Market systems approaches

A literature review

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December 2014

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1. Introduction

The purpose of the literature review is to help to identify the key challenges for the research component of the BEAM Exchange. The research component is designed to support the overall goal of the BEAM Exchange, which is to provide a ‘one-stop shop’ for people sharing knowledge and learning about market systems approaches for reducing poverty. The research component will develop authoritative and accessible knowledge on key areas of market systems development approaches. In particular, it will provide knowledge that will enable a range of users of market systems approaches to understand and resolve some of the challenges that they face. These users will include field practitioners, senior policy advisers and management in donor agencies, policy advisers looking to use market systems approaches in their work in new sectors that have not previously seen this as a tool to use, and policy experts more generally.

To the extent that the BEAM Exchange and its research component focuses on improving and extending the use of market systems approaches and prioritising engagement with practitioners and experts as a means of doing this, this literature review will be forward-looking. It will identify issues that need to be addressed, rather than providing a broad history of the development of market systems approaches. In particular, it will:

- Identify major themes in the literature to feed into the final inception report.
- Reinforce understanding of key issues that need to be addressed in the research programme, as identified in the expert consultation conducted in the inception phase.

This literature review has five parts:

1. The market systems approach
2. Systemic change and systemic interventions
3. Broadening application to other sectors
4. Gender and market systems approaches
5. Evidence and measurement.

2. Market systems approaches

There is an extensive literature relating to market systems approaches, and in particular the M4P approach. This has evolved over time, and market system thinking overlaps with a number of other approaches that have been important in development thinking and practice and which have been adopted by a variety of development agencies. These approaches include local economic development, value chains (particularly by GIZ and USAID), and Making Markets Work for the Poor (M4P, supported by DFID and SDC).

Just as M4P thinking has evolved, so have other approaches. It is noticeable, for example, that the USAID funded LEO programme is couched in terms of "inclusive market systems development" (USAID 2014), and the value chain approach discussed extensively in USAID's Value Chain Development wiki has increasingly paid attention to market context, which, in effect, introduces elements of the M4P approach into interventions that had previously tended to be more narrowly focused on the core activity of direct exchanges between buyers and suppliers.

Numerous comparisons made across these different literatures point to these overlaps, as seen in a 2008 synthesis of the M4P approach (The Springfield Centre 2008), Mayer-Stamer and Wältring (2007), Albu (2007) and de Ruijter de Wildt *et al.* (2006). In addition, the first edition of the Operational Guidelines for the Making Markets Work for the Poor (M4P) Approach, published by SDC and DFID (2008) provide a comprehensive guide to the M4P approach, which is the most widely used of all market systems approaches.

The basic features of the M4P approach have been outlined in a number of core documents that have been widely cited and widely used to design and implement market systems approaches. A series of influential papers demonstrated its use as a practical intervention tool (see, for example, Elliott and Gibson 2004; Gibson *et al.* 2004), and as a well-defined set of practices for market systems development (The Springfield Centre 2008; Elliott *et al.* 2008). The importance of the approach was also reinforced by its utilisation by influential implementing organisations such as Katalyst in Bangladesh, whose results have often been cited as evidence that market systems approaches can deliver real benefits to the poor through time-bound interventions that seek to enhance and facilitate markets rather than replace them with public action. Positive reviews of the outcomes of Katalyst programmes have also been influential (de Ruyter de Wildt 2007; Gibson 2005).[1]

The basic characteristics of the M4P approach are well known as a result of the considerable literature developed by the Springfield Centre and its key researcher/practitioners (Gibson *et al.* 2004; Elliott *et al.* 2008). Given the large number of documents that have been published that discuss this approach, the review here will not focus on all of these, selecting examples from a small part of the large available documentation.

These documents have a strong and consistent narrative. They identify the failings of previous approaches and the argument that neither the 'remote reform' approach to market developments that in one text is described as 'stabilise, privatise and liberalise' (Elliott *et al.*

[1] In addition, researchers and practitioners working with the M4P approach have translated their ideas into a series of brief statements and lengthier manuals. Among the collection of brief statements is a series of papers about the role of making markets work for the poor published by the Department for International Development (n.d.-e; n.d.-a; n.d.-d; n.d.-c; n.d.-b; n.d.-f).

2008: 107), nor the ‘impulsive intervention’ approach (characterised in terms of governments replacing poorly functioning markets with direct provision of services by public providers or their agents).

More positively, the approach incorporates a series of principles around markets and how they function for the poor. Specifically, and drawing on the work of Ripley and Nippard (2014), these principles include:

- Seeking the overall goal of reducing poverty (including the reduction of extreme poverty) through the transformation of market systems so that they function more effectively for the poor. The argument is that the poor are deeply inserted into markets, and that these markets can be made to work more effectively for them, with respect to the poor as both producers in the market and consumers of goods and services provided by the market. Far from being outside of markets, the poor are both highly reliant on markets, and also disadvantaged by the way that they operate.

- Recognising that while programmes inspired by the ‘impulsive intervention’ approach have powerful short-term effects, these effects are likely to be temporary and not survive the withdrawal of the public intervention. Market systems approaches should ensure that behaviour change reflects genuine incentives and capabilities of permanent players. This is the justification for time-limited, catalytic interventions to stimulate market development.

- Recognising that markets are systems, involving multiple actors and incentives. Hence, market systems approaches must engage with a range of different actors that might range from large-scale business investors and social enterprises, to small businesses and informal sector operators, as well as the actors involved in the construction of rules, norms, the regulatory environment and the supporting environment. The interactions between these intentional agents create complex adaptive systems.

- Seeking to identify and tackle the underwriting causes of market dysfunctions rather than focus on the symptoms – put in strong terms in the following quote: “in all cases, a worthwhile, valid analysis must identify the causes, not merely the symptoms, of market weakness. This is more than semantics; the MMW4P approach is led by analysis. Identifying underlying causes is the necessary starting point for actions that can lead to major change and impact. If this analysis is wrong nothing else can be right! Distinguishing between symptoms and causes – and between layers of causes – is therefore important since it is causes that should be the focus of action” (Gibson *et al.* 2004: 16). If the remote intervention model fails to understand the complexities of markets, and hence the need to tailor interventions to specific circumstances, then some form of identifying what the problems are and how they might be solved is essential.

- Emphasising the importance of increasing impact through replication and crowding in. A successful M4P intervention should change the opportunities and incentives facing actors such that the impact of the intervention extends beyond those affected by the intervention itself as other actors respond to the new market conditions.

This body of work characterised the market system in terms of three distinct elements: core market transactions, institutions (including the business environment) and services and infrastructure. The characteristics of this approach have been extensively discussed and will not be considered further here.

M4P is a coherent body of work that presents a distinct perspective. Nevertheless, it is possible to identify overlaps with a broader literature related to inclusive business. This can be demonstrated with reference to the discussion on growth and the obstacles to growth. In a paper on DFID's approach to growth, Lea and Dercon argued that, "The central question for growth policy is thus, 'how can firms be encouraged to invest in expanding their production'?" (2012: 4-5). Putting this question to development practitioners would be likely to produce a broad range of responses relating to the factors that encourage or inhibit investment by businesses. These would include reference to the overall business environment (including government failure, the costs of doing business, etc.), as well as reference to the particular characteristics of enterprises and their limitations. However, it would most likely include references to aspects of the market environment within which businesses operate. These might include obstacles such as lack of availability of finance, lack of consumer awareness, a poor regulatory environment (for example, one which provides inadequate protection against fraudulent claims or counterfeiting), or problems relating to high distribution costs arising from infrastructure deficiencies. These are issues that affect the ability of market actors to make reasonable returns on investments and which are either beyond the means of particular businesses to change, or which can only be overcome through substantial increases in costs. In other words, the answer to the apparently simple question about investment quickly leads to consideration of the market environment within which businesses operate.

