

## **Step 1: Market System Selection**

*‘Facilitators focus their energies on a promising market system’*

### **Summary**

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In *Step 1: Market System Selection* you will find guidance on how to select a single, or small number of market systems, to focus your facilitation energies on.

After brainstorming a long list of potential market systems, you will identify a set of selection criteria against which to judge the market systems.

The final decision must be evidence-based, but it is ultimately a subjective judgement call. *Iterative investigation* will help you to balance rigour with practicality and make a final decision which is based on informed discussion and deliberation.

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## Section 1: Overview of the selection process

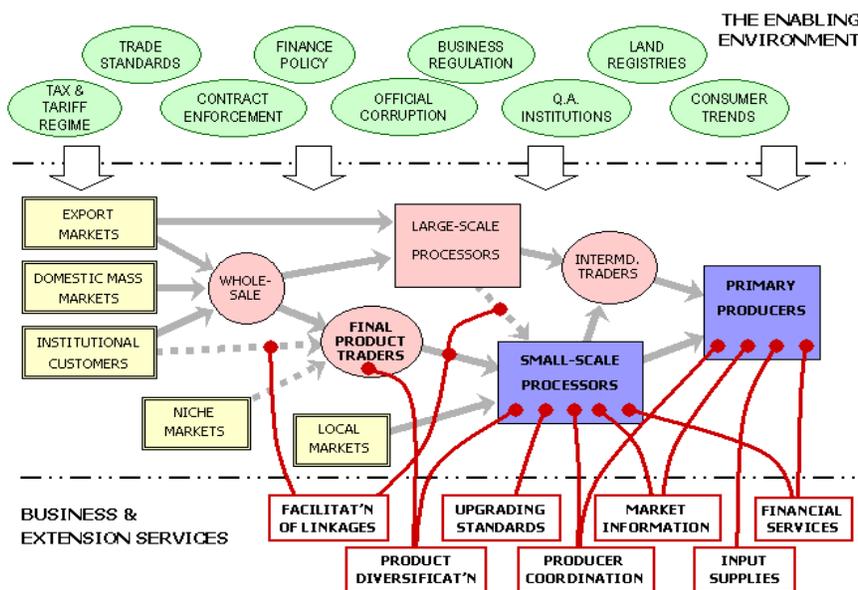
*Participatory Market System Development is about facilitating transformations in market systems to make them more efficient, inclusive and equitable. It is important that facilitators focus their energies in order to have the best chances of success. That's why the process starts with the selection of a market system to focus on.*

### What is a market system?

In Participatory Market System Development (PMSD), we use the concept of a 'market system' to describe the chain of actors that trade a particular product, the supporting markets that support the chain with inputs and services, and the enabling environment of rules and norms that shape the way the chain functions.

A market system therefore describes a set of actors, relationships, functions and issues which together form a subsector. We put a special emphasis on understanding the system as a whole, the way market actors are interconnected within the system and how they interact with each other to get a good or a service from its primary production to its end markets.

Figure 1: A generic Market Map



We use the Market Map framework to visualise market systems. Figure 2 presents a generic Market Map. You can read more about the Market Map framework in the *Core Guidance Note A: The Market Map*. You'll learn more about using the Market Map as an analysis tool in [Step 2: Preliminary Market Mapping and Analysis](#) and as a tool to catalyse action in [Step 6: Participatory Market Mapping](#).

### Focus your energies

The PMSD process seeks to facilitate market actors to sustainably transform the way market systems work in ways that impact a large number of people.

You and your team need to be knowledgeable and very sensitive to the unique market context in which you are working, in order to create sustainable outcomes. You also need to manage the process flexibly,

learning as you go along and responding to opportunities that you might not expect in order to maximize the scale of the impact.

Given this ‘human resource intensiveness’ it is important not to try to facilitate the PMSD process in too many market systems at once and spread yourself and your team too thinly. In our experience PMSD processes that have created the most impressive impact have tended to focus on only one subsector or, in special circumstances, a small number of them.

The risk of working across too many subsectors is that you will not be perceptive enough about the context you are working in and how it is responding to your facilitation. You may be too rushed to respond to emerging opportunities to maximize the impact of the process and address unexpected challenges. You are likely to find it very difficult to facilitate fundamental transformations in the market system that bring sustainable impacts to large numbers of people.

Make sure you read through all the steps of the PMSD Roadmap before choosing whether to take on more than one market system at a time.

