

# A SYNTHESIS OF THE MAKING MARKETS WORK FOR THE POOR (M4P) APPROACH



# TABLE OF CONTENTS

FOREWORD	
GLOSSARY	
OVERVIEW	1
The context	1
The approach	2
The paper and how to read it	3
1. MARKET SYSTEMS MATTER FOR THE POOR	5
1.1 Introduction	7
1.2 Understanding the poor in market systems	7
1.3 Emerging conceptual thinking on market systems	12
2. WHY M4P?	15
2.1 Introduction	17
2.2 The wider development experience	17
2.3 M4P in practice	19
2.4 Caution and caveats	23
3. WHAT IS M4P?	25
3.1 Introduction	27
3.2 M4P as an approach	27
3.3 A focus on market systems	27
3.4 Leveraging scale and impact	29
3.5 Giving meaning and priority to sustainability	30
3.6 Addressing causes not symptoms	31
3.7 A facilitation role	32
3.8 An overarching approach	33
4. HOW TO IMPLEMENT M4P?	35
4.1 Introduction	37
4.2 Setting the strategic framework	38
4.3 Understanding market systems	40
4.4 Defining sustainable outcomes	41
4.5 Facilitating systemic change	44
4.6 Key attributes of facilitators	46
REFERENCES	48



## FOREWORD

An estimated 2.6 billion people live on less than \$2 a day. Over a billion lack clean water; 1.6 billion lack electricity and 3 billion lack access to telecommunications. This represents huge unmet needs. As many of the world's poor live in areas with limited state service provision they must rely on private markets for their livelihoods. As consumers, poor men and women rely on markets to meet their needs for food and essential services. As employees or producers, they sell their labour or products in these markets. But these markets are often difficult or costly to access for poor people. These markets may be informal, uncompetitive and may not meet the needs of the poor effectively.

More widely, the world's poor are not well integrated into the global economy and do not get access to its benefits. In *Development as Freedom*, Amartya Sen describes participation in economic interchange as a basic part of social living and argues that economic freedoms are closely tied to political and social freedoms. The poor often lack these freedoms.

Making Markets Work for the Poor (M4P) is an approach to poverty reduction that donors such as the Department for International Development (DFID) and the Swiss Agency for Development and Cooperation (SDC) have been supporting over the past few years. The central idea is that the poor are dependent on market systems for their livelihoods. Therefore changing those market systems to work more effectively and sustainably for the poor will improve their livelihoods and consequently reduce poverty. More accessible and competitive markets enable poor people to find their own way out of poverty by providing more real choices and opportunities. Markets that function well have wider economic benefits too.

They stimulate investment and encourage firms to innovate, reduce costs and provide better quality jobs, goods and services to more people. The involvement of poor people in economic growth is the best way to get people out of poverty and represents the exit strategy for aid.

The last few years have seen an upsurge of interest in market development approaches amongst aid agencies. Alongside M4P there is UNDP's *Growing Inclusive Markets*, the IADB's

*Opportunities for the Majority* and the IFC's *Next Four Billion*. Amongst businesses, there is growing interest in social investment, sustainable business practices, fair trade and engaging with the *Base of the (Economic) Pyramid*. Although terminology and emphasis may differ, all of these approaches see a market-based economic engagement with the poor as essential for sustainable development.

In order to improve the understanding and uptake of market development approaches and to consolidate existing experience, DFID and SDC have commissioned a series of three documents on M4P. Aimed at agency and government officials, consultants, researchers and practitioners, these together provide a comprehensive overview of the approach in theory and practice.

The *M4P Synthesis* paper (this document) explains the essence of the M4P approach – its rationale, including evidence of impact, and key features in implementation. *M4P Perspectives* introduces the conceptual underpinnings of M4P and explores its application in different fields including finance, agriculture, water, labour and climate change. These first two documents have been sponsored by SDC. The *M4P Operational Guide* (sponsored by DFID) provides a substantial operational resource on how to implement M4P, including an overview of good practices, common management challenges and the main lessons from experience.

Development of these documents was led by a team from The Springfield Centre. They were assisted by advice and comments from Marshall Bear, Gerry Bloom, Richard Boulter, Don Brown, Jean-Christophe Favre, Tracy Gerstle, Alison Griffith, Justin Highstead, Joanna Ledgerwood, Marc Lundy, Luis Osorio, Alexandra Miehlebradt, Mark Napier, Kate Philip, David Porteous, Peter Roggekamp, Prashant Rana, Hugh Scott, Dominic Smith and Jim Tomecko.

All of these documents are also available in electronic form at [www.M4Pnetwork.org](http://www.M4Pnetwork.org). We hope you find them helpful in meeting the challenge of developing market systems that benefit poor people.

---

Peter Tschumi  
Head of Employment and Income Division  
SDC, Berne

Harry Hagan  
Senior Economic Adviser and Head of Growth Team  
Growth & Investment Group, Policy & Research Division  
DFID, London



## GLOSSARY

**Agencies:** development organisations – funded by aid or other non-commercial sources – who act as funders or facilitators in pursuit of developing market systems.

**Approach:** a set of principles, frameworks and good practice points to guide both analysis of a market system and actions to bring about change.

**Asymmetric information:** when one party in a market trans-action – supplier or consumer – knows more than the other.

**Basic services:** a range of services important in building people's capacities, where consumption serves not just individuals but impacts on the wider economy and society. This includes education, health, water and sanitation.

**BDS:** business development services.

**BMO:** business membership organisation or business association (see Representative organisation).

**Core function:** the central set of exchanges between providers (supply-side) and consumers (demand-side) of goods and services at the heart of a market system. The medium of exchange can be financial or non-financial (such as through accountability mechanisms).

**Crowding-in:** the central process in – and purpose of – facilitation through which interventions catalyse or bring other players and functions into the market system so that it works better for the poor. Crowding-in can result in enhanced breadth (more transactions in the core of a market), depth (supporting functions) or reach (new areas or markets).

**Externalities:** negative or positive spill-over effects that are not reflected in a market price.

**Facilitation / facilitator:** 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.

**Gift exchange:** exchange based around shared values and reciprocity that is non-financial but still conducted on an informal transactional basis.

**Hierarchical exchange:** exchange where one party, for example a large firm, has relatively more power in setting the terms of exchange with vertically-integrated suppliers.

**Institutions:** structures and mechanisms of social, political and economic order and cooperation – formal and informal – in a society/economy which shape the incentives and behaviour of market players. Institutions therefore refer both to the supporting functions and rules – sometimes referred to collectively as 'rules of the game' – in a market system.

**Intervention:** a defined package of temporary activities or actions through which facilitators seek to affect change in a market system.

**Lead firms:** businesses capable of exerting a leading influence on other firms and other players because of, for example, their size or their reputation for innovation.

**M4P:** the making markets work for the poor or market development approach.

**Market:** a set of arrangements by which buyers and sellers are in contact to exchange goods or services; the interaction of demand and supply.

**Market player:** organisations or individuals who are active in a market system not only as suppliers or consumers but as regulators, developers of standards and providers of services, information, etc. This therefore may include organisations in the private and public sectors as well as non-profit organisations, representative organisations, academic bodies and civil society groups.

**Market system:** the multi-player, multi-function arrangement comprising three main sets of functions (core, rules and supporting) undertaken by different players (private sector, government, representative organisations, civil society etc) through which exchange takes place, develops, adapts and grows. A construct through which both conventionally-defined markets and basic services can be viewed.

**Organisations:** entities with a formal structure that play a range of roles in the market system.

## GLOSSARY

**Public goods:** goods or services which are non-rival and non-excludable and therefore cannot be offered by private firms.

**Representative organisation:** an organisation which acts to advance the interests of a specific group, such as a trade union or a consumer rights body. Also referred to as a membership organisation (see also BMO).

**Rules:** formal (laws, regulations and standards) and informal (values, relationships and social norms) controls that provide a key input in defining incentives and behaviour in market systems.

**Supporting functions:** a range of functions supporting the core exchange helping the market to develop, learn, adapt and grow including, for example, product development, skills enhancement, R & D, coordination and advocacy.

**Sustainability (M4P definition):** the market capability to ensure that relevant, differentiated goods and services continue to be offered to and consumed by the poor beyond the period of an intervention.

**Strategic framework:** a hierarchy of objectives linking an M4P programme's final goal of poverty reduction with an intervention focus on sustainable market system change.

**Systemic change:** change in the underlying causes of market system performance – typically in the rules and supporting functions – that can bring about more effective, sustainable and inclusive functioning of the market system.

**Tools/instruments:** relatively standardised methodologies for market analysis (eg value chain analysis or usage, attitude and image surveys) or for intervention (e.g. vouchers or challenge funds).

**Transaction costs:** the costs associated with the basic process of exchange including costs concerned with searching, screening, negotiating, contracting, monitoring and enforcing transactions; the "*cost of running the economic system*" (Arrow, 1969).



## OVERVIEW

Nothing much seems to be going right for Jyoti. She wants her four kids to have the education she didn't but the teacher at the village school, even when he does turn up, seems only half-interested. Jyoti doesn't know what to do about it. She does know what she'd like to do with her youngest. He's sick and she'd like to take him to the private doctor in the nearby town, but she can't afford the fees. So she can only try her luck at the government clinic.

Money is tight. She and her husband work hard on their small patch of land – and on any they can lease – but the returns are small. They never seem to get better prices at the local market, while other farmers seem to squeeze more production from their lands. They have always gone to a relative for their inputs – seeds, fertiliser, pesticide – and his advice has always been to use more.

Jyoti thinks that they're coping just now but, when she allows her mind to think ahead, she can't really envisage how things might get better.

Rahim is in two minds over globalisation. On the one hand, he knows that the fast-growing food processing factory where he is employed depends on exports. His job and wages – and the amount he can send to his extended family back in his village (many of whom have no job) – are all derived from overseas markets. His concerns have the same source.

Stories circulate in the company about stiff competition from other countries. Foreign buyers, previously the bringers of orders and prosperity, are, according to his manager, now becoming more demanding. They don't just want the same 'old stuff'; they want 'higher quality', 'safer', 'compliant' with higher standards, 'pre-packaged', 'quicker' and 'more reliable'. They want 'better'... and would prefer to pay nothing more for it.

How is the company going to achieve this? It needs to change, but how? Who can advise it? Rahim worries and ponders whether he should reduce his weekly payment to the family. Just in case.

Sam's a natural optimist but even he has to recognise that his vision of turning his small machine shop into a sub-contractor to large companies is a pipedream. He can't meet their quality or delivery standards and he's never really had a chance to meet those people anyway.

In the meantime, he has more pressing problems. One customer has decided not to pay the full amount for his order. Although Sam has pleaded, he knows that the courts are too expensive and complex for him – his customer also knows this. He's asked his business association for advice but they seem equally powerless. Sam feels that a better deal from the bank would help his immediate cash flow problems and provide capital for investment in new equipment. But Sam's bank seems unmoved by his requests. Legally, they can't accept his ageing plant as collateral and when he produced the title deeds to his village land, they disputed their authenticity. The optimism of 'Enterprise Sam' is being tested.

### The context

This paper is about how to improve the lives, fundamentally, of Jyoti, Rahim and Sam and the billions of other poor and excluded like them, by making market systems work more effectively.

'Poor people', of course, are very diverse. They come from different locations, urban and rural; they have different cultures and values; they have different livelihoods and expectations. Different, yes, but in many ways also alike. They share a sense that their lives could be better and, like Jyoti, Rahim and Sam, face a common reality; for their lives to improve, their immediate environment needs to change. In particular the markets and services around them, the 'market systems' which are often failing, and are an underlying cause of their problems, need to work better for people like them.

For Jyoti, living in a rural area, the key to higher incomes is better markets for agriculture inputs and outputs. Without the right information to hand, she doesn't have the right answers to basic questions – what to use, how to grow, what to grow, when to sell, who to sell to. Higher incomes would clearly help her but only to some extent. The services available to her family – especially

education and health, supposedly provided by the government – are barely functional. But her limited access to effective channels of representation makes it hard to push for change. And without improvement here, her children's vulnerability remains high, their opportunity low.

Rahim's situation is different. He and his family have benefited from the success of the company he works for in newly-open export markets, and the growth it has generated. But his employment is now tied to the company's performance; and it needs to change. Low-cost production of commodities is no longer enough; it needs to move up the chain of value-added and to do so needs to use a range of business services in logistics, production and quality control. But if the markets for these services are not working well, if supply is limited or Rahim's managers don't see the need to invest in them, the company's competitiveness will be threatened and jobs may go – including Rahim's.

As a struggling small enterprise-owner, Sam is subject to a broad range of the economy's problems. Inappropriate regulations mean that he can't use his ownership of property and land to access finance – land markets are not working. He can't pursue a major debtor because commercial justice services are not

## OVERVIEW

working. And he can't bridge the gap dividing his small business from other larger businesses because the formal and informal means of business exchange – networks, standards, information – have passed him by.

Addressing the underlying reasons why market systems – such as those around Jyoti, Rahim and Sam – are not working well is at the heart of the market development or making markets work for the poor approach (M4P).

### The approach

---

M4P is an overarching approach to development that provides agencies and governments with the direction required to achieve large-scale, sustainable change in different contexts. Focused on the underlying constraints that prevent the effective development of market systems around poor people.

M4P contains:

- A strategic rationale.
- A framework for understanding market systems.
- Guidance for intervention.

M4P is neither a narrow prescription nor a branded tool but a flexible, comprehensive approach with application in both economic (eg agriculture, finance, investment climate and livelihoods) and social (eg water, health and education) fields. Building on a wide range of experience and learning, it recognises both the achievements and limitations of many conventional approaches and the growing number of diverse, successful applications of M4P.

For people like Jyoti, Rahim and Sam, M4P in practice might mean a range of interventions. It might mean strengthening the capacity and incentives of suppliers and retailers to provide farmers, like Jyoti, with relevant information so they too can be valued participants in the agricultural system. And it might mean developing health and education provision that is more responsive to the demands of rural households. For Rahim, M4P might mean actions that tackle the core reasons for the low level of business services. While for Sam, facing multiple challenges, actions might concentrate on flaws in regulation and enforcement that undermine the land and finance markets and the commercial justice system. Or on the 'softer' constraints related to business networks and lack of representation for the thousands of emerging but disconnected entrepreneurs like Sam. In each case, M4P offers potentially practical and lasting solutions.

M4P is now being successfully used to reach and change the lives of millions of people. Its potential to reach many more – more Jyotis, Rahims and Sams – and to bring about sustained, systemic change for more competitive and inclusive economies is the impetus for this paper.

# OVERVIEW

## The paper and how to read it

This paper seeks to explain the essence of M4P – its rationale, its key principles and features and the main implementation tasks. It is aimed at a broad audience for whom M4P is relevant – policy makers, agency officials, consultants, NGOs, researchers and government staff – and provides a brief synthesis of the main evidence and arguments for the approach. Its purpose is to:

- Summarise key trends and issues in M4P.
- Contribute to new thinking and more effective practice.
- Provide an introduction to a series of connected documents on M4P.

It is structured in four sections. It can be read as one document or readers can go directly to the section which is most relevant for their needs. Each section can therefore be seen as an integral part of the paper as a whole or read as a self-contained document.

Section	Go here for:
<p><b>1. Market systems matter for the poor</b> The two principal background factors that have influenced development agencies and governments to pursue M4P. First, the observed reality of the poor in market systems, and second, new conceptual thinking on how market systems function.</p>	<p>An overview of the 'roots' – real world and conceptual – of M4P.</p>
<p><b>2. Why M4P?</b> How the specific arguments for the approach emerged from development experience. It focuses first on similar learning from different fields and second on examples of M4P success. Together these make the case for M4P.</p>	<p>The immediate factors driving agencies and governments to consider M4P – an organisational perspective.</p>
<p><b>3. What is M4P?</b> The key features of M4P, highlighting what is distinctive about the approach. These include its focus on market systems, the priority it gives to sustainability and large-scale impact, the facilitation role required in intervention and M4P's overarching nature as an approach within which many tools can be used.</p>	<p>A concise explanation of M4P and its key characteristics.</p>
<p><b>4. How to implement M4P?</b> The main components in the M4P intervention process. An outline of key considerations in setting the strategic framework, understanding market systems, defining sustainable outcomes and acting to achieve systemic change.</p>	<p>A summary of how to put M4P into practice.</p>

This *Synthesis* paper is the first in a series of three documents that examine and explain M4P. The *M4P Perspectives* contain a set of specific analyses of key issues in particular market systems (such as finance, agriculture, and water) and of the conceptual underpinnings of the approach. In addition, the *M4P Operational Guide* builds on the outline given in Section 4 and presents the main lessons learned in implementing M4P in order to provide an operational resource for users.



# I. MARKET SYSTEMS MATTER FOR THE POOR

## SUMMARY

The underlying rationale for the M4P approach stems from a new appreciation of the importance and role of market systems in reducing poverty.

Economic growth (the most important contributor to poverty reduction) and expanded access are critical factors in developing competitive and inclusive economies. These, in turn, require:

- Markets for goods, services and commodities that operate effectively for everyone but especially the poor as consumers, producers or employees.
- Basic services – for example such as education, health and water – that can build people’s capacities to escape poverty.

