

The Springfield Centre

**The Doing Business
Agenda and Beyond:
smart policies for
competitiveness and
social inclusion**

**German Development Institute
Bonn,
December 2008**

**Making markets work for the
poor – but what if markets
fail...?**

What about markets

- **Markets are important:** they affect the rate and patterns of growth, and the way in which poor people can improve their livelihood (DFID, 2000, white paper on MMW)
- **Markets often fail:** public goods, externalities, market power and economies of scale, asymmetric information, cost of establishing and enforcing agreements. Markets are often biased against poor population.
- **Markets can be developed:** falling TC, better info flows, innovation, and higher levels of integration and coordination. Change triggers are many and address specific identified constraints.
- **Better markets can deliver:**
 - access to assets (human, financial, social, physical, natural)
 - returns on assets
 - meet consumption needs

The origins of market development

In different spheres of development, similar experiences...

Agriculture

“The key requirement is to engage “in ways that are non-distorting, market-oriented and capable of generating net benefits for the poor” Joffe et al

Business services

“The objectives of outreach and sustainability can only be achieved in well-developed markets for business services” Donor Committee

Livelihoods

“A more imaginative approach is needed, rooted in stronger understanding... of institutional development in economic growth, with market development one part of that institutional development” Dorward et al

Health

“Key systemic reasons for suboptimal functioning of health systems are disjointed engagement of the private sector in delivering health care” Spinaci et al

Business environment reform

“Because the problem of poor business environments is systemic, genuine solutions must also be systemic” Jacobs

Financial services

“To achieve its full potential, microfinance must become a fully integrated part of a developing country’s mainstream financial system” CGAP

...a shift towards market systems

Across all development fields... two common problems

M4P has emerged from this context

Remote Reformers

- **Priority – overall, distant macro-picture**
- **Get prices right and the supply-side will follow**
- **Standard policy prescription**



Failure to recognise institutional realities

Impulsive Interveners

- **Direct provision of subsidised finance, advice, materials etc.**
- **If the markets not working, do it yourself.**
- **Replace the market (at least in the short-term)**



Bring about final ends (but neglect market means)

Ignore appropriate roles of key players

United by failure to *ground* what they do in:

(1) market realities

(2) the way systems work

(3) a clear vision of how they can work better

M4P - what it is “*key features*”

