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LOCAL SYSTEMS AND MARKET SYSTEMS

USAID has invested time and resources into two independently produced, but highly complementary, frameworks and associated approaches to increasing food security and alleviating poverty. These are the [local systems framework](#)¹ and the [inclusive market systems framework](#).² This briefing paper does not seek to fully explain the theory of either of these approaches, but provides an overview of the complementarities of the two frameworks.

DEFINITIONS

A **local system** is a set of interconnected actors within a country—government, civil society, the private sector, academia, and others—that together produce a development outcome. Since the breadth and scope of development outcomes can vary greatly, local systems can be defined at the community, provincial or national level.

A **market system** is a dynamic space in which individual and institutional private and public actors collaborate, coordinate and compete for the production, distribution and consumption of goods and services. Market systems are composed of: (i) firms that are vertically linked (in buyer/seller relationships) and horizontally linked (performing similar functions in the market); (ii) the relationships embedded in these linkages; (iii) end markets, input and support service markets; and (iv) the environment in which these firms operate—which may include socio-cultural, geographic and political factors, infrastructure and institutions.

Local systems and market systems are therefore closely related, but not necessarily synonymous: not all local systems are market systems, and not all market systems are only local. In an increasingly globalized world, market systems are typically impacted to a greater or lesser degree by changes and conditions in regional and international markets. Local market actors may supply global value chains, or focus on competing with imports from any number of countries.

SYSTEMS ANALYSIS

Market systems—like local systems—can be analyzed in terms of “five Rs”:

- **Resources:** Market systems transform resources—such as inputs and financial investments—into outputs.
- **Roles:** Market systems involve multiple individual and institutional actors who take on various defined roles, such as producer, trader, service provider, consumer, policy maker, etc.
- **Relationships:** The interactions between market system actors establish various types of relationships, which may be effective or ineffective in terms of driving the competitiveness, inclusiveness and resilience of the system.
- **Rules:** Market actors are enabled or constrained by a wide range of formal and informal policies, regulations, and social norms.
- **Results:** The desired results of the market system go beyond *competitiveness* to incorporate *inclusiveness* (delivering a sustainable flow of benefits to a range of actors, including the poor and otherwise marginalized, as well as to society as a whole) and *resilience* (system actors are able to address, absorb and overcome shocks in the market, policy environment, resource base or other aspect of the system).

¹ USAID. (2013). *Local Systems: A Framework for Supporting Sustained Development*.

² Campbell, R. (2014) *A Framework for Inclusive Market Systems Development*. USAID

Because of the nature of consumer buying power, market systems analysis places a particular emphasis on analysis of end markets, which may or may not be local.

OVERALL APPROACH

The local systems framework articulates ten good practices for engaging local systems (see box 1). This section will consider each of these practices with reference to inclusive market systems.

1. RECOGNIZE THERE IS ALWAYS A SYSTEM

Both the local systems and inclusive market systems approaches explicitly recognize the importance of systems thinking. The market systems framework considers the influence of interconnected systems, such as health systems, education systems, socio-cultural systems, and ecosystems—which are also part of the local system. People impacted by interventions are members of household and communities, which also function as systems. Recognizing interconnections between systems can be important in finding leverage points to trigger broad-scale change in the market system, as well as understanding—and potentially mitigating—negative impacts on interconnected systems.

BOX 1: TEN PRINCIPLES FOR ENGAGING LOCAL SYSTEMS

The local systems framework lays out ten principles for engagement:

1. Recognize there is always a system
2. Engage local systems everywhere
3. Capitalize on USAID’s convening authority
4. Tap into local knowledge
5. Map local systems
6. Design holistically
7. Ensure accountability
8. Embed flexibility
9. Embrace facilitation
10. Monitor and evaluate for sustainability

Source: USAID. (2013). *Local Systems: A Framework for Supporting Sustained Development*

Despite conventional wisdom, market systems are relevant even to the very poor and to many people in crisis-affected contexts. Market systems can build household- and community-level resilience, if they are themselves resilient.³ By considering the various non-production roles of the poor in market systems—such as service providers, laborers⁴, and consumers—activities can be designed to increase the flow of benefits to these and other marginalized system actors.

2. ENGAGE LOCAL SYSTEMS EVERYWHERE

The market systems framework differentiates among various types of systems, including simple, complicated and complex.⁵ The approach for engaging with market systems, therefore, depends on the nature of the intervention.

- Relatively few interventions in market systems development projects have aspects that are *simple*—where processes or causality can be predicted with a relatively high degree of certainty. Such interventions should follow standard operating procedures.
- Some interventions are designed to impact *complicated* aspects of the system, where inputs are transformed into outputs through cause and effect relationships that are not self-evident but, with sufficient information and expertise, can be explained. This requires mapping the change process through a theory of change or causal model, and monitoring for unanticipated consequences. Best practices should be followed.
- Other interventions, however, address *complex* aspects of the system, characterized by unpredictable, non-linear relationships between cause and effect. Such interventions require “best guess” hypotheses followed by experimentation and real-time monitoring to identify relationships and patterns of behavior that can be leveraged in support of development objectives.

