Systems, power, and agency in market-based approaches to poverty

Chris Jochnick
Oxfam America’s Research Backgrounders

Series editor: Kimberly Pfeifer

Oxfam America’s Research Backgrounders are designed to inform and foster discussion about topics critical to poverty reduction. The series explores a range of issues on which Oxfam America works—all within the broader context of international development and humanitarian relief. The series was designed to share Oxfam America’s rich research with a wide audience in hopes of fostering thoughtful debate and discussion. All Backgrounders are available as downloadable PDFs on our website, oxfamamerica.org/research, and may be distributed and cited with proper attribution (please see following page).

Topics of Oxfam America’s Research Backgrounders are selected to support Oxfam’s development objectives or key aspects of our policy work. Each Backgrounder represents an initial effort by Oxfam to inform the strategic development of our work, and each is either a literature synthesis or original research, conducted or commissioned by Oxfam America. All Backgrounders have undergone peer review.

Oxfam America’s Research Backgrounders are not intended as advocacy or campaign tools; nor do they constitute an expression of Oxfam America policy. The views expressed are those of the authors—not necessarily those of Oxfam. Nonetheless, we believe this research constitutes a useful body of work for all readers interested in poverty reduction.

Recent Backgrounders:

Author information and acknowledgments

Chris Jochnick is the director of the Private Sector Department at Oxfam America.

This paper was prepared with support from the Rockefeller Foundation. Oxfam America is grateful to Mara Bolis and Julia Fischer-Mackey for extensive reviews and research and to Catherine Miller, David Satterthwaite, Gabrielle Watson, Kerry Scanlon, Kimberly Pfeifer, Kristi Kienholz, Marjorie Victor Brans, Steve Stanton, and Tara Gingerich for reviews and revisions. Additionally, Oxfam would like to thank all of those individuals and organizations consulted in the process of developing this paper.

Citations of this paper

Please use the following format when citing this paper. For permission to publish a larger excerpt, please email your request to permissions@oxfamamerica.org.

Abstract

Market-based approaches (MBAs) have become an increasingly vital area for anti-poverty development work, spurring a wide range of new actors, partnerships, and initiatives. Many development proponents remain focused on macroeconomic growth through foreign direct investment and large-scale public-private partnerships. Others view these trends ominously and push for a return to protected markets and stronger regulation of corporations. Between these two poles, a third stream of MBA practitioners accepts globalization, but intervenes more directly in markets to ensure pro-poor impacts.

This paper reviews some of the shortcomings of these various approaches and describes the search for more holistic, systemic approaches. Specifically, the paper argues that MBAs continue to fall short of their potential because of a failure to: (i) employ “systems thinking,” (ii) address power and agency, and (iii) implement interventions with adequate political, social, and economic dexterity. A market systems approach (MSA) integrating these three essential elements (systems thinking, power/agency, and dexterity) offers the best prospect for ensuring significant and lasting change through market engagement.
Introduction

The past 15 years have witnessed a surge of new market-based approaches (MBAs) to development. Proponents of these approaches run the gamut from government donors to venture capitalists to multinational corporations (MNCs) and civil society organizations. The approaches differ widely in their understanding of poverty and their definitions of success, but they all are based on the idea that markets can be grown and reformed to work better for the poor. While many MBAs show promise, the majority fall short of their potential. This outcome is often due to their piecemeal nature—projects are simply conceived too narrowly. The need for more holistic approaches has been well documented. Beyond that, however, there are three critical ingredients that continue to challenge MBAs: (i) the need to employ “systems thinking,” (ii) the need to address power and agency, and (iii) the need to implement interventions with adequate political, social, and economic dexterity. These three elements of high impact are largely self-evident; however, they each present a set of challenges that have been difficult to master in practice.

In response to perceived shortcomings, MBA practitioners are increasingly looking for ways to make their initiatives more holistic. They have moved from one-off initiatives involving lone actors (e.g., campaigns targeting a single company or isolated legal reforms) toward more collective efforts involving government actors, whole business sectors, and civil society groups. This progress is important but not sufficient. To address the roots of poverty, it is essential that these efforts are not only holistic (involving multiple actors), but systemic (engaging deeper dynamics and influences)—and that they simultaneously strengthen markets and the capacity of poor people to engage those markets. This approach requires more-sophisticated analysis, new tools, and heightened cross-disciplinary dexterity.

Market system approaches (MSAs)—which by definition incorporate all of these elements—are incipient, rare, and complex. Many development advocates will continue to opt for simpler engagements with the private sector. However, for

1 A “market” can be defined as a set of arrangements by which buyers and sellers exchange goods or services. People living in poverty engage with markets as workers, producers, entrepreneurs, and consumers. MBAs are aimed at bringing market benefits to any of these groups.


those seeking systemic poverty impacts, MSAs represent the next frontier. Evaluations of past approaches by leading practitioners and donors have pointed to the limitations of existing approaches\(^4\) — what remains to be seen is whether these donors and the broader development community they seed will embrace the practical implications of these learnings — the evident and urgent need for MSAs.

This paper is divided into the following sections: Section I provides an overview of the three main types of MBAs and their weaknesses, Section II looks at the key elements for high-impact market approaches, Section III describes the challenges of implementing MSAs, and Section IV describes opportunities and prospects for moving the field of MSAs forward.

This paper draws on the experience of Oxfam America and other Oxfam affiliates, a review of recent literature, and interviews about market system work with representatives from government, private sector, and development agencies in the US and Europe, and practitioners in Latin America, West Africa, India, China, and Southeast Asia.