### Market system selection: step-by-step

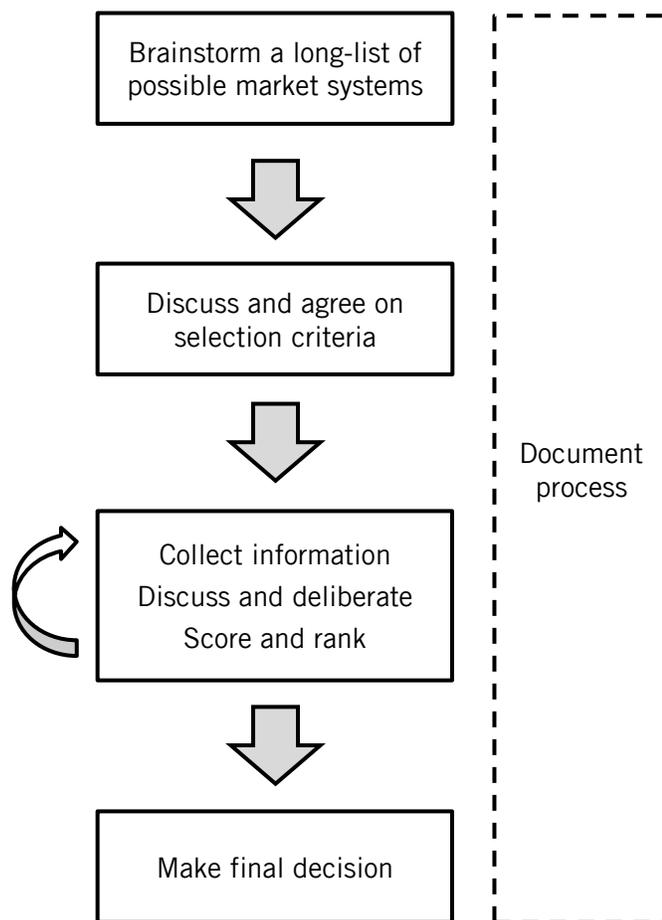
Figure 2 presents an overview of the step-by-step process involved in market system selection.

The process begins with the preparation of a long-list of possible market systems. This is a brainstorm and you can involve a wide range of stakeholders to offer their suggestions. Be clear to those you speak to about what you are doing and be careful not to raise their expectations at this stage about work in any market system.

Before you can start assessing how appropriate the market systems are for the PMSD process, you need a set of selection criteria against which to judge them. The set of criteria you choose must be manageable. The criteria must also cover a number of different factors, including the long-term economic opportunity which each market system provides, their potential to impact poverty and other cross-cutting and context specific issues.

You must not select a market system based on uninformed hunches. Reasoned

Figure 2: Market system selection: step-by-step



assessment is essential.

Assessing the long-list of market systems against the set of criteria requires ‘iterative investigation’. This is a flexible process involving collecting information and evidence about market systems against the criteria, discussion and deliberation within your team. Scoring and ranking can help you organize your thoughts and reach consensus.

Iterative investigation and assessment will lead to your final decision(s). Throughout this entire process you should document what you do and the decisions you make, in order to remain transparent.

### Evidenced-based and pragmatic

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The process of market system selection looks different every time. This is because it depends on many factors. These include:

- **Available resources:** The length and level of detail of the market system selection process depends on the resources you have available to fund the process. If you have plentiful resources, market system selection might involve a number of iterations with increasingly detailed sets of criteria, externally commissioned sectoral studies and numerous consultations with stakeholders. In other circumstances market system selection is carried out on a shoe-string budget, before you have secured funding for the PMSD process itself. In these cases the process is likely to be shorter, with all research carried out internally within your team. When resources are tight, consultation with strategically chosen, trusted informants is a good way to gather lots of relevant information quickly.
- **Relationship with prospective donors:** The market system selection process is also affected by your relationships with prospective donors. Donors typically have priority sectors in which they plan to fund work in. You can find out about these in their country strategies. In addition to this, it is common for donors to fund organisations to carry out sectoral scoping studies for them and solicit trusted partners to carry these out. Working with donors to carry out scoping studies is a great way to access funds for a market system process, strengthen your relationship with donors and influence donor country strategies. It is common that in these arrangements donors provide guidelines that they expect you to follow throughout the process.
- **Context:** The market system selection process varies in complicatedness with the context. In complex economic contexts – such as Bangladesh – a greater number of market systems are likely to make the long-list of possibilities and as a result the selection process will inevitably be lengthier and require more deliberation. In other contexts – such as the high Andes in Peru – there may be relatively few existing market systems and few potentially viable new opportunities to consider.

## Action Point A – Long list of possible market systems

In your team, brainstorm a long list of market systems that might be appropriate for the PMSD process in the context that you want to work.



