



What is M4P and How Does it Work?

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WHY M4P?



THE ROLE OF MARKETS

When markets work:

- Growth is faster
- Increased efficiency benefits producers and consumers, innovation offers choice, the access frontier expands to include the poor.
- Example: China's growth and biggest poverty reduction in known history came from reform of two markets.





THE ROLE OF MARKETS

Market failure is pervasive in developing countries

Leads to outcomes determined by power and wealth

The poor are disadvantaged and excluded from participating in & sharing the benefits of economic growth





The need to address market failures has long been acknowledged

But there is a dilemma:

- **Direct government intervention suppressed markets and often did not benefit the poor**
- **The return of liberalization has seen the return of market failures in many instances**
- **Conventional approaches to support small business and help the poor tend to have low outreach and deliver unsustainable outcomes**



THE ROLE OF MARKETS

Take inspiration from Amartya Sen's suggestion that market failure and lack of equity *'be dealt with by not suppressing markets, but by allowing them to function better and with greater fairness, and with adequate supplementation'*

This is what M4P aims at



Amartya Sen



THE M4P FRAMEWORK



THE M4P FRAMEWORK

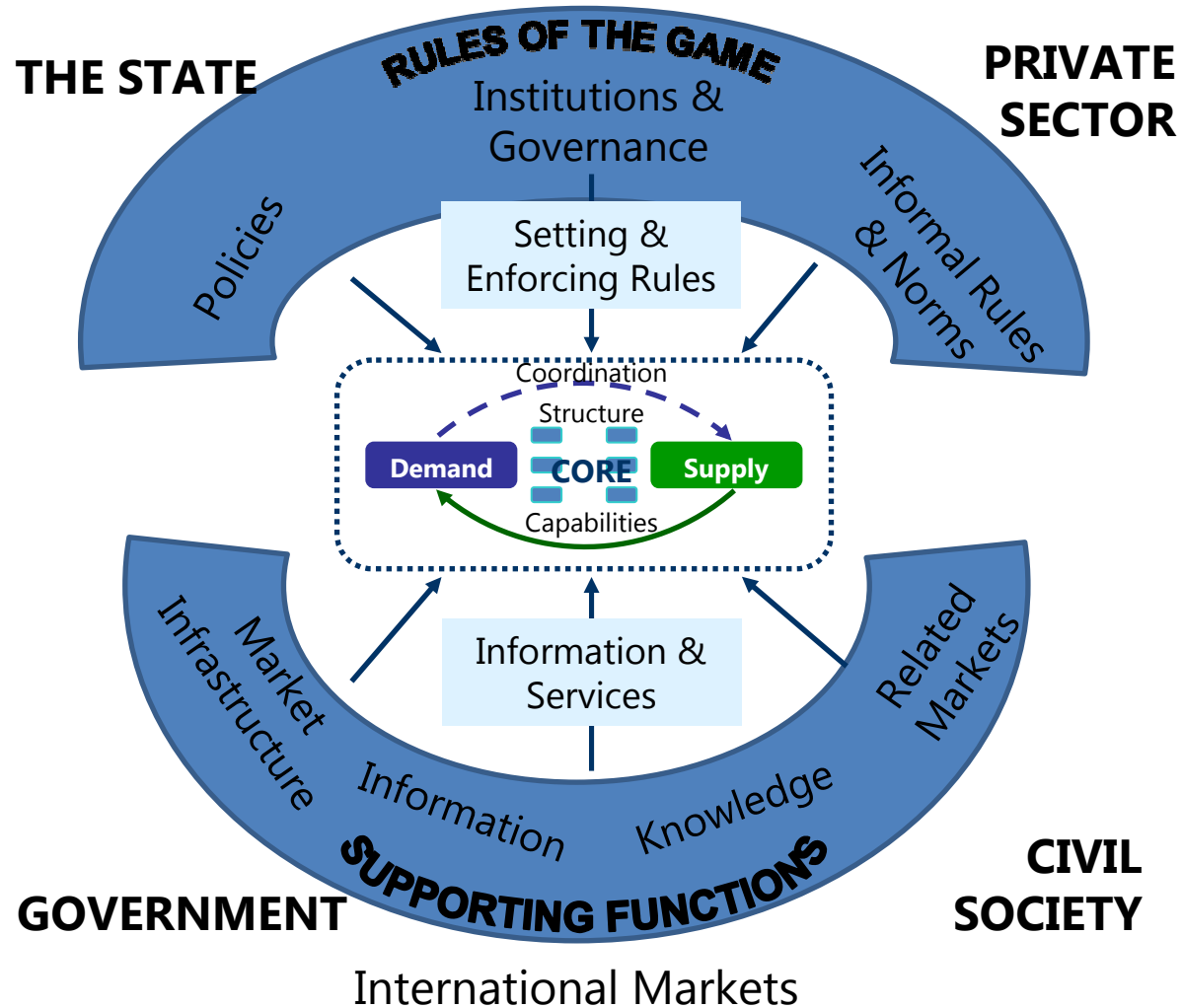
Markets are *systems* shaped by external forces and internal dynamics:

