ACCELERATING SHARED GROWTH

Making markets work for the poor in South Africa

Report commissioned by the ComMark Trust

Written by the Centre for Development and Enterprise

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Jointly published in March 2006 by:

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ISSN 0-9584697-6-8

About this publication

The ComMark Trust was established in 2003 with funding from the British government's Department for International Development (DFID). It is managed by ECI*Africa*, a South African economic development agency.

ComMark stands for Making Commodity and Service Markets Work for the Poor in Southern Africa. The aim of the Trust is to reduce poverty in South African Customs Union countries through working with government and other stakeholders to improve the legal, regulatory, institutional and business service frameworks in high-growth, pro-poor commodity sectors.

This research project was initiated by ComMark to introduce a wider audience to the development approach known as 'making markets work for the poor', or MMW4P. This publication examines the principles of the MMW4P concept, and illustrates them through a range of local and international case studies that provide practical examples.

ComMark contracted the Centre for Development and Enterprise (CDE), based in Johannesburg, South Africa, to conduct the research and write the report. CDE, an independent policy research and advocacy organisation, is one of South Africa's leading development think-tanks, focusing on key national development issues and their relationships with economic growth and democratic consolidation. Through examining South African realities, and looking at international experience, CDE formulates practical policy proposals outlining ways in which South Africa can tackle major social and economic challenges. CDE has a special focus on the role of business and markets in development.

For more information about ComMark, see www.commark.org. For more information about CDE, see www.cde.org.za.

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Executive summary

Poverty remains South Africa's most pressing challenge. To tackle it, we need to make markets part of our development strategy. Rather than protecting the poor from markets, we should make markets work for them. This approach of 'making markets work for the poor' – which has become known by its acronym, MMW4P – is being adopted by leading international development agencies. We believe it could help to move millions of South Africans out of poverty.

This report explores the market-driven approach to development. It builds on numerous specially commissioned case studies illustrating how markets are working for the poor in different economic sectors in South Africa and elsewhere. And we identify ways in which markets could be made to work better for poorer people.

MMW4P is not a radical new paradigm, but rather a new approach that builds on lessons learnt in practice in the development field. It is not anti-state, nor does it advocate leaving the poor to their own devices. Instead, it aims to promote interventions that will help the poor to help themselves, make existing markets work more inclusively of poor producers and consumers, and make the benefits of well-functioning markets more widely accessible. MMW4P therefore requires governments, NGOs, companies, and educational organisations to co-operate on:

- strengthening pro-market institutions;
- encouraging established businesses to find new markets, customers, and salespeople in poorer communities;
- transforming malfunctioning markets and addressing the causes of market failure;
- strengthening effective markets; and
- enhancing the capacity of the poor to participate in markets.

When this is done, it becomes possible to build on a country's existing strengths and avoid the pitfalls of many previous development approaches. The conventional development project, for example, has struggled to sustain the involvement of the poor beyond the period of the intervention. It has frequently been founded on a variety of direct and indirect subsidies, and imposed inappropriate plans formulated by 'experts' with little local knowledge. These have rarely managed to address the long-term conditions that trap people in poverty; have made it harder for local producers to break into commercial markets and supply competitive goods and services (thereby sometimes increasing poverty); and diverted resources and energies away from the structural and systemic issues that underlie poverty.

State-led interventions across the globe have sometimes had a broader impact, but they too have, more often than not, been wasteful, destructive of local market-linked initiatives, and far too ambitious. MMW4P allows development practitioners to avoid these pitfalls because it requires that outside intervention works with, rather than on behalf of, the poor, and is rooted in the realities of the prevailing market – its opportunities and constraints. The approach has the advantage of starting off where poor people already are, and then looking for incentives, institutions, and mechanisms that will help them to start participating in markets – by strengthening the markets themselves, addressing failures and constraints, and lowering regulatory and other barriers that prevent the poor from entering those markets. It is therefore highly flexible, non-prescriptive, and draws on existing social capacities and energies.

How MMW4P works, and its potential to reduce poverty, emerge clearly from our case studies which, drawing on very different contexts and emphasising different aspects of the approach, provide concrete examples of the relative advantages provided by interventions that work with markets.

Case studies

Drawing on a large sample of case studies, we chose seven of the most compelling examples to illustrate the key benefits of markets for dealing with poverty. Most of these projects are in South Africa, but we have also drawn on two from elsewhere in Africa. Our findings are summarised below.

Tourism

A donor-designed and funded tourism intervention on South Africa's Wild Coast failed to tackle the context of dysfunctional property markets, ignored the demand trends in the area, and drew in very little useful expertise. It subsequently produced inappropriate, overambitious plans that had only a marginal impact on poverty in the region, and resulted in large amounts of aid money being wasted.

By contrast, two other South African projects, one in North West province and the other in Mpumalanga province, aimed at working with and strengthening markets, have produced significant benefits for the poor communities involved. These interventions were based on four principles that are central to the MMW4P approach. They were rooted in the reality of the prevailing regulatory environment; involved private sector expertise; operated in a market context in which tourists were attracted to the region and private sector suppliers were motivated by profit and the fear of going out of business; and constructed workable institutions through which tourism benefits were distributed to the poor. Consequently, popular tourist lodges have been established and expanded, and surrounding communities are receiving concrete benefits. In Madikwe in North West, the project yielded R1,3 million for residents during the construction phase. At maturity, it is estimated that the venture will deliver more than R2 million a year in sustainable income to rural households in the previously acutely impoverished Lekgophung village.

This case study shows that there is a need to strengthen the extent to which private sector expertise, innovation and risk management capacity are drawn into tourism ventures. The products generated need to follow demand patterns, and incentives must exist for suppliers to participate effectively. There is an important, albeit difficult to fulfil, requirement to strengthen the institutional context in areas where poor people are concentrated. In those areas, property rights are frequently non-existent, and community rights largely meaningless. Without such rights it becomes extremely difficult to capture and distribute the gains from such ventures to surrounding communities.

Radio

In Uganda a similar contrast emerges between donor-led attempts to disseminate information to the poor via radio programmes, and more recent initiatives that work within a competitive market, let private radio stations decide about programme content, and give the poor, as consumers, a say in which programmes they find useful and which they do not.

Originally, aid organisations would purchase airtime and produce programmes that they decided would be helpful to Uganda's poor. These programmes were invariably dull, had a limited listener base, and would go off air as soon as the funding ran out. The MMW4P approach seeks to overcome these limitations by emulating media markets in industrialised countries, where excellence of content leads to expansion in listener numbers, leading in turn to increased advertising revenues. Development agencies in Uganda now provide encouragement and training to commercial stations seeking to differentiate themselves from their competitors, and access listeners in Uganda's rural areas. Launching radio programmes has been relatively cheap in Uganda and, until recently, there was little regulation by government. Because these stations were motivated by profit, and disciplined by competition, they made every effort to find out what the poor wanted to listen to, and the poor exercised their influence by tuning in to those programmes that met their needs and ignoring those that missed the mark. Consequently, successful programmers attracted advertising revenue and became sustainable businesses while also providing useful information to the poor in remote areas. Thus, by working with markets, development agencies in Uganda have created a sustainable momentum that draws on the energies of local entrepreneurs and makes the poor active participants in the process.

Telephones

Government -initiated attempts in South Africa to expand poor people's access to telephones have yielded disappointing results. The monopolistic fixed-line provider, Telkom, has performed disappointingly in providing the poor with fixed-line access, whereas private cellphone companies have exceeded expectations. As a monopoly provider, Telkom had no explicit incentive to promote the cause of universal access, and has focused more on immediate profits. Telkom's rural service commitment was driven by externally imposed roll-out targets, which the company pursued without regard for the sustainability of the investments. As a result, many fixed lines had to be rolled back and many of the telecentres, established to provide the poor with access to phones, collapsed.

Private cellphone companies in competition with each other have had self-interested reasons for building relationships with potential customers in disadvantaged areas. The outcome is instructive and encouraging. While the number of people with fixed line access has declined since 2000, the number of cellphone subscribers has expanded rapidly from just under one million subscribers in 1996 to 25 million in 2005. Figures that break down the telephone access numbers into income categories show that these trends have been just as dramatic among the poor as they have been for the population as a whole. It is also significant that, by 2000, only 65 of Telkom's telecentres had been established in poor and remote areas, but fewer than half of the centres had a phone or a computer, and 32 percent were not operating at all. By 2004 the private cellphone company Vodacom had established 24 767 community service telephones in previously underserved areas. When asked, the managers of Vodacom phone shops said they were satisfied with the support they received from the cellphone company, while Telkom reportedly 'did not fulfil many of its obligations' to the telecentres.

