



Market System Selection

Participatory market system development in conservation

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

OVERVIEW OF THE SELECTION PROCESS

Participatory Market System Development is about facilitating transformations in market systems to make them more sustainable, 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.

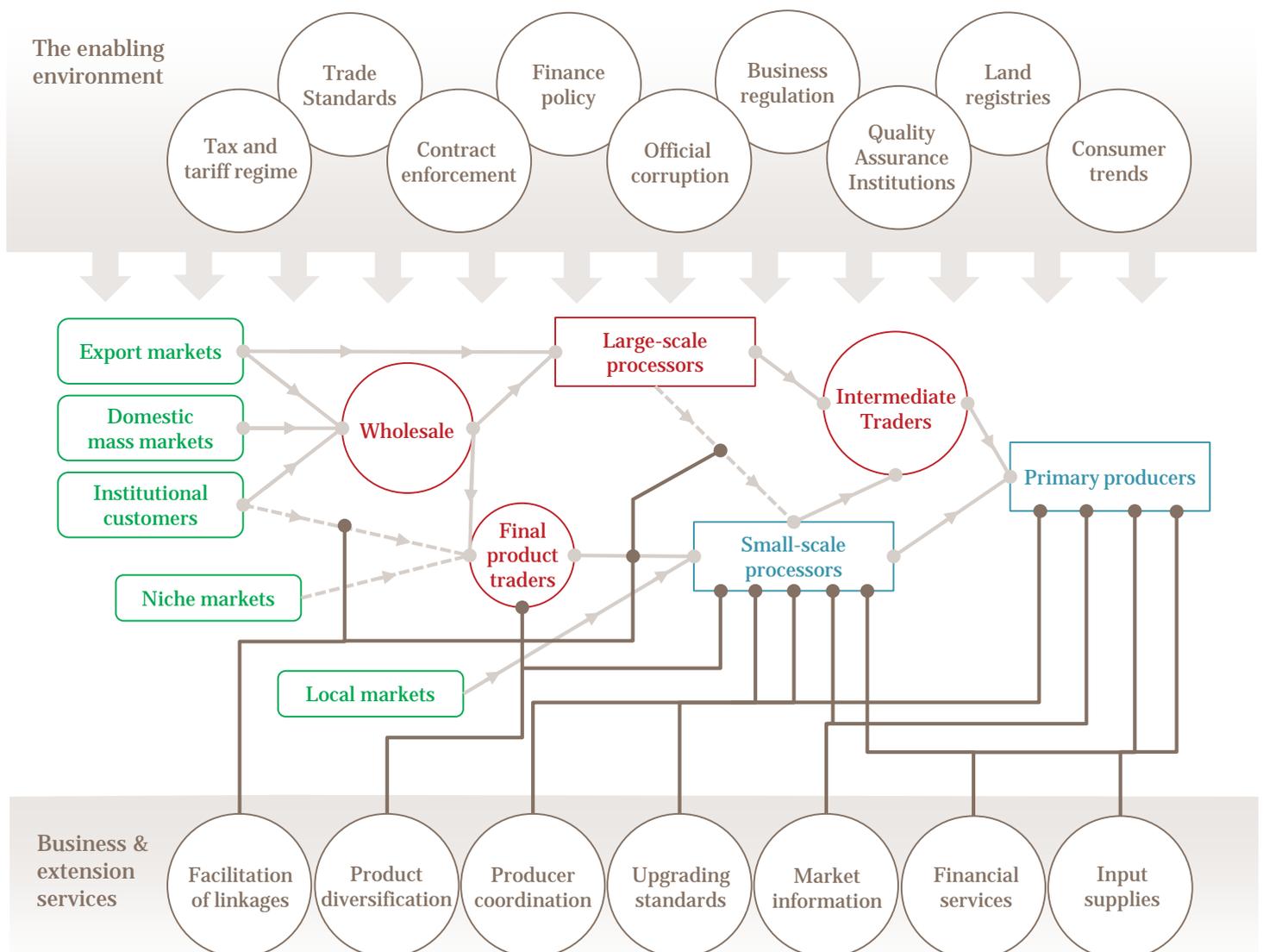
WHAT IS A MARKET SYSTEM?

In Participatory Market System Development, we use the concept of a 'market system' to describe:

- the chain of actors that trade a particular product
- the supporting markets that provide 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 use a Market Map to visualise market systems as shown in Figure 1.

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.



FOCUS YOUR ENERGIES

The PMSD process seeks to **facilitate market actors to sustainably transform the way market systems work**. In an economic development context, this transformation is aimed at positively impacting a large number of poor or otherwise marginalised people.

