

Inclusive Market Development

Manual on Private Sector Development

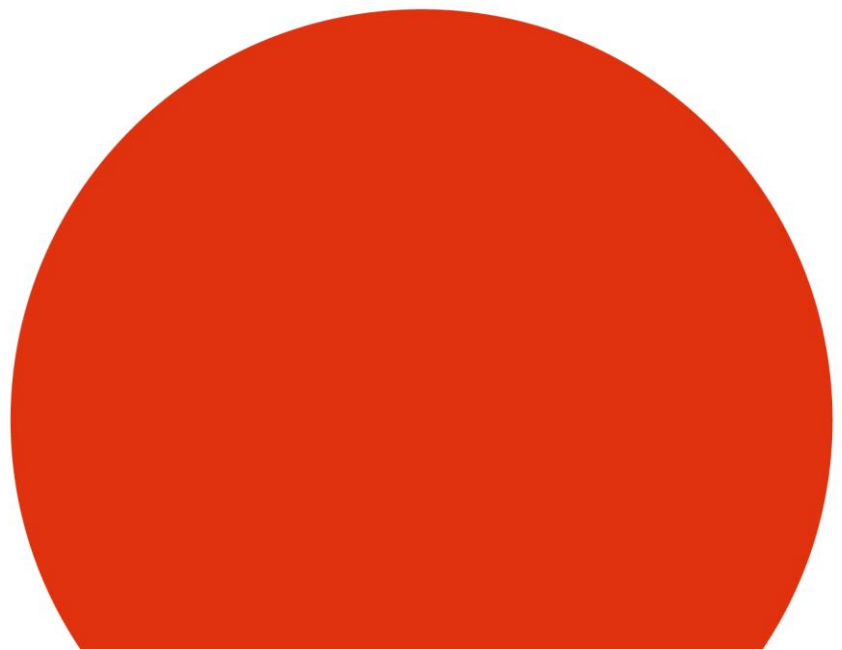


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1 Introduction

"It is the absence of broad-based business activity, not its presence, which condemns much of humanity to suffering. Indeed, what is utopian is the notion that poverty can be overcome without the active engagement of business." (Kofi Annan, former UN Secretary-General, Meeting on "The Business Contribution to the Millennium Development Goals", Paris, France, 14 June 2005)

Development cooperation via private sector development aims to support sustainable, inclusive, hence poverty-reducing growth by strengthening the private sector and facilitating access to markets – of goods, services, jobs and information – for all, especially for the poor and marginalised sectors of the population. Assistance is not provided to given types of enterprise (in terms of size or industry) but aims to strengthen the socio-economic system as a whole. This form of economic development is guided by the principles of development cooperation, i.e. by taking social and ecological principles into account and respecting international rights, rules and standards.

Together with the paper on Local Economic Development (LED) and the Quality Criteria in Private Sector Development, this paper on Inclusive Market Development is the cornerstone for implementing the ADA strategy, which is set to achieve the above goals.

- The “inclusive market development” approach aims to improve the analysis of market mechanisms which are relevant in action contexts, utilising them with a view to action goals.
- LED actions are used to exemplify a private sector action prototype that is tried and tested.
- The quality criteria ensure a fast and sure identification of any PSD elements in actions as well as an assessment of these elements should they exist.

What is inclusive market development by M4P?

Inclusive market development can be achieved by various methods. The following pages provide an illustrative example of the so-called M4P approach.

M4P means Making Markets Work for the Poor.

The central idea of this approach is that the poor, and the incomes of the poor, depend on market systems (in the broadest sense). Accordingly, enhanced efficiency and sustainability of these market systems lead to an improvement of their income situation and consequently a reduction of poverty.

This approach is based on four fundamental principles as follows:

1. M4P is a systemic approach: It is important to understand at which point market systems fail with respect to the poor; and to act in order to address such failure.