- **The incentives the system provides determines behaviour & outcomes**
- **Interventions that do not change the system cannot deliver sustained outcomes**



THE M4P FRAMEWORK

Enabling Environment





RULES OF THE GAME

The rules of the game:

- Sector policy: trade policy, investment incentives, public goods & public institutions – **Cement, rice show how FGN got this wrong in Nigeria**
- Institutions: standards, weights and measures, fair trade practices, level playing for entry & trading, contract enforcement and property rights, corruption -

Social norms and informal rules play an important part – Production and trade along ethnic lines in Nigeria



SUPPORTING FUNCTIONS

To function effectively, markets need supporting functions:

- Infrastructure that the market needs to function**
- Knowledge and information –as public goods.**
- Complementary or related markets – inputs, finance, BDS –hence VC approach.**



CORE

- **Functions within the value chain may prevent efficiency, deepening - analyse where competitiveness/value is lost**
- **Adverse market power may prevent efficient outcomes**
- **Information failures may prevent market efficiency, deepening – assess determinants of choice**
- **Innovation may be stifled preventing deepening – are business models, technology improving efficiency, access?**
- **Co-ordination failure may prevent efficiency – supply & demand mismatches.**



M4P LESSONS LEARNED

SELECTING MARKETS

A detailed analysis of markets is required to establish the potential for:

- 1. Large impact on growth, employment, spillovers and poverty reduction**
- 2. Achieving systemic change –timescales, resistance to change**
- 3. Meeting the condition for success – motivated stakeholders to empower**

Meeting the conditions for success

Looking for the 'perfect storm' of:

- Strong triggers for change**
- Motivated stakeholders with credibility in market**
- Public sector policy makers with authority and incentive to reform**
- Capable private participants –difficult to have systemic impacts when participants are small**
- Independent and respect sources of evidence and technical solutions**
- Credible implementers and facilitators**



Governance & Management

- **For M4P interventions strategic leadership is key: vision, ambition, legitimacy, ownership**
- **Board will need to make strategic decisions: appoint management, agree strategy, decide when to divest or scale up**
- **Ideally, local board with credible local management, sourcing in external expertise**
- **Managers must be social entrepreneurs, catalysts, facilitators.**



Conventional

What problems do people /businesses have?

How can I help to solve these?

Market development

What problems do people/businesses have?

Why isn't the market providing solutions to these?

... Why isn't the market system working for the poor?





M4P LESSONS LEARNED



Social Entrepreneurship

- Investing in the ideas of stakeholders
- Using private sector's ability to implement, innovate and ensure commercial viability
- Venture capital portfolio approach: 80% return from 20% of investment

Smart Interventions address causes, not symptoms

- Support without changed incentives = unsustainable outcomes
- Catalysts 'crowd in' other players = demonstrate reforms, successful business models
- Support for innovation must have assured social impact + potential for commercial viability
- **This is not a numbers game**