Traditional approaches to the private sector and markets

Background

Various trends are driving increasing attention to private sector actors. A more globalized world has freed private capital and corporations to cross borders in search of new markets and resources. As a result, private investment now far outstrips foreign assistance across the developing world, and private sector actors exert increasing impact on the lives of poor people and on the policies and markets that drive development.

Meanwhile, new political freedoms and communications technologies, like Twitter, Facebook, and YouTube, have brought greater public scrutiny and concern about corporate abuses to the public, all the more so in the wake of the ongoing worldwide financial crisis. Civil society groups, consumers, shareholders, and investors have focused increasing attention on the threat and abuses of MNCs and have driven a wave of advocacy and new standards and norms.

As a matter of brand risk, “social license” to operate, and desire to take advantage of new opportunities, corporate leaders have heightened incentives to behave in a more responsible manner. Businesses also increasingly recognize the links between sustainable development on the one hand, and the stability of their global value chains and target markets on the other.

At the same time, traditional approaches to development have come under increased challenge. Dramatic growth and poverty reduction in countries like China and India (accomplished with relatively little development aid) are often contrasted with stagnation in heavily aid-dependent countries throughout Africa. High-profile economists like William Easterly and Dambisa Moyo have

---


shaken up the development community by asking what “$2 trillion in foreign aid” has accomplished.7

Overview of market-based approaches

In light of these trends, development organizations (alongside environmental and human rights organizations) have turned their attention to the private sector. A rough divide runs between those pushing back on corporate abuses and those eager to unleash what they perceive as the positive power of markets. Among the latter group, a separate divide distinguishes those focused on encouraging macroeconomic growth as an indirect means to poverty reduction and those more focused on creating opportunity through the development of pro-poor equitable markets. On a scale of impact on poor people—from many people affected lightly, to few people affected intensely—the three approaches can be mapped roughly as follows in Figure 1:

Figure 1. Map of market-based approaches

In very rough terms, “Leveragers” invest resources into deeper change among individuals and groups at the micro-level, whereas “Enablers” work for macro-level change that promises more modest impacts across large populations, and “Watchdogs” sit somewhere in between. These three separate (but often overlapping) approaches are in large measure driven by proponent views of the private sector, as described below:

- **Watchdogs focus on stopping abuses: “Big business is exploitative.”** Many organizations, social movements, and advocates continue to view globalization and large corporations with wariness and to prioritize interventions aimed at mitigating and redressing abuses. This category includes those working at both global and local levels, and those focused on market rules (trade and investment) as well as individual corporate targets.

- **Enablers focus on fostering economic growth: “Business is the engine of macroeconomic growth, the necessary precursor to poverty eradication.”** The predominant leaning of multilateral institutions and government donors remains overall economic growth, usually through foreign investment in capital intensive infrastructure and industries, effective governance, and business-friendly regulations. This work is animated by the belief that growth is essential to poverty reduction and will naturally trickle down to the poor through stronger national economies, job creation, and access to services. Encouraging private investment and large infrastructure, public-private partnerships are among Enabler approaches.

- **Leveragers focus on pro-poor markets: “Under the right circumstances, business can be a force for direct poverty reduction.”** If Enablers can be characterized by a macroeconomic focus and a belief in “trickle down,” Leveragers tend to look more at the meso- and micro-levels and believe that markets are neither intrinsically good nor bad, but that they provide essential opportunities that can be exploited. Leveragers see the need to “crowd in” poor people to markets. Approaches go by many names: shared value, hybrid value chains, inclusive business, Base of the Pyramid (BoP), impact investment, business development services (BDS), and local or municipal-level public-private

---

8 Some have distinguished the work of Enablers and Leveragers as “impulsive intervenors” versus “remote reformers.” See “A Synthesis of the Making Markets Work for the Poor (M4P)” (UK Department for International Development [DFID] and the Swiss Agency for Development and Cooperation [SDC], October 2008), 17-22.

9 The move away from the Washington Consensus has been less a clean break than a shift in emphasis from liberalized trade and privatization, to good governance and business climate. See “Doing Business 2011: Making a Difference for Entrepreneurs” (World Bank and the International Finance Corporation [IFC], 2010).

partnerships (those more carefully targeting poor or vulnerable populations). Leveragers address various parts of the development-market nexus, including strengthening local enterprises, forging ties to international supply chains, developing microfinance and local business services, aggregating producers, and making essential products and services more accessible to poor consumers (see Figure 2).

**Figure 2. Map of Leverager market interventions**

![Map of Leverager market interventions](source: Adapted from Sustainable Food Lab.)

**Shortcomings of market-based approaches**

In all cases, early iterations of these three approaches have tended to focus on narrow, tangible objectives involving a limited range of relevant actors. As a result, these strategies have produced a catalog of partial or Pyrrhic victories. To the extent that efforts are siloed, or designed too narrowly, they struggle to redress poverty in a scalable and sustainable way. For many advocates, narrow successes may be acceptable, but for those seeking broader sustainable development, they will raise questions, including: Are the changes in one context
undermining development efforts in another? Are the results sustainable? Are the results justified given the size of the investment?

To be sure, some of these early MBA efforts—and their successes within a narrow range—may lay the groundwork for more holistic approaches and broader, sustainable change. The intent of this section is not to evaluate particular MBA initiatives, but to identify the risks of narrow approaches and the move to more holistic approaches.

• **Watchdog limitations:** Corporate campaigns derive much of their strength from the increasing value and vulnerability of corporate brands or reputations. Accordingly, campaigns tend to be limited to high-profile, consumer-facing or Western brands, with little ability to influence the large majority of companies, including increasingly powerful Chinese and Indian enterprises. Corporate campaigns often focus on single scandals or bad actors to raise awareness. In addition, they often lead to resource-intensive, protracted crusades that are settled with either compensation for a subset of victims or commitments to reform, which may not extend past the narrow case or company at hand.

