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Limiting factors for applying the M4P approach

including its application in fragile contexts

Synthesis of the SDC E+I Network e-discussion 20 June to 8 July 2011

Introduction

In the last discussion round the use of facilitation in M4P programmes was discussed. In the Operational Guide for the M4P Approach[1], a facilitator is defined as "an action or agent that is external to a market system but seeks to bring about change within a market system in order to achieve the public benefit objective of systemic change. A facilitator is a 'catalyst' that stimulates the market but does not become part of it. A facilitator should have a clear, realistic view of the future functioning of a market system."

In the recent working paper on facilitation in M4P projects[2] it was pointed out that "in M4P, facilitation takes a different meaning not only according to the context, but also depending on the phase of the programme and the type of interventions planned". In fact, experiences in different M4P projects that are supported by SDC and that are partly already entering their second phase show that 'light touch' means very different things in different contexts. The question remains how far we can intensify the touch of the projects and still claim that we are doing facilitation. Where are the limits of facilitation? Do we need in specific difficult contexts interventions that go beyond facilitation in order to achieve something at all? What are the factors that determine when we have to leave 'pure' facilitation? Or in other words: What are the limiting factors of facilitation? What do we understand by 'limiting factors'?

The discussion took on these questions and tried to answer them by collecting cases from field practitioners on challenges they have faced when applying the M4P approach. Together with these challenges, the practitioners presented a number of proven solutions. Based on this, some conclusions were drawn regarding the use of the M4P approach and the design of interventions.

Limiting factors and proposed solutions

In general, a fairly small number of issues were most commonly named as limiting when applying an M4P approach. The following table gives a general description of a mentioned limiting factor followed by one or more examples of project strategies to face these challenges that was named during the discussion.

Missing private service providers

One of the principles of the M4P approach is that the facilitator must not take up a market function but that the project should strengthen the service markets in order to improve the transactions of the poor. What, however, if no private service market exists at all or the existing market is very weak? This can be caused for example by a low density of clients (in our case often poor farmers) leading to high transaction costs for the service providers. It could, however, also be caused by a service market that is not responding to the needs of the clients, e.g., a micro finance market whose products are not responding to the needs of the poor and, hence, the poor cannot use them.

Innovative solutions for financial services in Tanzania and Nepal

The Rural Livelihoods Development Project (RLDP) in Tanzania was faced with the challenge of sunflower oil processors not having access to capital in order to buy the increased amount of sunflower that was

[1] Department for International Development DFID and Swiss Agency for Development and Cooperation SDC (2008). *The Operational Guide for the Making Markets Work for the Poor (M4P) Approach*.
[2] Swiss Agency for Development and Cooperation (SDC), Employment and Income Network (2011). *Working Paper on 'facilitating change in M4P programmes'*.

produced due to project interventions. All of the sunflower oil processors RLDC works with are small and lack assets that would qualify as bank loan collateral, so financial institutions with their traditional loan models were not ready to give them the necessary credit. Through the facilitation of RLDC, a new loan model was developed that was based on stocks of sunflower seed as a collateral. Stocks bought by the processors had to be received in a specific warehouse before the loan instalments were released. Similarly, stocks for processing were only released once the instalment from the last produced oil was paid to the bank. (Example by Derek George et al., RLDP Tanzania)

In Nepal, a similar business model was developed to allow banks to give loans for the production of essential oils. A bank was financing the investment of distillation plants because the traders where not ready to take the risk of investment during the time of conflict. In contrast to the case of Tanzania, where RLDC only facilitated the establishment of the scheme and financed the stock managers for one year, in Nepal the project funded 50% of the bank loan in the first year. At the same time, it helped develop sound business plans for the essential oil processors in order to increase the likelihood of success and, hence, repayment of the loan. (Example by Rajiv Pradhan, international Development Enterprises, Bangladesh)

Unfavourable overall business environment

A lack of standards for product quality that can be trusted by the consumers or that is needed in order to access export markets is one example of an unfavourable business enabling environment. Many other aspects of the regulatory framework can hamper the development or growth of a sound private sector.