Competitive private companies in the telephone sector have produced positive results for the poor, and more competition will improve the situation even further. We therefore support moves by regulators to create a more competitive environment and more competitive behaviour among telephone providers.

Our case studies show that markets are not institutions that should be feared, or that inevitably work against the interests of the poor. The opposite is true.

Working with markets provides policy-makers with opportunities to improve the lives of the poor in the long run, use the resources and capacities of state and donor agencies effectively, draw in the capacity and expertise of the private sector, and create a context in which they contribute to the development process. The MMW4P approach encourages policy-makers to see these advantages, keep an open mind about markets, and act strategically. When confronted by a challenge, development agents (public and private) should ask themselves how effectively and inclusively markets are working, and what improvements might be effected to better serve the interests of poor participants in those markets.

Farmers

Development projects aimed at assisting disadvantaged farmers have tended to disregard markets and provide subsidies, training and infrastructure regardless of the context, cost, and participation levels of the poor. However, projects are beginning to emerge that work successfully with markets and produce much better results. Interventions based on MMW4P logic have drawn poor farmers into markets and tackled the institutional barriers that prevent them from developing their enterprises. Without creating dependency, these interventions have enhanced the ability of farmers to get better prices for their produce, thus providing them with stronger incentives to improve their farming practices. As a result of these interventions, the income of farmers in one such programme is expected to increase from R390 000 to R1,3 million in a short period – and this improvement is likely to be sustained and grow beyond the period of the intervention.

Education

How should policy-makers interact with markets when seeking to provide education to the poor? Extensive international evidence and some South African case studies show that private education can work for the poor. The tendency to regulate the private sector and see the public sector as the only way to educate the poor is misplaced. Education markets that work for the poor do exist, and provide a vital complementary service to public education.

For example, Crystal Springs Combined School in Orange Farm, a low-income settlement south of Soweto, Johannesburg, charges very low fees, yet maintains a staff of dedicated, qualified teachers and has achieved significant educational successes. The source of the success is the determination of the principal to promote hard work from his staff, the desire that most learners have to stay in the school, and the close co-operation between school and parents. The school strives to improve and to be successful and, by so doing, hopes to attract fee-paying pupils and remain open. We conclude from this and other, similar, cases that, rather than restricting competition between public and private providers, government should encourage it as well as seek ways to introduce the principles of competition into the public sector, and achieve the benefits of such competition from improved performance.

We need far better information on what private education for the poor looks like in South Africa, what opportunities exist to expand private initiatives, and how public and private sectors can usefully and productively interact and compete. Our strongest recommendation is therefore for independent research at a sufficient scale to assess the national situation.

Textiles

A strong tendency among pro-poor organisations is to seek to protect the poor against global competition. This is not necessarily a good idea, as it is rarely sustainable in practice. Moreover, it is possible to actually make global markets work for the poor. Evidence from Lesotho reveals that the right kind of co-operation between the government and private companies allowed this very poor country to benefit from opportunities located in international markets. In the context created by the American African Growth and Opportunity Act (AGOA), private sector industrialists, originating primarily from South East Asia, but also from South Africa, expanded Lesotho's apparel exports to the United States from just over $50 million in 1996 to $456 million in 2004. Crucial in facilitating this success was the Lesotho government's creation of an enabling business environment in a politically stable milieu. A growth alliance has emerged, allowing Lesotho to develop a strategy for the industry's survival and continued growth following the termination in 2005 of some of the special concessions previously conferred on the country.

Banking

A positive way in which government and the private sector can work together to make markets work for the poor emerges from the recent Mzansi initiative. Poor people's access to financial markets is an important element of facilitating their participation in markets more generally. Through the Mzansi initiative that emerged out of the South African Financial Charter process, the big banks have now begun to target basic services more effectively at lower ends of the market. What is instructive is that, rather than seeking to help the poor directly, the government has successfully induced the well-established and sophisticated private banking sector to help the poor in a self-interested way. By pooling infrastructure, the eight participating banks have made 12 000 Automatic Teller Machines available countrywide to Mzansi account holders. In its initial stages, Mzansi has been a resounding success that has exceeded expectations. This proves that if ways can be found to encourage large corporations into gearing themselves to serve the poor, real benefits for both the businesses and the poor can accrue.

Competition

The Mzansi case study points to the importance of competition. Competition is the essential fuel that makes markets work for the poor. Without it, the interests of large corporations will often come first and their clients' interests, second. Without it, the private sector will frequently engage in the kind of top-down initiatives we have seen so often from governments and development agencies. This does not imply, however, that we must replace large, dominant firms with small, perfectly competitive ones. The size and the capacity of South Africa's major banks was a crucial ingredient behind the success of the Mzansi initiative. Nevertheless, it is clear that the poor will benefit if ways can be found to make the South African banking sector (and other sectors) more competitive.

One of the central features of the MMW4P approach is the recognition that markets do not work in a vacuum, and that they do not always work as they should or could. This sometimes makes it necessary to intervene to strengthen markets and link poor people to cheaper goods and services and better economic opportunities. However, these interventions need to be undertaken carefully, and must use the logic of the market wherever possible.

Implications

It is essential for the poor that stakeholders persuaded by our arguments take practical steps to initiate the MMW4P development approach. This section provides some suggestions about how we can get markets to work more effectively for the poor in South Africa.

The role of the state

Government intervention is required to make markets work for the poor. Most importantly, government must provide security, uphold the rule of law, and enforce contracts. Those tasked with the job of enhancing markets need to be flexible and smart. They must have an understanding of what is happening globally and regionally, and work with the private sector to take advantage of opportunities to grow markets rather than restrict them, or only favour certain companies. In co-operation with other actors, they need to ensure that society has the right institutions and infrastructure for effective market-based development. They need to extend property rights to as many people as possible, and create a clear and simple regulatory framework which does not impose barriers to enterprise creation, employment and growth. These goals are difficult to achieve, but if undertaken carefully and co-operatively, such interventions will create a better life for the poor and a more effective state.

In order to disseminate the ideas of MMW4P to all levels of government, cabinet ministers and MECs – from whom officials derive their sense of orientation – could explore and promote market-based solutions well below the broad macro-economic level where leadership has hitherto been bold and positive. In doing so, national leaders could encourage local political and business leaders to develop ways of enabling poor people to participate more effectively in the markets that surround them.

Business

The MMW4P approach will also create many opportunities for South African entrepreneurs and businesses. There are significant prospects for them to extend their activities into the many areas in our country and the subcontinent where the poor are concentrated. But this is not a simple exercise, as it may require changing business practices, research and development activities, and marketing to suit new customers and contexts. Many businesses are already successfully incorporating the ideas of MMW4P into their own operations. Through the successes that such an approach generates they will contribute to strengthening the general support for market-based approaches to poverty reduction in the country.

NGOs

South African non-governmental organisations (NGOs) might also draw inspiration from the set of ideas and cases in this report. One starting point consistent with MMW4P would be to consider how markets are (or are not) working in specific contexts, and how their operation may be improved in the interests of poor participants. In many cases this may require a reorientation towards influencing market structures and constraints rather than seeking to directly assist the poor, cocooning them from market realities or imposing unsustainable solutions devised by outsiders.

Educational institutions

Educational institutions could also be inspired by the ideas that make up the MMW4P approach. In particular, business schools might teach these ideas and examine the experiences of those involved in implementing MMW4P programmes. Emerging entrepreneurs and managers ready to engage with these ideas might well find lucrative business opportunities in poorer communities. Tertiary institutions more generally may also use this approach to highlight the role and relevance of markets in reducing poverty.

Concluding remarks

In conclusion, working with markets is not a miracle solution. It is, in fact, a fairly gradual approach. But, if undertaken properly, it will be sustained, cumulative, and therefore have a broader and more lasting impact than many conventional developmental efforts. The immediate effects of building up markets are often harder to see than the impact of conventional interventions, but the market-based approach will ultimately make a greater difference to the long-term economic prospects of larger numbers of poor people.

MAIN REPORT

Introduction

A great deal has been achieved in South Africa over the 11 years since its transition to democracy, and its accelerated economic growth in more recent years is especially promising. However, despite making progress on many fronts, the country is still struggling to improve the life chances of millions of very poor South Africans. Making markets work for the poor (MMW4P) has the potential to change this, and this report has been prepared in the spirit of the recently announced Accelerated and Shared Growth Initiative for South Africa (ASGISA).