2. M4P seeks to bring about lasting change: The effectiveness of the market is enhanced by improving its mechanisms and by interaction of its actors.
3. M4P seeks to be as inclusive as possible: Improvements are designed to reach as many poor people as possible.
4. M4P considers development cooperation as a facilitator: Development cooperation is to act as a catalyst that stimulates market functions or those of its actors, in-spiring change without ever assuming a leading role itself.

This approach was developed a few years ago and is now applied in many countries (e.g. SDC, DFID, Sida). However, the development of market systems is not only of concern to donors: So-called social investments, sustainable business practices and fair trade are becoming increasingly important for business actors as well.

Why M4P?

Reduction of global poverty is the overarching goal of development cooperation. One way to achieve that goal is to promote economic development to improve the living circumstances of the population in partner countries. Over the decades, a variety of methods and approaches have been developed towards this end.

In many different ways, and under many different names, M4P is a synthesis, as well as the essence, derived from the different approaches used by the entire international donor community (see Annex I – M4P and other Approaches): The point is to design ‘pro poor’ growth and to increase the participation of the poor in business activities; consequently, the idea is inclusion of those sectors of the population that have hitherto been excluded from the market system.

Recognising the many dimensions of poverty, M4P actions focus on reduction of income poverty. However, social, political and ecological aspects are also taken into consideration with a view to **sustainability**.

M4P takes account of the dynamism, unpredictability and “defectiveness” of market systems as well as their exposure - not only to social and political forces, but also to planned interventions in the system. One essential element of M4P is to understand and anticipate these influences (see also III, Implementation).

We need to identify not only who these “marginalised” sectors of the population are, but also which market systems must be changed, and how to do so. M4P analyses and understands (or at least attempts to understand) the complex interdependence of functions, actors, internal and external influences, formal and informal rules, relationships and constraints that make up a market system. These findings allow deriving how the poor interact with the system or why they are excluded. This forms the basis for developing ideas to improve their situation.

M4P aims at sustainability. For this reason, M4P aims to achieve systemic change through capacity building and creation of reward systems (not only in the financial sense!) for key actors of the market system, so that system functions are better aligned to the long-term needs of the poor.

With a view to finding solutions that last, M4P puts these actors into the focus of development, rather than resorting to external intervention or mediators.

Due to its systemic approach, M4P is an analytical tool that can be applied to all sectors. However, the following discussion primarily relates to its application in private sector development.

M4P and Private Sector & Development (PS&D)

This paper is complementary to the guidelines on PS&D (“Leitlinien W&E”) [German only], which continue to remain in force. These guidelines describe the PS&D policy area based on three pillars as follows: enabling environment, business development services and co-operation with the Austrian private sector.

M4P provides a concrete frame of reference and analysis to the first and second pillars of the above guidelines. While the third pillar of private sector development relies on special instruments (e.g. business partnerships), the principles of M4P are nevertheless applicable.

Most of ADA’s actions relative to private sector development actually combine elements of the first and second pillars. Economic development of a country/region always depends on the enabling environment and the services available to businesses.

M4P permits, and indeed supports, that combination by invariably starting out with a comprehensive analysis of the baseline situation and the factors inhibiting the market functions – both at enabling environment level and in relation to services for entrepreneurs.

M4P can be combined with the Local Economic Development approach, which has successfully been applied in ADA as this approach is also systemic and focuses on empowerment of vulnerable population groups (see Focus on LED).

Case I: „Enterprise for pro-poor growth“

Implemented by ILO and SIDA in four poor rural districts of Sri Lanka

Baseline: Most of the markets for ornamental fish, dairy produce and coconut fibres were in the hands of self-employed workers and micro-enterprises (including SMEs in the case of coconut fibres) which employed poor men and women. Due to the adverse business environment, low skills levels and poor knowledge of the market, the existing potential was not utilized.

Effects:

- Improved business services
- Improved organization of market actors
- New business enabling conditions, e.g. by lifting local regulations limiting the fish farming industry and developing an export zone for ornamental plant producers.

Method: Combination of LED and M4P

- Several improvements were developed at local level. Innovations were subsequently implemented in other districts and country wide.
- Participatory methods were used to develop necessary measures; an M4P-compliant analysis shed light on the reasons for market malfunction.
- The action team acted as a facilitator by providing financial support only to investments in innovation and not to the provision of services.

