



# The road to adaptive management

knowledge, leadership, culture and rules

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## Executive Summary

“Obviously, adaptive management is a term that carries with it unknown potential and irrevocable misunderstanding, a paradox that simultaneously explains the inherent interest and discomfort in its implementation.” (Allen et al.)

“Adaptive Management” starts with the recognition that the context of any programme or initiative that pursues systemic change is difficult to understand, in the first place, and changes frequently (and should if the project is making a difference). Therefore, at the very least programme staff should be ready to react to new information in their efforts to become more effective. At the most, adaptive management calls for programmes that use a systemic approach to take an additional leap into embracing a purposefully experimental, hypothesis-based approach. “Adaptive Programming” is then a description of a project that is using adaptive management approaches successfully.

This study examines the incentives and constraints to adaptive programming across the donor-implementer relationship – and how the behaviour that results influences market systems programming. There is some agreement that flexible and adaptive management, throughout the programme cycle and in the financial and operational management of implementation, is essential for programme effectiveness. Yet for a wide variety of reasons, most organisations have far to go to reach this adaptive ideal in any comprehensive manner. We hope this study will provide a catalyst for an open discussion of the many challenges to adaptive management, point toward innovations in programme design and management that are useful, and provide examples of emerging good practices.

The study’s researchers interviewed over 60 experts across a large range of donor and implementer organisations, including technical, compliance, and operations-focused staff. We also reviewed recent development literature on adaptive management and some of the older thinking on the topic emerging from natural resource management (NRM), information technology, and business. Through the course of this research four ‘baskets’ of issues emerged: knowledge, leadership, culture, and procurement and contract features. While these are not a perfect division of the issues – which are remarkably intertwined – they provide a useful way to represent the information gathered in this study.

One of the most important findings is the influence of culture – organisational, office, and national – on the extent to which an organisation is successful in using adaptive management approaches. The weft and warp of culture links to each of the other areas: what is considered valid or valuable knowledge, what is ‘known’ but not written, how contracts are interpreted, how procedures are implemented. Culture is also impossible to depersonalise; it is often created by leaders who are in turn influenced by it, and it cannot be transplanted between organisations or across offices with a formula, framework or toolkit. As a result, staffing issues, particularly the selection of chiefs of party and programme managers, were issues upon which respondents were very vocal. Contemporary political priorities also cascade through levels of authority, from donor central governments through development departments and down to implementing offices, creating their own patterns within organisational culture.

And although progress has been made on results measurement (RM) of market systems development, it clearly remains a key issue for both donors and implementers, who are united in their frustration that quantitative data and the need for short, easily communicated statements of programme impact are overemphasised, even driving programmes unnecessarily – also a reflection of culture and political leadership.

Another finding of this study concerns the need for new programme design tools that are more explicitly experimental, in keeping with the need to explore our way into solutions in complex environments. There is also a need for a new way to express theories of change. Although respondents were not united in their requests for new tools, those that felt we had the required tools already tended to be adapting existing tools to new purposes, implying that there is a need for change, or at least a tweaking of our current project toolkits. These tools need to be able to respond and record as a project learns and implements what is learned, so that results management systems can better document and measure the adaptations.

And finally, the wall between technical and support functions, across the donor/implementer spectrum, was also frequently cited as an impediment to adaptive programming. Programme staff, both at donor and implementer institutions, need to become better integrated with their organisation's finance and contract staff through field visits and inclusion in meetings that help them to understand the role adaptive programming plays in programme effectiveness. Internal reciprocity must be built so that programmes are better equipped to be both adaptive and compliant.

Several promising practices are highlighted in this paper, but there is clearly a thirst for more information on what other organisations are doing. It is our hope that this research provides a window into the broader realm of adaptive management (or its aspiration) and opens a door to further conversation.

# 1. BEAM's Research Objective and Methodology

Why is adaptive management important? The rationale for adaptive management in international development stems from the complex and adaptive nature of the development challenge, where any organisation involved needs to innovate solutions to the problems they intend to address. However, this is seen as going against the instincts, training and culture of development organisations, leading to a significant adaptive management gap. As described in the Learning to Adapt Workshop held jointly by IRC and Mercy Corps in October 2015, there is a “gulf between the growing need for adaptive management and the actual level of capacities and commitment that we have in place to meet this need.”

In that light, this research has four objectives:

1. To bring together the perspectives of key actors involved in adaptive programming for market systems development and initiate a wider conversation including not just front-line staff at donor and implementing agencies but back office staff as well
2. To make sense of the ‘territory’ of adaptive management by improving its conceptualisation and highlighting outstanding challenges
3. To share examples of emerging good practice, to provide insight to donors and programme managers on how programmes should be managed and practical examples that can be adapted to their own work
4. To outline and prioritise potential next steps for BEAM, BEAM's Adaptive Programming Steering Committee (APSC) and other key actors to drive the agenda forward

The audience for this research is both donor agencies and implementers. While a good deal has been written on the implementers' view of adaptive management, less of the donor perspective has been researched or articulated to date. Obviously donors and implementers are both needed for market systems programmes, and this research aims to provide a balanced view for both audiences.

## Methodology

The research team used a mixed-method approach, which included a literature review and key informant interviews with a semi-structured questionnaire to identify the opportunities and limitations confronting the widespread adoption of adaptive management in market systems development programmes. The team initially worked with a matrix-like framework that used the four ‘buckets’ (as described below) along one axis and elements of the programme cycle on the other axis.

Project Cycle				
Aspects of Adaptive Management	Project Design	Tendering/ Bidding	Implementation	Assessments/M&E
Knowledge				
Leadership				
Operations				
Culture				

This was done to help bring order to many complex and overlapping issues, but was not allowed to become a constraint – questions were free-flowing and drawn from the experience of the respondents. Immediately following the development of the framework, semi-structured interviews with key stakeholders were completed, both face-to-face in London and Bern and also via Skype. The interviews were done simultaneously with a literature review, to ensure the questions were well-informed and well-referenced. The work was then peer-reviewed by the APSC and validated in a workshop of donors and implementers at the BEAM Conference in May 2016.

## 2. Defining Adaptive Management – Literature and interviews

The authors consulted literature from a wide range of fields in the course of developing this research, including NRM, software, business and development<sup>1</sup>. However, rather than exhaust the reader with a review of each field, we will quickly discuss some elements of the NRM notion of adaptive management as it contains arguably the most cogent and useful ideas for our purposes.<sup>2</sup>

Though we draw the basic idea from a variety of fields, adaptive management seems to have come to the development field largely from our NRM colleagues, who have been actively struggling with this concept for decades<sup>3</sup>. The justification for an adaptive approach to managing natural resource problems lies in the need to address three basic types of uncertainty<sup>4</sup>:

1. Changes in environments because they are simply dynamic, independent of our efforts to influence them;
2. Uncertainty related to our imprecise ability to analyse systems (both in understanding their existing states and in understanding their dynamics);
3. The difficulty of identifying changes that have resulted from our indirect interventions.

All of these should sound familiar to us. And while the NRM field struggles under similar constraints, it also has similar aspirations. Allen et al. write, “There will always be inherent uncertainty and unpredictability in the dynamics and behaviour of complex social-ecological systems as a result of non-linear interactions among components and emergence, yet management decisions must still be made.” The same would obviously be true of socio-economic systems, the domain of the market systems expert, which also exhibit non-linear interactions and emergent properties (such as the more or less efficient allocation of products and services across a large population, without central control). The authors go on to say that, “the strength of adaptive management is in the recognition and confrontation of such uncertainty.”

The NRM field has gone further than we have in its effort to address uncertainty, namely by calling for purposeful, explicitly experimental interventions that involve more than just a trial-and-error process. The same authors write, “Unlike a traditional trial and error approach, adaptive management has explicit structure, including careful elucidation of goals, identification of alternative management objectives and hypotheses of causation, and procedures for the collection of data followed by evaluation and reiteration.”

In other words, the NRM field would likely dismiss our notion of adaptive management as simply “managing adaptively,” or not being so married to a Gantt chart that we cannot react in response to new information. To give ourselves due credit, however, we should recognise that market development has come a long way (while remembering that we have a long way yet to go). In that light, we can recognise the tremendous progress we have made in developing smarter, more adaptive management approaches, while possibly holding as a goal the realisation of a truly experimental, scientific process of discovery via falsifiable hypotheses.