Examples of Watchdog limitations include the following:

• Corporate advocacy that succeeds in shaming one company and forcing concessions that do not affect broader industry practices.

• New industry standards that are adopted without any significant changes in conduct or accountability to stakeholders on the ground.

• Corporate advocacy that drives a company out of a country or region only to be replaced by a less accountable and less responsible company.

> "The interveners’ experience—representing a vast swathe of development practice—illustrates a real desire to have a direct impact… 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: ‘… Why isn’t the market environment providing solutions to these? and How can I address these factors?’ Improving the functioning of markets does not feature on interveners’ list of priorities and the underlying market causes shaping business behaviour are therefore not addressed.” (Ferrand, 9)

---

11 See Naomi Klein, No Logo (New York: Picador USA, 2000).

• **Enabler limitations:** A predominant focus on the rules and the business environment can achieve economic growth that leaves poor communities behind, exploits workers, and exacerbates inequalities as more powerful actors benefit disproportionately.

Examples of Enabler limitations include the following:

- Privatization of public utilities results in rate hikes and disruption of services for communities too poor to pay.
- Multinational corporations and elites benefit disproportionately from lowered taxes and government services, to the detriment of small businesses.
- Progressive legal reforms are not enforced or do not address underlying issues of corruption.

• **Leverager limitations:** Interventions to support small and medium enterprises (SMEs), small producers, entrepreneurs, and consumers can achieve good results, but risk creating dependencies and market distortions. So called “pockets of excellence” — projects sustained by intensive resources — may have no staying or replicating potential once donor funds or subsidies are removed.

Examples of Leverager limitations include the following:

- Increasing the productivity of poor producers without corresponding attention to consumer demand, leading to market glut, lower prices, and heavily indebted producers.
- Successful interventions to help build a small enterprise that fail to scale for lack of input markets, predatory government actors, oligopolistic actors, or burdensome regulations.
- Connecting poor producers with MNCs and cutting out middlemen that can leave already vulnerable communities more dependent and potentially more at risk.

In short, for work on corporate campaigning to succeed, it must lead to industry-wide standards and laws; in order for macroeconomic growth to reach the poor, the poor must be empowered and engaged to take advantage; in order for SMEs

---


to thrive, global and national “rules of the game” must be addressed; and to ensure that increased private investment in essential services does not turn exploitative, companies must be properly incentivized and regulated.

**Need for more holistic market-based approaches**

Across each category of MBAs, limitations are becoming more evident and proponents are turning to more holistic strategies that involve a broader range of actors and interventions. Individual corporate campaign victories have spawned organized consumer and investor lobbies, industry-wide multistakeholder initiatives, and stronger laws and regulations. Pro-business legal reforms have been combined with efforts to support SMEs, and public-private partnerships have been designed to empower consumer watchdogs. Efforts to increase productivity and spur pro-poor business have taken up related issues of market access and demand, the broader enabling environment, and corporate abuses.

“The most important collaborative initiatives will marshal the best competencies of business, NGOs, and the public sector. Business not only can but in fact must be part of the solution. Businesses can’t do this by themselves. They need NGOs to prod and pull, criticize and inform. They need governments to ensure a level playing field. The fertile ground of systemic change is in this partnership space, trying out new organizational forms that enable practical management of the environmental commons as well as coordinated investments in opportunities for the poor.” (Hamilton, 5)

The move toward more holistic approaches is an essential step, but sustainable and scalable progress on poverty requires additional considerations. The development and sustainability of pro-poor markets depends largely on whether:

- People in poverty, particularly women, have the resources, capacity, and power to engage meaningfully in markets.

- Civil society groups and watchdogs have the capacity and power to influence market rules and to innovate with the private sector to drive improved industry practices.

- Businesses recognize long-term benefits from pro-poor business ventures and face pressure to operate in a socially and environmentally responsible manner.

---

15 See Conroy, Branded!

• States and local governments provide incentives and enforce rules that create fair and strong markets.

These actors and “ingredients” are detailed in Figure 3, which serves as a strategic tool for mapping interventions:

**Figure 3. Map of holistic market-based dynamics**
Approaching markets systematically

Early experiences with MBAs reveal certain patterns. Where MBA initiatives have fallen short, they tend to suffer from at least one of the following deficiencies:

- Failure to adequately recognize and address market complexity (lack of systems thinking).
- Failure to adequately address issues of power and agency, especially gender (lack of a rights-based approach).
- Failure to engage with sufficient political, social, and economic finesse around markets and market actors (lack of dexterity).

High-impact market approaches—those that are scalable, sustainable, and able to get to the roots of poverty—will incorporate a systems analysis, informed by power, and will be implemented in both a market-savvy and pro-poor manner. This section describes each of these elements and underscores the importance of bringing them all to bear in MBAs.

Systems thinking

The complexity of markets makes a systems approach indispensible. Market complexity is a product of the following:

- **Multiple roles of poor people:** Poor people engage markets as consumers, producers, workers, entrepreneurs, and advocates. Market changes that benefit one group of poor people (e.g., consumers through subsidized products) may hurt another (e.g., producer-farmers).

- **Multiplicity of market players:** Beyond the immediate buyer-seller, markets are composed of many additional essential actors, including suppliers, distributors, financial service and input providers, business lobbies, and government bodies. Successful markets depend on the healthy integration of these surrounding actors and markets.

- **Hidden superstructure:** Market transactions and market players are embedded in a wider web of cultural norms, regulations, laws, relationships, and social networks. This superstructure will condition the potential for, and
sustainability of, system change. These forces may be particularly difficult to see and manage in informal unregulated markets, where social norms and networks play a more prominent role.

