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ISPAHANI BANGLADESH

ADAPTIVE MANAGEMENT TO SUPPORT MARKET SYSTEMS DEVELOPMENT

Case Study of USAID's Agricultural Value Chain (AVC) Activity In Bangladesh

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PURPOSE OF REPORT

The value chain and market systems development practice area is gaining increased focus within the United States Agency for International Development (USAID) portfolio. As a result, there is increasing interest on how to strengthen this practice area and what lessons can be learned from Missions and activities that have applied the approach.

USAID contracted the Knowledge Driven Agriculture and Development (KDAD) consortium to prepare a case study to explore the investments made by USAID/Bangladesh in their Economic Growth (EG) portfolio on developing market systems. The case study focuses on the USAID/Bangladesh investment in their AVC activity.

The primary audience for this report is USAID staff, both in Washington, D.C. and within Missions, with a secondary audience being Implementing Partners involved in market systems programming.

To complement this case study, several supporting tools have been developed as quick references for Missions and Implementing Partners managing market systems activities. These include coaching modules, videos, and carton-based training materials. (See Appendix I for the list of tools and links to the resources).

This report was prepared through a series of interviews with stakeholders from USAID/Washington, USAID/Bangladesh, and AVC staff and consultants. (See Appendix II for a list of the stakeholders interviewed.) The information presented in the report is drawn from these interviews and from many AVC reports and documents, most of which are internal to AVC and/or the USAID reporting process. When extracts have been inserted directly from non-public documents, it has been done with the approval of AVC and no reference has been made in the footnotes as to the source.

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ACRONYMS

AAPI	Accelerating Agriculture Productivity Improvement
AMAA	Adaptive Market Actor Agreement
AOR	Agreement Officer's Representative
AVC	Agriculture Value Chain
B2B	Business-to-Business
BAA	Blanket Activity Announcement
BFS	Bureau of Food Security
CLA	Collaboration, Learning, and Adaptation
CO	Contracting Officer
COP	Chief of Party
COR	Contracting Officer's Representative
CSO	Country Support Officer
CSR	Corporate Social Responsibility
DAI	Development Alternatives Incorporated
EG	Economic Growth
EGO	Economic Growth Office
EVI	EcoVentures International
FAR	Federal Acquisition Regulation
FSN	Foreign Service National
FTF	Feed the Future
HACCP	Hazard Analysis and Critical Control Points
HR	Human Resources
ICT	Information and Communication Technology
IFDC	International Fertilizer Development Center
IFPRI	International Food Policy Research Institute
IPM	Integrated Pest Management
IPO	Initial Public Offering
IP	Implementing Partner
IR	Intermediate Result
ISO	International Standards Organization
KDAD	Knowledge Driven Agriculture and Development
LECP	Local Employment Compensation Plan
LEO	Leveraging Economic Opportunities
M&E	Monitoring and Evaluation
MSD	Market Systems Development
NGO	Non-Government Organization
P2P	Peer-to-Peer
QPR	Quarterly Portfolio Review
PRICE	Poverty Reduction by Increasing the Competitiveness of Enterprise
PRSSP	Policy Research and Strategy Support Program
QPR	Quarterly Portfolio Review
RFA	Request for Application
RFP	Request for Proposal
SME	Small and Medium-sized Enterprises
SOW	Scope of Work
USAID	United States Agency for International Development
ZOI	Zone of Influence

CLARIFYING CONCEPTS

VALUE CHAINS

Value chains comprise of the actors and functions connected by a series of value-addition transactions, from production to consumption of goods and services. A value chain for dairy, for instance, may include input suppliers, farmers, processors, traders, wholesalers, and national retailers. Value chains depend on support services, such as veterinary and financial services in the case of dairy. They are shaped by the broader, enabling environment in which they operate, such as policies regulating safety standards for processed milk.

Recognizing the importance of working at the level of the value chain in shaping the poverty alleviation and economic growth opportunities for smallholders, development practitioners developed value chain programming - efforts aimed at strengthening the relationships and functioning across actors in ways that make value chains more competitive and inclusive. The approach has been effective for understanding how value chain actors relate to each other and the incentives they may have to behave differently: What it takes for a milk aggregator to source from small dairy producers; or how aggregators have managed to break into demanding food outlets. There is evidence that value chain programming has contributed to reducing poverty, generating systemic behavior change, and increasing private sector investment and trade. Over the years, development practitioners have come to recognize that:

- Value chains are interdependent (dairy farmers, for instance, rely on the maize value chain as maize is the main ingredient in animal feed);
- The performance of value chains - including how much value they generate and for whom – often depends on factors outside of the value chain, such as the government's commitment to investments in agriculture, and the resiliency of the sector to man-made and natural disasters; and
- Instead of simply improving the movement of a product or service from inception through to consumers, development practitioners can assist in catalyzing changes in broader market systems that make it more resilient and inclusive over time.

MARKET SYSTEMS

Over and above a focus on specific value chains, development activities are increasingly focusing on strengthening the broader market system in which value chains operate. The main features of the market systems' approach include:

- Addressing the underlying reasons, incentives, and biases for how and why businesses, people, and networks (i.e., the system) have not adapted to come up with a solution themselves;
- Extending beyond individual value chains to build the capacity and resilience of local systems; and
- Considering behavior patterns, flows of information and finance, relational networks, trust and dispute patterns, and interconnectivity and patterns of influence between market systems and other social systems (i.e., political, civil society, communal/friends and family, etc.).

I. OVERVIEW

I.1. FEED THE FUTURE (FTF)

The Feed the Future (FTF) initiative is the United States (U.S.) Government's signature approach to tackling hunger, food security, and stunting in the world. As USAID programming in FTF evolves to a market driven, sustainable approach, so have the management approaches to reach the long-term objectives. The Global Food Security Strategy (GFSS), launched in 2016, grew from evidence of the initial round of FTF programs to allow for more flexibility in USAID agriculture programming. The Objective I vision and endpoint is to aim for agricultural growth that is inclusive and sustainable. Given finite resources, the GFSS encourages more collaboration and facilitation of private sector engagement rather than direct financing of beneficiaries. USAID and its implementing partners, therefore, partner with and leverage others to catalyze systemic change and productivity growth. This approach to partnership and leverage means that implementing partners do not become market actors themselves, but rather facilitate the practices and behaviors of others to allow markets to work better. Finally, a greater focus on the return and impact means that activities need a pathway to learn, adapt, and scale.

I.2. OVERVIEW OF THIS STUDY

This case study highlights the adaptive management tactics utilized by a USAID activity in Bangladesh to shift from a narrower value chain approach to an inclusive market systems approach.

USAID/Bangladesh funded the Agricultural Value Chain (AVC) activity in 2013. (USAID refers to its individual projects as 'activities'. This terminology will be used throughout this study.) AVC initially focused on farmer-level support to achieve production improvements. With Mission guidance, after two years into AVC, AVC re-orientated its approach to more of a market systems development approach where AVC started working through other market actors to impact farmers. AVC's commitment to a market system approach included a commitment to USAID's Collaboration, Learning, and Adaptation (CLA) process. This report studies this process of change and the resulting lessons learned.

The case aims to demystify the transition to a broader market systems approach and provide practical suggestions on facilitation and adaptive management. As with the USAID Leveraging Economic Opportunities (LEO) briefs series, this study seeks to increase the ability of USAID staff and its development partners to: (i) design new activities that promote inclusive market development, (ii) manage their implementation, and (iii) monitor, learn and evaluate results. USAID staff and implementing partners in sectors outside agriculture and economic growth will also benefit from the management, design, and monitoring of systemic approaches outlined in this study.

The study is a learning resource for readers interested in implementing the market systems facilitation approach, and for those who may question how it is different from traditional implementation. It is not intended to be an evaluation or assessment of any kind. The key findings contribute to USAID's larger learning agenda in order to build on best practices and find more effective ways of sustainably engaging local actors.

Section one and two provide a background and an overview of the activity. Section three discusses key success factors such as relationships between USAID and the contractors. Section four delves deep into some of the fundamental shifts in interventions when applying the market systems approach. Themes in

this section include analysis of sectors, incentives that drive behavior, what are inclusive business strategies and a culture of innovation, and how to engage the private sector that has long been distorted by donor subsidies. Section five discusses human resource issues such as restructuring the team, training staff in the market systems approach and fostering a culture of learning, sharing, and teamwork. Section six provides an overview of the innovative procurements used to test, assess, and scale multiple interventions in a short period of time. Section seven considers FTF requirements in reporting and how the process of adaptive management allows for rapid results. Section eight discusses the tricky balance of managing finances in market systems programming. As a catalytic approach, it is a well-suited approach for a global environment with dwindling foreign assistance and increasing private sector roles.

I.3. FINDINGS

The study finds that there are four key conditions in adaptive management that contribute to the successful implementation of a market systems activity in the FTF context:

- **Risk tolerance of USAID management team and Mission with strong oversight and trust with AVC.** The extensive involvement of the USAID management team in every stage of the activity's interventions led to high levels of trust with the implementing partner and allowed USAID to learn from results immediately.
- **Willingness to pilot and learn from results.** The design of short-term contracts with market actors was a key operational shift that permitted AVC to test new concepts, not be tied to any one model or approach, and to achieve scale. This allowed for rapid application of learning and results as a key foundation to adaptive management.
- **Flexibility to enable the identification and pursuit of promising opportunities.** AVC's support to marketing firms in the flower sector was not among the opportunities originally identified in its initial value chain analysis. Yet it became one of key successes for the activity. This was possible owing to USAID's flexibility to its implementing partner to identify new opportunities during programming.
- **Facilitation of private actors to develop inclusive business strategies to ensure sustainability and ownership.** AVC has demonstrated that private actors can develop fair and transparent business practices that yield long terms profits, and build social and economic benefits to the smallholder farmer. Providing information and inputs as part of a commercial business model leads to more durable change than direct service and input provision.



2. AVC ACTIVITY

USAID/Bangladesh established the \$34 million, five-year AVC activity under its FTF initiative. AVC is managed by DAI Global, LLC, and runs from August 2013 to July 2018.

2.1. OBJECTIVE

AVC aims to positively impact Bangladesh's Southern Delta region. This region is home to 28 million people who are adversely impacted by inefficient farming, persistent poverty, and poor nutrition. To support this, AVC focuses on:

- Starting-up or expanding new technologies, products, or services for the agricultural sector that make it easier and more affordable to execute business along the value chain;
- Starting-up or expanding improvements in processes or systems for conducting business throughout the value chain; and
- Researching, developing, testing, and implementing approaches or technologies for understanding and influencing consumer demand for higher quality products.

AVC facilitates change in both food and non-food value chains to reach 200,000 farmers, with a focus on eight value chains including potatoes, tomatoes, mangos, groundnuts, pulses (lentils and mung beans) and an array of summer vegetables. Interventions in the non-food value chains for flowers and natural fibers, including jute and coir, will benefit approximately 100,000 farmers in the Southern Delta. Activities in the flower and fiber value chains work to increase the capacity of producers to participate in domestic and export markets and to enhance the demand for non-food products in both national and

international markets through improved product quality, diversity, innovative technology, and disseminating information on market trends, prices and demand.

The goals of AVC include:

- upgrading these value chains with new technology and innovations,
- supporting inclusive business and economic growth,
- strengthening agricultural market systems overall, and
- building local capacity to sustain improvements beyond the life of AVC.

2.2. SHIFT TO MARKET SYSTEMS APPROACH

AVC started in 2013 with a production-focused value chain approach working with market actors from different parts of the system. While targets were met, the activity did not address many of the underlying barriers faced by smallholder farmers in accessing input and output markets. AVC struggled to successfully engage with the largest agribusinesses and lead firms in the Southern Delta to drive private sector investment and inclusive market growth.

Initially, AVC centered on interventions that involved broad farmer production-level trainings, direct procurement of equipment, general grants to small businesses, and subsidization of their operational costs.

The activity adopted a market systems approach two years into the activity's implementation. As a part of this shift, the activity utilized a facilitation approach in which it avoided directly financing its target beneficiaries: small-scale farmers. As AVC shifted to a market systems approach, the team found the initial selection of market actors practiced extractive business practices, with little benefit to the farmer. The value chain approach engaged with firms at a surface level and did not address the driving incentives to engage with farmers inclusively, thereby limiting the sustainability of activity results. AVC needed to adapt in a direction that was defined by addressing underlying drivers of behavior.

