

ComMark M4P Conference South Africa, March 2007

Summary

Successful, well organized M4P conference held by ComMark with high levels of interest and participation, especially from South African Government Departments. Emerging areas of common interest included the role of the state and “political economy” in M4P, Green issues such as sustainability and global climate change, innovative private sector approaches, opportunities at the “base of the pyramid”, overcoming informality, certification, global trade rules, the potential for regional approaches and the rise of consumer activism. Implications for whether and how M4P addresses these concerns as well as a clear need to make M4P easier to understand and apply in a practical context.

Detail

A “Making Markets Work for the Poor” Conference organized and hosted by ComMark was held at Stellenbosch, RSA between 12-14 March 2007. The three day event – aimed at learning lessons from implementation experience - was wide-ranging with around thirty separate presentations grouped around themes such as factor markets, the role of business, international trade and globalization, agricultural value chains, service markets, HIV-AIDS, and local area development. The event attracted lots of interest with over 160 participants from Government Departments, Donors and the Private Sector from across Southern and Eastern Africa. There was a particularly strong representation from RSA Government departments.

The introductory session aimed to give participants a common understanding of the M4P approach and how it fits within the broader setting of economic inclusion and pro-poor growth. M4P was described as diagnosis followed by action with the following key features:

- Systemic change in the functioning of markets to overcome “market failures” and improve access, opportunities and benefits for the poor
- Recognition that markets have various stakeholders and that change may be blocked by powerful vested interests
- Market-based incentives to leverage the “enterprise” contribution to development and ensure sustained impact

The introductory session was well received indicating that more work needs to be done in this area. The conference participants included many “new entrants” to the M4P approach. Stephen Hanival, the new CEO of ComMark highlighted a number of challenges for M4P including (i) the ability to achieve sustained impact at scale; (ii) the need to more rigorously identify and address market failures; (iii) the integration of political economy analyses and (iv) elaboration of how public-private arrangements will work. These observations were vindicated during the case study presentations – where it was clear that there remain differing levels of understanding and application of the M4P approach.

Copies of the various presentations are available on www.commark.org and www.mmw4p.org¹. However, there were a number of emerging themes of common interest including:

¹http://www.mmw4p.org/dyn/mmw4p/bdssearch.details?p_phase_id=574&p_phase_type_id=6

- the role of the state and “political economy” in M4P,
- Green issues such as sustainability and global climate change,
- innovative private sector approaches, especially in relation to opportunities at the “base of the pyramid”,
- the rise of consumer activism certification, and global trade rules,
- Poverty, inequality and overcoming informality,
- the potential for regional approaches.

The role of the state and “political economy” in M4P

The setting of South Africa and the context of the Accelerated Shared Growth Initiative of SA (ASGISA) ensured keen interest in discussion of the relative roles of the state and the market within M4P. It was clarified that M4P had a good fit in the post “Washington consensus” world. M4P was about building a common interest between the state and private sector rather than being a pure free markets approach. Consequently, M4P potentially had positive contributions to make in areas such as the governance of growth agenda, industrial policy formulation and the development of public-private arrangements for service delivery. In this context M4P is a pragmatic approach as governments and donors simply do not have the resources to deliver the investments and services required to meet the MDGs. Nevertheless there remained controversies surrounding the role of the state in e.g. protecting the poor from exploitation and some suspicion of market-oriented approaches. Another area where the role of the state can be re-evaluated is in the context of overcoming market failures of different types. Although M4P does not wish to replace market failure with state failure, there remain regulatory and macroeconomic areas where the state will have a central role e.g. public goods, monopolies, the abuse of market power, and externalities such as pollution and global warming. The importance of enabling macroeconomic conditions was graphically illustrated by a case study of value chain development from Zimbabwe where inflation of over 1500% meant that economic interventions were being undermined by an increasingly worthless currency driving many project stakeholders to a system of barter and other informal exchange.

Regulatory matters

The state will also play a critical role in determining the quality of the “market environment” through regulation and enforcement. Some of the presentations illustrated how the regulatory regime can be profoundly pro or anti-poor. Neva Makgetla’s presentation on labour market regulations made the case for protection of the working poor - particularly in the context of South Africa where each employed family member supports up to 8 unemployed relatives. Cornel’s view on electricity regulation was that although the regulations encouraged the electrification (ie new connections) of poor “townships”, sub-optimal price regulation (subsequently) meant that many of the poor were no longer able to afford to stay connected as electricity prices rose. In the finance markets, “the market” was heavily under-providing financial services to poor people. Regulations which protected consumers rights to recourse from unscrupulous micro-lenders were therefore a highly pro-poor response although this may not have been the overriding objective of the legislation. A common theme is that economic regulation is often not seen as having an impact on the poor because it is often implemented in highly legalistic ways. However, the experience of these processes in SA in particular is that they can have very significant positive and negative impacts if not carefully designed.