In a conservation context, the scale of impact could be measured by the number of hectares of land or sea of high conservation value under sustainable management, or by how important the conservation target is regardless of its size. For example, a project facilitates the emergence of sustainable business models for a cluster of villages to sustainably exploit NTFPs in high conservation value forest landscapes. In this way, **incentives** are created for the communities, buyers and government agents to protect the forest and even invest in restoration of degraded areas. Although the number of poor households is relatively small, the scale of impact is large – particularly if the **business models** are adopted in other forest-edge communities - and hence the projects satisfy the '**impact at scale**' principle of PMSD.

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.

EVIDENCE-BASED AND PRAGMATIC

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 by 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 who may be interested in particular market sectors. This may open up opportunities to access funds from donors who are not traditionally associated with conservation but may be interested in wider issues of sustainability, for example in the agricultural commodity sectors. It is therefore important to consider which donors are likely to be more interested in a market systems approach, how to engage with them and how to frame your proposal to fit their priorities.
- **Context:** The market system selection process varies with the context. In complex economic contexts, a greater number of market systems are likely to make the long-list of possibilities. As a result, the selection process will inevitably be lengthier and require more deliberation. In other contexts there may be relatively fewer market systems, particularly once biodiversity impact criteria have been applied. Consequently, there may be fewer potentially viable new opportunities to consider.



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 consult 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 increase the economic well-being of women and men impacted by conservation activities, their impact on biodiversity and other cross-cutting and context-specific issues, such as gender, equity and rights.

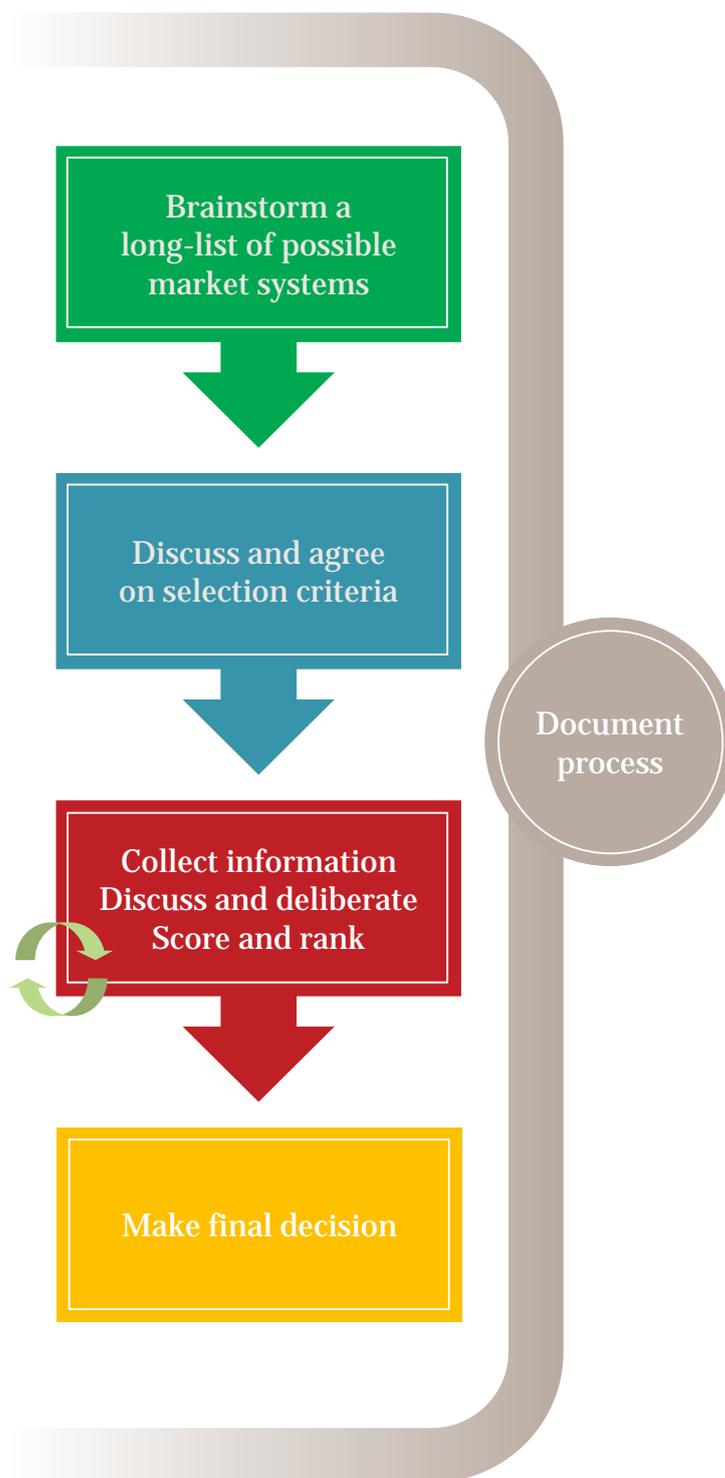
You must not select a market system based on uninformed guesswork. Reasoned assessment is essential.

