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Some Notes on Systemic Change – The Cornerstone of MMW4P

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It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love.
Adam Smith

The concept of “Making Markets Work” is one that has been gathering momentum in development circles, being promoted as a sustainable answer to increasingly complex and expensive developmental issues. An often raised criticism of the concept is that if markets are supposed to be guided by Smith’s invisible hand, why does anyone have to make them work? In short, Smith’s “market” does not exist, it is an ideal. In practice,

transferring the formal political and economic rules of successful western market economies to third world and eastern European economies is not a sufficient condition for good economic performance. Privatization is not a panacea for solving poor economic performance.ⁱ

markets do not always emerge in spite of reforms and liberalisation. ... In other cases, markets do emerge, but they are plagued by various dysfunctional aspects such as corruption, monopolies, cartels, etc. In both cases, the poor tend to be particularly victimised.ⁱⁱ

At its core, Making Markets Work (Better) for the Poor, (MMW4P), looks for opportunities for systemic change within the areas (commodity markets, service markets, policy development) where it is to be applied. Many development interventions seek simply to apply a business development approach by improving business practices, or initiating the provision of services to assist business in more effectively and efficiently meeting market needs. MMW4P asks simply – “Why have these needs not been met already by the market?”

The interveners’ 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, bigger systemic questions: “What problems do businesses have? Why isn’t the market environment providing solutions to these?” and “How can I address these factors?”ⁱⁱⁱ

By way of example: a common issue for promoting micro enterprise growth is assisting these enterprises to achieve scale, where the same level of effort can result in more sales, resulting in increased profitability. In some cases this barrier to growth is technological – there is no access to applicable levels of technology to increase the enterprises’ output. In many cases the barrier is related to financial input services – the enterprises have no access to financial services for either savings or credit.

In a normal business development initiative the former problem might be resolved by providing a linkage to an alternative technology supplier who can provide alternative technology equipment. In some cases this linkage might even be (initially) subsidised to assist the enterprises increase their initial output. In the latter case the issue might be solved by developing a new product appropriate to the needs of the micro enterprises or by assisting government to change policy that allows organisations to give credit, creating a new market.

The MMW4P approach necessitates first to assess why the existing market has not met these obvious needs. After all, a market is supposed to respond to the needs of

the consumers through the provision of suppliers *à la* Adam Smith. This is the essential difference between MMW4P and other developmental approaches. At its purest form MMW4P does not seek to solve the problems of the market, but rather to identify why the market does not work.

At the grandest level markets may not work or work inefficiently because the environment lacks formal, agreed rules which foster and encourage market related exchanges.

The vast majority of humans today live in countries that have failed to create or sustain strong institutions to foster exchange and protect property. Individuals in these countries enforce most bargains using informal mechanisms -- private armies; threats to reputation; ostracism from kinship, ethnic, or other networks, or the like – and they have little trust in or trade with people not subject to these mechanisms.^{iv}

At more operational levels market failures may be related to something more mundane such as a lack of awareness, a lack of resources, or simply a lack of trust. To take the example of alternative technology a little further, if this is identified as an issue for the micro enterprises, the MMW4P practitioner must then assess why existing alternative technology providers have not met this market need. Some issues may relate to the regulatory and legislative environment, while others may simply be that Smith's ideal of a market does not exist, with buyers and sellers having limited information, limited access and limited product and service choices.

BDS suppliers may not provide for small enterprises due to, amongst other factors, limited information about this clientele, deficient staff skills, inappropriate products, and inefficient organisational structures.^v

These steps identify the answer to the MMW4P practitioner's question. However, the MMW4P approach is often promoted by development organisations seeking implementable solutions to development issues and not by intellectual think-tanks. Therefore this rationale of identifying the market failure must be turned towards an operational response. This is the beginning of implementing systemic change. After identifying causes of market failure, an MMW4P practitioner must catalyse the inert market without being perceived as being an on-going provider within that market.

