Can the “Making Markets Work for the Poor” (M4P) approach reach the poorest, and are there measures to improve its inclusiveness?

A synthesis of the current public discourse, experiences from practice, and ways forward.

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Table of Contents
1. Introduction..............................................................................................................................................3
2. Making Markets Work for the Poor (M4P) Approach ................................................................................3
3. Current discourse on inclusiveness of the M4P Approach .........................................................................3
4. Measures to improve the inclusiveness of the M4P Approach ..................................................................4
   4.1. Policy interventions ..............................................................................................................................5
   4.2. Directly targeting extreme poverty with the M4P Approach .................................................................5
   4.3. Combining M4P with other tools ...........................................................................................................6
5. Conclusion ..................................................................................................................................................7
6. References ..................................................................................................................................................9

Abbreviations/Glossary

CLP | Chars Livelihoods Programme in Bangladesh
DFID | Department for International Development
NGO | Nongovernmental Organisation
MaFi | Market Facilitation Initiative
M4C | Project ‘Making Markets Work for the Chars’ in Bangladesh
M4P | Making Markets Work for the Poor. Name of an intervention approach that aims at systemic improvements of markets for the poor (see chapter 2)
SDC | Swiss Agency for Development and Cooperation
$PPP | Purchasing Power Parity adjusted Dollars

Poverty levels | In the literature and discourse on M4P, many terms for poverty levels are used, often without clearly defining them. While poverty has many dimensions and can be looked at from different angles, it is assumed in this paper that most people refer to income below 2,5 $PPP per day when using the term “the poor” and below 1,25 $PPP per day when using “the extreme poor”, “the very poor”, “the poorest”, “the ultra-poor” and “the hard-core poor”. This paper uses the terms “the extreme poor”, “the very poor” and “the poorest” when referring to this income level.
1. Introduction

The Making Markets Work for the Poor (M4P) approach has been increasingly applied in development cooperation during the last decade. Its aim is to understand the market systems that are important for poor people in order to define interventions that remove identified market constraints in a systemic, and therefore sustainable, way. Chapter 2 gives a brief overview of the approach.

While there is a lot of enthusiasm about the approach from the side of its promoters, there are also critical voices saying that the poorest cannot be reached with it. Given the fact that more and more donors are supporting the M4P approach, the question of its inclusiveness is important. This paper provides an overview of how market development practitioners see the possibility of reaching the poorest with M4P (chapter 3). It also describes measures to improve the inclusiveness of M4P, which have been proposed by practitioners or which are being implemented in projects using the M4P approach (chapter 4).

2. Making Markets Work for the Poor (M4P) Approach

The M4P approach aims at efficiently and sustainably improving the lives of poor people, by understanding and influencing market systems that are important to them. The approach provides guidance for the analysis of a system and the actions leading to the necessary change. This change aims at tackling the underlying constraints that prevent a market from working well for the poor. M4P has the ambition to bring about change on a large scale, and in a sustainable way. This shall be reached by acting as a temporary facilitator among existing private and public actors who have an incentive and the capacities to improve the system in favour of the poor. Interventions seek to stimulate crowding-in of other players. Development agencies, however, must avoid performing an active role in the market. (SDC/DFID 2008 [2], p.11ff).

In the past, agencies often tried to “fix” a problem by taking up a role in the market, or setting up specialised service providers. However, by performing such an active role, the project will leave a gap in the market when it is concluded. For example, service providers set up by projects are normally subsidised at the beginning and struggle to become financially viable and independent. By contrast, M4P seeks to find more sustainable solutions, by performing a facilitating role.

M4P is a means to complement and strengthen existing development methodologies (SDC/DFID 2008 [2], p.11ff). Although originating in private sector development, the approach can also be applied in other fields of development cooperation, e.g. water or skills development (SDC/DFID 2008 [2]).

