



## The market development (M4P<sup>1</sup>) approach: a summary

The following short paper gives a summary of what the M4P approach is, how it differs from conventional programmes, its relationship to value chain development, its origins, experiences in applying the approach in practice and further reading.

### What is M4P?

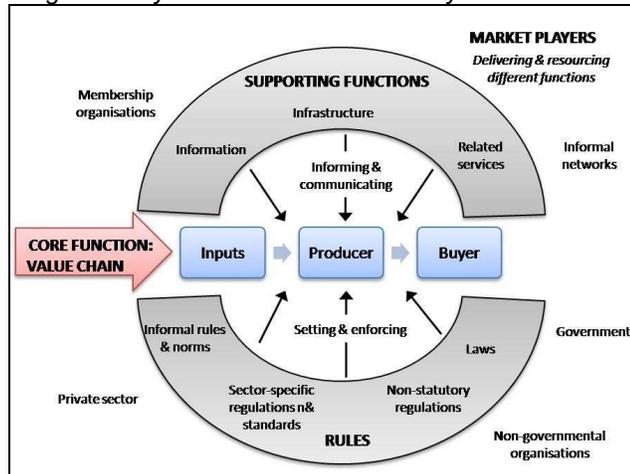
M4P is an approach to developing market systems so that they function more effectively, sustainably and beneficially for poor people, building their capacities and offering them the opportunity to enhance their lives. Applicable to development and other agencies working in both economic and social fields and who pursue public goals, it is an approach defined by a number of important characteristics:

**An approach:** M4P is an approach to development that provides guidance not only on understanding of the poor in market systems (analysis) but on how to bring about effective change (action). Analysis should identify the underlying constraints impinging upon market systems and concentrate on addressing these.

**Market system focus:** its focus is on developing market systems, assessed with respect to different market functions and players, public and private, formal and informal. This systemic character of M4P defines many of its most important features. Its view of a market system (*Figure 1*) emphasises their multi-function, multi-player nature – in particular the three main sets of functions that make up the market system:

- the *core* function between provider and consumer (or the series of players in the flow of value-added in a value chain),
- the formal and informal *rules* impinging shaping behaviour and
- the *information, services and other functions* supporting exchange.

Figure 1: Stylised view of the market system



This systemic view of markets is not only relevant to commercial markets (e.g. industry or agriculture), but also to 'markets' that are seen traditionally as public/government domain – such as healthcare, education, water and sanitation, infrastructure, climate change etc.

<sup>1</sup> M4P stands for "Making Markets Work for the Poor". The term 'market' also includes goods and services sectors that are traditionally seen as public or government driven. 'Market development' therefore does not imply a focus on private sector only.

**Large-scale change:** by addressing underlying causes (rather than symptoms) of weak performance, M4P aims to unleash large-scale change. Interventions may be small in themselves, but should continually strive to leverage the actions of key market players to bring about extensive change.

**Sustainability** is a prime concern of M4P. This means considering not just the existing alignment of key market functions and players but how they can work more effectively in the future, based on the incentives and capacities of players to play different roles. For agencies this means in particular looking at how core functions in market systems and continuous improvement of the regulatory and policy environment can be sustained in the long-run without external support.

**Facilitating role:** M4P requires that (development) agencies play a facilitating role. As external players they seek to catalyse others in the market system (while not becoming part of it themselves). M4P emphasises explicitly that the role of intervention is temporary and catalytic. Agencies should avoid performing market roles directly and try to facilitate market players to perform more effectively.

Interventions therefore need to be sensitive to local market conditions and seek to stimulate deeper and larger change by ‘crowding in’ other players to improve the functioning of the market system. Successful facilitation, although not a fixed model, requires organisations that have credibility, independence and relevant knowledge and skill.