As AVC shifted its focus to align with a market systems approach, it focused less on grants to small businesses and direct training of farmers, and more on engaging with the leading agribusinesses, and leveraging private sector interests to drive private sector investment and inclusive market growth

By adopting the market systems approach, AVC shifted to work with firms on inclusive business strategies, thereby building stronger relationships with farmers and benefiting the rural, poor households targeted by the FTF initiative. USAID's GFSS recognizes that such business practices have the ability to drive the development of a market system that is also, ultimately, more inclusive. This study shares practical tactics to work directly with firms that indirectly benefit smallholder farmers, thereby stretching limited donor resources to have a wider impact on the market system. These tactics include (1) facilitation; (2) targeting; and (3) self-selection to push firms to consider growth-oriented and inclusive business practices with farmers, and with each other - practices that are transparent, clear, fair, and consistent. Based on interrelated principles of achieving systemic results and sustainability, the activity expects all interventions to be viable without donor investments in the long term, and generate ongoing investments resulting in social and economic benefits to beneficiaries.

A facilitation approach to activity implementation aims to intervene in such a way that stimulates changes in value chains or market systems, while avoiding taking a direct role in the system. For example, facilitators may encourage private sector companies to supply inputs to target beneficiaries, rather than providing those inputs directly. Facilitation activities build the capacity of existing actors and institutions, and the relationships among them, to strengthen their ability to respond and adapt to changes in market trends or in the enabling environment without activity support—thus enabling sustainable growth in the value chain.

Using a market systems approach, AVC addresses opportunities and constraints associated with agribusinesses along the Southern Delta agribusiness food and non-food value chains, to impact farmers in the ZOI. AVC works with market actors from different parts of the system, including input suppliers, agri-machinery providers, producers, post-harvest handlers, transporters, processors, traders, retailers, financial institutions, marketing and branding firms, and consumers.

AVC focuses assistance on market actors that appear to have interest in embracing inclusive business practices with farmers, and with each other - practices that are transparent, clear, fair, and consistent. AVC recognizes that such business practices have the ability to drive the development of a market system that is more inclusive.

AVC focuses on impacting the core functions of the market system (the inputs and buyers markets), and other supporting market functions - such as financial systems. AVC has started working in areas that will result in the next waves of change in the system, such as working with marketing firms and with trader functions to strengthen and realign these areas. This, in turn, amplifies and deepens the changes initiated in the earlier stages with the core functions.

2.3. PRINCIPLES

According to AVC's internal Monitoring, Evaluation & Learning Plan, the strategies used in AVC's market systems approach consist of these interrelated principles:

- **FACILITATION:** AVC works collaboratively with partners, creating a forum for open dialogue and fostering partner ownership of interventions. AVC brings knowledge, tools, and financial support for co-investment to support private sector business strategies to help market actors innovate, adopt/adapt managerial strategies and tactics, invest in new technologies, and shift the way they relate to and co-invest in smallholder customers/suppliers.
- **TARGETING:** AVC targets private sector firms that can respond to specific windows of opportunity in each value chain and affect systemic change. Firms have been targeted based on their potential to facilitate widespread adoption of new technologies, to provide key business support services, to engage women, or address other systemic market system constraints. AVC targets firms that appear to have interest in embracing inclusive business practices - practices that are transparent, clear, fair, and consistent. AVC recognizes that such business practices have the ability to drive the development of a market system that is more inclusive and beneficial to smallholder farmers.

- **SELF-SELECTION:** AVC pursues certain targeted firms, they self-select whether to work with AVC or not, AVC then works through them to facilitate systemic change. The firms self-select whether to continue working with AVC at the next level of change, and so on. Self-selection is a partner management approach that sets preconditions for any form of AVC assistance. The precondition can be a commitment to behavior changes and a shared commercial interest or strategy that ensures that the partner receiving support is willing to invest and expand, and not just looking for “free” donor funds. AVC has been shifting how it relates to its key partners and frames any new market actor relationships to be in line with self-selection principles.

SYSTEMIC IMPACTS/RESULTS

AVC takes a market systems approach designed to achieve the following systemic results:

- **CROWD-IN NEW ACTORS** by building broader and deeper commercially-grounded networks; i.e., increasing the attractiveness for new entrants to establish more effective relationships in the market system, interconnected markets and/or enabling environments;
- **FOSTER COMPETITION BASED ON UPGRADING;** e.g., increased productivity, increased investments, increased efficiencies;
- **IMPROVE CREDIBILITY OF AND CONFIDENCE IN MARKET MECHANISMS** by making benefit flows to all market actors more transparent and more appropriate; and
- **SUPPORT KEY END MARKET FACTORS THAT WILL INCREASE COMPETITIVENESS,** i.e., improve the specific market system products and operations required to increase the capacity of the industry to differentiate itself from its competitors.

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SUSTAINABILITY THROUGH FACILITATIVE INTERVENTIONS

Intertwined in AVCs expected results is a focus on sustainability. For AVC, sustainability is defined by two criteria:

- Market systems have to be viable without donor investments (i.e., the donor activity needs to catalyze changes in the target system and interconnected systems that are capable of continuing after AVC has exited).
- Market systems have to generate effective societal benefit flows (i.e., social and economic benefits) that catalyze ongoing investments in upgrading and crowding in.

As a result, AVC applies facilitation tactics based on the following guidelines:

- **INTENSITY:** Determine the appropriate level of donor subsidies and the role that is needed to foster change without creating donor dependence or competing against other actors who can or should perform the same function.
- **OWNERSHIP:** Encourage market actors to take ownership of the change process so they continue to invest in upgrading over time.
- **RELATIONSHIPS:** Build and strengthen relationships among local actors, rather than establishing the donor activity as a direct, long-term actor within the system.
- **EXIT:** Articulate how the donor activity will manage its intensity, foster local ownership, and crowd in new relationships to allow an effective exit where change is sustained and replicated.

2.4. INTERVENTIONS

AVC has quickly demonstrated progress, with firms taking on new strategies and behavior and, in turn, signals that this behavior has started to influence behavior change of other firms in the market. See Table I for a summary of AVC's key intervention objectives in each of its eight focus value chains.

TABLE I: AVC'S INTERVENTION OBJECTIVES IN SPECIFIC VALUE CHAINS

VALUE CHAIN	INTERVENTION OBJECTIVES
Mango	Support diversity and availability of agro inputs and knowledge engaging private sector; improve supply chain management and quality products creating greater pull incentives to drive smallholders and their capacity building.
Potato	Introduce new industrial variety through sponsored contract farming; product diversification; support fresh potato export; promote <u>HAACP</u> and <u>ISO certification</u> processes.
Ground Nuts	Promote improved seed varieties, introduce industrial groundnut variety for food processors; strategic support to private sectors to increase investment.
Pulses	Productivity training for farmers on cultivating high yielding varieties; promote market for improved varieties; strategic support to increase private sector investment.
Flowers	Marketing and branding of Bangladeshi flowers; catalyze private sector investment; build capacity within

Bangladesh Flower Society.	
Natural Fiber	Improve access to inputs, production and post-harvest handling; improve supply chain management; increase investment and sophistication of primary natural fiber processing; improve product diversification and competition of secondary processors.
Summer vegetables	Support development and promotion of safe vegetable production and processing; promote improved varieties of summer vegetable seeds; strategic support for private sector investment; capacity building of farmers on high yield varieties and improved technology.
Tomato	Improve production technology to extend off-season production; branding and promoting safe tomato; investment in secondary market for processed tomato products.

While AVC has undertaken many interventions, several highlights are as follows:

- AVC forged partnerships with 25 private sector companies and cooperatives that will sustainably supply farmers with inputs (high quality seed and fertilizer), technology transfer, and management training, as well as market linkages for their crops.
- AVC linked safe growers to local supermarkets and e-commerce, availing urban consumers of 500 metric tons of premium-quality mangoes.
- AVC assisted an agro input marketing company to develop orchard services for mango hubs, linking safe growers to local supermarkets and e-commerce, which availed urban consumers of 500 metric tons of premium-quality mango.
- AVC started establishing safe food brands, including the application of performance-based supply chain management practices.
- AVC supported the Bangladesh Flower Society and a local event management firm in executing the country's first and second Annual Flower Fest, which promoted the domestic flower industry and united consumers, producers, and retailers from across the value chain, rolling similar festivals out to other parts of the country too. In the second year of these shows, close to 50,000 participants were involved in two consumer flower events in Barisal and Dhaka.
- AVC provided business-to-business (B2B) services to value chain actors that include information and communication technology (ICT), marketing/promotions, transport, business consulting, etc., services.
- AVC facilitated the development and piloting of new agricultural loan products by commercial banks and micro-finance institutions.
- AVC increased research and development for cutting edge scientific and technological, innovations for new design expertise for agribusiness e.g., small-scale farm mechanization, harvesting, storage, packaging, transport, grading, and sorting, and/or other improvements.
- AVC introduced a high-yield and disease-resistant variety of nutritious mung bean, increasing yields by four percent per hectare, reducing post-harvest loss by six percent, and increasing net income per farmer by sixty-four dollars, or seventy-eight percent per hectare (achieving similar success with tomatoes and groundnuts).

3. CONTRIBUTING SUCCESS FACTORS

There were several factors within USAID that supported AVC to take on an adaptive management and market systems approach. These include the personalities and relationships involved and the Mission culture. Several recommendations on how USAID can adapt to support more successful market systems approaches, that are less directly related to AVC, are discussed in Appendix III.

3.1. RELATIONSHIPS, TRAITS, & SKILLS

It takes effort for adaptive management to function well. All parties need to stay informed about progress of AVC interventions, and, for this reason, people and relationships become central.

One of the key determinants as to whether an activity operates effectively ... is the nature of the USAID person or team overseeing it, and the actual people and relationships involved.

Fortunately for AVC, USAID/Bangladesh is responsive, communicative, open to learning and trying new things, and have a good understanding of market systems and the implications for their programming.

3.1.1 CONTRACTING OFFICER'S REPRESENTATIVE (COR) RELATIONSHIP WITH AVC

The USAID COR (the project manager on the side of the donor), the AVC team, and other USAID staff, identified the following characteristics as important to AVC's market systems' shift.

- **CONTINUOUS ENGAGEMENT WITH THE ACTIVITY:** It was important for the USAID/Bangladesh to create the bandwidth to engage with the activity. This continuous engagement of the COR supported AVC's market systems shift.

Heavy workloads of USAID staff are often considered the rationale for low engagement with activities, but Missions choosing to implement market systems programs should create bandwidth to engage with the activity. This might mean fewer COR-managed activities than in a traditional approach.

- **OPEN TO NEW IDEAS AND WILLINGNESS TO LEARN:** The Economic Growth Office (EGO) of the Bangladesh Mission was very open to new ideas and other perspectives, and willing to learn from the new COP and test interventions. It is helpful for a COR to have intellectual curiosity to see how the market systems approach works. It would have been less effective if the Mission had believed that they had all the answers: "I did this somewhere else, this is how you do it", or "I have all the answers".
- **OPENNESS TO REDIRECTING THE ACTIVITY MID STREAM:** The USAID COR recognized the opportunity to put in place a new Chief of Party (COP) when the first retired, to align it more closely with market systems practices. The Mission identified Michael Field as the new COP, given his extensive field experience in applying successful market systems' practices.
- **INVOLVED IN THE DESIGN AND LEARNING PROCESS:** While grants and contracting procurement mechanisms require differing levels of involvement by the COR, in the case of the AVC contract, the COR's role in understanding the market systems approach was critical. For example, the COR attended AVC's work-planning process. If an intervention was less successful,

rather than feeling that AVC was hiding this, the COR learned from the discussion about it and understood why it did not work. This process reflects the heart of USAID's CLA process. While some perceive that, even under a contract, it is better for a COR to be less involved in implementing partner interventions, in AVC's case this was productive, since the COR remained open to learning about the strategic direction interventions were taking.

- **FREQUENT, OPEN LINE OF COMMUNICATION:** It was important that the COP and COR communicated frequently and kept an open line of communication. This supported quick turnaround on assessment and approval processes. A hands-off COR would likely require long, detailed quarterly reports, which they will spend months reviewing. When the implementing partner identifies the need for adaptation of activities, they have to spend months trying to inform and convince the COR and Mission Contracting Officer (CO), as neither the COR nor CO are plugged into the interventions. This creates long delays in interventions, by which time the market conditions may have changed and the opportunity to influence a certain area has passed by.
- **HIGH LEVELS OF TRUST:** It was important for the COP and COR to build a high level of trust for AVC to move forward constructively. The COR recognized that frequent communication established the trust relationship that was needed.
- **RISK TOLERANCE:** The ability to take measured risks dictates the extent to which the USAID COR feels comfortable allowing the activity to try new interventions. This is driven partly by Mission culture and partly by the individual. If an USAID Mission is more risk tolerant, but a COR is less so, it could constrain an activity in trying new things. If the individual COR is more risk tolerant, there is the opportunity for the COR to push the activity to test different strategies. Key to mitigating risk is for the COR to constantly weigh the risk rewards/risk return ratio, especially in the private sector. Activities need to develop short feedback loops from the market, so that if interventions are not working they can be identified quickly and cut off.

