
THE OPERATIONAL GUIDE FOR THE MAKING MARKETS WORK FOR THE POOR (M4P) APPROACH

CONTEXT

Second Edition

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CONTEXT

WHY ARE MARKET SYSTEMS IMPORTANT TO THE POOR?

The purpose of this chapter is to briefly remind readers of the rationale for the market systems development approach. A fuller explanation can be found in the *M4P Synthesis* paper (the 'Blue Book').

The rationale for developing market systems stems from an appreciation of their importance in reducing poverty.

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

- Systems for the exchange of goods, services and commodities that operate efficiently for everyone but especially the poor as consumers, producers or employees
- Systems for the delivery of basic services, such as education, health and water, that can build people's capacities to escape poverty

The 'systems' for economic exchange and basic service delivery have traditionally been regarded as very different, yet 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 efficient and more inclusive systems.

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

A **market system** is a multi-function, multi-player arrangement comprising the core function of exchange by which goods and services are delivered and the supporting functions and rules which are performed and shaped by a variety of market players.

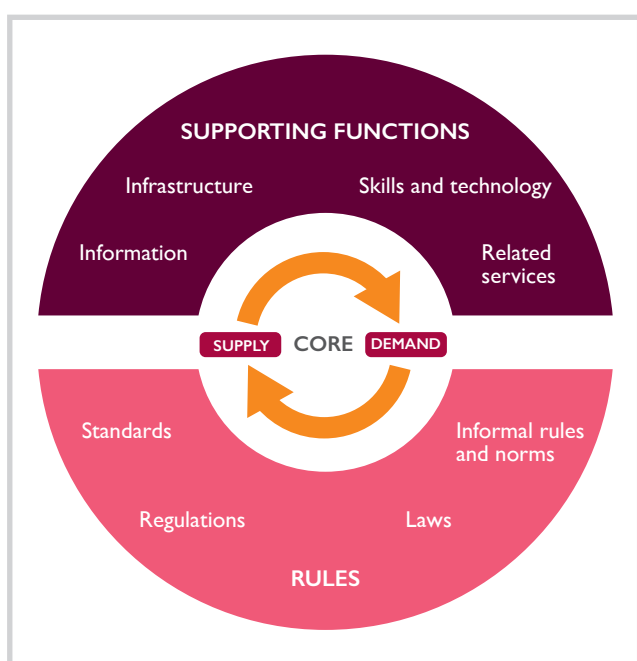


Figure 1: The market system

WHAT IS 'MARKET SYSTEMS DEVELOPMENT'?

Improving the lives of the poor – stimulating growth and expanding access – means transforming the systems around them. Market systems development recognises this reality and provides a coherent, rigorous approach to understanding and intervening in market systems so that they function more efficiently and sustainably for poor women and men.

Market system change is a change in the way core functions, supporting functions and rules perform that ultimately improves the poor's terms of participation within the market system.

Applicable to agencies working in both economic and social fields, the approach provides guidance not only on understanding the poor in market systems (analysis) but on how to bring about effective change (action). Analysis should identify the underlying causes (rather than symptoms) of weak market system performance in order to realise large-scale change. Intervention should continually strive to leverage the actions of key market players to bring about extensive and deep-seated system change.

Sustainability is a prime concern of market systems development. This means considering not just the existing alignment of key market functions and players but how they can work more efficiently and inclusively in the future, based on the incentives and capacities of market players.

The approach focuses on stimulating a change in behaviour of market players – public and private, formal and informal – so that they are better able and motivated to perform important market functions effectively.

Sustainability is the capability of market systems to respond to changes and provide a means by which poor women and men can continue to derive social and economic benefits, beyond the period of intervention.

Market systems development requires that agencies play a facilitating role. As *external* agents they seek to catalyse others *within* the market system (while not becoming part of it themselves). Facilitation is inherently a temporary role.

Facilitation refers to the temporary actions of a facilitator to bring about system-level changes and develop market systems for the benefit of the poor.