Green issues such as sustainability and global climate change

Although the introductory session of the conference quoted Nicholas Stern describing Global Climate Change as “the greatest market failure of all time”, there was an unexpected level of

interest in environmental sustainability issues. For example, the first few slides of the Woolworth's presentation featured greenhouse gases, global temperature trends and the Atlantic Conveyor ocean flows system! This provided some of the rationale to their interest in building an organic cotton supply chain. There are many risks and costs associated with converting from conventional to organic farming. Potentially, carbon sequestration on organic cotton farms could be involved to make the conversion more feasible and economically attractive. The Shell Foundation are putting in place a "farmers fund" which could be used for assisting small -scale farmers making the conversion to organic. Other examples from the conference included a USAID PESA partnership with the WWF on less water-intensive paddy cultivation and IUCN support for "natural products". However, one clear M4P issue in this area concerns the extent to which the poor receive the benefits that accrue from these rapidly growing new "eco-markets". There was widespread interest - but little experience - in linking the poor to revenues from rapidly growing carbon-offset markets via innovative aggregation and verification schemes in organic agriculture, renewable energy technologies and community forestry.

Innovative private sector approaches

In addition to Woolworth's interest in developing organic cotton, a standout feature of the conference was the power and effectiveness of innovative private sector approaches within M4P areas of interest. This seems to vindicate the idea of private sector players being effective development players when incentives are aligned. Additional examples included the extraordinary story of private sector companies (and celebrities!) behind the Apparel Lesotho Alliance to Fight AIDS (ALAFI) and private sector anti AIDS initiatives in Zambia; Wizzit mobile phone banking and Vodacom's provision of telecoms services to the poor via franchised community phone centres in South Africa. VodaCom's provision of franchised telecentres housed in converted shipping containers went way above the 22,000 required for their community phone center license and is now over 80,000. And other telecoms providers have also entered the market.

opportunities at the "base of the pyramid" (BOP)

A sub set of private sector innovation concerns markets at the base of the pyramid. The BOP is featured in the mainstream business literature and is also the focus of the IFC's "next four billion" report and the IADB's "opportunity for the majority". The conference had many good examples of interventions in BOP markets in areas as diverse as cell phones, beer, cell phone banking, radio and information services, insurance and other Microfinance products. Many M4P interventions (e.g value chain development) tend to look at the poor as producers getting better returns for their sales, but one of the insights of the BOP approach is to see the poor as a market segment of consumers or employees. For example, re-engineered products and services for the poor, making them accessible, available and affordable, may move the poor away from the BOP penalty (paying more for equivalent goods and services than the rich) and can considerably improve the lives of the poor by offering better effective choices and higher real incomes resulting from cheaper essential products. The Wizzit mobile phone banking service is aimed at BOP consumers, but the innovative sales model relies on previously unemployed BOP distributors to act as "wiz kids" selling the product. Vodacom used modified shipping containers to offer low cost franchising opportunities to entrepreneurs willing to serve the BOP.

Value Chain Development

As in other M4P events, value chain development (VCD) is a key area of interest. No fewer than seven presentations were made on VCD covering a variety of commodity specific case studies in seven countries. The varying levels of analytical content in these presentations highlighted a key M4P issue. What exactly is the M4P value-added? The "ideal" M4P

intervention in value chain development should specify which market failures, bottlenecks and constraints are being addressed as part of the attempt to achieve systemic change. They should also focus on the economic participation of poor men and women whether they are producers, employees or consumers. Pro-poor market outcomes were shown to come from very varied situations. For example, the Afro-Kai case study in Uganda featured a private sector monopsony that created a large market for smallholder sorghum producers. Kate Philip's insightful presentation on the critical role of intermediaries in the craft value chain generated much discussion around the pros and cons of the populist policy of "cutting out the middlemen". The ComMark wool case study showed how the incomes of the poor could be raised by providing the "missing links" of technical and marketing services – but that systemic change and the achievement of sustainability could be a long haul. Systemic change was well illustrated by the three Technoserve case studies from Kenya (Banana); Tanzania (coffee) and Mozambique (cashew). The conference also revealed another DFID supported M4P programme supporting business hubs for the dairy industry in Kenya – so they (BSMDP) need to be added to M4P mailing lists. Around twenty participants signed up to receive – and hopefully test - the draft value chain handbook developed by M4P in Vietnam. This was a good example of positive externalities and cross project knowledge sharing.