Examples of measures include:

- Improved service provision to enterprises, worked out by local representatives
- Promotion of dialogue and cooperation between market actors
- Improving the business environment, e.g. by lifting local regulation limiting options for the fish farming industry
- Stimulating the creation of an export zone for ornamental plant breeders.

The action supported 16,400 firms in a period of 4.5 years. It is assumed that 50,000 businesses will benefit from the action in the long term.

Source: S. Barlow for the Springfield Centre, The Enter-Growth project – Sri Lanka, ILO 2011

2 Methodology

M4P is a private sector development approach that helps to understand how the poor interact with market systems and how systems can be changed to improve the lives of the poor.

M4P contributes to private sector development at three levels (cf. DFID & SDC 2008: A Synthesis of the Making Markets Work for the Poor Approach):

- As a strategy or basic logic to reflect on poverty reduction
- As a framework for understanding market systems and realistically reflecting sustainability and
- As guidance for activities and interventions, invariably by including an exit strategy

M4P actions may integrate combinations of different kinds of PSD intervention, e.g. reforms of the business enabling environment, value chain development and local economic development.

The five following paragraphs explain the implementation of the approach in actions.

Approach in M4P actions

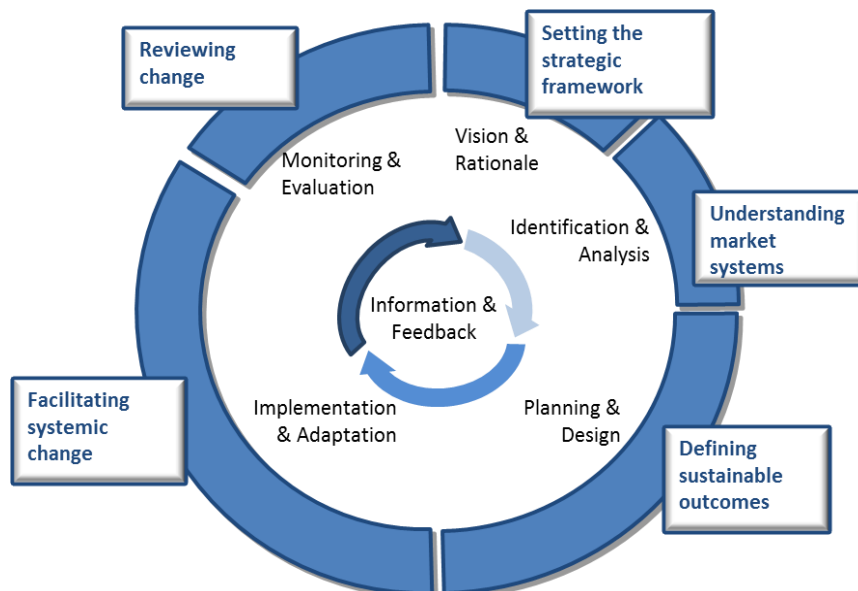


Figure 1: Source: http://www.value-chains.org/dyn/bds/docs/681/Synthesis_2008.pdf

Setting the strategic framework (Definition)

All M4P actions aim to reduce poverty – sustainably. To reach that goal, M4P actions require an underlying strategy.

In particular, the M4P strategy describes the goals of **poverty reduction, growth and market access as well as changing market systems**.

However, this strategy not only describes a set of goals leading to the desired change in the market system, but also the way these goals work. This is the basis for implementing the action as well as a framework for measuring and evaluating the progress and effect of the action.

Case II: „Market Alliances Against Poverty”

implemented by SDC & Mercy Corps, Duration: 3 years, Budget: € 2.2 million. Goal: Reducing rural poverty in southern Georgia.

Baseline: The market for dairy products was identified as poverty relevant. Low productivity and quality as well as a fragmented market inhibit its growth.