Development interventions frequently consist of direct transfers to the poor, or of projects conceived and financed by external development agents. We suggest that an alternative approach with greater potential to succeed is one that strengthens the reach of markets and facilitates the participation of poor people in the already growing market economy. Markets are already a central reality in the lives of the poor. A market exists whenever potential sellers are brought into contact with potential buyers, and a means of exchange is available. Exchange agreements are then created through a bargaining process. This process allows buyers and sellers to agree on a price for the goods, services, or factors being exchanged. The aim of MMW4P is to increase the participation of poor people in such exchanges and improve the benefits they receive from them. This strategy is increasingly being adopted by leading development agencies throughout the world, and we believe it could help move millions of South Africans out of poverty. This report will demonstrate how the MMW4P approach can bring enormous gains to poorer South Africans.

Despite making progress on many fronts, the country is still struggling to improve the life chances of millions of very poor citizens

Rather than assuming – as some people do – that markets often create poverty, we show that, in many cases, markets in South Africa are already working for the poor. There are also instances where markets could be made to work better for the poor, and we outline how this could be achieved. We aim to demonstrate by example. Thus we draw on case studies that reveal the positive consequences that markets are having, and point to innovative ways in which the poor could be further uplifted.

'The poor' is shorthand for describing millions of people who live under widely different circumstances. In this report, we broadly define 'the poor' as those people who live in rural areas, in towns, and in the old 'townships' and informal settlements on the outskirts of our large cities. We recognise that these people are not all poor in the same way, but we want to demonstrate that many of them are engaged in market exchanges and various kinds of interactions with the private sector. Moreover, if these processes could be encouraged and strengthened, many of those living under very difficult circumstances with very few resources would be substantially better off.

Markets can provide benefits to the poor, and it makes little sense to ignore those benefits. We are not suggesting that the market can solve every problem, and we are certainly not claiming that all markets invariably serve the interests of the poor. But we do want policy-makers to notice the strengths of market-based solutions. For one, a truly sustainable project has to produce goods or services as cheaply and as effectively as those produced by competing providers. Markets can also be flexible, and allow people to choose their own rather than an expert's way of getting out of poverty.

Interventions by governments or by international aid agencies can contribute positively to transforming the circumstances that create poverty. But these interventions are usually conceived at the level of the state or international agencies and then imposed, to varying degrees, on poor people and communities. The evidence indicates that it is far preferable to move away from externally conceived and implemented projects, as they tend to obscure what the poor really need, and make it difficult to involve them. When policy-makers fail to overcome these difficulties, they not only waste resources; they often make a situation worse.

The MMW4P approach has the advantage of starting where people already are, and then looking for incentives, institutions, and mechanisms that will facilitate the ability of poor people to incrementally start participating in markets, both by strengthening the markets themselves and by helping the poor to enter those markets. It is therefore highly flexible and non-prescriptive, and draws on existing capacities and energies within society. Therefore, the general development approach we are advocating is one that uses the capabilities of the state and the resources of donors in such a way that the market is not prevented from helping the poor, and aims, wherever possible, to make markets work better.

It is far preferable to move away from externally conceived and implemented projects, as they tend to obscure what the poor really need, and make it difficult to involve them

This report summarises a considerable body of work. Besides drawing on a growing international literature on MMW4P and associated ideas, eleven background research papers were commissioned from local and international experts (see Appendix A: **Background reseach papers**, p 79).

In part 1, we start by outlining the essence of the MMW4P approach. We discuss how the role of markets is understood within that approach, and what kinds of interventions are seen as optimal. We then point to the problems experienced by development approaches that work outside of or against markets, before providing five practical reasons why it is a good idea to work with markets. In part 2, we show how markets are working for the poor in crucial sectors of the economy both in South Africa and elsewhere. We also point to ways in which markets could be made to work better for the poor. In part 3 we summarise our findings, and emphasise what can be done to make the MMW4P approach a central feasture of the development strategies employed in South Africa.

Part 1

Markets and the poor

THE idea that markets can be used to reduce poverty is certainly not new, but it is still controversial. Although many of the leading development agencies have adopted a version of the MMW4P approach, there is still a strong tendency among many engaged in helping the poor to bypass or even undermine the market. Some observers believe that markets reward only the rich, and that the poor cannot afford to participate in markets as either producers or consumers. From this perspective, the poor should be protected from competition and high prices. But such a perception misses two realities. First, the poor are already engaged extensively in markets as producers, consumers, and suppliers of labour. Interventions that restrict these activities can make the poor substantially worse off. Second, markets usually do not work as effectively as they should in the areas where the poor are active. The poor often pay more for services and essential goods than the rich because there is little competition between suppliers in the areas where the poor reside, and because suppliers are often weak and inefficient. There is therefore significant scope to make markets work better, and thereby substantially help the poor to help themselves.

There is still a strong tendency among many engaged in helping the poor to bypass or even undermine the market

In this chapter we outline the essential elements of the MMW4P approach. We then point to some of the difficulties commonly experienced in the course of approaches imposed from outside by the state and development agencies, before providing five reasons why using an approach that works with markets is an effective way to counter these problems.

The core elements of the MMW4P approach

The MMW4P approach is still evolving. However, it is based on a set of core principles, and promotes a range of interventions that tend to be common to its practitioners.

Firstly, the MMW4P approach recognises that:

- Poor people are more than mere victims of circumstances. They are also creative individuals who strive to lift themselves out of poverty in a plethora of ways. In South Africa's informal sector, for example, our research revealed many entrepreneurs both keeping themselves afloat and, when the opportunity arose, surging ahead through their own efforts.[1]
- A major barrier preventing people from breaking out of poverty themselves is not their deprivation, or poverty itself, but the problematic environment in which they are forced to pursue their livelihoods. Examples of this again abound in the informal sector and in urban/peri-urban and rural areas where the lack of legality and property rights makes it difficult for the poor to build up and bank their resources.
- An effective approach to help the poor in a sustainable way is to tackle those

barriers that stand in the way of their ability to help themselves. One can, for example, strengthen property rights, make financial markets work, or provide infrastructure that will link poor producers to bigger markets or to cheaper goods.

Ironically, many of the interventions that seek to directly help or 'aid' the poor actually make it more difficult for the poor to help themselves. One example of this is when large aid organisations, backed up by international aid finance, decide to provide a good or service to a poor region and inadvertently push out of business those local suppliers who have been or may have intended to supply those goods and services themselves. A good example of this in South Africa is the phone shop entrepreneurs whose businesses are being threatened by community cellphone centres set up by large cellphone companies seeking to meet the government's 'universal service requirements'.

- Development agents often overestimate what top-down interventions can achieve. Providing the poor with free taps, toilets, roads or farming inputs has, time and again, created unusable products, generated at a huge cost. Once these ventures collapse, the private sector frequently steps in, often in the form of small-scale, relatively poor suppliers who bring essential services to the poor at a relatively low cost.
- Two routes out of poverty are access to decent wage-paying jobs, or to entrepreneurial opportunities. Both of these have to involve markets and the private sector if they are to be delivered in a sustainable way.

The MMW4P perspective is not about blind faith in markets, and leaving the poor to their own devices

The MMW4P perspective is not about blind faith in markets, and leaving the poor to their own devices. It is about promoting interventions that open up, rather than close down, opportunities through which the poor can help themselves. The central issue for MMW4P practitioners, the issue that distinguishes them from pure free market advocates, is that they do not assume that markets always work in a pro-poor way. It is up to development interveners to find out how markets are working, why they are not operating in an optimal way, and what can be done to make markets work better.

The MMW4P perspective is also not anti-state. Sustained development requires effective state performance in creating the environment in which markets can function optimally – the legal, regulatory, institutional, security and infrastructural setting within which markets and entrepreneurs can perform The central issue is how the state intervenes. Expanding the control of the state and replacing markets can have perverse outcomes. By contrast, strengthening the environment in which markets can thrive will allow private initiatives to complement those of the state. The state will have a far better chance of succeeding if it works with, rather than against, those elements within society that – through their self-interested actions – promote growth and development.

The idea that markets can promote the welfare of the poor has some of its roots in the 'Washington consensus' of the 1990s. The MMW4P approach builds on the recognition that macro-economic stabilisation and a greater reliance on liberalised, deregulated markets is necessary but not sufficient to enable the poor to participate in and benefit from private sector-led growth.[2] Experience suggests that market liberalisation will have limited benefits if undertaken before the infrastructure and institutions necessary to make markets work are in place.