3. Current discourse on inclusiveness of the M4P Approach

There are a growing number of donors who are working with the M4P approach, believing that they are able to reach more poor people in a more sustainable way than through conventional approaches (SDC/DFID 2008 [1], p.5ff). Yet there are also voices saying that M4P does not necessarily benefit the poor, and particularly not the extreme poor. Jochnick (2012, p.28), for example, argues that M4P struggles to reach the extreme poor. Proponents of this approach, according to Jochnick, are reluctant to target the poorest, because the poorest are risk-adverse and lack basic means, assets and power to engage with markets. These proponents see the approach as complementary to more interventionist and subsidised strategies. Jochnick does not only question how far down the income ladder the approach can go but he also expresses his fears that they increase inequality by not reaching the most vulnerable.

Can M4P reach extremely poor people and if so, how? This chapter gives an overview of the opinions expressed in the current discourse of market development practitioners on the inclusiveness of M4P:

The poorest are often excluded from typical M4P interventions. The poorest benefit little from

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1 Three discussions around these questions were held among practitioners within different forums on the internet. The first was initiated by the Market Facilitation Initiative (MaFi 2010), asking whether systemic interventions reach the poorest of the poor. The second online debate, set up by M4P Hub (M4P Hub 2012), was held on the topic of who to target with M4P. The third was organised by the British newspaper The Guardian (2013) about how to make markets work for the worst off. Finally, a blog on Oxfam’s experience in market development (Oxfam 2012) has also contributed to this chapter. This chapter highlights the most common opinions, although not everyone in the panels agreed.
interventions targeting general improvements in systems involving the poor, because they have fewer resources to engage in productive activities.

**M4P does normally not target the extreme poor.** Exactly because the extreme poor lack the resources, production surplus and skills to be active in the market, and because the risks of changing their practices are very high for them, many exponents of M4P do not aim at reaching the poorest. Such proponents do not believe that the poorest are interesting enough for the private sector as consumers or producers. Therefore, according to them, addressing the poorest should be done within the scope of social security programmes or more hands-on\(^2\) projects.

**M4P normally tries to target individuals who live just below the poverty line.** They have more means and are more open to investing in change than those further down the income ladder.

**The poorest are assumed to copy practices from others and to gain employment.** The extreme poor, it is assumed, therefore benefit indirectly, and in the longer term, from M4P projects through more opportunities for employment, trade and service provision, or even as entrepreneurs (Sarwar 2012).

However, these assumptions of the copying and the creation of new employment are disputed. Opponents point out that these assumptions have been included in monitoring and result measurement systems, but were hardly ever tested. Moreover, the “trickle-down” effect is normally not seen in typical inclusive market programs for various reasons (e.g. actors are marginalised and have a low level of literacy; lack of access to business and technology information; stigmatisation; low levels of coordination and therefore no capacity to build economies of scale)

**The copying-in and additional employment of the extreme poor require supplementary action. M4P is only one tool that needs to be used in combination with others.** Because of the reasons mentioned in the previous paragraph, participation of the poorest in the market should be enabled by subsidised ‘trickle-up’ support, such as improving skills, “physical infrastructure, community/group building, access to technical, financial and business services and so forth, with the subsidy gradually tapering off” (Gerry M. in M4P Hub 2012).

There is a minimum set of institutions and skills that are needed to allow interventions to trickle-down.

**Direct transfers to beneficiaries have to be used with prudence.** Transfers are prone to corruption, power abuses and information asymmetries, and tend to be expensive and small scale. They can also create dependencies instead of empowerment. Transfers need to be accompanied by interventions that improve access to markets for the receiving beneficiaries. Since the extreme poor are also part of the wider system, interventions for them must also be done in a systemic way.

**M4P can target the poorest directly.** Some practitioners argue that it is still possible to reach the poorest directly. By thorough analysis, it should be possible to find appropriate market(s) that directly lead to improvements for extreme poor. High transaction costs, among the most important impediments for the market to cater the poorest, can be cut by innovating on affordable products and processes.