Markets and basic services are traditionally regarded as very different. The first is seen as being commercial and the domain of private providers and the second primarily the domain of government. However, recent trends and major changes in economic thinking have allowed a more nuanced and realistic view to emerge which recognises that they have common characteristics.

Both are multi-functional; they require a mixture of different functions to be undertaken such as regulation, information and delivery. Both are multi-player; they require a range of public and private players. In both, appropriate incentives and capacities are central to success.

The term market system describes these shared features of markets and basic services and provides a common lens through which both can be viewed.

Changing the lives of the poor – stimulating growth and expanding access – means changing the market systems around them. M4P recognises this reality and provides a coherent and unified approach first to understanding and second acting to improve market systems.



# I. MARKET SYSTEMS MATTER FOR THE POOR

## 1.1 Introduction

Two sets of key factors provide the underlying rationale for the M4P approach. First is the observed reality of the poor in market systems and the need therefore to understand and influence those systems. Second, in support of this, are the conceptual foundations for M4P, particularly changes in economic thinking. Both of these factors have brought new insight into the importance of market systems and the way in which they function and interact with the poor – and have major implications for agencies and governments, shaping both their policies and actions.

## 1.2 Understanding the poor in market systems

The eradication of poverty remains the main goal of the international development community and against it the world has experienced mixed fortunes in the last two decades. Globally, the number of people with incomes below \$1 a day has fallen to below 1 billion (18% of the population) with spectacular reductions in many countries.<sup>1</sup> This progress is mirrored in the general health, education and other benefits associated with higher incomes.

But this aggregate picture disguises considerable diversity. Reductions in some regions (such as East Asia where poverty rates are now only 9% of the population) are countered by the rise in numbers elsewhere (Africa remains at 41%). While global inequality (ie between countries) has reduced, within most countries it has increased. Changing the definition of poverty to an income of \$2 a day places 2.5 billion people, almost half the world's population, under the poverty line – a figure that has changed little in two decades. Other analyses refer to 4 billion people on low incomes at the base of the "economic pyramid".<sup>2</sup> Self-evidently, many people are still poor, subject to the vulnerabilities of low incomes and largely excluded from the benefits that others enjoy.

### Why growth and access are important

The central challenge for development agencies and governments is to learn from this disparate experience and create an environment that allows more people to build their capacities and assets, earn higher incomes and take advantage of opportunities to escape from poverty. Such an environment has to deliver two critical features: *growth* and *access*.

*Growth* – economic growth is the single biggest contributor to poverty reduction.<sup>3</sup> Regions that have experienced the highest growth rates have seen the highest falls in poverty. For example, the halving of poverty in Vietnam between 1993 and 2002 – from 58% to 29% – was fuelled by annual growth rates of 6%.<sup>4</sup>

Overall, at least 80% of the variation between countries' poverty reduction performance is attributable to differences in growth.<sup>5</sup>

This straightforward message – that growth is good for all, including the poor – does not mean that all types of growth are the same. In some Latin American countries the poor, while still benefiting from growth, have done so proportionately less than the average population.<sup>6</sup> But in many Asian countries the reverse has been true.<sup>6</sup> Growth that is pro-poor tends to be more labour intensive and/or circulates the benefits more effectively through public transfers.

*Access* – poor people's access to a range of basic services (Box 1) such as education, health and sanitation also has a strong influence on poverty reduction. Consumption of these services is related closely to economic growth.<sup>7</sup> As incomes rise, individuals and societies often choose to use this new freedom to invest in services such as education, health and telecommunications. Growth can generate a 'virtuous circle' of opportunity and prosperity, where higher incomes leads to a healthier and more educated population, building capacity to take advantage of opportunities and contribute to future growth.<sup>8</sup>

But if growth and access are mutually reinforcing, access is not simply a formulaic result of higher growth. The Indian states of Kerala and Uttar Pradesh, for example, have similar levels of GDP but Kerala has far superior health and education services, with neo-natal service coverage four times higher and female school enrolment rates 50% higher than in Uttar Pradesh.<sup>9</sup> Higher incomes do not always translate into better access to services. How services are offered – the mechanisms, incentives and relationships that guide delivery – may be as important as the amount of resources (how much) devoted to them.

Given this, what are the characteristics of an environment that delivers growth and access to poor people? At one level there is broad consensus on this: an environment conducive to poverty reduction will offer overall macro-economic stability, access to international trade, security and rule of law, effective voice for the poor to decision-makers and transparent property rights – the central tenets of mainstream economic thinking. But beyond this, it must also provide markets and basic services that work for the poor:

### Why markets matter for the poor

Markets are arrangements through which buyers and sellers exchange goods and services and are the central organising principle at the heart of successful economies. Markets stimulate choice and competition so that producers are continually pressured to improve their efficiency and products and, in doing so, offer better value to more consumers. When set within

<sup>a</sup> Here the growth elasticity of poverty has been below one – whereas on average it is close to one.

## I. MARKET SYSTEMS MATTER FOR THE POOR

an appropriate framework of rules, functioning markets are a means through which both private and wider public gains are realised and are the basis for competitiveness and growth.

Markets matter for everyone. But for the poor – with weaker informal networks and links to government patronage – markets are especially important. They provide the direct means through which the poor participate in economic activity – as producers (farmers, business owners), as employees (providers of labour) and as consumers (of goods and services). Markets operating in an inclusive way offer the poor the things they need – jobs, opportunities, goods, services – to increase their incomes. Conversely, where markets are working exclusively or inefficiently, poor people have fewer chances to benefit directly from growth. Indirectly, even if the poor are not immediately involved, markets such as those for services and the factor markets of land, labour and capital, affect the whole economy and the poor within it.

Whether direct or indirect, the sometimes complex ways in which markets function shape the environment of the poor. Access to land for example is always a critical issue in agriculture and is often problematic. In China and Vietnam, changing the rules governing the use of land – allowing farmers to take *de facto* title – altered incentive structures and stimulated major increases in output (7% per annum in China) and productivity.<sup>10 11</sup> In many African countries, however, traditional land ownership patterns and the social norms around them, especially for women, provide few incentives for investment.

This weakness in the operation of land markets may be worsened by other market flaws. In Rwanda, agriculture is intensive but farmers have little access to information about good practices, seeds or other inputs. Consequently productivity is low – one-third that of Ghana.<sup>12</sup> People work hard in Rwanda but their environment does not allow them to work 'smart'. In contrast, farmers in other countries, such as Bangladesh, are better served by a network of input suppliers who provide information and advice as well as new seeds and fertiliser – and here productivity is rising.

More widely in Africa the absence of developed market structures such as commodity exchanges<sup>13</sup> – which offer pooling mechanisms to reduce price volatility – means that farmers are especially vulnerable to ruinous boom and bust cycles. For example, record grain harvests for Ethiopian farmers in 2001 were followed by a disastrous (80%) price collapse in 2002.<sup>14</sup>

Absence of information – about prices, trends, contacts – is a key constraint for the poor in markets where, characteristically, they have less 'know-how' and 'know-who' than those with more resources. However, information flow in rural areas has been greatly improved by better functioning markets. More than one-fifth of Africans now subscribe to a mobile phone service offered by private providers within an environment set by public regulators.<sup>15</sup> And newly-permitted private media, especially radio, are now the main information source for rural people in many countries.<sup>16</sup>

The main asset of the poor, however, is not land, but labour, and it is labour productivity which has to grow if incomes are to rise. Some countries allow poor people to use this asset more than others. Globally, the garment industry has often been the foundation for industrialisation and its starting point has been labour-intensive manufacture. Countries such as Bangladesh (2.2 million employees) and Lesotho (50,000) have created labour conditions that attract investment and allow wages that, for women in particular (80% of the garment workforce), are higher than for comparable jobs.<sup>17 18</sup> In others, such as South Africa and many East European countries, labour regulations render them high cost and unproductive locations.<sup>19</sup>

Whether countries can progress from cheap labour to higher value-added products, competing on quality, delivery and design depends critically on better functioning service markets. In middle-income economies such as those in South East Asia, specialised services – consulting, technology, transport and design – may not involve the poor directly but indirectly as interconnected markets are crucial for the competitiveness of the industry and for the livelihoods of those working in it.

Markets are always interconnected and the cause of one market's weak performance frequently lies in related markets. As Hernando de Soto<sup>20</sup> has highlighted, the operation of land and property markets is often central to the operation of other markets. For example, effective land markets provide the collateral basis to stimulate financial services; differences in national financial sector performance have been shown to account for approximately 20% of variances in overall growth rates.<sup>21</sup> And the interconnection of markets is also evident in the environmental sphere where some potential solutions to addressing climate change centre on more effective markets<sup>b</sup> – ranging from carbon markets to those for energy production technologies and conservation.<sup>22</sup>

<sup>b</sup> The Stern Report into the economics of climate change characterised it as the "greatest and widest-ranging market failure ever seen".



## I. MARKET SYSTEMS MATTER FOR THE POOR

These examples show how markets can work efficiently for all and in particular in favour of the poor – but also how, in many situations, they don't. They also illustrate that markets are pervasive and important parts of the poor's socio-economic environment. As Amartya Sen<sup>23</sup> notes, there's little point being against markets *per se*. Like breathing air, they're there... the point is to make them work more effectively.

M4P recognises this central fact – the ubiquity and importance of markets – and its clear consequence: poverty reduction requires that markets work better for the poor.

### Basic services and the poor

A range of services are important in building people's capacities to develop beyond poverty. 'Basic services'<sup>c</sup> – where consumption serves not just an individual but impacts on the wider economy and society – are related most obviously to education, health, water and sanitation. However, basic services might also include new services of growing relevance in a changing economy such as mobile telephony, vocational training and basic finance.

Fixed lines cannot be drawn easily around 'basic' services to distinguish them from others, like accounting for instance, which can be seen as within the domain of private markets (Box 1). But basic services can be distinguished by the strong externalities associated with them and, for some, their connection to human rights.<sup>d</sup> In this sense, basic services cannot simply be 'left': they are always a concern for and responsibility of governments.

For poor people, access to and use of these basic services is especially important since they are pivotal to strengthening capacity – which the poor characteristically lack – to take advantage of opportunities. Yet, despite their importance, there are no fixed models of delivery that can claim to be best practice and define what a successful system looks like for providing basic services. Rather there are a range of experiences involving both private and public players from which common themes emerge.

### Box 1 Explaining 'basic services'

Commonly-used terms can serve to confuse rather than clarify the nature of services. 'Public' and 'private' imply an unrealistically concrete distinction. By the normal definition (non-rival, non-excludable etc) there are very few genuine public goods or services. Services widely perceived to be public – such as water – provide direct (private) benefits to individuals as well as contributing to better public health and economic growth.

On the other hand, services often seen to be 'private' including most business services such as mobile phones (although fixed lines are often seen as a public service) bring direct benefits for users but also serve a public purpose of reducing information and search costs in markets and therefore increasing economic efficiency. In both there are significant externalities.

In relation to children's education for example, direct government delivery has a mixed record. While some publicly-delivered services are seen to be excellent (as in Singapore), for lower-income countries the record is often one of low standards, little accountability and weak provider motivation and competence. For the most remote and poorest areas, teachers are often simply not there. In India, for example, teachers' absenteeism averages 25%.<sup>24</sup> State-delivered education has become dysfunctional in many countries.

The weak state of children's education is a key reason why wealthier people pay for private education. However, in a growing number of situations, poorer families are also abandoning government schools for private providers. One recent study covering India, Ghana, Nigeria and Kenya found that a majority of residents in selected poorer slum areas used local, relatively low-cost private schools – and that the standards in these were higher than in their government counterparts.<sup>25</sup>

There are other examples which actively combine public and private players. In El Salvador, community-based schooling, supported financially by government and with accountability to parents and the community, has delivered higher enrolment and standards than conventional state schools.<sup>26</sup>

Innovations in water and sanitation services also revolve around a re-alignment of public and private roles. In some cases, blanket privatisation which has not understood the incentives and capacities of different players has not succeeded. However, in many other situations realignment of public and private roles has produced clear benefits. In Latin America, for instance, a range of different models of public regulation and supervision and private provision have been used.

<sup>c</sup> Often referred to in economics literature as 'merit goods'.

<sup>d</sup> The Universal Declaration of Human Rights covers both health and education.

## I. MARKET SYSTEMS MATTER FOR THE POOR

These have produced major growth in water connections (in Argentina these increased by 30% during the 1990s), with the largest gains for the poorest groups (Figure 1), and have achieved discernible reductions in child mortality.<sup>27</sup> But this improvement stands in contrast to the overall picture of low and static access where the traditional subsidies given to existing consumers exclude those who are not connected (the poor). And the poor commonly only have access to unsafe and expensive services; buyers of door-to-door water in Africa typically pay between three to ten times more than tap-connected users.

There are similar issues in the relationship between public and private roles in the more complex world of health and nutrition. Here, services include those aimed at individuals (personal treatment) and the wider population (immunisation, public health messages). The wider experience with public delivery in low-income economies is mixed. In some countries, such as Cuba, Malaysia and Sri Lanka – it has been relatively successful. However, poorly motivated staff (absenteeism in public health facilities in Bangladesh averages 35%), low capacity and poor performance are more common. In most cases, the reality is a 'messy' pluralist, public and private, health sector. This poses new challenges for public policy such as more appropriate regulatory arrangements and the state as a purchaser of services – rather than continued pursuit of a unitary centralised system.

Promising new initiatives have sought to, among other changes, place the management of services in community hands (as in Benin, Guinea and Mali<sup>28</sup>) and, by requiring co-payment from users, make providers more accountable to them (as in Mexico<sup>29</sup>). But this kind of successful re-alignment of roles between public and private players is still rare. And some reforms produce negative results; for example, as a consequence of reforms, health workers in China have been encouraged to sell excessive drugs in order to earn higher incomes.<sup>30</sup>

These examples, covering a diverse range of basic services, illustrate that the poor can be reached, but often aren't. Learning from these trends, M4P recognises that successful approaches often involve a realignment of public and private players guided by a better understanding of incentives and capacities.

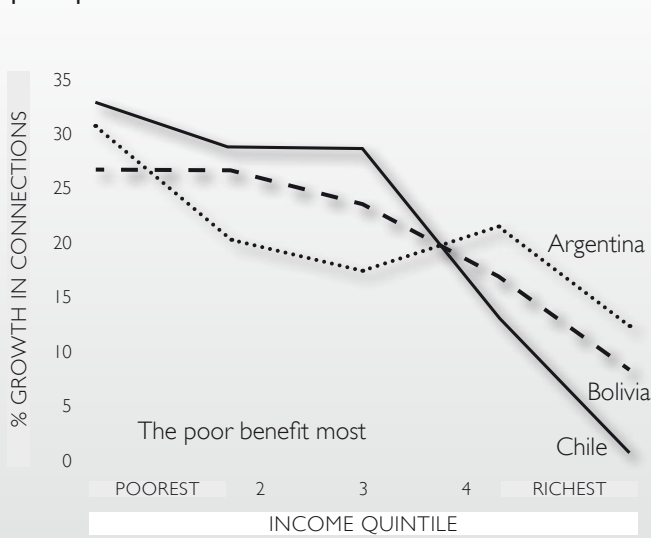
### From markets and basic services to market systems

Countries where markets and basic services work effectively in favour of the poor offer the most conducive environment for poverty reduction. At first sight, markets and basic services might seem to be entirely different, one being commercial, payment-based and offered by private providers and the other with public organisations in prominent roles. Closer inspection, however, shows that they share a number of features (Box 2):

#### Multi-player

In both cases, the mixture of different functions necessary for an effective system requires a range of private and public players (such as private firms, government departments, membership organisations and academic groups). 'Public' services are never entirely public, and 'private' markets never entirely private.

**Figure 1**  
Growth in water connections following private sector participation



## I. MARKET SYSTEMS MATTER FOR THE POOR

### *Multi-function*

Traditional centralised systems of service delivery, with some exceptions, are often failing. The reality is pluralistic or hybrid systems and the challenge is to make such systems work better. Similarly, markets (for land, labour, products, commodities etc) often don't work because public roles – regulation, information, access to research – are not undertaken properly.

### *Built around incentives and capacities*

Successful change in both markets and basic services is based around developing the technical capacities of different players and aligning better their incentives and motivations. Such incentives might well be sharpened through changing formal rules or the informal norms which often connect directly to the lives of poor people. Especially important is to recognise the centrality of transactional relationships in successful systems.

The term 'market system' used throughout this paper describes these shared characteristics of markets and basic services. M4P recognises this common ground and provides a basis for a coherent, unified approach to first understanding and then acting to improve market systems.

### **Box 2**

#### **The common ground of markets and basic services**

While there might appear to be little in common between a market such as food products and a basic service such as water, closer analysis shows that they exhibit similar characteristics. In each, in order for the 'core' activity (the production and consumption of food and water) to be successful, other functions (such as regulation, information, training and research) need to be performed by different players – and they need to have sufficient capacity and incentives to do so.

In food markets, the direct product flow is likely to be a series of commercial links between private sector players (grower to processor to retailer to consumer etc). These are governed by an increasingly complex set of rules. Some are national regulations on food safety and environmental protection set and enforced by governments. Others are quality standards set by supra-national non-profit bodies with certification done by private providers. Training and consulting to companies is also usually the domain of the private sector but this may be influenced by advice and information from research bodies and associations. Associations' primary role however is likely to be advocacy to government and international bodies.