In sum, adopting these adaptive management characteristics can lead to: reductions in reporting requirements, continuous learning and adaption, and improved programming.

3.1.2 CONTRACTING OFFICER (CO) RELATIONSHIP WITH AVC

The CO and the supporting contract specialists appreciate an activity in which they are well-informed. The AVC COR maintained an excellent relationship with the CO and the team members. He kept them informed about the key interventions and achievements verbally, through sharing success stories and by taking them on field visits. This was essential as a market systems contract, such as AVC, requires frequent administrative approvals for technical experts, sub-contracts, and other tasks needed to be performed by the CO. It is easier for a CO to provide approval of tasks of a well-informed and good performing activity such as AVC. By the end of the 4th year, the AVC CO and COR provided approval/concurrence to 212 requests, and reviewed/concurred to 104 grants under contracts.

3.1.3 COUNTRY SUPPORT OFFICER (CSO) RELATIONSHIP WITH THE MISSION

The good relationship and open communication between USAID/Bangladesh and USAID/Washington supported AVC's shift to a market systems approach. This was largely dependent on the Country Support Officer (CSO) in BFS at USAID/Washington, who was one of the eleven CSOs covering the

FTF portfolio globally. The CSO listened to the Mission's feedback and requests, affirmed these as legitimate concerns or questions, and responded in a way that the Mission found constructive and useful.

3.2. MISSION CULTURE & INSTITUTIONAL BIAS

USAID/Bangladesh's internal culture supported AVC's shift to a market systems approach through:

3.2.1 COMMUNICATION WITH USAID/WASHINGTON

USAID/Bangladesh is very open and responsive to USAID/Washington, responding in a timely manner to requests, etc. USAID/Bangladesh is very thorough and timely in its regular reporting for FTF portfolio reviews and FTF monitoring reviews. USAID/Bangladesh views Washington as a resource, rather than a roadblock. USAID/Bangladesh drew on input from Washington to support AVC's operational shifts a market systems approach, and maintained open communication about the shifts taking place.

3.2.2 OPENNESS TO LEARNING & TESTING

USAID/Bangladesh was open to learning new approaches and testing different strategies. This supported the profile of the COR, who was, in many ways, also open to learning and testing. Together, this created a formidable team in supporting AVC's shift to a market systems approach. If either party had not been as open, AVC would likely not have been as successful in making the shift. If a Mission is less permissive of testing new approaches, a more open CO/COR can still support this.

3.2.3 INVESTMENT IN STAFF

USAID/Bangladesh supported several internal learning opportunities on market systems approaches and invested in its staff's understanding of this approach. This included bringing in short term technical experts, who were working on USAID activities, to speak to the Mission, and attending a one week training organized for AVC staff by the new COP. This assisted AVC in being able to take on a market systems lens more effectively. The Mission placed importance on training Mission staff and implementing partners at all levels in market systems development, as this is a newer approach. As one of the interviewees shared, "It is hard to convince people that don't know what they don't know, when they think that they know it." Some felt that market systems development training would be beneficial for all agricultural sector staff at USAID, from extension staff through to monitoring and evaluation (M&E) staff.

3.2.4 STAFF ROTATIONS

Market systems activities build on an evolutionary path that the system is taking over a longer period, being adaptive and cumulative over time. It is helpful to have continuity over the lifetime of a USAID activity, including continuity among the USAID staff overseeing the activity. Foreign Service Nationals (FSNs) tend to remain in positions for longer periods, while expats tend to remain in Missions for short periods before transitioning elsewhere. Unfortunately, the short time in each country can disrupt the continuity of a market system's activity and the ability of activities to learn from other activities.

AVC has had the same person as COR over the life of AVC. USAID/Bangladesh's expat Mission staff intentionally overlapped with each other during times of transition so as to share learning and understanding of the longer-term activity's objectives within their portfolio.

4. ADAPTATIONS IN INTERVENTION DESIGN & IMPLEMENTATION

A transition to a market systems approach required AVC to consistently learn from and adapt ongoing interventions and partnerships to shift towards high-achieving interventions that they led to changes in firm behavior and, ultimately, had a positive impact on smallholder farmers. This meant shifting away from interventions and actors that were not changing their behavior to support a better functioning, more inclusive market system, and, therefore, not yielding intended results.

Value chains comprise of the actors and functions connected by a series of value-addition transactions from production to consumption of goods and services and support services, such as sector-specific and financial services.

Market systems approaches address the underlying reasons, incentives, and biases for how and why businesses, people, and networks (i.e., the system) have not adapted to come up with a solution themselves. The approach considers the capacity and resilience of local systems, and systemic constraints to functions that affect multiple value chains.

4.1. ANALYSIS OF VALUE CHAINS & MARKET SYSTEMS

AVC transitioned from a typical production-focused value chain activity to a market systems approach.

Rather than dismissing the value chain approach, AVC's shift to a market systems approach built from the value chain approach. AVC still required basic benchmarking analysis for each value chain function to determine the performance gaps within the value chains.

AVC contracted local firms to conduct a series of market assessments on each of its focus value chains, in the same way that a typical value chain activity would, as it transitioned from its production-focused phase. These assessments considered the steps and added value functions that each crop was moving through as it transformed from inputs, to crops, and to end consumer products. AVC assessed and/or benchmarked performance at each functional area and determined the specific functions or strategies that they would need to change within those value chains to allow them to function more productively. As with a traditional value chain approach, AVC then focused on intervention fixes, addressing the identified technical gaps.

AVC conducted assessments that considered cross-cutting areas, such as transport, which is critical to moving produce from the Delta region to the larger markets more north. AVC's transportation study identified shortcomings in the transport market support sector and gave rise to a private sector task force committee that is addressing challenges and constraints.

AVC worked to understand the driving reasons why the market system (people, firms, networks, etc.), self-organize to perform the way they do. AVC considered behavior patterns, flows of information and finance, relational networks, trust and dispute patterns, and interconnectivity/influence patterns between market and other social systems (i.e., political, civil society, communal/friends and family, etc.).



Photo credit: DAI Bangladesh

Value chain analyses: Basic benchmarking analysis for each value chain function to determine the performance gaps within the value chains that will allow them to function more productively. Includes the steps and added value functions that each crop moves through as it transforms from inputs, to crops, and ends with consumer products.

Market systems analyses: Analysis to understand the driving reasons why people, firms, networks, etc., self-organized to perform the way they do. Considers behavior patterns, flows of information and finance, relational networks, trust and dispute patterns, interconnectivity and patterns of influence between market and other social systems (i.e., political, civil society, communal/friends and family, etc.).

Tools to assess these areas were not readily available. AVC, therefore, contracted technical experts to design new tools for measuring system health, drawing on the systems and complexity fields of practice and adapting several existing tools to the Bangladesh context. AVC tested six tools, which measured: (1) churn through commercial relationships; (2) the uses of financial flows by market actors; (3) delays in financial flows; (4) information flows between market actors; (5) stresses and concerns felt by market actors; and (6) the rates of innovation in business models.

4.2. FOCUS ON BIASES AND INCENTIVES DRIVING BEHAVIOR

AVC recognized that all social systems self-organize based on a combination of factors. Several of AVC's interventions had originally identified, and then addressed, a technical fix to strengthen a particular value chain, such as the introduction of a drought resistant mung bean seed. However, these technical fixes would not be close to sufficient in addressing the underlying issues.

Technical fixes would not fix the underlying reasons, incentives, or biases for how and why the businesses, people, and networks (i.e., the system) had not adapted to come up with solutions themselves.

Where value chains were not performing well, AVC recognized that there were likely valid drivers pushing market actors to devalue investments in a particular solution that would otherwise have been beneficial to them. For example, increasing farmers' incomes may have less to do with sales volumes and more to do with the underlying drivers and incentives, such as how information is shared or how investments are made in businesses.

The objective was to change the underlying biases and incentives in such a way that the agricultural market system evolved in a direction that is more transparent, clear, fair, consistent, and, therefore, inclusive.

4.3. PROMOTION OF INCLUSIVE BUSINESS STRATEGIES

As AVC shifted to a market systems approach, AVC identified patterns of firm behavior that indicated that AVC's selected value chains were not including much benefit to poor, rural smallholders and their households. Instead, firms in these systems, such as traders, input supply retailers, and buyers, were extracting wealth for themselves and not investing in farmers (as customers or suppliers) as a key part of their business strategies. There was very little sharing of market information with farmers or building of their technical capacity as part of the business strategy of these firms, as is generally the case in retail business strategies and supply management strategies in better functioning economies. AVC needed to adapt in a direction that was defined by addressing underlying drivers of behavior. As a result, AVC's approach to influencing firm behavior focused on pushing firms to take on more growth-oriented and inclusive business strategies and tactics.

AVC designed an Agricultural Market Systems Change Wheel, as seen in Figure I, that explores the pathways that an agricultural market system may take as the system becomes more inclusive. It considers the patterns of behavior that drive the market system, and the reinforcing and counterbalancing forces that support the change process.

The Change Wheel provides a more holistic overview and understanding of system change than a more linear results chain. AVC staff used the Change Wheel to better understand the relationship between different interventions on the market system, and to identify the areas AVC could work in and which stage of change could create a more inclusive market system.

As can be seen in Figure II below, the Change Wheel represents behavior change within core market systems (the inputs distribution network system and the supply chain management system) and behavior change within other systems that counterbalances and reinforces that change (the agricultural support services systems, business services systems, and other interconnected systems).



Figure I. AVC designed an Agricultural Market Systems Change Wheel that explores the pathways that an agricultural market system may take as the system becomes more inclusive.

The Change Wheel describes the behavior change that the market actors could progress through to become more inclusive. The behavior change is categorized by the level of change that may occur: the outer circle of the Change Wheel (as shown in Figure I) indicates early stage change; the middle circle indicates the mid-transition stage; and the inner circle indicates the tipping point for the market system to becoming a well-functioning, inclusive system.

4.3.1 CORE MARKET SYSTEMS

INPUT DISTRIBUTION SYSTEM: AVC is working to facilitate the growth of agricultural input supply firms, and their dealers and retailers, which supply inputs and services to smallholder farmers. By influencing their behaviors, AVC is able to drive the firms to consider smallholder farmers as a more integral part of their business strategy, as customers procuring agricultural inputs and services. This, in turn, drives more support to their customers (the smallholder farmers) through modern retail promotions and customer service strategies adapted to rural, agricultural contexts. For example, more information and training provided to farmers through these firms' usual business services and promotions. This ultimately drives a more inclusive input distribution system.

Figure II. Agricultural Market Systems Change Wheel showing core systems and counterbalancing and reinforcement systems



Activities, for example, support change within the following areas for the firms supplying inputs to smallholder farmers (see Table II for practical examples of the change process for each area):

- **PERFORMANCE MANAGEMENT** through performance criteria and reward systems, such as preferred distributor/retailer and farmer/customer mechanisms.
- **STRATEGIC ALLIANCES AND PARTNERSHIPS** with distributors, retailers, service providers, and farmers, which share embedded knowledge and, ultimately, run yearly strategic reviews together.
- **EVIDENCE-BASED MANAGEMENT** from basic information tracking to active investment in data gathering and analysis to drive performance improvement.
- **HUMAN RESOURCE MANAGEMENT** from basic staff performance assessments to having performance evaluation systems in place that drive improvements in firm performance.
- **RETAIL EXPANSION** through customer retention and expansion using promotional events, loyalty clubs, and customer referral programs.

TABLE II: INPUTS DISTRIBUTION NETWORK SYSTEM: STAGES OF BEHAVIOR CHANGE

AREAS	PERFORMANCE MANAGEMENT	ALLIANCES/ PARTNERSHIP	EVIDENCE- BASED MANAGEMENT	HUMAN RESOURCES (HR)	RETAIL EXPANSION
<i>Early Stage Change</i>	Transparent performance criteria and incentives communicated and tested (e.g., sales targets, merchandising, customer services/satisfaction).	Embedded knowledge services from distributors, service providers, and retailers to farmers/customers.	Track basic information for analysis and decision-making (e.g., financial performance, farmer/customer productivity, and cost and trend analysis).	Establish basic HR management practice (e.g., job descriptions, skills requirements, and yearly performance reviews).	Organize promotional events in new farming communities to promote relationship/brand.
<i>Mid-Transition Change</i>	Formalized performance rewards program for distributors, service providers and retailers (e.g., aspirational mechanisms like performance clubs).	Regular meetings to learn and plan between retailers, service providers, and distributors throughout the year.	Invest in ICT tools to manage/automate processes and gather/analyze data – i.e., customer, inventory, finance, etc.	Staffing requirements defined by skills, hiring practices that are driven by skills and experience.	Develop loyalty clubs to engage/ manage best customers/ farmers as tool to track customer habits and solidify loyal and growing customer base.
<i>Tipping Point Change</i>	Performance management practices to drive loyalty and performance (e.g., peer learning meetings, club membership tactics).	Yearly strategic review and planning process. Includes participation by retailers, service providers, and distributors. Results in co-investments to upgrade channel.	Active use and investment in data gathering and analysis to drive performance improvement (e.g., use of growth metrics to guide decision making).	HR performance evaluation system in place and used proactively to improve firm performance.	Establish customer referral programs to expand customer base.

