

Getting off the ground:

Practical lessons for the launch phase of MSD programmes

MSD Procurement Series #3

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Conception

This paper is the collaborative product of a group of accomplished MSD practitioners and donors who worked together voluntarily over four months in early 2020 to synthesise their accumulated knowledge and experience of procurement arrangements for programmes that use the Market Systems Development (MSD) approach.

With the support from the BEAM Exchange, the group met on a bi-weekly basis to examine a particular aspect of MSD procurement based on common interests and collective experience. The group defined the problem from different perspectives, and gathered case studies from their organisations to reflect on possible solutions and new ways of thinking. This paper captures the most important ideas and conclusions, and has been reviewed extensively by both MSD practitioners and donors.

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All the participants involved in the creation of this resource were motivated by the potential to boost the quality of MSD programming. By promoting, supporting and encouraging good practice we hope this document contributes to widespread and lasting improvements in access to income, jobs, products and services for people living in poverty.

The BEAM Exchange - in partnership with the DCED - is a platform for knowledge exchange and learning about the role of markets in poverty reduction.



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Table of contents

Executive summary	4
A note on terminology	5
About the MSD procurement series	7
Getting off the ground: the issues in a nutshell	8
Insights and guidance (part 1)	9
Common challenging scenarios and what to do about them	9
Scenario 1: Donor needs to see ‘quick wins’	10
Scenario 2: Due diligence requirements are an obstacle to partnerships	11
Scenario 3: Delays in establishing systems hold back partners	12
Scenario 4: Structuring payment terms so as to reduce partnership risks	14
Scenario 5: Head Office reluctant to approve non-traditional contracts	15
Insights and guidance (part 2)	16
Making funding arrangements work for MSD	16
Developing portfolios that integrate mechanisms and processes	18
Conclusions, and relevance of the other papers in this series	19

Getting off the ground: practical lessons for the launch phase of MSD programmes

Executive summary

The early stages of an MSD programme are some of the most chaotic: a flurry of new people, processes and information combines with pressures for updates, progress and even results. Market systems themselves are constantly changing, which requires effective MSD programmes to update prior assessments to provide an up-to-date analysis of systemic constraints. Gaining clarity on the complex functioning of markets is not easy in the midst of the operational challenges of getting a new programme off the ground.

This paper provides practical advice for programme managers about how to negotiate operational challenges encountered during the launch of any new programme that intends to use the market systems approach. It focuses on the five common procurement and contracting challenges below.

Scenario	Principle Guidance
Donor needs to see 'quick wins'	Establish what the donor means by quick wins in order to reframe quick wins to align with MSD principles.
Due diligence requirements are obstacles to partners	Develop procurement guides that are suited to the particular context of an MSD programme. Allow relaxed compliance procedures for early partnerships to allow for sole sourcing with sufficient justification.
Delays in establishing systems hold back partners	At HQ level, prepare MSD-appropriate systems and processes prior to inception. At programme level, engage partners about their interests and incentives, with no funding commitments.
Structuring payment terms so as to reduce partnership risks	Structure payment terms to reflect measurable progress and engage both technical and financial staff from programme, donor and firm.
HQ reluctant to approve non-traditional contracts and partnership agreements	Invest in relationships between programme managers and their HQ points of contact. Allow time for programme and procurement teams to understand each other's requirements and develop a workable system.

In the final section common funding mechanisms (from service contracts to fixed-amount grants) are reviewed for their practicality in the early months of programme implementation. Given that most programmes use a combination of grants, procurement and non-funded partnerships, two promising portfolio models are examined.

A note on terminology

Different agencies use different language when describing their different roles, activities, and contracting formats. In order to make this paper more readable across agencies, we have adopted generic terms to focus the conversation on conceptual, rather than definitional differences.

The table below defines this generic terminology with corresponding examples and descriptions.

Generic Label	Synonym / Example	Description
Organisations		
Donor	Funder	The agency providing funding for a programme or activity.
(Lead) Implementer	Prime; Lead contractor; Supplier	The institution, company or NGO that has the principal contract with the Donor to deliver the activity.
Sub-contractor	Implementing partner	An agency, company, NGO or local organisation that is sub-contracted by the Lead Implementer to deliver a component of the activity.
Business Partner	Recipient; Client	A business that is directly involved in programme interventions as a partner or recipient of grant, investment or technical support.
Activities		
MSD Programme	Project; Program; Activity	A temporary organisational structure for implementation - may include staff from one or multiple implementing organisations.
MSD Intervention Area	Initiative; Activity	A coherent set of actions planned within a specific market system to effect system change
Roles		
Donor Representative	Contracting Officer (USAID); Program Officer (DFAT); Program Manager (SIDA); Senior Responsible Owner (DFID/FCDO)	The donor manager responsible for overseeing and liaising with an MSD programme; usually based in a country office.
Head Office (HQ) Manager		A manager based in an implementer's HQ with responsibility for supporting an MSD programme