“In the BoP marketplace—in which skills develop and word-of-mouth influences are strong—the human dimension and issues of fairness and trust simply overwhelm abstract notions of markets and competition. Intuitive and interdependent relationships that are viewed as fair and trustworthy—and therefore likely to lead to individual and community welfare—prevail.” (Viswanathan, 129)

Further complicating this systems approach is the nature of impacts due to any market change:

- **Cause and effect are often not immediately discernible:** Market change can take years and is rarely linear. Change will be intensified by feedback loops that can expedite or undermine reforms.

- **Externalities:** Markets will inevitably cause secondary impacts (externalities) on people living in poverty outside the market system.

The complexity of target markets is illustrated by Figure 4.17

---

17 A market map is a visual representation of value chain actors and processes, enabling environment, and business and extension service providers in a particular market, aimed at identifying market constraints, bottlenecks, and interventions. See Mike Albu and Alison Griffith, “Mapping the Market: Participatory Market-Chain Development in Practice,” *Small Enterprise Development* 17, no. 2 (2006): 12-22.
The work of Peter Senge and others has underscored the importance of understanding the deeper structure that conditions relationships and behaviors in any complex system.

“Systems thinking is a discipline for seeing wholes. It is a framework for seeing interrelationships rather than things, for seeing patterns of change rather than static ‘snapshots.’” (Senge, 68)

Systems thinking looks at an entire system to anticipate how change might happen. When utilized in market development efforts, systems thinking will analyze all relevant actors, institutions, and processes involved in sustaining and growing a particular market. It requires an ability to “zoom out,” to see the entire system in the aggregate, to determine the piece of the system to focus on, and to zoom back in to analyze the relevant relationships and influences at the given place in the system.18 It looks at underlying structures and other dynamics that

---

will prevent or incentivize scale and replicability, and points to interventions that leverage existing market forces and are self-reinforcing. It attempts to anticipate negative market distortions and to identify ways to build sustainable value chains, services, and long-term industry change by leveraging political, social, and market forces.

Even holistic MBA efforts often betray a lack of systems thinking. Contemplating all relevant actors within a system is important, but addressing the deeper dynamics and incentives driving the behavior of those actors is equally important to ensure that superficial reforms are not undermined by the superstructure.

A systems approach to markets must be context specific and adaptable. Systems thinking should not be confused with generic recipes for transformational reform. The failings of the Washington Consensus and the enigmatic poverty success stories of China have forced a rethinking among those development economists favoring orthodox solutions in favor or more-nuanced, experimental approaches. The “diagnostics approach” set out by Hausmann, Rodrik, and Velasco offers a more tailored approach to market systems at the national level. A similar critique of development orthodoxies and a push for experimentation has been spurred by recent attention to successes and failures at the micro-levels, backed by more rigorous evaluations (including randomized control trials) of MBAs.

“The experimentalist approach, by contrast, starts with relative agnosticism on what works and what doesn’t. It is explicitly diagnostic in its strategy to identify bottlenecks and constraints. It emphasizes experimentation as a strategy for discovery of what works, along with monitoring and evaluation to learn which experiments work and which fail. It tends to look for selective, relatively narrowly targeted reforms. It is suspicious of ‘best-practices’ or universal remedies, looking instead for policy innovations that provide a shortcut around local second-best or political complications.” (Rodrik, “Diagnostics before Prescription,” 13)


Power and agency

Poor people are generally subject to market forces over which they have little control. Market gains for poor people can easily be undermined or captured by those with more power. Overcoming poverty through markets requires the capacity of poor people to engage markets beneficially and with sufficient power to influence the terms on which a market will deliver benefits.

“...the need to remove the hindrances that people face through the efforts and initiatives of people themselves. The claim is not only that human lives can go very much better and be much richer in terms of well-being and freedom, but also that human agency can deliberately bring about radical change through improving societal organization and commitment.”

(Anmartya Sen, quoted in Readings in Human Development, vii)

In the 1990s, much of the development community broke from traditional service-delivery approaches to adopt rights-based approaches (RBAs) to development. While drawing on arguments rooted in justice, the shift was fundamentally precipitated by a focus on human agency and structural reform as essential to overcoming poverty. From a rights-based perspective, the problems people face are the consequences of sociopolitical relationships and institutions that sustain and (re)generate inequality and injustice; accordingly, RBAs aim to strengthen people’s capacities and collective power, and to create the institutional environment that enables them to assert their rights.

RBAs at their core are about shifting power relations between marginalized groups and decision makers, with a specific and intentional focus on gender equity. “Empowerment” is commonly defined as the expansion of individual and collective assets and capabilities of people required to participate in, negotiate with, influence, control and/or hold accountable the institutions that affect their lives.

The World Bank describes empowerment as follows:

[The process of enhancing the capacity of individuals or groups to make choices and to transform those choices into desired actions and outcomes. Central to this process are actions which both build individual and collective

---

22 The sustainable livelihoods approach (SLA) approximates an RBA by focusing on empowerment and working with communities to build on their opportunities. It emphasizes poor people’s voices and the multitude of strategies they use to support their households. SLAs will often consider MBAs to leverage additional opportunities. See Mona Haidar, “Sustainable Livelihood Approaches: The Framework, Lessons Learnt from Practice and Policy Recommendations” (UN Economic and Social Council, December 2009).

23 According to Amartya Sen, greater freedom comes with greater agency, which implies greater individual and social contribution and participation, and makes development efforts more effective. See Amartya Sen, Development as Freedom (New York: Anchor Books, 1999).
assets, and improve the efficiency and fairness of the organizational and institutional context which govern the use of these assets.\(^{24}\)

Empowerment requires changes in the domains of individual and collective agency (people’s internal capabilities and collective strength), social relationships (political systems, economic systems, legal regimes, customary laws, property regimes, ideologies, and religion), and opportunity structure (to what extent people have access to resources, capital, and services).