This affinity with the M4P approach is further strengthened by a recent influential report on inclusive business and bottom of the pyramid approaches, "Beyond the Pioneer: Getting Inclusive Industries to Scale" (Koh *et al.* 2014). This report calls the types of obstacles referred to above 'scaling barriers', arguing that these barriers constrain the growth of industries that benefit the poor. The report classifies these into four categories: firm, value chain, public goods and government. Firm issues include the weakness of the firm business model and value proposition, weak leadership, and lack of capital. Government issues relate predominantly to the negative impacts of government policy on business, such as laws, regulations, taxes, subsidies, and adverse intervention by politicians or officials that inhibit investment. While this list of inhibitory factors is very much focused on the types of issues that are addressed by the "remote reform" approach criticised by M4P, the remaining two categories – value chains and public goods – raise issues that would be much more familiar to M4P practitioners. The value chain issues include weaknesses in input channels and distribution channels to bottom of the pyramid customers, lack of financing along the chain and lack of support service providers. The "public goods" category includes lack of awareness of new market-based solutions among customers and producers, lack of market information, absence of effective standards and lack of hard infrastructure.

These value chain and public goods issues map quite effectively onto the market institutions and services and infrastructure categories commonly used in the M4P model of the market. This indicates that there is an opportunity to reach out to a broader range of audiences. The potential audience for market systems approaches may be considerably greater than those who are used to the market system language, and that more business-oriented users (or potential users) might benefit from the use of language that is more familiar to them. This also points to the fact of the relevance of market systems approaches well beyond the people and interventions that explicitly categorise themselves as users of such approaches.[2]

[2] There are various other attempts to locate the challenges facing business within a broader context that requires initiatives (public, private or public-private) or collaborations that spread beyond the boundaries of any particular enterprise. Examples include the entrepreneurial ecosystem approach of ANDE (Aspen Network of Development Entrepreneurs 2013) and the business ecosystem approach (Gradl and Jenkins 2011).

In the same spirit of making links beyond the core market systems audience, it is worth taking a step back and asking the basic question, “Why is public intervention in the field of business and markets needed at all?” A DFID paper on private sector development, written in 2000, provides a summary of the ‘case for government intervention’ (Department for International Development 2000a: 13) that considers a range of different ‘market failures’ that prevent a decentralised market mechanism from achieving a Pareto efficient allocation of resources that maximises societal welfare. In the presence of market failures, a free market will not produce an outcome that is optimal, and as a result welfare might be increased by actions to offset these failures. The paper lists five different ‘common market failures’ (Department for International Development 2000a: 14-15):

- Natural monopolies, which can be addressed through the use of public enterprises or (preferably) using “a private but regulated enterprise provides the good or service” (page 14).

- Externalities. Externalities arise when the full private costs and benefits generated by the activities of an enterprise are not reflected in the private costs and benefits facing the enterprise. The example given in the paper is an irrigation project leading to a reduced fish catch downstream. The solution is government intervention to “induce firms to produce the socially optimal quantity of goods” (page 14). This could be done through taxes and subsidies to bring the private and social costs into line.

- Public goods. These are goods for which it is “either impossible or undesirable to charge” (page 14), and the response is for government to provide the service or create inducements for the private sector to provide it in spite of the inability to charge.

- Governments are sources of market failure. This references inappropriate or burdensome regulations which form barriers to entry and exit. The solution is for government to stop taking such actions (page 15).

- Asymmetric information and incomplete markets. The welfare maximising outcome of freely-operating markets depends upon perfect information, and the paper lists eight different ways in which imperfect and incomplete markets might lead to sub-optimal outcomes. Asymmetries in information between buyers and sellers produce a host of well-documented problems, such as adverse selection and moral hazard. The paper also refers to the cost of capital (which may be driven up by imperfect information on the part of the lender about specific potential borrowers or whole categories of borrowers) and the challenge of complementary markets, where market transactions do not effectively coordinate the production of complementary goods.

The paper provides a useful summary of the public response to these market failures. The interventions fall into four categories: regulation, provision, taxes and subsidies (page 17).[3] In other words, the solutions offered fall fairly neatly into the categories of ‘remote reform’ and ‘impulsive intervention’. Either incentives to the private sector **are altered** through taxes and subsidies, or the state has to intervene through regulation or direct provision.

This paper is cited at length here because the solutions to the extensive list of market failures do not include market systems interventions. The issue of complementary markets is a good

[3] These four instruments are the only ones specified for all but one of the market failures. For the case of natural monopolies, 'franchise bidding' is also given as a possible intervention.

example. The paper cites urban and rural development programmes as an example of how to respond to the challenges typical of incomplete markets. The state intervenes to solve the coordination problem. In contrast, the M4P approach sees the challenge of incomplete markets in terms of stimulating on a temporary basis markets for the supply of the complementary product that will continue to exist after the intervention has been completed.

Further, it is worth noting that none of the market failures identified above are considered to be in any way particularly problematic for the poor. The paper does suggest that "There is a strong argument for government regulation of private sector providers of goods and services… that target the poor" (page 16), but this is presented as an additional reason for public intervention, and, therefore, presumably not related to market failure. The intervention is justified on "grounds of distribution" (page 16).

By looking at some of the earlier papers outlining the market systems approach, it is possible to identify the distinctive ways in which market systems thinking approached what are similar issues. A paper commissioned by DFID from Oxford Policy Management at roughly the same time that the first paper was written provides an interesting contrast (Department for International Development 2000b). This paper, entitled "Making Markets Work Better for the Poor: a Framework Paper", begins with markets, how they can work better for the poor, and how markets serve or fail to serve the interests of the poor. As well as mentioning the poor frequently – nearly 300 times in 60 pages – the key argument of the paper is that the poor face particular challenges when engaging in market activity, making a link between poverty and exclusion, and including in this exclusion from markets:

"First, poverty… is characterised by inadequate access by the poor to assets, and return on these assets – human, financial, social, physical and natural. The poor are also vulnerable. Their income and consumption are variable and subject to shocks... Finally, poverty can result from – and contribute to – exclusion from social, political and economic processes (including markets)" (Department for International Development 2000b: 1).

Alongside this shift in emphasis there is also a shift in language. Whereas the PSD paper referred to imperfect competition, the second paper refers to "market power", and power is introduced to the analysis, not only in terms of inequalities in power between parties to an exchange, but also the role of power inequalities in biasing the rulemaking activities that provide the institutional framework for markets (Department for International Development 2000b: 6-7).[4] In other words, the poor are <u>systematically</u> disadvantaged in markets, and not necessarily by the state, but as a result of a combination of economic and political power. This leads to an understanding of power inequalities in markets that is much more structural and pervasive, as well as particularly problematic for the poor.

This paper also includes an additional source of market failure - which is transactions costs. It refers to transactions through a reference to the "costs of establishing and enforcing agreements" (page 7). Subsequently, transactions costs issues that concern not so much the cost of enforcing agreements but rather more to the challenges facing the supply of low-income markets in rural areas become quite important not only for market systems approaches but also for bottom of the pyramid approaches. The issue of transactions costs and their impact on markets and poverty was taken up at about the same time by researchers

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[4] This argument is later taken up by Lea and Dercon (2012: 9) when they observe that "donors can be most effective in supporting growth when they also understand the nature of the political settlement. Institutions, both formal and informal, are typically designed and enforced by those groups ("elites") who have the desire and capacity to enforce them."

such as Dorward and Kydd in a series of articles (Dorward and Kydd 2002; Dorward *et al.* 2004; Kydd *et al.* 2001) arguing that the thinness of rural markets is a key factor in keeping costs high and putting rural areas into poverty traps. Whereas the PSD paper considers market failures in the context of market efficiency, the subsequent approaches complement this with a concern for the inclusiveness of markets and the impacts of market functioning on the poorest.

In making the shift, towards adverse power relationships and a concern with the inclusiveness of markets, the Oxford Policy Management paper also socialises the market. If markets are shaped by rules of behaviour and both formal and informal norms, then they must be embedded within social structures. The paper introduces a more sociological/anthropological concept of market, defining market institutions as:

“socially devised constraints on individual action”, or “sets of rules that are recognised and frequently followed by members of the community and that impose constraints on the actions of individual members” (Department for International Development 2000b: 22).