SUPPLY CHAIN MANAGEMENT SYSTEM: AVC is facilitating the growth of agricultural firms buying smallholder-grown produce, and the traders and processors that play a role in this system. By influencing their behaviors, AVC is able to drive these firms to consider smallholder farmers as a more integral part of their business strategy, as suppliers of produce. This, in turn, drives more support to firms' suppliers (the smallholder farmers) through modern supply chain management strategies adapted to rural agricultural contexts. This ultimately drives a more inclusive supply chain management system.

Activities, for example, support change within the following areas for the firms procuring agricultural produce from smallholder farmers (see Table III for practical examples of the change process for each area):

- **PERFORMANCE MANAGEMENT** such as formalizing preferred supplier mechanisms.
- **STRATEGIC ALLIANCES AND PARTNERSHIPS** with traders and farmers to share embedded knowledge and, ultimately, run yearly strategic reviews together.
- **EVIDENCE-BASED MANAGEMENT** from basic information tracking to active investment in data gathering and analysis to drive performance improvement.
- **HUMAN RESOURCE MANAGEMENT** from basic staff performance assessments to having performance evaluation systems in place that drive improvements in firm performance.

- **SUPPLIER EXPANSION** through farmer meetings and farmer referral programs.

TABLE III: SUPPLY CHAIN MANAGEMENT SYSTEM: STAGES OF BEHAVIOR CHANGE

AREAS	PERFORMANCE MANAGEMENT	ALLIANCES/ PARTNERSHIP	EVIDENCE-BASED MANAGEMENT	HUMAN RESOURCES (HR)	SUPPLIER EXPANSION
<i>Early Stage Change</i>	Transparent performance criteria and incentives communicated and tested (e.g., grades and standards with price differentials).	Embedded knowledge services from buyers to traders and farmers.	Track basic information for analysis and decision-making (e.g., financial performance, farmer productivity, cost and trend analysis).	Establish basic HR management practices (e.g., job descriptions, skills requirements, and yearly performance reviews).	Organize meetings with new farming communities to assess interest.
<i>Mid-Transition Change</i>	Formalized performance rewards programs for farmers and traders (e.g., aspirational mechanisms like suppliers clubs).	Regular meetings to learn and plan between farmers, traders, and processors throughout the year.	Invest in ICT tools to manage/automate processes and gather/analyze data.	Staffing requirements defined by skills; hiring practices that are driven by skills and experience.	Engage preferred farmers to encourage new farmers to register.
<i>Tipping Point Change</i>	Performance management practices to drive loyalty and performance (e.g., peer learning meetings, club membership tactics).	Yearly strategic review and planning process that includes farmers and traders, which results in co-investments to upgrade supply chain channel.	Active use and investment in data gathering and analysis to drive performance improvement (e.g., use of growth metrics to guide decision making).	HR performance evaluation system in place and used proactively to improve firm performance.	Establish formal farmer referral programs to expand supplier base.

4.3.2 COUNTER-BALANCING AND REINFORCEMENT SYSTEMS

To support the changes being facilitated in the core inputs supply and buyer markets, AVC is working in several systems that counterbalance and reinforcement these changes. The agricultural support services system, the business services system, and other interconnected systems help to sustain the changes in the core market systems, and to drive these changes in the right direction.

AGRICULTURAL SUPPORT SERVICES: AVC is working to transition firms to provide more specialized agricultural services to support the growth of input supply firms and firms buying agricultural crops.

Activities, for example, support the following changes within firms that provide support services to agricultural firms (see Table IV for practical examples of the change process for each area):

- **AGRICULTURAL MACHINERY FIRMS** actively selling and adapting equipment to the local context.
- **SPECIALIZED AGRICULTURAL SERVICES** where, at a basic level, firms provide basic services and, ultimately, develop more specialized services for the agricultural market.
- **PUBLIC AND PRIVATE AGRICULTURAL RESEARCH** organizations working closely with market actors.

- **AGRICULTURAL ADVISORY SERVICES** where firms start providing accessible and compelling agronomy information and technical services to the sector.
- **AGRICULTURAL MARKET SERVICES AND PLATFORMS** decreasing costs and improving confidence that market transactions will be fair and transparent.

TABLE IV: AGRICULTURAL SUPPORT SERVICES SYSTEM: STAGES OF BEHAVIOR CHANGE

AREAS	AGRICULTURAL RESEARCH	SPECIALIZED AGRICULTURAL SERVICES	AGRICULTURAL MECHANIZATION	AGRICULTURAL ADVISORY SERVICES	MARKET SERVICES & PLATFORMS
<i>Early Stage Change</i>	Regular discussions between market actors and research organizations including academic/public and private research organizations.	Emergence of basic specialized agricultural services for farmers (e.g., spraying and land preparation, post harvest handling, processing, warehousing).	Emergence of specific localized equipment for specific crops.	Input firms and supply chain management schemes that provide embedded advisory services gain competitive advantage.	Structured open markets (spot markets) that have specific services and rules that attract farmers because of transparency and consistency benefits.
<i>Mid-Transition Change</i>	Emerging alliances and regulations that promote commercialization of research, including improved feedback from market actors on research needs.	Emergence bundled services that combine services in various ways to maximize efficiency of delivery.	Emergence of multiple channels for equipment that includes a professional services channel and a direct-to-farmer channel.	Emergence of paid advisory services for farmers that supplement private embedded advisory and public extension services.	Emergence of auctions or closed exchanges that begin to decrease transaction costs for spot market transactions.
<i>Tipping Point Change</i>	Public/private research firms are the driving force for innovation in market systems. Research firms forming alliances with, or integrated into, agricultural firms. Transparent mechanisms in place to commercialize public research, and consistent flows of investment funds into research (private and public).	Growing and constantly innovating market system for specialized agricultural services that have quality certification regimes.	Emergence of a robust quality certified second-hand market for equipment linked to a wider range of financing options.	Public extension services evolve towards a facilitative role to ensure effective flows of technical info by market actors. Engage academia/research to develop practice guidance for delivering embedded and paid for services.	Integrated systems that lead to auctions or commodity exchanges that are integrated with mechanisms such as warehousing (most commodity crops move through these).

BUSINESS DEVELOPMENT SERVICES: AVC is working to provide more specialized business development services to agricultural firms to support the growth of input supply firms and firms buying agricultural crops.

Activities could, for example, support change within the following types of business development services for agricultural firms (see Table V for practical examples of the change process for each area):

- **ADVOCACY SERVICES** such as improving basic discussion platforms for businesses and, ultimately, participatory policy design processes.

- **EQUITY INVESTMENT AND ENTREPRENEURIAL ADVISORY SERVICES** such as venture capital investment.
- **FINANCIAL SERVICES** tailored to the agricultural sector, with, ultimately, constant innovation and improvement of financial products for the agricultural sector.
- **ALTERNATIVE DISPUTE MECHANISMS** from defining basic avenues for disputes to having a wide range of dispute mechanisms in place.
- **OTHER BUSINESS SERVICES** from initial services targeting SMEs to a wide range of services and providers for the agricultural sector overall.

TABLE V: BUSINESS DEVELOPMENT SERVICES SYSTEM: STAGES OF BEHAVIOR CHANGE

AREAS	ADVOCACY	VENTURE CAPITAL & ENTREPRENEURIAL SUPPORT SERVICES	FINANCIAL SERVICES	ALTERNATIVE DISPUTES	OTHER BUSINESS SERVICES
Early Stage Change	Market actors engage government through discussion platforms organized through advocacy service provider (increases number and credibility of platforms).	Rudimentary venture and impact investors active with agricultural firms that are connected with entrepreneurial advisory services.	Financial services are tailored for various actors in the market system.	Disputes landscape defined (e.g., some disputes managed via skilled mediators).	Initial business services adapted for and tested with SME market actors (e.g., ICT, marketing, branding, management consulting, HR, etc.).
Mid-Transition Change	Advocacy service providers convene regular discussions on evidence of policy effectiveness (between government, researchers, civil society, and market actors).	Viable venture capital firms with agricultural portfolios, and accelerator models that are commercially viable and/or durable through public/private partnerships.	Increased role of financial products for agricultural market systems (e.g., equity, insurance, savings, mobile, and niche products).	Basic mediation services that recognize and respond to disputes to improve longer term performance and trust in the market system (e.g., track increasing levels of distrust and win/lose outcomes).	Specialized business products, applications, or services are available to SME agribusinesses by other businesses (e.g., integration of mobile money in transactions; applications supporting customer and supplier relationship management; and marketing agencies specialized for agriculture).
Tipping Point Change	Market actors are core participants in policy processes that are more participatory, evidence driven, and adaptive.	Investment banking services begin to emerge (includes mergers, acquisitions, derivatives, venture capital, initial public offering (IPO), etc.).	Constant innovation in improved financial services across multiple types and platforms (e.g., formal, value chain, venture capital, mobile).	Wide range of alternative dispute mechanisms in place to limit unresolved disputes and limit the levels of distrust/rent seeking.	Wide range of services/providers that further increase the effectiveness and adaptability of business services and the system as a whole (e.g., catalyze greater interconnections between service providers – automated credit approvals based on firm's customer management system).

INTERCONNECTED SYSTEMS: AVC recognizes that there are opportunities to improve functioning of interconnected systems (through market actors such as government, civil society, academia, the judiciary, and the media) to support the growth and behavior change of agricultural input supply firms

and firms buying agricultural crops. These systems play an important role in reinforcing and counterbalancing the changes in the core inputs supply and supply chain management systems. AVC has not yet focused interventions on these areas to any large extent.

Activities could, for example, support the following interconnected systems in the areas where they impact the agricultural market (see Table VI for practical examples of the change process for each area):

- **ENABLING ENVIRONMENT** agricultural-related policies could constantly adapt, with changes driven by an evidence-driven, participatory process.
- **CIVIL SOCIETY** could separate from political interests and ultimately use evidence-based advocating processes.
- **ACADEMIA** could be linked to businesses with cooperation around innovations for agriculture.
- **JUDICIARY** could evolve to have an independent, transparent, consistent, and fair application of the laws related to agriculture.
- **MEDIA** could become an important voice to their audience (such as farmers and/or agricultural SMEs) and become an advocacy and checks-and-balances entity within the agricultural market.

Photo credit: AVC DAI Bangladesh



TABLE VI: INTERCONNECTED SYSTEMS: STAGES OF BEHAVIOR CHANGE

AREAS	ENABLING ENVIRONMENT SYSTEM	CIVIL SOCIETY	ACADEMIA	JUDICIARY SYSTEM	MEDIA
<i>Early Stage Change</i>	Policies developed based on participation of key actors and credible evidence and then translated into transparent and fair enforcement (e.g., grades and standards, health and safety, police along transport routes, and more health and safety standards enforced).	Social/civil society is co-opted less by political or donor interests and evolves in own direction.	Academia links to business (e.g., via interns and improved research).	Improved awareness of laws and rights coupled with resources to support citizens when engaging the judiciary.	Media outlets increasingly give a voice to their audience (i.e., moving to audience-driven growth model).
<i>Mid-Transition Change</i>	Monitoring is performed by a range of governmental, civil society, market actors, researchers, and consumers, which results in evidence that is used in a participatory manner to adapt/create new policies.	Social/civil society is constituency-driven and funded and not co-opted by political or donor interests and funds.	Academia cooperates with businesses via various platforms (e.g., exchanges on content, research, internships, curriculum development, etc.).	Increasing pockets of judiciary system that are known to be independent, transparent, fair, and consistent.	Media outlets sell advocacy and investigative journalism as commercial products.
<i>Tipping Point Change</i>	The overall policy process is driven by evidence, participation, and objective monitoring of stated results.	Civil society advocates based on evidence/merit.	Academia becomes an important, innovative force, as well as a mechanism for ongoing adaptation of the labor force skills in response to market requirements.	Widespread access to efficient, independent, transparent, fair, and consistent judiciary.	Media becomes an independent force in the system advocating for its listeners, acting as an effective counterbalance to private sector and government.

4.4. PRIVATE SECTOR ENGAGEMENT & THE USE OF SUBSIDIES

AVC was designed by USAID to drive private sector investment and inclusive market growth. But, in the initial years of implementation, AVC struggled to engage with these larger agribusinesses and lead firms in the Southern Delta. Instead, AVC's main partnerships were with smaller agribusinesses and non-governmental organizations (NGOs). AVC's initial understanding and approach sought solutions to immediate problems, which, in turn, generated large numbers of farmer beneficiaries for USAID reporting purposes.

