaboration, learning, and adaptation. Core to the MSD approach is the practice of adaptive management, [as this brief explores](#). Market systems are constantly changing as new laws are introduced, companies go in and out of business, new challenges emerge, and new technologies and ideas are introduced. This makes learning—and adapting based on that learning—essential to implementing a market systems approach. [USAID guidance around collaboration, learning, and adaptation](#) has both informed, as well as been informed by, good practice in MSD.

Private sector engagement. Often, MSD activities partner with private companies. When these companies have the financial incentive to change a behavior or practice, it is more likely to lead to sustained results over time. MSD practitioners have much to learn and share with their colleagues working on private sector engagement, as captured in a [synthesis brief](#) outlining similarities and differences between the two approaches.

Application Across Sectors

There is a common misconception that MSD only applies to economic growth-related programming and that it focuses on agricultural markets in particular. This is not the case. Granted, the lion's share of MSD activities are focused on agricultural markets, but this has more to do with the nature of the contexts in which MSD practitioners find themselves rather than a key feature of the approach. The MSD approach offers a way of thinking and a set of principles that can be—and has been—applied to address a range of issues in countries all over the world. Some examples of the MSD approach and market systems thinking that have been applied across sectors is outlined below.



The MSD approach has been used in [conflict-affected settings](#), like in the Democratic Republic of the Congo, where local actors and, especially local companies, have often been sidelined in the context of large-scale humanitarian funding.



The approach has been used to [improve water service delivery across Kenya](#), piloting new models for delivering safe drinking water and ensuring that the system is well-funded and operates efficiently and sustainably.



The MSD approach is gaining traction in health, where it is being used to [channel private investment into Somalia's healthcare system](#), which is strained due to a lack of adequate funding and capacity.



The approach has also been used to [enhance coordination and cooperation among employers and training service providers](#) in Armenia.



Market systems thinking can also be layered onto other approaches, such as [cash transfer programming](#), where cash was used in Northeast Nigeria to support households and local businesses during the COVID-19 pandemic.



Market systems thinking has been applied [in mitigating and adapting to climate change](#).

Combined, these activities have had a demonstrable impact in shifting behavioral norms and patterns and driving impact at scale and reducing poverty. To understand its sustainability, [USAID has commissioned a series of ex-post studies](#) looking at indications of market systems resilience and the MSD approach and impact over time.

Conclusion

This introductory brief provides an overview of MSD and the MSD approach, key terms, and jargon, and how it may differ from other forms of development assistance that have been applied across a range of sectors and countries. To delve deeper into the approach, excellent resources include the [MSD tool library on the BEAM Exchange](#), resources from the [Feed the Future Market Systems and Partnerships Activity](#), and USAID-funded [Marketlinks](#).