Generic Label	Synonym / Example	Description
Business Development Staff	Fundraising staff	HQ staff responsible for writing proposals and soliciting donors.
Programme Manager	Team Leader; Chief of Party	The most senior manager of an MSD programme team, with overall decision-making responsibility
Operations Manager	Chief Operations Officer; Finance and Grants Manager	A senior manager with oversight of multiple operations functions: finance, logistics, procurement, grants etc.
Operations Staff	Procurement officer; Grants officer; Finance/Accountant	The programme staff responsible for particular areas of operational administration and compliance.
Technical Staff	Intervention Manager; Sector Lead; Market Facilitator, Partnership Manager.	The programme staff focused on designing, developing strategy, delivering, monitoring and learning from interventions with business partners and other actors within changing market systems.
Contracting Formats & Related Documents		
Tender	Request for Proposal (RFP)	The offer from a donor to pay for something.
Procurement (of programme):	Contract; Grant Agreement; Collective Agreement;	The process used by a donor to solicit proposals and select an organisation (or consortium) to fund to implement an MSD programme.
Procurement (of goods/services):	Service contract; Purchase order	The use of financial funds, by an MSD programme, to purchase goods and services for use in implementation.
Subaward	Grant; subgrant	The use of financial funds to engage another organisation to implement part of the programme on behalf of the implementer / consortium.
Partnership agreement	Adaptive Market Actor Agreement, Market Actor Umbrella, MoU	A written agreement between an MSD programme and a market actor that may define strategy, roles or planned activities, but does not include any funding commitments.
Concept note		A short and non-binding document that outlines ideas for a new product, service or business model.

Getting off the ground: practical lessons for the launch phase of MSD programmes

About the MSD procurement series

Development programmes typically involve a collaboration between funders (who pay) and implementers (who do). These parties' interests overlap but are not identical. Procurement and contracting are used to reconcile those interests in a formal and transparent manner, but it can become an adversarial process. This militates against the building of a constructive relationship of trust, necessary for the flexible, adaptive approach which is so vital if the Market Systems Development (MSD) approach is to be effective in reducing poverty.

This Paper is the first in a series that documents the insights from informal conversations between funders and implementers on how to resolve this essential dilemma.

The other papers in this MSD Procurement Series are:

- Paper 1:** [Decisive Structures](#): procurement format options for MSD programmes and their different implications
- Paper 2:** [Deepening the Relationship](#): a stage-by-stage guide to strengthening partnerships between donors and implementers in MSD programmes
- Paper 4:** [Fit for Business](#): modifying internal procurement processes for adaptive MSD programmes

The series is published under the auspices of the MSD Working Group of the DCED to stimulate further exchange and reflection; it does not necessarily represent the official views of the DCED or its members.

This **Paper 3** focuses on the procurement and contracting challenges faced by MSD programmes through their start-up phase. It focuses on the perspective of implementers and draws from the experience of MSD practitioner who asked themselves “What would we have done differently if we could go back to the beginning?”. The paper is particularly relevant for programme managers in implementing agencies. To this end the paper is structured around five common scenarios faced by programme managers in the first year of implementation. For each challenge the paper provides key principles, guidance in brief, examples of specific cases and additional tips.

Getting off the ground: the issues in a nutshell

Programme start-up is often a time of creative tensions between action-oriented programme teams, results-oriented donors and compliance-focussed organisational (HQ) legal and financial teams.

Sources of pressure to move quickly come from all sides:

- Programme staff are keen to move on short-term or unique opportunities
- Donor staff want examples to instil confidence that the programme is following through on the proposal, thus justifying their investment and delivering on any promises to host governments
- Headquarter teams need programme expenditure to generate overheads that fund supporting functions

At the same time, there are many forces that have the potential to slow or delay activity. While many of these factors, such as delays in finding the right personnel or establishing management tools and systems are common to all programmes, others are specific to MSD programmes.

- Donors need to be cautious about the reputational and financial risks of (public) funding going to private firms. The levels of accountability and due diligence they require can scare away partners and pose challenges for implementers to stay true to facilitation principles.
- Implementing organisations may struggle to quickly adapt standardised tools, templates, processes and approvals to MSD, especially as programme staff may still be learning about the approach. This may lead to tensions or frustration between headquarters and field teams.

Programme leaders often want to create a buffer between these external pressures and delays and their teams who are seeking workarounds that let them take action rather than being stuck in the limbo of waiting for approval.

Underlying these tensions are usually differences in the appreciation and appetite for risk. Donors want to ensure that programmes are compliant with regulations and that they stick to their original objectives. Organisations don't want programme teams to spend money they can't recover, so they want to be confident their contracts meet all of the donor rules. This paper addresses core challenges in the start-up of MSD programmes, with a particular focus on the internal procurement and contracting processes, which are often overlooked in technical guidance on MSD. These procurement and contracting processes are often where tensions come to the surface, because they explicitly formalise how financial and delivery risks are shared among the involved players.