Advocacy on policy level to establish a product standard in a participatory way

In order to get new product standards to be established, the project initiated a dialogue on the macro level to highlight the importance and possible investment effects the issue would have if addressed. The project advocated for the establishment of a technical committee that involved relevant stakeholders including ministry of national economy, ministry of agriculture, and agricultural research institutes. Besides the need to establish the standards the project was also working to bringing together all these stakeholders on one table. Over the course of four months, it conducted weekly technical meetings to draft the standards. By the project finish, the first 25 fresh produce standards were drafted and approved by the Palestinian standards institute. The project provided administrative and technical advisory support to the committee. The market research activities were put to practice in adapting the standards based on informed local market preference of the produce. Now, the FAO has agreed to translate the remaining standards and the committee is still in place to draft and adopt them. (Example by Nahed Freji, Advance, occupied Palestinian territories)

Lack of organisation at the producer level

Individual producers producing only small amounts of produce are often not attractive for larger private sector actors and again lead to high transaction costs within the product value chain. This can have consequences on two levels. On the one hand, service providers have no interest to visit many individual producers (this is very much in line with the first limiting factor) or, on the other hand, also the value chain actors, i.e., buyers, might not have the necessary incentive to buy products from a high number of small producer. What often happens in this kind of environment is that a small number of middlemen abuse the situation of the farmers and monopolise the buying from the farmers, paying low prices for the produce at farm level while selling at processor or wholesaler level for high margins.

Organisation of farmers in Bangladesh and Tanzania

The Samriddhi project is working with poor duck farmers in northern Bangladesh. They are facing the challenge that the duck farmers live in remote areas and are scattered so that the needed service providers would not go to those farmers due to the high transaction costs to reach them. The project supported whole villages to start duck farming giving the service providers an incentive to reach the villages and provide the services (e.g. vaccination) for multiple duck farmers with several hundred ducks. (Example by Isabelle Frangnière, Samriddhi, Bangladesh)

Also in Tanzania, where the low density of population leads to very high transaction costs for businesses, the project worked together with the private sector to build groups of livestock keepers and cotton producers, starting with smaller pilot activities that were run successfully. However, the companies expected the upscaling to take place very quickly. There has been a learning process both from RLDP and the companies' side that collaboration with producers' organisations need time for strengthening and building trust.

Interestingly, the model of implementing contract farming with farmers' groups that was pioneered by RLDP is now becoming a main element of the national policy for developing the cotton sub-sector. (Example by Maja Rüegg, RLDP, Tanzania)

Non economic aspects for addressing systemic constraints

Besides the economic aspects of commercial incentives and profit, other, non-economic aspects influence the behaviour of market actors and are necessary to be tackled in order to achieve systemic and, hence, sustainable solutions. These contain for example social capital (trust, reciprocity, cooperation), aspects of gender equality, or the protection of the assets of the poor from natural disasters.

Gender equality, social capital and disaster risk reduction in Bangladesh

The Samriddhi project in Bangladesh has been confronted with a number of non economic aspects that have been challenging its strive for economic development of poor communities.

In the experience of the project, the reduction of gender inequalities is an area where the private companies neither have any capacities nor they are willing to make any investment. Therefore, the project directly intervened and run capacity development programmes on community level to raise the awareness and help the community to develop concrete actions to reduce gender inequalities.

Another area of direct intervention by the project was the building of voice of the poor communities to lobby on policy level for their interests. Voice is seen as an important factor of their social capital besides trust, reciprocity and cooperation. Without a role in getting producers organised to lobby and mange their priorities and demands (in Samriddhi's case through the establishment of Community Platforms), so as to make the poor (may be the extreme poor) viable market players, it may be difficult to break the cycle of poverty trap, or bring about large-scale changes to poverty alleviation.

