

Crossfire: How easy is market development in practice?

ROB HITCHINS and ANUJ JAIN

In our regular debate between two experts, Crossfire invites Rob Hitchins and Anuj Jain to argue the case surrounding 'How easy is market development in practice?'

Hello Rob,
I realized too late that this question is worth several PhDs. To start, one must define 'market'.

There are innumerable examples of *markets* from decades of experience that target poor producers, service providers and communities. Further, there are more specific sub-topics relating to *markets* in post-disaster, post-conflict, for women, in emerging economies, for HIV affected, and so on. Some practitioners take a sub-sector viewpoint, others take a microenterprise development, MMW4P, systems, private sector, BoP, and/or value chain frame – each with slightly different foci and outcomes in mind. Still others include the labour market as part of market development.

In most cases, the basic idea includes some form of improvement in market conditions where the

economically marginalized, often in 'informal' economies, can engage in the market more gainfully and democratically. Initiatives come in all sizes and shapes: for example, developing agriculture and farm value chains (maize, rice, coffee, dairy, oil seeds); modernizing traditional activities like honey, silk production, fisheries; upgrading cash crop chains such as cashew, spices or coffee or targeting minor forest produce and herbs; investing in handicraft production and marketing; developing labour for emerging service sectors. These can be directed to improve local market systems, to connect the low end of economies with the higher end, or to access international markets.

These experiences show us that markets are complex systems – requiring engagement with multiple actors and levels, and gains are hard to attribute; yet, market development is not only possible but fundamental for creating wealth for the disadvantaged. However, the world continues to experience gross market imperfections, where millions of households

Markets are complex systems and gains are hard to attribute

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across the globe, including in developed countries, find it difficult or impossible to engage meaningfully in that broad sense of the 'market'. Two trends emerge: the poor living in remote rural areas and involved in an agrarian economy; or those on the bottom economic rung below the faster growing sectors of the economy (service and higher-end manufacturing sectors) or serving as domestic labour, construction workers, microentrepreneurs, etc.

Are market development initiatives, especially by external non-economic actors, capable of tipping the basic equation for poor communities? Can static market development projects, aimed at dynamic, negotiated market-spaces affect change? Should policy level work be necessarily part of such initiatives? Should agriculture subsidies and resource rights be fundamental to the market development agenda; or should market development be value-neutral?

I am undecided whether market development strategies can easily create benefits for specific economically marginalized communities or whether it is too complex and daunting at a broader system level – but it is a subject fundamentally critical for millions of disadvantaged people in diverse contexts.

I shall eagerly wait to hear your insights.

*Sincerely,
Anuj*

Dear Anuj,

Creating benefits for specific communities is *not* easy. Development *is* complex. Our task *is* daunting. To pretend otherwise is an illusion.

'Easy' tends to mean 'convenient' – for us. Directly delivering predictable outputs to meet the requirements of aid bureaucracies, be that mosquito nets, seeds, equipment or training. This might create a 'blip' of benefit, but how long will that last? Where will the target group (and others) get nets or seeds in future? What happens when equipment breaks or knowledge becomes outdated? There aren't easy answers to these questions but the market development approach tries to confront them transparently.

We work in complex environments. The livelihoods of poor people are intertwined with the systems around them – social networks, landlords, traders, officials – some nearby, some distant. Market development seeks to make sense of this complexity, so that interventions are more focused and effective.

We should be daunted by the development challenge. We attempt to affect the livelihoods of vulnerable people: a task which should be discharged with humility and care. Market development is explicit about the limited role that aid can play, the need to work with

Can market development initiatives tip the basic equation for poor communities?

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local players and to intervene judiciously.

Market development is as difficult, complex and daunting as any other field of development. The departure is in how it makes the challenges transparent and deals with them.

In Nigeria, limited mechanization depresses marginalized farmers' returns. The DFID's PrOpCom programme used the approach to understand why there was an acute shortage of functional tractors and implements, despite huge public subsidy. Disadvantaged farmers don't own tractors, they hire service providers, who lack access to decent equipment, maintenance and skills. PrOpCom focused on improving the commercial supply of affordable tractors and tractor services.