## How is M4P different?

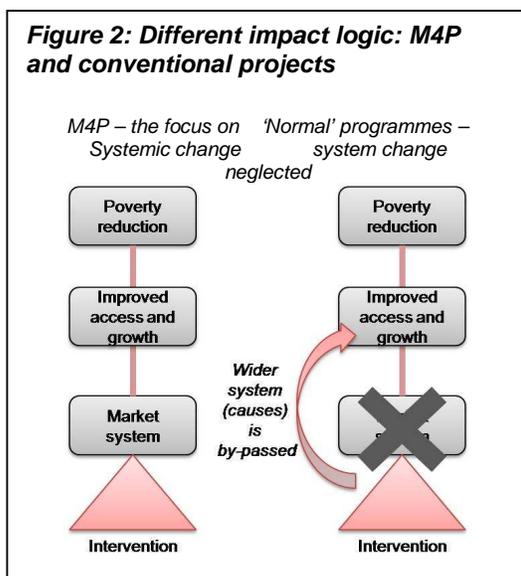
The above characteristics define M4P and clarify its difference from conventional approaches – as summarised in below:

Characteristic	M4P	Conventional
<i>An approach</i>	Combines coherent rationale, analytical framework and guidance for action applicable in different market systems	Different frameworks and good practice guides. Often disconnect between analysis and actions.
<i>Market system focus</i>	Priority and focus on changing systems, driven by detailed understanding of underlying constraints (causes).	Focus on addressing firm-level problems rather underlying causes of those problems (see <i>Figure 2</i> )
<i>Large-scale change</i>	Priority is to identify and address system constraints that can leverage wider change ‘crowding-in’ other players and activity.	Limited scale of impact because of reliance on direct support. More impact needs continual infusion of more aid resources.
<i>Sustainability</i>	Explicit consideration of the alignment of roles and players (and incentives and capacities) in market systems - now and in the future.	Limited view of sustainability – often of direct transactions only rather than the wider market system. Sustainability a secondary concern.
<i>Facilitating role</i>	An active role to facilitate others to be more effective – but recognition that facilitator cannot be part of market system in longer-term.	Often a very direct provider role in market that, while achieving in short-term, distorts market systems and increases their reliance on aid.

Many of the distinctive features of M4P are manifested in its ‘systemic’ character. As *Figure 2* below illustrates, conventional approaches commonly ‘miss’ the means through which growth and access is achieved – i.e. they seek to provide directly to producers/firms.

Conventionally, agencies’ instinct has been to ask the question “what problems do businesses have and how can I solve them?” and *not* to ask the more relevant systemic

questions: “why isn’t the market environment providing solutions?” to these and “How can I address the constraints that prevent it from effectively doing so?” Similarly, governments all too often throw money at problems, provide direct solutions or invite development agencies and NGOs to solve the problem for them – rather than identifying and addressing underlying systemic causes of problems.



By addressing the market systems within which producers operate, M4P focuses on underlying causes and therefore the potential triggers for sustainability and large-scale impact. M4P permits agencies and governments to raise the limit of their ambition. For example, in relation to services and inputs for farmers: while a conventional project might concentrate on providing or subsidising these directly, M4P would focus on improving the systems that provide inputs. Putting M4P into practice also requires different operational capacities and approaches – for example in relation to skills, relationships, intervention design and implementation and project set-up.

## How do M4P and vcd go together?

There often exists the perception that value chain development (VCD) and M4P are two competing approaches (i.e. a programme using *either* one *or* the other). In fact, they are different but complementary. M4P is a broad approach to development that spells out the underlying rationale for development intervention and guides intervention through a set of clearly defined principles and frameworks, which also offer criteria against which the effectiveness of differently setup development programmes can be assessed. M4P utilises many tools and methodologies, and VCD is one of the most important of these.

M4P and VCD are therefore not substitutes for one another, but complementary – the one builds on the other: M4P sets out the overall framework conditions under which the value chain methodology is applied. *Figure 1* above for example shows how M4P defines value chains as constituting core transactions within the wider market system, and *Figure 3* shows how value chain analysis can be used in the overall process of understanding market systems and distinguishing symptoms of underperformance from their root causes in the wider market system.