Initially, the design of grants and interventions was being driven entirely by the objective of reaching target beneficiary numbers. This yielded interventions centered on broad farmer trainings, direct procurement of equipment, and general operational grants to market actors that were not able to move the needle in terms of a market systems impact.

As AVC substantially shifted its approach, it focused less on grants to small businesses and direct training of farmers and more on leveraging private sector interests. Bangladesh is, however, a donor-saturated country, and agricultural firms have adapted to this environment by developing sophisticated “development” or “corporate social responsibility (CSR)” departments, designed to attract grants from donor activities. Many firms have instituted highly paid “donor liaison” positions in their management structures, whose job it is to attend donor-funded seminars and workshops, network with donors, and bring in new ‘business’ from donors to subsidize their operational costs. AVC staff were being sidelined to these CSR departments where they would receive well-packaged, but very conventional, grant applications requesting funding for farmer trainings or new equipment. For example, a firm selling inputs to smallholders might propose grant funding for new equipment for farmers or their firm, rather than for growing their business by reaching more farmers with their inputs and providing better services to these farmers (which, in turn, would result in more loyal customers).

The market systems approach requires engagement of core business strategy departments of private sector agricultural firms, rather than their ancillary CSR departments, or interventions become isolated from the core business of these firms.

This created an unproductive relationship between AVC and the private sector agricultural firms. The firms were not being pressured by AVC to think about how they could use donor subsidies to further their own business goals. This created a perception among the firms that the grants could be spent without a continuing requirement to “earn” the money and commit to demonstrating impact or results.

The challenge was how to adapt AVC’s approach of engagement with private sector partners, on both the technical and operational fronts.

- How could AVC create a format for partnership that would align interventions with the business interests of these firms?
- How could AVC ensure that firms were committed to this new relationship and keep them interested in working with AVC without the incentive of large grants?

AVC made adaptations in operational management that proved to be very successful in aligning AVC’s interventions with the firms’ core business strategies.

AVC made substantial shifts in operational and grants mechanisms with the private sector that introduced co-creation processes with core business units of the firms. AVC and the firms agree to work together to help the firms grow in ways that AVC knows are likely to drive a more inclusive market.

AVC is far from the only donor program operating with these firms, with significant competition within the donor space in Bangladesh. While AVC was asking market actor partners to invest their own time, money, and energy into proving their commitment to ensuring that interventions are sustainable and aligned with their true business interests, other donor activities were continuing to give large, multi-year grants with few strings attached. This resulted in muddling market signals and distorting expectations.

AVC needs to continually ensure that grants to the private sector are designed around business opportunities that generate measurable and noticeable business gains, that continuously incentivize firms to stay engaged in the partnership with AVC, and keep them committed to working with AVC without AVC simply providing them with ongoing large grants.

With all of these shifts, AVC was able to start successfully connecting agricultural markets in the Bangladesh Southern Delta to suppliers seeking to grow their customer base, while introducing these markets to the country's greater agro-industrial complex of producers, processors, and packagers. At the same time, AVC started successfully catalyzing support services (e.g., finance, marketing, and information and communication technology) for SMEs, such as traders, transporters, input retailers, and processors, that underpin the Bangladesh Delta's agribusiness market systems. The results of these changes are discussed in the sections that follow.

4.5. STRENGTHENING SERVICE PROVIDERS FOR THE PRIVATE SECTOR

When shifting to a market systems focus, AVC contracted service provider firms (such as marketing, branding, and market research firms) to provide business services to AVC's private sector partners. Such technical assistance roles are typically fulfilled by donor-funded technical experts and staff. Instead, AVC's vision is that the service provider firms will ultimately provide business services to the agricultural private sector at large long after the life of the AVC activity.

The development of a robust business service provider sector, to support private sector agricultural firms, was an important strategy, as these firms provide ongoing support services to the agricultural sector way beyond the life of the USAID activity.

The service provider firms were often new to providing the particular service or new to providing it to firms in the agriculture sector. They needed to adapt their experience to the agricultural private sector context. For example, conducting market research on specific value chains or cross-cutting market functions, providing marketing and branding support to input supply and buying firms, and facilitating agricultural stakeholder dialogue workshops. Rather than taking the risk that these untested service providers would be able to adequately deliver on these functions, AVC provided them with opportunities to test the adaptation of their services to the agricultural sector in Bangladesh, and mentored them as needed. Often times, this meant simply connecting the service providers to agricultural firms and subsidizing their first few days of interaction.

AVC contracted several firms in the same functional area and invited them to select the service providers they wanted to work with, thereby giving a sense of ownership to the private sector and allowing service providers to compete at an early stage.

AVC promoted ongoing, healthy competition between service delivery firms, to incentivize continual improvement of service delivery to the sector.

4.6. PROMOTING A CULTURE OF INNOVATION

Key to accelerating market systems development is bridging the gap between research, the private sector, and end users of technology to promote an ongoing culture of innovation. Bangladesh's adoption rates for new or improved agricultural technologies, such as seeds, tissue culture, equipment, and Integrated Pest Management (IPM), have been too low to drive the country toward middle-income status. AVC found that there was a lack of feedback between the Southern Delta's farmers and Bangladesh's greater research and commercial processes. In response, AVC designed and initiated activities to enhance communication between technology providers and users. One of AVC's first priorities was to introduce improved marketing practices to agro-machinery and agro-technology firms so that they could more effectively reach farmers with information on their products and services. The AVC-assisted firms gained ground in marketing their seeds, equipment, and other technologies.

By showing market system actors how to market themselves, AVC assisted them to bring more of their innovations, which had not yet taken hold in the market, to the fore. For example: machines that efficiently mill dal (lentils, peas) and pith coir (coconut hair), which should soon be broadly available for lease to farmers and processors; solar-powered units for mango storage that require less electricity and greatly reduce decomposition, which will be more widely available; and rechargeable drying beads that improve seed storage for high-value vegetables and tomatoes.

Photo credit: AVC



5. ADAPTATIONS IN MANAGEMENT OF STAFF

The biggest investment that AVC made during the transition process was in hiring, managing and training both technical and operational staff.

5.1. DIVERSIFYING THE TEAM PROFILE

AVC found that it is important to have diversity in the staff team at multiple levels (age, background, sector-specific experience, and level of experience). Against conventional thought, AVC found that staff with less experience were generally more open to change, displayed less political biases within teams, brought new energy into the team, exhibited quicker learning ability, and were able to quickly fill capacity gaps, while adding energy and innovation.

AVC had initially focused on hiring technical experts as consultants to introduce short-term technical fixes in the market system (a typical expert-driven model). AVC found that bringing in experienced, technical experts from the outside, however, did not embed knowledge and capacity into the AVC team, nor build the long-term capacity of the market to be able to solve its own problems. AVC, therefore, placed greater emphasis on building the technical knowledge and experience of the local, internal staff and local consultants.

5.2. RESTRUCTURING THE TEAM

The AVC technical team was initially organized by food and non-food value chains, with teams focusing on one or more of the eight target value chain crops within each of these. See Figure III, on the next page, for the early stage team structure. With the USAID COR's approval, the team tested several organizational structures when shifting to a market systems approach and settled on reorganizing into cross-cutting functional teams. See Figure IV on the next page for the reorganized structure.

The AVC technical team was reorganized to include a Core Systems team, comprising of Market Systems functions and Research and Technical Commercialization functions. An Interconnected Systems team was introduced, comprising of Marketing and Entrepreneurship Development, Marketing & Media, Marketing & Branding, Private Sector Investment, Access to Finance, and Behavior Change and Gender. The new structure facilitated a more productive working environment and maximized cross-team information sharing.

The new team structure organized teams around the systemic changes that AVC was driving. These cut across all value chains in the agricultural sector, rather than being structured around teams segmented into food/non-food value chains, further defined by specific crops.

The new organization of the teams cut across all value chains in the agricultural sector. Although some value chains have crop-specific issues/interventions, such as mango or groundnut/mung beans, for most, the same issues, challenges, and opportunities cut across all the value chains. In practice, very few farmers farm only tomatoes, potatoes, or vegetables, and very few buyers or traders only buy one particular type of crop, so it was not efficient to have teams organized by a specific crop only, as this was not reflective of market realities. Even within food and non-food value chains, there are extensive

overlaps between the challenges that the value chains face, and, therefore, a crop-focused organizational structure segmented the team's interventions too much.

The new team structure put more attention on the issue of agri-machinery and agri-technology by dedicating a team to working on linking research, government, and private sector stakeholders, disseminating knowledge and technology, and supporting a commercial service provider industry. A dedicated Communications team promoted communication between the technical and operations teams, which supported cross-team learning and cooperation and mitigated potential technical approach conflicts between those teams' interventions. The Entrepreneurship/SME Development team was an important addition as AVC recognizes the development of the middle tier of SMEs as a significant systemic challenge in the agricultural context in Bangladesh.¹

To strengthen their learning and adaptation cycle, AVC expanded the mandate of the M&E team to include not only data collection and monitoring but also knowledge management and the CLA function. It was renamed the Knowledge Management team to reflect this. AVC hired Field Monitoring Officers to take over the field intervention monitoring and basic data collection roles. This built the foundation for more holistic analyses to identify interventions that were, or were not, having the desired effects.

What is not evident from the organogram in Figure IV, is AVC's strategy to reduce the size of its field offices in Jessore and Barisal. AVC brought technical staff to Dhaka to work with the private sector firms, and to improve collaboration among the AVC team.

Counter to the push to get staff closer to the beneficiaries, AVC moved most technical staff to the capital to work with the private sector firms, as most are based there. AVC wanted private sector partners to roll out AVC-facilitated business activities in the field as part of their own business strategies, rather than having AVC staff play this role.

¹ See Michigan State University's article by Thomas Reardon on: [The hidden middle: the quiet revolution in the midstream of agrifood value chains in developing countries.](#)