It is important for implementing organisations to be clear internally on the level of flexibility they are comfortable embedding in the contracts they sign with private sector market actors. During bidding, implementers typically propose a variety of different mechanisms and instruments for disbursing funds and technical assistance to market actors. During the early stages of implementation, the fit between this mix and the reality of the available partners in the market becomes clearer. Typical challenges include:

- Potential business partners don't meet due diligence requirements because they lack the internal systems to receive funding

- Businesses may have the capacity and incentive to form partnerships, but lack the patience to wait for slow approvals
- Businesses may not be willing to wade through detailed and intimidating contracts that include legal clauses inherited directly from implementers' contracts with donors
- Administrative teams within the implementing organisation may struggle to understand why the programme is investing in market actors when they are used to approving contracts that correspond to delivery of work tasks

To overcome these challenges, managers need to apply their judgment to balance the formal requirements above with the opportunities in front of them in the market system. Learning to make such judgments is an iterative process, but we believe it can be supported by the experience of others, which is codified in the next section.

Insights and guidance (part 1)

Common challenging scenarios and what to do about them

This section provides guidance to MSD programme managers in response to a set of five common 'scenarios' that occur in the first year of implementation (or the inception phase where this applies). Clearly, not all strategies will apply in every context. Where applicable, conditions and caveats are added to help the reader think about the applicability of a strategy to their situation.

Scenario	Guiding principles
1) Donor needs to see 'quick wins'	Establish what the donor means by quick wins in order to reframe quick wins to align with MSD principles: less about immediate outcomes, more about process, relationships and learning.
2) Due diligence requirements are obstacles to partners	Develop procurement guides that are suited to the particular context of an MSD programme. In thin markets or conflict regions it may be necessary to relax compliance procedures for early partnerships to allow for 'sole sourcing' as long as sufficient justification is made.
3) Delays in establishing systems hold back partners	At HQ level, do the pre-work to have MSD-appropriate systems and processes designed and ready prior to the inception kick-off. Ensure staff at HQ are trained on the MSD approach to enable delivery success. At programme level, engage partners in early conversations about their interests and incentives with no funding commitments. Look for initial facilitation activities that don't require financial support. Adapt small scale funds to support early pilots where necessary.
4) Structuring payment terms so as to reduce partnership risks	Clarify the main outcomes and align incentives so partners are self-motivated to achieve them. Structure payment terms to reflect measurable progress and engage both technical and financial staff from programme, donor and firm in agreeing on terms.

5) Head office reluctant to approve non-traditional contracts and partnership agreements	Invest in relationships between programme managers and their HQ points of contact by sharing information, encouraging visits and, ultimately, building trust. It will take time and patience for programme and procurement teams to understand each other's requirements and develop a workable system.
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Scenario 1: Donor needs to see 'quick wins'

Project approval delays combine with the donor internal targets and timelines. In some cases donors also have set expectations with the host government that this MSD programme will hit the ground running. All of this leads to pressure to 'show value' from the first month.

Guidance in brief:

Establish what the donor means by quick wins in order to reframe quick wins to align with MSD principles: less about immediate outcomes, more about process, relationships and learning.

Some examples or specific cases:

- Organise three separate start-up teams with clear guidance, rules of the game, and leadership. Dedicate one team (largest) to setting up admin, financial & procurement systems. Task the second (smaller) team with leading the charge on inception phase analytics, and the third (smallest) with engaging market actors for early initiatives and quick wins.
- Establish a strategic communications team that provides regular updates from day one using compelling visual dashboards that demonstrate tangible forward movement.
 - Monthly breakfast meetings with relevant ministries (i.e. those putting on pressure) and the donor to provide updates and coordinate.
 - In some cases, invite the donor to participate in MSD training; in the market assessment during inception phase; for data gathering trips to the field; to meetings with potential partners. This will build trust and improve collective understanding of the complexity of the work to reduce pressure to produce quick wins.
 - Produce targeted 'deep dive' analysis notes for the donor to demonstrate the programme is learning and improving its understanding of the market system.

Tips or further advice:

- Where output-based targets are strict, it may be necessary to develop a budget for a sub-contractor to directly train farmers. This might not be particularly strategic, but it can build capacity amongst producers and can bolster early outputs to develop good will.
- Organising early stakeholder workshops to validate initial analyses and thinking helps to gain traction with market actors and build useful networks and connections. Inviting the donor into these workshops and their debriefing sessions can improve information flow and develop trust.

Scenario 2: Due diligence requirements are an obstacle to partnerships

How can organisations support market competition via working with small and medium enterprises that have aligned incentives but lack systems and procedures that would make them “appropriate” partners from a compliance perspective? In many fragile or crisis contexts few lead firms exist and those that do may already have NGO backing or play into broader power dynamics.