A basic service such as water might involve a variety of different arrangements. If provision is by the private sector (or a not-for-profit association), a range of other tasks will be required largely from public bodies, including supervision and coordination, target setting, performance monitoring, testing and inspection. Consumer information might be provided through an industry association which might also set performance standards. Specialised technical support services would lie with the private sector. And a water consumers group might be necessary to ensure better provider accountability.

The point here is not the precise make-up of each, which may be different from one context to another. Rather it is to recognise that both markets and basic services can be viewed through the same market system lens and that M4P is relevant to both.

# I. MARKET SYSTEMS MATTER FOR THE POOR

## 1.3 Emerging conceptual thinking on market systems

Accompanying this new realisation of the position of the poor within market systems has been new analysis on the nature and role of markets. Much of this recognises the limitations of conventional economic thinking and the need to better understand how people behave within market systems. This new thinking on market systems has implications for agencies and governments.<sup>e</sup>

In conventional economics, markets are seen to be the means through which resources are allocated. When operating under conditions of perfect competition and perfect information, rational market players respond to price signals (and these alone) and this price-regulated, money-based cash (or spot) exchange ensures efficiency and delivers growth.

Of course, the assumptions underpinning this view of markets often do not apply. Markets are prone to a number of well-known imperfections (or failures). Asymmetric information – when suppliers know more than consumers and vice versa – can lead to under- or over-supply of particular goods. Externalities (either negative or positive) exist when the production or consumption of a good has spill-over effects that are not reflected in the market price. And public goods are those which are non-rival and non-excludable and therefore cannot be offered by private firms.

So, one problem with conventional economic thinking is that the central framework for analysing markets is a theoretical abstract that tends to assume away inconvenient facts and is not likely to provide useful guidance for policy-makers. Blunt analysis of problems can lead to equally blunt actions.

Two other types of exchange are recognised in economics, outside of the theoretical idyll of the spot market. Gift exchange is based around shared values and reciprocity, exchange is non-financial and based on mutual obligations – and this obviously may be especially important for poorer people. Hierarchies occur where one party has relatively more power, and is able to exercise more command and control. Large firms, for example, can dictate terms and control information flow to smaller suppliers.<sup>31</sup>

Economics therefore identifies different types of exchange – market, gift and hierarchy – all of which may be relevant for poor people. But the problem with this, as guidance to policy makers, is that the distinction between the three categories is forced and artificial. In reality, all three types of exchange often co-exist and the boundaries between them are blurred and shifting<sup>32</sup> (Box 3).

### Box 3

#### Different types of exchange in a market system

The maize market in Bangladesh has been growing, driven by booming demand from the poultry feed industry. The functioning of the maize market system and the distribution of its benefits is based around different types of exchange. Maize farmers sell to buyers either for cash or promise of payment. Farmers themselves increasingly operate in hierarchical contract farming arrangements where a lead (large) farmer provides inputs, advice and finance to a large number of contractors in return for all their maize output at a fixed price.

In general lead firms prefer to deal with larger rather than smaller farms since this reduces their transaction costs. Other than some employment gains, this preference has raised concerns over how the smallest farmers and the landless benefit directly from maize. In practice, however, benefits stem from the informal, patron-client-based relationships common in rural Bangladesh. Contract farmers, informally, often sub-contract production to smaller farmers using a variety of risk and income-sharing mechanisms. Such arrangements are outside (and disapproved of) by lead farmers but they are important in helping the poor participate directly in the market system.

These weaknesses undermine the usefulness of conventional analysis in providing a cohesive platform for analysis and action. They also highlight the need for a more practical and holistic framework to guide agencies and governments. Emerging thinking from a number of different perspectives (such as behavioural and new institutional economics<sup>33</sup>) has sought to offer this framework.

Most important here are the related concepts of transactions costs and institutions. In a perfect economic world it is assumed that there are no costs to exchange between buyers and sellers. In the real world however, buyers and sellers often lack information, lack trust or are physically separated, erecting barriers to exchange which then take resources to overcome (these are known as transactions costs). More efficient markets find ways of dealing with these costs, through mechanisms for defraying risk, making information available, maintaining and enforcing standards, and protecting consumers (these are known as institutions).

<sup>e</sup> M4P Perspectives has a more detailed analysis of conceptual issues in M4P.

## I. MARKET SYSTEMS MATTER FOR THE POOR

Transaction costs are a key indicator of the efficiency of a market and are, to a considerable extent, a function of institutional development. The burden of transaction costs tends to fall disproportionately on the poor. For example, a bank, supported by regulations and knowing how these work, will pursue an unpaid debt – a fact which the debtor is aware of. In contrast, a poor producer doesn't know about the relevant regulations and cannot afford to go to court to recover unpaid debts – a fact his/her debtor is very aware of.

Transaction costs and institutional development apply not just to the monetary exchange within commercial markets but also to other types of exchange. For example, schools are more likely to be effective when teachers feel accountable (formally or informally) to parents and pupils. And information flow between players in a value chain is more effective when built upon trust.

Inherent within transaction costs is stronger recognition of the role and nature of incentives in market systems. In particular, people's motivations and behaviour are not seen simply as a function of prices but are shaped by a range of factors, both formal and informal. For example, while the leasing of land is permitted in Ethiopia and should provide opportunities for investment, informally, a widespread perception of tenure insecurity undermines farmers' incentives to do so.<sup>34</sup>

These trends in economic thinking have a number of implications for agencies and governments:

- Different types of exchange – monetary and non-monetary – are intertwined and are all subject to transaction costs and institutional development. Separating these into artificial boxes of analysis is neither practical nor aids clarity. They need to be brought within the same conceptual framework – market systems.
- Analysis and understanding needs to reflect a more nuanced view of how markets operate. Seeing exchange (supply and demand) as the only function in markets is simplistic and inaccurate, missing the important functions related to rules (formal and informal) and information where the underlying determinants of market performance are often to be found.
- Since institutions are human-created, evolution towards more efficient and inclusive markets is not inevitable. Market systems (and countries) can become stuck in paths of underdevelopment and poverty, reflecting the vested interests of powerful groups. However, more positively, the 'rules of the game' that shape behaviour can be understood, influenced and changed through purposeful, focused action. It is this that offers opportunity for agencies and governments.

- The validity of the narrow prescriptions for government action which are generated by inaccurate analyses is called into question. For example, services are often incorrectly labelled 'public goods' (there are very few public goods in reality) and this designation used as a *carte blanche* justification for direct state provision with little consideration of other options (such as regulation, research and information) that may actually be more useful in promoting access (Box 4<sup>35</sup>).

### Box 4 From analysis to actions in aquaculture

In aquaculture, up-to-date information is recognised as important to promote new ideas and practices. Often this is seen as a public good which should be provided through government extension services. However, in Bangladesh, a more nuanced analysis recognised that:

- Extension service officers had few incentives for good performance and a dysfunctional working culture prevailed.
- Private input suppliers (such as nurseries) had a commercial incentive to provide useful advice to farmers as a means of improving their performance and of differentiating what they did from their competitors.

Intervention built on this analysis and improved information flows through private players with subsequent improvements in productivity.

M4P builds on these recent trends in conceptual analysis to establish a common framework that recognises exchange in different forms, the mixture of functions and players and the incentives and rules within market systems. More importantly, M4P seeks to go beyond the conceptual analysis of markets. Increasingly, as Section 2 shows, the evidence of M4P in practice is that it provides a useful framework not just to understand the world but to act to change it significantly.<sup>f</sup>

<sup>f</sup> To misquote Marx, the point of M4P therefore is not simply to interpret the world but to change it.



## 2. WHY M4P?

### SUMMARY

The specific arguments driving agencies and governments to adopt M4P stem from two factors:

- Learning from a range of development experiences on what works (and what doesn't).
- The success of M4P in practice.

First, across a range of different development experiences and fields – from agriculture and finance to water and sanitation and health – similar conclusions have been drawn. Many efforts at direct intervention and distant reform have failed – achieving limited outreach, impact and sustainability, and distorting rather than developing markets.

Learning from these experiences indicates that agencies and governments need to ground what they do in the reality of market systems and focus on stimulating systemic change.

Second, from different sources, there is growing evidence that M4P works. Major programmes, in different contexts and markets systems explicitly using the M4P approach and governments and agencies influenced by its key tenets, have achieved significant change.

Change is manifested in high levels of outreach and impact – for example, the number of people accessing and benefiting from new services. More important, in each case, capacities and incentives have been developed to show that change is sustainable and therefore impact will grow further in the future.

M4P is not a panacea and there are still areas of debate over its application. Nonetheless, taken together, these factors highlight the value of the approach in addressing misconceptions of market systems, introducing a more positive (yet realistic) view of their role, and setting out how to realise their potential for all – and for the poor in particular.





## 2. WHY M4P?

### 2.1 Introduction

The immediate rationale for the M4P approach for agencies and governments is provided by two factors. Building on wider trends – the importance of market systems and changes in conceptual thinking accompanying this – these relate to specific experiences of organisations. First is their experience in different fields and the common learning to emerge from these: the need to adopt a new approach focused on systemic change. Second are the achievements of M4P in practice and the evidence that, as an approach, it can deliver substantial, sustainable impact. While there are some outstanding issues in relation to the poor and market systems where there is still much debate, these factors together help make the case for M4P.

#### Box 5

##### Intervening impulsively in business services

The perils of impulsive intervention have been exposed most notably in the business services (BDS) field – the swathe of non-financial services critical for business development. From the late-1990s onwards, BDS was the focus of an almost unique collaborative effort between agencies coordinated through the Donor Committee on Enterprise Development. The purpose was to explore agencies' experience transparently so that the learning curve would be 'cleaner', more widely accepted and more effective.

The message from this process was that:

- Direct support to business was usually ineffective, producing few benefits.
- The horizon of sustainability only lasted as long as the external subsidy.
- The core task of agencies should be to facilitate markets for BDS, not to subsidise delivery directly and continually.

The outputs from this process have influenced practice significantly. Of course, there are examples of agencies that do intervene in a direct manner. But at least the challenge for them is laid out more clearly: how to ensure that they develop rather than distort incentives and the process of longer-term change and development.

### 2.2 The wider development experience

The direct experience of development agencies and governments whose policies and resources impact on the development of market systems and the poor is often the most powerful driver of change. What has been their experience and what can be learned that might help to guide future actions?

One of the distinctive features of M4P is that its origins lie in a broad range of development fields where poor people interact with market systems. These include agriculture, finance, private sector development, water and health. Traditionally, each operates as a separate 'box' of activity, knowledge and models of practice – with little cross-over learning between them. However, despite their difference, the experience of each and the parallel learning processes they have spawned have reached remarkably similar conclusions. M4P grows from the common experience in these fields. Generalising (and simplifying), this can be presented as a continuum with, at either end, two contrasting perspectives: impulsive intervention and remote reform.<sup>36</sup>

#### Impulsive intervention

This first strand of development practice has been concerned with intervening directly to 'get things done'. Here, the essence of the approach is that, if the market system isn't delivering well, 'we' (agencies and governments) should replace it and provide finance, advice, materials, services... whatever is required, directly. We should do it ourselves to 'get on with the job'.

Interveners emphasise their 'hands-on' business-like ethos and – impatient with the perceived inaction of others – see their approach as practical, a tangible means of generating 'quick-wins'. For governments, the interveners' impulse manifests itself in direct delivery by them. For agencies, intervention may either mean delivery directly by them or, more commonly, working with partners (such as government or not-for-profit organisations) to deliver directed, subsidised services.

After many years, with some exceptions, it is now clear that this has not been a hugely positive experience. Major reviews in different fields (Box 5) indicate that the results of these interventions have been characterised by<sup>37</sup>:

- Limited outreach – typically with a small proportion of potential users being served.
- Limited impact – with only patchy signs of positive change and little evidence that directed support stimulates wider development.
- Limited sustainability – with the whole apparatus of 'support' requiring continuous infusions of external resources.
- Limited efficiency – with relatively high costs required to deliver.

## 2. WHY M4P?

Why has this happened? Overall, the interveners' experience has been undermined by two inadequacies. First has been a failure to question the roles of key players given their competence and incentives; ie to consider the key issues of who does what and why in a market system. This factor is especially the case where governments have drifted into roles which are inappropriate and unsustainable – often persisting to just play a direct delivery role and neglecting the wider system of which they are a part. So, rather than considering what role they could best play in the overall system and “*move away from a market versus state optique and work from existing realities*”<sup>38</sup>, governments have stuck to the conventional (and often ineffectual), for example, in fields such as agriculture extension, vocational training and health.

Second, especially in economic fields, there has been a failure to place businesses in a market context. The interveners' instinct has been to ask the question “what problems do businesses have and how can I solve them?” and not to ask the more relevant systemic questions: “why isn't the market environment providing solutions?” to these and “How can I address the constraints that prevent it from effectively doing so?” Improving the functioning of market systems and addressing the underlying causes shaping business behaviour have not been priorities. Logically, if the right questions are not asked the right approaches are unlikely to emerge. The conclusions reached in a recent review of EC private sector development programmes (1994-2003) could apply to many agencies<sup>39</sup>:

*“EC programmes often focused on the direct provision of services for immediate impact, rather than addressing the constraints that preclude correct functioning of the market. [As a result] PSD activities are not designed so as to improve the competitiveness of the private sector in a sustainable manner”.*

### Remote reform

The prevailing views of the development world have shifted in recent years.<sup>40</sup> At a macro-level, the key tenets of the mainstream ‘market-friendly’ approach are relatively straightforward: fiscal discipline, low marginal taxes and a broader tax base, openness to trade and investment, and liberalising microeconomic reform. Getting ‘prices right’ in an economy is still seen to be critical in providing an overarching enabling environment conducive to development – and this is the key priority for governments. Now, however, there is recognition of the complexity of growth processes and the need to adapt approaches (to some degree) to different contexts. Prompting this revision is acknowledgement of the mixed experience of previous rigid, imposed approaches – with some countries succeeding in achieving strong growth and others (especially in Africa) palpably not. There is broad acceptance of the need to go beyond the previous policy mantra of “*stabilise, privatise and liberalise*”<sup>8</sup>

However, even if the most obvious examples of inappropriate, distant reform are fading, there are still many instances of unsuitable ‘solutions’ being imported to different contexts. For example, the comparative failure to establish effective stock exchanges in Africa appears, in part at least, to be attributable to the strong emphasis placed on ‘heavy’ regulatory and judicial regimes which are incongruent with local needs and capacities. And the current emphasis on enhancing the investment climate runs the risk of overlooking “*the many industry-specific policy and enforcement issues which collectively have been found to be the most important constraints to growth*”.<sup>41</sup>

Why has this happened? Two critical weaknesses have undermined the reformers' efforts. First, there has been a failure to recognise the importance of informal rules and the complexity of institutional change processes. Achieving changes in laws and regulations – the formal ‘rules of the game’ – is of little use if enforcement practices are not also changed. Change processes have to be driven by key people within countries and based on an understanding of the political economy – especially the incentives of stakeholder groups. Change can seldom be decreed from outside.

Second, there has been a failure to recognise that an ‘environment that enables’ growth is more than the right regulations. It also includes, for example, information, appropriate services and levels of skills and knowledge – elements of a system which are as important as regulations. Other, more practical and holistic perspectives support this view:

- Michael Porter emphasises the importance of supporting services, infrastructure and information in his ‘diamond’ of factors that contribute to the microeconomic environment for competitiveness.<sup>42</sup>
- Rodrik et al's ‘growth diagnostics’ framework<sup>43</sup> addresses the ‘binding constraints’ in economies, based on decision-tree analyses of cause and effect.

<sup>8</sup> As seen in the statements from the 2004 gathering of leading economists – the Barcelona Consensus.

## 2. WHY M4P?

It is the case that successful change in market systems may well require regulatory reform inspired by examples from elsewhere as well as active intervention. But remote reformers and impulsive interveners – both (slight) caricatures at either ends of a spectrum<sup>h 44</sup> – represent real experiences. They are united by a common problem – namely a failure to ground what they do in market realities, in the way that market systems work and a clear vision of how they can work better. More positively, however, they are united by a common conviction that the lessons from these experiences can be learned, and that this learning is increasingly evident across different development spheres. For example:

- Business development services: *“The objectives of outreach and sustainability can only be achieved in well-developed markets for business services”* (International Donor Committee, Blue Book).
- Financial services: *“To achieve its full potential, microfinance must become a fully integrated part of a developing country’s mainstream financial system”* (CGAP<sup>45</sup>).
- Health: *“Key systemic reasons for suboptimal functioning of health systems are... disjointed engagement of the private sector in delivering health care”* (Spinaci et al<sup>46</sup>).
- Land: *“We need to move away from project-based thinking to systemic approaches that lead to national roll out”* (Augustinus and Deininger<sup>47</sup>).
- Rural livelihoods: *“A more imaginative approach is needed, rooted in stronger understanding... of institutional development in economic growth, with market development one part of that institutional development”* (Dorward et al).
- Agriculture: *“The key requirement is to engage in ways that are non-distorting, market-oriented and capable of generating net benefits for the poor”* (Joffe and Jones<sup>48</sup>).

