



Why 'Market Systems Development' is not the same as 'Making Markets Work for the Poor'

Over the last few years, the term 'Market Systems Development' has gained quite some importance in the language of some international donors. They are interested in taking an approach to tackle poverty that taps into the potentials of markets. Market Systems Development thereby generally replaces the term previously favoured: Making Markets Work for the Poor (or its widely known acronym M4P). While the term is changing, practice has not changed significantly. In this

article we argue that developing market systems should be – and, from a theoretical perspective, are – different to 'making markets work for the poor'. The former is about making the whole market system function better, targeting critical constraints and institutional capabilities. The latter is about intervening in market systems in such a way that the poor can profit more directly from engaging in these markets. We are not saying that the one is better than the other. Some conceptual clarity is, however, needed to improve the effectiveness of projects.



Finding market-based solutions to poor people's situation is generally a good idea, better than many approaches that strongly interfere with the functioning of the markets. We have supported many projects that aimed at improving the status of the poor as producers, so they could earn more income, or projects that were aimed at enabling them to access cheaper goods and services so that they had to spend less. This approach can help large numbers of people to have more money left over to spend on essentials such as food and education, as examples of M4P projects in many countries show. However, it does not fundamentally solve the problem of the inability of the political, social and economic actors to tackle poverty and inequality in a systemic way. This can only be achieved by working on the institutional landscape that shapes behavioural patterns and eventually economic performance in markets. Working with market actors to put the market systems on a trajectory of inclusive, sustainable, long-term development and growth is different to optimising these systems to enable a selected group of people in the short to medium term to have some more income and so make their situation less bad. Again, we are not saying that the latter is not needed or beneficial.

There is an emerging consensus among scholars that there is a need for a conducive institutional environment for markets to work effectively. The search for the 'optimal' rules and institutional forms for markets to work is difficult or even futile – the solution must be specific to the context. However, there is some agreement on a number of institutions that need to be in place. There is agreement on the importance of property rights. There is furthermore some agreement on elements that curtail side-effects on third parties and trust to fulfil promises. Information flow is another precondition for functioning markets that is often mentioned, as is competition (Rodrik & McMillan, 2011; McMillan, 2002; Rodrik, 2000).

While this is not a final list, nor is there ultimate agreement among researchers, it is at least indicative of the level that should be targeted to make markets work – the institutional level. However, institutional change on the meso level is not part of the standard arsenal of interventions of the M4P approach. M4P interventions most often focus on the micro level to optimise transactions and to ensure that aid reaches clearly identified beneficiaries.

The field of systems thinking gives us another argument as to why the institutional landscape should be the focus of market systems development. From this school of thinking, we can borrow a widely used metaphor to describe systems: the systems iceberg (Figure 4). The iceberg represents different levels that can be conceptualised in a market system:

- events – the every-day doings of market actors such as market transactions
- patterns of behaviour – e.g. dominant business models, exploitative behaviour, patterns of underperformance





Figure 4 The Iceberg Model (source: <http://donellameadows.org/systems-thinking-resources/>)

- system structure – e.g. laws, behavioural norms or other formal and informal institutions
- mental models – the way we see the world and make sense of it.

Only 10% of an iceberg is visible above the surface, the rest is under water. Translated into market systems, this means that only the day-to-day events are visible and easily observable, while most of the levels lie below the surface. Yet these submerged levels influence what is happening on the surface. Mental models influence the structure of the system, which in turn builds the basis for behavioural patterns to emerge the way they do. Consequently, as Figure 4

shows, the 'deeper' we target our interventions, the more leverage we have over the system.

This leads us to the same conclusion. Market Systems Development is more effective if we target the structural level of the economy – its institutional environment – rather than to try and influence behavioural patterns or day-to-day events.

Some people say that developing market systems without the poor as the direct target group is the same as promoting market systems without development – harking back to the earlier years of the 'growth is good' doctrine, which sees growth as an objective in its own right without considering whether poor and disadvantaged people can benefit from it. However, market systems development as we see it is not about growth in the first place. It is about improving the capability of the market actors to engage in, collectively discover and continuously shape their institutional landscape – which in turn drives both economic performance and inclusion. If the outcomes of a market systems development process are to be inclusive, then the process itself needs to be inclusive. Or in other words, all levels of society need access to this process if people living in poverty are to benefit. The process is most effective when it is done in a transparent and participatory way. Research has found a positive correlation between GDP growth and measures of civil liberties, political rights, democracy and institutions supporting cooperation, such as trust, religion, and social clubs and associations (Shirley, 2008).

Market systems development is therefore about transforming the institutional landscape in a way that the market system becomes both more effective and at the same time more inclusive. This transformation occurs on deeper levels: on the level of economic and societal

institutions as well as on the level of the values and beliefs held by a society.

It is important to understand this conceptual distinction. At the moment, many projects are saying that they are doing market systems development, while in reality they are trying to make markets work for the poor. Making markets work for the poor can lead to short- to medium-term improvements for the poor. If done right, it has a high probability of showing results in the timeframe of a project's lifetime and delivers numbers that can be reported to funders and constituencies. Market systems development is longer term, and the outcomes are more uncertain. But if it works, it creates the basis for a future in which inclusiveness is built into the structure of the economy and does not hinge on the one product that is more affordable for the poor or the one service that supports the poor as producers.

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