Figure III. AVC Organogram – Prior to Shifting to a Market Systems Approach

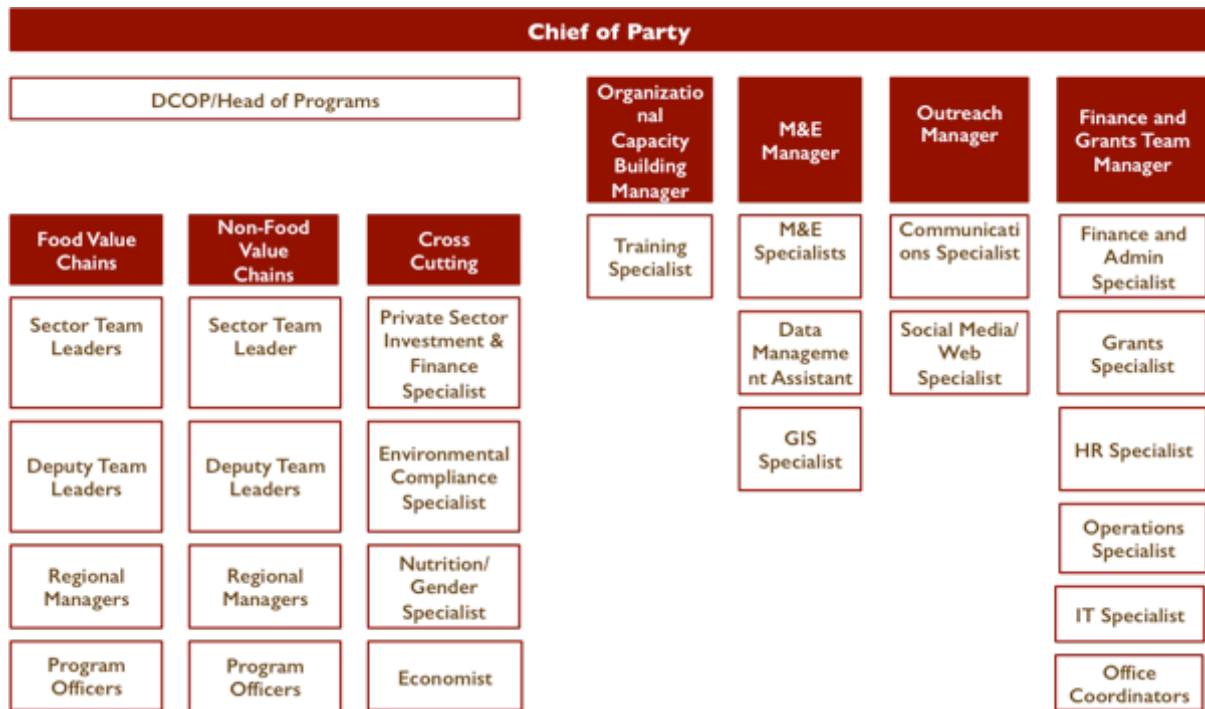
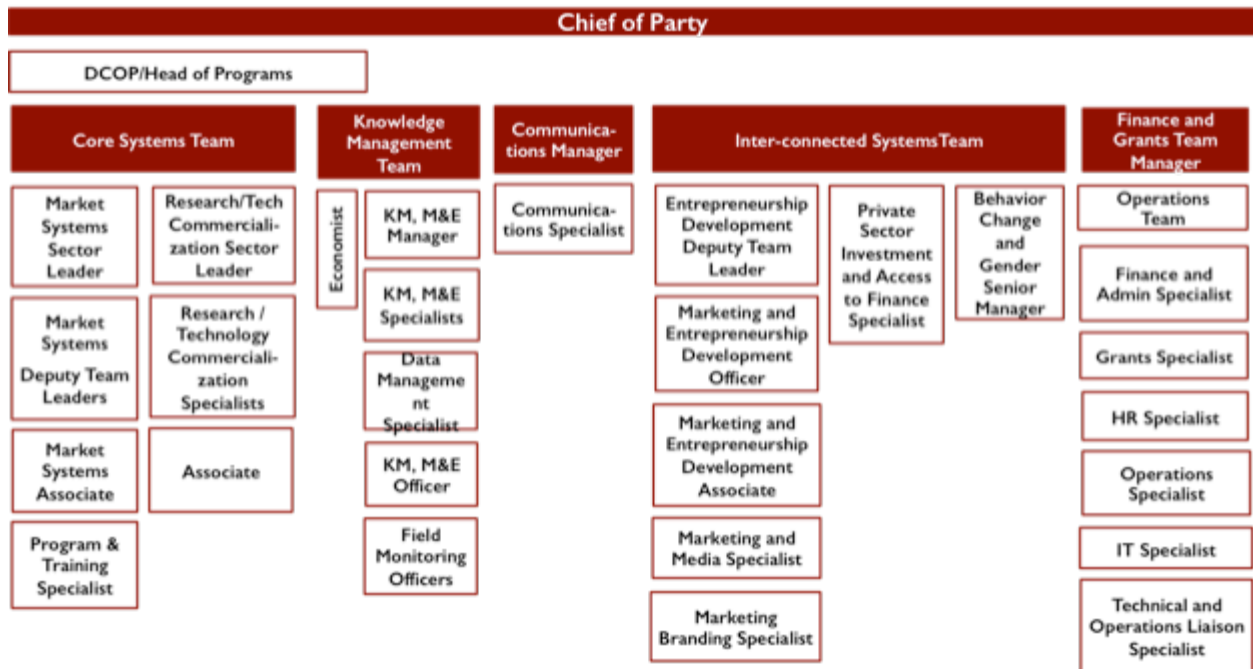


Figure IV. AVC Organogram – After Shifting to a Market Systems Approach



5.3. IMPROVING MARKET FACILITATION SKILLS

Achieving systemic change required changing the focus of facilitation interventions to have the biggest, long-term impact on the market, as opposed to replicating or adding more beneficiaries within an activity. The AVC teams' market facilitation skills needed to be constantly improved.

It was challenging for the AVC team to learn that, once firms started to change behavior in a way that would benefit the broader market system, it was time for AVC to start working in new areas with that firm, with other firms, or in another part of the market system.

When several input firms started running promotional and educational events for farmers through local village fairs, for example, AVC could either transition to support new investment opportunities with those firms, or work with new firms, or work in other areas of the market system. AVC staff slowly became more comfortable recognizing when to transition to focus on wherever the next roadblock or barrier to change is revealed, until AVC, in turn, is able to have market actors want to do it on their own.

The team struggled at first to develop tactics for engaging with private sector firms that would frame engagement around their strategic business goals rather than AVC's goals. Initially, staff relied on the new COP for ideas and guidance, but increasingly gained confidence and experience in working with market actors to identify areas of focus. Collaborative intervention design became an essential skill for AVC staff to develop.

AVC adapted its approach to meeting with agribusinesses to be more facilitative rather than instructive. AVC's relationship managers worked on gaining good insights into each company's strategy, and learned to listen to the business goals of the firms.

This change took place as a result of continued mentoring from AVC management. AVC organized several formal staff training programs to complement the informal learning environment being fostered, bringing in professional market systems trainers and contracting the development of a market systems



AVC's staff built competence in market systems approaches by, for example, participating in the Market Systems Accelerator online learning and coaching course.

simulation-training tool, which was used to deepen understanding of market systems practices. AVC linked staff with technical consultants for mentoring and support, and enrolled staff in online learning and coaching courses.

It was important that both technical and operational staff were trained, as all their activities had to be adapted to support effective market systems programming. Operational staff could understand why technical staff were requesting adaptations to certain budgeting and grants management processes.

Technical and operational staff were introduced to the Market Systems Accelerator online course to continually develop more skills. To make the learning fun and incentivize participation, staff participated in a series of AVC Market Systems Learning Challenges, managed by the professional training firm, with staff competing against each other in different ways over a period of several weeks. AVC initiated a learning exchange with a USAID market systems activity in Mozambique. Staff co-developed shared learning themes and leading staff provided in-person technical assistance to the other activity, building their own capacity in the process. Internal resources were shared informally on a Market Systems Development Learning Hub so that others can also easily access these.

5.4. FOSTERING A CULTURE OF LEARNING & CROSS-SHARING

The market systems approach required new tactics along with new, internal working styles. AVC developed a culture of learning among staff and cross-sharing among teams.

The dynamics between team members were as important as the specific technical skills held by the individual team members.

Management encouraged the participation of multiple people in meetings so that everyone could learn about other areas of the activity and collaborate. Staff were structured to work as teams to diagnose problems and adapt their approach. AVC restructured the office space so that staff were moved into work spaces in the large open areas, which were often being reorganized. The original offices were used as meeting rooms, and spaces between workspaces were filled with couches. The COP does not have an office and instead randomly uses open workspaces, thus always interacting closely with different teams. One of the large conference tables was covered in whiteboard adhesive so it could be used for brainstorming as teams met. A ping pong net and paddles lie handy so that it can be turned into a ping pong table to inspire creative brainstorming and discussion sessions.

As the team tried out new approaches and tactics, some of these would likely result in positive changes, while others might not take off. It was challenging, yet important, to develop a team consensus around what was working and what was not. This was essential to the effective adoption and adaptation of the technical approach by staff that knew the country's context extremely well, despite being newer to the market systems approach.

Initially, the shift was challenging because many team members had traditionally survived by working independently and competing with others in AVC for job security and performance recognition. Staff

had to learn to feel comfortable and confident discussing the scaling up and expansion of interventions that demonstrate impact. They had to feel comfortable adapting or phasing out interventions that were not achieving the desired outcomes. In less than a year, a large number of staff had shown the capacity and interest in thinking and operating differently, while a few have remained more attached to their traditional comfort zones.

The teams started working much more collaboratively and focused on adaptation of processes and systems within AVC to ensure that operations, technical, and grants teams were all working together towards the same goal of achieving change. AVC's operating culture became critical to the success of the market systems approach, where learning and sharing are essential and require both structured learning events as well as mechanisms to ensure tacit knowledge is being used to inform adaptation.

Photo credit: EcoVentures International



6. ADAPTATIONS IN OPERATIONAL MANAGEMENT

In order for AVC to function effectively as a market systems activity, the technical approach needed to be supported by operations, grants, and procurement strategies that are adaptive, strategy driven, and accessible to private sector firms. This section discusses several adaptations made.

6.1. GRANTS PROCESS & DOCUMENTATION REQUIREMENTS

As with many value chain programs, AVC was initially grants driven. During the shift to a market systems focus, AVC streamlined its grant-making process to make it less cumbersome and more collaborative, adaptive, and market-oriented. To be able to effectively engage with market actors, the operations and grants team overhauled the grants application and agreement process, requiring a complete re-design of AVC policies, procedures, and grants and procurement templates. Understanding contracting and compliance issues became critical, as they had typically been used to procure things rather than being used as part of the process for managing dynamic change processes. AVC needed to be nimble enough to “crowd in” leading market actors and their strengths and ideas.

AVC developed a grants approach where: businesses are selected based on their growth potential and their commitment to internal investment in growth; the administrative burden for grantee/market actor is substantially reduced; the co-design and co-creation process allows AVC greater opportunity for technical assistance; AVC is able to “crowd in” leading market actors and their strengths and ideas; and the process is ultimately less cumbersome, and more collaborative, adaptive, and market-oriented.

AVC, with approval from the USAID CO/COR, developed an approach that is compliant but stands in contrast to traditional grant announcements and procurements. Firms send in concepts related to their business goals that align with AVC’s market systems objectives. AVC then creates a financial grant, in-kind grant, or technical assistance contract designed to achieve the firms’ objectives.

6.1.1 BLANKET ACTIVITY ANNOUNCEMENT (BAA)

USAID recently started using Broad Agency Announcements as an innovative procurement tool to invite interested parties to collaborate when facing a development challenge that does not have a clear solution and presents an opportunity for innovation. AVC followed USAID’s lead and piloted a unique, adaptive, and compliant grants and procurement mechanism, a Blanket Activity Announcement (BAA). The BAA is a customization and adaptation of the Federal Broad Agency Announcements described in Federal Acquisition Regulation (FAR) 35.016. The BAA informs market actors that AVC is interested in strengthening agricultural market systems, upgrading AVC’s eight value chains with new technology and innovations, and building the local capacity to sustain improvements beyond the life of AVC. AVC has partnered with approximately 40 organizations to creatively fund partner collaborations from successful applications submitted in response to the BAA.

The BAA solicitation helps AVC position itself, not as a donor activity, but as a partner for development, allowing AVC to connect and form long-term

relationships with strategic contacts at agribusinesses that have the greatest potential to catalyze systemic change.

Instead of accepting grant applications for interventions that were designed by AVC, AVC issues a BAA to solicit submissions of strategic business plans by market actors with details about their business goals.

The BAA creates an organizational structure in which the operations/grants strategy aligns with and supports the technical strategy, working in tandem to catalyze greater inclusive growth. The BAA does this by catalyzing several key shifts:

- The BAA calls for partners to suggest strategies for their own growth, ensuring that AVC is working directly with business and strategy experts within the firms, and shifting the focus away from the activity's goals and targets. Private sector market actors take ownership of the AVC-facilitated business activities and are willing to make their own investments to further their own interests.
- The BAA process has streamlined and improved internal communication and grant award processes, improving relationships between operations and technical teams and external communication between AVC and its partners. The BAA establishes one AVC Technical Lead as the point of contact for each market actor. By creating a focal point, through whom all communication flows, AVC has improved partner engagement. Relationships between AVC and partners are based not just on funding and grant agreements, but on trust between the focal point and the market actor's business leaders.
- AVC grants and operations staff are able to support market actors with administrative grant applications to speed up onboarding timelines. In a market systems context, AVC needs to be able to issue grant awards quickly or adapt existing grants to move towards interventions that are generating the most change and to shift away from interventions that are less effective. By streamlining the market actor and grantee onboarding process, AVC has reduced the time from grant application to award from 3-4 months or longer, to 6-8 weeks, thereby reducing the administrative burden on partners.
- The BAA supports the process of self-selection of market actors as partners, which is key to facilitation. Local market actors decide if they want to apply. In order to access more funds, firms select if they want to perform according to the spirit of the agreement, and may therefore select in or out of working with AVC accordingly.

6.1.2 ADAPTIVE MARKET ACTOR AGREEMENT (AMAA)

Through a series of co-creation meetings, each interested firm solicited and selected through the BAA process signs an Adaptive Market Actor Agreement (AMAA) with AVC. This lays out a business plan of collaborative interventions for the next year. AVC co-designs the AMAA with their market partners. AVC staff have met approximately ten to fifteen times with each of the approximately 40 organizations to co-create AVC-facilitated business activities.

AMAAs capture a minimum of one year of collaboration. Grants are issued for three- to six-month “modules”, with co-designed interventions revisited at quarterly check in meetings. AMAAs specify the

technical support that AVC will give to the firm as well as the investments and interventions that the firm will run on their own at each stage of the process.

Adaptive management, in practice, allows firms and AVC to learn from initial piloting and test cases, and monitor the ongoing interventions. They can, together, shift focus and funding towards the interventions that are achieving positive change, and can adapt or end interventions that are not producing results.

Because the AMAA sets the overarching goals of the partnership, AVC can issue multiple three- to six-month grants to test and pilot initiatives, creating a culture of ongoing learning and adaptation within the project team and among private sector partners. Because the grants are in 6-month increments, AVC and the market actor enjoy designated periods of reflection and evaluation without having to complete additional burdensome administrative requirements. The only documentation needed for follow on awards are an activity table, workplan timeline, and budget. There are no other administrative requirements after the initial contract module. Second round grant modules normally take 2-3 weeks to award once module 2 activity table is finalized with AVC.