Guidance in brief:

Develop procurement guides that are suited to the particular context of an MSD programme. In thin markets or conflict regions it may be necessary to convince procurement teams to relax compliance procedures for early partnerships to allow for sole sourcing as long as sufficient justification is made. Use a tiered approach to partnership, depending on availability of partners:

- Many partners: use formal requests for proposals
- Few partners: apply due diligence based on extent of complexity

Some examples and specific cases:

- Engage partners in non-funding collaboration such as joint lobbying for sector policies or joint applied technical analyses of priority market issues affecting them. The latter analyses can be led by project staff and specialists without the need to issue a grant or procure an external consultancy.
- For lower capacity partners establish ‘conditions precedent’ for disbursements to enable lower capacity partners to access funding so long as they set up a formalisation or organisational growth plan including an accounting system etc. This strategy requires sufficient budget for sub-grant partnership management to mentor partners. Programmes operating in these contexts need to have appropriate staff to mentor and support lower capacity partners (this likely means additional finance, operations and programme monitoring capacity). It’s important to make this justification in the original proposal or early in the inception period.
- For higher capacity partners, consider fixed-amount grants (reimbursable based on meeting milestones). This strategy is more feasible if the fixed amount grants are included in the proposal or negotiated very early in the inception phase, given the up-front budget negotiations internally and the donor approval. Pair market actor partners with strong mentors from another non-competing market (e.g. strong in-bound tour operator from Australia to mentor an in-bound tour operator in the Solomon Islands).
- Balance partner self-selection approaches by searching for other partners that may not be the obvious winner. Look for entities located outside of the programme area (whether domestic or regional) that may have an interest in expanding into a new market.

Tips or further advice:

- Document the breadth of knowledge you have on existing market players and direct interactions with market actors during the inception phase to justify early identification of partners versus full and open competition. Work in close coordination with operations/procurement/compliance teams so that you are able to frame the information in a way that makes them feel more comfortable.

- Work with the strongest players, but also build capacity of lower capacity actors in weak markets. Be mindful of market actors who are already receiving significant funding and support from other programmes. For every two strong organisations you work with, work with one weak organisation to populate/strengthen the system.
- In some circumstances, consider making an in-kind donation or contribution directly to a private sector partner by procuring a consultant's services or a piece of needed equipment rather than signing a sub-award which requires significant financial and programmatic reporting. In tandem with the development of a business plan, such in-kind contributions of equipment can ensure that you can recoup your investment if a partner does not follow through or show buy-in over time.

Scenario 3: Delays in establishing systems hold back partners.

Often there is a lag between programme teams assembling and the internal procurement and contracting systems being set-up and approved to formally initiate partnerships and disburse funding (in various modes). This can take different forms: What if we don't have the grants manual approved in Year 1? How do we spend our quarterly budget in the final two weeks of the quarter?

Guidance in brief:

At Head Office, do preparatory work so MSD-appropriate systems and processes are ready prior to the inception phase. Ensure Head Office staff are trained on MSD to support delivery success.

At a programme level, engage partners in early conversations about their interests and incentives, with no funding commitments. Adapt small-scale funds to support early pilots where necessary.

Note: there are other facilitation activities to work on which won't require financial support. How programmes use their understanding of market player capacities and incentives can inform those early activities that don't have funding associated with them.

Examples and specific cases:

- **Un-funded agreements¹:** allow the programme to develop partnership agreements, such as MoUs that are not legally binding and that set out a broad line of collaboration between the programme and the partner. This may evolve into a funded partnership agreement later or not. This approach helps to assess partner capacity and investigate how partner incentives align with programme objectives.
- **Small tactical grants:** include a pre-approved Simplified Tactical Grants Fund as part of your proposal. This fund can mobilise small resources to prospective partners to pilot interventions or pursue opportunistic immediate market opportunity reactions that can generate trust with key partners. At the same time this can generate new insights about market actor roles and rules that would not be possible through formal pre-planned analyses or studies. Additionally, this approach

¹ In some contexts, a memorandum of understanding (MoU) may be an appropriate form for such an agreement. However, MoUs have different meanings in different countries and contexts - sometimes implying a level of formality that can be detrimental to early stage piloting and learning which is at the core of experimentation by partners.

can generate early signs of progress that the donor and host government can use to decrease pressure.

- **Procurement for pilots:** use a procurement process instead of a subaward process² for a quick pilot that, if successful, could later evolve into a partnership and subaward agreement. This may only work for small amounts that can be approved by the programme manager as Head Office procurement would likely not be as flexible on the structure of such a procurement. An INGO with a country-level procurement manager may not - depending on their flexibility, creativity and understanding of MSD - agree with this approach. If this happens, programme managers can use the opportunity to better explain MSD principles and strategies to their procurement colleagues.

Tips or further advice:

- Draw on consultants for direct certain implementation activities.
- **Research:** it is likely that the inception phase assessment revealed the need for additional research that delves deeper into an issue. If no suitable partner can be found in-country who could lead this research on their own, the programme would likely look for a firm or consultant, ideally domestic or regional, to conduct research. Pair the consultant with a sector leader from the programme team to integrate lessons and strengthen relationships with market actors through the study. For example, one programme engaged a consultant to develop business cases for cocoa value-added processing to help firms understand what investment will actually be profitable. This kind of foundational research can be done in year 1 for a quick win and to inform the strategy of the programme in subsequent years. It also provides credibility for the programme with the wider sector.
- **MoU plus Consultant:** the above example could be made more sustainable by collaborating with a domestic research partner, whether private or public sector, with an MoU, without any exchange of funds. Alternatively, the programme may have found a perfect partner and move forward on a sole-source basis. The first step could be an MoU and if a capacity gap can be filled with expertise from a firm/consultant, the programme could move forward to engage a firm/consultant with only an MoU in place. For example, one programme was approached by a local ice cream manufacturer during the first year. This was the only local ice cream manufacturer and they had done in-house experiments making coconut milk-based products. They needed expertise in recipes, processes and equipment. The programme could have signed an MoU quickly, sourced a coconut ice cream expert and provided the support, with the idea that if a profitable endeavour could ensue, that a subaward process including all due diligence requirements would be started.