Aimed at
Systemic change

Based on an understanding of
Market systems

A strong emphasis on
Sustainability

Implementation through
Facilitation

Different contexts, different tools as an
Overarching approach

- The systems around our ‘target groups’
- Large-scale
- Causes not symptoms

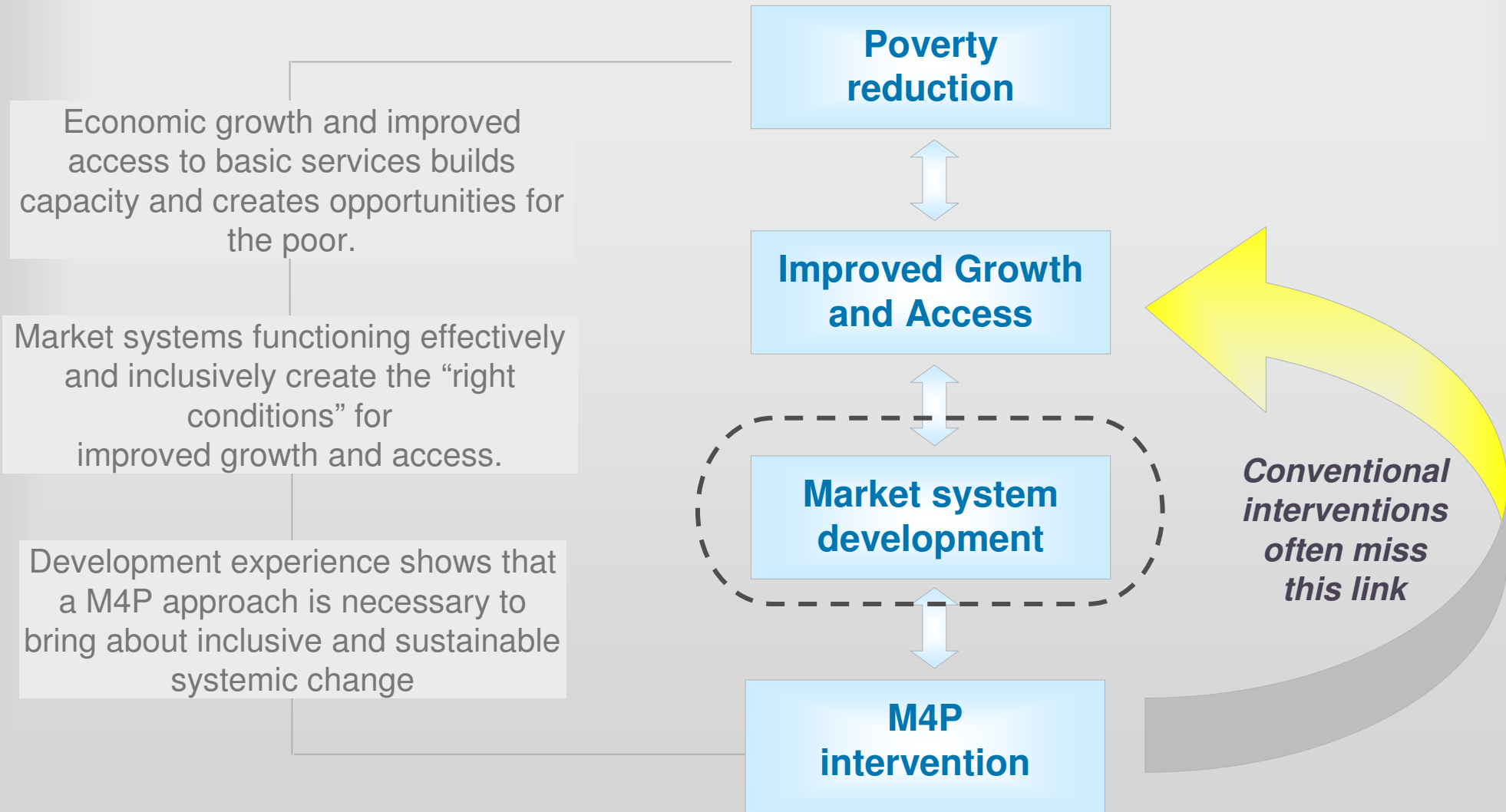
‘Close’ knowledge of:
• functions and players
• constraints and opportunities

- View of the future shapes interventions now
- Who does’/‘who pays’ framework

- Crowding-in other market players and activity
- Key principles and frameworks

Applicable to wide range of situations and using many tools

Objectives: the strategic rationale



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When markets don't work for the poor