The MMW4P approach has developed out of a concern to help the poor participate in market economies without resorting to unsustainable interventions that distort those markets. To achieve this, the MMW4P approach has the following goals:

- increasing the extent to which the poor participate in markets;
- addressing the behaviour of the private sector and therefore reinforcing the strengths of market systems, rather than undermining those systems;
- supporting the private sector through market mechanisms that bring about sustainable change; and
- informing governments of the importance of their role of creating appropriate regulatory environments and of defining the 'rules of the game' conducive to the more effective and inclusive operation of markets.[3]

These goals result in the advocacy of the following five spheres of intervention:

- **Strengthening pro-market institutions.** This involves the creation or improvement of legal systems that confer property rights and facilitate market transactions (such as the enforcement of the laws of contract). The intellectual tradition that informs this approach can be found in the work of new institutional economists such as Douglas North and of the Peruvian development economist Hernando de Soto.[4] These authors have in common the idea that institutions matter for markets. It is therefore crucial that governments build these institutions, enforce the laws that provide these rights, and ensure that as many people as possible are drawn into the ambit of the legal system (see box: **Institutions that make markets work**, page 24).
- **Encouraging the established private sector to move in pro-poor directions.** Historically, this has often involved pushing the private sector into meeting some kind of 'social responsibility', but in practice a more promising approach is to get the private sector to see the benefits for themselves of meeting the needs of poorer people. This strategy has been most comprehensively advocated by C K Prahalad, who has assembled many compelling case studies to show that corporations seeking profits can bring direct benefits to poor areas. The corporations do this by providing poor people with goods and services they need at prices they can afford, as well as business opportunities. At the same time, by becoming involved in poor areas, and striving to construct effective workable business systems, corporations draw poor people into the market system and provide them with the ability and willingness to become more committed to market-based interactions. (For two of Prahalad's examples, see box: **Corporations serving the poor**, page 26.)
- **Transforming malfunctioning markets.** Markets do not always operate as they should. Some markets can be thought of as 'thin or distorted' as they only meet the needs of the better off. This can happen because of barriers to entry that either protect the position of established businesses or make it too costly for the poor to participate. Expanding the market in these cases implies reducing both public and private barriers to entry. For example, governments could require license fees or compliance with labour laws, which make it too costly and risky for poorly resourced firms to enter a market. Conversely, established businesses could band together to make credit or crucial inputs unavailable to new market entrants. Thus, the general assumption is that either government regulations or the practices of established businesses are making these markets inaccessible to a broader range of

The MMW4P approach has developed out of a concern to help the poor participate in market economies without resorting to unsustainable interventions that distort those markets participants. Reducing these barriers makes it easier for previously excluded people to establish businesses, which in turn creates greater competition and brings down prices. Particular markets can also be constrained by the way in which other markets work. It can therefore be the case that markets in which commodities or services are sold cannot expand because of restrictions that exist on the buying and selling of labour power.

- **Encouraging and strengthening effective markets.** Markets can be effective in a general sense, and they can also deliver real benefits to the poor. Markets that should be encouraged are those in which buyers and sellers come together regularly, in a way that creates trust between the contracting parties. At the same time there must be a willingness to let new consumers and new producers participate. Such markets are both stable and flexible, and tend to constantly evolve and expand. Most of all,

Particular markets can also be constrained by the way in which other markets work

INSTITUTIONS THAT MAKE MARKETS WORK

Institutions that make markets work are those that reduce 'transaction costs'. Transaction costs are the costs that parties incur, or are likely to incur, in the process of agreeing and following through on an exchange agreement. The lower the transaction costs, the more likely that the exchange will take place. The strength and character of the legal (or institutional) framework in which markets are embedded will therefore play a major role in reducing the costs that prevent people from participating in markets. Laws that will make markets work include:

- Property rights that ascribe clear rights of ownership to individuals and also permit the enforcement of those rights when they are threatened by others.
- Laws that permit freedom of economic activity and do not provide serious barriers to market entry such as licensing fees or guild rules.
- Effective laws of contract. When contracts are broken the law must provide both the means for the injured party to be compensated and an appropriate system of adjudicating damages resulting from non-performance.
- Effective bankruptcy laws. The efficient operation of a market system must allow for company failure and facilitate the predictable disposition of the assets of failed companies.
- Corporate laws that allow for incorporation and remove shareholders from exposure to unlimited financial loss.
- A clear definition of governmental responsibility.

One of the central, but not sufficiently recognised, insights in De Soto's work, which advocates strengthening property rights as the best strategy for reducing poverty, is that the rights that will make markets work cannot simply be imposed by well-meaning governments. Instead, the crucial issue is to formulate a legal system that draws poor people into its framework. In many countries the poor exist outside the legal system, and countries that have successfully reversed this situation have done so through a process of accommodation between the law on one side and emerging entrepreneurs and potential property owners on the other. Through such a process, ordinary people are brought into the ambit of the law while that law is simultaneously legitimised in the eyes of ordinary people. The central process required to make markets work is therefore an effective social contract between the state and ordinary people, based on certainty and trust in institutions.

such markets promote competition, which pushes down prices, encourages innovation, and forces suppliers to meet the needs of their customers as effectively as possible. Flexible markets also allow new businesses to enter and participate. As a result, they can produce outcomes that benefit the poor: job opportunities, entrepreneurial opportunities, and more affordable and more suitable goods and services.

- **Enhancing the capacity of the poor to participate in markets**: This sphere of intervention is most compatible with the traditional donor- or state-based development approach. It involves providing subsidies and various forms of assistance to poor people who cannot access markets. But when development agents work within the MMW4P logic, there is always an onus on them to minimise the negative effects on markets. One of the strengths of MMW4P is to recognise that all interventions have the potential to backfire because they affect the way in which markets work. Therefore, helping people to access markets without undermining the positive work that markets are already doing requires careful, targeted interventions. The institutions that undertake those interventions need to be fully informed about the nature of the problem and the dynamics of the market activity in the area in which they are intervening. Ambitious interventions are frequently beyond the capacity of many institutions in developing countries. For this reason, it is often better to proceed cautiously and incrementally.

There is a clear overlap between these methods to make markets work for the poor, and when various strategies are developed one should always think about the way in which they link with one another and can work together.

MMW4P is not a radical new paradigm or theory, but rather a new approach that builds on lessons learnt in practice in the development field

The MMW4P approach is therefore about understanding and accepting that markets can create sustainable benefits for the poor, and that interventions can be undertaken to expand those benefits. The state has a central role to play as it needs to undertake interventions that will strengthen the environment in which markets thrive, and will make markets more open, dynamic, and competitive. This approach urges all those who intervene to think carefully about how their actions will affect those who are already participating in the market. For example, providing a subsidy to a small group of producers may be a bad idea if it allows those beneficiaries to push unsubsidised producers out of business. Caution is one of the strengths of MMW4P as opposed to other strategies for development intervention in terms of which donors or the state are pushed by externally imposed targets to deliver an outcome regardless of the appropriateness or sustainability of the intervention for the mass of the population, or the system as a whole. Instead, the MMW4P approach requires all those wanting to intervene (governments, development agencies, and so on) to carefully assess the situation in which they intend to intervene, and then to focus on strengthening those market processes that have already begun to emerge.

Some problems with traditional approaches to development

MMW4P is not a radical new paradigm or theory, but rather a new approach or perspective that builds on lessons learnt in practice in the development field. To appreciate why the MMW4P approach provides promising avenues for tackling poverty in South

Prahalad shows how business innovation and tailoring services to fit the needs of the poor leads to the development of markets in poor areas

CORPORATIONS SERVING THE POOR

The development strategist C K Prahalad shows how business innovation and tailoring services to fit the needs of the poor leads to the development of markets in poor areas. The poor benefit first because they now have access to goods that were previously unavailable to them, and because they become more active in the market economy. These processes emerge clearly from the story of CEMEX, a multinational cement manufacturing company based in Mexico. CEMEX is Mexico's largest and the world's third largest cement company. It created two key programmes to tap into markets among the poor of Mexico, where 60 percent of people survive on less than $5 a day. The first programme, called Patromonio Hoy, targets the low-income, do-it-yourself home builder segment of the population. It is set up like a micro credit scheme with small lending groups, but the savings are used to buy cement and other building materials. Construmex, the second programme, is an innovative way of tapping into the money the diaspora community sends home for construction. Costumex allows this money to be transferred directly to the cement company without paying financial intermediaries. The service allows Mexicans living in the United States to send their money and their orders directly to cement distributors in Mexico, who then deliver cement to the site of the receiving person's future home or business. Estimates suggest that almost 10 percent of the $10 billion in remittances to Mexico is used for home construction.