Reasons:

- poor quality of inputs
- inadequate farming practices due to lack of information and training
- inadequate access to water (resulting in problems of hygiene)
- lack of farmers’ willingness to invest because of pessimism regarding the market and its development

Action vision: Creating a market system where farmers have access to the market, information and training, better inputs and water. This would improve product quality, hence increase incomes.

Source: Alliances documentation and direct communication with Ms. Helen Bradbury, Team Leader

Understanding the market system (Research)

M4P actions rely on robust understanding and analysis of the market system and its effect on the poor. Successful M4P actions **differentiate between causes and symptoms of market system failure**.

To start with, an in-depth analysis first provides a picture of the socio-economic context in which the poor act. In a subsequent step, filters and focusing help to further explore the constraints particularly affecting the poor. This process only aims to collect information for decision-making. A sound analysis is guided by justified curiosity and constant questioning until the true reasons for malfunctioning market systems are understood.

Alliance noted that

- existing information channels (TV, newspapers, local government agencies, service providers) were deficient in terms of coverage and quality, therefore of little relevance to small farmers.
- No advisory services were available on animal health issues. Farmers did not trust veterinarians (reasons: low-quality supply, outdated drugs for animals, high prices).
- Even though water was the key to clean milk, administrative authorities had not made any budgetary provisions or plans for improvement.

Defining sustainable outcomes (Planning)

M4P actions are aimed at sustainable outcomes for the poor. For this reason, they seek to achieve long-term capacities for the market system and its actors rather than short-term results. It is thus important to carefully study the prevailing system before considering single interventions. As soon as it is clear how a market system might work more efficiently, ways of enabling the necessary changes are described.

The sustainability principle of the M4P approach requires targeted action together with a **clear exit strategy**.

Moreover, M4P actions must be designed pragmatically: The planned interventions should not only bring about lasting change but also be feasible within the action.

Key questions for the first three steps of the planning process:

- What is the nature of the specific market system?
- What is the historical market context?
- What type of innovation of relevance might trigger a redesign of functions and actors?
- What are the rewards of change?
- Which market actors dispose of which capacities?

Intended change: Firms buying milk from farmers should provide farmers with training and information – via collection points and professional trainers.

Intervention: The firms saw that the service makes commercial sense because it reduces transaction costs and allows product improvements. In addition, the firms were supported in developing this service and during the pilot phase.

An analysis conducted during action implementation (an important part of M4P actions!) showed that women did most of the work involved in milk production but failed to receive any information on ways of improvement because men – the heads of households – completed the training programmes without informing women of their new knowledge and skills learnt. The analysis also showed that women barely ever participated in meetings with government agencies in which crucial decisions were taken on budgetary priorities for improved water supply. Consequently, milk producers were supported in reaching out to women and disseminating relevant information to the rural population by television and newspapers. To improve water supply, the number of women participating in decision-making processes was increased.

Facilitating systemic change

To support the way market systems work, M4P intervenes as facilitator. In this regard, actors and functions of the market system are encouraged to work more effectively, whereas the facilitator or the action itself does not assume any role in the market system.

Intervention in a market system might not only be supportive but also destructive. For this reason, ongoing monitoring of desired and undesired effects is a co-decisive factor in the action's success (Do no harm principle!).

M4P is action oriented. The action team, acting as facilitator, works with the market system in order to change the behaviour, practices, relationships and investment decisions of the actors, with the sole purpose of making it more effective and sustainable.

What does a facilitator do?

Among other goals, a facilitator seeks to

- Induce systemic change
- Improve the functionality of market systems for the poor
- Influence the behavior of market players

Key means at the disposal of facilitators include:

- Not assuming any role in the market system
- Identifying market failure and opportunities
- Choosing measures generating maximum impact
- Introducing and promoting ideas and innovation
- Encouraging exchange between actors
- Providing temporary technical and financial assistance to share the risks in-volved in innovation.

<http://www.enterprise-development.org/page/download?id=2212>

A facilitator can thus be characterized as a communicator, relationship builder (and mediator), coach and innovator.