Women living in poverty are especially disadvantaged in terms of physical, human, and social capital. For women, the barriers to claiming opportunities and rights in markets are unique and often mutually reinforcing.

“Social barriers can reduce market opportunities by limiting mobility, as in the case of home-based women embroiderers in Pakistan. Power asymmetries between older male leaders and younger women producers affect the transfer of learning and information flows available through horizontal cooperation. Gender barriers in access to training can limit women’s ability to acquire knowledge and skills required to upgrade and reduce upgrading risks.” (Dunn et al., v)

Incorporating gender-specific constraints into a market map (see Figure 5) is essential to identify those impediments that inhibit women’s participation in markets and to highlight opportunities to overcome them.

Figure 5. Map of market system and gender

Source: Oxfam Great Britain.

Despite the obvious merits of the RBA, most MBAs do not consider agency or power relations in their analysis. While Watchdogs will often try to leverage power and influence through advocacy to effect corporate or policy change, many global campaigns are disengaged from poor communities or social movements and may do little to increase agency or empowerment.²⁵ Some Leveragers are fully invested in an RBA—for them, the limitation has more to do with market engagement. More often, Leveragers, particularly those coming from government, corporate, or investment sides, are not out to change structures or rules and may not be comfortable with ideas of empowerment or agency. Finally, Enablers fall the shortest in terms of incorporating an RBA into their interventions. Although economic growth can bring jobs and improved income, it won’t address the roots of poverty if it leaves intact (or worse, exacerbates) power imbalances and marginalization.

Implementation dexterity

In addition to analyzing market complexities through a systems approach, interventions must be designed and carried out with appropriate political, social, and economic dexterity. Dexterity in this sense involves the capacity to empathize and engage effectively with all market actors across geographic, cultural, class, technical, and disciplinary boundaries—from first-world MNCs to poor farmer cooperatives to governments with varying capacities for good governance. Dexterity also entails an ability to navigate the extreme complexity of market systems, taking into account likely indirect impacts of interventions that may not be immediately evident. Many projects will flounder for the lack of these softer skills.

Growing and scaling businesses in the informal and challenging markets that serve poor people requires sensitivities and tools that are not traditionally nurtured in the development community or first-world business circles, and especially not in any single actor. For instance, development experts will often seek to intervene, to “fix” problems, or to subsidize business services that might ultimately be more aptly provided by markets; foreign investors, donors, and corporate executives will often presume that poor customers and suppliers are motivated by the same drivers as those from their own circles; and community groups and farmers will tend to distrust and find it difficult to engage with large multinationals.

“In practice, development practitioners tend naturally to focus their attention on those institutions which are familiar from their professional background and experience… So for economically-orientated practitioners, more thought may need to be given to the role of social institutions in shaping market systems and determining outcomes of development interventions… Similarly socially-orientated practitioners need to take more cognisance of private and economic institutions—and the way these influence transaction costs facing the poor and the demand for their livelihood outputs.” (Albu, “Making Markets Work for the Poor: International Development Cooperation,” 12)

To ensure that interventions strengthen market systems and actors, proponents of MBAs should generally serve as catalysts and facilitators, reconciling the supply and demand for knowledge and building trust among various stakeholders. Ego and expertise can stand in the way of implementers recognizing that they don’t have the power to transform markets directly; they can create the conditions that help people and institutions make the change. Where more interventionist approaches are taken—e.g., to jump-start a particular

---

26 This is not to overlook the many situations that demand greater intervention to save lives (as in emergency response situations) or address poverty (such as relief for the extreme poor) where lighter interventions and market forces won’t suffice.
service industry or to subsidize poor people’s access to a market—the potential dependencies and distortions should be fully recognized, and a nondisruptive exit plan should be built into the intervention.

Because different contexts will require different forms of implementation, market dexterity requires an unusual degree of self-awareness as well as new and innovative tools and approaches. Dexterity requires a process that allows for rapid learning and adaptation, with frequent evaluations, transparency about failings, and the flexibility to change direction.

Bridging the markets/power divide

Infusing MBAs with a focus on power and agency is relevant to both the systems analysis of markets and the implementation process of projects. The systems analysis must contemplate how interventions and market change will empower or disempower poor people, especially women, and must make explicit the power dynamics within markets and between actors. As possible, interventions should then be designed and carried out in a way that is sensitive to power dynamics and seeks to empower poor people in the process. Diagnosis of problems and design of interventions should seek the active participation of stakeholders as an initial step in addressing power.

“Agency to shape the institutions that can make markets work for the poor can be at least as important as agency to get products into a value chain. [T]he majority and poorest of producers are not organised in markets, and elites and cartels continue to prevent markets from working in a pro-poor manner. ... It was clear that some of the agenda to link small-scale farmers to markets is undermining the very structures that support producer agency. These problems can be easily missed when we set out to make markets that work ‘for’ the poor rather than ‘with’ the poor.” (“Producer Agency,” 5)

Marrying a systems approach to markets with an RBA offers the dual potential of sustainable, scalable market growth that addresses the roots of poverty. The two approaches have much in common. Both recognize the importance of systems thinking and put a premium on understanding the relationships and institutions that inhibit or enable reforms. Both place much weight on the accountability of interveners, warn against dependency, and demand culturally, socially, and politically nuanced interventions. Both look to holistic engagement of stakeholders and powerful actors and call for emotional intelligence. Bringing an additional market awareness and dexterity to RBAs on the one hand and
heightened focus on power and agency to market efforts on the other represents the next frontier: market systems approaches (MSAs).

