

Implementing MMW4P Programmes

1. Systemic change

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*. 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.

Successful MMW4P programmes have adopted a twin track strategy to bring about systemic change of a) building appetite within the state to address government and market failures through better policies and institutions; and b) introducing innovative solutions implemented by the private sector. They have used dissemination and communication to ensure that successful innovation is scaled up and replicated so that all market participants benefit.

Based on the analysis of the market system, the agenda for possible interventions may include: i) policy and institutional change to improve the formal and informal rules of the game; ii) improving support functions that the market needs to function better; iii) aligning business incentives better to development objectives so that the private sector provides public goods or innovates to overcome market and co-ordination failures; iv) supporting businesses and organisations that increase the beneficial participation of the poor in the market as producers, employees and consumers; v) ensuring environmental sustainability by promoting technologies and business models that combine environmental gains with a commercial motive.

It is unlikely that change will be systemic if interventions are confined to only one aspect of the market system. This is why successful programmes such as FinMark have worked on the market system as a whole. The programme uses the FinMark 'house' to bring about systemic change addressing: i) institutional infrastructure (policies, laws, regulation); ii) organisational infrastructure (diversity, capacity, competition and innovation); iii) support infrastructure (service providers, information). However, this constitutes a large agenda, so it is important to prioritise and sequence.

2. Providing the Evidence for Change

The starting point for implementing MMW4P interventions is sound analysis incorporating: a) using the framework of the market system to identify the key government and market failures that are constraining the market from functioning well and fairly; b) an assessment of how the poor participate in the market, how access is constrained and the disadvantages they face. The combination of the two should establish the possible content of the programme.

The early programmes show that the MMW4P programmes work best when they help to catalyse and facilitate change by serving as social venture capitalists to 'invest' in the ambitions and ideas of stakeholders from the public and private sectors. The analysis can be used to engage with the public and private sectors to take stock of their ambitions and ideas and align the content of interventions to them. The engagement should help to prioritise and sequence interventions.

In this regard, the analysis will be especially valuable if it helps to identify the key *triggers for change*: Policy issues and processes or market forces which represent powerful opportunities or threats and demand a response from market participants. For example, FinMark's success in supporting improved access to transaction banking for the previously un-banked in South Africa owes much to the fact that the Banking Council had to respond to government's demand for greater inclusion for the Black population in the financial sector. FinMark was able to use this trigger by providing the evidence of what the poor needed to improve access and then support the private sector to innovate new products that helped improve access.

3. Positioning & Implementation Arrangements

Where governments and the private sector are responsive and capable, as is the case in South Africa, programmes can be positioned to serve to forge a public private partnership, as EPP, FinMark and ComMark are doing. They are addressing both policy and institutional change and triggering innovation in the private sector. Where governments lack the appetite and capacity, it will be preferable to

build credibility for MMW4P by demonstrating what can be achieved in the private sector before attempting policy and institutional change. Programmes may therefore be positioned in the private sector. This is what Katalyst has seeking to do in Bangladesh. Whatever the starting point, it should be recognised that a combination of policy and institutional change and changes in behaviour in the private sector will be needed to deliver systemic change.

To arrive at implementation arrangements that will contribute to success addressing the following has proved to be useful:

- **Empowering legitimate and credible stakeholders:** Investing in the ambitions of stakeholders who support pro-poor change so that they take ownership of the intervention or programme is a key success factor. However, those empowered by the intervention have to have legitimacy and credibility in the eyes of policy makers and market participants. The MMW4P programme in Bolivia succeeded in reducing the barriers to formality and opening up public procurement to the informal sector because the Comité De Enlace that it empowered represented the interests of the majority of informal trade associations and was recognised to do so by the government. The Banking Council in South Africa is a legitimate and credible stakeholder;
- **Using credible implementers and facilitators:** Programme implementers or the facilitators used should have credibility with policy makers and the market. FinMark benefited from the credibility of its founding CEO and staff and EPP from the credibility of its management unit.
- **Engaging capable, motivated private participants:** It is important to identify and engage with a sufficient number of motivated participants that have the capability to innovate new technology or business models which, together, can alter market outcomes. Katalyst was able to provide extension services through the private sector because it worked with Syngenta, one of the world's leading input supply companies, with a strong enough market presence in Bangladesh to persuade others to follow its example;
- **Commissioning independent and respected sources of evidence and technical solutions:** The evidence needed to raise awareness of issues and empower stakeholders to engage in policy processes should come from respected sources who are

not seen to be taking sides in contested debates. The suggested solutions should come from sources that command the attention of policy makers and market participants. EPP in South Africa has been able to support government, employers and organised labour recognise that they agree on many of the reforms needed to improve the functioning and fairness of the labour market work because the researchers it used to diagnose the problem commanded the respect of all sides.