The Alliances action met all the above requirements:

- A tender for the development and implementation of relevant training programmes was launched in collaboration with a milk producer.
- Collection points would work as centres for training women; they also started to work with women officially. This provided women not only with information but also with pay.
- The model was adopted by five dairy plants. The plants now provide training without receiving action assistance.
- Dairy farmers - men and women – were reached by television and a new newspaper for the rural sector. All of these efforts are ongoing, without action support.
- Training provided to administrative officers raised awareness and encouraged new gender-sensitive legislation. In addition, meetings of women were launched for women to share information and discuss their concerns.
- Women's participation in community decisions has thus increased and administrations have provided funds for water supply (and childcare facilities).

Opportunities of M4P application

All M4P actions ensure that lessons are learnt and adaptations made. Ongoing re-views seek to identify whether interventions actually contribute to action goals or what other effects they may have.

It is important to measure and assess changes against the strategic framework and defined goals. For this purpose, it is crucial to select and measure realistic and significant indicators of change and effect.

To fine-tune activities, M4P actions integrate learning processes into decisions.

The reporting system of the Alliances action is aligned to the DCED Standard, i.e. reporting is taken into consideration during the very preparatory stage of intervention. Monthly monitoring meetings ensure that data on productivity and results are analyzed and measures adapted.

(Interim) results:

- At the end of the first action phase, approx. 2,500 farmers had made use of the milk producers' new services. 15,390 farmer families benefited from the changes.
- Indirect effects produced by firms that adopted the model without any action obligation are subject to further analysis.
- While nearly 7,000 farmers watch the television programmes arising out of the action, 5,000 buy the new newspaper. 84% of its readers managed to improve farming practices and farmers receive better prices for better milk (+ € 238.- a year).
- Milk sales generate direct income for more women; they have a stronger say in the allocation of these additional funds. The action will now be extended to other regions of Georgia.

3 Challenges and Opportunities in the Implementation of M4P

Challenges of implementation

- M4P attempts to take the complexity of market systems into consideration. Consequently, all M4P actions start out with a thorough analysis of the baseline situation. While this may seem laborious, it is necessary to identify and adopt the “right” approaches.
- M4P requires some flexibility in action preparation and implementation. The approach includes adaptation of measures to new circumstances or external influences, even during implementation.
- M4P actions do not assume a permanent role in the market system but attempt to facilitate change. A clear definition of measures and steps to be taken by a facilitator is often difficult and not immediately undertaken at action start; for this reason, there is a degree of risk that the analytical phase is too detailed and lengthy.
- The role of facilitator involves certain loss of control, i.e. the dependence on partners of implementation is higher in M4P actions than others.
- Markets are not closed systems whose boundaries are instantly visible. For this reason, the risk of further strengthening existing power structures is real. Consequently, it is particularly important for M4P actions to focus on a reconciliation of any imbalance of power and to extend interventions beyond the market system, e.g. by means of gender mainstreaming or sustainable management of the environment.

Opportunities of M4P application

The application of M4P as an analytical tool and for the strategic formulation of private sector development implies innovative approaches at different levels:

- A new way of thinking: understanding market systems and learning how ADA might support systemic change – for the poor sectors of the population that are active in, or excluded from, these markets.
- A new way of engaging in DC: The debate on existing market systems and their shortcomings is intensive. A great deal of time is devoted to analysing the underlying reasons and the question is: What could our role as facilitator be?
- A new way of measuring results: M4P is making outcomes more important. The aim is to achieve results that are measurable quantitatively: income and jobs, number of enterprises, number of beneficiaries.
- A new type of portfolio management: M4P may shift the emphasis of the PSD portfolio and will ensure a wider and more sustainable impact of the interventions.
- A new way of dealing with sectors and themes: M4P is relevant for all sectors and can be applied anywhere (ranging from education through environment to rural development) without being limited to private sector development. Therefore, it will

be interesting to jointly explore the synergies between sectors and themes and utilise them for enhanced effectiveness of the actions.