AVC can constantly assess the commitment of the firms and ensure they are holding up their end of the bargain, or the agreement can be terminated. AMAAs ensure that AVC and the firms are able to identify and work with the most effective interventions.

6.2. WORKPLANNING

AVC finalizes yearly workplans through participation in a daylong process that is attended by the USAID COR. During this time, technical teams present accomplishments and yet to be accomplished tasks. Broad intervention areas are critically reviewed by participants and finalized. The USAID COR asks clarifying questions and provides comments. Specific tasks to address constraints remain flexible, and are no longer predefined as part of a yearly plan. Specific tasks are instead collaboratively designed with the market actors while finalizing AMAAs. This avoids a high level of task specificity, especially in early years, and the expectation that the workplan will be followed to the letter irrespective of market actor behavior changes and systemic changes that become increasingly evident.

6.3. ADAPTIVE CAPACITY THROUGH QUARTERLY PORTFOLIO REVIEWS

AVC needed to develop adaptive capacity within its team, which is essential for effective market systems strategies. In order for constant learning and reflection, followed by strategic adaptation, to be built into AVC, management introduced a regular, structured two-day, team sharing and brainstorming workshop called the Quarterly Portfolio Review (QPR). The QPR is an exercise in CLA, created to compare notes, aggregate and prioritize challenges, consolidate learning, and facilitate application of meaningful findings directly back to intervention design. If, for example, certain firms seem more interested in moving a certain business activity forward, this becomes prioritized. If another firm has adapted one of their business activities in such a way that they are replicating it themselves, then AVC may focus less on them, and more on another area.

With AVC's QPR, AVC technical, operations, and cross-cutting teams work together to achieve a nuanced understanding of the development challenge with private sector firms, i.e. why these firms are

not pursuing business strategies or tactics that promote inclusive growth. This ensures that the interventions AVC is designing are adaptable and can be changed based on iterative learning.

CLA required the staff to decouple the success or failure of an approach or tactic from the performance of individuals on the team, so that staff felt comfortable raising concerns and providing objective critiques of interventions that would fuel constructive troubleshooting rather than office rivalries.

There were some significant growing pains associated with rolling out the QPR. Most importantly, this required much higher levels of trust between staff and senior management, as well as between peers on the team, that took time to establish.

AVC has continued to use the QPRs as a time for reflection on AVC's work in the previous quarter and evaluate what is and is not working.

One of the most important actions during the Quarterly Portfolio Review is "Adapt, Drop, Expand". Requiring every team to identify one intervention that needs to be shifted, one that is not working and needs to be dropped, and one that should be expanded, has been the most useful aspect of this process. It messages that the team should always be adapting and shifting technical focus towards interventions with the most momentum.

7. ADAPTATIONS IN MONITORING & EVALUATION

AVC increased income and productivity for many of their target beneficiaries, facilitated new private sector investments, and improved relationships throughout the market systems of the Southern Delta. This section explores several of the changes made to achieve this.

7.1. ZONE OF INFLUENCE

By the end of 2016, USAID/Bangladesh had more than thirty mechanisms under its FTF portfolio, including AVC. USAID/Bangladesh, and hence AVC, felt constrained in implementing a market systems approach with the assumption that all interventions needed to take place within the FTF ZOI (the Southern Delta region of Bangladesh). Many of the key market actors were situated outside of the FTF ZOI, mostly in the capital, Dhaka. The Mission believed that work with market actors in this area could, therefore, not be captured in their annual targets. They were concerned about meeting these targets while still exploring a market systems approach. USAID/Bangladesh communicated these concerns and challenges with USAID/Washington, particularly during the USAID Annual Portfolio Review. These constraints were important in informing the [Global Food Security Strategy](#) introduced in 2016. The Strategy clarified that USAID activities could undertake interventions and source data outside the ZOI as long as the benefits accrued within the ZOI.

7.2. TARGETS AND PERVERSE INCENTIVES

Like most development projects, AVC's contract directs the activity to measure performance based on certain indicators and targets. It is useful to be cognizant of how the selection of performance indicators (and associated targets) can drive/incentivize certain approaches. For example, a Scope of Work (SOW) might state that the activity needs to support 50,000 SMEs. Better practice might involve working with fewer SMEs, and rather targeting those that are market drivers which can achieve deeper and more lasting change in the market, and working through larger firms that are well-positioned to influence those SMEs.

AVC found that overstressing the achievement of targets limits cooperation between AVC and market actors; acts as a perverse incentive by driving AVC to take ownership of interventions rather than supporting market actors to feel ownership of the interventions; drives AVC to remain in relationships with certain market actors for too long; and, as a result, drives poor practice.

In the case of AVC, the output indicator "number of people trained" is a good example of the perverse incentives created by the pressure to meet targets on key indicators. "Number of people trained" is a high profile indicator for FTF. This indicator is currently number EG.3.2-1 and the indicator name is "Number of individuals who have received USG-supported short-term agricultural sector productivity or food security training". (It was previously FTF indicator #4.5.2-7 and it is one of the most common indicators across FTF activities.) AVC contracted with and paid Bangladeshi NGOs/companies to provide training to approximately 75,000 smallholder farmers during the first three years of the activity. This is a significant number of people trained, so the 75,000 people trained made a solid contribution to achieving scale on this FTF indicator. However, in its third year, AVC made the decision to pivot toward focusing more on creating inclusive agricultural market systems. In making the decision to shift away from directly contracting for training and toward encouraging existing market actors to provide training, AVC was facing a perverse incentive. It would have been easier for AVC to ensure

(guarantee) a higher number of trainees in years four and five if AVC had stayed with a more direct delivery approach of directly paying contractors/NGOs to deliver training. But this direct delivery approach was inconsistent with the objective of transforming the market system toward more inclusive biases that build win-win relationships between agribusiness firms and smallholder farmers. The new type of training is illustrated well through AVC's intervention with an input supply company which trained informal spray service providers to become professional service providers for mango orchards across multiple areas (including pruning, irrigation, and harvesting). The number of agricultural service providers (sprayers) trained is smaller, and starts more slowly, than the number of smallholders who could have received generic training under direct delivery. But there is greater potential for impact, and sustainability of impact, by creating professional trained service providers (sprayers) USAID/Bangladesh recently approved a reduction in AVC's contractual target for this indicator from 300,000 people to 100,000 people.

AVC seeks to ensure that AVC's procedures and indicators can align with the firms' incentives, rather than building interventions around targets and indicators.

7.3. DATA COLLECTION TOOLS

Standardized data collection tools have been developed to efficiently and effectively collect AVC's performance data. Detailed guidelines (in Bengali) are used to train AVC implementing staff and grantee staff to ensure that anyone collecting the data understands the steps required to ensure the highest data quality. For the baseline and annual performance survey, AVC commissioned a third party survey firm, Data Management Aid. During the first year, AVC staff piloted digital data collection as a means of efficient, regular data collection for the project. The annual survey is conducted on tablets using 'Survey to Go', an online survey platform that is managed on an AVC cloud server. Users simply need the ability to edit a Microsoft Excel document. For the baseline and annual performance surveys, AVC uses an online platform with data that includes GPS points, pictures, text, and numeric data. AVC developed a smartphone application to monitor training and facilitate assessments of AVC-supported training programs. The application has a structured format to use during field visits. The reports are stored online where the AVC Knowledge Management & Learning Team can monitor training progress and documentation quality. For tracking market signals and behavioral changes processes, the project developed its own Market Actor Tracker, an online application to record behavior change among primary contact firms in three major areas: investment, business practices, and performance.

7.4. SYSTEMIC INDICATORS

AVC reports on standard output indicators as required under FTF, recognizing that improvements in indicators such as income, sales, jobs, health outcomes, etc., result from improvements in the market system. AVC recognizes that the challenge is how attribution is applied and how to extract learning. For this reason, besides reporting on the standard FTF indicators, AVC looked closely at indicators to reflect market systems change. See Appendix IV for a list of AVC's performance indicators. AVC was aware that the typical indicators do not provide insight into whether a system has changed or how it is evolving. The AVC team realized that the higher the level of attribution for any of these indicators the more they suggest a distinct lack of sustainability of activity outcomes. If, for example, an income rise is 100% attributable to AVC, then it is also 100% unsustainable without AVC.

Unfortunately, a tension remains between the reporting on Congressionally-mandated indicators developed around more direct delivery approaches often with short-term targets, and activities like AVC's that are applying system-thinking approaches. These systems-based approaches highlight the limitations of more traditional monitoring methods. AVC is committed to finding an effective balance between rigorous data validation and pursuing interventions aimed at achieving sustainable/durable results.

AVC is exploring the following indicators as a measure of system health: people and firm behaviors; networks structures and qualities; and exchanges and flows (i.e., flows of resources and information).

AVC tracks and measures the extent to which the indicators suggest that the system is moving away from extractive biases (that do not benefit the farmer) and towards inclusive biases (which are win-win for farmers and local firms in their area). While the latest data set was being collected for AVC's systems health indicators as of the writing of this case, initial review of the data suggest that there was some movement in improved relational churn. More specifically, the first full test of the system health indicated a very unhealthy level of stagnation in trading relationships, especially in some regions for vegetables. The new data suggests that trading relationships are becoming more dynamic. While the initial indication was good, it is critical to remember that AVC is using the idea of sentinel indicators that act as sensor in the system. If the data after more analysis does indicate a change in the relational dynamics, AVC will have to dig deeper to understand the drivers and incentives around the observed relational changes.

AVC has started to explore a localized jobs model that estimates the number of on-farm and post-harvest jobs that will be created in each value chain based on the observed adoption of new production technologies.

8. ADAPTATIONS IN FINANCIAL MANAGEMENT

The AVC contract was awarded to DAI for five years at \$34.2 million. DAI proposed the initial budget and selected the value chains at the start of the activity. AVC refocused the activity midway by applying a market systems approach to develop partnerships with large, Dhaka-based agribusinesses.

As a market systems approach is catalytic, it does not necessarily require huge financial investments throughout the life of the activity. It is indeed a well-suited approach for a global environment with dwindling foreign assistance and increasing private sector roles.

AVC's organizational structure adapted to this revised approach and the resulting budget realignments were approved by the CO/COR. For example, the salaries and wages budget was realigned to reflect the reduced cost of AVC's new organogram and staff salaries. (This was despite the upward realignment of salaries to reflect market realities, as discussed in Section 5.3 earlier.) The original organizational strategy included a heavy presence in two field offices with a large number of cooperating country national (CCN) full time positions in each office, that included administrative staff, technical experts, and capacity building/training specialists. However, as AVC progressed, many of these CCN positions were not filled as they were determined unnecessary, or several CCN staff were relocated to Dhaka to serve as market actor focal points. The large presence of staff in the field corresponded with AVC's initial strategy to provide direct delivery farmer training and capacity building outreach to small, local NGO partners.

DAI's original travel, transportation, and per diem budget was based on the assumption of having several larger, robustly staffed regional field offices working with small partners and NGOs based at the field level. The current strategy and organogram prioritizes Dhaka-based Deputy Team Leaders and Specialists, acting as focal points to the market actor partners. These Dhaka-based CCN specialists are required to travel more frequently to the region to support agribusiness regional sales managers, distributors, marketing teams, and retailers to conduct interventions and activities. Budgets were realigned accordingly. AVC's cost savings in salaries and related indirect costs, and operations and administration, were reallocated to continue, and ramp up, current AVC interventions with market actors and private sector service providers.

Moving to a market systems approach was challenging for AVC. The activity budget represented higher and continued expenditure levels, even when market actors had started demonstrating ownership in the AVC-supported business activities and were starting to invest their own funds in rolling these out. ... this market actor behavior should, instead, signal a decrease in funds expended by the activity on the given strategy.

APPENDICES

APPENDIX I: COMPLEMENTARY LEARNING RESOURCES

As a follow on from this case study, several learning resources have been developed to formulate guiding principles for USAID Missions and Implementing Partners managing market systems activities. In addition, several applicable resources have been hyperlinked in this case, which are summarized below.