For the purposes of the discussion below, “adaptive management” refers to the more basic “react to new information” paradigm. We return to the NRM notion of purposeful hypotheses in the conclusions and recommendations.

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<sup>1</sup> A list of resources reviewed can be found in Annex 1.

<sup>2</sup> Other documents, such as the “Best Practice to Best Fit” and PDIA papers were also highly influential. We hope their influence is obvious to the reader.

<sup>3</sup> See Ripley and Jaccard (forthcoming).

<sup>4</sup> Allen et al., 2011.

Shifting to the views expressed by market systems experts and other development staff interviewed for this study, there was a general consensus among the interviewees on what adaptive management means, and what makes an organisation more or less adaptive. Respondents felt that it required the ability to arrive quickly at a decision point with the right data, analysis, and decision-maker in place. As one interviewee noted, “adaptability requires quick and imperfect knowledge,” in addition to the ability to execute based on that knowledge.

In the context of market systems development programming, descriptions of good adaptive management referred to reactions to two types of information:

1. Information about changes in the market system in which a programme is operating, and
2. Information coming from successful and unsuccessful interventions.

Although both types of information are important for good programming, it is the first that makes adaptive management particularly relevant to market systems development work, given the dynamic, unpredictable and opaque nature of market systems, themselves.

Overall it was agreed that planning is a constant activity throughout the life of a project, and that successful adaptation requires an internal programme culture that enforces adaptive behaviours as well as an external culture that promotes them, or at least permits them. This point refers to the larger environment that enables or impedes adaptive programming, involving varying levels and focuses of adaptability for each actor involved in the task of development, and is the subject of most of this paper.

### 3. Findings

The discussion of findings below is organised into four baskets: knowledge, leadership, culture, and procurement and contract features. This research effort began with a framework that organised lines of inquiry under knowledge, culture and operations, but in the course of interviews and analysis we determined that leadership (both political and practical) was significant enough to deserve separate treatment. We also refined “operations” to “procurement and contract features,” focusing on how programmes are tendered, responded to and evaluated, and how certain contract features influence the space for adaptive programming.

Lastly, any framework is a heuristic device intended to make sense of a complex world – necessarily inadequate but hopefully useful. Much of the discussion below bears on more than one basket (some touch on all four baskets) therefore we have done our best to organise the discussion in a sensible manner.

#### Basket 1: Knowledge

Knowledge is at the heart of adaptive programming in two senses: donor and implementer staff need to know the rules and procedures governing their work so that they can successfully manoeuvre within them, and staff need to know the context of programming in order to make appropriate decisions about what programmes should and should not be doing, as they adapt.

**Knowledge of what the rules really say** - One of the biggest barriers to adaptive management identified in the course of this study was a lack of knowledge about what is allowed according to existing rules, regulations, and procedures, in addition to any precedents that may have been set regarding updated interpretations of existing rules, regulations, and procedures. This issue pertains to both donors and implementers, although it manifests itself differently in each.

Respondents speaking for both donors and implementers spoke about a natural default to the most conservative interpretation of rules, when faced with an unknown, as well as uncertainty around whom to obtain “permission” from when attempting to re-interpret rules in more adaptive ways. “When people don’t know... it’s not always clear who you go to [in order] to get permission,” commented one implementer representative. “There may also be internal political factors and they don’t feel they can ask for certain approvals. They don’t know and don’t know who to go to, or in going to them it’s going to create more paperwork and red tape. So they say just forget it, let’s go the usual way.”

A common example is flexibility related to programme expenditures. Several implementers indicated that their finance staff are rigid in their definitions around what level of budget flexibility was possible – the greatest challenge was usually the implementer’s perception of what level of flexibility is available, rather than actual donor requirements. Programme staff are able to get around this in some cases by creating ‘funding buckets’ within which activities

#### **Does not knowing the rules impede your ability to make changes?**

“Yeah all the time. It doesn’t mean things get shut down. Just means... massive delays in making decisions. People need to ask someone else, wait for a response, a thousand things to discuss, it just gets delayed and delayed. All the while the programme continues to operate. The effect that has is that key decisions take time to make. You go on the assumption that it is going to be OK and if it turns out not to be OK you deal with the fallout later. One project worked on an interim logframe for six months that was never approved. The fallout is a third logframe revision, but we were able to go ahead with the programme as it should’ve been done. Now we have endless meetings talking about logframe revision, but the programme has moved forward.” (Implementer representative)

were flexible. But the challenge is seen as one internal to the implementer, not created by the donor. This is where much of the “wiggle room” for innovation gets lost. When asked to do something outside the norm, operations staff will often push back, saying it is not allowed, when in reality it may be allowable, and even preferable according to the rules for that specific technical area or donor.

Several implementers working on donor programmes talked about how donor staff are not always familiar with the different rules in implementing contracts and grants or cooperative agreements, which are much more flexible. According to the Deputy Director of DFID’s Better Delivery Department, this is the primary impediment to DFID’s ability to manage programmes adaptively. But it was a common and equally emphasised theme across donor organisations. Furthermore, if the rules passed down by authorising bodies, such as the US Congress, were only those used by donors to guide their programmes, that would at least be simpler. However, every successive step in the process, from authorising law to programmes implementation, introduces an entirely new chapter to the regulations that are intended to guide programmes. As a donor representative said, “There are a lot of rules within USAID that aren’t required by Congress. If you rolled back to that level of restriction, it would be much less. But I don’t even know... I’ve been told this by lawyers. And the legal team is the only one that knows, but they’re too busy helping everyone with all the rules that are already in place.” One USAID contracting officer even said “I’ve been told by technical staff that I am not allowed to do things that I know are within my authority and warrant.”

To compound the issue, operations staff who review and approve (or disapprove) proposed changes are often not as “close to the field” or exposed to information that would help them understand the need for adaptation and interpret rules in a relevant manner. They therefore often find it difficult to understand why a change is sought. According to one implementer, “[e]veryone says the finance is a burden. The cause is... do the finance and technical understand things in the same manner? Even at the donor level – some of the ways you can do that is to take the finance people to the field and show them what actual work happens and how things change. That’s at the lower level.” This speaks to the need not only for a greater understanding of the rules and regulations that govern programme implementation, but also a need for a greater understanding of the context in which a programme is operating. Right now, “they don’t understand how to understand,” says a World Bank representative.

**Knowledge of context** – Respondents identified results measurement and learning as critical for project staff to have the contextual understanding they need to manage adaptively. Access to the right type and amount of data enables project staff to feed back what they learn (information) into how they implement (action). When successful, feedback loops can be the foundation for adaptation within a programme. Nevertheless, interviewees had relatively few concrete solutions for RM systems to better support learning.

**A bias toward quantitative information** – All respondents agreed that there is an overwhelming push for “evidence” and quantitative substantiation that programmes are achieving their intended results. The need for quantitative results is heavily embedded in all donor processes. More than one DFID staff member spoke about the endless need for “numbers for the Minister,” while a USAID staff member commented, “This attribution mentality [is] driven by Congress that needs information and doesn’t really trust us, anyway. There’s an oversimplification of data to feed the beast. And our entire data system is predicated on that oversimplification.” Respondents generally agree that quantitative data does not provide a full picture; qualitative data is particularly helpful when implementer staff and donors determine whether specific activities are working or strategic shifts need to be made. There is a strong desire from both implementers and donors to capture more qualitative data. Some call for “resonance testing” to provide an endorsement of a particular interpretation of market or relationship patterns.

According to the old adage: “What gets measured, gets done.” Both donors and implementers agree that better programming is often sacrificed at the altar of quantitative data. Teams become

focused on making targets, rather than learning how a market system is changing. Data, instead of empowering teams, becomes another barrier to adaptive programming due to resources (time and money) being focused on gathering data that may or may not be useful for adaptation.

**Show me the money** – And yet, many feel frustrated by the limited budgets available for results measurement. This can be due to donor regulations: DFID staff noted that RM is considered an overhead cost, on the other hand fixed price contracts reward implementers for minimising their implementation costs. One solution adopted by projects is to classify some types of data collection (e.g., market analysis) as a project activity to remove some of the budget limitations of gathering data overall. Another solution is to diffuse responsibility for results measurement across implementation teams. This reduces apparent overhead costs while simultaneously empowering entire project teams to take a role in learning; greater involvement can improve what projects learn. Training and involving teams can allow all members to understand how their learning is used to improve programming. For example, when technical teams on a programme in Ethiopia were taught alongside M&E staff on data gathering and data ‘cleaning,’ and included in regular system reviews, they understood the reasons why they were asked to provide more regular reporting. The quality of data improved significantly, reducing report processing times overall. In addition to limited budgets, RM also suffers from overwhelming donor reporting requirements. Again and again, donors and implementers complained that too many indicators were requested, noting that there is a cost (in terms of time and money) for gathering additional indicators. Often these indicators served donor reporting requirements without adding value to implementers’ contextual knowledge. For one implementer, their donor insisted on being involved in setting indicators and consequently pushed them away from using the systemic indicators they wanted to use to drive their work.