Iodine Deficiency Disorder affects 200 million children in developing countries, of which 70 million live in India; it is one of the principal causes of mental disorders and disabilities such as goiter. The easiest way to give people their requred daily dose of iodine is to add it to salt, but only 20 percent of salt in India is iodised. Moreover, the salt that is iodised loses its iodine content during the harsh conditions of storage, transportation and cooking in that country. Hindustan Lever Ltd (HLL), a subsidiary of the multinational Unilever, is the largest firm in the Indian 'fast-moving consumer goods industry'. Its 80 manufacturing facilities produce a wide range of personal care and food products, and it has a turnover of R100 billion (US$2,3 billion).

With the aim of making a profit, this large corporation took on the challenge of supplying Indians with sufficient iodine to prevent health problems. To achieve this, the corporation first had to find a technological solution to the iodine dissipation in Indian salt, and then had to educate Indian consumers on why HLL's iodine-rich salt was better than regular salt. All this had to be achieved without increasing the cost of the new salt much above the cost of regular, untreated salt. Any significant increase in price would have meant that, no matter how much education they received, poor consumers would have regarded the new salt as unaffordable and continued to consume ordinary salt.

HLL solved these problems by developing a simple and relatively inexpensive process called microencapsulation, which ensures that the iodine added to salt does not dissipate during storage, transport, or cooking. It is only released once the salt has been ingested. Next, HLL struck up partnerships with local entrepreneurial women in villages throughout India. These women, called Shakti Ammas (empowered women), acted as educators and distributors of the product. Once these partnerships were firmly established, the women graduated to distributing all of HLL's products in their villages. Thus, in the pursuit of profits, HLL has tackled a disease that afflicts 70 million Indians, while at the same time providing business opportunities and improved livelihoods for many rural women.

Africa, we therefore need first to examine the limitations of traditional development approaches, and then gain a clearer picture of the role of markets in development.

In this section we will draw out some elements of traditional approaches that have proven to be problematic in practice. These approaches first emerged after World War 2 when those residing in the developed world began to advocate action to help those living in the 'less developed' parts of the world. Unfortunately, this call did not result in very many successes. Most initiatives promoted or directly undertaken by external agencies failed to significantly reduce poverty, or to make the quest for growth less elusive. The World Bank has been active since the 1950s in promoting both project-based lending and lending on condition that governments adopted particular policy packages. Most assessments of its early track record reveal that these initiatives have fallen far short of what the Bank intended to achieve.[5] Further, the governments of developed countries have funnelled large volumes of aid to less developed regions. Again, the results have been disappointing. NGOs have also been thick on the ground, and very active. Many do sterling work, and are often to be commended and supported, but their efforts rarely seem to bring about a fundamental transformation of the conditions that create poverty.

MMW4P does not advocate a belief in the 'miracle of markets', and recognises instead that a lot of effort, especially from the state, is required to create the conditions that make markets work

Experience has shown that in practice the main problems have been:

- A tendency to regard simple policy packages as catch-all solutions to a wide range of development problems. This was, for example, one of the problems of early structural adjustment programmes, as they sought to impose a standard liberalisation package without taking into account local political and social realities.
- A tendency to promote top-down solutions that ignore the specific contexts in which they are undertaken. These solutions tend to be overly optimistic, inflexible, inappropriate and wasteful. There are many examples of this, but particularly bad ones emerge from the time when the World Bank provided funding for large industrial projects without considering whether such projects could access markets, source inputs, or hire skilled managers.
- A tendency to disregard or misunderstand the forms of knowledge held and initiatives undertaken by the poor themselves. This is a criticism pioneered by Robert Chambers, the development economist who pointed to the way in which experts were influenced by forms of knowledge that were inappropriate for the situations in which poor people find themselves. Chambers believed that those circumstances were best understood by the people who lived in them, and that their knowledge and understanding should therefore form the basis for development interventions.[6]
- A tendency to look for utopian or romantic solutions that disregard broader processes of modernisation and the opportunity cost of keeping people locked into small-scale, labour-intensive activities. For example, the idea that small-scale farming or small enterprise development should necessarily form the foundation for poverty relief in rural areas ignores different climatic conditions and the extent to which people in countries such as South Africa have been discouraged by the low returns and oppressive conditions that exist on many family farms.[7] (This is not to suggest, however, that there are no instances where strengthening small-scale farming or promoting entrepreneurial activities will be beneficial.)

The MMW4P approach avoids these tendencies by moving away from the common trend of choosing one theory over another. MMW4P does not advocate a belief in the 'miracle of markets', and recognises instead that a lot of effort, especially from the state, is required to create the conditions that make markets work. It recognises the importance of poor people's choices and initiatives without wanting to turn back the clock to a less modern era. It seeks to promote modernisation without falling back on a top-down, planning-based approach. It does not see a specific set of interventions as leading to immediate development 'miracles', but instead advocates careful research and finding ways to build on and strengthen market-based activities that are already taking place.[8] And it advocates governments putting in place a regulatory environment conducive to pro-poor, market-led growth.

Those who continue with traditional approaches often find themselves repeating the mistakes of the past. Currently, the two dominant trends within this traditional paradigm are simple calls for increased volumes of foreign aid and debt forgiveness in Africa, and the idea that interventions must become more top-down to reduce the huge divide between the first and second economies in South Africa.[9] Aid has often been very ineffective, and if it is promoted as a panacea for poverty, ignores the efforts of ordinary people to lift themselves out of poverty. It also creates a dependency among recipients, and encourages many of the practices that are, in fact, the root cause of Africa's problems.[10]

Those who continue with traditional approaches often find themselves repeating the mistakes of the past

In a critique of the World Bank's traditional aid-based approach, the economist William Easterly, who spent much of his career working as a consultant for the Bank, provides strong support for the view that there are serious limits to the ability of financial aid to relieve poverty and underdevelopment. His fundamental point is that the provision of aid distorts incentives in such a way that it actively discourages those developments that would reduce poverty, and encourages those practices that create poverty. Aid can provide crucial assistance to countries and people who face serious financial difficulties, but if it is provided unconditionally, without any consideration of the context into which it is being inserted, and for an unlimited period, then it can create serious problems. As Easterly puts it, 'the poor are not helped if the international community creates incentives simply to borrow more'.[11] The problem is that easily available debt relief provides no pressure on bad governments to change their ways, and in fact permits them to carry on with the behaviour that entrenches poverty.

Interventionist approaches can make a difference if undertaken correctly, but this is extremely difficult to achieve, and history is littered with failed states and millions of dollars of wasted funding. Many development practitioners themselves recognise the problem, but are struggling to find answers within the framework in which they are working (see box: **Good intentions, disappointing results**, page 29).

Project-level interventions are difficult to implement effectively. They also have additional limitations in that they make it harder for local producers to supply the goods and services needed by the poor, and they can divert resources and energies away from more pressing issues.[12] There is a need in poor countries to prioritise certain kinds of development, and to strengthen the broad institutional environment. Project-level interventions often exist outside of such agendas, and they frequently leave the broader institutional environment untouched. This can lead to inappropriate outcomes, and places limitations on the long-term benefits that project-level interventions can generate. State-led interventions can, of course, be more appropriately focused on national agendas. But all the problems of accessing appropriate information, involving the poor, and facing no competition from equally powerful suppliers apply doubly to state-led interventions.

This does not mean, however, that the state should have no role in development.

GOOD INTENTIONS, DISAPPOINTING RESULTS

How to discover what the poor really need, how to deliver the good or service effectively, and how to get the poor to efficiently use the transferred benefits are issues that development practitioners constantly struggle with. In a recent overview of water delivery in Mozambique, the British NGO WaterAid outlined the following problems:

- There was very little community involvement in the formulation of projects, and the technology chosen was inappropriate for the majority of communities' financial, technical, organisational and social means.
- Decisions about water point sitings were mostly driven by considerations relating to local politics.
- Communities were told to form committees, but these generally lacked the ability to respond to technical problems and the influence to secure community contributions for spares.