Videos:

- Agricultural Inputs Supply Market System: Strategies to introduce new technologies: Case study of AVC's work with an input supply firm, Ispahani, in Bangladesh. <http://www.msdkhub.org/input-supply-case.html>
- Agricultural Service Provider Market System: Strategies to professionalize service provider systems and introduce new farming behaviors: Case study of AVC's work with an input supply firm, NAAFCO, in Bangladesh. <http://www.msdkhub.org/service-provider-case>

Other resources:

- Inclusive Market Systems Development Learning Hub: www.MSDhub.org
- Tools for Measuring System Health: https://www.microlinks.org/sites/default/files/resource/files/LEO_Brief_System_Health_Tool_FI_NAL-v4.pdf
- Agricultural Market Systems Change Wheel: <http://www.msdkhub.org/agricultural-market-system-change-wheel>
- Campbell R. July 2013. Feed the Future Learning Agenda Literature Review: Expanded Markets, Value Chains, and Increased Investment. Rockville, MD: Westat: http://pdf.usaid.gov/pdf_docs/PA00JP6B.pdf
- USAID's Leveraging Economic Opportunities (LEO) framework for inclusive market system development: https://www.microlinks.org/sites/default/files/resource/files/Market_Systems_Framework.pdf

APPENDIX II: STAKEHOLDERS INTERVIEWED

USAID/WASHINGTON / BUREAU FOR FOOD SECURITY

- Devi Ramkissoon, Country Support Officer, Bureau for Food Security, USAID
- Raquel Gomes, Bureau for Food Security

USAID/WASHINGTON / ASIA BUREAU

- Sashikala Jayatileke, Private Sector Agriculture Advisor, Asia Bureau

USAID/BANGLADESH

- Anar Khalilov, Economic Growth Office, USAID/Bangladesh
- Aniruddha Roy, Private Sector Advisor. COR of AVC. Economic Growth Office, USAID/Bangladesh
- Matt Curtis, Deputy Director-Feed the Future Team Leader, Economic Growth Office, USAID/Bangladesh

USAID OTHER

- Bruce McFarland, Acting Team Leader, Greater Horn of Africa, USAID/East Africa (Previously Contracting Officer)
- Kristin O'Planick, Market Systems & Enterprise Development Specialist, USAID/E3 Office of Trade and Regulatory Reform
- S. Tjip Walker, Senior Policy Analyst, USAID, Bureau for Policy, Planning and Learning
- Mark Tegenfeldt, Agriculture Officer, Feed the Future Coordinator, USAID Ethiopia (Previously head of FTF at USAID/Bangladesh. Left the position in June 2015 to move to Ethiopia.)

AVC ACTIVITY (IMPLEMENTED BY DAI)

- Michael Field, Chief of Party (Bangladesh)
- Gwendolyn Armstrong Tweed, Finance and Grants Manager, DAI (Bangladesh)
- Sarah Wall, Program Manager, DAI (US, previously Bangladesh))
- Anup Roy (Bangladesh)
- Mohammed Iftekar (Bangladesh)
- Sabrina Haque (Bangladesh)
- Georgy Fahd (Bangladesh)

EXTERNAL CONSULTANTS

- Jeanne Downing, Market Development Consultant

SUBCONTRACTORS ON AVC ACTIVITY

- Caroline Fowler, EcoVentures International
- Elizabeth Dunne, M&E Consultant
- Margie Brand, EcoVentures International

APPENDIX III - FURTHER OPPORTUNITIES FOR ADAPTATION WITHIN USAID

Several recommendations emerged from interviews in the preparation of this report on opportunities for USAID to learn and adapt to support more successful market systems development approaches. These are not directly related to AVC and are therefore included in this report as an appendix.

I. RFA/RFP SOW

Several areas within USAID RFAs/RFPs could be adapted to support systems approaches. These include the component section of proposals, the request for key technical staff, and the activity focus.

I. PROPOSAL ‘COMPONENTS’

Market systems activity solicitations are generally framed using Components. For example, a Component may be ‘productivity’. This often implies to IPs that the activity needs a technical team around productivity. It is often impractical to write a work stream just on productivity or to have a single team deal with productivity. A more effective way to frame this that would support improved market systems practice could be to focus around functions that firms apply in the real world, such as buying, selling, etc.

II. KEY TECHNICAL STAFF

Proposal solicitations commonly request the identification of key technical experts who have the expertise to fix a technical problem. This represents an expert-driven model where the RFA/RFP design assumes that there is a technical problem that needs to and can be fixed. However, if the activity focuses only on delivering a technical fix then it will not be building the market system. In contrast, technical expertise needs to be built within teams and particularly among market actors, or only the expert technical person hired by the donor activity will retain the knowledge.

III. ACTIVITY FOCUS

RFA/RFPs are often framed around a market systems perspective as the SOWs are looking at the problem of how the market system needs to change. But the SOW then contradicts itself by saying what the activity needs to do specifically. For example, the SOW may request the use of a market systems approach, BUT then say that the activity must work in a specific crop, or that the activity must give beneficiaries or firms a particular thing. The framework is therefore still focused on the activity as the activity does something, and then the activity has to account for what it does.

Instead, it would be a more effective market systems strategy to show how donor activities get people to do something for their own purposes. This, in turn, has implications for what is monitored by the activity. For example, if an activity is tasked with increasing incomes, this may have less to do with sales volumes but may be dependent on underlying drivers/incentives such as how information is shared, how investments are made in businesses, etc. Activity descriptions need to purposely call for facilitation approaches, which include the need to experiment with what works, and to learn and be adaptive.

II. BIDDING PROCESS - TECHNICAL EVALUATION COMMITTEES

USAID may do a good job in designing a market systems bid, and in later managing the activity, but the proposal assessment component can be a stage where there is a significant breakdown in support of good market systems practice. Interviewees shared that too often USAID puts out a bid that asks for a market systems development approach but then the Technical Evaluation Committee (TEC) reviewing

the proposals does not know what to look at in the proposals to show that the bidders actually understand this approach. How do they answer questions such as: Is the firm simply parroting market systems development terminology in their proposal? What should the proposed staffing and organizational chart look like to demonstrate an understanding of the market systems development approach? What should you look for in a COP to show their understanding of and experience with the market systems development approach?

A key consideration that emerged for USAID is how to support technical evaluators in understanding the market systems development approach better and how to evaluate it. There appears to be a need and opportunity for USAID to provide technical briefs to TEC chairs and TECs that are evaluating market systems development proposals.

III. PORTFOLIO MANAGEMENT - COORDINATION ACROSS ACTIVITIES

Missions often have many FTF activities operating in the same geographical areas. Only a handful of these are generally applying market systems development approach. Interventions from one activity may negatively distort the market development activities of another operating in the same area. For example, an activity providing handouts of inputs to farmers may jeopardize the development of a local private sector retailing market that is able to provide sustained access to inputs to these same farmers. This situation is often exacerbated by other donor activities operating in the same areas.

Drawing on an example outside of Bangladesh, at the time of writing this report USAID/Uganda had approximately 30 FTF activities of which only 4 used a market facilitation or market systems development approach. USAID/Uganda implemented processes to support internal communication and coordination between Mission staff managing Economic Growth (EG) activities to reduce the tensions between activities bumping up against each other in the field, particularly market systems development activities bumping up against non-market systems activities. This is an extremely uncommon practice within Missions around the world. The Uganda Mission undertook Mission-wide efforts to communicate across Mission staff managing activities what the various activities were doing so that the other activities' interventions would not derail these. Messages were shared, such as, if a activity goes to the market to hand out seeds to farmers then they should know that this is harming the work of the other activities.

USAID/Bangladesh is still exploring how to effectively foster collaboration between activities that have different strategies. USAID/Bangladesh invited the AVC COP to present on the AVC's market systems development approach to the Mission, although this did not focus on coordination with other activities. There is potential for Missions to get EG CORs/AORs together to discuss market systems development activities in their portfolio and how the other activity' interventions can harm or help what they are doing.

APPENDIX VII - LIST OF AVC PERFORMANCE INDICATORS

TABLE VI: LIST OF AVC PERFORMANCE INDICATORS				
#	SPS REF. (F)	INDICATOR NAME	TYPE	SOURCE
OBJECTIVE: IMPROVED FOOD SECURITY THROUGH STRENGTHENED AGRICULTURAL VALUE CHAINS				
1	Custom Indicator 1	Percent change in income of targeted groups	Outcome	AVC supported farmers/HHs and other value chain actors
2	EG.3-1	Number of households benefiting directly from USG interventions	Output	Beneficiaries
3	Custom Indicator 2	Number of full time equivalent jobs created as a result of AVC activities	Outcome	Farmers/HHs and other value chain actors
INTERMEDIATE RESULT 1: SUSTAINABLE, DIVERSIFIED AGRICULTURAL PRODUCTIVITY INCREASED				
4	EG.3-6,7,8	Farmer's gross margin per hectare, per animal, per cage obtained with USG assistance	Outcome	AVC supported farmers/HHs
SUB-IR 1.1: UTILIZATION OF INPUTS IMPROVED				
5	Custom Indicator 3	Percent change in yield of value chain crops per hectare	Outcome	AVC supported farmers/HHs
SUB-IR 1.2: SUSTAINABLE, PRODUCTIVITY, ENHANCING PRACTICES ADOPTED				
6	EG.3.2-18	Number of hectares of land under improved technologies or management practices with USG assistance	Outcome	AVC supported farmers/HHs
SUB-IR 1.3: AGRICULTURAL TECHNOLOGIES AND NUTRITION INFORMATION SERVICES STRENGTHENED				
7	EG.3.2-1 (RAA) (WOG)	Number of individuals who have received USG supported short-term agricultural sector productivity or food security training	Output	Trainees
8	Custom Indicator 4	Percent of beneficiaries with awareness on nutritional diets receiving nutritional information	Outcome	AVC supported farmers/HHs and other value chain actors
INTERMEDIATE RESULT 2: AGRICULTURAL MARKET SYSTEMS STRENGTHENED				
9	EG.3.2-19 (RAA)	Value of small-holder incremental sales generated with USG assistance	Outcome	AVC supported farmers/HHs
SUB-IR 2.1: SUSTAINABLE FARM-TO-MARKET LINKAGES AND ACCESS STRENGTHENED				
10	Custom Indicator 5	Number of independent producers involved in organized production and marketing systems	Output	AVC supported farmers
SUB-IR 2.2: ACCESS TO SUPPORT SERVICES STRENGTHENED				
11	EG.3.2-3 (RAA)	Number of micro, small, and medium enterprises (MSMEs), including farmers, receiving agricultural-related credit as a result of USG assistance	Output	Beneficiaries/ farmers
INTERMEDIATE RESULT 3: INNOVATION AND VALUE CHAIN UPGRADING INCREASED				

12	EG.3.2-17 (RAA) (WOG)	Number of farmers and others who have applied improved technologies or management practices with USG assistance	Outcome	AVC supported farmers/HHs
SUB-IR 3.1: PRIVATE SECTOR INVESTMENT (LEAD FIRMS ET AL) INCREASED				
13	EG.3.2-22 (RAA)	Value of new private sector capital investment in the agriculture sector or food chain leveraged by Feed the Future implementation	Outcome	Private sector firms
14	Custom Indicator 6	Number of grants to private sector organizations	Output	Grant contracts/MOUs and program reports
SUB-IR 3.2: AVAILABILITY OF APPROPRIATE SERVICES, TECHNOLOGIES & PRACTICES EXPANDED				
15	Custom Indicator 7	Number of new technologies and management practices introduced for transfer	Output	Annual performance survey, season based survey
SUB-IR 3.3: PRIVATE SECTOR RESEARCH AND DEVELOPMENT CAPACITY INCREASED				
16	Custom Indicator 8	Percentage adoption of new and/or innovative services, technology and/or management practices by value chain actors	Outcome	AVC supported value chain actors
SUB-IR 3.4: ENABLING ENVIRONMENT CONSTRAINTS TO VALUE CHAIN COMPETITIVENESS TARGETED				
17	Custom Indicator 9	Number of meeting/dialogue/workshops held with relevant partners to discuss business environment constraints that impede economic growth	Output	Program reports and attendance records
INTERMEDIATE RESULT 4: LOCAL CAPACITIES AND SYSTEMS STRENGTHENED				
SUB-IR 4.1: LOCAL ORGANIZATIONS' CAPACITY STRENGTHENED				
18	Custom Indicator 10	Number of organizations eligible to receive direct funding for value chain activities	Output	Program records
SUB-IR 4.2: LOCAL CAPACITY TO SUPPORT CONTINUED LEARNING ENHANCED				
19	EG.3.2-4 (RAA) (WOG)	Number of for-profit private enterprises, producers organizations, water users associations, women's groups, trade and business associations, and community-based organizations (CBOs) receiving USG food security-related assistance	Output	Implementation records, internal activity records of organizations/associations and attendance records

In addition to the indicators outlined above, there are several nation-wide impact level indicators that measure the collective work of all implementers working within the FTF initiative in Bangladesh, and into which AVC work will contribute:

- Women's dietary diversity increased
- Prevalence of stunted children reduced
- Percent of wasted children reduced
- Prevalence of anemia amongst women and children reduced
- Women's Empowerment Index

AVC will not be directly responsible for achieving the targets for these indicators but its work over the life of the activity will contribute.