M4P is the outcome of this hard learning.

### 2.3 M4P in practice

The final argument in support of M4P is the tangible evidence from its application in different contexts. A growing body of experience attests to the utility of M4P. In terms of the key challenges of growth and access, the central tasks for development agencies and governments, M4P is increasingly seen as a means of achieving large-scale and sustainable change. In short, M4P works.

The most obvious examples of M4P working, of course, are where governments – without consciously using the label and largely unprompted by aid agencies – have successfully developed market systems. For example, while the global advance of mobile telephony is sometimes seen as a result of technological innovation only, the space for mobile phone providers to be effective has been created by a major strategic innovation in governments’ role. Instead of trying to be service deliverers (as they are often with fixed lines) they have shifted to a licensing and regulatory position. In doing so, they have created the competitive incentive and opportunity for providers to reach out to low-income groups and consumers in remote areas, and to develop new services. None of this would have occurred without a major realignment of roles in the market system.

Alongside this kind of successful change instigated by governments, there are other more specific examples where agencies, acting with partners, and consciously following the M4P approach, have stimulated major change. The three cases of M4P in practice given here (Table 1) have been selected on the basis of their performance, because they have been subject to external review and because they represent a diversity of contexts and market systems – financial services in South Africa, mass media (radio) in Uganda and vegetables in Bangladesh.

<sup>h</sup> There are parallels here with the modernist – activist categorisation used in the financial services sector.

## 2. WHY M4P?

Table 1 Illustrating M4P in practice		
FinMark Trust, South Africa	FIT-SEMA, Uganda	Katalyst*, Bangladesh
<p><i>Context:</i> low reach of financial services (initially 38%) among low-income groups, excludes them from the mainstream economy and restricts their contribution to growth.</p> <p><i>Goal:</i> to make financial services markets work more effectively for the poor.</p> <p><i>Challenge:</i> understanding and addressing a range of systemic constraints in a politicised and divided context.</p> <p><i>Main activities:</i> building a shared view of the industry's future; supporting service innovation; developing information services; improving regulatory process; stimulating consumer education.</p> <p><i>Achievements:</i> contributing to 7.1m increase in 'banked' population; new information services; stronger public roles; better innovation environment.</p>	<p><i>Context:</i> poor quality of business-related programming in radio services restricts information flow in the economy and limits accountability.</p> <p><i>Goal:</i> to improve the quality and relevance of commercial radio programming on a sustainable basis.</p> <p><i>Challenge:</i> changing the prevailing radio business model.</p> <p><i>Main activities:</i> work with small number of radio stations to improve programme innovation and quality; demonstrate 'business case, 'crowd-in' others; strengthen wider market functions (audience research, journalism etc).</p> <p><i>Achievements:</i> 25 stations offering 50 new programmes and reaching 7m more listeners.</p>	<p><i>Context:</i> low productivity stemming from incorrect practices and use of inputs restricts the potential income, employment and nutrition effects of vegetable cultivation.</p> <p><i>Goal:</i> to improve the productivity of vegetable farming on a sustainable basis.</p> <p><i>Challenge:</i> building information and advice as embedded services in the value chain.</p> <p><i>Main activities:</i> provide support to input suppliers to develop a retailer training programme and so build retailers' incentives and capacity to offer better advice to farmers.</p> <p><i>Achievements:</i> new business model in supply chain serving and improving performance among 1m farmers.</p>
		<p>* Katalyst works in more than 20 different regional sectors; vegetables is one of these.</p>

In each case, these projects have sought to pursue a different approach from 'conventional practice'. For example:

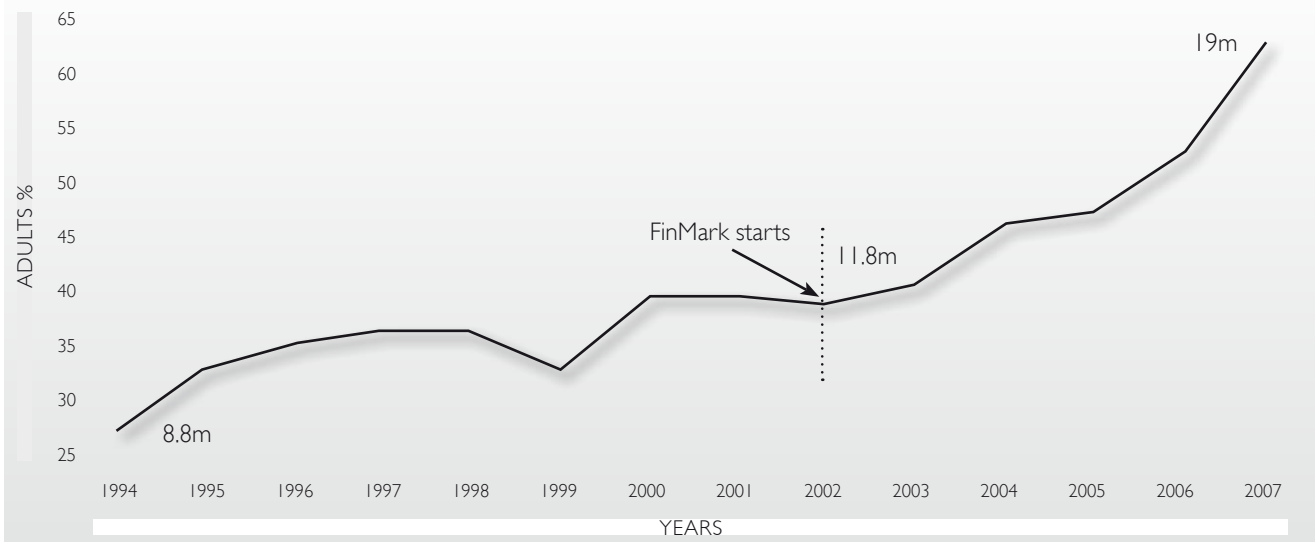
- FinMark Trust<sup>49</sup> (FinMark), rather than setting up a 'provider for the poor' or changing isolated regulations, worked to address the underlying causes of low access – information, innovation, stakeholder relationships and regulatory processes.
- FIT-SEMA<sup>50</sup> (Small Enterprise Media in Africa), rather than buying airtime from radio stations to broadcast specific information, worked to build the capacity and incentives of radio stations and other players to improve programming.
- Katalyst<sup>51</sup>, rather than paying for the direct delivery of training to farmers, worked initially with one (and then several) input supply firms to build their capacity to offer training to retailers so that they, in turn, would change their business offer to farmers (provide better information and advice).

Each project has been operating for a number of years and some key achievements can now be identified. In relation to **outreach**, in each case, considerable scale has been achieved:

- In South Africa, the number of people with bank accounts (Figure 2) has grown from 11.8 million (38% of the population) to 19.0 million (60%) in a six-year period. FinMark has been one among a number of influences but its contribution has been critical.
- In Uganda, there were no relevant programmes in 1999, but now more than 25 radio stations are now serving 7 million listeners with more than 50 different business-related programmes.
- In Bangladesh, Katalyst's work in the vegetable sector over a three-year period has reached nearly 3,000 retailers serving a farmer clientele of approximately 1 million farmers.

## 2. WHY M4P?

**Figure 2**  
Users of new bank accounts, 1994-2007 (percentage of adult population)



In each case relatively large numbers of people have gained access to new services – but what is known of the *final benefits* they have accrued through these? In the case of fee-based banking services, there is of course a difference between access to, use of and benefit from services. However, it can be assumed that people buy banking services because they offer value and so, in aggregate, rising coverage can be equated with consumer satisfaction. For radio in Uganda, case study evidence shows direct links between improvements in the incomes and livelihoods of thousands of poor producers and the extra voice and advocacy provided by radio that has resulted in rules being enforced, public promises enacted and corruption exposed.

Finally, case studies in Bangladesh show that overcoming this information barrier has typically brought productivity gains of 20-30% in vegetable production thus helping to enhance the country's competitiveness relative to its neighbours. Survey evidence indicates that total factor productivity in farmers who are clients of trained retailers is, on average one-quarter higher than those who are clients of other retailers.

For this increased scale and final impact to be genuinely meaningful, these need to be more than transient gains; they need to be enduring. In relation to *sustainability*, a range of changes have been stimulated which show that, not only are benefits likely to continue, but the capacity and incentives have been developed to suggest they will grow further:

- New commercial services – in FinMark, a new syndicated information service (FinScope) has been developed and operates on a commercial basis in South Africa. New support services have also been created in Uganda – such as radio journalist training – to allow continued improvement in quality.
- New public roles – in the financial services market in South Africa, processes of regulatory reform as well as public functions such as consumer financial literacy have been re-energised.
- New business models – in Katalyst and FIT-SEMA in particular, market players see the value of different business models. Radio stations have an incentive to provide better business-focused programming since this will attract new listeners and, in turn, more commercial sponsorship. Input suppliers and retailers in Bangladesh have increased profits from following a more information-rich business approach. They have an incentive to continue to expand and deepen their work and their competitors an incentive to emulate their achievements.
- New relationships – inherent within these changes are more mutually-beneficial relationships between market players, for example, between radio stations and training organisations and between input suppliers, retailers and farmers.

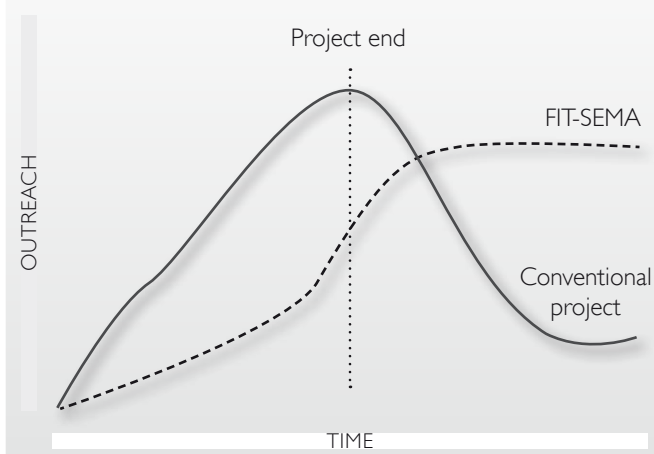
## 2. WHY M4P?

How do these achievements compare with other interventions which have pursued a more directed, delivery route? Side-by-side comparisons are not always possible and, by concentrating on headline indicators, can be misleading. However, the data suggest that the scale of outreach and impact evident in these examples is much higher than is normally seen. Nor has this enhanced performance been achieved simply by more external inputs (ie at the expense of *efficiency*). Again, while detailed comparisons are not available it is clear that the M4P approach is no more (and generally much less) expensive than more conventional project routes. For example, Katalyst's work in vegetables cost around \$120,000 over three to four years. FIT-SEMA's total budget over a seven-year period was around \$1.5 million.

Overall, however, the most significant feature of change in these examples is that it has been 'systemic' – it has addressed the underlying causes of 'under-performance' of the system as a whole and of poor people within it. FIT-SEMA's work in Uganda offers a relevant comparison with other projects that, with similar objectives (improved information for small businesses), focused on directly buying air time from radio stations. While these initially achieved high outreach, they failed to bring about lasting change in the radio market. Indeed no donor-financed radio programme in Uganda has ever lasted beyond the duration of its initial funding (Figure 3).

These examples illustrate that, in different contexts and in different market systems, M4P works, offering greater and more lasting change than other conventional approaches. This is not to say however, that M4P should be regarded as a purist, jealously-guarded brand. Indeed, in many other diverse situations, key dimensions of M4P have been incorporated<sup>i</sup> with very positive results. For example, in Somaliland – in a context of conflict and near-collapse of central government – a successful collaboration between municipalities and the local private sector over water services has led to an eight-fold increase in connections, improved health in the community and higher revenues for the municipality.<sup>52</sup> While in neighbouring Kenya, a project in the avocado and passion fruit value chains has focused successfully on the introduction and development of fee-based, commercial services – spraying, grafting, pruning – for small farmer groups, contributing to a five-fold increase in exports over a five-year period.<sup>53</sup>

**Figure 3**  
Stylised comparison of FIT-SEMA outreach versus a conventional project



<sup>i</sup> Without any mention of M4P per se.

## 2. WHY M4P?

### 2.4 Caution and caveats

If it is clear that there are strong arguments for M4P, it would be a mistake to see it as a doctrinaire panacea. There are many areas of legitimate debate over a range of issues and, in considering market systems and the poor, a number of questions which do not neatly fall into a simple, 'good-bad' distinction.

#### ***Is the replacement of informal mechanisms of exchange with commercial services always good for the poor?***

Poor people often have developed arrangements, especially in relation to finance, through which resources are allocated and information and knowledge shared. These arrangements are set within social networks and relationships that may often discriminate against the poorest – and cement their 'lowly' position. But it is over-optimistic to assume from this that inclusion in commercial services will accord them equal and respected status as market players such as clients or producers.

#### ***Do the poor 'win' from market change?***

Change is a recurring feature of market systems and processes of change are seldom smooth. Markets are competitive, with firms and individuals juxtaposed against each other. In this context, 'the poor' are not an homogenous group; they may well have conflicting interests such as producers versus consumers. Simply 'stopping' change is rarely a realistic option but neither is it straightforward to determine where and how the best interests of poor people (in aggregate) are served.

#### ***What should the role of government be?***

In determining an appropriate role for government, institutional experience may provide conflicting evidence about what to do. Government-controlled health services are excellent in Cuba but dysfunctional in many low-income countries. State-owned banks often have high numbers of poor people as bank account holders but does providing access equate with offering useful services?

#### ***Is M4P consistent with rights-based obligations?***

Proponents of rights-based development argue that they create a moral and legal climate to force change. Critics see them as empty promises that fall into disrepute because they fail to consider how obligations will be met. It is often assumed that government will deliver directly; but if it can't or won't – and this is frequently the case – can a different government role be interpreted within a rights context?

#### ***Where does market development meet social protection?***

Social protection, by definition, is different from development (dealing with symptoms not causes) but in practice the distinction is often blurred. Obviously, many of the poorest people in difficult circumstances need welfare but there are recognised dangers that over-dependence on welfare damages the incentives and self-reliance necessary for longer-term-development.

These points highlight the need to tailor actions to local context and to think through in each circumstance how market systems impinge upon poor people. However, this does not undermine the validity and value of the approach in addressing misconceptions of market systems, introducing a more positive (yet realistic) view of their role and setting out how to realise their potential for all and for the poor in particular.





## 3. WHAT IS M4P?

### SUMMARY

M4P is an approach to developing market systems so that they function more effectively, sustainably and beneficially for poor people, building their capacities and offering them the opportunity to enhance their lives. Applicable to development agencies and governments working in both economic and social fields, it is an approach defined by a number of important characteristics.

M4P is an approach to development that provides guidance not only on understanding of the poor in market systems (analysis) but on how to bring about effective change (action). Analysis should identify the underlying constraints impinging upon market systems and concentrate on addressing these.

Its focus is on developing market systems, assessed with respect to different market functions and players, public and private, formal and informal. This systemic character of M4P defines many of its most important features.

By addressing underlying causes (rather than symptoms) of weak performance, M4P aims to unleash large-scale change. Interventions may be small in themselves, but should continually strive to leverage the actions of key market players to bring about extensive and deep-seated systemic change.

Sustainability is a prime concern of M4P. This means considering not just the existing alignment of key market functions and players but how they can work more effectively in the future, based on the incentives and capacities of players (government, private sector, associations etc) to play different roles.

M4P requires that agencies and governments play a facilitating role. As external players they seek to catalyse others in the market system (while not becoming part of it themselves). For governments, except where they are playing longer-term roles within the market system, and agencies, facilitation is inherently a temporary role.

Finally, as an overarching framework M4P does not necessarily replace other specific methodologies and tools but provides a transparent and multi-disciplinary framework within which they can be utilised and adapted in order to address their limitations and so enhance their efficacy.



## 3. WHAT IS M4P?

### 3.1 Introduction

M4P is an approach to developing market systems that benefit poor people, offering them the capacities and opportunities to enhance their lives. Building on a detailed understanding of market systems and a clear vision of the future, M4P allows agencies to address identified systemic constraints and bring about large-scale and sustainable change.

However, beyond this rather generalised definition, there is less of a consensus over what M4P is – what its distinguishing features are – or what its ambition could be. From these early years of M4P experience, it is evident that establishing this clarity is important. On the one hand, M4P is an overarching approach with the potential to be applicable to a wide range of socio-economic development fields. It is not a specific, prescriptive tool. On the other hand, there is a welcoming wholesomeness to the term ‘making markets work for the poor’ which, since many development activities aimed at poverty reduction often involve some engagement with markets, leads to the mistaken view that everything, broadly, can be categorised as M4P.

This tendency to assume that breadth of approach and application equates with an ‘anything goes’ looseness in M4P interventions is problematic. M4P is shaped by a rigorous assessment process to guide action. While the approach will evolve, activities which are inconsistent with this are, logically, not M4P. In order to avoid drift and confusion therefore it is important to be clear about what M4P is.

This section captures the defining and interrelated features of M4P related to its nature (an overarching approach combining analysis and action), its key areas of focus (market systems, scale, sustainability) and its implications for agencies and governments (the facilitation role).