All of these factors conspired to make breakdowns, vandalism and neglect a common set of problems. In some parts of Mozambique, 90 percent of the hand pumps that had been installed had broken down. After all the money and effort invested by these NGOs, most Mozambicans were not in a better position than before regarding their access to safe drinking water. WaterAid continues to work hard and innovatively at overcoming these difficulties, but, in its own words, 'sustainability remains elusive'.[13]

In South Africa, a road upgrading project in Limpopo failed to create the expected multipliers and 'enrichment of the community'. The problem, evaluators found, was that conventional transport policies 'treat communities as uniform,' and impose their own notions of the transport needs of local people. The evaluators then suggested, among other things, that a better way to proceed would be for development interventions to incorporate 'locally relevant' modes of transport and the 'transport choices' the people were actually making. The evaluators urged agencies to 'stop applying external categorisations' and to rather make it easier for locals to initiate their own transport strategies. Although these assessors did not know it, they were in fact calling for a shift away from the traditional approach towards a market based approach.[14]

In India, it has been noted that resources allocated for sanitation often remain underused. Contractors liaise with officials, not communities. Toilet block designs are often inappropriate, and limited water supplies make personal hygiene and toilet cleaning difficult. Officials charged with maintaining and unblocking toilets are usually negligent. Within three months most toilets are filthy, leaving locals little choice but to defecate in nearby public spaces. To remedy the situation the development agency SPARC (Society for the Promotion of Area Resource Centres) has called for a shift to a more facilitative role that incorporates both the needs and capabilities of local communities.[15]

All the problems of accessing appropriate information, involving the poor, and facing no competition from equally powerful suppliers apply doubly to state-led interventions

On the contrary, the role of the state is essential for development, but it is the right role that is needed. States can and should intervene if they are able to make a situation better. This is particularly the case where they can create a more conducive environment for markets to function effectively. Strong markets in fact require strong states, but this creates a problem because states are normally relatively weak in poor countries. The way to escape from this catch-22 type situation is for governments to adopt a gradual, sensible, and limited approach.

Such governments need to carefully select their interventions according to three considerations. They need to identify where the greatest need is, what kind of intervention will have the greatest impact, and what is the most achievable in terms of the state's capacity. Effective governments will choose those interventions that can best accommodate all three criteria. They should also be very wary of destroying anything in the society that is producing wealth and functioning effectively. Lastly, they must be ready to draw on and harness the capacities and capabilities of the private sector. It is prudent, therefore, for governments in developing countries to work with, rather than against, markets.

Poor people commonly recognise that greater market access is the way out of poverty

Five reasons to work with markets when helping the poor

In the previous section, we established that working against markets is a difficult undertaking. We saw that development agencies – large and small, governments and NGOs – have found it difficult to discover what the poor really need, to deliver goods or services effectively, and to get the poor to efficiently use the transferred benefits. This section provides five reasons why, in such a context, working with markets is a good idea.

- **Markets are pervasive, positive features in the lives of the poor.**

The poor interact extensively with markets. If they have private sector jobs, sell produce, or buy the goods they need to survive, they are interacting with markets on a daily basis. There are very few parts of the world where poor people rely exclusively on government transfers, or are completely self-sufficient. The MMW4P approach recognises this reality and, rather than moving towards an unrealistic utopia in which markets are kept at bay, works on improving the way in which existing markets work for the poor.[16]

Poor people commonly recognise that greater market access is the way out of poverty. Rather than trying to escape from the private sector-dominated modern world, they demand to be drawn further into this world. The World Bank study entitled *Voices of the Poor*, which reported the views of poor people themselves from developing countries around the world, found that many identified getting a private sector job as their most promising route out of poverty.[17] Many poor people depend on government transfers for their survival because they cannot generate sufficient income of their own. But this should not be seen as a good thing. As one report recently put it, 'while absolutely necessary, participation as welfare recipients is less likely to provide a basis for lasting development. … Societies that largely exclude people from markets are nurturing alienation, dependency and division.'[18] To avoid these negative tendencies, opportunities for poor people to find their own jobs or start their own businesses must be expanded, and if this is to be achieved on a sustainable basis, then the jobs and businesses must be located within functioning markets.

- **Market-based growth has been very successful in reducing poverty.**

Countries in which markets have operated effectively have been far more successful in generating economic growth than those in which markets have been constrained. In addition, this market-based growth has benefited the poor. For example, it is widely accepted that the market has worked more effectively in South East Asian countries than in most Latin American countries. Consequently, growth has expanded and poverty has been reduced much more effectively in South East Asia than in Latin America.[19] More recently, China and India have provided further and dramatic proof of this. These two countries have generated much higher growth rates since opening up to markets – both externally and internally. Between 1980 and 2000, India's real GDP per capita more than doubled, and real incomes per capita in China rose by well over 400 percent. As a result, these countries are no longer among the poorest nations in the world, and the living standards of millions of their poor have improved substantially. Growth in these two countries has contributed to 200 million people worldwide moving out of the category of extreme poverty since 1980.[20]

States in less developed countries generally lack the capacity to undertake interventions that will significantly transform the lives of the poor

This link between markets and poverty reduction is not coincidental. When markets operate effectively and widely, they can operate as transmission mechanisms linking the poor to the benefits of economic growth. In the words of Alan Johnson:

> Well-functioning markets that support competition and lower the costs of doing business provide incentives for trade and investment, and hence growth and poverty reduction. Markets are the main 'transmission mechanisms' between growth in the wider economy and the lives of the poor. They are important in poor remote

WORKING WITH THE MARKET TRUMPS WORKING AGAINST IT

Initially the Nigerian government regulated and subsidised fertiliser production because it was convinced that the price was too high to allow poor farmers to participate. As a result of this intervention, the supply of fertiliser was reduced, private producers of fertiliser were pushed out of the market, and access to fertilisers was politicised. Patronage from politicians became the central determinant of who received fertiliser and who did not, and far fewer people than before received any fertiliser. Subsequently, a new approach has been adopted that encourages the involvement of private fertiliser providers, works on strengthening financial markets, provides training programmes to suppliers, and has introduced a limited voucher scheme for consumers. This approach, while more modest in intent, has succeeded in reviving the market, reduced the potential for state failures, and improved poor farmers' access to fertiliser. While the first set of interventions succeeded in undermining the work the market was already doing, the second set has simultaneously strengthened the private sector and made it easier for poor farmers to access a crucial input.

areas because of the linkages they offer between the local economy and the national and global economies.[21]

- **The private sector is a crucial resource when the public sector struggles with capacity problems.**

States in less developed countries generally lack the capacity to undertake interventions that will significantly transform the lives of the poor. For this reason it is important to draw on the expertise of companies that have developed real abilities in the marketplace. For example, it may be beyond the capacity of the state to provide appropriate, high-quality infrastructure in areas where the poor reside. This problem can be overcome by creating an environment as well as the incentives for private sector involvement. Public–private partnerships can be effective, but these are not the only arrangements that enable or facilitate private sector or business involvement in providing goods and services that poor people need. The MMW4P approach is more in favour of allowing the market to work and ensuring that appropriate incentives are in place to provide private companies with self-interested reasons to supply goods and services to the poor.[22]

Supporting and encouraging the private sector should not, however, lead to an uncritical acceptance of everything the private sector does

The poor in less developed countries receive many essential services through markets. According to the United Nations Commission on the Private Sector and Development:

> The private sector is already meeting the needs of poor people in places governments do not reach. In some countries, for example, the government has little impact on the poor. In the slums there are no health services, no public education and no infrastructure. This story repeats itself across the developing world. In many cases, where services exist, they are provided by private sources. Anywhere from 15% to 90% of primary education is provided in private schools. Some 63% of health care expenditures in the poorest countries are private …[23]

Rather than replace the services that the private sector is already providing, the state should employ its limited capacity to create sturdier market structures and draw the private sector further into engaging with the poor as consumers, employees, and producers. That it is better to encourage the private sector than to restrict it can be seen from the experience of fertiliser provision in Nigeria (see box: **Working with the market trumps working against it**, page 31).[24]

Supporting and encouraging the private sector should not, however, lead to an uncritical acceptance of everything the private sector does. Established businesses are not the same as the market, and circumstances may arise where government should act against the interests of some firms to create a stronger, more inclusive market. This has been recognised by the World Bank among others. In its *World Development Report 2005,* the Bank points out that the agendas of individual or existing groups of firms do not necessarily coincide with the best way to promote a better business environment. Appropriate public regulation of private firms is therefore required to ensure the best outcomes, both for the firms themselves and for society as a whole. The Bank illustrates this point with reference to taxation and regulation policies:

> Most firms complain about taxes, but taxes finance public services that benefit the investment climate and other social goals. Many firms would also prefer to comply with fewer regulations, but sound regulation addresses market failures and can therefore improve the investment climate and protect other social interests.[25]

A similar logic applies to the issue of competition and market access. Established firms are generally opposed to increased competition, as it reduces their profits and increases uncertainties in their business environment. The state may therefore need to ensure that markets remain competitive, and ease the entry of new competitors, which will help bring down prices and expand supply in the interests of the poor.

- **Competition is an effective mechanism for improving the circumstances of the poor.**

Adam Smith's central point was, arguably, that competition can more effectively, and with fewer resources, achieve the beneficial outcomes sought by intentional government interventions (see box: **Adam Smith and competition**, this page).