TYPES OF COST

Search and information costs

Bargaining costs

Policing and enforcement costs

Production



High transactions costs =
Costly or thin markets... which penalise the poor

Risk
Agencies try to reduce transactions costs themselves... unsustainable

Challenge
Efficient markets find ways of mitigating these costs

MECHANISMS TO MITIGATE COSTS

Transparency

Accountability

Enforcement

Coordination

Control

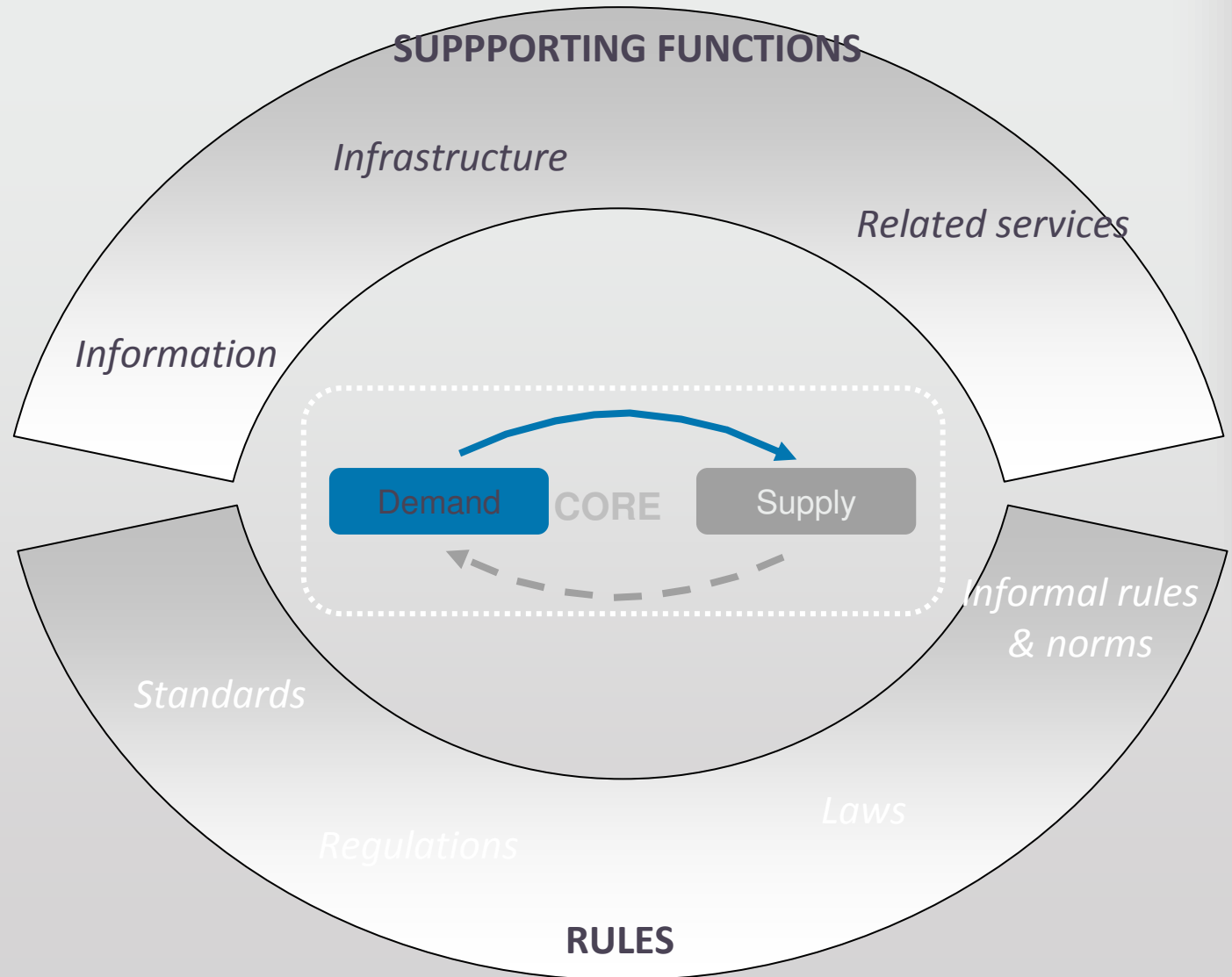
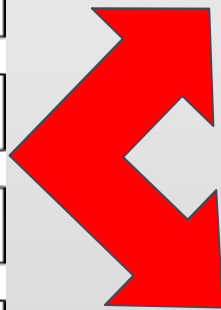
Representation