Assessing the long-list of market systems against the set of criteria requires iterative investigation.

This involves collecting information and evidence about market systems against the criteria to discuss within your team. Such discussions are likely to highlight knowledge gaps requiring further investigation before making a decision. 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.**

FIGURE 2 Market system selection: step-by-step



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 e.g. colleagues, contacts in other agencies, donors, government officials and representatives from the private sector. 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 the communities with whom you work, including traditionally marginalized actors, are also heard. Avoid "pushing" communities to "innovate" from your perspective. Innovations are often basic incremental improvements in harvesting techniques or organizational development (e.g. how they coordinate sustainable exploitation of forest products). Listening to the perspectives of the communities forces you to reflect about what they really can and want to do rather than what you want or have been asked to achieve. Your role as facilitators is mainly to expose them to credible information, raise their awareness about potential benefits and risks, and manage their expectations about what you can do to help them experiment with new ways of doing things.

Use the following checklist to help ensure you've considered all potentially relevant market systems:

- Include market systems that are presently active in the context you want to work – what do people already produce?

Find out what they are doing and help them do it better – E. F. Schumacher, Founder of Practical Action and author of "Small is beautiful: A study of economics as if people mattered"

- Don't just think about products. Include potentially relevant service markets, such as nature-based tourism and other (payments for) environmental services markets, such as carbon or water.
- Include market systems for products/services for which domestic demand is partially met through imports.
- Include market systems for products/services that have a growing local as well as national or international demand.



SELECTION CRITERIA

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?

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 well-being, including gender and social equity are pivotal factors and must always be included. The balance that is created by these 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.

In a conservation context, potential impact on biodiversity and ecosystem services is also an essential criterion. The demonstration effect of new business models may also be important for achieving impact at scale.

BIODIVERSITY AND ECOSYSTEM SERVICES

Biodiversity refers to the diversity of life on earth. Ecosystems are the communities of plants, animals and micro-organisms that provide us with the goods and services that make our lives both possible and worth living. Biodiversity underpins the wide range of ecosystem services upon which we depend. These include provision of goods such as food, fibre, water and medicines, as well as processes such as climate and water regulation, and soil nutrient cycles. Ecosystems also provide cultural services, including opportunities for recreation, inspiration and spiritual connection.

ECONOMIC OPPORTUNITY

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

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

- **Demand from 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 meet the demand from the end markets? In a conservation context, production methods and volumes are particularly important considerations to avoid over-exploitation of natural resources, for example through extraction of non-timber forest products (NTFPs) at unsustainable rates or increased use of fuelwood for drying or other processing. Other potential negative environmental impacts also need to be taken into account – for example, some NTFPs require soaking and rinsing to remove compounds which could then cause pollution of watercourses. It is also important to understand whether or not any potential negative environmental impacts could be addressed as part of the market transformation process.
- **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 without negatively impacting biodiversity? Are there realistic opportunities for the market system to move into new, higher value products (upgrading) that can introduce incentives for the communities and other market actors to protect biodiversity?
- **Realistic opportunities to reach new end markets:** Are there new end markets that could be reached with a realistic level of improvement of efficiency or upgrading? Are there emerging markets that place a higher monetary or other value on the positive environmental impact of the product or service? Are these markets realistically accessible to the market actors you hope to benefit?

POTENTIAL IMPACT ON WELL-BEING

Alongside economic opportunity, potential impact on well-being 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 improvements in the well-being of target beneficiaries.

As part of potential impact on well-being you should consider some of the following issues. **In a conservation context, these questions should be asked for target groups who are stakeholders in conservation** i.e. either affected by, or in a position to affect, conservation activities and outcomes.

- **Involvement of the target groups:** What are the estimated current numbers of 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 your target groups from improvements in the market system?
- **Competitiveness of the target groups:** Are the target groups 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? This is particularly important when exploring with them possibilities of supplying higher-value products, where there could be well-established and influential actors, resulting in a risk of elite capture. This is common with NTFPs where women may play key roles and are direct beneficiaries at low levels of production but are often displaced by men once the product becomes more valuable.
- **Share of the value:** How is the value distributed across the market system? Are there realistic opportunities for target groups 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 to create new opportunities for the involvement of the target groups in employment, or by integrating greater numbers of small-scale producers and enterprises?

Gender equity and social inclusion: 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 economic well-being. 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.

POTENTIAL IMPACT ON BIODIVERSITY AND ECOSYSTEM SERVICES

For market systems to be truly sustainable in an environmental as well as an economic sense, impacts on biodiversity and ecosystem services should also be assessed, with negative impacts mitigated as far as possible, and potential positive impacts maximised. **For conservation organisations, there are two main rationales for engagement with the economic aspects of the livelihoods of people living in or near areas of high conservation value: compensation and incentives.**

Compensation for restricted access to natural resources or additional costs local people incur as a result of conservation initiatives. For both ethical and pragmatic reasons, this applies particularly for poor, vulnerable or traditionally marginalised people who are highly reliant on natural resources both economically and culturally, and who often have limited access to other assets. However, it can apply to other groups of people who are not necessarily the poorest or most marginalised but who are instrumental in determining whether conservation-oriented rules and regulations are complied with.

Incentivising behavioural changes to reduce threats to biodiversity and ecosystem services.

This usually involves making direct connections between the economic benefits of improving the market system(s) and the sustainable management and conservation of natural resources. One example would be by enabling market actors to gain a **price premium** for 'biodiversity-friendly', 'sustainable', 'eco-' or 'organic' produce, whether independently certified or otherwise. This provides a direct market signal that positive impacts on biodiversity have an economic value. However, obtaining a price premium may not always be feasible, for example where the end-consumer has no interest in sustainability, or where the barriers to independent certification are too high for primary producers. Even in such cases, increasing market actors' awareness of the ecological **dependencies** between the availability and/or quality of the product/service and the condition of the ecosystem or land/seascape can reduce human-induced threats to biodiversity.

In some cases, conservation organisations may choose to work on market systems that are more **indirectly connected to the biodiversity of interest**. For example, they may work on 'mainstream' agricultural products with high economic potential (such as staple foods) – or even in some cases on market systems not directly dependent on natural resources - that would enable people to make a living without having to over-exploit wild resources, expand into forested areas etc. In these cases, it is especially important to be clear with all stakeholders as to the connection between the choice to engage with a particular market system and the anticipated benefits to biodiversity.

The **natural resource management institutions** that determine 'the rules of the game' with regard to preventing over-exploitation of resources are key to balancing conservation and economic benefits. In the market system framework they are part of the business enabling environment but may also play roles in the market chain and/or input/service providers. The existence of strong, local natural resource management institutions, the potential to revitalise customary institutions or establish new ones, may therefore be another important criterion in market system selection.

Finally, a key criterion may be the opportunity to **demonstrate new business models** for wider replication in a market system that has major impacts on land/sea-scapes of high conservation importance e.g. sustainable palm oil or timber production, or nearshore fisheries.

STRATEGIC INFLUENCES

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.

It is worth noting that there is an increasing trend within the donor community, particularly amongst statutory funders, to increase the impact of donor/aid funds by using it to catalyse further investment from the private sector. In such cases, funders will be particularly attracted to support projects where a private sector partner is involved, and thus **the availability of a strategic partner** – such as an end-buyer or intermediary processor – may influence market system selection.

EXAMPLES FROM THE FIELD – STRATEGIC INFLUENCES IN MARKET SYSTEM SELECTION

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.

In Indonesia, FFI responded to the growing trend of corporate foundations to prioritise support for projects that link with their core business and are aligned with their values. Seed funding to strengthen the market system for Kepayang¹ oil was secured from a foundation focussed on environmentally sustainable and community-led approaches to agriculture and NTFP production. Another strategic influencer in this case was that a senior team member's knowledge of the product and a belief in its economic potential of the market system stimulated the interest of the donor.



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 number: say, 4-5.

You should **always** include:

- **Economic opportunity**
- **Potential impact on well-being, including gender and social equity**
- **Potential impact on biodiversity and ecosystem services**



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, adding additional rows as needed. 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 be clear about the rationale for choosing a market system.

CRITERION 1
STEERING QUESTIONS
EXPLANATION FOR CHOICE

CRITERION 2
STEERING QUESTIONS
EXPLANATION FOR CHOICE

INVESTIGATE, DELIBERATE AND MAKE THE FINAL DECISION

Your final decision must be based on evidence (as much as possible), 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 good way of keeping the process practical.

ALWAYS A MATTER OF SUBJECTIVE JUDGEMENT

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 criteria:** How you value some criteria over others is a matter of subjective choice.
- **Weighting or prioritising issues under each criterion:** How you value some issues over others is also a matter of subjective choice.