² A subaward process refers to an implementer (award recipient) providing financial assistance (or sub-granting) for activities related to the implementation of a project. Subawards thus require much greater due diligence to meet government requirements, as the sub-recipient is directly spending donor funds. In contrast, a procurement process is designed for purchasing goods and services from a vendor for the benefit of the programme, and thus has different (usually less stringent) requirements. In this example, what is proposed is to stretch the boundaries of the intended use of procurement - instead of procuring office supplies, the MSD programme would be 'procuring' tests of new business models by partners (vendors), who should have an incentive to continue those models if they work.

Scenario 4: Structuring payment terms so as to reduce partnership risks

While an MSD programme is premised on facilitative principles that avoid major direct financial support to market actors, there are still situations where significant financial resources are invested in a single partner, based on demonstrated capacity and incentive. In these contexts, perceptions of risk are heightened and there is a need (and opportunity) to carefully think through how contracts are structured, including the payment timings, to reduce risk to all parties.

Guidance in brief:

Clarify the main outcomes and align incentives so partners are self-motivated to achieve them. Structure payment terms to reflect measurable progress and engage both technical and financial staff from programme, donor and firm in agreeing on terms.

Examples and specific cases:

- **Front-load donor inputs:** get the donor involved in agreements for larger partnerships with high levels of funding. More time spent up-front on due diligence means less opportunity for private sector partners to misuse funding, and less need for sign-offs down the line.
- **Anticipate with “a criminal mind”:** give detailed, upfront thought to the payment terms by considering how partners might ‘game’ the system. The following headings on a “payment terms” table can ensure clarity about how payments can be activated, without creating an undue burden for project staff.

Activity	Currency & Amount	Spend type [Grant, Procurement, Reimbursable]	Performance targets & indicators [Conditions for payment]	Costs to which the payment relates [Exclusive legitimate application of fund]	Documents or proof to be provided by partner	Expected completion date
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- **Phase payments:** while an overall budget for the partnership may have been approved internally and by the donor, the payment terms can stipulate phases or tranches where actual funds are pre-granted or reimbursed in smaller amounts, dependent on a successful previous phase.
- **Involve partner leaders and middle managers:** ensure all team members who will be responsible for fulfilling an agreement understand its stipulations. In practice, programmes often make and sign deals with the CEO or other senior leaders, but can leave out the finance team who actually submits the paperwork to the project to access funding. Sitting down to explain every detail of the structure of the payment terms and agreement rules will help tremendously.
- **Strategic transparency:** share details of partnership agreements with partner staff/ members/ board or in some cases with external entities that have interest and influence over the partner to increase transparency and decrease any potential misuse of funds. For example, sharing with the Tourism Board the details of the agreement between the programme and a regional tourism association. This not only supports efforts of collaboration and alignment in activities, but also some additional monitoring. Be sensitive about the type of information that can be shared and with whom – this should be written into the partnership agreement. For private sector partnerships, at least

some information could potentially be shared with a chamber of commerce or industry to which the partner belongs (being careful not to bias the market or put the partner in any awkward position).

Tips and other insights:

- Where appropriate, consider incorporating outcomes-based payment mechanisms:
 - Fixed-amount grant based on milestones
 - Reimbursement based on receipts and deliverables
 - Direct procurement in some cases (ex. Consultants to provide expertise or conduct research for partner, or travel to regional trade shows).
- Focus support to fixed assets or services (e.g. a digital marketing campaign by another entity), or in some cases other goods, for which the project has a good understanding of market rates and which are not part of the day-to-day operational costs of the partner.
- If giving an upfront grant rather than reimbursement, require project approval for purchases above a certain threshold based on tender.

Scenario 5: Head Office reluctant to approve non-traditional contracts and partnership agreements

With increasing financial and administrative oversight from Head Offices, projects that apply market systems development are faced with playing a difficult balancing act. On the one hand complying with requirements and processes for procurement – slower, more deliberate and more structured – is essential to prevent misuse of funds. On the other hand, projects need the space for adaptive programming and delivery to happen in practice.

Guidance in brief:

Invest in relationships between programmes and their HQ points of contact by sharing information, encouraging visits, and ultimately building trust. Recognise that it takes time and patience for programme and procurement teams to understand each other's requirements and develop workable systems.