**“But will they read it?”** – Even when the right data is obtained, leadership (on both implementer and donor sides) rarely read long-form reports. They therefore do not always understand why adaptations may be made, and what the impact of those adaptations is likely to be. There is not necessarily an easy solution to this, but providing multiple opportunities for leadership to get messages about the type of changes likely to happen will reduce friction when those changes actually happen. “This issue of having senior managers making important decisions but unable to spend the time to understand them well, it’ll always be an issue. It’s a matter of junior staff being prepared to take advantage of opportunities to make decisions below them. Activity managers need to be well-versed and have the confidence to use the language and explain the approach.” But the same issue bedevils junior staff and activity managers, with donor representatives who are responsible for the management of multiple programmes (in addition to responsibilities that are purely internal to the donor organisation) complaining of a lack of sufficient bandwidth to productively engage with any of them. Any implementer who has fought for time to discuss important programme issues with their respective donor representative can corroborate that the lack of time for discussion makes it difficult to reach any communicative depth.

“Adaptive management takes time and thought. Time and thought are things that are in short supply. I have the attention span of a toddler. It’s one thing to another thing to another thing. You don’t have the luxury of sitting down and writing a coherent research framework.”  
(Donor field staff)

**It is your grandfather’s logframe** – The nature of traditional RM systems was cited as an impediment to adaptive management. The traditional method of RM requires setting up a system early on in the process, and filling it in as the programme progresses using traditional tools (e.g., logframes). But since adaptive management requires regular adjustment and change, RM systems and staff need to find new system formats and new skills that allow them to change regularly and efficiently over the life of the project. This will mean increased time and financial costs, and therefore donors need to be included in ways that allow them to support and understand the changes. We need to change this culture, because we want teams asking not “have you met

your targets?” but “have you hit the right targets?” There is a need to force teams to be reflective about their RM systems. But, considering the links between these tools and culture, one donor respondent put it: “It’s not just the tools, you need the confidence to use them.”

Tools are an important part of RM systems, and there was a feeling that existing RM tools may be too simple. One donor respondent advocated that, “a logframe must be closely linked with the theory of change,” while another made the point that, “there are single hypotheses, the theory of change, when in reality in a complex environment there are a bunch of things that might be causing that, but I’m going to use this one because I can describe it.” This is a challenge for every actor involved in market systems programmes – the universe seems to disobey our insistence that it exhibit simple linear relationships that are easily captured in logframes. Results chains, despite their place at the heart of the DCED Standard, were much less frequently mentioned by respondents, and expanding their use may be a step in the right direction. Some donors are becoming more flexible with the RM tools that are used; for example, permitting projects to avoid logframes in favour of other tools. In one case, a DFID-funded programme that was encouraged to consider substituting its logframe for other tools, the substitute tool that was considered was a results chain. However, if used in the rigid, formal manner of a logframe, the adoption of the results chain as a formal tool for accountability could have become even more problematical for the implementer, locking it into a set of specific activities and outputs that were unchangeable without significant effort, and in far more detail.

The challenge of developing an informative, adaptive RM regime for a market systems programme is rooted in a much deeper problem for the market systems field. As one interviewee pointed out, “In the end, the logframe is only as clear as the strategy it is meant to express, and that strategy is often unclear or unfocused in market systems programmes.” In general, there was a feeling among interviewees that the time has come for a new orienting framework, keeping pace with the need for adaptability and more fluid planning, though there were little if any suggestions for what should replace the logframe. DFID’s SMART Rules make space for this change, requiring simply “a realistic logframe or similar,” which provides an opportunity for new tools to be developed. Yet, as these new tools are developed they need to resonate with the cultural change that is also required.

**Putting the evaluation before the horse** – Evaluation methods can also impede adaptability. For example, the recent enthusiasm for randomised control trials (RCTs), in which the evaluative approach to drug effectiveness used in medical research is partially adopted by rarifying programme interventions and sorting “control” versus “treatment” groups, has in many cases restricted the adaptability of market systems programmes by prohibiting changes that would impact the continuity of interventions or spillover from the treatment group. Their significant cost implies that they may also consume funds that would otherwise be spent on learning and adaptation.<sup>1</sup> Aside from the likelihood that RCTs are incapable of capturing the complex dynamics of nonlinear systems and the market systems interventions seeking to influence them, the spectacle of a programme’s adaptability being constrained by its evaluation is itself unfortunate.

There are a number of promising movements to replace the push for RCTs with more nuanced, real-world evaluative techniques. One such development is DFID’s increasing use of external reviews that begin partway through the life of a market systems programme (or portfolio of programmes) and continue for at least two years beyond that programme’s life. There are a number of useful tools for inferring the likely impact of programmes over such a timeline, including theory-based contribution analysis, comparison groups and outcome harvesting. Harry Jones (2009) notes that such non-RCT methodologies can be, “just as rigorous and effective”, and are usually more appropriate for assessing adaptive programming in complex environments. Most importantly, evaluations of this type feed information into the continually adapting programmes they evaluate, not only permitting but encouraging smart adaptation.

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<sup>1</sup> See, for example, ILO Lab, “Fooled by randomisation: why RCTs might be the real ‘gold standard’ for private sector development”, 2015.

**Leaning in the right direction** – Another initiative that is encouraging programmes to be adaptive is the DCED Standard for Results Measurement. The DCED Standard explicitly checks whether implementers are actually using their RM systems to inform their programming and make updates based on new knowledge. There were some reports of the Standard’s misapplication by over-zealous staff eager to enforce rigour in the programmes they supervise, resulting in “results measurement running the programme.” In such cases, programme leadership allowed RM to become the sole knowledge gatherer, forfeiting the place general staff knowledge should take in informing intervention pivots.

## Basket 2: Leadership

Leadership plays a key role in the other three adaptive programming baskets. It signals the types of knowledge to be prioritised, leads the office culture (though often flounders in the face of national culture), and determines either explicitly or implicitly how rules related to procurement and contract management are applied. For the purpose of understanding its role in adaptive programming, leadership plays an outsized role in allowing for adaptation from two additional perspectives – the political leadership above and within the donor structure, and practical leadership at the programme level.

**Political leadership** – A number of pressures with implications for adaptive management conflict within donors, with the need to justify development budgets foremost among them. This pressure falls under the realm of political leadership, which provides a contextual backdrop influencing the conduct of all market systems programmes, regardless of donor. However, the current political environment in some countries – with austerity budgets in the UK and Switzerland, difficult debates about where to cut government funding, and watchful national media outlets that question the rationale for overseas assistance – combines with ring-fenced ODA tied to donor country GDP to produce even greater pressures for implementers to spend their awarded budgets.

For example, DFID is pressured by the UK Treasury to spend all of its own allocations, and will be fined for failing to do so. This is not a new rule, but it seems to have gained emphasis after the UK government spared DFID in its widespread spending cuts. This pressure funnels through DFID country offices, and translates into guidance that implementing partners should fall within two percent of their quarterly forecasted budgets. Hitting 98 percent of forecasted spend over three months is hard for any programme, much more so a market systems one that relies on the pace of a multitude of partners to proceed with basic activities. One source, citing a recent conversation with a DFID Senior Responsible Officer, confided of being told that, “if you have to choose between value for money and hitting your forecasted spend, hit your spend.”