The pilot MMW4P programmes have adopted a multi-disciplinary approach combining skills in: the analysis of the political economy and ways to improve governance; social analysis and ways to address discrimination or exclusion; micro economics and business strategy to develop effective ways of providing incentives to change private sector behaviour; and environmental assessment to ensure economic progress is accompanied by enhancement of the environment.

4. Overcoming Resistance to Change

It should be recognised that, in many instances, policy and institutional change may be blocked by powerful vested interests that use their wealth and power to set policies and institutions in their favour. It is important therefore to incorporate drivers of change analysis to understand the characteristics of the policy making process and the political economy of change at the start of each intervention, as PrOpCom is doing in Nigeria.

To overcome resistance to change, the following tools have proved effective: i) empowering representatives of the poor to participate in policy making processes, as MMW4P in Bolivia and PEMCE in Nicaragua succeeded in doing; ii) helping to commission research from credible individuals and organisations to provide evidence for policy making, a tool that has produced a huge pay back for EPP; iii) encouraging dialogue amongst those in favour of pro-poor change to enable common negotiating positions to emerge as PrOpCom is currently attempting through its rice network; iv) demonstrating the benefits of change through innovation in the private sector as Katalyst has done and; v) effective communication with policy makers and opinion formers to raise awareness of issues, which all the early MMW4P programmes have used.

5. Engaging With the Private Sector

Donors and programme implementers need to recognise that, as a result of weaknesses in the

enabling environment and government and market failures, the private sector may lack incentive to compete and innovate to bring about pro-poor outcomes. MMW4P programmes have catalysed change in the private sector by:

- i) Providing evidence on the extent to which the needs of the poor are being met by the market to stimulate supply of new products and services, as FinMark has done for financial products;
- ii) Providing one off grants to cover the cost of providing public goods as Katalyst has done to train agricultural input distributors to supply extension services (knowledge) to poor farmers;
- iii) Contributing to the cost of innovating new business models that will improve access to markets for the poor, as Katalyst is doing to stimulate the provision of ICT based information and knowledge services in rural Bangladesh;
- iv) Encouraging the development of thin or missing markets by matching grant or voucher schemes as ComMark has done to establish the market for productivity enhancing training for Lesotho's garment industry, the country's largest employer;
- v) Supporting businesses and business organisation that improve access to markets for the poor by addressing co-ordination failures as PEMCE has achieved in developing new models for cluster development and supporting the dissemination of extension knowledge from peasant farmers to peasant farmers (Programa Campesino a Campesino).

The provision of BDS services to address the consequences of market failures, support innovation and support businesses and organisations that assist the poor participate beneficially in markets has been a common theme across MMW4P programmes. They have provided all three types of BDS services: i) fee paying; ii) embedded; iii) members services. In providing fee paying services, guided by the Blue Book¹, the approach has been to subsidise innovation to down scale services so that they become more affordable on a commercially sustainable basis. Where this is not possible (Leostho) they have used co-finance schemes to kick start markets (ComMark). Katalyst has focused particularly on embedded services using suppliers and buyers to provide BDS because there is a strong commercial motive. PEMCE has

been a strong exponent of the use of member services strengthening trade associations to support their members more effectively. All three types of support have been designed to ensure sustainability.

Similarly, the approach to improving access to finance that programmes such as FinMark have used is designed to ensure commercial sustainability. They have focused on triggering innovation to improve access rather than subsidising credit.

Many programmes have provided mechanisms for engaging with an supporting civil society. This may take the form of backing particular initiatives by facilitating private sector support for them, as ComMark has done with ALAFA, or by establishing a Stakeholder Initiative Fund, that responds to the ambitions of civil society, as PrOpCom has done in Nigeria. Examples of the interventions undertaken by the pilot MMW4P programmes are appended as Annex C.

Strong Feedback Loops - Effective aid

Bringing about systemic aid is unpredictable. Progress in delivering policy and institutional change and innovating new business models is hard to predict and is likely to vary from intervention to intervention. Monitoring and evaluation (M&E) thus serves a far more important purpose than keeping score. In most instances, it is prudent to start a series of small interventions, hoping to scale up successful interventions if they prove to hold promise and kill off those that do not. The M&E serves as a strategic tool allowing managers and those responsible for strategic oversight to know what is likely to succeed. As change is a process, the M&E systems of MMW4P programmes cover not only inputs and outputs but also how *processes* build to outcomes.