It can also be argued that the vulnerability of extreme poor to shocks is a systemic constraint that has to be addressed within M4P in the area of ‘rules’\(^3\) and not with direct interventions such as transfers. Changes must be sought with the government and civil society to decrease this vulnerability and to enable the extreme poor to accumulate capital. (Sarwar 2012)

### 4. Measures to improve the inclusiveness of the M4P Approach

As described in chapter 3, many market development practitioners do not think that the poorest can directly benefit from M4P. Some say the poorest should rather be targeted by social protection programmes. Others see a need to combine M4P with other tools which are more hands-on, i.e. which intervene more directly. Some argue that the poorest benefit indirectly through increased employment opportunities and copying from poor. By contrast, however, some practitioners do still believe that it is possible to address extreme poverty directly with M4P. This chapter will give an overview of different measures proposed, or applied, that aim at improving

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\(^2\) As opposed to the hands-off approach of M4P where the project plays a facilitating role.

\(^3\) In M4P terminology, the market system is composed of: (a) a core function; (b) its actors; (c) support functions that enable the core function to work well; and (d) rules that define the way actors interact with each other.
the inclusiveness of M4P. Some of the proposals are only ideas at this stage, while others have been implemented in projects. Examples mentioned are not explained in detail\(^4\) and are meant to provide inspiration and references for further research.

### 4.1. Policy interventions

Market failures, or constraints, are often rooted in problems at the policy level. Policy interventions are therefore an obvious answer to these problems. However, such interventions must serve to deepen, rather than to undermine, the market. Such undermining measures include: government supplying a good or service (as this often results in higher costs of production, requiring subsidies to make them affordable to the poor); subsidising a part of supply and allocating it to the poor via administration (as this often leads to allocation on the basis of political patronage rather than need); regulation of prices in order to make goods and services affordable (since this reduces the incentive to increase supply); and purchasing of land or other assets for redistribution to the poor (as this undermines property rights). (M4P Hub 2011 [1], p.6)

According to the authors of M4P Hub (2011 [1], p.6), the following measures are to be preferred over those previously mentioned: “i) investment in infrastructure and information to increase access for targeted groups of the poor; ii) building assets through market based redistribution and ‘smart transfers’ (based on outcomes) - for example, households receive money when they use health and education facilities in order to build human capital; and iii) social protection provided through food for work schemes or cash transfers to help households overcome poverty traps.”

### 4.2. Directly targeting extreme poverty with the M4P Approach

#### Choosing markets with the extreme poor as producers or consumers

A thorough analysis can identify markets that have the potential to include more of the poorest, be it as producers or consumers. Samriddhi project in Bangladesh (HELVETAS Swiss Intercoperation 2013, p.20ff), for example, has successfully increased its outreach to the poor and the extreme poor, by choosing with ‘medicinal plants’ a value chain that includes predominantly very poor people. The plants are cultivated on village roadsides so that farmers do not need to have their own land.

Similarly, the “Behind the Veil” programme in Pakistan has used urban-based sales agents to connect extreme poor rural embroiderers with high-end consumer markets. (Gereth Davis in The Guardian 2013)

#### Choosing markets with extreme poor as workers

Selling their labour is the main resource of many extreme poor people. M4P projects can strengthen sectors that promise employment opportunities for them.

#### Working on affordable products/processes

Due to their limited financial means, the extreme poor cannot afford most products. Since they often live in remote areas, and lack transportation possibilities, it can also be too expensive for companies to reach them. Innovative ways have to be found to provide products in the appropriate package size, through distribution channels that cut transaction costs and allow prices to be made affordable. Information needs to be made available through low-cost methods or technologies. Finally, processes need to be elaborated that allow the produce of small farmers to be purchased in a competitive way.

New technologies, such as mobile phones, can cut down costs of processes. They have increased the access of marginalised families to valuable information. In Africa, for example, many financial institutions send text messages which encourage users to save and also provide market information (Dennis Ripley in The Guardian 2013).