Ask the opinions of as many relevant people as possible. Your colleagues, contacts in other agencies, donors, government officials and representatives from the private sector are all possible people you can ask. Chambers of Commerce and Industries and other private sector coordination bodies are often particularly helpful.

Don't forget to make sure that the perspectives of marginalized actors, and in particular populations you ultimately seek to serve are also heard. You can do this by drawing on existing economic reports which provide statistics on which sectors and subsectors are important in the regional and national economy and from which the greatest number of people derive their income.

Use the following checklist the help you make sure you've considered all potentially relevant market systems:

- Include market systems that are presently active in the context you want to work;

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*Find out what they are doing and help them do it better* – E. F. Schumacher, Founder of Practical Action

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- Include market systems for products whose domestic demand is partially met through imports;
- Include market systems for products that have a growing international and national demand (be realistic though);
- Don't just think about products market systems. Include potentially relevant service markets.

## Section 2: Selection criteria

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*Criteria are used to judge potential market systems against each other. Essential criteria are economic opportunity and potential impact on poverty. Other criteria, concerning gender empowerment and social inclusion and environmental sustainability for example, are also very important.*

### What criteria should we include?

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The selection criteria need to include a diversity of factors. Each factor you include will influence the choice of market system and therefore contribute to the outcomes of the entire process.

**Economic opportunity and potential impact on poverty are pivotal factors and must always be included.** The balance that is created by these two factors enables the selection of a market system that has the potential to grow and become competitive in an inclusive and equitable manner.

Other criteria are also very important. The choice about what other criteria to select typically depends on the values and priorities of your organisation and those of prospective donors you may be trying to attract. Based on Practical Action's cross-cutting priorities, we consider two factors as examples:

- Gender empowerment and social inclusion, and
- Environmental sustainability and low greenhouse gas future.

### Economic opportunity

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This criterion is concerned with the performance of a market system and how it is expected to evolve in the future.

As part of economic opportunity you should consider some of the following issues:

- **Demand from the existing end markets:** Who consumes the product? Is there an unmet demand for the product? Is the demand for the product robust and is it likely to grow in the next 10 years?
- **Potential increase in income and wealth:** Are there significant opportunities to create wealth and increase incomes and profit across the market system by increasing production and the supply of the product to the meet the demand from the end markets?
- **Competitiveness:** How competitive is the market system compared to other regional, national and international end markets?
- **Potential for improvement:** Is the market system likely to be able to meet an increase in demand from the end markets? How realistic is the potential for the market system to increase its efficiency? Are there realistic opportunities for the market system to move into new, higher value products (upgrading)?

- **Realistic opportunities to reach new end markets:** Are there new end markets that the market system could reach with a realistic level improvement of efficiency or upgrading?

## Potential impact on poverty

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Alongside economic opportunity, potential impact on poverty must also be included in the set of criteria used to select the market system. This criterion is concerned with the inclusiveness and equitability of the market system: whether the growth and development of the market system is likely to be able to lead to poverty reduction.

As part of potential impact on poverty you should consider some of the following issues:

- **Involvement of the poor:** What are the estimated current numbers of poor people deriving incomes from the market system? What kind of functions are they undertaking? What are their returns from their efforts and investments?
- **Income gains:** What are the realistically possible gains to the incomes of the poor of improvements in the market system?
- **Competitiveness of the poor and small-scale actors:** Are small-scale and poor producers able to compete in the market system with other producers? Are they likely to be able to maintain or increase their competitiveness if the market system improves?
- **Share of the value:** How is the value distributed across the market system? Are there realistic opportunities for poor actors to increase the value that they keep by increasing their productivity, by engaging in new value addition activities or by negotiating new terms with other market actors?
- **New entry:** If the market system improves, is it likely that it will create new opportunities for the involvement of the poor in employment or by integrating greater numbers of small-scale producers and enterprises?

## Gender equity and social inclusion

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In order to take into account the economic equity and inclusion of both women and specific socially marginalized groups in the market system, we recommend that you disaggregate the questions above relating to potential impacts on poverty. This will enable you to explore how improvements in the market system affect different social groups differently, and help you to choose a market system that is likely to impact these groups and to promote economic inclusion.

This disaggregation will not however help you to consider how some market systems are more suited to support transformative change in political, social and cultural systems that contribute to social exclusion. To enable this, you must add a separate criteria along the lines of:

- **Promotion of social transformation:** Is it possible that improvements in the market system change the attitudes and relationships of members of society towards socially excluded groups and promote political, social and cultural equity and empowerment?

### Environmental sustainability and low greenhouse gas future

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Including a criterion concerned with environmental sustainability can enable the market system selection process to become environmentally sensitive.