This is not the place to debate whether this is always and necessarily true, but we do firmly believe that competitive markets, when they work, generate innovation, reduce prices, and create a concern with customers that governments in less developed countries find extremely difficult to emulate. Rather than resorting to monopolistic provision that is often inefficient, and wastes precious resources, governments should look for ways in which competition can make the poor better off.

Rather than resorting to monopolistic provision that is often inefficient, and wastes precious resources, governments should look for ways in which competition can make the poor better off

Competition can benefit the poor in the following ways:

- Companies that feel the pressure of competition are compelled to find out what their customers want, and to develop goods and services which meet their customers' needs. Poor customers are more likely to receive goods and services that they need when competition is increased.
- Creating a more open, more competitive market can create space for new businesses to enter. This can lead to new opportunities for poor entrepreneurs.

ADAM SMITH AND COMPETITION

'Every individual is continually exerting himself to find out the most advantageous employment of whatever capital he can command. It is his own advantage, indeed, and not that of the society, which he had in view. But the study of his own advantage naturally, or rather necessarily, leads him to prefer that employment which is most advantageous to society . . . he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end to which was no part of his intention. Nor is it always the worse for the society that it was no part of it. **By pursuing his own interest he frequently promotes that of society more effectually than when he really intends to promote it' (emphasis added).**[26]

- Increased competition normally leads to lower prices, so goods and services become more affordable to the poor. The World Bank estimates that 'lowering barriers to market entry by 10 percent reduces the average mark-up on individual goods by nearly 6 percent'.[27]
- Competition can also ensure the effectiveness of public–private partnerships in areas such as service provision (see box: **Local government and competitive service provision**, this page).

- **Globalisation is a reality that less developed countries cannot afford to ignore.**

Everyone recognises that the global economy is a market-driven one. If one wants to participate in the global economy, one has to engage with this reality and be prepared to participate in markets when the opportunity presents itself. If one rejects markets as always harmful, one is cut off from the opportunities that do exist; this is a price that most developing countries cannot afford to pay. What this implies is that governments and other agents of development need to take on board some of the realities that global markets impose on countries wishing to compete in them. This essentially means pursuing a strategy in which the costs of production are minimised. Government needs, therefore, to reduce, wherever possible, regulations that impose costs on local producers that producers in other countries do not have to bear. It does not, however, imply a withdrawal by government. Instead, state support is required to identify opportunities, co-ordinate activities, and provide the kind of effective regulation that allows markets to work.

Serious difficulties are created when governments and development agencies formulate plans which they impose on the poor without facing competition from alternative plans

LOCAL GOVERNMENT AND COMPETITIVE SERVICE PROVISION

Stephen Goldsmith, who achieved significant success in reviving the American city of Indianapolis during his eight-year term of office as mayor, put it succinctly: 'Competition drives private firms – and, we soon discovered, public agencies – to constantly seek ways to reduce costs and improve services'. To implement this philosophy the mayor would, for example, give unionised employees in the city's street maintenance division the opportunity to tender for jobs in competition with private providers. Subsequently, the employees submitted the lowest quote, completed the task below that quote, and worked 68 percent more efficiently than they had done when they faced no competition. Goldsmith also developed what he called the 'yellow pages test'. This simple procedure allowed the city to avoid duplicating services which the private sector was already providing, and ensured that essential services would be supplied in a competitive context. All the mayor did was to check the city's yellow pages before making a decision about whether the city should provide a service. If the phone book listed three or more private companies already in the business, then the city would stay out of it. As Goldsmith put it: 'The best candidates for marketisation are those for which a bustling competitive market already exists. By using the yellow pages test we could take advantage of markets that had been operating for years'.[28]

Summary

We have argued that there are definite advantages to harnessing the market for the purpose of reducing poverty and empowering poor people in urban and rural areas. We are not presenting the market as the only solution to every problem, but we do maintain that market-based interventions should always be considered before more direct forms of intervention are attempted. Serious difficulties are created when governments and development agencies formulate plans which they impose on the poor without facing competition from alternative plans. Working with markets has advantages that allow one to avoid some of these difficulties. It allows one to draw in the capacities of the private sector; it builds on the initiatives of the poor, it is pragmatic; and, most importantly, it is regulated by competition.

We do not, however, maintain that working with markets is some kind of miracle solution; sensible government policies and carefully thought-out civil society interventions are still required. It is, in fact, a fairly gradual approach. But, if undertaken properly, it will be sustainable and cumulative, and therefore have a much broader and lasting impact than approaches that suddenly appear to make small groups substantially better off for a while. In part 2 we illustrate how working with markets generates sustained improvements in different economic sectors.

Part 2

Seven case studies

IN part 2 we employ case studies to illustrate the viability and desirability of applying the MMW4P approach in South Africa and elsewhere. This section does not purport to be a general analysis of poverty or development policy in South Africa; nor is it an in-depth analysis of sectors such as tourism, education, or finance. Instead, we have drawn on examples from various sectors because markets are working for the poor in these areas. For this report we commissioned a large number of papers tapping into experience of MMW4P in South and southern Africa and globally.[29] We highlight the most compelling cases to illustrate key dimensions of this approach, and the benefits of markets for dealing with poverty. There are also instances where there are obvious ways in which the market could be made to work better for the poor, and we have highlighted these where they emerge from our case studies.

We have drawn on examples from various sectors because markets are working for the poor in these areas

In part 1 we provided a background to the MMW4P approach, and set out our aims and arguments. In this part we delve into seven case studies of markets working for the poor. Most of these cases are from South Africa, but we also include two studies from elsewhere in Africa. One comes from Uganda and concerns the provision of radio information to the poor through market mechanisms. This is a particularly clear case of the market producing a better outcome than a non-market approach. It also shows how working within a market system allows poor people to exercise their own judgements and influence the way in which developmental interventions take place. The other example comes from Lesotho and shows how, in contrast with the way things have turned out with respect to textiles in South Africa, the right kind of co-operation between government and the private sector can allow less developed countries to benefit from opportunities located in international markets. This case study points to the benefits derived by the poor from Lesotho's ability to penetrate international textile markets.

The other five examples illustrate MMW4P in action in South Africa. They are:

- **A comparison between fixed line phones and cellphones in terms of the impact they have had on the poor**. The aim is to show that market forces are pushing cellphone companies in pro-poor directions. At the same time, there is still a lot of scope to deepen these market forces in the telecommunications sector, and to do so in ways that will benefit the poor.
- **An overview of various ways of helping small-scale wool farmers to access markets**. These interventions to strengthen the capacity of previously disadvantaged farmers have generally been beneficial to the farmers, but we show that the most effective interventions have been those that have worked comprehensively within the logic of the market and have sought to reduce market distortions.
- **An assessment of different kinds of tourism interventions**. We show that there are two major challenges that confront those who want the poor to benefit from

tourism. The first is the problematic institutional arrangements that exist in many areas where the poor are located. An absence of property rights, high levels of crime, and divisive local politics make it extremely difficult to attract investment to these areas. It also restricts the number of tourists that are likely to visit. The second problem is the weak performance of agencies that have been set up to run pro-poor tourism initiatives. They are often weak because they lack experience in the tourism field, and because they do not have to respond to competitive pressures. Two effective ways of tackling these problems is to undertake interventions that will improve the institutional environment, and to draw private providers operating in a market context into pro-poor tourism ventures.

- **An exploration of the impact of private education on the poor**. Using international evidence and some cases from South Africa we show that private education can work for the poor. There are market failures in this area, and these can be used to justify the exclusive public provision of education. At the same time, there is strong evidence that the market can work to provide the poor with education, and when it does it has certain crucial advantages. This evidence suggests that it is often counterproductive to restrict private education, that regulation of private education should focus on ensuring that markets are functioning effectively, and that some of the positive dynamics that emerge in private schools should be incorporated into the way in which public schools operate.
- **A review of poor people's access to financial markets**. These are an important element of allowing poorer people to participate in markets. Here we show how, by means of the Financial Charter, big banks have begun to more effectively target basic services for people at lower ends of the market. This proves that if some way can be found to encourage large corporations to serve the poor, real benefits can accrue for both those businesses and the poor. The need for more competition once again emerges from this case study as a crucial policy implication.

This proves that if some way can be found to encourage large corporations to serve the poor, real benefits can accrue for both those businesses and the poor

1. Access to telephones[30]

Competition within markets leads to lower prices, which makes crucial goods and services more affordable for the poor. Such competition also forces private companies to find ways to lure customers away from their competitors. This encourages companies to find out what their customers need, pushes them to develop goods and services that customers want, and leads them to build up relationships with consumers. These market pressures have created numerous positive outcomes for the poor in the telecommunication sector, such as more affordable phones and pay-as-you-go services.[31] We make the case for competition in the telecommunication sector by outlining international successes achieved by private phone companies and by showing how private cellphone companies in South Africa have been better at helping the poor than the monopolistic fixed-line provider, Telkom. We also recognise that the level of competition in the South African telecommunication sector is not very high, and propose that this should be strengthened.