Some movement toward market system approaches

MBAs of multilateral banks and government donors have evolved from an emphasis on BDS and enterprise development, toward something closer to MSAs. BDS approaches were modeled on the tremendous growth in microfinance and sought to replicate that spread in other service industries. Initial efforts met with little success. Even where BDS industries proved viable, the SMEs they were designed to serve often failed owing to insufficient market demand and other factors. The realization that SMEs’ constraints to growth were more complex than a lack of finance and other BDS has led to a broader focus among donors on value chains, enabling environments and systems thinking.

The UK Department for International Development (DFID) and other European donors embraced a more systemic strategy known as the making markets work for the poor (M4P) approach. M4P embeds much that was useful in the BDS in a frame that recognizes broader dynamics and constraints. M4P focuses on market systems with a prime concern being sustainability, defined as the continuation of benefits after the end of a development project. Agencies play a facilitating role—that is, rather than performing functions within the market system and becoming an internal player, they seek to catalyze others. M4P calls for robust market analysis, careful selection of sectors, programmatic flexibility in response to impact assessments, and selective engagement with government and business actors to drive broad change.

For its part, the US Agency for International Development (USAID) moved from enterprise development to a value chain approach (VCA) that addresses both the supply and demand sides of market interactions in order to ensure that market growth is sustainable. This work has evolved to look beyond single value

---


28 Market facilitation has developed as a formal approach to driving pro-poor market change through a limited, catalytic role for organizations to build relationships among market actors and encourage them to drive systems change through collective actions to drive. See Robbie Blake and Katherine Pasteur, “Learning from Practice: Empowering Community Organizations: A ‘Light Touch’ Approach for Long-term Impact” (Practical Action, August 2010).


30 Value chain approaches have grown in importance as MNCs move away from tightly integrated structures to sprawling global networks of suppliers. The approach has been influenced greatly by Gary Gereffi’s work on value chain governance models. See Gary Gereffi, John Humphrey, and Timothy Sturgeon, “The Governance of Global Value Chains,” Massachusetts Institute of Technology Review of International Political Economy 12, no.1 (February 2005): 78-104.
chains to whole sectors, with the recent experiences of USAID officials (from Iraq and Afghanistan) pushing the agency to grapple with complexity and systems change in a development context. At the same time, the VCA seeks to foster a business-friendly enabling environment; strong inter-firm linkages (both vertical and horizontal); assistance with upgrading; and dynamic supporting markets for finance, and other business products and services. Tellingly, USAID’s evaluations of its VCA have identified numerous “sociocultural” barriers facing SMEs and pointed to the need to address impediments created by formal and informal institutions.

Both the European donor-supported M4P and USAID-supported VCA have begun to contemplate the importance of agency, power, and institutional issues. To date, they have failed to grapple significantly with these issues, but their trajectories have brought them squarely to the edge of it, as illustrated in Figure 6 and Figure 7:

---

31 USAID’s Policy, Planning and Learning group hosted its first event on complexity theory in October 2011.


33 At the margins, M4P has contemplated issues of power and accountability by, for example, strengthening media markets (see “Perspectives on the Making Markets Work for the Poor [M4P] Approach” (Department for International Development [DFID] and Swiss Agency for Development and Cooperation [SDC], October 2008), 7.

34 Implementations under M4P generally have greater flexibility than under USAID’s value chain approach. M4P practitioners assert that DFID and other European donors provide relatively more space to try, fail, adapt, change, or quit sectors and tactics as a result of experience on the ground, versus more presubscribed solutions under USAID. Respective timelines—typically five-year programs with DFID versus three-year programs with USAID—also provide M4P programs with more latitude.
Figure 6. USAID trends in market-based development programs: 1990s to today

<table>
<thead>
<tr>
<th>Microfinance, SME development and BDS</th>
<th>Value chains</th>
<th>Value chains &amp; enabling environment</th>
<th>MSA?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial focus directly supporting micro- and SME growth through financial and other business services, but lacked pathway to sustainability</td>
<td>Focus on linking micro- and SMEs to single value chains, but lacked systems view and attention to formal/ informal rules</td>
<td>Focus on whole sectors and enabling environment to drive competitiveness, recognizes power and social relations but unaware how to address</td>
<td>Movement towards holistic, participatory approaches, however, point of departure remains driving growth and competitiveness</td>
</tr>
</tbody>
</table>

Source: Author’s illustration based on USAID Microenterprise Development Program Conference Call Minutes, April 21, 2009, 11 a.m.-12 p.m.; USAID and Microenterprise Development, June 2006.

Figure 7. DFID trends in market-based development programs: 1990s to today

<table>
<thead>
<tr>
<th>Microfinance and SME development</th>
<th>BDS</th>
<th>M4P</th>
<th>MSA?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial focus on microfinance and direct support to SMEs, with direct provision of services, but reach limited and lacked pathway to sustainability</td>
<td>Improve service delivery to SMEs to drive growth, but lacked systems view and attention to formal/ informal rules</td>
<td>Focus on market system, aware of bottlenecks and incentive structures, but lacks recognition of power and social relations</td>
<td>Early attempts to marry M4P with a recognition of power imbalances and social relations, but has yet to develop into a coherent frame</td>
</tr>
</tbody>
</table>

Progress toward MSAs is more mixed among the large private foundations. While the rise of “philanthrocapitalism” (driven by the likes of Gates, Skoll, and Omidyar foundations) has brought greater attention to market-based solutions and driven new innovative collaborations, a corresponding “effectiveness” agenda aimed at ensuring short-term tangible impacts has made long-term systemic change more difficult to justify. Recent reviews of mostly US philanthropists identify a move toward reconciling the effectiveness push with the need for more holistic, “catalytic” approaches. In theory, if not yet in practice, this recognition should lead to new support for MSAs. As a recent study of philanthropic trends from the Monitor Institute states:

“[W]here the cutting edge of philanthropic innovation over the last decade was mostly about improving organizational effectiveness, efficiency, and responsiveness, we believe that the work of the next 10 years will have to … include an additional focus on coordination and adaptation. Coordination, because given the scale and social complexity of the challenges they face, funders will increasingly look to other actors. … And adaptation, because given the pace of change today, funders will need to get smarter more quickly, incorporating the best available data and knowledge about what is working and regularly adjusting what they do.”