MARKET SYSTEMS DEVELOPMENT AND WIDER DEVELOPMENT CONCERNS

The market systems development approach provides the scope and flexibility to ensure development programmes address some of the more pervasive challenges faced by development practitioners.

The potential of the approach to address these challenges is explored in the *M4P Perspectives* paper (the 'Green Book'). The key lies in using its principles and frameworks to understand the underlying causes of these challenges ('why?'), to identify the system-level changes required to address them ('what?'), and to guide interventions that can bring about sustainable change ('how?').

Political economy and power is a central consideration in market systems analysis and intervention. Effective facilitation requires detailed understanding of political economy factors at both macro (sector) and micro (market player) levels; it is essential to understand the formal and informal operations of market systems, why market players act as they do and the incentives they have to change or resist change.

Gender inequality is one of the most inhibitive barriers to reducing poverty. Understanding how and why market systems serve women and men differently is a part of rigorous market systems analysis, informing the ability of programmes and their market partners to work towards a sustainable vision of systems that work better for women and not just men.

Climate change has been termed the “greatest and widest-ranging market failure ever seen” (Stern Review on the Economics of Climate Change, 2006). A credible response

demands a system-wide approach at global and national levels involving both public and private stakeholders. Understanding why the system is failing requires understanding the different incentives of those involved, and building the capacity within the system to mitigate the effects of climate change and come up with workable technical and policy alternatives.

Reaching conflict-affected and fragile areas and the most vulnerable. The market systems development approach is about working in weak socio-economic systems to improve the position of the disadvantaged within them. The approach recognises that weakness is not a binary state, but a dynamic spectrum, which cannot be addressed with fixed solutions. In the most extreme cases emergency relief is required to save lives. However, emergency relief can only ever be a short term solution. Long term solutions mean improving systems that can reduce vulnerability, be they economic or social, such as effective social safety net systems or systems for migration.

What is a systems development approach, and what isn't? – an analogy

A systemic approach helps us to see events and patterns in a new way, and respond to them differently, to bring about lasting and large-scale change. To take a simple, non-aid example:

1

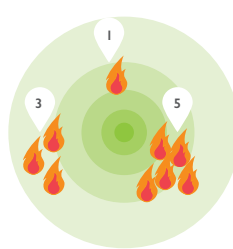


Symptoms...

Suppose a fire breaks out in your town. This is an event.

If you respond to that event by putting the fire out, you're reacting. You have done nothing to prevent new fires. You're only dealing with the symptom of the problem.

2



Patterns...

If you respond by putting out the fire and then study where fires tend to break out in your town, you're paying attention to patterns.

You might observe that certain neighbourhoods seem to suffer more fires than others.

If you locate more fire stations or fire engines in those areas, you're adapting. But have you done anything to prevent new fires? No, you're just dealing with fires more efficiently. You're still dealing with the symptom of the problem.

3



Root causes...

How might you address the underlying causes of the problem?

Suppose that you try to understand these patterns more closely: why are the fires breaking out? Now you're thinking about systems: what influences the patterns of neighbourhood fire outbreaks?

This might lead you to look at:

- The availability and use of smoke detectors, fire alarms and extinguishers in local shops
- Levels of education and information about fire prevention and safety in the neighbourhood, provided by schools or residents' associations
- The suitability and enforcement of building codes and fire regulations by government
- The availability and use of fire-resistant materials, and better building practices, in the commercial construction industry

Thinking about 'systems' means focusing on the underlying reasons why fires happen (the root causes) and what might need to change in the system to stop this from happening so frequently. The problem is that development agencies often keep putting fires out, rather than preventing them from happening in the first place. A systemic approach tries to avoid this.

Thinking and acting systemically places a set of different demands on us, for instance, our objectives and what we want to leave behind, our analysis, our actions, and what we measure. A market systems development approach is about... **how not to be a firefighter!**