³ See Irwin, B., and R. Campbell. (2015). *Market Systems for Resilience*. USAID.

⁴ For recommendations on improving development outcomes for laborers in particular, see Mueller, B., and Chan, M. (2015). *Wage Labor, Agriculture-based Economies, and Pathways out of Poverty*. USAID. www.microlinks.org/leowagelabor.

⁵ See Britt, H. (2013). *Complexity Aware Monitoring* (Discussion Note). USAID; and Jenal, M. and S. Cunningham. (2013). *Gaining systemic insight to strengthen economic development initiatives* (Working paper 16). Mesopartner.

Approaches such as “push/pull” (see Box 2), for example, reflect the complexity of poverty dynamics, acknowledging the diversity of influencing micro, meso, and macro factors that will influence a sustainable pathway out of poverty.

BOX 2: PUSH/PULL APPROACH

A push/pull approach sequences and layers both *push* strategies, to build the capacities of the extreme poor to engage in markets, and *pull* strategies, to expand the diversity and quality of economic opportunities accessible to them. **Push** strategies include interventions to build household or community assets, improve linkages to social protection, build market readiness skills, and strengthen household capacity to manage risk (e.g., through savings mechanisms). **Pull** strategies include interventions to lower barriers to market entry (e.g., through group purchasing and marketing), extend services (e.g., developing financing solutions or input-supply agent networks), improve working conditions, and strengthen market demand for products that can be supplied by the poor.

Source: USAID. (2016). *Convergence and Tension in Nutrition-Sensitive Agricultural Market Development Activities. For more on a push/pull approach, including examples from the field, see Garloch, A. (2015). A Framework for a Push/Pull Approach to Inclusive Market Systems Development. USAID.*

3. CAPITALIZE ON USAID’S CONVENING AUTHORITY

One of USAID’s key strengths is the ability to bring together a wide range of actors to address development challenges. Market systems development similarly needs to convene market actors to build inter-firm trust and commitment to a vision of industry competitiveness. Whether through large multi-stakeholder platforms, or through privately arranged meetings between buyers and sellers, service providers and/or policymakers, collaboration is essential to the effective functioning of markets.

Strengthening inter-firm relationships operates at two levels. At the individual level, strengthening one-to-one relationships with key firms, such as a country’s leading exporter or sole processing plant, can be important in creating momentum for change within the system. New ways of operating by pivotal actors can encourage other firms in the value chain to change their own practices.

At the systems level, interventions seek to alter the relationships of an entire class of actor: supermarkets, district government agents, seed suppliers, etc. This might require changing systemic conditions to create greater incentives for—or remove disincentives to—collaboration and healthy competition amongst actors. (See box 3 for illustrative tactics for strengthening inter-firm relationships.)

BOX 3: EMERGING BEST PRACTICES IN TRANSFORMING RELATIONSHIPS

Promising practices for strengthening or transforming inter-firm relationships include the following:

- Look for small, low-risk steps with rapid and visible benefits
- Buy down risk to create transactions that lead to win-win relationships
- Strengthen multiple types of inter-firm relationships
- Convince stakeholders that “win-lose” strategies will ultimately lead to “lose-lose” outcomes
- Make benefits explicit and transparent
- Establish common standards
- Build on existing trust
- Introduce trusted intermediaries into a value chain
- Facilitate changes that make small producers more attractive to buyers, input suppliers and service providers
- Introduce guarantees and risk-sharing mechanisms

Source: USAID’s Value Chain Development Wiki, <https://www.microlinks.org/good-practice-center/value-chain-wiki/inter-firm-relationships-in-depth>

4. TAP INTO LOCAL KNOWLEDGE

Market systems development recognizes that actors are motivated by a range of conflicting or mutually reinforcing incentives that may be economic, political or social in nature; and that are based on perceptions, beliefs and habits as much—or sometimes more—than they are on “objective” facts. Market systems analysis therefore includes the capture of local knowledge, but also probes perspectives and opinions in order to understand *why* the system works as it does. Only with this understanding can donors and their implementing partners design effective behavior change strategies to increase the competitiveness, inclusiveness and resilience of the market system.

The collection of local knowledge, perspectives and opinions is informed by the following questions:

- What and where are the market opportunities?
- What upgrading is needed to exploit these opportunities?
- Who will benefit from this upgrading?
- Which private and public sector actors have the resources, skills and incentives to drive upgrading?
- Why has it not happened already?
- What will it take to make it happen?