### 3.2 M4P as an approach

M4P is an approach which means that it is both about analysing the poor in market systems and about providing guidance on how to act to bring about positive change. It is the combination of both of these elements – frameworks for analysis and for action – that makes M4P more than an interesting analytical tool (there are many of these) or a set of useful operational tips (and these). Its aim is to provide coherence and consistency in how we understand the world and, given this, how we intervene to bring about change.

It is primarily for those who are pursuing the public goal of poverty reduction – development agencies and governments chiefly – and who can do so through making market systems work more effectively and inclusively. While it may also be of interest to private companies, its primary audience is those who are trying to shape the market system rather than be participants in it.

M4P is an approach to promote systemic change – change that goes beyond individual players and that is relevant to the wider environment, affecting many. Indeed, many of the specific features which follow are concerned with giving meaning to what is meant by ‘systemic’.

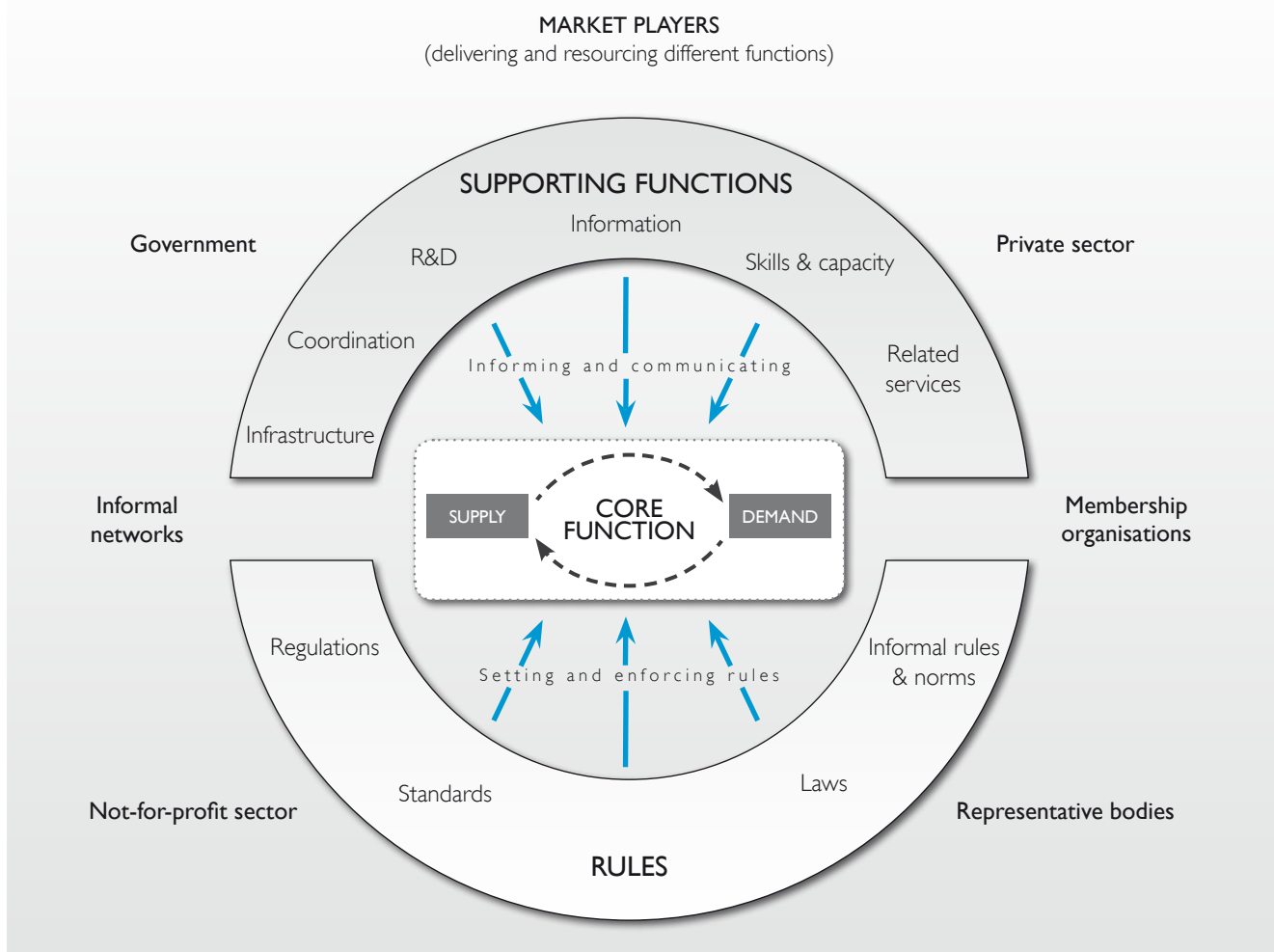
#### 3.3 A focus on market systems

The reason for M4P’s focus on market systems is clear. By bringing about change in the market systems within which people live and work it is possible to effect substantial and lasting change that can impact on many sustainably rather than a few temporarily. Learning from past experiences has logically taken the development community to an emphasis on systemic change.

What is less clear is what is meant by a ‘market system’? The composition and structure of specific market systems varies greatly with context. The market system for small business finance in a middle-income country will obviously look and feel very different from the water and sanitation services market in an urban slum. Markets for land, labour, raw materials, capital, goods and services are all different but they share the same key elements. In practice, all market systems can be viewed through the same lens consisting of different sets of functions and players (Figure 4).

### 3. WHAT IS M4P?

**Figure 4**  
Stylised view of the market system



The core function in any market system is to provide a space for transactions of a good or service. However the nature and efficiency of the core is shaped by formal and informal rules and a range of supporting functions. These determine behaviour and practices, shape relationships, and provide information, knowledge and incentives. Within this environment, a diverse range of public and private, formal and informal players may be active. It is this multi-function, multiple player arrangement that M4P refers to as a market system.

**Core**

This is the central set of exchanges between providers (the supply-side) and consumers (demand-side) of goods and services at the heart of any market. Exchange is conventionally through money, but can be through non-financial accountability (say in government-provided services) or through informal *quid pro quo* arrangements (in social or business networks). In most market systems, the private sector can be seen to be the main provider.

In any market system, there are three main sets of functions – **core**, **rules** and **supporting functions**.

### 3. WHAT IS M4P?

#### Rules

These act to shape market outcomes and govern participation and behaviour in markets. Rules include informal rules or norms, formal rules or laws and other standards and codes of practice. Formal providers of rules are commonly governments or membership organisations. Rules are essentially a non-commercial or public or collective role in markets. However, their enforcement (often the most problematic issue) can involve private sector players (for example, in international food quality standards). Informal rules are generally a product of local culture and value systems and practices and invariably define the extent to which formal rules are accepted.

#### Supporting functions

A range of other functions support the core exchange and help the market to develop and grow including, for example, consultation processes; research and development (R&D); information; and capacity development and co-ordination. The nature of these, and who provides them, varies from one context to another. Labour markets, for instance, may require information on market trends, vacancies, available skills levels and the legal framework – which is often best provided by government. Employment agencies linking supply and demand might be best provided by the private sector, while training is likely to involve both public and private organisations. Coordination in specific skills and disciplines is always likely to involve government and business or professional associations.

For governments and agencies, intervening to bring about change throughout a market system usually involves addressing rules and supporting functions (Box 6).

Two other factors need to be recognised. First, all three dimensions in a market system – core, rules and supporting functions – can be seen in an international, national or local context. It is an approach which is adaptable to different contexts and different resources, although more fundamental change will often require looking beyond the local environment. Second, by their nature, the influence of factor markets – even if they are not the core market under consideration – is pervasive. Obviously change here can result in widespread impact<sup>54</sup>, although it is often relatively more difficult to bring about.

#### 3.4 Leveraging scale and impact

M4P is concerned with achieving large-scale change. Of course, all agencies and all governments avow the same ambition but M4P can claim legitimately to be an approach that is inherently about stimulating large-scale change. By focusing on systems, M4P is seeking to go beyond individual organisations and groups, to consider how the wider system can be enhanced to influence many.

Two notable implications flow from this concern with scale. First, M4P projects need to think continually about how to go beyond their immediate context, to leverage greater change. For example, interventions that work with only one partner – and stop there – without considering how the experience can be used to bring in others or hoping that an (often ill-defined) demonstration effect will somehow happen need to reconsider their approach (Box 7<sup>55</sup>). The age-old criticism of development projects – that they are small and scattered, interesting perhaps but adding up to very little (the 'so what?' question) – is confronted directly in M4P by a requirement to consider from the outset how resources will promote large-scale change.

#### Box 6

##### Change throughout the market system in South Africa

The growth and greater inclusiveness of financial services in South Africa (the core) can be clearly attributed to changes in supporting functions and rules.

Although there has been some regulatory change, more important has been the wider social and political shift which has influenced banks' incentives and provided a spur for innovation and cooperation. New commercial information services and informal information exchange have provided the

raw material for product development. Consumer education has been pursued more vigorously by public and private players. Extending financial services to the 'unbanked' population has become recognised as a collective responsibility of the banks.

In other words, achievements in the core of the market system are explained in relation to change stimulated in the market's supporting functions.

<sup>j</sup> Self-evidently, supporting functions – such as vocational training – are often market systems in their own right.

### 3. WHAT IS M4P?

Second, 'large-scale' does not imply that interventions only aim at the national level. Scale depends on the nature of the market system. In some situations the most pressing obstacles can only be addressed at a national level (changes in customs regulation, for example). In other cases, change can be affected at a more localised level, for instance developing information flows in value chains. In others, international action may be required.

The ambition to achieve large-scale change does not mean interventions themselves have to be large in terms of resources. Starting small to achieve ambitious objectives may be a perfectly valid strategy but small 'pilot' projects, if they are to achieve larger-scale impact, need to be grounded in the incentives of players, the transactions between them and the supporting functions required for growth. Small that can only ever be small – the worthy tokenism of some development efforts – is not consistent with M4P.

#### 3.5 Giving meaning and priority to sustainability

Clearly, meaningful development is about more than delivering a one-off hit – making lasting change is what differentiates long-term development from short-term relief measures. However, in practice, sustainability is often demoted to a secondary concern. Frequently what is seen to matter most are final 'deliverables' – productivity improvement, employment growth, enrolment rates. The means through which these might be achieved continually are a distant afterthought. Sustainability is a particular priority in M4P and its approach to sustainability is distinctive in four ways.

First, sustainability is defined. Sustainability is always concerned both with final benefits and with the means (or capacity) through which those benefits are achieved. In the context of market systems, sustainability can be seen as:

*The market system capability to ensure that relevant, differentiated goods and services continue to be offered to and consumed by the poor beyond the period of an intervention.*

Second, sustainability is seen to be intertwined with scaling-up and further change. Functioning market systems are never static – they have within them the capacity and incentive to be dynamic – to grow and to change. Therefore the remaining sustainability issue to be faced is: how will growth and change take place in the future? Objectives for sustainability and scale are consistent with each other:

Third, the priority is clear: Inherent within M4P's focus on systemic change is recognition that priority should be given to developing capacity in the market system – the means by which benefits continue to flow – rather than simply delivering benefits directly.

#### Box 7 The lure of lead firms

Recent years have seen increased interest from agencies in supporting large companies directly. Some of these collaborations – sometimes done under the auspices of public private partnerships (PPPs) – have resulted in successful innovations. Large-scale impact appears to be more easily achievable by working with large firms – especially reaching out to low-income consumers.

Yet, beyond the immediate outreach achieved, the rationale for and long-term effects of this support are less clear. Risk-taking innovation is the essence of business. Financing single (large) companies to perform their core business task, so defraying their risk, runs the danger of conferring an unfair competitive advantage.

For direct support, as with all interventions, the key M4P test of its value is the extent to which it contributes to wider development – to systemic change that unleashes more business focus on the poor. This means, among other issues, considering how competitors learn and the services that support innovation in the market system.

In some cases, this broader change has been stimulated – for example Vodafone-Safaricom's M-Pesa banking product in Kenya which received DFID support. But in most other cases, any benefits are found only in the direct support recipient.

Fourth, sustainability is operationalised into every aspect of M4P activities (see Section 4). Initial market analysis shows which players are performing and paying for different market functions. In considering sustainability, we also need to consider who will undertake (who will do) and who will pay for these functions in the future. It requires that realistic future scenarios be developed for market systems. This requirement to be transparent forces interventions to take sustainability into their objectives and planning – to plan for sustainability at 'entry' rather than at 'exit'.

For example, if training or information provision in the water and sanitation sector – common areas of support for agencies – are seen to be important now then there's every reason to consider that they will be important in the future. And an obvious sustainability question is posed: who will provide and who will pay for training and information services in the future?

## 3. WHAT IS M4P?

### 3.6 Addressing causes not symptoms

M4P is based around identifying and pursuing the causes rather than the symptoms of constraints. In this sense, M4P is consistent with the essential principle that genuine development is always about addressing fundamental causes of poverty. It is an approach led by analysis – in simple terms, a process of continually asking ‘why?’ that allows the underlying issues to be identified. Two implications emerge from this process of narrowing down to the specific constraints that should be the focus of intervention.

First, pursuing underlying systemic causes can take an intervening agency to an apparently ‘different place’ from the original focus of concern (Table 2). The interconnected nature of markets – the fact that one market impinges on another as a supporting function – makes this inevitable, and can be an argument for concentrating interventions on cross-cutting factor or service markets in parallel with, or in advance of, more recognisable problems within product-specific markets.

Second, in pursuing the process of distinguishing causes from symptoms, a range of potential tools might be used – some more complex and resource-intensive than others. There is no single ‘magic-bullet’ methodology that must be utilised - the key point is not what tools are used, but that the process of analysis is of deep enough to provide appropriate guidance for action.

**Table 2**  
**Distinguishing between causes and symptoms**

Symptom	Initial cause	Underlying cause
Low levels of output, productivity and investment in African farming.	Lack of access to suitable financial services.	Uncertainty and confusion over formal title and informal rules in relation to traditional rural landholdings acts as major disincentive to bank finance.
High prices for water in urban slums in Latin America.	Small private providers are main operators with no public sector role.	Regulatory system provides no protection for consumers and doesn't prevent price fixing – while public investment in basic infrastructure is absent.
Lack of product innovation in Vietnamese business.	Weak legal services associated with intellectual property rights and a weak legal framework.	Reform processes and the political economy surrounding reform among researchers, associations, the media and decision-makers are undeveloped.
Low prices and struggling sales in the Ghanaian export craft industry.	Poor product differentiation, productivity and professionalism among exporting companies.	Weak provision and low use of specialised consulting, design and communication services (in turn a result of demand-side hesitancy and supply-side capacity weakness).

## 3. WHAT IS M4P?

### 3.7 A facilitation role

M4P requires that organisations play a facilitating role. Standing outside of the market system (Figure 4), facilitators work with different players within the system, to make it work more effectively. Their essential role is active and catalytic, to enable others to do rather than do themselves – stimulating changes in a market system without becoming part of it.

In practice, the facilitation role can involve many different tasks, depending on the nature of the constraints to be addressed – strengthening supply-side capacity, introducing new ideas and innovations, enhancing networks and exchange, providing information, increasing demand-side awareness. This range of tasks, however, and the way in which they are conducted should always be consistent with a vision of how the market system can work more effectively and sustainably in the longer-term. This is the guiding discipline that shapes facilitation.

Four other implications follow from recognition of the nature of the facilitation task. First, M4P facilitation is a temporary task. Learning from other experiences and the dangers of creating distortion and dependency, M4P takes the development challenge at its word, and sees facilitation as an independent, transient role.<sup>k</sup>

Second, consistent with the priority given to sustainability, facilitators need to consider, realistically and transparently, the role of different market players. This is especially important in relation to government where – given its limited resources – it is crucial to focus on areas of competence and strength.

Third, if M4P facilitation as a temporary role fits well with development agency mandates, what about governments, who clearly are not temporary players? There are legitimate roles for government in different situations – such as regulation, information provision and R&D. Can government wear different hats and play different roles – one being concerned with M4P facilitation (outside the market) and another with delivering functions within the market? In principle this separation of roles (Box 8<sup>56</sup>) – undertaken by different parts of government – can certainly happen but in practice there may be difficulties. This is especially the case when it comes to roles such as coordination where there is debate over whether a government presence is required permanently. And government may find the idea of withdrawal from a role unpalatable or impractical to execute.

#### Box 8

##### Different roles for government in the Mali water industry

Water delivery in Mali's towns is undertaken primarily by Water Users' Associations under the overall supervision of government. In 1994, in an attempt to improve overall performance, the Water Ministry introduced a new Advisory Unit providing financial, management and training services to the Associations, in exchange for a fixed fee per cubic metre of water distributed.

After several years of operation, the Unit appears to be achieving positive results. Operating costs of delivering water have reduced by more than a half, savings which amount to more than six times the Unit's fees. And the Unit's monitoring of water consumption, production and costs enable it to identify where future opportunities might arise.

While this twin role from government – regulator and technical provider – appears to have worked, a question is posed for the future. Government may have to maintain its regulatory role but should it also continue to be a specialist provider of services? Or, having introduced this role, should it seek to build it into other players within the water market system?