But spending pressures are a challenge faced by all donors and implementers. They originate with donors being given deadlines by which funds need to be spent, but also come from implementer headquarters eager for the fees that accrue from programme expenditures. This pressure trickles down to implementers at the programme level, who are encouraged on the one hand to show

“There’s a whole host of competing incentives. Which are the strongest and where? Which things will be most scrutinised? It’s whether we hit our numbers, whether we’ve spent our money, whether we get our annual report in on time... this is an anonymous interview, right?”  
(Donor representative)

“quick wins” and on the other hand to use facilitative approaches and build partnerships, which take time and are not renowned for predictable, linear progression. In many cases this creates the perception that the time taken for learning and changing direction is time taken away from implementing, thereby slowing down burn rate. Then pressure is applied to “move more quickly,” usually at the cost of either analysis or adaptation. Another common pressure that falls under political leadership is the previously discussed preference for results that can be put in terms of easily communicated numbers. USAID’s Feed the Future (FtF) initiative

stands out as an example, with its predilection for results in terms of number of farmers assisted, value of incremental sales, and hectares under cultivation with FtF-favoured crops. But it is a problem across donors. Not only do results in these terms oversimplify the challenge of influencing behaviour changes in complex market systems, they also oversimplify the mechanisms by which “scale” can be achieved. More grievously for the market systems community, they also force programmes to spend resources actually measuring, for example, land area under cultivation. In other words, numbers “for the Minister” are sometimes the wrong numbers, but seemingly easier to understand for those not reading the long- form reports. Results for market systems programmes need to reflect the broader context. In the end, it may be realistic to expect that political pressures will usually predominate over smart, adaptive programming if the interests of the two are not aligned.

“Too often counting is considered equal to impact.”

**Practical leadership** – For lack of a better phrase, we use “practical leadership” to refer to leadership at the country office and programme level. This realm of leadership influences the continuity of established adaptive practices, the tone of interactions between staff, and the ability of managers to access vital (and usually negative) information needed to make useful decisions. It is also probably the biggest influence on culture (which will be discussed in the next section). It is located in positions across the donor and implementer spectrum, most notably in four positions: country office leads for donor missions, donor technical representatives responsible for programme supervision, implementer managers directly in charge of programme management, and the supervisors of programme managers within the implementer organisational structure.

As this topic has been discussed in-depth in other publications<sup>2</sup>, this report will not dwell at length on the qualities that characterise practical leadership that inspires adaptive programming. In summary, these qualities include an insistence on substantive engagement by all staff, an open embrace of failure, an ability to create the incentives for internal reciprocity and integration, the celebration of staff who are willing to be honest about results when speaking with leadership, and an overriding curiosity and enthusiasm for the task of adaptive programming that demonstrates desired behaviours in way that instructions cannot.

In addition to these qualities, from an institutional perspective we were able to make a few more observations. Several respondents observed that, under the incentives created for leaders perceived to be (or who perceive themselves to be) on a steep career trajectory, there is often a desire for new staff to put a personal stamp on a project or portfolio when they arrive. This type of change is not necessarily related to an adaptation that is based on project data. It is also made worse by the “churn” of staff through leadership positions on two-to-four-year bases (discussed in the Culture section below).

“So every two years chaos comes in and [the local staff] have to figure out the politics of that new person. It’s in their interest to be good in meetings, supportive of whatever their boss says, and not give too much thought to their work.”

In the words of one interviewee, “the expat comes in and has a career requirement to burn the house down and rebuild it with their name on it.” This has a chilling effect not only on the continuity of programming, but also on the incentives of lower level staff, especially national programme managers, making it difficult to allow for programming decisions that are not easily explained, or

supported by a time-consuming and legalistic paper trail. In other words, the combination of ego-driven change by upwardly mobile leaders and position churn creates a significant amount of risk aversion among lower-level, programme-facing staff. With new individuals in these positions every few years, staff beneath these positions face an unpredictable environment that may or may not appreciate

<sup>2</sup> See, for example, Allana and Sparkman, “Navigating Complexity: Adaptive management and organisational learning in a development project in Northern Uganda” Knowledge Management for Development Journal, 2015, and Morieux and Tollman. “Six Simple Rules: How to Manage Complexity without Getting Complicated”, 2014.

adaptive decisions, or the need for market systems programmes to pilot their way into effectiveness. Taking a risk in allowing an unorthodox activity or a deviation from simplified proposal and planning documents becomes less appealing when one never knows what the next boss will think. Although a fresh perspective can bring new opportunities to light, it is important that line managers moving into leadership positions provide clear direction to staff on their expectations with regard to how changes take place and are documented, and make a greater effort to root their own guidance in the existing paradigm.

### Basket 3: Culture

For the purposes of adaptive programming, Knowledge and Leadership offer leverage points for influencing Culture. But culture, itself, is an emergent characteristic of a group of people working toward a common goal. As an emergent quality, it arises from the interests, aptitudes and incentives of the group but influences them in turn. In the discussion below we distinguish office culture and organisational culture from the national cultures in which programmes work. We also discuss the issues of communication and trust between donors and implementers as cultural aspects that either enable or inhibit the adaptive management of market systems programmes.

**Office culture** – What behaviours are rewarded within office cultures and how do they support or undermine adaptive management approaches? One of the clearest findings of the research is that the ability to be flexible and adaptive is highly related to individual personalities, which in turn drive office and institutional appetite for change. There are many reasons for this, but a good starting point is to understand what individual behaviours are rewarded and sanctioned within an office. For example, if there is a high value placed in the office on “having all the answers” where one might be viewed negatively for not knowing about a particular topic or approach, staff may be less willing to adapt, as this means they will not have all the answers (at least for a period of time). Or, if making changes to the RM plan or logframe is seen as “not planning correctly in the first place” then adaptation will be much more difficult.

#### Adaptability as a Complex Problem, Itself

“We run many of our programmes as though we operate in a world that is predictable – we just have to push the right buttons in the right combinations and we will get the results we want. But we cannot treat the world as a machine. Relationships are variable; they change over time. We perceive problems on the basis of our personal understanding of how things ‘should’ be. As we change our understanding of the problem frame, the nature of the problem seems to change. We need to be careful of ‘problematism’ our current situation, and assuming there is a technical solution for it.” – (Implementer representative)

Overall, adaptive management is seen by both implementers and donors as something that “some people get” and others do not. It is a “way of working”, and does not necessarily need a technical fix or a framework. Because a culture conducive to adaptive management is both personality-driven and decentralised, it is extremely difficult to replicate. Therefore, if adaptive management approaches are considered desirable then clear signals need to be given to indicate this – praise in meetings for changes made based on new information, signals from leadership that “we like to see people trying new things.”

Refreshingly, there is a significant amount of effort underway across donor and implementer organisations to develop the office culture required for successful adaptive programming. Much of the work has to do with how information is gathered and shared. USAID has gone as far as to designate Learning Advisors in some missions, whose responsibility it is to support both programme-facing and leadership staff to more critically engage with their work. ODI has provided support to DFID to examine how staff have implemented adaptive management programmes, and to understand whether and how the changes in

On why adaptive management is not used more: “People think about it for a while, stress out, and then go with what they know.”

rules and systems are having an impact on this. Moreover, there are numerous related efforts within DFID, including investment in organisational learning, evidence and ‘testing what works’ and ongoing reforms of the Better Delivery department. ODI’s findings, from DFID and other agencies, indicate that at the heart of examples of successful adaptive management were conscious efforts to better “navigate the game” through effective documentation and learning, engaging with and getting to underlying constraints, being politically smart, making small bets, and taking incremental steps to achieve change<sup>3</sup>. Implementing organisations are also involved. Mercy Corps and IRC, for example, are beginning a joint effort to codify approaches to adaptive programming, and their five themes include a section on “Dynamic Teams” and the need for “a culture of open communication and exchange.”

To the cynically minded, some of these efforts seem superficial, given the strong implicit and explicit signals against adaptive programming that one encounters in both donor and implementer organisations. However, we should see them instead as lumpy progress, with different constituencies within various organisations battling to dominate the character of their organisation’s culture. In other words, there are small internal battles occurring in nearly every organisation we touched in our interviews. But it may be too early to tell whether the tide is turning away from traditional management paradigms that emphasise target hitting and obedience to the dictates of superiors, a paradigm “in which an overemphasis on accountability... led to a reduced sense of responsibility,” as one interviewee characterised it. The alternative to traditional management is a view of collective effort by empowered staff who embrace the responsibility of guiding their programmes. Perhaps more than anything else, that shift from accountability to responsibility characterises adaptable office cultures.

**National culture** – All programmes take place within a larger context, and donor and implementer offices that look to manage their programming adaptively must address the national cultures that frame this. This is a sensitive issue prone to offensive platitudes, so we raise it only to highlight the importance of an understanding of national culture. It is similar to understanding rules and regulations – local cultural norms provide the boundaries for what is and is not possible. Furthermore, the alternative to rooting an adaptive approach in an understanding of national culture is to be ruled by it unknowingly, and to watch the office culture operate under the terms of the national culture that envelops it<sup>4</sup>.