36 Bishop and Green, Philanthrocapitalism.
38 Katherine Fulton et al., “Executive Summary: What’s Next for Philanthropy” (Monitor Institute, July 2010).
Challenges facing market systems approaches

Early efforts with MSAs have identified some common challenges. Many of these challenges are to be expected with any significant change in approach and will simply require more time and experience to overcome. Other challenges are more structural and stem from the ambitiousness of an approach that aims to change complex and politicized market systems. Among the most pressing challenges figure the following:

- **Extreme poor.** MBAs struggle to reach those living in extreme poverty, who tend to be by necessity risk-adverse and who lack basic means, assets, and power to engage effectively with markets. VCA and M4P proponents are reluctant to target the most vulnerable sectors; instead, they view their work as complementary to more interventionist or subsidized strategies to support these sectors.\(^\text{39}\) It is an open question how far down the income ladder these approaches are, in fact, able to go and whether they risk exacerbating inequality to the extent that they fail to reach the most vulnerable.

- **Ideology and capacity.** It is a rare organization that can work effectively and simultaneously with grassroots organizations, poor farmers, MNCs, and governments, one that can bridge the ideological support for markets with a commitment to addressing power imbalances and inequality. The field lacks “bridging” or “catalytic” organizations that can bring the necessary depth of analysis and convene the necessary actors to work across market systems coherently.

- **Difficult to evaluate and measure impact.** Attribution is difficult with systemic change, making MSA interventions challenging to evaluate midstream and the longer-term case for MSAs more ambiguous. As Andrew Natsios, former USAID administrator, notes, “Those development programs that are most precisely and easily measured are the least transformational, and those programs that are most transformational are the least measurable.”\(^\text{40}\) Especially for donors focused on achievement of tangible results (e.g., DFID’s “value for money” paradigm and the “effectiveness” push among US donors), institutional changes with highly uncertain outcomes are more difficult to support.


\(^{40}\) Andrew Natsios, “The Clash of the Counter-Bureaucracy and Development” (Center for Global Development, 2010), 3.
“Today’s challenges and their solutions are not so well defined that they can be wedged into a grant request. Answers are often not known in advance but require innovation and learning among many different actors before progress can be made. … Donors who want to solve pressing problems must take into account the systemic nature of the issues and acknowledge the complex ecosystem of actors that influence them.” (Crutchfield et al., 5)

- **Power awareness threatens the powerful.** Efforts to address the structural roots of poverty and to empower poor groups will inevitably threaten and may provoke resistance and aggression from powerful actors.

- **Change to the enabling environment is tough.** Advocacy around institutional and legal change makes some donors and outside institutions uncomfortable. To the extent that much of the funding for market approaches comes from development banks and foreign donors, it will carry certain political sensitivities (or agendas) to structural change.

- **Trust and cultural barriers.** Systems change requires collaboration between diverse sets of actors. Building the trust and bridging cultures (e.g., corporate, NGO, farmer) that have previously more likely been at odds with one another can be a major undertaking.

“Value chains are often characterized by adversarial relationships and mistrust, so projects must conduct activities to promote the development of trust—or at least of understanding—among stakeholders to facilitate information sharing and cooperation.” (“Participatory Approaches,” 4)

- **Inertia and reluctance to change.** An MSA requires adoption of new skills and understandings. As one proponent suggests, it will require a paradigmatic shift from an “engineering model” to an “experimental model,” in which “projects are treated as experiments and learning opportunities to identify what works best in a particular environment … [requiring a shift from] guaranteeing particular results to adherence to a rigorous process of learning while doing.”

“Having inherited their wealth or made it very quickly, the philanthrocapitalists are not in the mood to wait around for their results, and the metrics they use to evaluate success focus on short-term material gains not long-term structural shifts in values, relationships and power.” (Edwards, “Philanthrocapitalism”)

- **Time and flexibility.** Systems change requires patience and flexibility, with a nimble ability to change direction and to adapt to failure or changing

---

circumstances. These needs run up against donor requirements for quicker, more predictable results.

- **Replicability of interventions.** Market systems are context specific, and successful models and interventions in one context may not translate into others, making replicability and scale a challenge.

- **System breadth and externalities.** Market systems have no obvious boundaries and can have significant externalities (i.e., secondary impacts on people outside the system). Analyzing systems and designing interventions to deal adequately with all relevant influences, actors, and impacts is challenging and requires an iterative, flexible approach.

- **Environmental issues.** The close nexus between the natural environment, markets, and poverty—and the increasing urgency of climate change—will often require careful consideration of environmental impacts as one additional complexity in an MSA analysis. Sustainability concerns will often create obstacles to enterprises in the short term (when energy is often fixated on commercial viability and scale), even while offering benefits and market opportunities in the longer term.
Next steps

The challenges of MSAs are daunting, but new resources, actors, and initiatives offer room for optimism. A number of networks have sprung up among donors and practitioners, and the pace of information and learning has increased significantly. Next steps for those seeking to move development practices toward MSAs include the following:

- **Addressing “agency and power”**: Creating systems change requires a mix of programmatic activities with advocacy efforts aimed at addressing power imbalances and policy change. There is a need to build new alliances between advocacy-minded NGOs and market-based practitioners. International financial institutions (IFIs), foreign donors, and MNCs can be useful in pressing for macroeconomic reforms, but these actors will shy away from more confrontational or transformational efforts, leaving an opportunity for more independent NGOs, socially responsible investors, and donors.