The M4P programme PrOpCom in Nigeria worked together with a fertiliser company to produce smaller product packs, hence allowing the fertiliser to be purchased with a smaller amount of capital. (Ben Taylor in The Guardian 2013)

In Bangladesh, the programme Katalyst collaborated with seed companies to introduce mini seed packages, affordable for small farmers or homestead gardening. The programme is currently working on establishing different distribution channels that reach very remote areas (e.g. through mobile seed vendors), and, in particular, women (e.g. through door-to-door sellers). (Katalyst 2013)

\(^4\) Many of the examples originate from the e-discussions (see footnote 1) where they are not explained in detail.
A socially-responsible company or a social business could sell products or services at a favourable price to the extreme poor, through a mixed calculation with other businesses. This would also allow the company to spread the risk of working with the poorest. (MaFi 2010)

**Promoting mechanisms where poor do not need to have cash**

A M4P intervention can also facilitate schemes in which the poor pay inputs or services later and therefore do not need cash to pay immediately. A project in Sierra Leone is presently working on a scheme where the input companies advance the inputs, until the harvest has been sold. (Gereth Davis in The Guardian 2013)

In contract farming schemes, the contractor usually provides inputs to farmers and deducts the costs from the price they receive for the outputs. M4P projects could facilitate such arrangements.

Contractors, as well as other input and service providers who deliver on credit (until harvesting), could be linked with (micro) finance institutions for pre-financing.

In the maize intervention of the Katalyst programme in Bangladesh, the contractors subcontracted through sharecropping to those without land but who could offer labour. (David Elliot in The Guardian 2013)

Another possibility is that service providers initially provide services to the extreme poor on a profit share basis. The extreme poor would, in that case, only invest their labour. (MaFi 2010)

### 4.3. Combining M4P with other tools

Finding markets that will include the extreme poor and improving products as well as processes in a way so they can reach the poorest, as proposed in the previous subchapter (4.2), might not always be possible, however. Even if promising solutions are found, it can be challenging or impossible to find partners to implement them or to do so in a sustainable way.

Instead of purely working with M4P, the approach can also be combined with other development tools.

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5 In sharecropping, the landowner permits a tenant to utilise the land, in return for a share of the harvest produced on this field.

### 4.3.1. Measures improving ‘trickle-up’

In case an intervention can only reach the poor, and not further down the income ladder, measures can be taken that allow the poorest to move up the ladder.

**Handing out assets to extreme poor**

The lack of assets is often stated as the main reason why the very poor cannot participate in markets and M4P projects. Increasing their assets would therefore be the evident solution. Some projects hand out assets, after identifying the ones in need. As described earlier, however, this can distort the market for these goods.

The Chars Livelihoods Programme (CLP) has elevated many farmers in rural Bangladesh out of extreme poverty, by giving them livestock for beef rearing and milk production, along with other interventions. However, the project then found that there was still a need to connect the livestock owners with the market for inputs and outputs, otherwise the increase in assets would not translate into an increased income.

**Increasing access to labour market**

Since labour is the main resource of the extreme poor, increasing their capabilities can enhance the marketability of this asset.

A project in Nigeria is working on the employability of the poorest. They lack basic education and professional training, which could otherwise help them to find better and more reliable work. Together with private sector enterprises, the project develops training programmes which are affordable for the extreme poor. This will produce skilled workers, and that will, in turn, be beneficial for the private companies. (Silvia Malgiolio in The Guardian 2013)

While increasing the employability of the extreme poor works on the push side of the labour market, the pull side, i.e. increasing job opportunities, can also be enhanced. This can be done through stimulating businesses that may employ the extreme poor. The NGO Opportunity International operates banks in poor communities. When lending money, the bank targets business owners that have the capacity to expand their business and create jobs for the poor and extreme poor. (Dennis Ripley in The Guardian 2013)

**Transforming the extreme poor into small-scale entrepreneurs**

Instead of improving the possibilities for the poor to work for others, interventions can aim to promote self-
employment, and then link these entrepreneurs with the market. The project Milart, for example, has taught extremely poor people a craft, and helped with initial working capital and material (Prajakta_MILART in The Guardian 2013).

Transforming the poorest into entrepreneurs is controversial. According to Ujjwal (in M4P Hub 2012), for example, this leaves the poorest at great risk as they often do not have enough resources for change. In MaFi 2012 it was also stated that making a micro entrepreneur out of everyone is not feasible nor does it add much economic value.

4.3.2. Improving Voice and Participation

Empowerment of marginalised actors

The extreme poor are often marginalised. However, they can be empowered so that they work more productively with other (public and private) market players. The goal is to break the marginalisation cycle and demonstrate that they can actually add significant value to the productivity and efficiency of the market system. One needs to create spaces for interactions between these actors where they can discuss how to improve the system. Then the evidence of the impact has to be captured and disseminated. This can inspire others to copy or, in case of government agencies, to improve policies or make better development investments. In order to make these actions sustainable, one has to work with key market actors to promote policies, incentives and institutions/organisations/networks. (Luis E. Osorio-Cortes in The Guardian 2013)

Organising consumers/producers into groups

In the market at the bottom of the income pyramid, transaction costs are often too high in comparison with the profit margins that can be generated. Organising consumers or producers into groups can cut these transaction costs and make them more attractive to the private sector. The project Making Markets work for the Chars (M4C) in Bangladesh forms producer groups, in order to link them with retailers and buyers, so as to improve their access to the market. Furthermore, M4C connects these groups with input companies, who can use these structures to organise field days and demonstration plots. (Swisscontact 2013/SDC 2013)

Group formation has been used in development cooperation for a long time. While many who use it claim it to be a successful tool, it also has its critics. Working through farmer groups, by definition, means excluding those who are not part of the farmer group. Since groups are often built around lead farmers, the extreme poor are unlikely to be included in such groups. Many projects (including M4C), though, ensure in the group building process, that this inclusion is taking place. By contrast, if a market player is in solely charge of building groups, it is probable that he or she will select wealthier members who can buy or produce more.

Setting up Business/Service Centres

A possible way to overcome the exclusiveness of producer groups may be so-called business (or service) centres. Such centres can be run by a market actor or by the community. These centres are linked with input companies/whole sellers and output buyers, as well as with other providers of information. They earn fees, when providing services, and a margin, when selling inputs and buying produce. They can also be linked with microfinance institutions, in order to pre-finance inputs or machinery that can be lent to clients on a fee basis. The crucial point of these centres is that they are open to anyone, and not only to members.

The Samriddhi project in Bangladesh (HELVETAS Swiss Intercoperation 2013, p.10ff) has supported the establishment of service centres. The service centres sell inputs and provide advice. They are operated by the association of local service providers, who form the backbone of the private rural service provider system that the project promotes. These local service providers, and their association, are linked to market actors and government extension offices, through facilitation of the project. They earn fees and margins from selling inputs, providing support for livestock and buying produce. Samriddhi uses the M4P approach, but combines it with more hands-on activities, such as the aforementioned establishment of this service provider system. Samriddhi has also assisted some associations in establishing produce collection centres, which are linked with a private sector buyer.

5. Conclusion

As the public discourse portrayed in this paper has illustrated, practitioners of M4P do not agree on whether M4P can reach the extreme poor. It seems to be that a majority believes that M4P can only reach down to the income level of the poor because those lower on the income ladder do not have enough funds to participate in the market, or to be interesting enough for the private sector. According to this view, the extreme poor must be
supported either by a social security net or by other, more hands-on projects, or additional actions within a M4P project. Such interventions can aim at helping the poorest to escape from extreme poverty and achieve capacities and the means to be active in the market. They may also enable the improved market systems to reach out to the extreme poor, as consumers and producers, or to trickle down by employing more of the poorest.

Other practitioners believe that M4P can reach the poorest on its own. Moreover, some argue that the exclusion of the extreme poor can be seen as systemic constraint that can be addressed within the frame of rules and regulations on a policy or society level. Finally, others think that M4P can target the extreme poor directly, by thoroughly analysing and carefully selecting markets that are important to them, or by innovating on products and processes that cut down costs and make the extreme poor viable business partners.

Several measures for improving the inclusiveness of M4P have been described in chapter 4. It seems that it is possible to address this limitation that M4P projects are said to have. Moreover, it seems that it is worth continuing to innovate, and work on reaching the poorest, and not just to leave the job to other projects, or the government. This is not only because development efforts should also (if not mostly) serve the poorest, but also because these efforts have to be made in a systemic way, too, in order to be sustainable.
6. References