Examples and specific cases:

- Request an HQ focal point person and encourage trips for HQ staff to visit the programme office (including funding from programme budget where possible). Use these valuable in-person interactions to build relationships, generate trust, orient them to MSD-specific issues, and ultimately cultivate champions to support any changes to policy.
- Visit HQ and establish personal relationships with relevant staff that the field programme relies on. Engage existing HQ staff who aren't directly involved in programme management but can contribute to analysis, writing, coaching and mentoring.
- Deliver short training courses on MSD to procurement and operations staff so they better understand MSD strategy. Also deliver short training courses on procurement processes to MSD programme staff. This can help generate buy-in and goodwill on both sides to resolve procurement issues.

- Include HQ on weekly updates to ensure they are aware of challenges and upcoming support requests.
- Develop an organisational ‘body of knowledge’ on MSD programming including training, guidance and templates for procurement and operations. This can be maintained by HQ technical support units who request and collate lessons learned from HQ compliance and finance staff and other MSD programme managers.
- Managers working at the Head Office can play a critical role by filtering requirements and processes and creating space for frontline staff who adapt rapidly on a daily basis to move faster and innovate and manage better programmes. Monthly calls and frequent discussions on urgent and pressing procurement questions and establishing personal relationships are some of the ways for navigating the process.

Insights and guidance (part 2)

Making funding arrangements work for MSD

The table below describes the typical range of mechanisms for working with the private sector, with a reality check from practitioner experience with using these in an MSD context.

Arrangement	Best application	Implementation issues & main adaptations
Procurement - Service contract: Contract for provision of service from one market actor to another (could be one-off or recurring) - requires multiple quotes. Could also be used to engage one market actor to test new product or service.	Connecting market actors to specialised services (e.g. marketing, branding, analytics) where the MSD programme can pre-vet suppliers. Use a procurement process for a quick pilot that, if successful, could later evolve into a partnership and subaward agreement.	Creates transactional relationship w/ market actor. Requires flexible programme manager and procurement manager who understand MSD and consider it appropriate to “procure” market actors to test business models.
Grant / Sub-award: 1. Cost-reimbursable Agreements that reimburse partners based on actual expenditures. 2. Fixed-amount Agreements that tie each transfer of funds to fulfilment of pre-agreed programme milestones.	Cost Reimbursable Good for partners with robust systems and processes to ensure compliance with regulations. Allow for budget flexibility, cost-sharing and close financial monitoring of spending and growth. Fixed-amount: Can be useful in situations where financial documentation is difficult or impractical to maintain. Will usually require donors written approval either at proposal or inception stage.	When drafting milestones for fixed amount subawards, think carefully about documentation needed and targets set. If a partner does not meet the targets, no partial payments are allowed. These agreements also require well-defined and negotiated budgets so represent significant work upfront before an agreement is signed.

Simplified Tactical Grants Fund Flexible tactical tool for quick, small grants during start-up/inception phase	Early months of implementation, before larger funds are available. • Quick wins to take pressure off from donor or host government. • Strengthen relationships or gain trust with must-have partners in order to get them to the table to develop a broader partnership agreement. • Increase credibility of project as a “real player” (especially useful in saturated aid situations). Test small ideas quickly that may lead to a co-created partnership agreement.	Important to ensure it doesn’t get misused, or lead to slipping into old direct delivery modalities of directly subsidising activities market actors should pay for themselves.
Market Actor Co-creation Umbrella: Non-binding partnership agreement to structure partnership and set expectations with market actors; can be linked to more formal/financial contracts.	Early conversations to explore incentives and capacity of a market actor.	Requires clear messaging from the MSD programme team that puts emphasis on the actor’s own strategy and reasons for trying new things out; cannot be just a step on the way to accessing donor funding.

Developing portfolios that integrate mechanisms and processes

Many MSD programmes have developed a portfolio of funding mechanisms that give programme teams flexibility in adapting the approach to the situation and partner. Below are three examples of umbrella mechanisms and how they work.

Example: Transforming Market Systems (TMS), Honduras

Activity co-creation approach through its 'Partnership & Innovation Fund': a defined co-creation process that prioritises buy-in from market actors and clarifying relationships before introducing any financial support (through fixed amount award) or task orders.

- **Stage 1 - Stakeholder workshops (led by programme, market actors participate)**

TMS engages sector experts in stakeholder workshops in which key market actors are initially identified and sector conditions are assessed. This collective analysis by the stakeholders can identify important leverage points. Ultimately the workshops develop stakeholder buy-in to the TMS objectives of the P&IF.

- **Stage 2 - Concept note development (market actors write and submit concept notes)**

This stage handles questions of an open competitive call for proposals. TMS issues a public Co-Creation Announcement (CCA), requesting submission of 2-3-page Concept Notes (CN) (low barrier) within an established period of time (six-months or one year) for certain priority market systems or economic sectors. Amendments to the CCA may invite additional sectors/subsectors/value chains. The CCA contains guides for creating concept notes, sample activities and partnerships, and the evaluation criteria for this initial stage.