For example, it has been noted that citizens of many countries do not exhibit the same level of risk acceptance as those of some donor countries. Also, some societies tend to be more hierarchal, with varying degrees of willingness to disagree with leaders or give bad news. As one interviewee commented, “although the culture of the donor country may provide additional ‘texture’ to the office, the majority of staff are likely to be local, and this has an impact on how rules are perceived.” As each context carries with it distinct cultural expectations, it is important to be aware and actively discussing them, so that teams (both donor and implementer) can address them in the pursuit of adaptability.

### **The role of communication and trust in adaptive programming**

– Trust needs to be present at multiple levels in order to create the space provided for actors to take and exercise responsibility for adaptively managing their work. The desire for some process owners to maintain control over their area of work is at its core a function of trust in his or her staff. Supervisors must be encouraged to “hold on loose” or it becomes hard for adaptation to take place. Trust can be between departments within an organisation, or it can be between partner organisations, but nowhere is it more important than in the relationship between donors and implementers. Further, as one interviewee noted, “It all comes down to communication. In the best projects, donors know what’s going on.” The Market

“Isomorphic mimicry happens all the flippin’ time.”

<sup>3</sup> Wild and Booth, “Adapting Development: Improving Services for the Poor”, ODI, Feb 2015.

<sup>4</sup> This phenomenon is known as isomorphic mimicry, a term popularized in development by Andrews et al. in their 2012 paper, “Escaping Capability Traps through Problem-Driven Iterative Adaptation (PDIA)”. Essentially, it refers to the overlay of a foreign structure on an indigenous set of incentives, resulting in an institution with an appearance that does not match its behaviour.

Development Facility text box below provides an example of trust-building between a programme and its donor. Stephan M.R. Covey's *The Speed of Trust*, also provides a useful resource on how companies and individuals can establish, extend, and restore trust.

**Right-sizing the donor-implementer relationship** – Many interviewees spoke of the importance of not only communication, but close involvement of donor representatives in decisions around programme pilots and pivots. In this case, while the donor organisation, writ large, need not concern itself with the details of market system dynamics, the donor's representative who is directly responsible for interfacing with a programme, needs to balance giving the programme's implementer enough freedom to make decisions with their own need for sufficiently intimate knowledge about what the programme is doing. "Some partners want to be at arm's length [to preserve the space for adaptive management]," one donor representative commented. "But then that's where you don't build that trust, so if this stuff comes up we don't really know what's going on." Instead of involving the donor representative in extensive team discussions, however, donor representatives need just enough information to be confident of being informed, and to have information provided in a timely way so that they do not feel like too much has happened without their knowledge. They also need this information to feed into their policy dialogue with the government of the recipient country. However, it requires that donor representatives answer phone calls from implementing

### **MDF: DFAT's multi-country market systems programme and its IAG**

The DFAT-funded Market Development Facility (MDF) is a six-year market systems programme working in Fiji, Timor Leste, Pakistan, Sri Lanka and Papua New Guinea, implemented by Cardno. Aside from the multi-country focus, one of MDF's unique features is the inclusion of an Independent Advisory Group (IAG) that consists of two highly qualified market development specialists, contracted directly by DFAT, who serve as long-term advisors to both MDF and DFAT. The IAG does not evaluate the programme. "They're not there to review or judge, but to provide advice to the programme and to us," commented a DFAT representative.

"We take an active role in trying to address problems, not just point them out," said an IAG team member. Similar to a backstopping role, but contracted independently, "we go in and ask lots of questions, we listen, talk with them about what we see, suggest things, aim to make real recommendations."

The relationship with DFAT is worthy of note. The IAG informs DFAT staff not only what they think of the MDF programme but also helps DFAT staff better understand the activities and achievements of market systems programmes. As a DFAT staff member said, "one of the problems we have is churn – people move on every two years... The [IAG] has more history and knowledge than anybody else [who does not work directly on the programme]."

The IAG also helps MDF and DFAT by facilitating challenging conversations. Examples include discussions on the appropriate level of cost sharing, decisions to partner with one company over another, and the reasons for the ways systemic change is characterised in programme planning documents. "It's about getting everybody on the same page, about how it was developed and how these decisions were made," said an IAG member, "helping everybody dig a little deeper than they might otherwise, in the conversation."

From the perspective of adaptive management, the IAG also plays the role of, "a neutral party that says [MDF is] not just waffling about." A note of caution, however: its success with MDF may be partly due to the fact that it began with MDF's first activities, in Fiji – a small programme in DFAT's large portfolio. "If you tried to start an IAG in a very high profile situation it would be harder to make it a trusted resource," an IAG member said. "There would be a lot more pressure for it to be more of an accountability mechanism."

staff, or respond to emails in a timely fashion. In other words, there is plenty of blame to be shared for poor communications and resulting gaps in trust, especially when expectations and behaviours are inconsistent.

Shifting to a hypothesis-based implementation approach, with a number of pilots managed in short, iterative cycles, and specific points where donor representatives become involved in decision-making, could lend itself to this need for balanced communication between implementers and donor representatives. Pilots informed by explicit hypotheses would also have clear indicators for their success or failure, and obvious learning, making it easier for donor representatives to explain programme pivots to supervisors. Regular donor-implementer briefings centered on pilot indicators and learning would provide donor representatives with just enough information, while considering the significant time constraints at the donor end.

“It’s not like, poof, you wake up and you’ve been doing it all wrong. If both parties are part of that conversation from the beginning and you know you’ll need to switch to this other thing, everybody is already there.”

(Donor representative)

**Trust but verify** – Lastly, ensuring that a programme’s RM regime is sufficiently robust goes a long way toward building trust, as does the authority provided by independent advisors, which may be acceptable to an adaptive programme so long as the advisors also appreciate the onus of adaptation for good market systems programmes. Many of the cases of successful adaptation mentioned by interviewees involved a very strong monitoring, results and measurement system or the candid review of trusted third parties, or both. “Once you have this type of relationship, then you can trust,” commented one donor representative. “It’s about having results and verifying results, making them understandable to everybody.”

#### **Basket 4: Procurement and Contract Features**

The final theme that completes the picture of issues and incentives affecting the room for adaptive programming discusses how market systems programmes are tendered, proposed and evaluated, how certain contract features expand or restrict the possibility for adaptation, and how interpretations of budget lines limit the space for change. For the purpose of this discussion, under contract features we discuss inception periods, contracts structures, finance, payment by results (at DFID), and partnering with private sector entities.

**Procurement** – The way tenders are offered and awarded sets the tone for adaptive programming, at the outset, as something to be allowed or avoided. In the first place, the specificity that is usually required in a proposal tends to limit room for adaptation as programmes move forward. Secondly, the type of staff who generally win proposals (key personnel against which a significant portion of the award is judged) may restrict the infusion of new thinking into the field of market systems programming.

Donors and implementers both commented on the need to expand the circle of individuals considered capable of leading large, complex, adaptive programmes as team leaders, programme managers and chiefs of party. Most of these staff seem to be at the same age, career stage and mindset, resulting in a replication of what is perceived to have worked in the past, with limited interest in adapting or thinking through new approaches to problems similar to those they may have faced previously. In fact, several respondents listed this issue as the number one thing that could be done to improve adaptive management. Implementers want to put “good” candidates in front of donors, so donors need to signal when they are interested in strong adaptive skills and how that balances with experience (both technical and management). There is a sense from many interviewees that a small group of individuals get recycled through programmes, largely recreating the same projects over and over (because they worked in the past), and thereby stifling innovation. Adaptive management requires “exceptional performers willing to influence,” regardless of age

“We need a mix of new blood and deep experience.”  
(Donor representative)

and experience, but respondents felt that average performers with limited interest in influencing change were often leading projects, simply by virtue of having more years of work experience.