ITERATIVE INVESTIGATION

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

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

Furthermore, the process becomes easier to manage 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 gaps.

USE ITERATIVE INVESTIGATION TO HELP YOU SELECT A MARKET SYSTEM

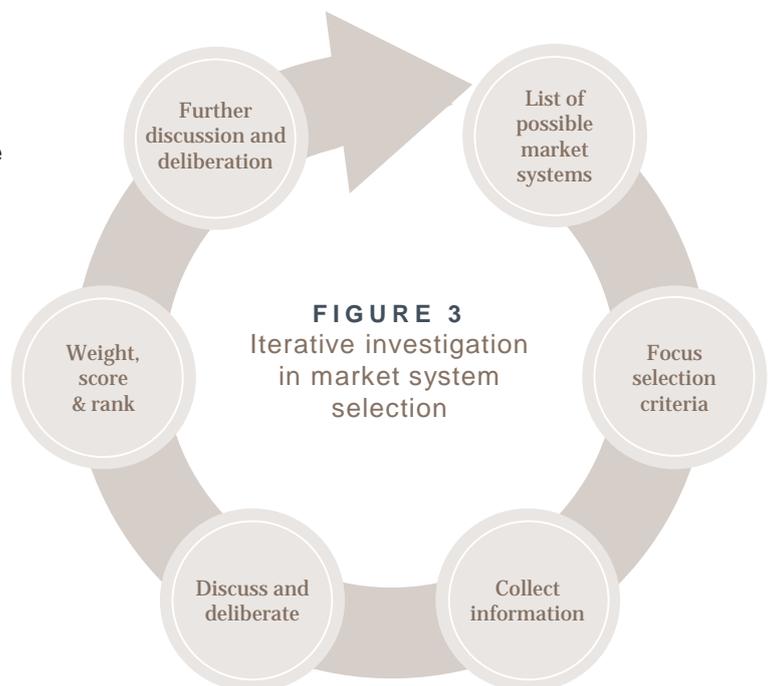


Figure 3 shows how you can use **iterative investigation** to make the market system selection process more manageable.

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 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** (below) 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 of 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.

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.

FIGURE 4 Example of a weighting, scoring and ranking exercise in Tajikistan (illustrative):

Criteria	Weighting	Market systems									
		Rosehips		Medicinal herbs		Honey		Walnut		Dried fruits	
		RATING	SCORE	RATING	SCORE	RATING	SCORE	RATING	SCORE	RATING	SCORE
Economic opportunity	1.5	6	9	5	7.5	5	7.5	7	10.5	7	10.5
Potential impact on economic well-being of women & men	1	5	5	6	6	4	4	4	4	5	5
Impact on biodiversity and ecosystem services	1.5	7	10.5	6	9	8	12	7	10.5	8	12
Cultural value	1	5	5	6	6	4	4	4	4	4	4
Potential for positive engagement of key institutions e.g. forestry agency	1	5	5	4	4	6	6	3	3	6	6
Total weighted score		34.5		32.5		33.5		32		37.5	
Rank		2		4		3		5		1	

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 selection 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 or three 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. **In a biodiversity conservation context the importance of linking the activity to positive conservation outcomes is clearly fundamental to the rationale for the work. However, be wary of over-weighting the biodiversity impact criteria** and thereby making a market system look promising, even if the economic opportunity and potential for well-being benefits scores are relatively low. The assumptions about biodiversity benefits are generally linked to the extent to which the market system can either compensate or increase incentives for conservation – neither is likely to be achieved if the market system scores low on the economic and/or well-being criteria.

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 to demonstrate impact quickly in order to strengthen our evidence base. In these situations, the process described above is helpful to select a promising market system in spite of strategic influences. Traditional conservation donors may be primarily concerned with the biodiversity targets (e.g. interest in a particular flagship species) and therefore less interested in which market system we are working on. However, such donors may be more familiar with funding initiatives working on sectors such as NTFPs, honey and eco-tourism rather mainstream agricultural products. Such donors may need more convincing on the value of working on transforming small-holder agricultural systems with the rationale that this would reduce the need for farmers to expand into areas of high conservation value. Other donors may be focussed on supporting transformation in commodity market systems like palm oil, cocoa, coffee and rubber, and less likely to fund activities in more niche sectors, such as low volume, high value NTFPs.

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 make a final decision on a market system to focus on. Refer to Section 3 of this document and the recommendations to guide you.





This document is one output of an action learning partnership between Fauna & Flora International and Practical Action Consulting to adapt Practical Action's Participatory Market System Development (PMSD) Roadmap for use in a biodiversity conservation context.

www.pmsdroadmap.org



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