Innovation

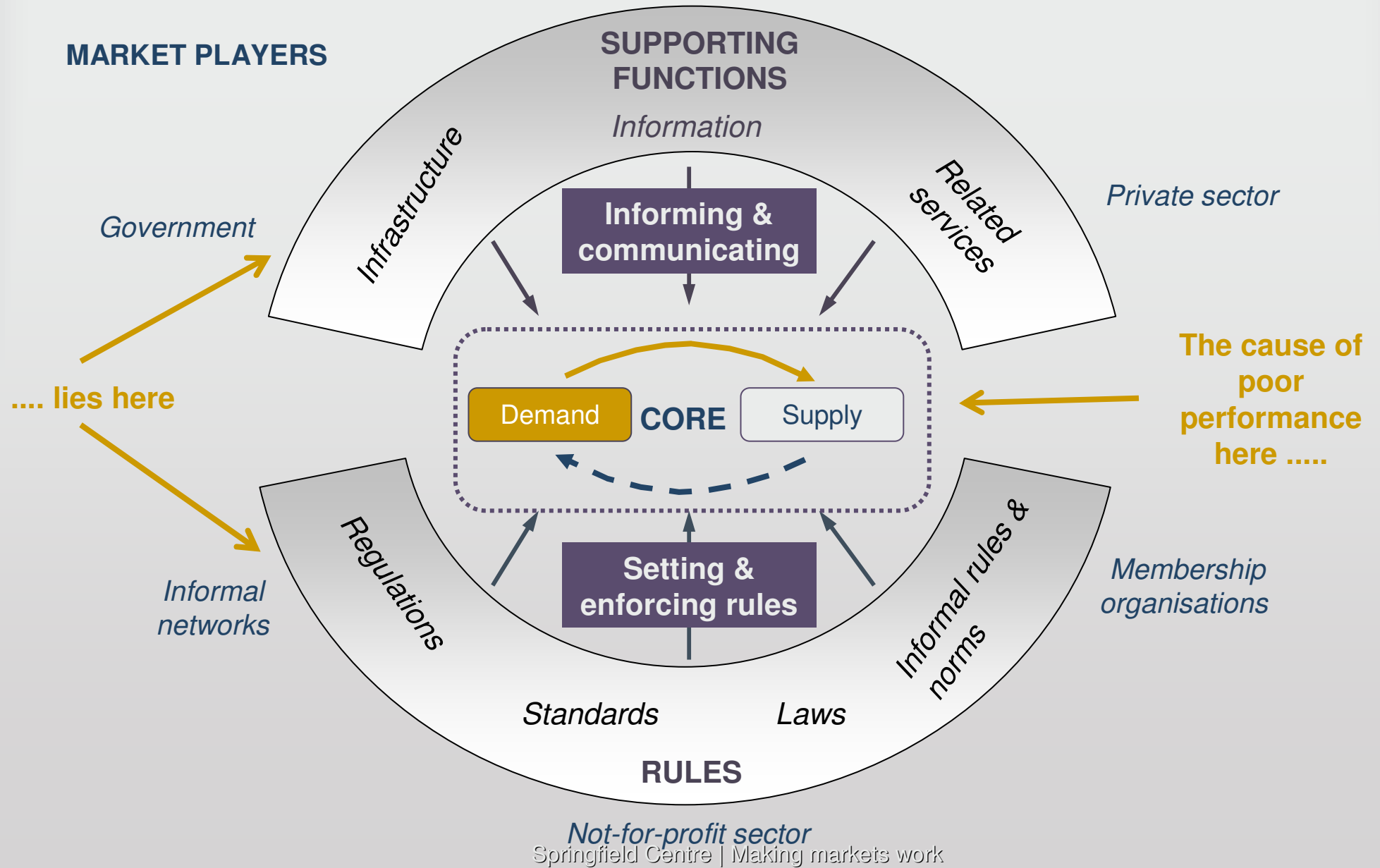
Communication

From “markets” to “market systems”

- Transparency
- Accountability
- Enforcement
- Coordination
- Control
- Representation
- Innovation
- Communication