In a similar way, the multi-funder NATNETS programme in Tanzania sought to understand how the supply of affordable insecticide-treated mosquito nets (ITN) could be increased. Massive donor-funded hand-outs of imported ITNs had seen unit costs and distribution remain prohibitively expensive, and ITN usage remain low. NATNETS focused on establishing domestic manufacture of ITNs and a more efficient distribution network to generate scale economies and cost reductions, enabling more cost-effective targeting of government subsidies to the poorest.

Both recognized that, for benefits to reach the disadvantaged sustainably and at scale, they needed to focus on securing the means by which benefits were delivered, be they public (yes, policy work!), private, formal, informal, economic or social. PrOpCom worked with tractor distributors and a tractor service providers' association to build distribution and services. It worked with banks to introduce lease finance for agricultural equipment. NATNETS supported local businesses to establish commercial ITN production and distribution. It worked with chemical suppliers and regulators. It worked with the health ministry on a voucher scheme and awareness-raising for poor consumers, and on sector coordination.

Both worked some distance away from the target group in order to benefit them, with players who had long-term incentives and capacity to keep things working. Both achieved significant results, which continued to flow after programme support ended.

Sure, the approach faces challenges, the greatest stemming from the development machine itself. Flexibility and creativity does not fit easily within the rigidities and politics of aid bureaucracies. But I've been encouraged by trends towards more flexible design-and-implement arrangements and smarter results

The programmes achieved significant results that continued to flow after programme support ended

Flexibility and creativity does not fit easily within the rigidities of aid bureaucracies

measurement. I've been inspired by what creative, motivated people have achieved in the most unpromising of set ups – by thinking and acting differently.

So, you're right, Anuj. It's difficult, complex and daunting. But it is doable. The lives of the poor are difficult, complex and daunting too. Why should our task be any different? Of course, we can jump into a Land Cruiser or onto a plane if things get tough. The poor rarely have that option.

*Cheers,
Rob (no PhD)*

Hello Rob

Well said Rob! Let me try and situate this in some other examples.

One that comes to mind immediately is Operations Flood in India; developing a market system in the dairy sector, visioning a national grid of milk for a population that has an insatiable hunger for milk products and where cows are sacred. From a nation that relied heavily on imports, the market development vision made the sector self-sufficient over 20–30 years, built on the back of small farmers and producers. The story of success is too long, and not without some controversy, but it is perhaps one of the rare examples of how policy makers took a systemic approach to build the market system, keeping in mind the Indian context and including the

reality of small farmer poverty. The right policy framework was critical for long-term and sustainable market development for poor households.

To contrast this example, a similar policy was formulated for the garments export sector in India; which resulted in different outcomes; while small production houses partly flourished providing basic employment to poor semi-skilled people, the sector lagged behind because large-scale development and mass production could not be achieved due to lack of investment, making India less competitive in international markets. So, a similar policy paradigm, but different market realities and strategies gave different results. To the contrary, the garment export sector in Bangladesh became one of the largest employment providers and exchange earners, although quality of job and life for workers remains a point of contention. Are we learning enough from such examples for informing programme policies, designs, and operational strategies?

A number of initiatives took place in the 1990s in countries like Zimbabwe, Kenya, Zambia, Mozambique to establish agro-dealer chains in remote rural areas to support smallholder agriculture. These were implemented based on 'market' principles, encouraging the private sector to supply to local retailers on credit. Often, a

A similar policy resulted in the garment sector lagging behind because mass production was not achieved

From a nation that relied heavily on imports, the market development vision made the sector self-sufficient in milk products over 20–30 years

guarantee fund was established to hedge against default risks by retailers. In many places, retail chains have developed over the years, serving small, remote farmers better – a relative success in the marketplace. Yet, the gains thus made by small farmers have remained largely marginal, arguably, because of the lack of more coordinated market development strategies at policy and systemic levels. The reason why the success in smallholder agriculture has been slow to realize remains a subject of great interest.

Some cite the example of small-farm tea production and marketing through ‘collective’ co-operative structures in Kenya as a relatively successful experience; where a combination of policy and practices has allowed small farmers to negotiate their market share successfully. With successes such as this, the choice of sectors and programme strategies to achieve impact for significant numbers of poor communities remains a subject of healthy debate for us all.