But what of making the markets work, what of the systemic changes? The actual changes obviously depend on why the market is failing to function effectively. Changes may be necessary at a variety of levels^{vi} and, as a result, systemic change can occur at any or all of these levels. Systemic change at a policy level does not guarantee that change will occur at an operational level. Similarly, change at a day-to-day business level without, or in tension with a supportive regulatory and legislative environment may be short-lived, although this may depend on the extent to which the adverse conditions are enforced.^{vii}

Systemic change is not limited, as many assume, to the ethereal layers of the realm of policy development, as illustrated in Figure 1. Systemic change is the transformation of the way the institutional systems and their guiding rules and norms, at whichever level, operate. These systems may be enforceable by formal, legislated laws or may in fact simply be guided by commonly accepted norms that are not documented.

Institutions are the rules of the game of a society or more formally are the humanly-devised constraints that structure human interaction. They are composed of formal rules (statute law, common law, regulations), informal

constraints (conventions, norms of behavior, and self imposed codes of conduct), and the enforcement characteristics of both.^{viii}

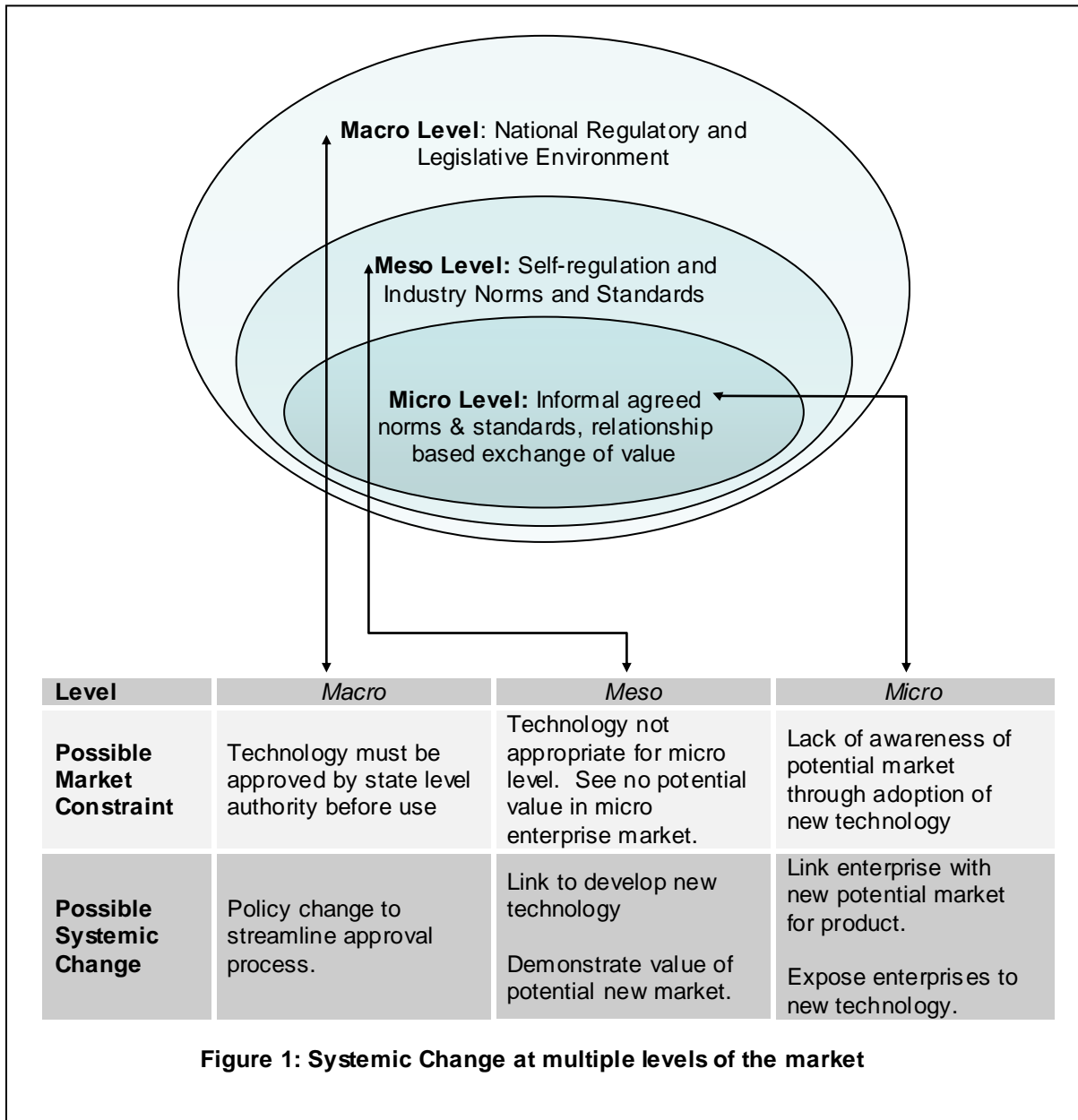


Figure 1: Systemic Change at multiple levels of the market

In our micro enterprise example, used above, systemic change are changes that would result in a sustainable market where the enterprises could effectively identify their needs (and wants) and suppliers would be able to supply service and products to meet these needs (and wants) at a price the enterprises are willing to pay. However, as a proponent of the MMW4P developmental approach, what should the practitioner do?

Having identified the needs of the micro enterprises (appropriate technology) and having identified why the market was not addressing these needs (the market failure) the practitioner needs to address the market failures in a short-term, limited and focussed intervention. This may involve assisting the technology providers to advertise their wares to the enterprises, it may be to assist the providers to develop a more cost effective solution to the enterprises needs, it may simply be assisting the enterprises in becoming aware of the technological solutions that are available, or assisting them to identify the solution that is most appropriate for their needs. At its most simple level an intervention might involve bringing the buyers and sellers together at an agreed time and place to allow them to conduct business together.