5. MAP LOCAL SYSTEMS

Mapping value chains is a well-established process to identify actors, their linkages, and flows of information, goods and services, and finance and other benefits. The participative process of developing value chain maps has proved useful in creating a shared vision and increasing understanding of the roles played by various actors. Techniques such as social network analysis⁶ have added qualitative rigor to the mapping process. As a systems approach, inclusive market systems analysis broadens the scope of analysis to include the dynamics of subsystems (households, communities, etc.) and interconnected systems (media, education, etc.). The boundaries of the system are driven by the theory of change (see box 4).

BOX 4: THEORY OF CHANGE

The theory of change identifies the main constraints in the market system that must be addressed for that system to become competitive, inclusive, and resilient. The theory of change describes the underlying assumptions behind the change process and the expected changes leading from interventions to outcomes to impact. It is important that the theory of change reflects market actors’ view of how change occurs and will occur. Articulating a theory of change is helpful in creating a shared vision of the project objectives, how these will be achieved, and what will be used to measure progress.

Source: Campbell, R. (2014) A Framework for Inclusive Market Systems Development. USAID

6. DESIGN HOLISTICALLY

The commitment to design holistically is reflected in the market systems framework’s insistence on analyzing the opportunities, constraints, relationships and incentives of the system as a whole. Many activities have a narrow mandate and limited resources—and certainly no one activity can address all constraints within a system. But understanding and mapping these constraints allows donors and their implementing partners to build more realistic causal models, prioritize interventions, and monitor for unintended consequences. Since market systems are complex, the project design process needs to move beyond simply listing constraints to include an analysis of the connections among them. This requires the integration of multiple technically-specific analyses (gender, environment, agronomic, market, etc.). The integration process can be facilitated through the fielding of multi-disciplinary analytical teams.

The effectiveness of one part of a market system is essential to the functioning of other parts. The project design process should therefore avoid breaking down projects into separately contracted activities, to the extent possible; and

⁶ For an example of social network analysis applied to understand the dynamics in the vegetable market system in Sierra Leone, see the report at www.microlinks.org/library/testing-tools-assessing-systemic-change-synthesis-and-tool-trial-reports.

should ensure coordination among activity implementers, and between the project and other government-, private-sector, or donor-supported initiatives to maximize impact. Crucially, this includes the harmonization of approaches, so that activities are mutually reinforcing, rather than undermining one another.⁷

7. ENSURE ACCOUNTABILITY

Feedback channels and accountability in relationships are essential for local systems to remain effective, flexible and sustainable. Market systems similarly require transparent information flows and supportive formal and informal policy, regulatory, and normative environments to function effectively. These characteristics become especially important in market systems vulnerable to shocks and stresses (see box 5).

BOX 5: DETERMINANTS OF MARKET SYSTEM RESILIENCE

Projects and activities designed to build market resilience should promote the following:

- A diversity of related products sold into diverse market channels (preferably with different risk profiles)
- Redundancy of multiple buyers, sellers and service providers
- Trusting relationships that allow cooperation, communication, learning and innovation
- Market governance and policy environment characterized by transparency, equity and consistency.

Source: Irwin, B., and R. Campbell. (2015). *Market Systems for Resilience*. USAID

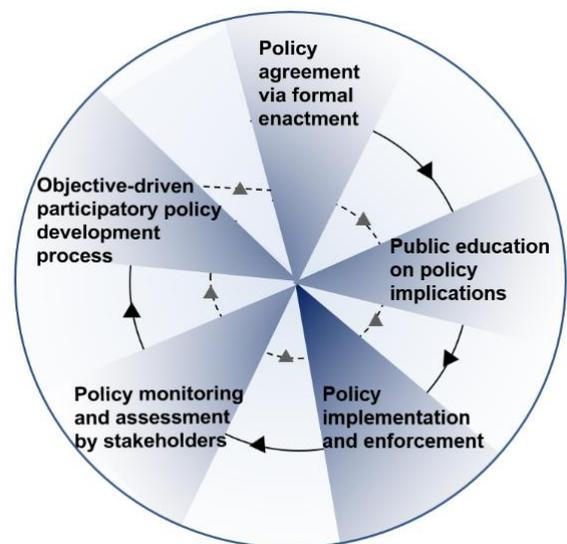
Effective feedback channels and accountability require capacity at multiple levels of the market system. In the policy arena, evidence-driven participatory policy setting processes need to be made durable through multi-constituent pressure (see figure 1).

At the local level, traditional practices and accepted norms may need to be challenged. Beliefs and behaviors associated with gender are key to the emergence of competitive, inclusive and resilient market systems; and social and behavior change communication is increasingly recognized as a core intervention area for market systems development.⁸

8. EMBED FLEXIBILITY

Much of the intent of market systems development is to change behavior—whether promoting new crop varieties, improved production and post-harvest handling practices, or new relationships with buyers and sellers in alternative market channels. Behavior change is a complex process: people relate to each other and learn through their interactions, resulting in a chaotic path of failures, regroupings, and incremental jumps of learning and behavior change. The process of internalizing learning and turning it into new behaviors leading to improved performance is not easily predicted, and projects and activities cannot assume a simple progression during design and implementation. Embedding flexibility into project designs and management systems is therefore essential, enabling implementers to scale up effective interventions and scale back less successful ones.