- **Stage 3 - Concept note review (decisions by programme team)**

Following a regular schedule (i.e. once a month), CNs which have been received during the last period are reviewed individually by a CN Evaluation Committee for technical merit and eligibility as stated within the CCA. The committee convenes to discuss their evaluations and recommendations and achieve consensus on each proposed CN. Market Actors which submitted successful CNs are invited to the next stage.

- **Stage 4 - Co-creation process (programme team collaborates with market actors)**

A Technical Liaison is assigned to each CN/Market Actor to support the collaboration, co-creation and co-development of a full application and to work with the Market Actor throughout implementation. This stage could take 1 - 4 months depending on the robustness of the concept, the complexity of the intervention, and the depth of engagement of the Market Actor. This stage deals with most of the anxieties (why are we deciding on budget or activities? Because we're co-created). It also deals with the Market Actor due diligence assessment.

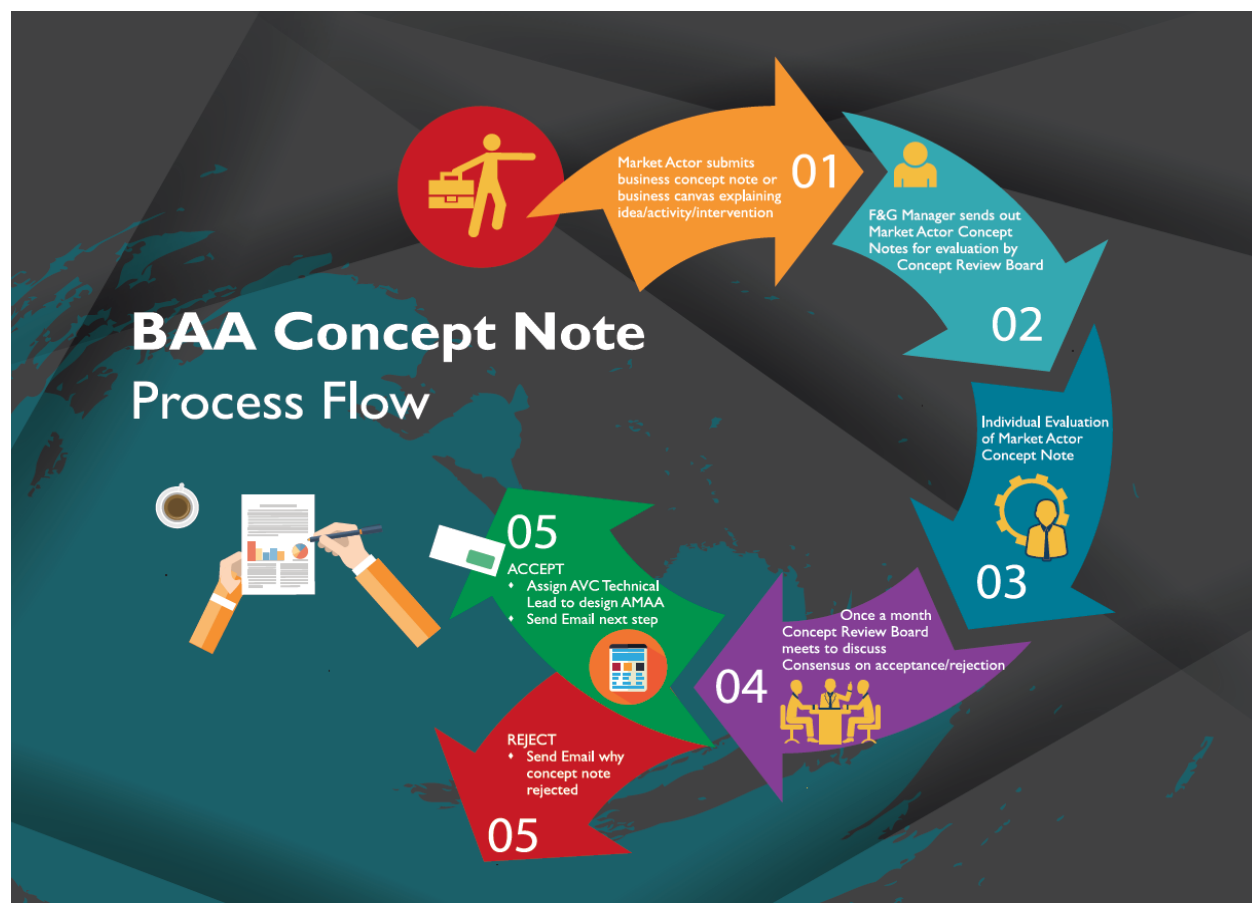
This stage leads to the issuance of a Market Actor Co-creation Umbrella (MACU) instrument, which establishes a SOW of the joint intervention, a period of performance, an established funding ceiling and proposed co-investment amounts.