Fourth, M4P differentiates between short-term temporary subsidies that can encourage or facilitate lasting change, and longer term recurrent subsidies that might well be required to ensure on-going access to 'merit goods' – such as water and health services. Where long term subsidy is required to ensure access, M4P simply asks how this will be provided, and how such recurrent expenditure will be financed once support ceases.

<sup>k</sup> How long 'temporary' should be varies from one context to another; M4P interventions may often have relatively light financial resource requirements but require time to address underlying constraints.



### 3. WHAT IS M4P?

#### 3.8 An overarching approach

M4P is an overarching approach that guides the assessment of market systems, planning for the future and acting to bring about change. It is not therefore in competition with more specific methodologies or tools. It is built on a framework for analysis and action within which they can be used and amended so that their strengths are best utilised, limitations addressed and effectiveness enhanced (Table 3).

Similarly, M4P can provide a means through which agencies and governments can encourage business activity that is both profitable for individual firms and more inclusive towards the poor.<sup>57</sup> M4P, in other words, can help to differentiate between interventions which are simply providing subsidies to private firms (largely for private gains) and those which use firm-level support to stimulate systemic (public) change (Box 9).

This utility in relation to other tools is strengthened by three other complementary characteristics of M4P:

- *Multi-disciplinary* – applicable to a variety of economic and social fields. It can therefore provide the basis for more coherence in the work of multi-disciplinary agencies and governments.
- *Not descriptive* – it sets out a framework for understanding and developing the roles of different players in relation to market functions but is not prescriptive in dictating who does (or does not) undertake particular tasks.
- *Transparent* – while it does not assign players to functions, M4P does provide a transparent basis for assessing the role of different players and requires that these roles are justified in the context of functioning market systems. M4P, in short, provides an open basis for decision-making on interventions.

**Table 3**  
M4P in relation to common development tools

Tool	Characteristics	M4P can:
Livelihoods analysis	Useful in understanding the poor, but less so in relation to the dynamic market systems around them, and on guidance for intervention.	Place the poor within market systems, identify the systemic constraints affecting their participation, and focus interventions accordingly.
Value chain analysis	Useful in mapping out the flow of added value, but can understate the importance of services required for sustained competitiveness.	Strengthen systemic analysis of value chains (including services, fee-based and embedded) and provides stronger guidance for intervention.
Drivers of change	Can provide an excellent understanding of the political economy but less instructive in guiding what to do to influence it.	Place the political economy as one factor within a wider systemic framework of analysis and action.
Investment climate reform	Useful in analysing the technical challenge of regulatory reform but less so in assessing the informal incentives and 'political markets' impinging on change.	Place regulations as one factor in the wider system of incentives, enforcement, services and information.
Local economic development	Geographic focus for analysis with emphasis on stakeholder tools and participatory processes but no clear focus on market systems.	Bring clearer focus on market analysis within geographic areas and interventions emerging from this.

### 3. WHAT IS M4P?

**Box 9**

**The potential and limitations of BOP**

Bottom of the Pyramid (BOP) has attracted much attention in recent years. Coined by CK Prahalad, it describes a business objective of targeting the vast numbers of poor (primarily as consumers) and of offering better products and services to them (such as consumer goods) as a profitable business. However, while new strategies and investment towards the poor is a positive trend, the implications for agencies and governments are less clear:

Although BOP recognises the importance of an environment that is conducive to innovation for low-income consumers, it does not provide a framework to develop such an environment. This is not its purpose – but this is the central development task, and is the focus of M4P. Potentially, M4P can complement the objective and ambition of BOP by addressing the barriers in the market system around firms that limit their pursuit of low-income consumers.

## 4. HOW TO IMPLEMENT M4P?

### SUMMARY

The M4P approach comprises three elements:

- A strategic rationale for achieving poverty reduction objectives through market systems development.
- A framework for understanding market systems and defining a realistic picture of sustainability.
- Guidance for intervention action.

M4P's strategic rationale establishes a hierarchy of objectives based on recognition that the poor exist within wider market systems. Therefore the objective of interventions is to stimulate those market systems to work more effectively and sustainably for disadvantaged groups – and consequently reduce poverty.

In M4P understanding market systems is the basis for all interventions – in particular why markets don't work for the poor currently and identifying how they might work more effectively in the future. A realistic analysis of sustainability is crucial, providing the basis for agencies and governments to stimulate and align the incentives and capacity of market players so that they play more effective roles in market systems.

M4P emphasises explicitly that the role of intervention is temporary and catalytic. Agencies should avoid performing market roles directly and try to facilitate market players to perform more effectively. Interventions therefore need to be sensitive to local market conditions and seek to stimulate deeper and larger change by 'crowding-in' other players to improve the functioning of the market system. Successful facilitation, although not a fixed model, requires organisations that have credibility, independence and relevant knowledge and skill.

The three elements of M4P are overarching, helping agencies position different development methodologies and tools, and deploy them more effectively to understand the poor in market systems and determine valid roles for interventions.



## 4. HOW TO IMPLEMENT M4P?

### 4.1 Introduction

The M4P approach in practice can be broken down into a number of main components. This section introduces this essential M4P intervention process – and provides the basis for planning, implementing and measuring interventions in a coherent and effective manner. Drawing on examples from the three projects referred to earlier – FinMark Trust in South Africa; Katalyst in Bangladesh; and FIT-SEMA in Uganda – it also sets the context for the *M4P Operational Guide* which contains more details of how to operationalise M4P.

M4P is an approach that helps agencies and governments to shape their poverty reduction interventions. It has been strongly influenced by their practical experiences:

- Learning from shortcomings – many interventions have failed to produce sustainable outcomes which incorporate the poor within the economic mainstream because, in their quest for immediate impact, they have: (a) failed to understand adequately market systems and where the poor fit in to them; and (b) been overly-direct or invasive in their actions. Consequently, in some cases, interventions have distorted market systems, perpetuating exclusion and dependency.
- Informed by success – more facilitative intervention approaches – with clear objectives for sustainability, sound understanding of market systems and an orientation to work with market players – have demonstrated promising levels of impact, scale and sustainability.

Experience shows that intervention in complex systems cannot be formulaic or use a step-by-step handbook. M4P's emphasis on indigenous ownership – ie by players within the market system rather than external facilitators – requires responsiveness to local context, demanding flexibility and enterprise. Successful

interventions, however, are not conceived and executed in an *ad hoc* manner; they are guided by overarching strategy and underpinned by appropriate analysis.

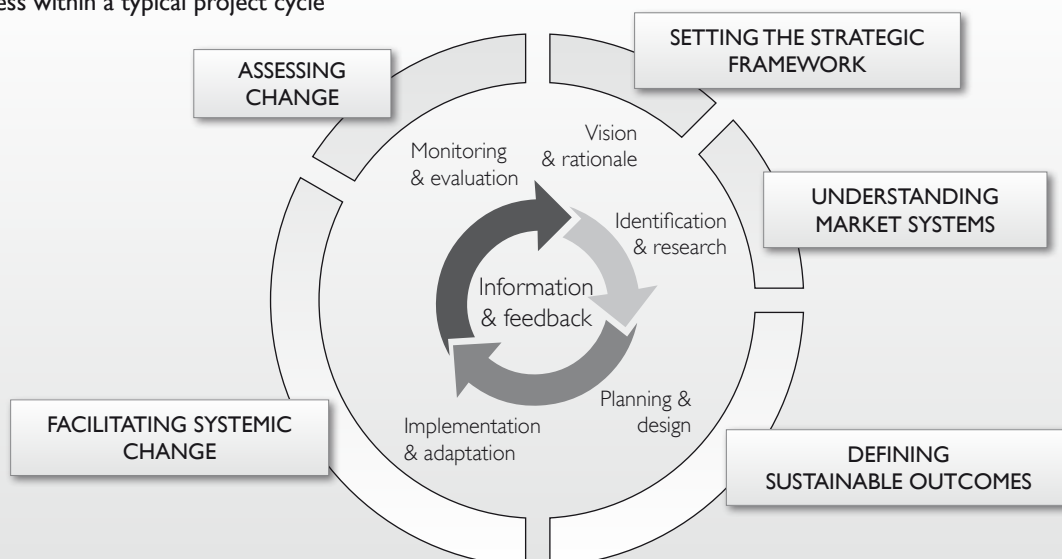
In considering the essence of 'how to implement M4P', this (potential) tension needs to be borne in mind – on the one hand a coherent, logical sequential approach and, on the other, the need for flexibility and creativity. While the following explanation, therefore, may give the impression of M4P as an orderly linear progression, in practice, there is a requirement for continual learning and adaptation in interventions.

M4P provides agencies with:

- A strategic rationale: a clear hierarchy of objectives focused on making market systems more inclusive and effective for the poor; which reflects M4P's vision of large scale and sustainable impact on poverty reduction.
- Frameworks for:
  - Developing a detailed understanding of market systems to shape intervention design and action, which reflects the complexity of markets in the real world.
  - Developing a transparent and realistic picture of sustainability, which recognises that ownership within market systems is vital to achieving enduring change.
- Guidance for intervention action: operational principles for facilitating systemic change, which permit flexible, multi-faceted interventions aimed at stimulating market players and functions.

The different components of the M4P approach relate to a typical project cycle (Figure 5) so this section is structured to reflect the chronology of such a cycle and within each stage of this it highlights key questions. Finally, it considers some key attributes of organisations who can implement M4P successfully.

**Figure 5**  
M4P process within a typical project cycle



## 4. HOW TO IMPLEMENT M4P?

### 4.2 Setting the strategic framework

M4P requires that agencies set a clear strategic framework – a hierarchy of objectives (contained in, for example, a logical framework) – which explicitly links objectives for large scale poverty reduction with a focus on sustainable market system change.

This framework (Figure 6) provides intervening agencies with a coherent overarching direction and establishes the basis for monitoring and evaluation (M&E) of the effects of their actions.<sup>1</sup> The constituent links in this hierarchy are explained below.

**Figure 6**  
Strategic framework for M4P



### Defining poverty reduction objectives

M4P is about making markets work for the poor. So, defining specific poverty reduction objectives is the first key step for any intervention – the basic rationale for all development agencies. M4P interprets poverty according to context and project type. Generally M4P interventions will have an ultimate objective aimed at improving the socio-economic welfare of disadvantaged people, regions or countries. For example, reducing absolute or relative levels of deprivation, either income/asset-based or non-income-based. This entails asking some basic initial questions:

- Which group of poor people is being targeted?
- What is the profile of that target group, particularly the nature of their economic activity?
- How is their poverty influenced by exclusion, inequality or deprivation in market systems?

### Defining access and growth objectives

M4P's ambitions for large-scale impact through increased access and growth means that, from the outset, agencies must identify market systems which have the potential to work well for significant groups of poor people. There must also be a reasonable prospect of bringing about durable pro-poor change. Agencies must take care not simply to rush to where the poor are without first understanding where there is realistic potential for change (Figure 7).

Key questions include:

- Are there reasonable prospects of affecting significant numbers of poor people?
- Which market systems are important to the target group and what is the nature of their engagement in those systems?
- In what ways might improving the market system(s) enhance access and growth?
- Is intervention likely to be feasible given the resources available?

To achieve its ultimate objective, M4P aims to enhance the poor's access to opportunities and their capacity to respond to opportunities within the economic mainstream, either as producers/entrepreneurs, workers or consumers. This means<sup>58</sup>:

- *Stepping up* – improvements in existing market systems: increased productivity or value-added; more (or better) employment; more appropriate goods and services.
- *Stepping out* – new market systems: access to new markets; new employment; new goods and services.
- *Hanging in* – for extremely disadvantaged groups: reducing or mitigating vulnerability or instability.

<sup>1</sup> Many of the issues to be faced in 'setting the strategic framework' overlap with 'assessing change'. For this reason, there is no separate section here on assessing change – but there is in the *M4P Operational Guide*.

## 4. HOW TO IMPLEMENT M4P?

### Defining systemic change objectives

M4P seeks to stimulate sustainable change in markets systems that are important for the poor. Agencies and governments therefore need to identify specific dimensions of those systems that they wish to change – what is ‘wrong’ and needs to be addressed if market systems are to shift from their existing path (Box 10). The key question therefore is: what are the key dimensions of specific market systems which interventions will seek to change?

Market system change might include:

- Improved delivery (such as increase in access or participation rates, improved quality or levels of satisfaction).
- Changes in practices, roles and performance of important system players and functions.
- Changed attitudes of, and evident ownership by, market players.
- Demonstrated dynamism of market players and functions (for example, responsiveness to changed conditions in the system).
- Independent and continuing activity in the system (ie the extent to which changes are maintained after direct intervention support has ceased).

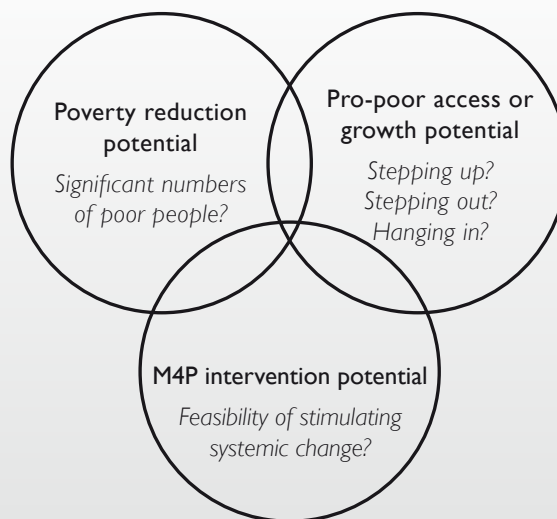
The systemic change objectives that facilitators pursue may vary greatly, depending on their perspective and capacity. For example, one approach to connecting an under-served population might be to enlarge and deepen the existing mainstream system to expand the ‘access frontier’. Another might be to establish separate ‘providers for the poor’ and then connect them to the mainstream – an approach which may allow an immediate direct focus, but runs the risk of isolating populations from mainstream providers.

#### Box 10

##### A focus on media system change in Uganda

Many agencies pay mass media channels to provide information to the poor. FIT-SEMA recognised that the media is more than a one-way distribution channel. Effective media can provide voice to the poor and act as a restraint on the powerful. FIT-SEMA therefore sought to understand how the media could better serve the poor and directed its interventions towards improving the FM radio system, focusing on radio stations and wider supporting functions, such as investigative journalism practices, production services and audience research.

Figure 7  
Defining market system focus



### Defining intervention strategy and assessment framework

The process-oriented nature of M4P requires responsive and multi-faceted interventions. The main strategic focus and direction of interventions should be clear in order to guide decision-making and M&E in a dynamic context. The minutiae of activities, however, cannot be ‘locked down’ in advance. Intervention strategy should be based on a clear vision of change and pathway towards exit, but should permit operational flexibility to be responsive to market players. Typically, this means establishing the main focal areas of intervention, within which multi-faceted intervention activities that are responsive to prevailing conditions can be pursued.

From the outset, intervention has to establish a framework for assessing market system change. Effective M&E is necessary not just to demonstrate results but to provide feedback on performance. Arguably, the systemic nature of M4P, and the fact that the time from interventions to final impact can be relatively long compared with the illusory ‘wham’ of direct delivery, renders M&E especially important for M4P. Key questions include:

- *What is the impact logic (or causal model) of the intervention?*
- *What are the key indicators at each level?*
- *Is the choice of indicators providing the right targets/incentives for interventions?*
- *Is there an adequate approach to attribution and to assessing wider change beyond immediate partners?*

## 4. HOW TO IMPLEMENT M4P?

The purpose of the strategic framework is, by definition, to provide overall strategic direction – not to tie facilitators down to specific operational detail. How much detail is often a point of tension between funders (who like more) and facilitators (less). In practice, managing this tension and balancing accountability and flexibility requires setting out basic programme design parameters (such as the main impact logic) and clarifying responsibilities between funders and facilitators.

### 4.3 Understanding market systems

The complexity of market systems requires that intervention is guided by a good understanding of specific market systems, including a diagnosis of the symptoms and causes of under-performance. M4P interventions require a strong emphasis on information gathering and interpretation, not out of academic interest, but to shape design, ascertain prospects for sustainability and guide actions throughout the course of intervention. An agency's understanding of market systems can never be perfect – the 'paralysis by analysis' syndrome must be avoided – but it has to be sufficiently strong to provide the basis for informed action (Box 11).

Information gathering is not a large-scale, formal activity only conducted at the design stage. Interventions in dynamic socio-economic contexts will always be iterative in nature, requiring constant feedback and adaptation. Nor is information gathering to be regarded purely as a resource for planning, design and measurement. An intervention's new insights developed through analysis can enrich weak information environments and serve as a powerful tool for changing the perceptions or behaviour of market players – often more effectively than financial support.

Information gathering for M4P interventions should draw from a variety of sources ranging from pilot activities to stakeholder feedback. However, whatever the source however, M4P places a premium on gathering intelligence and deploying it effectively. Key questions are:

- *What are the underlying causes of a market system's under performance?*
- *What are the main reasons why the poor's participation is currently weak?*
- *What are the primary challenges to increase their level of participation?*

The livelihoods of poor people are affected by the market systems in which they operate – which, in turn, are affected by other market systems and the broader socio-economic context. So the key challenge is to be sufficiently focused on developing a sound understanding of the operations of specific market systems while maintaining an informed awareness of wider context, such as patterns of trade, international standards and macroeconomic performance.