M4P LESSONS LEARNED

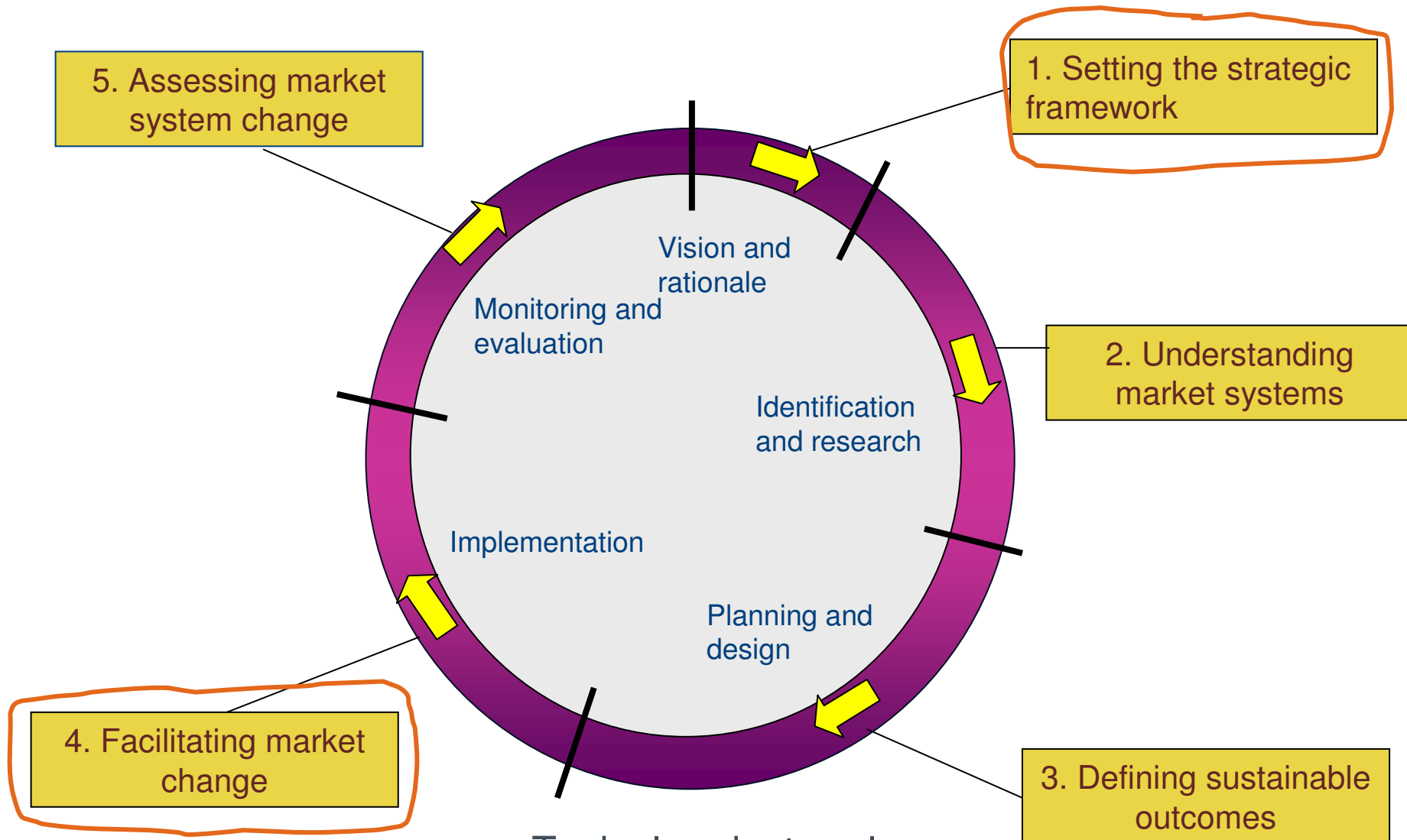
Scaling up for systemic change

Strategic leadership combines vision with opportunistic approach to testing and scaling up what works

- **Pilot a small series of interventions**
- **Kill off failures and scale up successes**

Build in pathways to replication in the design of all interventions

How? – key stages in implementation



Typical project cycle
Springfield Centre | Making markets work



M4P LESSONS LEARNED

FinMark – an example

- **Trigger for change – financial charter**
- **Trust formed with capable, committed local trustees**
- **Developed framework of evidence for reform (FinScope), policy reform, backing innovation**
- **FinScope became credible source of information, set the agenda for public and private sector**
- **FinMark became credible broker**
- **Mzansi low cost account was showcased for replication**
- **Central bank assisted with policy reforms**
- **Innovation funds scrapped.**

It did so little itself but helped produce huge impact – from 39% to 60% inclusion.