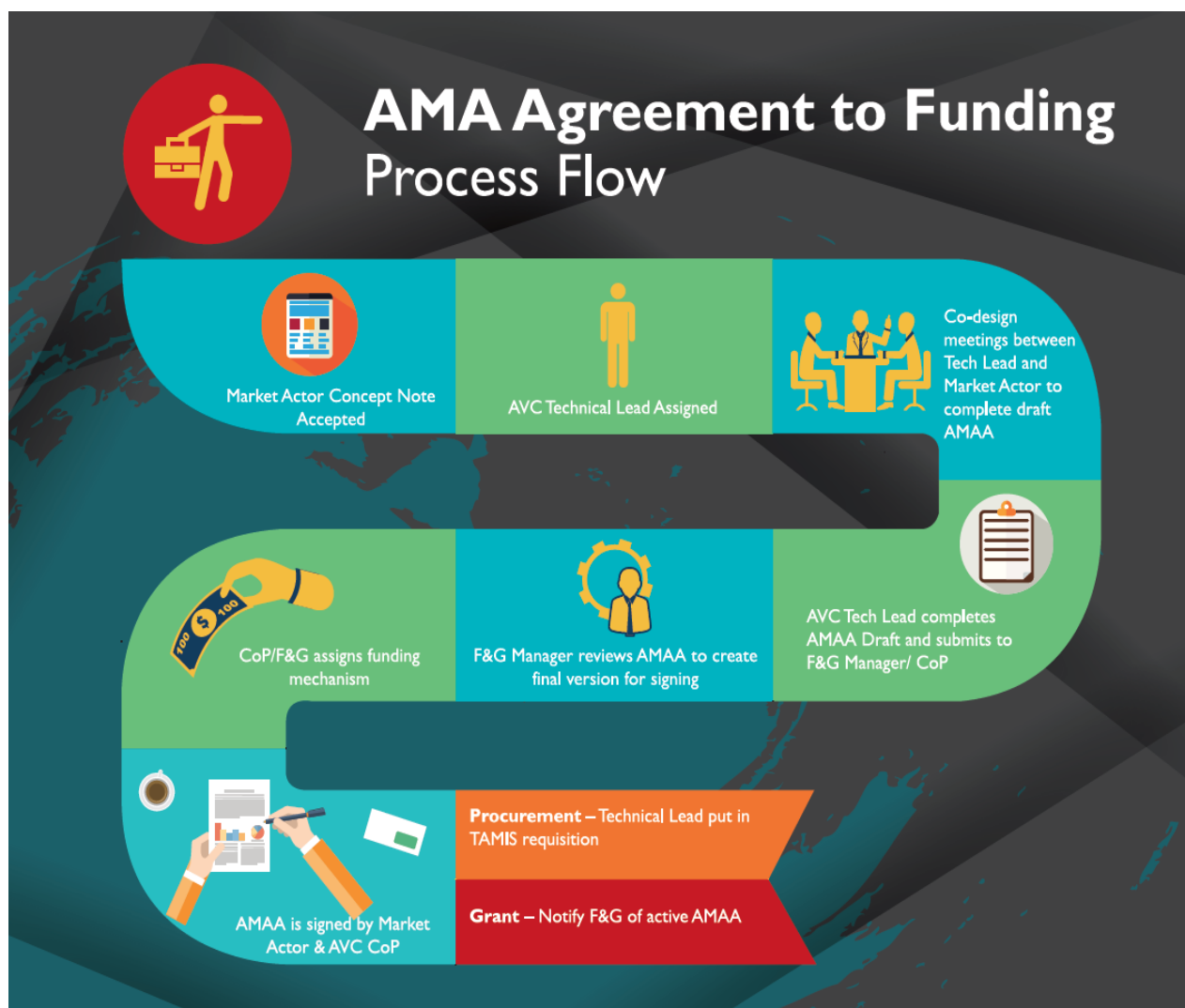
- **Stage 5 - Fixed Amount Award (FAA) or task orders (programme procurement and technical staff)**

The initial phase of the activity, as identified in the MACU leads to a first subaward, which should establish specific moments for a Pause and Reflect mid-subaward and at the end of the subaward.

Example: Bangladesh AVC programme's BAA arrangement

The infographics below explain the Blanket Activity Announcement (BAA) used by Bangladesh AVC programme. The first diagram shows the process of market actors submitting ideas that are reviewed internally, including by the Finance & Grants (F&G) Manager, leading to an Adaptive Market Actor Agreement (AMAA). The second infographic shows the internal programme team members involved in moving the AMAA to a specific funding mechanism after sign-off from the Finance & Grants Manager & Chief of Party.





Conclusions, and relevance of the other papers in this series

This, the third paper in the **MSD Procurement Series**, underscores the importance of programme managers understanding the principles of MSD and following them closely, while responding to the unique context of programme start-up. Managers need to be creative and to take measured risks while still operating within the rules. Knowledge and expertise in a wider range of funding mechanisms provides options for developing partnerships with market actors prior to administrative and financial systems being fully operational.

This sets the scene for the fourth and final paper in the series: [Fit for Business](#). That paper tackles the relationship between technical MSD programme staff and their operations, finance and procurement counterparts. It augments the current paper's focus on the role of programme managers by illuminating the key roles of functional specialists in grants, procurement and finance, and the relationships between the two.