As for other aspects of the tender process, the experience with various donors is decidedly mixed. DFID’s terms of reference for proposals were seen as very conducive to adaptive approaches, where tender documents speak more about approach than attempting to outline the details of implementation. Implementers praised the DFID approach where a “purposeful muddling through” is allowed<sup>5</sup>. However, the trend toward inception periods has proven to have both significant benefits and drawbacks (more below). USAID tenders are often more prescriptive, driven internally by the need to follow a fair and transparent evaluation process. A recent increase in contested awards at USAID<sup>6</sup> has contributed to this concern, and may be steering bid developers towards requesting more quantifiable bids. This would undermine adaptive approaches if the tender does not encourage laying out approaches and options as part of a bid, with further analysis assumed upon award. Respondents also mentioned that risk assessments, at the World Bank in particular, were extremely conservative, with a high level of risk aversion.

The rising recognition that DFID’s more flexible approach to programme design is preferable speaks to the opportunity to incorporate more experimentation in the way we write market systems proposals. But the appetite for flexibility in proposal design is not uniform. One SDC staffer complained that legal advisers have, “a tendency to treat mandates [contracts] the same as procuring staplers,” with predictable consequences for the nuanced nature of proposal evaluations. Generally, procurement struggles to move away from older paradigms, while technical understanding of the complexity of market system challenges moves ahead. Where aid programmes were previously purchasing commodities, now they purchase “solutions” and “expertise,” which are far harder to define. There is still a strong focus on proposals that “tell me what you will do,” as opposed to describing how an implementer means to learn into how to be effective. As a result, tenders rarely ask for evidence of a proposing party’s adaptive capacity during the bidding process. ODI’s collaboration with DFID includes exploration of DFID’s relationships with suppliers, and how to give more prominence to ‘adaptive management’ capabilities in future procurement.

Perhaps the most egregious holdover from the era of direct service provision is the split between programme and “overhead” costs, where the former are purchases supporting development activities, thought to be direct benefits to target communities, while the latter are thought to be necessary but unfortunate expenses that should be kept as low as possible. In market systems programmes, however, “overhead” includes the highly engaged individuals responsible for running difficult programmes – any good market systems programme’s greatest asset. “Overhead” can also include market assessments and staff training, in some cases. SDC programme staff discussing this issue lamented their organisation’s “70/30” rule, defining the appropriate ratio for each cost category, against which SDC proposals are judged by finance staff in the bidding stage. However, according to an upper level finance staffer in the SDC, “there’s no [such] rule,” illustrating the link between procurement and knowledge of an organisation’s basic regulations.

**Contract features** – There is a significant amount of experimentation with contract features occurring in the market systems field. While the basic structure of contracts, themselves, is relatively staid, innovations from inception periods to payment by results are giving donor and implementer staff opportunities to experiment within new incentive structures, producing a significant amount of useful learning. This subsection endeavors to capture that learning as it relates to adaptive programming, providing a handful of examples where relevant.

5 “Muddling through” has a distinguished history, note Lindblom’s *The Science of ‘Muddling Through*, Public Administration Review (1959) <http://www.jstor.org/stable/973677>

6 Across the USG bid protests are up 45%. Reference: <https://www.fas.org/sgp/crs/misc/R40227.pdf>. According to the report (see p12), this does appear to change agency behaviour as they tighten up rules to try and prevent protests.

**Inception periods** – In general, donors and implementers see inception periods – such as those implemented by DFID – as working well, with some significant caveats. The support for this approach comes from the recognition that an implementer does not always have the resources to do deep analysis into the target markets prior to the award, and that the time and resources provided to appropriately analyse the situation and the options for response are valuable.

Four concerns about inception periods were raised, however.

1. The first concern related to the need for better upfront planning of how the inception period will be used well, without over-analysing and over-planning. This concern raised a recommendation that donors and implementers work more closely together to clarify that “this is how we will know if [the inception period] is working” and what systems and structures are required to track information coming out of it, as well as other changes. An incredibly large volume of reports seems to be the most commonly cited product of inception periods, with some scepticism about their necessity.
2. The second concern related to difficult political contexts, in which the inception period leaves open a door for inappropriate pressure to be placed on implementers to support activities that are pet projects of local officials, but not necessarily in line with the project. In these contexts, donors should be able to anticipate this concern and be ready to support implementer staff to keep the project on track.
3. The third concern relates to donor expectations that implementers have market systems sufficiently analysed as a result of being granted an inception period. The effect of that expectation is that new learning coming from intervention failures, which are vital for the iterative development of good market systems programming, can be treated as too late in coming. The donor in that case considers that an inception period should have provided enough learning to craft perfect interventions.
4. And finally, the fourth concern is that the inception phase prolongs uncertainty. While there is usually a contractual break clause at the end of the inception phase, this clause is generally passed down by suppliers to contractors, creating uncertainty as to their continued employment, and potentially limiting who is willing to implement these programmes.

**Contract structures** – We asked respondents if the right agreements exist for promoting facilitative approaches and encouraging adaptation and received a wide range of responses, with a lot of disagreement in between. Many of the comments centered on the fact that people were able to create work-arounds, or use existing contracts in new ways. For example, SDC’s Employment and Income Network put a significant amount of effort into providing guidance to other staff on how they could use the existing suite of SDC tools to tender and manage market systems programmes. This worked even for some relatively outside-the-box programming. “We had some discussions where we had to agree on a credit for four years for a project, but were not even clear which sector we want to work,” reported a member of the SDC’s Quality Assurance department, which used the SDC’s market systems guidance. “We agreed we start in this sector and we may need to jump to another sector.”

“Everybody thinks there has to be language in a contract to allow [learning and adaptation]. From the field we see that it’s not the case. We want to see that learning is important, but if you have a contracts officer that knows what they’re doing, that doesn’t matter.”

Others disagreed, calling for a rethink in the way contracts are written. “It is a constant conversation around how contracts need to be more creative... we need more reimbursable activities, and agile grants.” One respondent rightly pointed out that “a contract is just a reflection (of the policies); the internal rules of the organisation are much more important,” making a clear link between what is written in standard procedures and the office culture that influences how those procedures are used.

One particularly contentious form of contract was the fixed price mechanism (a contract in which all work is completed for a single overall price, rather than being priced by, for example, the number

of days at a given daily rate), which earned both high praise and sharp condemnation. One advocate of fixed price contracts argued that, when it includes award fees for hitting benchmarks, it encourages a much stronger level of communication between donor and implementer staff, who tended toward collective problem solving in order to hit their award benchmark (presumably the reward for the donor staffer related to management plaudits for effective programming). Several other interviewees sharply disagreed, however, arguing that fixed price contracts all but guarantee that implementers will do the bare minimum required to hit agreed benchmarks, thus underspending wherever feasible and generally undermining the programme with a pinched purse, with the entire difference going back to support implementer headquarters.

**Payment by Results at DFID** – Delving beneath contract structures, and into the minutiae of contract features, some of the most interesting work on contracting as it relates to adaptive programming is DFID’s experimentation with payment by results (PBR). First, with dozens of programmes currently experimenting with output- and outcome-based payments, DFID’s PBR work marks an ambitious effort to move beyond contract structures that simply pay for inputs, to a mechanism that rewards implementers for achieving what they claim to be able to do. Secondly, the way in which DFID approaches PBR is itself a great example of adaptive management because it is explicitly experimental, with a batch of programmes generating and feeding back learning under various PBR schemes in order to, “come up with a suite of new models” over a definite timeline, based on that learning. DFID staff working on PBR innovations are the first to admit that “sometimes it goes really well, and sometimes it doesn’t.” Either way, they are amassing a lot of knowledge about the issue, and are positioned to move forward more quickly with smarter contract structures, as a result.

“Some of the tension between PBR and adaptive management – PBR forces you to define the what, whereas flexible and adaptive is much more about the how.” (DFID staff)

This is not to argue that PBR contracts offer a better structure for market systems programmes seeking adaptive space. In many ways they are less suitable. The need to fit specific results with commercial appetites for payment risk could easily lead implementers to propose lower targets and accept lower quality work from partners. But the important point is that these concerns were voiced by DFID staff on the basis of feedback from implementing partners and DFID field staff who are directly involved with PBR-based contracts.

The PBR team in DFID’s East Kilbride office, is in the midst of this process and plans to roll out the previously mentioned “suite of new models” in the current year. This would feature a range of options, depending on the market’s perceived appetite for risk in the payment structure and DFID’s ambition to incentivise performance. They are also contemplating the suitability of different structures at different phases in the programme cycle, with an inception period based on deliverables, for example, followed by periods of piloting and scale-up that set different levels of commercial risk.

