

Annex 2: Comparison of different approaches to private sector development

Many interventions to reduce poverty have not succeeded in producing sustainable outcomes, and the main causes of these problems were seen to be a) failure to understand market systems and where the poor fit in to them and b) inappropriate interventions, which actually distorted and displaced indigenous market mechanisms and institutions, rather than promoting local incentives and ownership and hence sustainability.

As an answer to this, M4P emerged. Its key features include:

- recognition that the poor exist within wider market systems and that the objective of development interventions is to stimulate those market systems to work more equitably for disadvantaged groups.
- sound understanding of market systems as the basis for all interventions; why they don't currently work for the poor and how they might work more effectively in the future. *Market systems* are understood as a more realistic and nuanced picture of markets than that of classical economics' emphasis on spot transactions between private actors.
- explicit commitment to sustainability, which focuses on stimulating and aligning the incentives and capacity of local institutions so that they play more effective roles in market systems.
- temporary, finite role for development agencies, where they do not perform market roles directly, but try to facilitate indigenous market actors to play more effective roles in market systems.
- intervention approaches, which are sensitive to local, market conditions and appropriate for objectives of sustainability.

The table below compares some of the approached that are used for private sector development and shows how M4P fits the picture.

Comparison of different approaches¹

	Poverty Rationale/World View	Framework for analysis	Guidance for intervention
Value chain approach	<i>Increasingly defining a poverty rationale</i> At its core, VCA has no world view on poverty reduction. Increasingly, VCA is also being used as an approach for understanding more micro aspects of poverty; asking	<i>Strong, but narrow systemic focus, but improving</i> Generally, VCA offers a strong framework for analysis. However, (a) by only offering a partially systemic view it is limited, and (b) a world view on poverty reduction would influence what questions are	<i>Strong guidance for analysis, weak for intervention</i> In addition to lacking an explicit world view on poverty reduction, VCA does not provide common guidelines for

¹ Making Markets Work for the Poor Comparative Approaches to Private Sector Development, Marieke de Ruijter de Wildt, David Elliott, Rob Hitchins. The Springfield Centre. 2006

	<p>where the poor are located within value chains; how they can do better; and what the role of development agencies is in improving their positioning.</p> <p>M4P in relation to VC: Selects VC in terms of their relevance to the poor. Some influence on VC thinking (and vice versa)</p>	<p>asked under VCA, and how they are asked.</p> <p>Used in isolation of a framework that sets values and defines objectives, VCA offers little. The emerging VCF seeks to address these issues. It expands the analytical framework to consider (a) inter-related markets (particularly service markets) and (b) wider <i>enabling environment</i> issues.</p> <p>In mapping vertical relationships between firms, VCA is mainly suitable for product and commodity markets. It is less useful for considering service markets, public benefit services, infrastructure and factor markets.</p> <p>VC is at core of market system and can include other functions close to core market. Broader M4P elements now are incorporated in emerging VCF.</p>	<p>good intervention practice. The concept of firm upgrading does not say how it should be brought about in practice. Interventions tend to fix constraints directly; short term impact, but sustainability is a concern.</p> <p>M4P: Facilitative approaches e.g. for stimulating supporting functions can help overcome upgrading sustainability problems</p>
<p>Subsector approach (SSA)</p>	<p>No explicit poverty rationale SSA does not take a view on poverty reduction directly. SSA is based on a belief that small enterprises are important for growth and employment creation. Further, that supporting small enterprises effectively requires understanding of firm dynamics in a wider systemic context. Firms operate in systems, and one must understand those systems if firms are to be supported effectively.</p> <p>M4P partly is responsible for revival of SSA</p>	<p>Systemic underpinnings, strong, narrow application Generally, SSA offers a strong framework for analysis. However, its practical application tends to be narrow, neglecting its underpinning systemic theory, by failing to rigorously analyse overlays for services and institutional factors. Used in isolation of a framework that sets values and defines objectives, SSA offers little.</p> <p>In mapping vertical relationships between firms, SSA is mainly suitable for product and commodity markets. It is less useful for considering service markets, public benefit services and infrastructure.</p> <p>SS is at core of market system. M4P is close to original SSA underpinning theory. Similar to VC.</p>	<p>Strong guidance for analysis, weak for intervention In addition to lacking an explicit worldview on poverty reduction, SSA does not provide any guidelines for good development intervention practice. In the absence of guidelines, all too often a typical intervention response is to directly intervene to fix whatever constraints are identified. Whilst this may deliver short term impact, it is criticised for not taking sustainability seriously.</p> <p>M4P: Facilitative approaches e.g. for stimulating supporting functions can help overcome upgrading sustainability problems</p>
<p>Local economic Development (LED)</p>	<p>Limited poverty rationale At its core, LED has no world view on</p>	<p>Incorporating more systemic focus Lacking theoretical and</p>	<p>Strong on participation, weak on intervention</p>

	<p>poverty reduction. However, LED is premised on objectives for growth and employment creation in disadvantaged areas. LED increasingly recognises the need for policy and intervention coherence in relation to a wider systemic context. However ultimately, LED does not ask where the poor are located within this system; how they can do better; and what the role of development agencies is in improving their positioning.</p> <p>M4P: Selects areas in terms of distribution of pro-poor potential and seeks to address barriers at appropriate level</p>	<p>conceptual underpinnings, LED does not have an overarching framework for analysis. LED does have geo-political mapping / stakeholder tools.</p> <p>Typically LED draws on analytical tools from other fields (e.g. VCA).</p> <p>There are some efforts to develop a conceptual framework for LED (e.g. Mesopartner's six Triangles)</p> <p>Correlates to M4P rules and support services though specific to core function in geographical setting, not wider market system. M4P analysis framework being adopted by LED practitioners.</p>	<p>There are such a multitude of LED approaches, it is hard to discern what is a typical intervention.</p> <p>LED's distinctive contribution is its emphasis on engagement with local stakeholders and participatory processes.</p> <p>It is recognised to lack guiding "how to" principles for intervention, with the risk that agencies are frequently drawn into funding long "shopping lists" that emerge from participatory processes.</p> <p>M4P approaches to private sector engagement address current gaps in LED approaches</p>
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Key messages:

- Poverty reduction as an objective is at the heart of M4P. As such, an M4P framework can ensure the consistency of various approaches to the objective of poverty reduction. M4P can therefore add value to private sector development approaches through ensuring that poverty reduction objectives are set at the heart of any approach.
- Approaches are not mutually exclusive, but can strengthen each other when implemented in appropriate combination. Through understanding what each approach can deliver, and what it cannot, applying an M4P approach in practice can ensure the right approach or combination of approaches are used for the right reason at the right time. One singular approach might be dominant, but need not be exclusive. For example, the application of value chain analysis within an M4P framework might shed light on specific sectoral constraints to financial access and skills development by the poor and thereby lead to more focused engagement in these respective fields.