This requires a diagnostic process – provision for which must be reflected in planning and budgeting – which assists in moving from a broad awareness to a sharper understanding of the specific market system constraints to be addressed – from symptoms to causes (see Figure 8).

#### Box 11 Analysing financial exclusion in South Africa

In a context of heated public debate about the poor's exclusion from formal financial services, FinMark analysed the reasons for exclusion in considerable depth. As a result, FinMark focused on two key constraints, stakeholder coordination and specialised information services for commercial banks, while in contrast, many other development initiatives were focusing on poverty banking models.

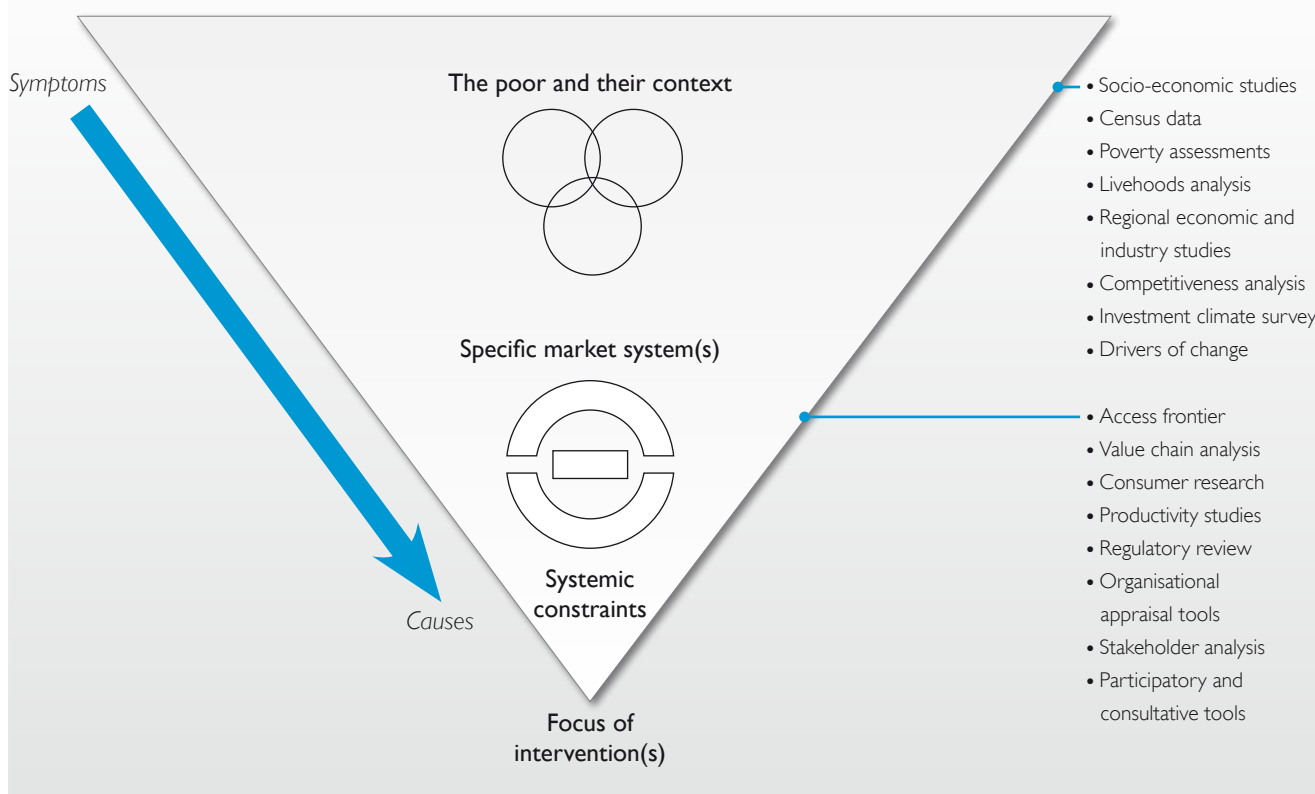
Figure 8 also illustrates that M4P interventions may need a diversity of tools for analysis and understanding that cover the different dimensions of market systems and the broader socio-economic context of intervention. There is no single analytical tool that does it all, but a range of tools are available. M4P does not generally seek to introduce new or displace existing tools. The purpose of M4P frameworks is to help practitioners make sense of the different types of information they might require, determine which of the myriad information tools they might use, and interpret the information generated for effective intervention design and action.

The key point to recognise is that M4P interventions use analysis to guide action, but do so within the confines of available resources (different tools have different resource implications) according to the requirements of context. For example, M4P uses market system analysis to identify market players and their interests to determine their appropriateness for engagement. This contrasts with many conventional development approaches which seek to engage with as broad a range of stakeholders as possible in the interests of ensuring participation and building consensus. M4P uses information to act in a more focused manner, and to ensure meaningful participation and ownership from market players.



## 4. HOW TO IMPLEMENT M4P?

**Figure 8**  
The M4P diagnostic process and a selection of tools of analysis utilised



M4P also recognises that paucity of information in weak market situations is often an indication that information gathering and analytical capacity within market systems is limited. Therefore, where feasible, M4P interventions seek to develop and transfer analytical capacity to market players – for example by working hand-in-hand to conduct analysis – so that the information function (gathering, interpretation and distribution) can continue in the future.

### 4.4 Defining sustainable outcomes

Sustainability is central to the M4P approach. Interventions are guided by an understanding of market systems and, in particular, of the constraints that inhibit market development. However, in parallel with this analysis, it is important to develop a clear view of where an intervention is going – of how it is envisaged that the market system will operate in a sustainably in the longer-term. While sustainability holds a prominent place in development vocabulary and is generally seen to be important, it is seldom defined tightly or operationalised into tangible objectives and activities. M4P considers sustainability throughout the implementation process – when setting objectives, conducting market analysis, designing interventions and taking action.

M4P regards sustainability (see Section 3) as the market system capability to ensure that relevant, differentiated goods and services continue to be offered to and consumed by the poor beyond the period of an intervention. In practical terms therefore a transparent view of sustainability is one that defines market capability in depth, linking market players with market functions by addressing two key questions: *who does* (and in the future *who will do*) and *who pays* (and *who will pay*)?

## 4. HOW TO IMPLEMENT M4P?

Using these two key questions, M4P develops the market system construct into a simple framework which facilitators can use to examine the specific combinations of market functions and players which are necessary for a market to work better in the future (Figure 9).

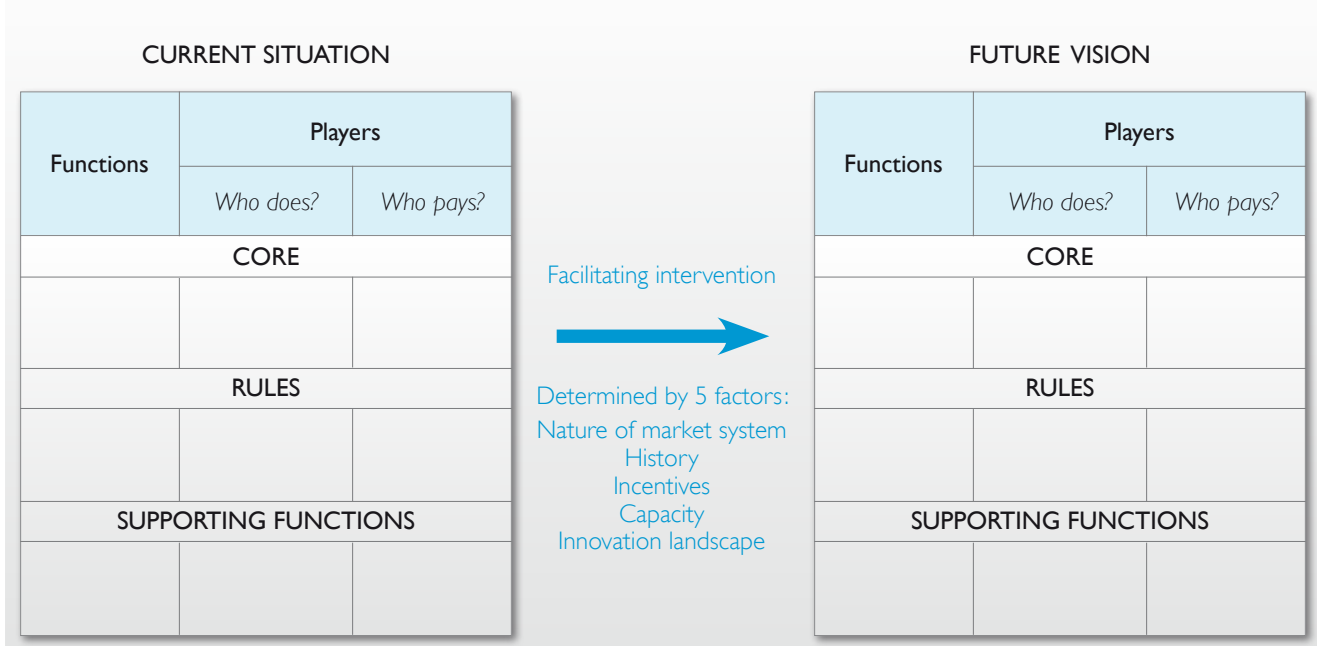
In considering their future vision and in order that this does not simply become a mechanistic exercise in box-filling, interventions should consider five determining factors. Three of these are 'given' and are not changeable through interventions – the nature of specific market systems; history; and the innovation landscape – and two are 'open' to influence through interventions – capacity and incentives.

### **What is the nature of the specific market system(s) in question?**

Markets are inherently different. For example, they differ with respect to the degree and nature of information asymmetry (such as in commodity markets where poor producers typically know less than large players), and of externalities (basic services potentially have major implications for society as a whole) which are central in determining the nature of public role required.

The key point is that market systems differ greatly, and these differences have implications for the combination of functions and players that make up the market system. The challenge for interventions in any context is how to interpret the varying degrees of public and private interest in relation to specific roles.

**Figure 9**  
Framework for defining future sustainability



## 4. HOW TO IMPLEMENT M4P?

### ***What is the historical context of the market?***

Different histories and traditions lead to wide variations in institutions and capacity between countries. An acknowledged failure in development has been the practice of exporting apparently successful structures or practices from one country – with limited understanding of the reasons for their success – to another country whose institutional realities are markedly different. Interventions should take into account historical factors that have shaped the current arrangements of a market system when considering how that market might work better in the future.

### ***What relevant innovations might inform realignment of functions and players?***

Development interventions are about stimulating change. It is therefore important to be aware of the wider 'innovation landscape', such as innovation in the collaboration between public and private players which can often be the key to improving a market system's performance. For example, recent improvements to vocational training in Peru – manifested in training outcomes and job placements – can be attributed to a shift in government role from direct provision to private sector training delivery, enabled by a framework of oversight set by a partnership of government, employers' and employees' organisations, together with targeted subsidies for disadvantaged groups.<sup>59</sup>

### ***What are the underlying incentives for change?***

In recognising institutional differences between countries, there is however a risk that interventions become a prisoner of moribund institutional structures which – even if they are traditional – are not delivering.<sup>m</sup> Interventions must strike a balance between change that is ambitious and change that has a realistic chance of success. The actual process of change is therefore as important as the vision of the future. For this reason, stakeholder incentives are central to any consideration of the roles of different players. For instance, the main advocates for government subsidies – such as fuel subsidies in India which account for 2% of government expenditure – are generally not the poor but higher income groups who have captured the benefits and are a formidable obstacle to change. In building a valid and realistic vision of the future, understanding incentives so that interventions can be aligned to them is central in shaping a valid and realistic vision of the future (Box 12).

### ***What is the prevailing capacity of market players?***

The message here is a simple one; role has to fit with capacity. Yet, in practice, capacity is often ignored. In weak market situations, the capacity of market players – both public and private – is correspondingly fragile. For example, governments who have provided services in the past but do so ineffectively are also likely to be weak in other functions – such as regulation or information. So any revision of roles has to address new capacity issues. Interventions need to be guided by a realistic assessment of the distinctive core competence of market players – of what they can do.

The key point is that M4P is particularly concerned with the economic and institutional sustainability of different functions in market systems. It places great emphasis on thinking through the respective roles of private, government and civil society actors. Through its focus on understanding institutional realities and the capacity and incentives of different players M4P actively seeks to stimulate realistic and sustainable market development.

#### **Box 12**

#### **Assessing sustainability in the vegetable sector, Bangladesh**

Katalyst's analysis of information constraints showed a range of potential information sources for farmers – including government, input suppliers, retailers and NGOs. Examination of the historical performance, capacity and incentives of these sources led to the conclusion that only large suppliers had the potential to sustainably adopt and adhere to new practices.

The challenge then was how to bring about this change – this vision of the future – focused on supply companies and their retail counterparts.

<sup>m</sup> Referred to as 'path dependence' in economics literature.

## 4. HOW TO IMPLEMENT M4P?

### 4.5 Facilitating systemic change

The M4P approach seeks to change markets systems through interventions that are facilitative or catalytic in nature, ie they bring about change which alters the way in which a market system operates into the longer term, without the agent of change remaining within the market system.

If this then is the principle, what does facilitation mean in practice and what might facilitators actually do? As the examples from Bangladesh (vegetables), Uganda (radio) and South Africa (financial services) illustrate, interventions can include a range of activities:

- Technical assistance to supply-side players (radio and vegetables) – and then to the providers of specialist advice.
- Introducing a new business idea (such as retailer training in vegetables) and providing technical support to develop this, and limited financial support to defray initial risk.
- Establishing a forum for new ideas and exchange (financial services).
- Providing technical assistance and some financial support to regulators and researchers to improve the process of policy analysis (financial services).
- Offering information to other players in the market on new opportunities (radio)
- Developing a new commercial service – when it was clear that no one else in the market could or would do it (financial services).

This breadth of activity does not, however, mean that facilitation is an undisciplined rag-tag of 'things to do' (a common misapprehension – see Box 13). Interventions inevitably will comprise myriad actions and need to be sufficiently flexible to respond to conditions on the ground. A step-by-step guide is therefore not realistic. But they are guided first by the strategic imperative of 'crowding-in' other players and activity and, second, by some key operating principles.

Developing an approach to crowding-in is central to facilitating system change. Crowding-in refers to how an intervention (or series of interventions) can help to catalyse or bring other players and functions into the market system so that it works better for the poor. Figure 10 sets out three steps to operationalise this 'pathway to crowding-in'.

#### Box 13

##### What do facilitators do?

While the facilitator's role might be clear in theory, there remains an air of mystery over what facilitation means in practice. Funding agencies, sensing the potential of the approach but frustrated by a perceived lack of specifics, ask "*But what is it that you do... exactly?*" To which facilitators commonly respond, with equal frustration, "*well, it depends...*"

So what do facilitators do? The following gives a flavour of the activities undertaken for one intervention\* – Katalyst's introduction of training as an embedded service from agricultural input suppliers to retailers in order to improve the information flow to vegetable farmers (see Box 5, in Section 1). Once initial market analysis had been undertaken, tasks were divided (slightly arbitrarily) into those done during the initial phase and those undertaken periodically throughout the two-year intervention period.

##### Initially

- Identify and approach potential partners over possible collaboration.
- Develop ideas, negotiate and finalise agreement with one lead firm.
- With lead firm:
  - Develop methodology, content and structure of programme.
  - Familiarise lead firm trainers with approach.
  - Agree on logistics, venue and costs.
  - Observe and review initial programmes.
  - Refine programme after feedback.