- **From campaigns to sector reform**: Corporate campaigning must find new allies to move from “naming and shaming” to systemic change. Those allies will include sympathetic government bodies, progressive business groups, corporate leaders, consumer groups, investors, and retailers. Change should be pursued on various levels—public awareness, industry standard setting, multistakeholder initiatives, certifications, investor/retailer guidelines, and regulatory reform.

- **Communities of practice**: There are various learning communities interested in taking a systems approach to development that are informally establishing an empirical body of knowledge and sharing lessons from implementation. These communities include global networks such as the Market Facilitation Initiative (MaFI) community (part of the SEEP Network), the M4P Hub (sponsored by DFID), and the Aspen Network of Development Entrepreneurs, as well as national networks like the Market Development Forum in Bangladesh. To promote implementation guidance and widespread adoption, these communities require support to move from the space of thought leadership to more formal documentation and thought proliferation. Donors can help convene early adopters of MSAs in online learning communities to foster sharing of lessons (including failures) learned.

- **Capacity-building for implementers**: Implementation dexterity is a major challenge for any MSA initiative. The application of systems thinking to the field of international development is in its infancy. Many project leaders
lament the paucity of practitioners with sufficient skills and sensitivities to undertake systemic approaches and to engage the various relevant actors effectively. There is an urgent need for innovative programs and capacity-building tools to seed the development field with more dexterous advocates and facilitators.

- **Flexible, long-term funding structures:** In systemic interventions, experimentation is necessary for effective implementation, focusing on unpredictable behavior change. Upfront project research and design should be thorough, participatory, and fluid, allowing feedback to inform early project goals. Implementation plans should be adjusted accordingly. All of this significantly impacts a project’s staffing, budgets, and work planning process, and marks an extreme departure from the traditional “engineering” approach. Donors with more flexibility to innovate and take risks are well placed to support creative implementation methods.

- **Systems-relevant measurement, monitoring, and learning methods:** Rigid, predetermined metrics for measuring, monitoring, and evaluating impacts often mislead project implementers and constrain a project’s potential. A number of initiatives are aimed at developing more holistic, systemic measurement frameworks, and proponents of the M4P, VCA, and BoP approaches are actively engaged around this issue. There is consensus about the importance of fluid and nimble approaches that allow for quick adaptation, along with new tools like crowdsourced assessments in the field. Some have proposed an ISO-type approach to impact assessment (where the process of impact, monitoring, and learning is assessed and “certified”).

- **Making the case:** Much has been written about the failings of past market-based initiatives and the need for more systemic, rights-based approaches, and a number of tools and frameworks have been developed, but the empirical case for MSAs is still lacking. There is a need for innovative projects and well-documented successes.
Conclusion

At its essence, this paper argues for a more robust approach to private sector engagement and markets to address poverty. Given the increasingly popular rhetoric around MBAs and the numerous examples of “success,” the need to go deeper may be easily obscured. However, a closer look at current practice reveals that mainstream MBAs will never jump-start the private sector into being the widely touted engine for poverty eradication, nor lead to long-term reforms of abusive markets. In the context of growing scarcity, inequality, and volatility, systemic approaches are vital.

MSAs present themselves as attractive alternatives, but they are challenging to carry out in practice. MSAs are by definition and design extremely complex. Power asymmetries between human beings, institutions, and countries make it difficult for people living in poverty to realize their rights. Topping these challenges is the need for a rare combination of dexterity and skill to catalyze and manage MSA initiatives. For these and other reasons, most development practitioners will opt for simpler routes that allow for quick and tangible successes at the nexus of markets and development.

Fortunately, there is a growing constituency for systemic market reform, as well as a broad — albeit less well resourced — constituency for promoting the agency and power of poor communities. The theoretical development literature and emerging evaluations of past programmatic failures make the case for bringing these two constituencies together. The tipping point for MSAs will come from finding ways to simplify the process of conducting and collaborating on MSAs, building and testing implementation models, addressing ideological resistance to MSA methodology, and building a community of interdisciplinary practitioners.
Bibliography and recommended reading

Framing pieces


Elliott, Kimberly. “Opening Markets for Poor Countries: Are We There Yet?” October 2009. Center for Global Development.


Base of the Pyramid (BoP)


Tanburn, Jim. “What Have We Learned about the Use of Markets and Private Sector Providers for Service Provision in Developing Countries?” August 2005.


**Business Development Services and SME support**


Impact investing


### New business models and models of change


Glenzer, Kent. “What if We’re Not Nongovernmental Organizations (NGOs)? The Opportunities Ahead for International Development NGOs.” World Bank Institute, 2010.


### Value chains


Making markets work for the poor (M4P)


Participation and rights-based approach


Public-private partnerships


International Journal of Agricultural Resources Governance and Ecology 2, no. 6 (2007).


Subsector analysis


Miscellaneous


United Nations Global Compact. *Overview of the UN Global Compact.*

http://www.unglobalcompact.org/AboutTheGC/index.html. (April 2011)

Forty percent of the people on our planet—more than 2.5 billion—now live in poverty, struggling to survive on less than $2 a day. Oxfam America is an international relief and development organization working to change that. Together with individuals and local groups in more than 90 countries, Oxfam saves lives, helps people overcome poverty, and fights for social justice. To join our efforts or learn more, go to oxfamamerica.org.