The market system



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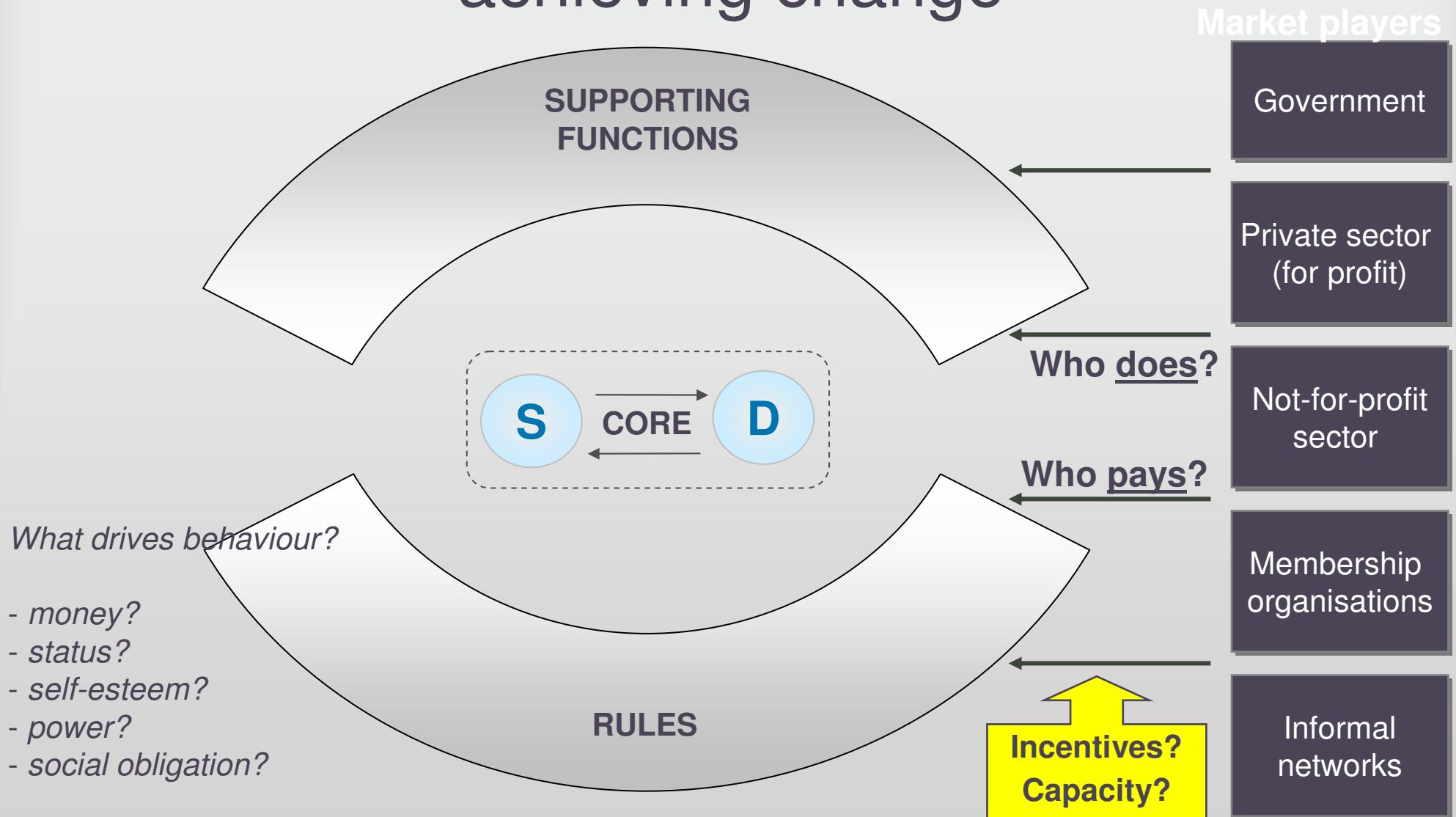
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Incentives and capacity: critical for achieving change



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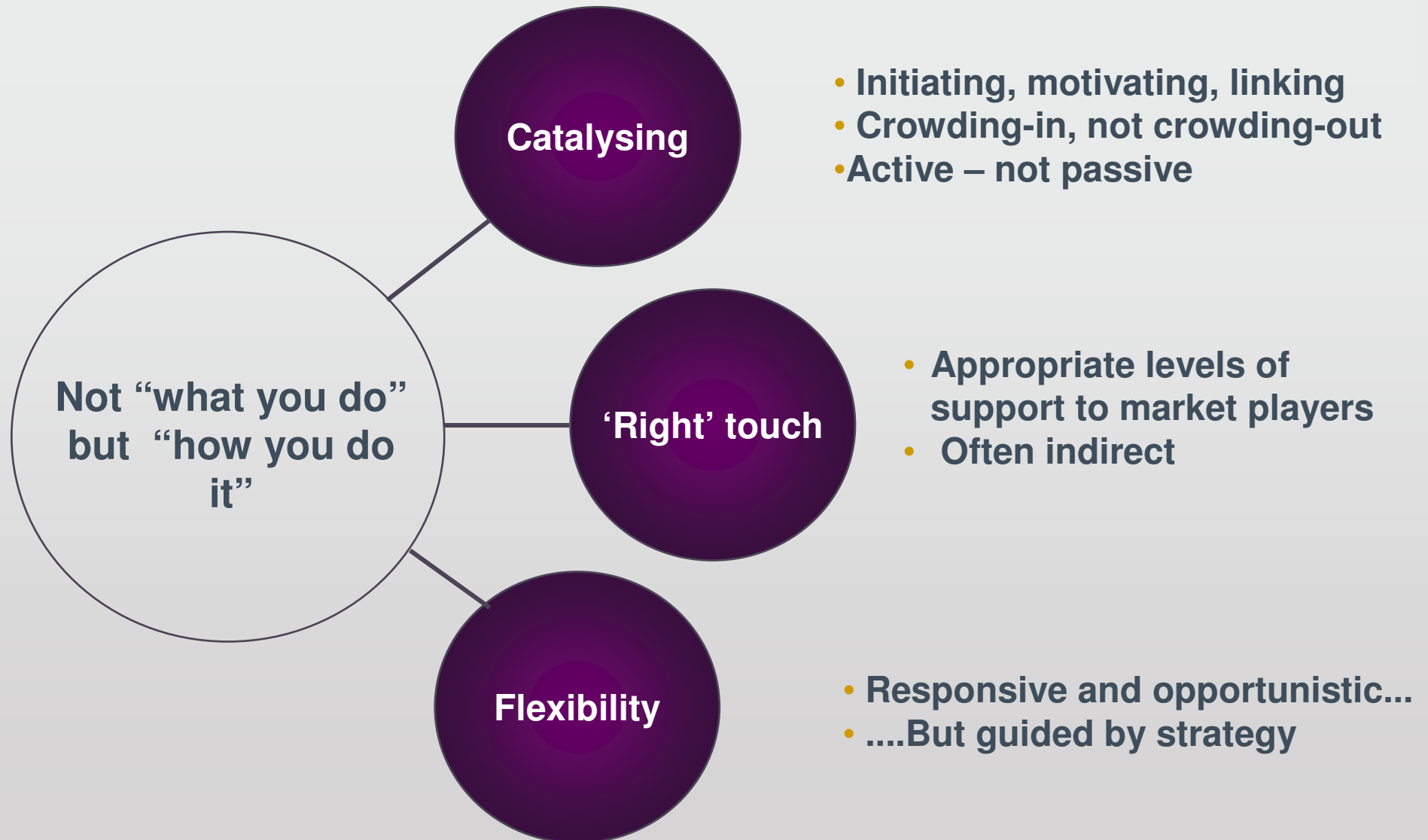
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Facilitating system change