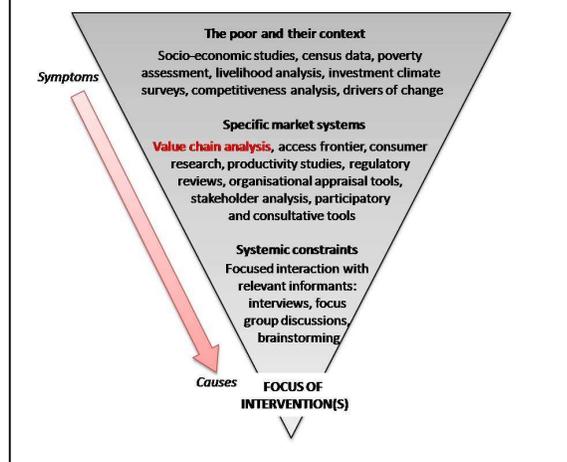
## What has been the experience of M4P in practice?

There is growing evidence that M4P works. Major programmes, in different contexts and markets systems explicitly using the M4P approach, and governments and agencies influenced by its key tenets, have achieved significant change.

Change is manifested in high levels of outreach and impact – for example, the number of people accessing and benefitting from new services. More important, in each case, the capacity and incentives have been developed to show that change is sustainable and therefore impact will grow further in the future.

For example, in Asia, Katalyst in Bangladesh have stimulated new information flows in agriculture supply chains reaching around 1m farmers; together with its implementing partner RTM International and the Ministry of Health, it is also initiated wider change in the healthcare system by allowing private sector to crowd-into the training of health workers. In South Africa, FinMark has contributed significantly to the development of an expanded and more inclusive financial services market with reach growing from 38% to 60% in a five-year period. And in Uganda, small business-focused radio programmes now reach more than 7m radio listeners from a base of zero.

Figure 3: Tools and information sources for understanding market systems



Beyond these few examples, in sectors as diverse as healthcare (China and Bangladesh), water and sanitation (many countries), palm oil (Thailand), land and property (South Africa), (remote) rural livestock development (Armenia) and manufacturing (Bangladesh), there is evidence of successful application of the ideas of M4P, even if these are not always labelled M4P programmes *per se* – in fact many are value chain development programmes.

SDC has been at the forefront of developing, applying and promoting the M4P approach. An increasing number of programmes – most significantly in the South Caucasus and West Balkans region, Bangladesh, and increasingly also in Eastern Africa, Latin America – are using the M4P approach to guide them in market development interventions, some of which are in fact implemented by local partner organisations.<sup>2</sup> Internally, the SDC E+I Network continues to support, *inter alia*, e-learning initiatives and events organised by SDC’s operational units that aim at bringing the M4P approach forward – for example in Latin America and South Caucasus. – Furthermore, SDC, together with DFID, SIDA, UNDP, is currently launching a global knowledge management facility on M4P in order to promote inclusive market development as a means of sustaining growth and poverty reduction in developing countries. This facility will be operational by mid 2010

## Further reading on M4P

More information on M4P is available from three publications sponsored by SDC and DFID:

- A Synthesis of the Making Markets Work for the Poor (M4P) Approach
- Perspectives on the Making Markets Work for the Poor (M4P) Approach
- The Operational Guide to Making Markets Work for the Poor (M4P) Approach

These are available for download at SDC’s shareweb page [www.SDC-employment-income.ch](http://www.SDC-employment-income.ch). They also contain reference to further publications such as case studies.

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<sup>2</sup> By implementing M4P programmes through local partner organisations, SDC hopes to establish a market development facilitation function in local market environments that will continue beyond the project period. This approach requires strong technical and strategic backstopping support over several years in order to build local organisations’ capacities.