Poverty, inequality and overcoming informality,

Neva Makgetla of the Presidency explained how the need to engage on a large scale with the so-called "Second" – or informal - Economy is a central priority for South Africa. South Africa remains one of the world's most unequal economies, with high rates of unemployment relative to peer middle income countries. The persistence of a high degree of informality creates a "poverty trap", preventing markets working effectively as a transmission mechanism that links poor men and women to the benefits of growth. The Finmark presentation also referred to the adverse effects of economic exclusion. A number of references were made to the relevance of the livelihood strategies described in the framework of "hanging in, stepping up and stepping out". Many challenges are associated with moving between the stages of increasing productivity within existing livelihoods and then being able to diversify into new areas e.g. migrating and/or getting a formal sector job.

The rise of consumer activism, certification, and global trade rules

Linked to the concerns with sustainability and the environment are the underlying demand side drivers that big business are responding to. The Woolworth presentation referred to companies moving from "compliance to an ethos". The main conclusions seem to be that ethical or conscious consumption - currently a rapidly growing niche market - will increasingly drive the ways companies conduct business in the future. If this is the case there are likely to be huge implications in terms of how big companies source, what they expect of suppliers. There are a number of scenarios that could emerge from these new demands. One is an increasing amount of vertical integration – or expansion of hierarchies - within supply chains as retailers try to guarantee supplies that meet the standards required. Another is an increase in the use of certification systems to offset information gaps and mitigate the risks of unsuitable raw materials. However, each of these scenarios presents both opportunities and threats. Will poor producers be able to effectively access and benefit from these new opportunities? Or will various barriers to entry – such as hierarchies or the burden of certification – work to exclude the poor? Are there institutional and other innovations that M4P can offer can improve the involvement of the poor as producers and employees. What are the implications for poor consumers? At another level, global trade rules such as trade access agreements (AGOA) and phyto-sanitary restrictions are likely to have large industry-wide impacts in developing countries.

The potential for regional M4P approaches

A number of the presentations raised the issue of regional expansion (WIZZIT) or of regional approaches. For example CLOTRADE, the garment industry employers association talked of "Team Sub-Saharan Africa". ComMark are dealing with a proposal to support the development of a pan-African value chain for organic cotton. FinMark have already successfully deployed Finscope in other African countries. Clearly there are implications for the DFID approach to M4P and whether M4P is seen as a set of country-level initiatives with various positive externalities associated with better knowledge management or whether there is a case for a more explicit regional approach.

Summary session and next steps

The summary session included a very thought provoking overview, by Kate McKee of CGAP, of ten "mega-trends" which the development industry will ignore at its peril. Some of the more M4P related trends have been captured in the discussion above, but the full article with all 10 megatrends is (will be ?) available in the journal of Small Enterprise Development. The megatrends in brief are:

- #1 Demographics – the developing world is more populous, younger and more urban
- #2 Shocks – HIV-AIDS, conflict, disasters
- #3 Poverty and inequality more urgent
- #4 Changing role of the state; rise of the BRICS (Brazil, Russia, India, China, South Africa)
- #5 New Opportunities at the Bottom-of-the-Pyramid
- #6 A wireless world . . . and other transformational technologies
- #7 Greening of the global economy, partly driven by concerns about climate change
- #8 Global rules, standards and certification
- #9 Consumer power and global activism
- #10 Out with the old and in with the new – the rapidly changing world of development finance

Jim Tanburn facilitated a discussion on the case for an M4P Community of Practice. The following next steps were suggested for M4P:

M4P Development

- Further refining the substance of the M4P approach, including more emphasis on overcoming market failure, making M4P easier to understand and more compelling
- Sharper definition of core operational "M4P products" including Political Economy tools and various market analysis tools that have been developed in M4P programmes e.g the (Market) Access Frontier, Finscope, and the Value Chain Development for the Poor Toolkit.
- being clearer about the different roles of the poor as producers, consumers and employees.
- Deeper integration of political economy approaches focused on "governance of growth"
- Application of greater rigour in the application of M4P approaches, including a recognition of the need for sector specific expertise in some issues
- Responding to the new opportunities presented by rapidly growing niche markets such as natural products and organics, while ensuring that high barriers to entry do not exclude poor producers and the low income consumer.

Gathering and using Evidence

- Better knowledge management and learning from positive experiences on the ground. Case studies can be collected from on-going M4P projects especially where evidence of impact is available.
- Better understanding of M4P impact and potential contributions to growth strategies

External interaction

- Breaking out of the donor orbit by gaining buy in and participation from a wider variety of market stakeholders including Governments, civil society, and the private sector
- Building advocacy capacity and alliances with credible local “change agents”
- Consideration of regional approaches to M4P e.g. pan African clothing industry
- The nurturing of Passion and Enthusiasm for this important topic