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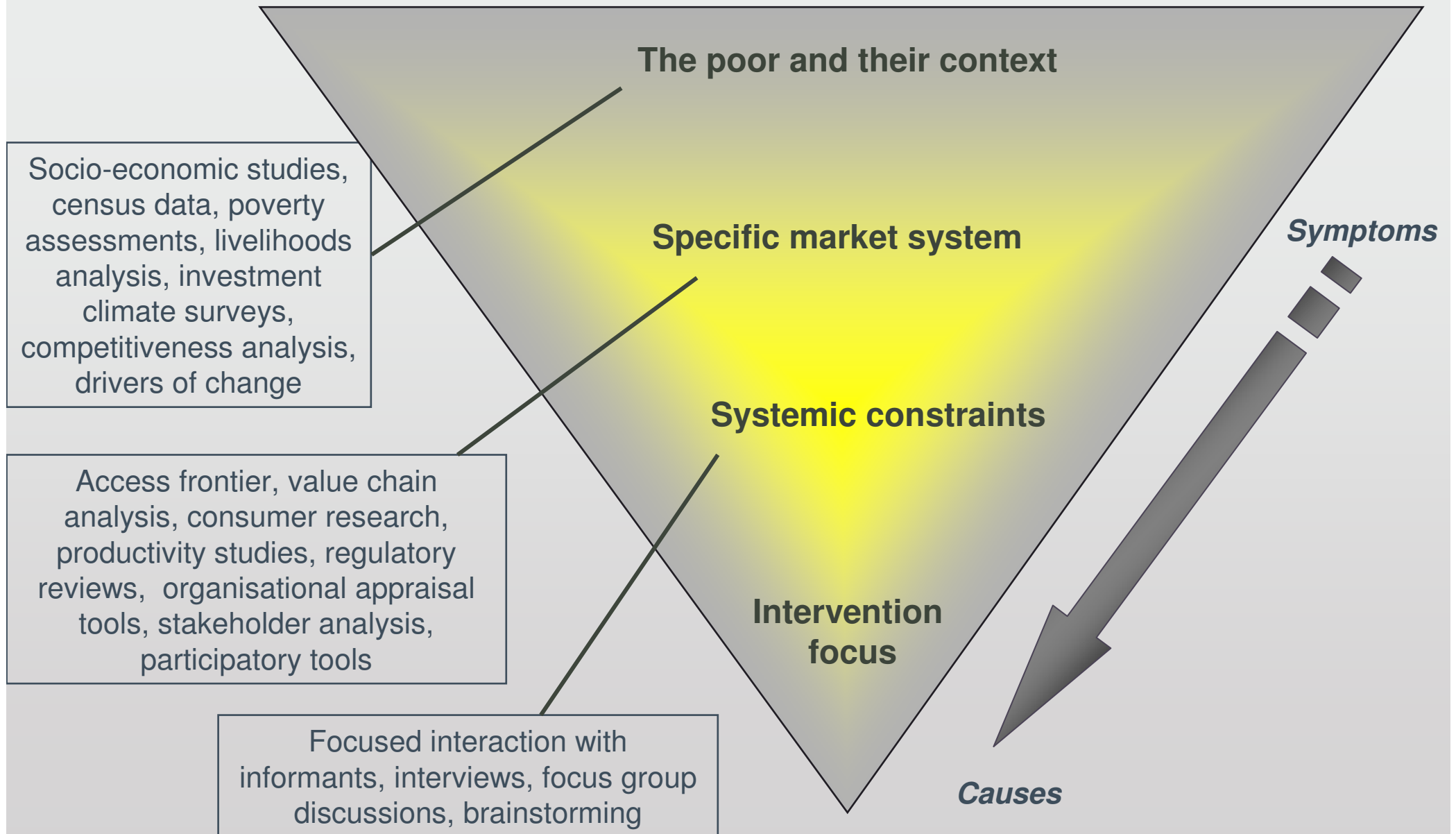
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An overarching approach - using different tools