This emphasis on the social embeddedness of markets is also evident in a later DFID paper (Department for International Development 2005):

“Markets also exist in social space and are deeply embedded in a set of non-market, social and political institutions. The way in which people, and the poor in particular, participate in markets is conditioned by economic, political, social and cultural factors which must be incorporated in the analysis” (Department for International Development 2005: 5).

These socially embedded markets are subject to failure, and may fail in ways that particularly hurt the poor. But the case for intervention is further strengthened by the observation that “Well-functioning (efficient) markets can coexist with widespread poverty, since distributional and equity issues are not directly dealt with by the market” (Department for International Development 2005). Development agencies must, therefore, intervene in order to get markets to function well, and also intervene when well-functioning markets still fail to reduce poverty (i.e. addressing the inclusiveness challenge).

The evolution of these papers shows the thinking process that leads towards an emphasis on markets and market systems and the particular position of poor people within them. By 2004, the influential ComMark Trust paper by Gibson, Scott and Ferrand (2004) had made the basic case for the M4P approach, taking up core themes in the M4P literature. The first is the centrality of markets to poor people. The second is the location of core market transactions within the context of both institutions (seen as embracing both formal and informal rules and laws) and the supporting infrastructure. The characterisation of the market as consisting of three elements appears in the 2004 paper (Gibson *et al.* 2004: 12). The third is the focus on the facilitative role – enabling markets to work rather than substituting for markets. The fourth is the emphasis on action and intervention alongside diagnosis. Just as the 2005 DFID paper argues strongly that M4P is not just an analytical tool, but is also a tool for intervention (Department for International Development 2005: 14- 19), the ComMark paper states clearly even in the Preface that its intention is to inform governments and development agencies “about how [they] should go about addressing this objective [making markets work for the poor] and about the essence of the approach they should use to realise the promise of markets” (Gibson *et al.* 2004: iii).

3. Systemic change and systemic interventions

The 2004 ComMark Trust paper also referred to the concepts of market system and systemic change. There are nine mentions of the word “system”, and although most of these refer to generic concepts such as “business system”, “system of business standards”, “efficient system”, etc., the paper also makes reference to markets as multi-actor systems: “The essence of facilitation is working with these market players to create a ‘better’ market system; MMW4P can’t be done by one party alone!” (Gibson *et al.* 2004: 20). It is, however, more in the use of the term “systemic” that the paper opens up the issue of systemic change and systemic interventions. Other approaches, such as the impulsive interveners are criticised for not asking the “more relevant, bigger systemic questions” (page 9), and the fact that without a clear vision “the wider potential of systemic market-level change is unrealised” (page 17), or more positively, that “the focus of MMW4P actions is to build the market – to address the big systemic issues that will allow a market to function more effectively” (page 19), and “The focus of actions by key players is how to overcome identified systemic problems and pursue this shared vision” (page 23).

In spite of these references to system and systemic change, the paper does not appear to define either of the terms. At one level, it can be argued that as soon as it is recognised that markets consist of many different actors which pursue their particular goals and who are capable of adapting their strategies in the course of their interactions, then this conception of market already has the characteristics of a complex adaptive system, as discussed by Jenal and Cunningham (2013: 6-7). But, what is systemic change, and why is it so desirable?

The literature is not so clear on the former question. As Fowler and Dunn observe, leading development agencies do not even agree on the definition of system:

“USAID defines a local system [as] ‘those interconnected sets of actors – governments, civil society, the private sector, universities, individual citizens and others – that jointly produce a particular development outcome.’… DFID and SDC

Definitions of 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” (The Springfield Centre 2008).

“The purpose of MMW4P programmes is to bring about systemic change – changing the incentives that the market system provides to participants so that markets work better and fairly for the poor” (Department for International Development n.d.-a: 1).

"Change in systems that are caused by introducing alternative innovative sustainable business models at support market level (such as in private sector, government, civil society, public policy level). These changes often cause widespread indirect impact by crowding in at support market levels impact and copying at final beneficiary level" (Donor Committee for Enterprise Development 2013: 16).

“Systemic change is defined as transformation in the structure or dynamics of a system that leads to impacts on large numbers of people, either in their material conditions or in their behavior” (Osorio-Cortes and Jenal 2013: 7).

"fundamental changes to the way that a system like a value chain looks and the way it operates. Three examples of such changes are new or better relationships, learning and adaptation, and broadening of benefits" (Elizabeth Dunn, quoted in in Osorio-Cortes and Jenal 2013: 6).

define a system more broadly as ‘the multi-player, multi-function arrangement comprising three main sets of functions (core, rules and supporting) undertaken by different players (private sector, government, representative organizations, civil society, etc.) through which exchange takes place, develops, adapts and grows” (Fowler and Dunn 2014: 2-3).

Equally, there are differences with respect to the definition of systemic change. Fowler and Dunn note that “many publications referred to systemic change without defining it at all” (page 3), and they provide three different definitions of systemic change drawn from the systems literature. One of these definitions is the first one in Box 1, which can be found in the glossary of a key text in the M4P literature. The second similar, but not identical definition is also drawn directly from the M4P literature. The third definition is from the Donor Committee for Enterprise Development, and the fourth and fifth definitions are taken from a discussion on systemic change within the SEEP network.

These definitions are similar in some respects, but also contain important differences. For example, how big a change is the system change? The implication of the third quote is that the change ought to be big, as it will impact on large numbers of people, although there is no specification about whether this impact itself has to be substantial for each of the persons involved. Similarly, the reference in the first quote to underlying causes of market systems performance might imply that the change will impact a large number of transactions. But in the second and fourth quotes, the focus is on behaviour and incentives without any necessary implication of large-scale change.

If these definitions by themselves do not provide a single clear answer to the question “What is systemic change”, there have been attempts to capture in a clearer way what systemic change might look like, and from there to provide indicators of systemic change. Nippard *et al*. (2014), building on earlier work from The Springfield Centre, put forward the adopt-adapt-expand-respond framework, which tries to capture key indications that systemic change is being achieved. These include changes in the way of thinking of market actors (adoption), adaption of the intervention by these actors (showing commitment to the new ways of working), expansion – “A number of market players similar to those that pioneered the pro-poor behaviour/practice changes have adopted comparable changes… that are upheld without programme support” (2014: 8), and further changes in response to the system change by non-competing actors in the market. If these four aspects of systemic change were to be found, then one would expect the intervention to be both sustainable (lasting beyond the intervention itself) and to achieve scale greater than the initial impact of the intervention.

These considerations begin to provide an answer to the second question, about why systemic change is attractive. Here there is some broad agreement. If markets operate as systems, with the implication that they are influenced by market context, involve power relationships and link economic actors by incentives and rewards, then for changes to be made in the way that markets work for the poor, it would be necessary to change the way that these markets function as systems. Elliott *et al.* suggest that many interventions that have not taken the systemic approach (and in particular have followed the ‘impulsive intervention” route) “have been characterized by limited outreach, impact, sustainability and efficiency” (Elliott *et al.* 2008: 7). The paper goes on to cite a number of conclusions about interventions to promote services to the poor not based on market provision that showed clearly the limited results to be gained by not adopting a systemic, market-oriented approach. In contrast, the systemic approach offers better results:

“Building on a detailed understanding of market systems and a clear vision of the future, it allows facilitating agencies to address identified systemic constraints and bring about large-scale and sustainable change” the (2008: 102)

In addition to this, it is argued that the benefits of the achievements of systemic change include both large-scale impact and sustainability, precisely because systemic constraints are removed, leading to large-scale change:

“MMW4P helps to bring about systemic change so its outcomes are sustained and its impacts are larger. Because MMW4P aims to change the incentives provided to market participants, the outcomes it brings about are more likely to be sustained” (Department for International Development n.d.-e: 3).

Another way of expressing this succinctly is to say that “Market systems development programmes aim to…leave behind systems that work better for the poor” (Nippard *et al.* 2014). However challenging achieving systemic change might be, the argument must be that without systemic change the results are not-long-lasting or large scale. Expressed in a more positive way, the argument would be that if the “underlying causes” of market system performance, and most notably the rules and support functions, are changed, then this will have broad operation across the relevant market system, changing the behaviour of many actors and leading to large-scale change:

“Because change is systemic, it impacts all market participants, helping to deliver large scale impacts. And achieving systemic change ensures that pro-poor outcomes are likely to be sustained in the future” (Department for International Development n.d.-a: 1).