Smallholder honey production in East Africa has been another market development initiative. Yet, we have seen how when demand picks up in the market, the supply chain often falters, due to lack of transportation, infrastructure, standardization of production process, quality consistency, lack of volume and consolidation – or a combination of these.

Sustainable market development for disadvantaged communities, producers, farmers, women needs a combination of well-coordinated multi-level efforts by multiple players, in multiple sectors, something that is hard to put into practice for a variety of reasons; thus making gains rather marginal.

How civil society engages in market development, interacts and negotiates with the private sector, facilitates or intervenes, has the ability and means to take a systemic approach, sees producers organizations as critical to negotiating market space or not, and more – these are all questions that are surfacing in our work. We, as a sector, are certainly more knowledgeable and have more effective tools to understand these complexities than ever before. Legal space has emerged within which new entities such as social enterprises and not-for-profit branches of for-profit organizations are the subject of innovation and experimentation.

It remains a complex, arduous subject, very worthy of perusal nevertheless!

Sincerely
Anuj

Dear Anuj,
One of the issues with which you are grappling is how to define the parameters of the ‘system’ in question. This partly depends on your agency’s mandate and capacity and,

In Kenya a combination of policy and practices has allowed small tea farmers to negotiate their market share successfully

By working with industry and government, NATNETS has helped increase local ITN supply from 400,000 to ten million nets a year

When we work in the systems around the poor there is a greater diversity of players with whom to work

of course, what is feasible. But, market development is not about fixing everything on a national scale. It's about focusing on priority constraints in markets which are important for significant numbers of poor people, in such a way that changes stimulated are resilient – i.e. able to function and adapt without further support.

I see complexity as an opportunity, not a problem; it opens new doors and offers new solutions. A common refrain is 'we need to intervene directly because there's no capacity or resources... people are resistant to change'. When we work in the systems around the poor – rather than directly in their communities – there is a greater diversity of players with whom to work, with more capacity and resources, and stronger incentives to provide sustainable solutions at scale. The programmes cited here have worked with an array of players who have taken ownership, invested and innovated in ways beyond the means of the programmes themselves, or of more conventional development approaches.

In response to PrOpCom's facilitation, the tractor distributor visited India to investigate distribution and service arrangements. It mobilized local service providers and invested in new implements, maintenance facilities and services. As a result of this initial success, new banks

and distributors are moving into a neglected market. By working with industry and government, NATNETS has helped increase local ITN supply from 400,000 to ten million nets a year, with unit costs falling from \$10 to \$3, along with reduced costs of distribution. Building the market for the mainstream – rather than resorting to unsustainable mass give-aways of nets – has substantially increased coverage of the poor, reaching 80 per cent of the target group, through better placed government subsidy and year-round availability of nets from a commercial network of 4,000 retailers.

There's no doubt this kind of approach places different demands on development practitioners. It relies on people, rather than the size of our chequebooks. It requires us to be analytical, to grapple with complexity, to understand incentives and to measure rigorously, to be creative and entrepreneurial, and engage with a myriad of players and circumstances. As a colleague once remarked: 'to be comfortable in the boardroom and in the shade of the mango tree'.

Effective development is not just about managing funds efficiently and delivering outputs predictably. Most of us got into development to do more than that – to make a difference to the lives of the disadvantaged. Market development helps us think

and act differently in pursuit of that aim. I don't deny it's risky; failures are inevitable and we won't change everything. It can be hard and frustrating. But if addressing the underlying causes of poverty were straightforward, why would development assistance be necessary at all?

I leave you with a quote from William Easterly (2006):

There is only one major area of the world in which central planning is still seen as a way to achieve prosperity – countries that receive foreign aid... This is bad news for the world's poor, as historically poverty

has never been ended by central planners. It is only ended by 'searchers', both economic and political, who explore solutions by trial and error, have a way to get feedback on the ones that work, and then expand the ones that work, all of this in an unplanned, spontaneous way.

All the best,
Rob

Reference

Easterly, William (2006) 'Planners vs. searchers in foreign aid' *Asian Development Review* Vol. 23, No. 1.