Overall, for ADA the implementation of M4P implies a more integral approach to reaching development goals in private sector development (and other sectors).

Annex I – M4P and other Approaches to International Private Sector Development

Donors such as DFID, Sida and SDC have used M4P for years. It is one of the approaches promoted by the Donor Committee for Enterprise Development (see below). But how can this approach be integrated into the international debate on PSD? What are the differences compared to the approaches adopted by other – especially multilateral – organisations?

European Commission – inclusive and sustainable growth

In its Agenda for Change (October 2011), the European Commission defines two key priorities of its working programme:

- Human rights, democracy and other key elements of good governance, and
- **Inclusive and sustainable growth** for human development.

In supporting inclusive and sustainable growth, the EU focuses on the following areas:

- Sectors forming the basis for growth and assistance: social protection, health and education
- Improving the business enabling environment and furthering regional integration
- Sectors acting as a multiplier for environmental protection and climate change, such as sustainable agriculture and energy.

Regarding the above, the EU's fundamental considerations are as follows: Strengthening the private sector, small and medium-sized enterprises (SMEs) in particular, is the key driving force of economic growth and job creation in many developing countries. In many different ways, private sector development has an impact on the local population, including the informal sector and the poor: as employees, employers and consumers.

In its strategy for private sector development, the EU focuses on influencing the business parameters of the enabling environment. It is an undisputed fact, also for the EU, that eradication of poverty requires investments in participatory market systems which include the poor sectors of the population. These considerations, as well as the objective of eliminating barriers to inclusive, sustainable economic development, are in full agreement with the M4P approach.

OECD – pro-poor growth

Background documents: Pro-Poor-Growth (Guidelines 2007), Empowerment of Poor People for Poverty Reduction (through PPG)

Pro-poor growth is growth that:

Improves opportunities for the poor to earn a livelihood from the **production and sale of products** and services in those sectors in which they are already active, such as agriculture, and

1. increases job opportunities (employment) for the poor by transforming the economy and creating new opportunities in manufacturing and services sectors, e.g. by value chain development or support to SMEs and diversification, and
2. is accompanied by a **public ‘pro-poor policy’**, which finances public spending for improved services and infrastructure by means of a progressive tax system, for example, or acts as a trade regulator through incentives and taxes.

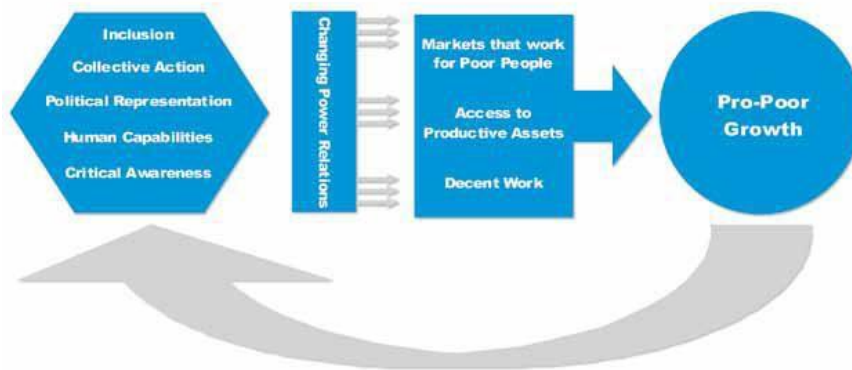


Figure 2: Source: <http://www.oecd.org/development/povertyreduction/47466424.pdf>

The above diagram shows that in addition to access to productive assets and decent work, such pro-poor growth depends on markets that work for the poor. This requires change in power relations that can only be achieved by a number of highly diverse measures: inclusion, collective action, political representation, human capabilities, and critical awareness.

UNDP – promoting inclusive market development

UNDP’s private sector development strategy, called “Promoting Inclusive Market Development”, dates to 2007 and forms the framework for all of UNDP’s PSD interventions – at global, regional and country level.