As well as achieving large-scale impact, systemic change can also be seen as a way of introducing resilience into markets. As well as removing the underlying constraints to market functioning, systemic change can impart a capacity to markets of being able better to respond to changing circumstances, but only if the adaptive capacity of market actors is fostered so that they are capable of developing new solutions to new challenges as they arise[5]:

“sustaining development outcomes depends on the sustainability of the local system, its built-in durability and a level of adaptability that allows actors and their interrelationships to accommodate shocks and respond to changing circumstances”[6] (USAID 2014: 4).

The achievement of systemic change, therefore, not only provides scale and sustainability, but also a degree of resilience, allowing progress to be made in the face of changing external challenges. On this issue, there is broad agreement between different writers, including across North America and Europe. This resilience issue is particularly important. The ability to compete successfully in markets is not achieved once and for all. Markets and their contexts constantly change, and therefore longer-term sustainability will be dependent on the capacity for adaptation of the market system. One recent observation on this point, commenting on value chain initiatives, notes the desirability of such resilience, although it is very frank about whether there are clear means to achieve it:

[5] A short document from USAID on the framework for inclusive market systems development identifies the objectives of market systems development as to "catalyse a process that results in a market system" that is competitive, inclusive, resilient and adaptive. This is much closer to the DFID/SDC view of market systems development.

[6] This argument is similar to the observation of Osorio-Cortes and Jenal that sustainability requires adaptability (2013: 14).

"Since market systems are dynamic, it may not be sufficient to develop an efficient value chain; capacity may be needed within the market system to respond to changes in market demand, the business environment or the competitive landscape. Little is yet known about how to create this value chain 'resilience', and even less has been written about how to measure progress toward resilience" (Campbell 2013: 20).

A critical question is how much complexity this introduces to market systems development. There are reasons to be concerned about how systemic approaches can be made manageable. The first comes from a theoretical perspective, drawing on the work of writers working in the fields of complex adaptive systems and complexity theory. Systems are complex entities. Complex adaptive systems that arise when outcomes are determined by the behaviour of multiple actors (people and organisations) with different interests are difficult to understand and difficult to change. Arguing in this vein, Jenal and Cunningham (2013) suggest that complex systems involve complex interactions, both within the system and between the system and its surroundings.[7] Therefore, change in one place has implications for other parts of the system, and these implications are often unknowable or difficult/expensive to gain knowledge about (the bounded rationality problem). Complex adaptive systems create challenges to interventions although it is hard to know ex ante how they will respond.

Taking this perspective has broad consequences for the manageability of market systems interventions. Jenal and Cunningham argue that it is impossible to understand how such systems work before making interventions, and it is through the interventions that knowledge is acquired about the system. The complexity of interactions within the system means that there are too many unknowns for interventions to be planned in advance. Therefore, they suggest 'probing' strategies to investigate how the system works and "continuous adaptation through monitoring and learning" so that interventions can be adjusted to the new understanding of the system (Jenal and Cunningham 2013: 5).[8]

This complexity raises another issue, relating to the extent to which the diagnostic process of identifying 'underlying problems' in the market systems is simple or easy to achieve. For some, the diagnostic strategy for reducing systemic change appears to be quite straightforward. The point is to identify the key government and market failures and from there establish a programme to address them. The essential point is to ask the right questions. When considering the failure of non-systemic approaches, Elliott *et al.* suggest that it is basically a problem of not asking the right question:

"Why has this [failure of non-systemic interventions] happened? One key reason is 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?'" (Elliott *et al.* 2008: 107).

This statement (at least if taken in isolation) begs a number of important questions. For example, there is the implication that if the right question is asked, then the underlying market failures should become apparent. But, many researchers and practitioners working in the field

[7] For theoretical understanding of complex systems characterised by the intentional behaviour of actors, see Juarrero (2000).
[8] This point is also raised by practitioners. The probing protects this change raised in a recent report by Mesopartner (2014).

of systemic change would contest this position. Precisely because systems can be complex, involving many different actors and motivations (they are “multi-player‘, multi-function and multi-ruled arrangements”‘, in the words of Nippard *et al.* 2014: 4), understanding the ways in which systems operate and how the different parts of systems interact prior to making interventions is challenging. Also, if there are a number of different obstacles to the effective functioning of markets, how are interventions prioritised, and according to which criteria?

On a more practical level, the recent ICAI report on DFID’s private sector development work takes the idea of systemic change being broad and encompassing to pose an equally difficult challenge. It argues that the breadth of change required by systemic approaches is largely beyond the resources of the programmes that DFID is implementing. It cites DFID’s own PSD strategy to the effect that it is ‘beyond [the] scope of a single firm or agency’ to achieve change on the scale required (Independent Commission for Aid Impact 2014: paragraph 2.14). This is followed up later in the same report with the observation that might appear to be unenthusiastic about interventions in market systems:

“While we commend DFID’s work in changing value chains and markets to achieve pro-poor economic growth, questions sometimes remain as to whether these types of mid-level programmes can lead to sustained systemic change across economies in developing countries.” (Para 2.99).

Even if it could be argued that systemic change does necessarily mean making such broad changes, it is clear that some formulations of the M4P approach encourage this kind of thinking. One M4P document published by DFID suggested that the M4P approach to achieving systemic change is to “work on the market system as a whole” (Department for International Development n.d.-a: 1), which does leave it open to questions about the degree of ambition involved in trying to achieve systemic change.

What, therefore, is the implication of referring to the “market system as a whole”,[9] both in terms of defining what a market system is and understanding what it means for the scale and design of interventions? How big or small can a market system reasonably be defined as? And how extensive or limited might the interventions be that would be necessary to change the way that this system functions?[10] For the BEAM Exchange, one goal is to facilitate the use of market systems approaches, and make them more accessible to those who design interventions and those that implement them. So, how is it possible to simplify the challenges of systemic change? One way this can be approached through the literature is to consider examples of what had been regarded as successful examples of applications of the market systems approach that achieve systemic change and identify how simple these can be. Two widely cited examples show that systemic change may not be as complicated and difficult to achieve as is sometimes suggested.

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[9] There is a very large literature from systemic perspectives that consider how to define system boundaries. See, for example, Williams and Hummelbrunner (2010).

[10] Even the definition of what constitutes the market system is open to contestation. For many, the market system comprises the three elements of the standard M4P market system diagram, particularly as it is frequently argued that the most important M4P interventions tend to be in the market rules and support area. However, in a recent paper devoted to “promoting greater precision and some degree of commonality of how practitioners and funders understand how programmes operationalise ‘systemic change’” (Nippard *et al.* 2014: 3), it is argued that while the market system comprises “both the core function of exchange (some sort of commercial or non-commercial demand-supply interaction) and the array of supporting functions and rules that shape and influence this core function”, these support functions can be considered as “systems in their own right” (Nippard *et al.* 2014: 4).

The first example is cited in a recent report on the adoption of a systems approach to achieving sustainable development outcomes. In a very clear parallel to market systems approaches, this framework to working more effectively with local actors to implement development strategies recognises that development outcomes depend upon:

“the contributions of multiple and interconnected actors. Building the capacity of a single actor or strengthening a single relationship is insufficient. Rather, the focus must be on the system as a whole: the actors, their interrelationships and the incentives that guide them.” (USAID 2014: v).[11]

However daunting the achievement of this goal might appear, this Framework for local systems development then goes on to provide a very simple example of what it regards as systemic change (2014: 8). It refers to an initiative to improve the system of fertiliser supply to farmers in Cameroon. These farmers had limited access to good quality fertiliser, which was constraining their yields and incomes. The problem was not that farmers could not afford the fertiliser – it was subsidised and very cheap. The problem was the distribution system and the government’s monopoly on importation and distribution. Rectifying this problem required a number of parallel interventions and the involvement of numerous actors. The initiative encompassed changes in the regulations that govern access to fertiliser markets, credit funds to facilitate private operators’ access to import markets for fertiliser, the facilitation of relationships along the new supply chain, and a new role for government as a “steward” of the fertiliser market, rather than the manager of the supply system. This example embodies many of the virtues of the market systems approach. Inefficient governments are replaced by more efficient markets. These markets are not only more efficient but also more inclusive. The poor benefit from the market-based solution delivering improved access to a product that is important for their livelihoods.

From a systemic change perspective, there are two important features to this case. The first is that the “system” is relatively well contained. It is still a multi-actor system, and there is no doubt that there would have been many different interests and motivations to deal with. But the number of actors to be dealt with was manageable. The second important point is that even if the intervention focused on one narrow area (and, for example, it was not tackling other issues relating to small farmer agriculture, such as rural infrastructure), the gains claimed for it were substantial. This might be explained by the fact that reorganising fertiliser supply so that it was more effective in reaching small farmers had consequences for very large numbers of these farmers.

A different programme, PrOpCom in Nigeria, also tackled the problem of fertiliser markets. Once again, the problem was a combination of government intervention in the fertiliser market, the impact of subsidies and certain characteristics of the distribution system, including irregularity in the supply of subsidised fertiliser, as well as lack of knowledge among small farmers about fertiliser application (PrOpCom n.d.).[12] The market diagnosis carried out by the programme suggested that while the public distribution system was meant to enable small farmers to receive affordable fertiliser, in practice small farmers either received fertiliser too late in the growing season to be of use, or did not receive it at all. Not only was the publicly-sponsored distribution system inefficient and affected by corruption and patronage, but it also had the effect of inhibiting purely commercial supply of fertiliser to small farmers. The large

[11] This discussion of local systems also includes a discussion of resilience. As was noted above, sustainability is linked to adaptability and hence the capacity to respond to changing circumstances.
[12] PrOpCom acknowledged the support of the Springfield Centre in the writing up of the case study of the project.

fertiliser companies dominant in the market did not have an incentive to reach out to small farmers as they could sell via the public system, and the subsidies in the public system were also a disincentive. The distribution systems were not at all geared to reaching small farmers – either in terms of geography or suitable packaging sizes. The operation of the fertiliser market, therefore, was a clear example of the way that markets frequently fail to function effectively for the poor.

Rather than focusing on government,[13] the programme focused on finding a fertiliser company active in the market that would be willing to develop a business model that would be capable of selling fertiliser to small farmers. The intervention involved a partnership with a private company to support the development of a business model that would be more effective in meeting the needs of small farmers (PrOpCom n.d. is 3722: 2-3). The account of the programme focuses substantially on the incentives in the system that produced outcomes which had previously failed to meet the needs of small farmers and the change in the incentive structure that enabled a business model to be developed that (after some trial and error in the pilot phase) met these needs more effectively. One indicator of the success of the programme was that another company also entered the segment of the market having seen the opportunities that were available. According to the project completion report, the gains from the programme were substantial (PrOpCom 2011).

One conclusion to be drawn from the consideration of these two cases is that the ‘system’ that needs to be changed in order to achieve large-scale change does not have to be impossibly complicated or enormously expensive. There is more to be gained from learning the lessons from concrete applications and understanding that the definition of “market system” can be very wide or quite narrow. For the purposes of designing interventions, the boundaries of the system that is to be the subject of an intervention (or multiple interventions) should be determined by an assessment of where the most important determinants of the system performance in the delivery of goods and services are located. If the critical determinants of system performance can be located within a well-defined space (or if it is possible to improve performance while not addressing constraints that emanate from outside the well-defined space), then changing the ‘market system as a whole’ is not as daunting as it might appear. Furthermore, even complex systems are not only populated by complex problems. As Jenal and Cunningham point out:

“Not all problems are complex. Even if we face a complex adaptive system like a market system, we still need to differentiate between simple, complicated and complex problems within the system. The different types of problems need different strategies to approach them, and success is defined differently. The ability to differentiate between different types of problems allows us to select an appropriate and adaptive strategy (Jenal and Cunningham 2013: 10)

Some systems and some problems are easier to understand and address, and the authors also state that “even in a complex situation there may be certain issues that are rather simple” (2013: 15).[14] Part of the challenge of employing a systemic framework is to identify what types of challenges are being faced, as this will determine both the intervention strategy that is

[13] The intervention did focus on some resources on governance, but in the overall context of this programme, it was a minor intervention confined to just one state and to all appearances a response to interest from one state governor (PrOpCom n.d.: 16).

[14] This point is echoed in the LEO document on a framework for inclusive market systems development. In a section headed "markets are complex", it makes the observation that "However, not everything in a market system is complex" (USAID n.d.-b: 3).

required to meet these challenges and might also provide a basis to decide which types of problems can be tackled effectively through market systems approaches and which requires substantial resources or might best be left alone. There are certainly attempts to work through these issues,[15] and the BEAM Exchange can work to generate more information in this area and make it more accessible to practitioners so that the design and implementation of interventions can be simplified.

4. Broadening application to other sectors

The use of market system approaches has been most extensive in two areas: agriculture and finance. Agricultural interventions, using a wide variety of tools and techniques, have often been targeted because improving agricultural outputs and yields has the potential to make substantial inroads into rural poverty. Interventions to increase the access of the poor to financial services have also been widely adopted, with some showing good results. One of the earliest notable successes of the M4P approach was the improvement in the availability of financial services for the poor in South Africa. An extensive write-up of this project can be found in Gibson (2006).

There is potential for extending market systems approaches to other sectors, and one challenge for the BEAM Exchange is to promote these approaches across a broader range of sectors. Among those mentioned have been health, education, food/nutrition, water and sanitation, and infrastructure. Interventions are far from unknown in these sectors. The webpages on making markets work for the poor created by the DCED have links to documentation on health, education, water and sanitation and basic services.[16] In some cases, there is clear evidence of at least the consideration of the relevance of market systems approaches to initiatives in the sectors.[17] Nevertheless, the extension of market systems approaches to other sectors is far from straightforward. In fact, the replication of experiences in the same sector but in different market contexts can also be problematic. The “Beyond the Pioneer” report cites the case of the introduction of M-PESA in Tanzania as an example of how a change in market structures, and hence different opportunities and incentives for the different players that need to come together to create mobile banking, led to a much slower spread of the telephone payment system in that country than in Kenya (Koh *et al.* 2014: 40-41).

Context and market structure matter. Extending the market systems approach across different sectors is not simply a question of using techniques tested and verified in one sector and applying them to other sectors. Each sector has specific challenges. At this point, the literature review will focus on one sector, health.

Improving the way that markets operate so that they provide better health care to the poor has been a long-standing goal. Different actors in the health system may have different reasons

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[15] Jenal and Cunningham discuss "sense-making frameworks" as a way of understanding the nature of the problem being faced (2013: 9-10). They also refer to an instrument developed for the consultancy business, Mesopartner, called Systemic Insight. The framework that Jenal and others use for classifying problems into simple, complicated and complex is also cited by the LEO programme (USAID n.d.-b: 3).
[16] http://www.enterprise-development.org/page/m4p. There are, for example, numerous studies of the benefits of public and private education, and in particular of low-cost private education —http://www.enterprise-development.org/page/m4p#ProgrammesCaseStudies.
[17] See, for example, Peters *et al*. (2012) in the health sector, which explicitly draws upon the work of the Springfield Centre, and in particular the develop-distort dilemma discussed in Hitchens *et al*. (2004).

for intervening in the operation of health markets. Governments, recognising their limited capacity to deliver health services, may wish to increase market provision and/or patient financing. Donors and international agencies may have an interest in promoting private provision of health care, partly in recognition of the limited capacity of the state in many countries to deliver services, and partly because poor state performance frequently impacts most severely on the poor (World Bank 2011).

From the BEAM Exchange perspective, it is important to recognise that there are a number of initiatives that use market systems approaches to make interventions in health markets. For example, USAID has looked at health markets from a value chain perspective (USAID n.d.-a), and DFID has promoted the use of market systems approaches in health in a number of initiatives. These include the multi-donor and multi-government initiative, HANSHEP (Harnessing Nonstate Actors for Better Health for the Poor),[18] through its support for the R4D (Research for Development) research portal, which set up the Centre for Health Market Innovations (CHMI), and the Private Sector Innovation Programme for Health (PSP4H), which defines its objectives as follows:

“The overall objective of the PSP4H programme is to learn lessons of how a market systems approach might benefit pro-poor health interventions. PSP4H is based on principles from the Making Markets Work for the Poor (M4P) approach and will share evidence with both Kenyan and international health stakeholders on the validity of this approach for pro-poor health programme design.” (http://www.psp4h.com/)

This latter programme is focused solely on promoting innovation in Kenya.

Equally, there is research and publications focused on using market systems approaches to study ways of improving the delivery of health services to the poor. A group at the Institute of Development Studies has worked extensively in this area as part of a broader group of researchers in the Future Health Systems research consortium (Bloom *et al.* 2008; Bloom *et al.* 2014b), and a recent issue of the journal, *Globalisation and Health*, was devoted to health markets (Bennett *et al.* 2014; Bloom *et al.* 2014a).

Governments and development agencies, as well as some of the non-state actors, have an interest in ensuring that the market provision of health care is cost-effective and provides patients with effective and appropriate diagnosis and treatment. A reasonable level of health and availability of treatment could be considered just as important as ensuring people can earn a decent income. Economically, poor health is a significant drag on development. Furthermore, failing to maintain the quality of service and some form of oversight over health service providers (through public and/or private mechanisms) can have significant consequences because of the broader impacts of deficiencies in health care, such as disease outbreaks and antibiotic resistance.

Nevertheless, achieving effective health service delivery is a big challenge, and the nature of health markets creates difficult challenges for effective operation. First, health is a good example of a complex adaptive system, as argued by Paina and Peters (2012). There are many different actors with many different interests interacting in different ways. It might best be characterised as a series of complex subsystems, as health interventions will normally tackle particular challenges. Paina and Peters discuss a number of ways in which problems

[18] According to its website, HANSHEP is supported by a range of governments, donors, international financial institutions, donors and private foundations — http://www.hanshep.org/about-us/about-us.

typical of complex adaptive systems arise in health, including path dependence, feedback loops, emergent behaviour and phase transitions.

Second, a substantial portion of health care provision in developing countries is offered by a variety of market-based providers, "[P]rivate provision of healthcare is omnipresent and surpasses public provision in many developing countries" (Bishai *et al.* 2008: 184). Public provision cannot cover a large part of health service needs, and "In its place, the private sector occupies most of the market for the provision of outpatient health services" (Shah *et al.* 2011: 276). Some health provision is provided by governments, using a variety of methods and involving free and charged-for care. In addition, there are a wide variety of non-governmental actors, including NGOs, religious groups, private companies and informal sector providers. All are involved in providing health services.

Third, one significant cause of market failure in health is the information asymmetry between provider and patient. The immediate consumers of health care frequently have limited knowledge about what care they need and the pertinence and quality of the care provided. As noted by Leonard *et al.*, "Patients rarely know precisely what is wrong with them or what should be done about it, and they rely on their health care providers to apply their superior knowledge to offer a diagnosis and advice on the appropriate course of treatment" (Leonard *et al.* 2012). Further, the diagnosis of medical conditions and the prescription of suitable treatment continue to depend upon the application of skills that are hard to routinise. It remains the case that the initial encounter between provider and patient is still hard to predict and control and even the most competent providers have incomplete knowledge about what is wrong with the patient and how they might respond to therapy. It is for this reason that regulation and oversight of performance are so important in health, irrespective of whether services are delivered by public or private actors.

It is now widely recognised that in many countries health services for the poor are already largely market-based, and operating through a variety of different market providers, including the informal sector, with the consequence that the biggest challenge is to enable and incentivise these existing private sector providers, alongside new providers, to deliver better health services to the poor. With increased market delivery of healthcare, the state will need to take on a regulatory or "stewardship" role. However, it is far from clear that governments have the capacity to perform this regulation. The information asymmetry between provider and patient also frequently extends to the relationship between health provider and regulator. Regulators do not have the resources to directly supervise doctors. This is one of the reasons why training and professional organisations are important mechanisms for shaping the behaviour of health service providers. Nevertheless, new technologies, particularly information technology, may provide much greater information about health workers' performance and behaviour.

In this context, there is an interest in investigating how organisational innovations in health and the construction of new types of market linkages. Within the health sector, social franchising is a particularly vibrant area, although it has been discussed for some time (see, for example Montagu 2002). The Centre for Health Market Innovations has considered the franchising issue, as well as the role of licensing and accreditation in ensuring the quality of health services provided to the poor.

There have been various attempts to introduce social franchising models in the health sector in sub-Saharan Africa. Franchising offers the possibility of transferring knowledge and resources from larger organisations to small-scale or informal sector providers, and one area where this has been tried is in drug retailing (pharmacies). The poor frequently depend upon pharmacies as their first point of access to health services, but levels of competence and probity among pharmacy workers are highly variable. In a franchising model, downstream (nearer the customer) operators are licensed to use the brand if they comply with some behavioural output and controls specified by the franchise owner.

The success of the system depends upon whether the resources generated by the franchise (through the value of its brand to attract customers, or its purchasing power to reduce costs) are sufficient to finance the supervisory costs that are essential to maintain the credibility of the value of the franchise. The successful franchise requires incentives for both parties. The owner of the franchise may have various incentives, ranging from the income derived from payments made by franchisees to the achievement of social goals in the case of not-for-profit franchise owners. For the franchisees, the incentive is that the costs of complying with the rules of the franchise – which may include developing new systems, showing compliance, training time and purchase of physical capital – will be more than offset by the benefits that might be derived from being part of the franchise (for example, lower costs through bulk purchasing or more efficient operating systems, or higher margins through increased turnover or higher prices).[19] There are documented cases of difficulties in sustaining such initiatives (McCabe *et al.* 2011).

One of the interesting potentials of this work on health markets is that much of it draws on literature complementary to the market systems approach. For example, much of the work on franchising draws on analysis of business models, and there has been very extensive work on the economics and business strategies around franchising. The work of writers such as Hennart (2013) is particularly insightful on franchising strategies and the ways in which control is exercised in a franchising context. Similarly, the work of Montagu (2002) draws on similar ideas about franchising, branding and the exercise of control. There are clearly opportunities for introducing Business School thinking into discussions about market systems, and franchising models – the different arrangements to optimise cost-effective controls and different information asymmetries, the challenges they face, and the bases for sustainability.

5. Gender and market systems approaches

Gender and more specifically, women's economic empowerment (WEE), has tended to be neglected in many studies and interventions that are aimed at promoting the productive economic activities of the poor. This is not an issue that only pertains to market systems approaches, but it still needs to be addressed. The theme of gender-sensitive interventions emerged from the BEAM Exchange consultation process as the most cited crosscutting theme.

It has been observed that the 2008 Operational Guide (DFID and SDC 2008) did not mention women's empowerment on a single occasion in a document of well over 100 pages. Empowerment is mentioned on two occasions, but with the emphasis on community empowerment rather than women's empowerment. The term gender appears four times, but not in the context of thinking about how to make market systems interventions more gender

[19] Franchises are not the only means to improve performance. Other alternatives documented in the literature include the development of peer groups such as trade associations, as referenced in the case of Nigeria by Goodman *et al.* (2007: 204), and the use of agents such as community leaders to monitor performance and encourage change (see, for example, Iqbal *et al.* 2013: 38-39; Goodman *et al.* 2007: 210).

sensitive and more aware of the particular challenges women face and the need to address them.

There are strong reasons for seeing this absence of a specific consideration of the differing circumstances of women and men in the process of designing and implementing projects as a serious weakness that has to be remedied. If the specific positions and resources of men and women are not clearly understood before and during project implementation, then there is a clear danger that projects will fail to understand the specific needs of women and the differing capabilities of men and women to respond to changes in the ways that markets operate. At the very least, the risk is that because of their greater visibility, the challenges facing men will be more effectively diagnosed and the interventions benefit them disproportionately. This would mean that the interventions would fail to benefit some of the poorer more disadvantaged members of the beneficiary groups. Worse still, initiatives undertaken without an understanding of the specific circumstances of women, may even cause harm to them as a result of unintended consequences of the intervention.

In the past few years, donors have taken a number of steps to remedy the absence of a perspective on women's empowerment in the context of market systems approaches. Sometime before the publication of the new version of the Operational Guide (The Springfield Centre 2014) in 2014, a number of donors, together with the research and practice groups with which they work, began to put much greater emphasis on addressing the question of women's economic empowerment more directly. SDC,[20] DFID, SIDA and SDC jointly sponsored a report that was commissioned by the M4P Hub and produced by Coffey (Coffey International Development 2013). This had as its stated goal to provide a "Good Practice Note modelled after those in the 'Operational Guidelines for the M4P Approach', including a WEE/M4P Framework that provides key questions and issues to consider by WEE M4P project practitioners" (Coffey International Development 2013). The guidelines detailed analysis of how to go about addressing the issues of women's economic empowerment through the five stages of the M4P project cycle. Similarly, but in a much more abbreviated form, a document published by SIDA (2013) as part of the Women's Economic Empowerment Series provides both a short rationale for integrating Women's Economic Empowerment into M4P and suggests that it is necessary and possible "to integrate WEE [Women's Economic Empowerment] during each stage of the M4P project cycle".

In this overall context, it is not surprising that the revised version of the Operational Guide, issued in 2014, pays more attention to gender. While it does not give the same attention to gender issues as the Coffey document (which was solely focused on women's economic empowerment), the new Operational Guide makes 14 references to gender, even though the phrases 'women's empowerment' and 'women's economic empowerment' are not picked up by a word search in the PDF version of the document. The more important point is that there is reference about how to integrate issues relating to women at all stages of the intervention process. This begins early on in the document with a general statement about gender inequality and market systems:

"**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

[20] There are materials at http://www.sdc-employment-income.ch/en/Home/Making_Markets_Work_for_the_Poor/Transversal_Themes_in_M4P, and more broadly on SDC's Gender Equality Network at http://www.sdc-gender-development.net/.

towards a sustainable vision of systems that work better for women and not just men". (The Springfield Centre 2014: 4)

More importantly, when the Operational Guide formulates "key questions to ask when mapping the structure of the market system", four of these six key questions include an explicit reference to 'women and men' or 'gender'. The instructions include exploring how women and men participate in the core of the system as producers, workers or consumers and instructions to identify "how the performance or access of poor women and men can be improved. Make sure you isolate gender-specific differences" (The Springfield Centre 2014: 15)

In a much more abbreviated form, the much shorter SIDA note sets out headline recommendations for each stage of the cycle as follows:

1. Setting the Strategic Framework – Identify explicit WEE objectives

2. Understanding Market Systems – Conduct a gender analysis

3. Defining Sustainable Outcomes – Identify specific goals for women and opportunities to achieve these within the market systems

4. Facilitating Systemic Change – Identify what facilitation is needed to promote WEE

5. Assessing Change – Develop explicit indicators to measure changes in WEE (SIDA 2013: 2)

The Operational Guide and this set of headline recommendations both follow what Markel (2014) refers to as "gender mainstreaming". She describes gender mainstreaming as "Programs explicitly integrate women's economic empowerment into all aspects of the programme cycle… WEE is one of the key objectives of the programme" (Markel 2014: 7).

However, Markel also shows how it is possible to specifically target women so that they are empowered through the intervention. In this case, WEE is **the** objective of the intervention. The paper offers a definition of empowerment as "a) <u>access to resources</u>: the option to advance economically; and b) <u>agency</u>: the power to make and act on economic decisions" (Markel 2014: 5). Markel goes on to examine how women's empowerment is achieved in practice through consideration of two programmes, analysed in terms of how they manage the eight components of the DCED Standard.

USAID has also actively taken up the women's empowerment agenda, and in a way that goes beyond being aware of differences between the way men and women participate in markets. Overall USAID policy on female empowerment and gender equality has set three overarching goals: reducing gender gaps in regard to resources and opportunities, reducing gender-based violence and increasing the capability of women and girls to realise their rights and influence decision-making. The LEO programme funded by USAID will be addressing the issue of women's economic empowerment within its market systems work, and two short notes have been produced, indicating the work that is already underway (Leveraging Economic Opportunities 2014; Leveraging Economic Opportunities n.d.).

A summary of LEO Learning Day by Singh (2014) provides a more general statement of how women's economic empowerment fits in with the market systems approach of LEO:

The Women's Economic Empowerment aspect of LEO plans to fill gaps on what it means to empower women through market systems approaches, including themes such as scaling up women's empowerment, analysing and addressing labour dimensions, ways to address socio-cultural norms within a system, ways to achieve behaviour change, using networks to promote women's empowerment, gender-sensitive monitoring and evaluation, and the role of market systems projects in mitigating and preventing gender-based violence. The next steps are to draft a framework for women's economic empowerment; create tools for communicating business cases; prepare briefing papers on M&E for women's empowerment, and networks and empowerment at the household level; support the upcoming USAID toolkit for addressing gender-based violence; and launch a SEEP working group on women's economic empowerment.

The demand for information about how to implement gender-sensitive market systems approaches and for a better understanding the different ways in which women's economic empowerment can be addressed in interventions is likely to grow over time, and this will be an issue that is likely to generate a lot of demand for action by BEAM across all three spokes.

There is still some way to go in identifying the best ways to achieve the goal of promoting women's economic empowerment in market systems interventions, and some of the challenges were set out in a paper by Jones. After setting out the challenges, she concludes by observing that:

"The M4P has always promoted analysis of different segments of the population, but has not been explicit about women versus men. Because of the flexibility and inclusiveness of the approach, the M4P framework and tools can be adapted to not only advance women's economic development (income earning) but to also to serve women's economic and broader empowerment. However, there is no easy fix." (Jones 2012)

As well as the need to take underlying empowerment issues into consideration, she also notes that the issues of overburdening of women and lack of control over the incomes they earn are issues that will require additional resources to address.

6. Evidence and measurement

There is currently intense discussion across many organisations and networks working in the field of market systems approaches about the question of evidence and measurement. The lack of evidence to support market systems approaches, and particularly attempts to achieve systemic change is widely cited in the literature. The business case for the Market Systems Development Platform (now the BEAM Exchange) itself acknowledged the monitoring and evaluation challenges: “Monitoring and evaluation frameworks need to be improved in order to capture the sustainable impacts attributable to market systems projects.”

There are, in fact, some areas where strong evidence of positive impact has been provided, most notably in the financial services sector. Cull, Ehrbeck and Holle (2014) report on the results of randomised control trials for financial service products aimed at the poor, although they note some of the shortcomings of these studies. Generally speaking, evaluations of programmes that expanded access to credit had less impact on the welfare of individuals than their benefits for business owners using microcredit to start or grow their businesses. The results of evaluations of programmes to expand saving schemes were more positive for households and individuals, as were insurance schemes for farmers.

But, the more general picture is one of the acceptance of challenges with respect to evidence and measurement of impact. The recent ICAI report on DFID’s private sector development programmes merely echoed the concerns of many of those involved in market systems approaches. The report identified some structural reasons for difficulties in identifying impact and attributing it to particular interventions that are likely to arise in many different programmes, but which are particularly problematic for interventions seeking to achieve systemic change. The report argued that:

“DFID… states that it will ‘back approaches that have systemic impact’.…DFID, however, has yet to articulate fully how change in that system may be defined or measured (or achieved)” (Figure 7, page 24).

Furthermore, the report is doubtful about even the possibility of measuring systemic change:

“Systemic change can happen at many levels in a multitude of different ways; thus a standardised indicator set – or a standardised measurement methodology – are probably not attainable. Indeed, the concept of systemic change, generally, is not defined in ways that can be measured.… DFID does not define which programmes or types of programmes aim to achieve systemic change at the country level.” (Paragraph 2.104).

“PSD takes a catalytic and indirect approach as a means of poverty reduction. This means that the theory of change involves more steps, more market players and a longer duration than more traditional approaches. Impact measurement, therefore, involves more variables, steps and time lapsing between inputs and impacts.” (Para 2.108).