Disaster Risk Reduction (DRR) is also another area where the private companies don't have any capacity and/or any incentives to invest any money for this purpose. Considering its importance, the project directly intervened to address this issue at the community level and trained community members in using different tools to better prepare themselves for disasters. A "light touch" approach in this regard may restrict the project's goal of increasing resilience of the community people against natural disasters.

(Example by Adwyait Kumar Roy and Zenebe Bashaw Uraguchi, Samriddhi, Bangladesh)

Reflections

Based on the contribution by the different participants and the subsequent discussion, the discussion facilitators made the following reflections:

- The challenges that are brought forward the most often and even more the solutions presented by the practitioners are clearly showing that the limitations do not lie with the M4P approach, but with the different characteristics of interventions, ranging from a 'light touch' facilitation to do it yourself solutions. The consensus of the participants was that the interventions need to be adapted to the context, but also that taking up market functions (do-it-yourself interventions) should be avoided or at least complemented by a clear and sound exit strategy.
- The M4P approach is indeed addressing the different areas of limiting factors or challenges that were named by its underlying logic, i.e. the missing service providers by a focus on supporting functions, the lack of an enabling environment by a focus on the rules and regulations. The organisation of the producer groups can be seen as an aspect of the core transaction or value chain.
- It is only the non-economic aspects that are not explicitly included in the M4P approach. It is an on going discussion on practitioners' level on how to include these aspects – they are often referred to as transversal themes. It has been voiced as an intention at the E+I face-to-face event in May 2011 that transversal themes will become an important element of the work of the E+I network in 2012.

Entry points for facilitation can be found in the system

Rana Sandouka of the SDC office in the occupied Palestinian territories closed the discussion with a very timely input that urges practitioners not to focus on limitations of the approach but to be creative and build the solutions on the context of the market system the project is working in. She specifically enforces that the starting point for every intervention design is to accept that market systems (in fragile and in stable contexts) all have limiting factors. Regardless of limitations, the project staff can get creative enough and work with what exists on the ground. In order to do so, it is necessary to understand functional realities and build upon them and use them as entry points for facilitation work.[3]

Conclusions

The following conclusions can be drawn from the discussion and the reflections:

- The M4P approach directs the attention of the practitioners to the areas where most limitations in market systems were found in the field practice, i.e., the supporting functions, the rules and regulations, and the core transactions.
- The interventions of the need to be adapted to the context and timeframe of the project. Entry points for the facilitation work need to be defined through a good knowledge of the system and its limitations.
- The reported limitations were challenges faced by projects to make the system work rather than limitations to the M4P approach, which in its essence remains valid.
- The question on how to integrate transversal themes such as gender equality, disaster risk reduction and other non-economic aspects, such as governance, need further discussion.

Outlook

After this round, which renewed the discussion on intervention design and facilitation, the focus will shift towards assessing results. <u>The third e-discussion cycle in 2011 will be around the topic of results measurement in market development projects.</u> The online discussion, starting on August 22nd, will be complemented by a webinar with result measurement experts on 8th September who will answer open questions that came up during the discussion and that can be brought up during the webinar.

Contributors to this e-discussion

The facilitation team thanks all contributors of this e-discussion for their valuable comments (in order of appearance):

Maja Rüegg, RLDP, Tanzania	James Keddie, Consultant	Hans Posthumus, Consultant
Nahed Freji, Advance, Palestine	Isabelle Fragnière, Samriddhi, Bangladesh	Rajiv Pradhan, iDE, Bangladesh
Adwyait Kumar Roy, Samriddhi, Bangladesh	Zenebe Bashaw Uraguchi, Samriddhi, Bangladesh	Zayasaikhan Dugeree, SDC Cooperation Office, Mongolia
Rana Sandouka, SDC Cooperation Office, Palestine	Braison Salisali, Ibrahim Kisungwe, and Derek George, RLDP, Tanzania	

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[3] The video can still be seen on the SDC E+I Network shareweb: http://www.sdc-employment-income.ch/en/Home/Discussions/Videos/Be_creative_and_find_your_own_entry_point