A variety of issues can be considered under this criterion. One option that we have used is to focus on the greenhouse gas intensity of the market systems and the likely impacts on greenhouse gas emissions that improvements and growth in the market systems will create.

### Strategic influences

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Market system selection never occurs in isolation of the pressures of fundraising and maintaining relationships with donors. In these situations, you may choose to add a criterion that reflects a particular strategic need.

#### Examples from the field – Strategic influences in market system selection

In Kenya, our new team needed to get a track record under its belt to build its profile with national donors. As part of the set of selection criteria, the team included a criteria to capture the likelihood of quick impact. This criterion turned out to be very important, and contributed to the selection of fisheries as a short-term priority for the team.

In Nepal, the DFID Nepal Market Development Programme was influenced by Practical Action's success in the dairy sector and included it as one of its priority sectors for funding through the programme. In most situations, it is the other way around. Practical Action takes into account donor country priorities as part of the selection criteria, in order to improve the chances of their proposals securing funding.

## Action Point B – Discuss and agree on selection criteria

In your team, discuss and agree on selection criteria to judge the long list of market systems against. Make sure that you keep the number of criteria to a manageable amount: 3-4.

You should always include:

- Economic opportunity;
- Potential impact on poverty.

Under each criterion, agree on a small number of questions (3-5) to help steer the investigation and deliberation process.

You can use the following template to help record your choices. The template provides a space to provide an explanation for the choice of criteria – remember, it is important to document the process in order to remain transparent.

<b>Criterion 1</b>	
Steering questions	
Explanation for choice	
<b>Criterion 2</b>	
Steering questions	
Explanation for choice	

## Section 3: Investigate, deliberate and make the final decision

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*Your final decision must be evidence-based, but it is ultimately a subjective judgement call. Iterative investigation that encourages discussion and deliberation in consultation with a wide group of informants is a powerful way of keeping the process practical.*

### Always a matter of subjective judgement

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To compare market systems against the selection criteria that you have chosen, you must collect information about the market systems and discuss what this information tells you about how the market systems perform against the chosen criteria.

The final decision is always a matter of subjective judgement. This is because there are a number of subjective elements in the process of comparing market systems:

- **Different issues to consider under each criterion:** Each criterion covers a number of different issues. For some issues there may be an objectively quantifiable indicator available and practical for you to use. For many of the issues, it is not practically possible to objectively quantify them, and instead you will have to use qualitative information and subjective perspectives to discuss them.
- **Weighting or prioritising issues under each criterion:** How you value some issues over others is a matter of subjective choice.
- **Weighting or prioritising criteria:** How you value some criteria over others is also a matter of subjective choice.

### Iterative investigation

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Although the final decision is always a subjective one, you can ensure that it is well-informed and evidence-based by combining:

- Information collected for different sources,
- Discussion and deliberation in consultation with a wide group of informants, and
- Scoring, weighting and ranking tools.

Furthermore, it becomes easier to manage the process when you take an *iterative* approach, increasing in focus as you progress.

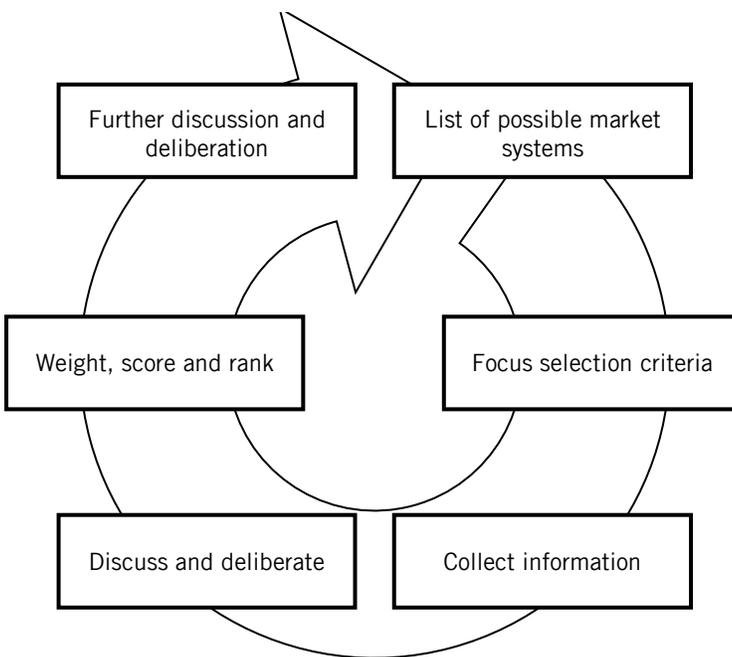
An *iterative process* is a process where you repeat a particular procedure with the aim of approaching a desired goal. Each repetition of the procedure is called an '*iteration*' and the results of one iteration are used as the starting point for the next iteration.