Another bit of early learning has been the importance of seriously considering the appropriate structure at the design phase, then testing the market’s appetite for risk with an “early market engagement” that allows for discussion with likely bidders about incentives and risks. To facilitate this process, DFID staff wrote a 28-page “SMART guide to payment-by-results contracting” that addresses outcome-based, output-based, and hybrid structures, and that should serve as a useful resource for other donor organisations seeking to innovate with their own contract structures.

**Partnering with private sector entities** – Lastly, one particularly challenging aspect of contract management, as it relates to whether a market systems programme can manage adaptively, concerns partnerships with private companies. The traditional approach to managing programmatic expenditures tends to view all financial partnerships in one of two ways: as a purchase of goods or services by projects, or as a sub-grant. The former tends to require three quotes and leads to a decision based on a perception of value to the funder, while the latter tends to flow down all of the financial

## **ENABLE: Experimentation with PBR in a Facilitative Approach to Governance**

The DFID-funded Enhancing Nigerian Advocacy for a Better Enabling Environment Phase II (ENABLE2) programme is a 5-year effort implemented by Adam Smith International (ASI) and the Springfield Centre. It uses a facilitative approach to enabling business environment reform. Toward the end of the programme's inception phase in late 2014, one of the final pieces to be put in place was an output-based payment structure, which the implementing team and donor had yet to agree.

DFID pushed for a payment-by-results scheme that it felt would hold the programme to account by paying only for achievements, although it was also concerned that this conflicted with value for money, as it obscured the actual costs of implementation. ASI originally proposed a hybrid approach, calling for repayments at the end of a year if ENABLE2 failed to meet its contractual targets, but that proposal was turned down in favour of an arrangement that compensated ASI on the achievement of, "packages of work that contributed to the achievement of overall logframe targets." Work packages were intended to be specific to each one of ENABLE2's many partners and approved by DFID on a quarterly basis.

ENABLE2 experimented with this arrangement for one year, including 108 separate work packages. However, the arrangement proved to be administratively infeasible – ENABLE2 technical staff were spending too much time on administrative issues. Further, market facilitation programs drop partners and change plans, and ENABLE2's PBR scheme proved too difficult to change to suit the programme's needs for adaptability.

After a year of trying, DFID and the ENABLE2 programme returned to the hybrid concept, developing a scheme that split costs (even those associated with staff positions) by inputs and outputs. While input-related costs were billed directly, output-related costs would be billed upon the achievement of a logframe target. "The challenge," ASI said, "is having to make sure we don't underspend at the end of the year – if we achieve all of our output targets but don't use all the money we said we'd use." If ENABLE2 manages to achieve an output by spending less than expected, it reallocates resources to other efforts within the programme.

One big lesson from the experience is that, "not everything is directly attributable to a logframe," according to an ENABLE2 staff member. Supporting activities that were previously not considered under work packages needed to be bundled under the larger outputs. Further, the exercise of being forced to think in detail about what a programme wants to do over a year "but not be completely beholden to it" has proven useful in terms of forcing the team "to think much more carefully about how [they] can achieve results."

management and reporting requirements coming from the donor. Both are obviously difficult to apply for a market systems programme trying to use funds to buy down the risk its partners perceive in experimenting with new business models. This is especially true when programmes seek out the most interested, creative, well-managed potential partners before trying to form a partnership, as is often the case. The problem is even worse when a programme wants to change the partnership and funding level, based on new information. As one implementing staff responsible for contract compliance put it, "economic development almost never fits neatly into the [donor] regulations."

The lack of ability to fit private sector partnerships into donor regulations has led to an impressive variety of solutions, most of which involve some degree of fudging. One interviewee, discussing an SDC-funded programme on which he previously served in a leadership role, said attempts to work with promising partners led to donor accusations of sole sourcing. "But then the way we got around... was have an explanation – show that the idea has come from the company. If it came from us, then we have to go out and bid." His solution was typical of many interviewees' responses. This is also an area in which there is a wide range of experience, depending on the flexibility of the donor counterpart.

One interviewee noted that, “Within DFID, different advisors have different views.” He continued, “[I’m] not sure if common guidance exists or not...The idea that you go out and work with a business after learning about their innovativeness, makes people nervous.” Mainly, he said, donors want to know if there was a transparent and competitive process. He added, “Obviously you don’t want to put everyone through that kind of process.” Other interviewees noted that, as discussed previously, when donor representatives are uncertain about the rules governing a partnership with a private company, they, “default to the most conservative set of rules, putting the implementer in the awkward situation of having to ‘school’ the donor in their own rules, or live with the stricter rules placed upon them.”

The most promising practice we identified in the course of this research, smoothing the way for productive and easily built partnership with private companies while also providing some flexibility, was the Broad Activity Announcement (BAA) strategy developed by the USAID-funded FtF Agricultural Value Chains Activity, in Bangladesh. The BAA strategy is profiled in the box overleaf (see page 25.)

Another common technique for dealing with challenges around private sector partnerships involved the use of innovation funds. These are quite common within DFID programmes, becoming more common under SDC programmes, and are slowly making their way into use on USAID projects. One of the greatest advantages offered by innovation funds lies in the fact that their use does not need to be specified in great detail at the proposal phase, though in some cases donors require much more specific information about its intended use immediately after inception periods and in annual work plans. These funds also do not save implementers from the challenges of the structure of partnerships and the conditions for transferring funds, discussed above, leading one implementer representative to comment that, “[i]t seems to be quite common that you need open challenge funds if you want to work with the private sector.” While innovation funds are often structured as a component of a project, in at least one case DFID has structured an entire project as a “Flexible Facility” ELAN DRC is an enabling environment reform project in the Democratic Republic of Congo, where the rapidly changing context made predicting appropriate intervention areas fruitless. The Facility was designed to only have one small pre-designed project that would start immediately. Additional projects were then researched during the inception phase and proposed to DFID, with those that were approved being approached as pilots that would be quickly dropped or expanded.

**AVC: The BAA melds compliance with tailored partnerships and funding mechanisms.**

The USAID-funded Bangladesh FtF Agricultural Value Chains (AVC) activity is a five-year programme, implemented by DAI, aiming to boost food security in the country's Southern Delta area. After a recent pivot to more fully embrace a market systems philosophy, AVC's management worked with contract staff at USAID to devise an easier way to identify and partner with innovative Bangladeshi firms. The result was the Broad Activity Announcement (BAA) that allows AVC to openly advertise for partnerships in a transparent and competitive manner, as well as directly approach firms. More importantly, it allows the programme and the partner to co-design the partnership, prior to finalising it, in a manner that is compliant with USAID regulations.

Based only on an initial concept note from the partner, the BAA strategy allows AVC and the partner to go through a collaborative process of designing a partnership, including defining cost-share amounts (if relevant) and other programme support, as well as benchmarks for partner performance. That process informs "a framing agreement that could be a public-private partnership, memorandum of understanding, or even a specific, hand-crafted agreement of a new type that is appropriate to the particular relationship."

The next step is for AVC to use the framing agreement to determine the right funding mechanism, which pushes the partnership through the programme's grants and procurement department. "When using the BAA," according to programme documents, "the procurement instrument or relationship type does not have to be determined until the development problem and solution set are fully understood. It allows AVC to leverage the procurement process to support the development solution, rather than to jam the development solution into a particular procurement process."

According to AVC's chief of party, "we only ask for a one pager and from that we can work with the business to craft the agreement around their business interests." This process not only develops a well-designed partnership with clear expectations on all sides, but also serves as "a really useful trust-building and strategic planning process to make sure we are focusing on the business's objectives."

## 4. Conclusions

**Adaptability is personal** – This is not a problem that we can address with a framework or set of tools – rather, it reflects the importance of leadership and culture. The difference in views on a huge number of issues within the same organisation is itself a finding, supporting the notion that one cannot completely depersonalise adaptive programming. Answers to difficult questions about contract flexibility, appropriate budgeting, partnering with private sector entities, and other key features of adaptive management in market systems programmes depend on who is being asked. Yet, programme donors can hire or nurture leadership that excels at creating collaborative environments across functions. With this type of leadership in place, creative solutions may be found to those difficult questions.

**The churn of staff through key positions**, especially on the donor side, plays an outsized role in allowing for or inhibiting the space for adaptive programming. We need to pay more attention to maintaining adaptive cultures through the churn of individuals, especially those in leadership positions.