Any of these solutions may be appropriate, depending on what the research has shown, so how does the practitioner decide where to intervene? A number of guiding questions assist in identifying the solution. The first point of reference for the intervention must be the point of leverage. Where, in the issue at hand, can the least amount of pressure (or finance, or advocacy, or catalysing effort) be applied to achieve the greatest result? Time frame is another issue the practitioner must address, although not the time of the market to react and change, but rather time of the market intervention. Where can the intervention achieve the most sustainable effect with the most limited amount of time from my intervention? A third question that must be answered positively is “Is there demand for the limited intervention?” Demand from consumers and suppliers for the intervention illustrates the buy-in from these respective groups, attesting to the fact that there is a market opportunity.

Further criticism is often targeted at the approach. This public face – the front office - of the project looks familiar. Is this not simply an old BDS “wine” in a new “bottle”, after all the actual application described in the paragraph above makes it appear very similar?

The real, and often unappreciated, difference lies in the back office, where the research, mobilisation and in some cases advocacy, have been carried out. More importantly, the implementation of a resource- and time-limited intervention results in an on-going participative and demand-led market creates a very different end-goal project. The underpinning of the project design, implementation and assessment on systemic change makes differentiates the MMW4P approach from any other.

References

- ⁱ North, D. “The New Institutional Economics and Development” (no date), Washington University, St Louis.
- ⁱⁱ SIDA, “Making Markets Work for the Poor” (2003) SIDA, Stockholm.
- ⁱⁱⁱ Gibson, A. et al “Making Markets Work for the Poor: An Objective and an Approach for Governments and Development Agencies” (2004), ComMark Trust, Johannesburg.
- ^{iv} Shirley, M, “Institutions and Development” (2003?)
- ^v Marr, A. “Institutional Approaches to the Delivery of Business Development Services: A review of recent literature” (2003) DFID, London.
- ^{vi} See for example SIDA’s “Making Markets Work for the Poor” (2003) SIDA, Stockholm. Chapters 6, 7 and 8.
- ^{vii} “Societies with norms favorable to economic growth can sometimes prosper even with unstable or adverse political rules. The key is the degree to which there is enforcement of the adverse political rules.” North, D. “The New Institutional Economics and Development” (no date), Washington University, St Louis.
- ^{viii} North, D. “The New Institutional Economics and Development” (no date), Washington University, St Louis.