*Iterative investigation* is therefore a process of developing your knowledge on a subject by repeating iterations of searching and learning. With each iteration, you look back at your existing understanding, and seek to build on it with a new set of research questions based on your knowledge gap.

### Use iterative investigation to help you select a market system

Figure 3 shows how you can use iterative investigation to make the market system selection process more manageable.

Figure 3: Iterative investigation in market system selection



It begins with the list of possible market systems and the choice of criteria. You then collect information that will provide evidence about the market systems against each criterion. This information is then discussed within the team and with other informants. To help you to reach a consensus you can use weighting, scoring and ranking tools to give you a sense of how market systems compare with each other. Because these tools are still based on subjective judgement it is important to discuss their outputs and not make any decisions purely based on what the tools suggest.

If you do not feel confident in the outcomes of the deliberations and the ranking exercise you can nonetheless use them to revise the list of possible market systems, refocus the selection criteria and collect further

information.

You can apply this iterative process as many times as you feel is necessary and have resources for before making your final decision. Consult *Our recommendations* for further guidance on making the process effective.

### Weighting, scoring and ranking

As part of the investigation you may find it useful to give the market systems scores for each of the criteria (and sometimes against the steering questions).

Adding the scores together can give you an idea how market systems compare with each other on aggregate.

You can always weight the criteria differently in order to put special emphasis on a criterion you feel is particularly important.

Figure 4 shows an example of a weighting, scoring and ranking exercise.

Figure 4: Example of a weighting, scoring and ranking exercise in Nepal (illustrative)

Criteria	Weighting	Market systems									
		Dairy		Coffee		Buffalo		Tourism		Roots	
		Rating	Score	Rating	Score	Rating	Score	Rating	Score	Rating	Score
Potential economic opportunity	1.5	4	6	4	6	2	4	4	6	2	4
Potential impact on poverty	1.5	4	6	3	4.5	5	7.5	3	4.5	4	6
Potential impact on women's poverty	1	3	3	3	3	4	4	2	2	4	4
Environmental sustainability	1	2	2	2	2	3	3	2	2	4	4
<b>Total weighted score</b>		17		15.5		18.5		14.5		18	
<b>Rank</b>		3		4		1		5		2	

### Make your final decision

Your final decision is a subjective judgement and should come after evidence-based discussion and deliberation. You can use weighting, scoring and ranking tools to help you make sense of the different criteria to take into account, but don't make your final decision solely on the output of the ranking exercise. A final discussion should always be the final activity that takes place before the decision is made.

Although it is not always possible, seek to make your decision by consensus. This will help to get the initial buy-in from the team and informants that will become valuable later in the process.

## Our recommendations for market system selection

**Consult with different informants in an iterative manner:** There are a wide variety of people who can act as valuable informants in the market system process. These include your colleagues, contacts in other agencies, donors, government officials and representatives from the private sector. Instead of asking everyone in one go, ask for the perspectives of a few and see how this influences your discussion and deliberation. You may realise that you can exclude some market systems or need to adjust your criteria before seeking further opinion.

**Triangulate information:** Whenever possible, always seek to confirm information that you collect with at least two sources. This is especially important with information that comes from subjective perspectives.

**Use the steering questions to focus your discussion:** Steering questions are very important. In the past we split criteria into sub-criteria to reflect the different issues that they covered. However this encouraged over-reliance on the use of weighting, scoring and ranking tools and reduced the amount of useful discussion and deliberation. Instead we've kept the criteria broad, but encourage you to discuss important issues through steering questions.

**Don't rely on the weighting, ranking and scoring too much:** These tools can be very useful to get a sense of how different market systems compare with one another on aggregate. However the final decision should always come as a result of discussion and deliberation.

**Don't underestimate the influence of donor relations:** Market system selection never occurs in isolation of the pressures of fundraising and maintaining relationships with donors. In some cases our final selection of market system is highly influenced by the need to respond to the interests of a donor in order to secure funding or in order to demonstrate impact quickly in order to strengthen our base of evidence. In these situations, the process described above is helpful to select a promising market system in spite of strategic influences.

**Document the process:** Being transparent in the process you go through may prove to be very important later on when donors and other stakeholders take an interest in your work. Make sure you document the rationale for all the key decisions that you make.

## Action Point C – Investigate and make a decision



In your team use iterative investigation to collect information and seek the perspectives of key informants, discuss and deliberate and finally make a final decision on a market system to focus on. Refer to Section 3 of this document and the recommendations to guide you.