However, despite the challenges/impact of individual personality and culture, **there are individuals and actions that can support adaptive programming**. While it cannot be guaranteed, it can be encouraged. Some institutional roles that support adaptive programming include:

1. Regional advisors (both technical and programme management)
2. Periodic reviewers (like MDF's IAG – neither evaluators nor team members)
3. Internal communities of practice, such as the SDC's Employment and Income Network, providing mutual support and exchanging information

There are **varying degrees of acceptability to different types of learning**. Learning due to changing market conditions is more acceptable than learning because a programme's original insights prove to be incorrect, especially if there was an inception period. Donor staff admit that the best learning comes from errors, while in the next breath equating misunderstanding markets with implementers, "not getting their jobs right."

**Responsibility vs. Accountability** – The focus on accountability (and using quantitative data to determine if a project has been accountable) narrows staff concerns to a manageable set of interests, whereas adaptive programming requires that staff take responsibility for a much broader range of issues, including the performance of colleagues around them.

**Some donors are successfully navigating their own rule structures** to allow for adaptive management, in select cases. SDC's guidance on using their rules and tools in a way that is conducive to market systems programming is a good example. This is not to say that their tools are perfect (they are not), but the effort to give specific guidance on how to use the tools in a way that is helpful for market systems programs has proven to be quite fruitful.

There is a large and rising recognition of the importance of adaptive management, and most of the impediments to adaptability raised by interviewees are addressable if the interest continues. However, **interest in adaptive management is largely in small, disconnected pockets of staff** working within their respective organisations to influence change. Much more can be done to link adaptively inclined staff across donor and implementer organisations.

More than others, **donor staff keen to adopt adaptive practices are isolated from one another**. At the same time, they are also very eager to learn about the practices of their peers in other donor organisations.

Results measurement systems and inflexible budgets (by design or interpretation) have the greatest potential to halt progress or steer a team off-course. Although programme staff on both the donor and implementer side have incredible creativity, these two functions – as they currently exist, and with the pressures outlined above – pull resources away and often create negative incentives to managing adaptively. Both political and practical leadership play an important role in how results are viewed, and “good” results are not always focused on the right information. Results (good, bad, or unclear) obviously then drive budgets, as “good” projects tend to get more funding, and bad/unclear projects are chastised. But the heavy focus on quantitative data (which may or may not be the right measure of good programming), as well as the pressure to spend funds within the required period, frequently mask the signs of real progress. Additionally, when better activities cannot be implemented because “there is no line for that in the budget” the good intentions of finance staff (who are focused on accountability) undermine the programme overall.

### 3. Recommendations

- 1. We need to move the definition of “adaptive management” to be more in line with the NRM use** – that is to say, “adaptive management” should involve purposeful experimentation, and pivots in strategy and tactics based on the results of detailed, planned experiments. Simply managing based on new information, in general, should just be considered managing adaptively (or not being a robot).
- 2. Rethink the logframe and how it is used.** While it currently fulfills two needs – providing an illustration of programme thinking regarding theories of change, and providing a mechanism for accountability – these should be separated. Logframes can be partially or completely replaced with new tools developed to address each need, and provide greater flexibility. These tools should also be designed to better articulate how multiple outputs or outcomes feed into higher level results, across technical areas and activities, moving away from linear thinking and number-based results management. Testing logframe-type tools that break projects into components where ownership can be easily passed on has been suggested to mitigate staff churn, as well as using logframes to capture a “shared understanding” instead of being the result of an “expert input” as a way of supporting a shared culture. Those developing the tools should consider how they will be integrated into contractual and reporting mechanisms that drive budgeting, and seek to create tools where progress, not ‘burn rates’ or indicators, can drive program adaptation.
- 3. Satisfying the need to find a new way to express theories of change,** donors and implementers should explore the use of hypothesis-based proposal designs and implementation plans, including the potential for multiple experiments running concurrently to address the same problems. Instead of assuming a superhuman understanding of complex market dynamics at the outset, programmes could lay out a series of falsifiable hypotheses, with timelines and plans for testing them. These tests would then roll into a further stage of tests, and so on, as programs explicitly and openly iterate. This would bring adaptive management out of the dark, so to speak, and make it an open and purposeful practice. The caveat to this is that for some systems change work, large investments must be made up front, and then the project steps back while the market responds to the new reality. This approach might also encourage more moments for reflection to be built in to the design of a project, reducing the time burden of adaptation and assisting staff to move from “Accountability to Responsibility”.
- 4. Donors and implementers should develop guides for navigating existing rules and tools** in a manner in keeping with market systems programming, using the SDC’s “Managing MSD/M4P Projects” as a guide . Within these guides, include suggestions for tactics that will encourage engagement between operations and programme teams so that both will ‘have a stake’ in making the changes required for adaptive programming. These guides might include examples of logframes or case studies to help managers understand how to shield their staff from negative incentives, and measure their staff performance against a richer set of criteria than whether the project failed or succeeded quantitatively.
- 5. Donor and implementer organisations interested in adopting adaptive management approaches should seek multiple ways to incorporate back office staff at all stages** of the project cycle (i.e. budget staff on field visits, procurement staff at program update meetings, job swaps, etc). This will increase the opportunity for creating reciprocity between teams and help operational staff to understand how innovations and new interpretations of rules will benefit the organisation overall, without necessarily increasing risk. Because this may initially be seen as “another meeting”, the burden is likely to be on programme staff to champion the inclusion of back office staff, and it is possible they will not initially see the benefit of having increased transparency with these other teams. The payoff will come when there is increased understanding on the

side of operations staff of why flexibility is desirable, and increased understanding of what the rules are (and why) on program staff so they can meet accountability needs more easily.

6. **Wherever possible, focus on indicators that are at higher levels of market or systems change**, not output level, so that different activities can be used to reach the same end result, and recognise that this cannot always be reported quarterly. Hand in hand with this, incorporate more qualitative measures of progress and ensure that monitoring and evaluation functions are done by program staff wherever possible to ensure that they are following the “line of sight” from their activities to the end desired result.
7. **Donors and implementers should re-think how annual reports are used**, to ensure that they drive future learning, instead of being seen as a static look backward and to a large extent left on the shelf.
8. **Donors should consider where it is in their interest to reduce field staff responsibilities**, allowing them to substantively engage with strategic/technical programme support, versus those projects where they will allow ‘benign neglect’. Both were articulated by respondents as ways to increase adaptive programming. While it may not seem realistic to reduce field staff responsibilities, it should be recognised that the current average work load prohibits the engagement required for smart management.
9. **Donors to provide budget guidance so that implementer finance teams can be comfortable with a level of ambiguity in the budget** that can then be used flexibly across multiple activities. Budget flexibility should be increased, generally. This could be led by donor staff which are responsible for budget design and oversight at the program level or by compliance offices. The key is for implementer finance teams to move from “we have always done it this way” to a new understanding of the flexibility that donors are willing to allow. These must be given as clear signals, otherwise risk-averse compliance and finance staff will continue to protect their organisation by taking the most conservative interpretations of donor rules.
10. **Consider project designs where team leader/CoP is hired for management skills first and technical skills second**. This may require more technical staff/TAs, often in short term roles, to make activities more flexible, but will likely result in less staff change-over as the programme evolves. Donors and implementers should also diversify their expectations of who can take on the role of Team Leader/CoP. Many respondents (from both sides) indicated that ‘new blood’ was needed and hiring managers should look for an ability to manage complex situations, examples of team integration, and creativity in problem-solving, rather than relying heavily on past experience in senior roles.

## Next Immediate Actions

1. Develop new foundational tools to replace and/or enhance the logframe, recognising the dual roles that are required for foundational tools: 1) elaborating theories of change and 2) providing accountability.
2. Create opportunities for knowledge sharing around good practice, including:
  - (i) Providing leadership-focused training and/or communications on how market systems programs are designed, creating greater buy-in and understanding among top decision-makers.
  - (II) Plan events at which donors and/or operations (finance, contracts, procurement) staff have the chance to speak freely on what is working in adaptive programming. These events should be short and focused, and involve support staff as well as technical staff.
  - (III) Develop and publish detailed case studies of successful adaptive management by both donors and implementers, serving as illustrations that staff can use to argue for greater adaptability in their own circumstances.
  - (IV) Support the production of guides to using existing rules and tools in ways that are conducive to market systems programmes, using the SDC guide as a model.
3. Support organisations to improve staff-focused communications, particularly with operations staff, about market system programs and to more deeply incorporate these staff into the project activities.

## Annex 1: Literature Review and Sources

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