These problems are widely recognised. The summary of the results of a meeting held in 2012 between the M4P Hub and staff from DFID, SIDA, SDC and USAID (Coffey International Development and M4P HUB 2012b) raised many of the same issues. The report refers to

“Specific challenges in evaluating the impact of M4P programmes” and refers to additionality, attribution, establishment of a counterfactual and timing. (Pages 1-2).[21]

Similarly, USAID’s Private Sector Development Impact Assessment Initiative produced a report in 2010 that made many of the same points. Attributing the challenge to the fact that “These new-generation programs promised to achieve economic growth and poverty reduction through a more complex and holistic sense of interventions than had been used in the past” (Creevey *et al.* 2010: 1). The report provides a range of reasons why these approaches (which fall into the realm of systems thinking and donor activities to facilitate systemic change – in other words, market systems approaches) create the following challenges:

- The new generation projects “combine multiple, diverse interventions and work through a broad range of market actors at all levels of the value chain” (Creevey *et al.* 2010: 1). This makes it difficult to identify clear treatments and treatment groups, as there will be a heterogeneity of impacts on different actors in the market.

- Simultaneous interventions at both the firm or market level and at national policy level mean that the control group could be directly affected by the activity of the programme (Creevey *et al.* 2010: 3).

- To the extent that “project implementers are encouraged to respond quickly to changing market conditions and to take advantage of new opportunities… [This] creates difficult problems for impact assessment, which aims to isolate and establish the impact of the specific activity over time” (Creevey *et al.* 2010: 1).

- As the facilitation approach works through intermediaries, the beneficiaries are hard to locate. This point is expressed by Osorio-Cortes and Jenal as “excessive focus on our direct effect on the poor”, which they believe is only suitable for direct delivery approaches, and not market systems approaches[22] (2013: 2).

- Facilitation approaches actively promote demonstration effects and crowding in, with the result that comparison between control groups and treatment groups is undermined. In a report published by the LEO programme which makes reference to some of the findings in the Creevey *et al*. paper, it is observed that this effect is “an important indication of systemic change” (Fowler and Dunn 2014: 6).

If these characteristics of market systems approaches make market systems initiatives particularly unsuitable for experimental and quasi-experimental methods, then it is possible to argue that randomised controlled trials are inappropriate means of judging impact:

“Perhaps the most significant problem with evidence-based policy comes in using the evidence gathered from these activities for the learning aspect of the rationale. Systemic change programmes are, above all, context specific. If a programme that had worked with a fertiliser producer in Nigeria to deliver training in usage at the point of sale was shown to have increased yields more than any other programme with the same goals, verified by an RCT, does not mean to say that this would be the most successful strategy in another part of

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[21] A full version of the 2012 conference report is available on the SDC website (Coffey International Development and M4P HUB 2012a).
[22] Osorio-Cortes and Jenal also produce a list of reasons why the systemic approach is not suited to impact evaluations using quasi-experiment methods.

Nigeria let alone in other developing countries. Social, economic, cultural and political circumstances dictate outcomes and it is the iterative and flexible nature of systemic change programmes that allows them to succeed" (Taylor 2013: 17).

Nevertheless, even this author argues a few pages later that:

"This [clash between evidence-based policy and systemic change initiatives] could lead to a nihilistic outlook on measurement within development programmes in general but when compared with the alternative of wasted money, ineffective programmes and poor results it is clear that an alternative must be sought. That something is difficult to measure should be motivation to find an alternative approach rather than to abandon it all together [sic]" (Taylor 2013: 21).

There appears to be broad agreement on the need to devise assessments that both recognise the existence of these problems, but also seek ways to address them. The optimistic view is that the problem can be overcome in time:

"Because MMW4P seeks to bring about behavioural change, M&E systems for MMW4P programmes need to differ from conventional PSD interventions. The challenges posed by attribution, additionality, and displacement are yet to be overcome" (Department for International Development n.d.-d: 4).

There is also agreement that it is not possible to propose one-size-fits-all models for evaluation and evidence. Work by USAID has emphasised the different purposes to which assessments can be put, and the different nature of these assessments (Fowler and Dunn 2014: 5).[23] The M4P Hub meeting summary also makes reference to the use of mixed methods, and summary of the evaluation challenges facing different M4P programmes clearly indicated that there were significant differences between them. In part, this relates to the issue of system specification and system boundaries discussed earlier. Some projects have clearer boundaries than others, and these are easier to evaluate.

However, within this general area of agreement, it is important to recognise that evaluations can be used for different purposes. Ruffer and Wach make important distinction between the two primary purposes of evaluations (2013: 6-7). They can be aimed at improving programme implementation or proving programme effectiveness. In the case of market systems approaches, they suggest that the former is used to understand how to adapt and improve programmes through an examination of processes and changes in the system. This will typically be conducted as part of the adaptation process of the programme during the life of the programme, and it might be considered the most important goal of the evaluation. In contrast, evaluations looking at the overall impact of the intervention might be less of a priority. The adopt-adapt-expand-respond framework discussed earlier would be an example of such a framework. The framework would indicate that systemic change is being achieved, although it would not establish either attribution or additionality. Similar considerations apply in the case of the DCED Results Measurement framework (Donor Committee for Enterprise Development 2013), whose control points and compliance criteria manual includes many questions related to the identification of the achievement of systemic change arising from interventions. Similarly, there is ongoing thinking about how to use the results measurement framework(see, for example, Kessler 2014).

[23] This is the distinction between three different types of evaluation — summative, formative and developmental — which are seen to have different purposes and, particularly important, to be appropriate in different circumstances.

It is clear, however, that many people in the field are working very hard to find other ways of addressing this problem. As the ICAI report noted, programmes (in this case, extending toward private sector development initiatives) that have hundreds of millions of pounds invested in them require some means of showing that they are providing benefit in a cost-effective way. One attempt to provide a response to this challenge is the Degrees of Evidence framework developed by Creevey *et al*. (2010: 8-11). This puts forward five principles:

- “The evaluation should be grounded in a plausible causal model.
- The evaluation methods should be assessed relative to four standards of methodological validity.
- The evaluation findings should be triangulated to ascertain the preponderance of evidence.
- The evaluation methods should follow sound data collection practices.
- The evaluation methods used, with their strengths and weaknesses, should be made transparent to the end user” (Creevey *et al.* 2010: 8).

Fowler and Dunn’s discussion of this framework, written in the context of the LEO programme suggests that some of these principles are similar to those found in both USAID and DFID guidance on evaluation (Fowler and Dunn 2014: 9).

Fowler and Dunn go on to examine the use of indicators of systemic change in a variety of projects and evaluations. While this exercise shows the heterogeneity of methods being employed across different projects, it also shows the efforts being made to find ways of providing credible methods of evaluating the impact of market systems approaches.

However, within this general desire to find solutions to the evaluation challenge, there appear to be significant differences of emphasis. In the UK, one initiative to develop common impact indicators for systemic change initiatives is the Results Measurement Handbook for the GEMS project in Nigeria (ITAD 2012). This provides a range of outcome and impact indicators for the various components of the project, as well as a way of estimating attribution. While this approach does not solve all of the challenges outlined by Creevey *et al.*, it is an example of the way in which many projects are making intensive efforts to increase the credibility of the results measurement and to address the challenges of working in the area of systemic change.

In contrast, as Osorio-Cortes and Jenal’s paper, which is part of a broader initiative of the SEEP network and involves extensive consultation with network members, takes a more sceptical view, developing “seven principles based on complexity theory and systems thinking and on the premise that systemic M&E approaches, procedures, tools and incentives have to be designed and used to monitor and measure systemic change.” (Osorio-Cortes and Jenal 2013: 7) These principles include an emphasis on the indirect as well as the direct impact of market systems interventions, depth of impact, network-driven change, unpredictability, the sensitivity of systems to external signals, the inevitable information deficit of agents external to the system and the importance of adaptability. The tensions within the broader market systems approaches about how to deal with system complexity and its implications for evaluations still remain. Addressing the question of measuring the impact of market systems initiatives, in ways that are credible but also useful for practitioners (not too complicated, not too expensive), will be a challenge for the BEAM Exchange.

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