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LED and MSD: Differences and complementarities

In recent editions of the Annual Reflection, particularly in the 2015 Annual Reflection, we discussed Local Economic Development (LED) intensively. We have also occasionally discussed Market System Development (MSD). For instance, in the 2018 Annual Reflection we deliberated on the difference between MSD and Making Markets Work for the Poor (M4P). So far, however, we have not discussed the differences and complementarities of these two approaches. Project reality, however, shows that a combination of LED and MSD takes places quite frequently. Therefore this article explores how both approaches can be combined and why this makes sense.

Many development projects understand that they can benefit from combining different analysis frameworks, such as value chains, clusters, innovation systems, quality infrastructure systems, etc., in order to generate a more systemic understanding of what is going on in an economic system and to extend the portfolio of possible interventions. A combination of at least two such frameworks reflects the reality of most projects. This can increase the effectiveness of analysing and promoting more complex economic systems. MSD and LED each provide the logic and perspective that combine some of these frameworks with an overarching theory of change and a number of principles. However, the analysis frameworks used by each approach overlap. We have concluded that it also makes sense to combine the perspectives of the two approaches to gain more systemic insight into a context.



We understand LED as a participatory, territorial approach to improve the competitiveness of a given territory, ultimately aiming at inclusive growth. MSD – according to our understanding – is an effort to transform the supporting and institutional setting around a market in a way that the market system becomes more effective and more inclusive. This transformation occurs on different levels: public and private service provision, market and non-market support systems, formal and informal institutions, and cultural norms and values.

Both approaches, LED or MSD, attempt to intervene in an existing complex adaptive system, whether it is called a local economy or a market system, and try to influence its evolutionary trajectory in a positive way. Essentially, however, the two approaches provide two different lenses on the same economy, drawing the boundaries of what is looked at and prioritised in different ways. In both cases we need to have a deep understanding of the economic system concerned: diagnosis of the system is vital to understanding the patterns of





persistent underperformance and binding constraints in the system and in guiding partners towards achieving sustainable change. The focus of the diagnosis is different depending on what approach we select. In either case, however, we need to recognise that in systems as complex and dynamic as local economies or markets not all knowledge can be generated through analysis and research. Understanding of what is currently going on in a system, what has happened there in the past and envisioning what might happen in the future, helps us to design interventions that are systemic and that introduce opportunities with the potential to move the system in a positive direction that will continue beyond the project's life.

In both approaches, systemic insight as a process management logic works perfectly as it is based on a universally relevant logic and relevant key principles. Article 1, *A process of search and discovery* in this Annual Reflection discusses the systemic insight process logic.

In LED, a key question that needs to be answered is: *what do we need to get right in order to strengthen a local economy?* In the 2015 Annual Reflection we discussed the essential sub-questions that need to be answered along the way of an LED process, which are:

- What is our own bias? What do we want to achieve?
- What are the key characteristics and structures in the local economy?
- Who are the key actors in the local economy?
- What are the competitive advantages and disadvantages of the local economy?

- What is the locality's trajectory?
- What strategic interventions would help to upgrade the local economy?

In MSD, the key questions to be answered are strikingly similar, showing only a few variations:

- What is our own bias? What is our strategic intent? What direction of change does the programme want to contribute to?
- What market systems or sectors should the programme work in?
- What are the structures in the selected market systems or sectors? What structures in the wider economy are relevant?
- Who are the key actors?
- What are the competitive advantages and disadvantages of the sector?
- What is the market system's or sector's trajectory?
- What are the system-level constraints that prevent the market system from working effectively? Which constraints should be explored first?
- What interventions could the programme explore to advance in the strategic direction? How feasible is it to induce system-level change?

When comparing the principles adopted by both approaches a strong, although not complete, overlap is shown. Both LED and MSD are about economic development and thus aim at a few overarching goals, such as creating inclusive job and business opportunities, and

increasing income (in Article 2, *Targeting resilience, not growth*, we argue, however, that a focus on a wider goal such as strengthening the economy's resilience might be more beneficial). LED and MSD abide by a few universal economic development principles, such as market and opportunity orientation, inclusiveness, facilitation, adaptability, and sustainability. However, both approaches are characterised additionally by their own unique set of principles. In the case of LED, this would be a territorial focus, local ownership, transparency of the LED process, local capacity





scalable change. When we take a closer look at these unique principles, however, we could argue that applying them would make sense whatever lens one uses.

In conclusion, improving the performance of an economic system can take different routes. A local or regional economy, or only specific market systems or sectors within this economy, or a combination of both can be targeted. For these purposes, the lenses of LED and MSD could be applied, each being equipped with a set of principles, a sequence of questions to be answered and a respective toolbox for developing and implementing interventions. As the key features of both approaches (principles, questions, tools) strongly overlap, the combination of both approaches in a single locality or project makes sense. The following points summarise the complementarity of LED and MSD:

- MSD and LED share facilitation as the main intervention strategy, and projects avoid taking up functions that need to remain locally implemented.
- Local ownership is central to both MSD and LED
- MSD looks beyond administrative or territorial boundaries and includes national and even international stakeholders.
- LED anchors interventions in a locality and makes the results more visible.
- LED provides entry points based on local priorities.
- LED widens the sector-focused lens to better understand the institutional, political, social and cultural context in a locality that shapes economic development.

building, participation, and subsidiary. MSD, on the other hand, looks at a few additional principles, such as taking a system orientation, understanding and building on genuine incentives and the capabilities of permanent market players, sensitivity towards the complexity of market systems, and promoting a clear vision for

- LED focuses on establishing problem-solving processes rather than solving problems by removing constraints for markets to work, improving the resilience of the economy.

LED and MSD can complement each other as distinctive approaches or can be used as different lenses in one approach in a project that combines a territorial with a sectoral logic. A good example is a project of the Swiss Agency for Development and Cooperation (SDC) started in Moldova in November 2018. The project was implemented by the Chamber of Commerce and Industry of the Republic of Moldova, Helvetas Swiss Intercooperation (a Swiss NGO) and Mesopartner. It employs an MSD logic, working in two selected sectors, while featuring a strong focus on strengthening selected economic regions in the country following LED principles. An understanding of the selected sectors of high-value agri-business and information and communication technologies (ICT) enables the project to support businesses to grow and create employment, while a territorial lens allows it to draw on the comparative advantages of selected economic regions and build coordination and collaboration of economic actors to strengthen the enabling environment and the region's competitiveness. At the same time, the dual focus allows the project to identify synergies like the ability of the ICT sector to attract higher-skilled workers into a region, thereby strengthening its general skills base and purchasing power and create a more sophisticated demand for other businesses to respond to.

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