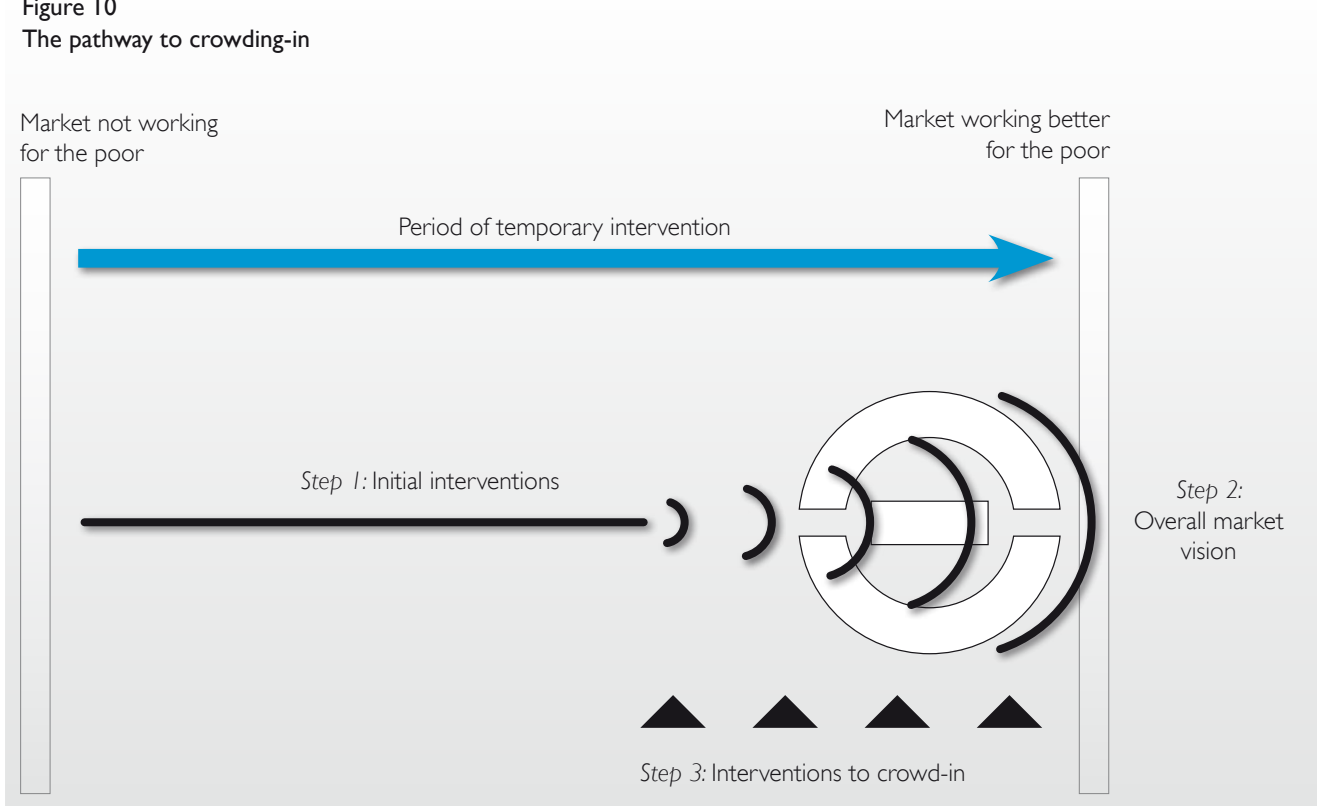
##### Periodic

- Review progress against targets and monitor participant feedback.
- Monitor participants' use of training and perceptions of value.
- Manage cost-sharing financial support to lead firm for delivery of programmes.
- Monitor wider developments in sector, including competitors' response.
- Establish baseline for impact study and undertake impact assessment.
- Commission and manage external case study, including dissemination.
- Start discussions with lead firm and other players on next steps to promote crowding in.

\* Several interventions usually take place concurrently.

## 4. HOW TO IMPLEMENT M4P?

**Figure 10**  
The pathway to crowding-in



### Step 1

Having something to build on – initial interventions are often small-scale pilot projects or research-oriented activities. The purpose of these is to test ideas (typically a new service or product) with a committed partner as the basis (if successful) for stimulating further activity – which might require further (different) interventions.

### Step 2

Having a vision of the future – a future picture of how the market should operate in the future is driven by the ambition of a facilitator with respect to different features of market change such as breadth (more transactions in the core of the market) and depth (supporting functions and rules).

### Step 3

Developing other interventions to stimulate change – while in some cases, crowding-in may simply happen, in many instances it will require further action. Part of crowding-in may be concerned with commercial rivals 'copying' the actions of an innovative market leader. But crowding-in is not only replication ('more of the same now'): it is about stimulating other supporting functions so that the depth of the market system is improved (not just 'more now' but 'better in the future').

Crowding-in demonstrates what is distinctive about facilitators especially in relation to commercial players in a market. With their own private organisational perspective, commercial players seek to develop the market for themselves and essentially want to keep out others who don't contribute to their goals. In contrast a facilitator, with a public, institutional perspective, wishes to bring in other activity that contributes to the overall efficiency of the market system so that it is both more inclusive and competitive.

## 4. HOW TO IMPLEMENT M4P?

Given a strategic commitment to crowding-in, there are a number of guidance principles (rather than fixed rules) to be taken into consideration (Box 14).

- Ownership – seeking to ensure that ownership – psychological, legal and economic – lies with market players so that they have the wherewithal to continue after a period of intervention has ended.
- Relationships – developing transactional relationships between facilitators and market players based around *quid pro quo* exchange (rather than unconditional giving – a classic welfare relationship). Relationships might contain a financial exchange (most don't) or might be contractual in nature (or on a less formal basis) but, however they are defined, to be successful they must encourage commitment and ownership.
- Appropriate resource levels – externally-funded interventions (especially from foreign donors) can easily displace market mechanisms, replacing them with activities in a way which can't continue without further infusions of funds. Interventions therefore have to be sufficiently resourced to make a difference – but not to the extent that they cause negative distortion.

So, in considering facilitation a number of key questions are posed:

- *Do intervention activities relate to a potential market function in the future or are they 'one-off' activities?*
- *Are relationships with the 'right' players – in terms of what they do, their motivations and their capacities?*
- *Is the nature of the relationship one that encourages ownership and commitment?*
- *Is the type of support offered by the facilitator – in amount and kind (technical support, finance etc) – appropriate?*
- *Underpinning all these questions, is intervention encouraging crowding-in; ie 'opening the door' for market players to perform market functions more effectively?*

### 4.6 Key attributes of facilitators

The main stages in successful implementation of M4P defined above – the strategic framework, understanding market systems, defining sustainable outcomes and facilitating change – all emerge from the experience of M4P projects. But one other 'active' factor is of central importance, namely the characteristics of the facilitating organisation itself.

There are no fixed rules about the specific organisational form of a facilitator – project, trust etc – but, whatever the structure, facilitators need to show a number of characteristics, all of which are apparent in Katalyst, FinMark and FIT-SEMA.

#### **Closeness**

A relationship with market players which shows understanding and informed empathy but without being captured by them. The task of facilitation can be seen as acting as a bridge between the public objectives of funders (agencies and government) and the narrow, private aims of individual market players.

#### **Knowledge and insight**

Knowing enough to be able to analyse a market system and assess opportunities to intervene and add value.

#### **Entrepreneurial instincts**

Married to knowledge, the capacity to see where opportunities may lie and be able to shape and convey an 'offer' to different players in the market that responds to their situation and addresses systemic constraints.

#### **Independence**

A status that allows facilitators to be and – equally as important – to be seen to be independent in the eyes of market players so that their role and their status is understood and accepted.

These qualities allow facilitators to develop credibility and respect, and a growing capability to intervene effectively. Indeed, the evidence from successful experiences shows that credibility is not acquired instantly – these qualities develop and accumulate over time and with experience.

## 4. HOW TO IMPLEMENT M4P?

### Box 14

#### Facilitating systemic change in Uganda

FIT-SEMA's initial intervention to improve the way the media served the poor started with one leading radio station, testing new, more responsive programming formats and practices.

Once this trial had proved successful, FIT-SEMA sought out other players to work with, seeing crowding-in as vital for diversity, competition and broader change. Throughout its interventions they took pains not to become involved directly in financing broadcasters or in developing programme

content. FIT-SEMA saw these functions as integral to the media system and recognised the distortionary dangers from direct involvement.

In behaving in this way – and in developing transactional relationships with partners – FIT-SEMA was able to differentiate itself from the approaches of other donor-supported projects (buying air time and dictating content) common in the industry.

## REFERENCES

- <sup>1</sup> World Bank (2007); *World Development Indicators*; Washington DC, Oxford University Press
- <sup>2</sup> World Resources Institute (2007); *The next four billion. Market size and business strategy at the base of the pyramid*; International Finance Corporation, Washington DC
- <sup>3</sup> Ravallion, M (2001); *Growth, inequality and poverty: looking beyond the averages*; *World Development*, 29 (11), pp 1803-1815
- <sup>4</sup> Operationalising Pro-Poor Growth Programme (2005); *Pro-poor growth in the 1990s: lessons and insights from 14 countries*; World Bank, Washington DC
- <sup>5</sup> Kraay, A (2004); *When is growth pro-poor? Evidence from a panel of countries*; *Journal of Development Economics*, 80 (1), pp 198-227
- <sup>6</sup> Lin, S (2003); *Economic growth, income inequality and poverty reduction in People's Republic of China*; *Asian Development Review*, 20 (2), pp 105-124
- <sup>7</sup> Easterly, W (1999); *Life during growth*; World Bank, Washington DC
- <sup>8</sup> UNDP (2003); *Millennium Development Goals: A compact among nations to end human poverty*; Human Development Report, UNDP
- <sup>9</sup> World Bank (2004); *Making services work for poor people*; World Development Report, Oxford University Press
- <sup>10</sup> Do, Quy-Toan & Iyer, Lakshmi (2003); *Land rights and economic development – evidence from Vietnam*; World Bank Policy Research Paper 3120
- <sup>11</sup> Deininger, K and Jin, S (2002); *Land rental markets as an alternative to government reallocation? Equity and efficiency considerations in the Chinese land tenure system*; World Bank Policy Research Working Paper 2930
- <sup>12</sup> World Bank (2007); *Rwanda: towards sustainable economic competitiveness*; Country Economic Memorandum, Washington DC
- <sup>13</sup> Gabre-Madhin, EZ and Goggin, I (2005); *Does Ethiopia need a commodity exchange? An integrated approach to market development*; Ethiopian Development Research Institute, EDRI-ESSP Policy Working Paper No. 4
- <sup>14</sup> Jopson, B (2007); *Ethiopia to exchange famine for food*; *Financial Times*, 7/10/07
- <sup>15</sup> International Telecommunication Union (2007); *Telecommunications/ICT markets and trends in Africa*; ITU, Geneva, Switzerland
- <sup>16</sup> Anderson, G and Elliott, D (2007); *The role and impact of radio in reforming the rural business environment in Africa*; paper presented at the Donor Committee conference on business environment reform in Africa, November 5<sup>th</sup>-7<sup>th</sup>, 2007, Accra, Ghana
- <sup>17</sup> ILO (2007); *International Labour Conference; 96<sup>th</sup> session, Provisional Record*; Geneva, 2007
- <sup>18</sup> Kabeer, N (2003); in *Globalisation and employment: working for the poor*; id21 insights, Institute of Development Studies, UK
- <sup>19</sup> Rutkowski, J (2003); *Does strict employment protection discourage job creation? Evidence from Croatia*; World Bank Policy Research Working Paper 3104
- <sup>20</sup> De Soto, H (2000); *The mystery of capital. Why capitalism triumphs in the west and fails everywhere else*; Basic Books, New York
- <sup>21</sup> King, RG and Levine, R (1993); *Finance and growth: Schumpeter may be right*; *Quarterly Journal of Economics*, 108(3), pp 717-37
- <sup>22</sup> Stern, N (2007); *The economics of climate change*; HM Treasury, UK
- <sup>23</sup> Sen, A (2001); *Development as freedom*; Oxford University Press
- <sup>24</sup> Chaudhury, N et al (2003); *Teacher and health care absenteeism*; background paper for the WDR 2004, World Bank
- <sup>25</sup> Tooley, J (2006); *Educating Amaretech: private schools for the poor and the new frontiers for investors*; *Financial Times*, 17/9/06
- <sup>26</sup> Sawada, Y (1999); *Community participation, teacher effort, and educational outcome: the case of El Salvador's EDUCO program*; William Davidson Institute Working Papers 307, University of Michigan
- <sup>27</sup> McKenzie, D and Mookherjee, D (2002); *Distributive impact of privatisation in Latin America: an overview of evidence from four countries*; overview of a research project commissioned by the IADB and sponsored further by the Universidad de las Américas-Puebla
- <sup>28</sup> Gilson et al (2001); *Strategies for promoting equity: experience with community financing in three African countries*; *Health Policy*, 58 (1), pp 37-67
- <sup>29</sup> Mills et al (2002); *Approaches for improving delivery in the non-state sector: what is the evidence on what works, where and why*; paper presented at the Making Markets Work for the Poor Conference, Oxford 2004
- <sup>30</sup> World Health Organisation (2005); *China: health, poverty and economic development*; WHO, Beijing
- <sup>31</sup> Dorward et al (2005); *Institutions, markets and economic coordination: linking development policy to theory and praxis*; *Development Change*, 36 (1)



## REFERENCES

- <sup>32</sup> Dorward et al (2002); *Critical linkages: livelihoods, markets and institutions*; paper presented at the seminar on Supporting institutions, evolving livelihoods, Bradford Centre for International Development, UK
- <sup>33</sup> North, DC (1990); *Institutions, institutional change and economic performance*; Cambridge University Press
- <sup>34</sup> Ali, DA, Dercon, C and Gautam, M (2007); *Property rights in a very poor country. Tenure insecurity and investment in Ethiopia*; World Bank Policy Research Working Paper 4363
- <sup>35</sup> de Ruyter de Wildt, M (2007); *Accelerating growth in the pond fish sector. Interventions to bring about sustainable change*; Katalyst Case Study No. 4, Dhaka, Bangladesh
- <sup>36</sup> Gibson, A, Scott, H and Ferrand, D (2004); *Making markets work for the poor. An objective and an approach for governments and development agencies*; ComMark, South Africa
- <sup>37</sup> Committee of Donor Agencies for Small Enterprise Development (2001); *Business development services for small enterprises: guiding principles for donor intervention*; at [www.ilo.org/public/english/employment/ent/sed/bds/donor/member/ilo.htm](http://www.ilo.org/public/english/employment/ent/sed/bds/donor/member/ilo.htm)
- <sup>38</sup> Bloom, G and Standing, H (2002); *Beyond public and private? Unorganised markets in health care delivery*; background paper for the WDR 2004, World Bank
- <sup>39</sup> ADE (2005); *Evaluation of European Community support to private sector development in third countries*; European Union, Brussels
- <sup>40</sup> Rodrik, D (2006); *Goodbye Washington Consensus, Hello Washington Confusion*; Journal of Economic Literature, 44 (4), pp 973-987
- <sup>41</sup> Palmade, V (2005); *Industry level analysis: the way to identify the binding constraints to economic growth*; World Bank Policy Research Working Paper 3551
- <sup>42</sup> Porter, ME (1990); *The competitive advantage of nations*; The Free Press, New York
- <sup>43</sup> Haussmann, R, Rodrik, D and Velasco, A (2006); *Getting the diagnosis right. A new approach to economic reform*; Finance and Development, 43(1), IMF, Washington
- <sup>44</sup> Honohan, P and Beck, T (2007); *Making finance work for Africa*; World Bank, Washington
- <sup>45</sup> Littlefield, E and Rosenberg, R (2004); *Microfinance and the poor*; Finance and Development, Vol. 41, No. 2
- <sup>46</sup> Spinaci, et al (2006); *Tough choices: investing in health for development*; World Health Organisation, New Delhi, India
- <sup>47</sup> Augustinus, C and Deininger, K (2005); *Innovations in land tenure, reforms and administration in Africa*; paper presented at UNDP-International Land Coalition conference *Land Rights for African Development: From Knowledge to Action*, Nairobi, October 31<sup>st</sup> – November 3<sup>rd</sup>, 2005
- <sup>48</sup> Joffe, S and Jones, J (2003); *Stimulating private investment and market development for agriculture: new approaches and experience*; Oxford Policy Management
- <sup>49</sup> Gibson, A (2006); *Developing financial services markets for the poor: FinMark in South Africa*; Making markets work for the poor case studies series; Employment and Income Division, SDC, Berne
- <sup>50</sup> Anderson, G and Hitchins, R (2007); *Expanding the poor's access to business information and voice through FM radio in Uganda*; Making markets work for the poor case studies series, Employment and Income Division, SDC, Berne
- <sup>51</sup> Gibson, A (2005); *Bringing knowledge to vegetable farmers. Improving embedded information in the distribution system*; Katalyst case study No. 1, Dhaka, Bangladesh
- <sup>52</sup> Manthri, M (2006); *Somalia: private sector success without a government*; DFID
- <sup>53</sup> Kenya BDS (2007); *Monthly newsletter*; [www.kenyabds.com](http://www.kenyabds.com)
- <sup>54</sup> Porteous, D (2004); *Making financial markets work for the poor*; The FinMark Trust, South Africa
- <sup>55</sup> Bankable Frontier Associates (2006); *Mobile banking: knowledge map and possible donor support strategies*; DFID and Infodev, London
- <sup>56</sup> Angbo, L (1999); *Community-based management of piped water supply systems, water and sanitation program*; World Bank
- <sup>57</sup> Prahalad, CK (2005); *The fortune at the bottom of the pyramid*; Wharton School Publishing
- <sup>58</sup> Dorward et al (2005); *A guide to indicators and methods for assessing the contribution of livestock keeping to the livelihoods of the poor*; Department of Agricultural Sciences, Imperial College, London
- <sup>59</sup> Bühlmann, H and Jäger, M (eds) (2001); *Skills development in Swiss Development Cooperation: insight and outlook*; Employment and Income Division, SDC, Berne



#### **Publishers**

Swiss Agency for Development and Cooperation SDC  
Federal Department of Foreign Affairs FDFA  
3003 Bern  
Switzerland  
[www.sdc.admin.ch](http://www.sdc.admin.ch)

#### **Disclaimer**

The views and opinions of the authors expressed in this publication do not necessarily state or reflect those of DFID and SDC

#### **Graphic Design**

Thomas Cadolle, Switzerland

#### **Ordering the publications**

SDC Distribution Centre  
Phone: ++41 31 322 44 12  
Fax: ++41 31 324 13 48  
Mail: [info@deza.admin.ch](mailto:info@deza.admin.ch)

M4Pnetwork: [orders@M4Pnetwork.org](mailto:orders@M4Pnetwork.org)

October 2008