MMW4P programmes have sought to follow good practice in proving aid. They have attempted to support recipients in the public and private sector deliver a set of agreed outputs and processes. Support is often given in phases contingent on progress (performance grants). At the programme level, management is tasked to agree with the host government or private sector stakeholders a set of outputs, processes and outcomes that track progress in achieving systemic change to which

¹ Business Development Services For Small Enterprises: Guiding Principles For Donor Intervention, Donor Committee for Enterprise Development, 2001

both are committed. MMW4P programmes thus embody the mutual accountability that the Paris Declaration on aid effectiveness aims to further. They establish regular feed-back loops to policy makers and market participants to motivate them to make progress. Thus, with buy-in from stakeholders, FinMark's FinScope tracks access to financial services in South Africa. The annual survey helps to inform policy makers of progress and market participants of unfulfilled demand that they may help to meet in future.

MMW4P programmes should come to epitomise the Paris Declaration. They should back the ambitions of legitimate and credible local stakeholders and enable broad based consultation and dialogue across the public and private sectors. They can serve as the basis of cooperation and harmonisation, provided donors spend time arriving at a common vision of the programme, as Katalyst, a multi-donor programme, has proven.

What is different about MMW4P?

MMW4P is an evolution of PSD interventions in the past that attempted to increase market growth and efficiency, address market failures, support enterprises that could promote pro-poor economic development and improve the livelihoods of the poor. It differs from traditional approaches in the following five ways:

1. It avoids a priori judgements of the strengths and shortcomings of the market system. It realises the practical realities of government and market failure and the disadvantages the poor face in participating in markets. It offers a practical alternative to the extremes of suppressing markets and liberalisation. And, unlike traditional interventions addressing value chains or clusters that have focused on growth or exports, the MMW4P framework makes the beneficial participation of the poor an explicit target of enterprise development/PSD interventions.
2. The framework enriches growth and PSD strategies, investment climate reforms and competitiveness programmes providing the evidence in support of change and helping to determine priorities. The MMW4P framework enables a bottom up approach to policy and institutional change needed to promote shared growth so that it is better attuned to the realities on the ground. Most importantly, it provides a practical basis for improving the contract between the public and private sectors on which

shared growth depends by: a) backing the ideas and ambitions of legitimate, credible and capable stakeholders from both sectors; and b) helping to broker agreement on a set of actions to which both are committed. MMW4P programmes provide the context for the economic social and political empowerment of the poor that is now recognised as being essential for pro-poor policies to emerge by involving their representatives in the governance of programmes and in implementing interventions.

3. By focusing on systemic change it enables larger scale impacts than traditional interventions and delivers outcomes and impacts that will be sustained. By focusing on the incentives that the market system provides, which determine the behaviour of all private actors, it brings about market wide impacts. Traditional enterprise development interventions have addressed only parts of the market system. By addressing the underlying government or market failures that are the cause of markets not functioning efficiently or fairly, the changes it bring about are sustained. And, it integrates economic, social and environmental outcomes in markets contributing to sustainable development.

4. MMW4P builds on the rural livelihood initiatives of the past as it recognises the central role that markets play in the lives of the poor, determining access to livelihood assets and the returns the poor earn from them. Further, it focuses attention on market outcomes rather than businesses, the focus for enterprise development in the past. MMW4P programmes work with stakeholders in both the public and private sectors and across a broad range of business rather than a particular size (i.e SMEs). In this way, PSD interventions are tasked to focus on outcomes rather than outputs;

5. It enables aid to be aligned to local owned poverty reduction strategies and national development plans. MMW4P interventions help to build broad based consensus across the public and private sectors and back the ideas and ambitions of legitimate stakeholders thereby enabling aid to be provided in support of locally owned initiatives that have been developed through broad consultation. MMW4P programmes provide a platform for donor harmonisation. Mutual accountability between local stakeholders and donors is in-built into programmes.