The Strategy comprises five areas as follows:

- Policy and institutional infrastructure: policy advice and capacity-building to help governments create a better business climate for the private sector;

- Pro-poor value chains: integration of local producers into local and global value chains;
- Pro-poor goods and services: encouraging private investments in affordable goods and services for the poor;
- Development of entrepreneurship: promotion of micro, small and medium-sized enterprises; as well as
- Corporate Social Responsibility (CSR): to support inclusive market development and achieve the Millennium Development Goals.

While the fifth item refers to market development as an explicit goal, this goal is also contained in all other components of the UNDP strategy. Value chains are market systems, and the production of affordable goods is as much in conformity with the M4P principles as the creation of a business-friendly environment in partner countries.

Donor Committee for Enterprise Development (DCED)

The Donor Committee for Enterprise Development is a donor association that reduces poverty by elaborating the most effective practices to create business opportunities and jobs, based on the lessons learnt by its members and other economic development actors.

Moreover, the DCED has become a leading platform of knowledge on private sector development. It documents and publishes successes and lessons learnt with the aim of improving the results of PSD actions in developing countries.

Apart from ADA, its members include AFD, the Australian Department of Foreign Affairs and Trade, the Danish Ministry of Foreign Affairs, DFID, the European Commission, the Finnish Ministry of Foreign Affairs, FAO, the Ministry of Foreign Affairs, Trade and Development Canada, BMZ, the International Development Research Centre in Ottawa, ILO, the International Trade Centre in Geneva, the Netherlands Ministry of Foreign Affairs, NorAD, OECD, SIDA, SDC, The MasterCard Foundation, UNCTAD, UNDP, UNIDO and the World Bank Group's partnerships and advisory services.

The DCED considers M4P one of the most widely accepted approaches to private sector development, which has proven its worth over the years. It is closely linked to the DCED Standard for Results Measurement, which was developed with, and for, the M4P programme, but is now also applied to all other approaches. The DCED website provides access not only to all background documents on M4P but also to lessons learnt in its application and critique of the approach (see Annex).

4 Conclusion

While the terminology of private sector development actions and strategies may vary from one organisation to the other, the ultimate goal remains the same: **to strengthen market-based economic engagement with the poor sectors of the population, which is considered crucial for sustainable economic development and indispensable for reducing poverty.**

While M4P has a great deal in common with other discussed approaches, the principal difference is the emphasis given to the facilitative role rather than direct support. M4P pro-grammes are thus more likely to be sustainable (see Links to case studies below).

Annex II – Links to Further Information

Links to case studies

http://www.ilo.org/wcmsp5/groups/public/@ed_emp/documents/publication/wcms_152820.pdf

<http://www.m4phub.org/programme-finder/>

<http://enterprise-development.org/page/case-studies>

Links to further reading

M4P

<http://www.enterprise-development.org/page/m4p>

<http://www.m4phub.org/what-is-m4p/introduction.aspx> #

<http://www.m4phub.org/why-use-m4p.aspx>

<http://businessinnovationfacility.org/>

PSD donor strategies

<http://www.oecd.org/dac/povertyreduction/promotingpro-poorgrowthpolicyguidancefordonors.htm>

<http://www.oecd.org/dac/povertyreduction/50313489.pdf>

M4P and specific sectors (health, water, education)

<http://www.enterprise-development.org/page/m4p>

DCED Standard for Measuring Results

<http://www.enterprise-development.org/page/measuring-and-reporting-results>

Abbreviations

ADA	Austrian Development Agency
AFD	L'Agence Française de Développement
BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung
CSR	Corporate Social Responsibility
DAC	Development Assistance Committee
DC	Development Cooperation
DCED	Donor Committee for Enterprise Development
DFID	Department for International Development
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
ILO	International Labor Organization
SMEs	Small and medium-sized enterprises
LED	Local Economic Development
M4P	Making Markets Work for the Poor
MDG	Millennium Development Goals
OECD	Organization for Economic Co-operation and Development
PPG	Pro-Poor-Growth
PSD	Private Sector Development
SDC	Swiss Agency for Development and Cooperation
SIDA	Swedish International Development Cooperation Agency
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization