

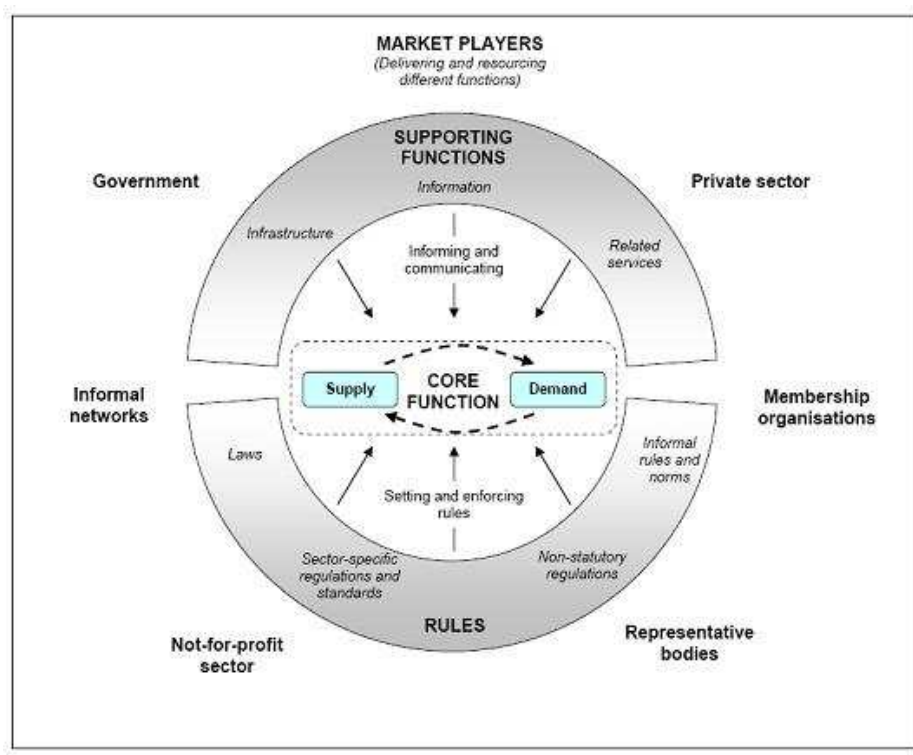
The Making markets work for the poor approach

Making markets work for the poor (M4P)⁵ is an overarching approach to poverty reduction that SDC and other donors have been supporting over the last years. The central idea is that poor are dependent on market systems for their livelihoods. Therefore changing those market systems to work more effectively and sustainably for the poor will improve their livelihoods and consequently reduce poverty. More accessible and competitive markets enable poor people to find their own way out of poverty by providing more real choices and opportunities.

The systemic character of M4P defines many of its most important features: the *core function* in any market system is to provide a space for transactions of a good or service (supply and demand). However the nature and efficiency of the core is shaped by *formal and informal rules* and a range of *supporting functions*. These determine behaviour and practices, shape relationships, and provide information, knowledge and incentives. Within this environment, a diverse range of public and private, formal and informal players may be active. It is this multi-function, multiple player arrangement that M4P refers to as a market system and which is represented in the Figure.

M4P provides guidance not only on understanding of the poor in market systems but on how to bring about effective change. Its focus is on developing market system, assessed with respect to different market functions and players, public and private, formal and informal.

Figure: Schematic view of a market system



⁵ There exist ample documentation on M4P. DFID and SDC have commissioned in 2008 a series of three documents on M4P (Synthesis; Perspectives; Operational Guide). Aimed at agency and government officials, consultants, researchers and practitioners, these together provide a comprehensive overview of the approach in theory and practice.

Implications and opportunities for SDC's work

Moving towards the understanding of market systems and facilitation of systemic changes has a range of implications and opens opportunities for implementation. The essentials are:

1. ***Facilitating change processes*** - M4P requires that agencies play a facilitating role as external players that seek to catalyse others in the market system while not becoming part of it themselves (facilitation is a temporary role). This demands flexibility and instruments to foster and add value to change processes. Ultimately, as a facilitator of change SDC has to act as a bridge between public policy goals and private sector commercial motivations. This might mean funds but it is as much about trust, confidence, belief, vision and skills as it is about funding. It also demands skills sets beyond those of a highly technically nature. As a small agency, SDC is particularly well placed to offer the degree of flexibility required for promoting such an overarching framework.

2. ***Working with development partners to make systems work as per the Paris Declaration on improved Donor Harmonisation*** - A systems approach does not mean that SDC alone has to lead the change of entire market systems but rather that SDC works to change – sustainably and with impact – those elements of a market system that it can change. Working systemically means working more strategically and coherently, coordinating and harmonising efforts with development partners. This is increasingly happening and such a trend offers an opportunity for smaller bi-lateral agencies such as SDC to lead change processes above and beyond those which it might be able to foster alone.

3. ***Address rural poverty through working in interconnected markets*** - Poverty is most entrenched in rural areas but the solution to reducing poverty may well lie beyond rural territories. Increasing agricultural productivity is critical for increasing incomes of most rural poor. However potential service solutions are most often found in more urban or peri-urban areas. Working with urban service providers to connect better with rural producers is therefore a legitimate focus for development agencies. Urban areas also represent a significant source of growing demand for rural produce. Building better market and marketing infrastructure between rural production and urban centres is critical for improved market access and incomes of poor producers. Often this might mean partnering with urban businesses to backward invest in their rural supply chains. Ultimately, *working for* the rural poor, might not mean *working solely with* the rural poor. A systems approach supports markets that are interconnected - working to deliver change for target populations in one region or sector, might well require working in different regions or sectors.

4. ***Measuring results and impacts*** - All development agencies have an obligation to measure how well they are doing in reducing global poverty. Good monitoring and management processes are critical for ensuring efficiency and good impact assessment methodologies are critical for measuring how effective SDC is in what it does. Measuring system level change is, by nature, more challenging given the wider range of factors and influences which abound. It is however more likely to be able to demonstrate long term poverty reduction effects. SDC is therefore committed to working with and supporting internal and international efforts in this area.

As an overarching framework M4P does not necessarily replace other specific methodologies and approaches (as described above) but provides a transparent and multi-disciplinary framework within which they can be utilised and adopted according to their utility and needs.

Emerging evidence shows that a system approach to PSD can address the limitations over outreach and impact, as well as the question of the distortional effects of aid, thus ensuring the sustainability of results and the resilience of functioning systems.

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