M4P in practice: delivering significant, sustainable change

Financial services in South Africa

Higher access: 39% (8.8m) in 2002 – 60% (19m) in 2007

Systemic changes

- *New commercial information source*
- *Improved regulatory processes*
- *Better coordination*
- *Improved innovation processes*

Vegetable value chain in Bangladesh

Higher outputs and productivity amongst 1m vegetable farmers

Systemic changes

- *Better farming practices, resulting from ...*
- *... Improved information flows through input retailers*
- *Training supplied by input suppliers*
- *Changing the input supply business model*

Water users in Somalialand

Better quality and reliability for 3,000 users

Small wool farmers in S Africa

Improved access to services and higher incomes for 5,000 farmers

Dairy sector in Armenia

Doubling output, securing market access, tripling incomes for 2000 farmers

But what about 'difficult' areas?

The spectrum of weakness

Dysfunctional environment

'Enabling environment'

Characterised by, for example:

Connectedness – geographic, cultural, networks

Characterised by, for example:

Isolated

Information

Strong institutions

Low resource levels

Self-reliance and drive

Well-connected

Poor governance

Population profile and density

More enterprising culture

Social exclusion

Resource allocation

Resource endowment

Disaster/conflict prone

Social and geographic mobility

Dependence

Demand

Population centres

Low consumption

Institutional competence/capacity

Higher consumption

-ve

Access to services

+ve



Implications for development policy?

Dysfunctional environment

'Enabling environment'

Opportunity

Ease

Expense

Feasibility

Time

More

-difficult

-expensive

-time required

Higher risk

More opportunity

Lower risk

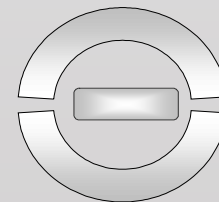
Less expensive

'Degree not kind'




Development

Relief/welfare



A resource in taking the approach forward

A blue abstract graphic consisting of multiple overlapping, semi-transparent, wavy shapes that create a sense of depth and movement. The colors range from a bright blue to a lighter, almost white blue.

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

A publication financed by the UK Department for International Development (DFID) and the Swiss Agency for Development and Cooperation (SDC)

A green abstract graphic consisting of multiple overlapping, semi-transparent, wavy shapes that create a sense of depth and movement. The colors range from a vibrant green to a lighter, almost white green.

PERSPECTIVES ON
THE MAKING MARKETS
WORK FOR THE POOR
(M4P) APPROACH

A publication financed by the UK Department for International Development (DFID) and the Swiss Agency for Development and Cooperation (SDC)

A red abstract graphic consisting of multiple overlapping, semi-transparent, wavy shapes that create a sense of depth and movement. The colors range from a deep red to a lighter, almost white red.

THE OPERATIONAL GUIDE
FOR THE MAKING MARKETS
WORK FOR THE POOR
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