FIGURE 1: POLICY CYCLE



⁷ See Campbell, R. (2015). *Designing a Value Chain Project*. USAID.

⁸ See Stern, M., L. Jones-Renaud, and M. Hillesland. (2016). *Intervention Guide for the Women's Empowerment in Agriculture Index (WEAI)*. USAID.

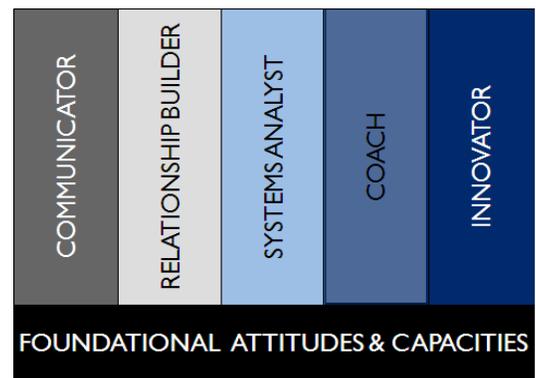
Tactics for embedding flexibility include the following:

- **Be results-oriented:** ensure projects and activities focus on achieving *results*, not merely delivering outputs through specific interventions.
- **Build strong M&E and learning systems:** commit resources to integrated M&E and learning processes that continually inform implementation decisions.
- **Use a portfolio approach to value chain selection:** spread risk and allow for responding to emerging market opportunities by selecting multiple value chains at the outset or staggering the selection of value chains over the first 1-3 years.
- **Avoid pre-selecting partners:** competitively tendering for services during the implementation phase allows activities to direct more work to high-performing partners and sever relations with non-performers.
- **Establish a central pool of funding:** maintain a budget line-item for an innovation or demonstration fund.
- **Continually adapt to local partner capacity:** adjust expectations of and support to local partners over the life of the activity in response to their demonstrated capacity and record of success.

9. EMBRACE FACILITATION

Facilitation—intervening in a way that stimulates changes in market systems, while avoiding taking a direct role in the system—ensures that local and international market actors, rather than donors or their implementing partners, remain responsible for the development of a more competitive, inclusive and resilient system. Facilitation may mean, for example, encouraging private-sector companies to supply inputs to target beneficiaries, rather than providing those inputs directly. Facilitation generally includes promoting the self-selection of participants; for example, smallholder farmers opt in to interventions and invest their own time and resources to access activity support and services.⁹ Serving as a facilitator requires staff to apply a different skillset than that of a direct provider of products and services (see figure 2).¹⁰

FIGURE 2: MARKET FACILITATOR ROLES



10. MONITOR AND EVALUATE FOR SUSTAINABILITY

Participatory monitoring and evaluation (M&E) that captures local perspectives on the change process not only empowers system actors, it also indicates whether observed changes are likely to be sustainable. The local systems and inclusive market systems approaches both seek to stimulate systemic change—that is, shift the underlying structural elements and patterns that characterize the system.¹¹ There are various categories of systemic change indicators; two of which, with particular relevance to market systems development, are buy-in and imitation (see box 6).

⁹ For more on facilitation, see <https://www.microlinks.org/good-practice-center/value-chain-wiki/facilitation>

¹⁰ Engineers Without Borders Canada. (2011). *Being a Market Facilitator: A Guide to Staff Roles and Capacities*. USAID

¹¹ Fowler, B., and E. Dunn. (2014). *Evaluating Systems and Systemic Change for Inclusive Market Development*. USAID

BOX 6: SYSTEMIC CHANGE INDICATORS

Buy-in indicators measure the degree to which market actors have taken ownership over the new business models, technologies, practices and behavior changes that were introduced and/or supported by the intervention. Some examples of buy-in indicators include the following:

- Adaptation or innovation to the original, program-sponsored model(s)
- Continued, independent investment after program sponsorship ends
- Repeat behavior
- Satisfaction with program-facilitated changes

Imitation indicators measure the scale or breadth of program-supported behavior change within a system. There are two prominent examples of imitation indicators:

- *Crowding-in* by other businesses that imitate program-sponsored business models originally adopted and demonstrated by business(es) that collaborate with the implementer
- *Copying* refers to imitation at the target beneficiary level by market actors that imitate the new practices originally adopted and demonstrated by the target beneficiaries of the intervention

Source: Fowler, B., and E. Dunn. (2014). *Evaluating Systems and Systemic Change for Inclusive Market Development*. USAID

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