Annex A: Market Failures and What May Be Done About Them

Market Failure	Consequence	Corrective Action Required
Natural Monopoly	Economies of scale enable a single provider to dominate whose profits are maximised by limiting supply below the appropriate demand/supply balance	<ul style="list-style-type: none"> • Unbundling to separate functions (i.e. generation from distribution of power) may provide operational efficiencies that overcome loss of economies of scale. • New technologies (e.g. mobile phones) may reduce natural monopoly
Market Power	Actions by dominant suppliers discourage new entrants and collude to restrict supply and set prices above market levels	<ul style="list-style-type: none"> • A legal framework that enables administrative or court based action to obtain redress • Supporting new entrants or building the capabilities of smaller suppliers
Unequal access to information	Raises transaction costs to acquire information, may cause failure to meet the needs of some parts of the market. For those with low access, may increase possibility of exploitation by those with better access	<ul style="list-style-type: none"> • Publicly funded information systems bring about equality • Kick starting private sector supply of information (radio stations, ICT centres) • Private sector supply of information (credit bureau) to reduce adverse market choices • Collective action by business organisations and representatives of the poor to disseminate information
Indivisibility	Minimum size of transaction too high for the small (need to fill a container or buy a minimum size of shampoo)	<ul style="list-style-type: none"> • Regulatory change to reduce minimum size of transaction • Supporting businesses offering breaking bulk services • Collective action to meet minimum size
Incomplete markets	The needs of some participants, especially the poor, are not met	<ul style="list-style-type: none"> • Provide information on the market opportunity to serve the excluded • Triggering innovation in new products and services that will serve the poor • Increasing access for the poor by public investment to reduce transaction costs
Co-ordination failures and hierarchical ² supply chains that are not accessible	Lack of co-ordination causes inefficiencies that may prevent growth. Supply chain requirements may be set too high causing exclusion	<ul style="list-style-type: none"> • State intervention to co-ordinate • Collective action amongst businesses • Supporting businesses with business models that can improve co-ordination/access for the poor. • Reducing requirements of buyers or increasing ability of suppliers to meet supply chain requirements
High cost of establishing/enforcing agreements	High transaction costs and risk may restrict market to few participants, reduce specialisation and prevent co-ordination	<ul style="list-style-type: none"> • Legal reforms such as standard contracts, alternative dispute resolution • Collective action that will result in better informal dispute resolution
External Effects	Private incentives are not aligned to public benefits resulting in levels of activity being too high (pollution) or too low (investing in skill development).	<ul style="list-style-type: none"> • Fiscal incentives can help to align private incentives to public benefits (environmental taxes) • New technology or business models can do the same (recycling) • Collective action by business organisations can help to ensure that everyone pays for the benefits (skills)
Public goods	Inadequate investment or investment that does not meet the needs of the poor and disadvantaged	<ul style="list-style-type: none"> • Changes in planning and delivery of public services • Private provision of services for profit • Collective action to redress lack of public services

² Market may take the form of hierarchical relationships between large buyers and their suppliers.

Annex B: What Makes for a Perfect Storm

MMW4P programmes hope to catalyse systemic change by serving as social venture capitalists to 'invest' in the ambitions and ideas of others. Ideally, the context for MMW4P programmes should be the 'perfect storm', a combination of circumstances and capabilities that are likely to maximise the chances of achieving systemic change:

- *Strong Triggers for change:* Policy issues and processes or market forces which represent powerful opportunities or threats and demand a response from market participants. For example, banking 3 million of the previously un-banked in South Africa owes much to the fact that the Banking Council had to respond to government's demand for greater inclusion in the financial sector. ComMark succeeded in supporting the government of Lesotho and the garment industry safeguard and increase employment and exports because the end of preferential market access for the garment industry was in sight and the public and private sectors new that they had to rise to the challenges posed.

- *Legitimate and credible stakeholders:* The stakeholders empowered by the intervention have to have legitimacy and credibility in the eyes of policy makers and market participants. The MMW4P programme in Bolivia succeeded in reducing the barriers to formality and opening up public procurement to the informal sector because the Comité De Enlace that it empowered represented the interests of the majority of informal trade associations and was recognised to do so by the government. The Banking Council in South Africa is a legitimate and credible stakeholder;

- *Credible implementers and facilitators:* The staff of independent trusts formed to take forward MMW4P programme or the facilitators used must have credibility with policy makers and the market. FinMark benefited from the credibility of its CEO and staff and ComMark in Lesotho's garment industry from the credibility of its sector specialist and EPP from the credibility of its management unit.

- *Capable private participants:* It is essential to identify a sufficient number of participants that have the capability to

innovate new technology or business models who, together, can alter market outcomes. Katalyst was able to provide extension services through the private sector because it worked with Syngenta, one of the world's leading input supply companies, with a strong enough market presence in Bangladesh to persuade others to follow its example;

- *Independent and respected sources of evidence and technical solutions:* The evidence needed to raise awareness of issues and empower stakeholders to engage in policy processes should come from respected sources who are not seen to be taking sides in contested debates. The suggested solutions should come from sources that command the attention of policy makers and market participants. EPP in South Africa has been able to support government, employers and organised labour recognise that they agree on many of the reforms needed to improve the functioning and fairness of the labour market work because the researchers it used to diagnose the problem commanded the respect of all sides.