International evidence of the benefits of competition

Private companies have been extremely successful in bringing cellular phone services to poor people across the world. This has meant that poor people have benefited from receiving affordable telephone access, which has frequently been tailored specifically to their needs, and enhances their lives in tangible ways (see box: **Connecting the poor**, this page).

The worldwide trend in which cellphones are becoming accessible to the poor can be explained, firstly, by price trends. One study has shown that the average start-up costs for prepaid cellphones in 17 developing countries are 24 percent lower than the costs of fixed lines, and that the monthly recurring costs are 44 percent lower.[33]

Numerous studies in developing countries have demonstrated that the most important factor determining both the extension of telecommunications coverage and the significant reduction of telecommunication costs is competition. A wide-ranging study by Rossotto *et al* has demonstrated that competition is strongly correlated with growth in coverage and reductions in price, as it motivates cellphone operators to look hard for technological and organisational ways to obtain new customers. They summarise their findings as follows:

Competition within markets leads to lower prices, which makes crucial goods and services more affordable for the poor

Even countries with very low per capita incomes are able to sustain at least two cellular operators. Second operators are emerging in countries with a GDP per capita of less than US$1 000, such as Azerbaijan, Bangladesh, Cote d'Ivoire, Georgia and Uganda. The Philippines, Romania, and many other countries with a GDP per capita between US$1 000 and US$2 000 are experiencing strong growth in the mobile market as a result of the introduction of competition.[34] In several competitive markets the average price of a call from a handset is 40 to 50 percent lower than in markets with a

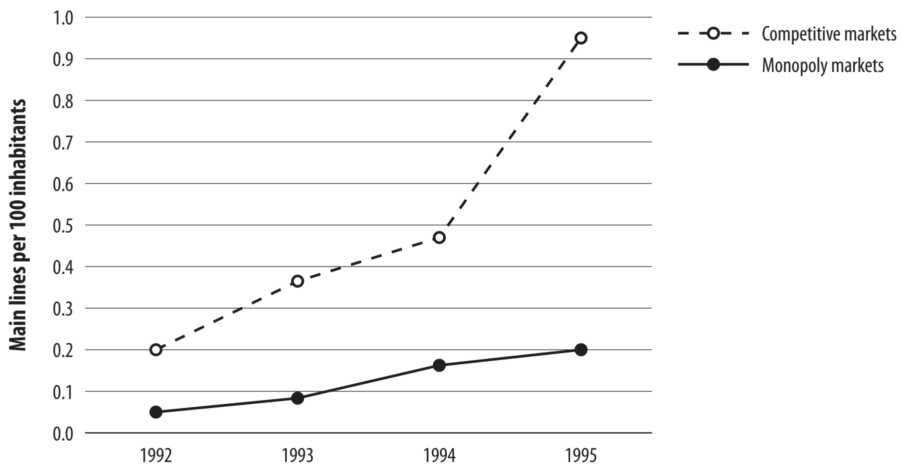
CONNECTING THE POOR

- In Peru, privatisation of the two telecom companies led to a sixfold increase in the number of public telephones within five years. Access to telephones of poor households increased from near zero to 20 percent within four years.
- In 2003, MTN Uganda formed a partnership with the Grameen Technology Centre on a project entitled 'Bring Village Phones to Uganda'. MTN provides communication infrastructure, affordable airtime, equipment and support. The first village phone operators started business in March 2003, and MTN VillagePhone was formally launched on 17 November 2003. More than 1 300 village phone businesses are now up and running in remote villages in Uganda, with 100 a month being added.
- GrameenPhone is a joint venture telecom company set up in Bangladesh by Grameen Bank – with capital from the Norwegian company Telenor and loans from donors – to provide mobile telephony to its subscribers. It provides a wide range of products in line with this mandate, many of which are benefiting poor people. In particular, it has launched a village phone programme which has since 1997 provided 45 000 telephones to 39 000 villages in Bangladesh, thus providing access to telephone networks to some 70 million people.[32]

single provider. In the Middle East and North Africa it is Lebanon, where competition is most intense, that has the lowest prices (7 cents a minute, against a regional average of 40 to 50 cents a minute).[35] The following graph, compiled by Ben Petrazzini, confirms that there is a strong correlation between the number of cellphone users and competition.

The growth of the cellular phone market has been phenomenal

Figure 1: Cellular teledensity in developing countries of Asia and Latin America



Source: B Petrazzini, Competition in Telecoms – Implications for Universal Service and Employment, *Public Policy for the Private Sector*, October 1996.

Further evidence that competition is driving down prices and making cellphones more accessible to the poor can be found in a number of other studies.[36]

The role of competition in South Africa: Telkom versus cellphones

In South Africa the supply of telecommunications technology is partially privatised, but still dominated by the initially publicly owned telephone monopoly, Telkom, the incumbent fixed-line operator.[37] Mobile phone services – known in South Africa as cellular phone services – were introduced in this country in 1994, and are provided by three licensed operators: Vodacom, MTN, and Cell C.[38] Both cellphone and fixed line operators are subject to numerous regulations which, at the time of writing, are under review with the aim of further liberalising the sector.

Telkom's efforts to broaden access to telephones have been disappointing. The number of people with fixed line access increased from 4,3 million in 1996 to 5,5 million in 2000, and then declined to 4,8 million in 2004. By contrast, the number of cellphone subscribers has constantly expanded at a rapid rate. There were just under one million subscribers in 1996, and by 2004 there were 20,4 million.[39] A recent report estimates that there are now just under 25 million subscribers in South Africa.[40] Hodge has shown that the difference between the number of cellphone users and fixed line users is just as dramatic among the poor as it is for the population as a whole. Household figures collected by Hodge reveal that the percentage of households with a fixed line phone declined by an average of 1,4 percentage points between 1998 and 2001 across four income groups earning less than R2 500 a month. For the same income groups over the same period, cellphone ownership increased by 8.6 percentage points on average.[41]

These trends have correlated with relative price movements. While, between 1996 and 2000, Telkom's prices rose, cellphone call rates declined by 28 percent. In 2003 the standard cellular call rate was R2,75 a minute; in April 2005 it rose by only 3,6 percent to R2,85, but in October 2005, in response to moves to further deregulate the sector, Cell C and MTN lowered their rates once again.[42]

The cellphone companies have also been very successful at developing customer packages that, as elsewhere in the world, are favoured by the poor. The poor in South Africa prefer the pre-paid system, and lower end pre-paid packages are far cheaper today than they were about five years ago. There is ongoing competition between the cellphone providers to capture users, and the users, in turn, regularly switch providers as cheap stand-alone starter packs become available. By contrast, anyone wanting to access a fixed line can choose only one service provider.

Mobile phone providers have proven to be more effective than Telkom in extending telephone services to underserviced areas and disadvantaged communities

Top-down versus market-based expansion of phone shop services

With the Telecommunications Act of 1996, the government set out its intention to 'promote the universal and affordable provision of telecommunications'. To achieve this objective, it established the Universal Service Agency (USA), which, at the behest of the Department of Communications, set out to fulfil its mandate by providing 'telecentres'. These were to be set up in remote parts of the country to provide the poor with phones, internet access, and various other communication services. As is so often the case, an idea that looked impressive on the drawing board turned into a massive disappointment once it was implemented. By 2000, 65 telecentres had been established in poor and remote areas, but fewer than half had a phone or a computer, and 32 percent were not operating at all.[43] The reasons for these failures are the common ones associated with centralised, state-based interventions. The equipment for the centres was supplied according to standardised criteria. There was little or no effort to match the equipment provided with specific local needs. In some cases, telecentres were supplied to areas that had neither phone lines nor electricity. In other areas, equipment had been stolen or destroyed in fires, and had never been replaced. Other reasons for the non-functioning of these centres include poor management, a lack of skills among those providing the services, a lack of demand for the services provided, and the impossibility of making a profit given the costs of running the centres. It is clear, therefore, that providing these centres in a way driven primarily by the need to 'show delivery to the Ministry', led to inappropriate, unsustainable, and wasteful outcomes.[44]

Two other issues emerge clearly from this story. The first relates to the majority of the centres being 'community-owned'. This meant that the centres were owned by organisations such as civics, women's groups, and development forums. These groups did not have the expertise to run the centres effectively. They also did not have a sufficient sense of ownership to undertake concerted efforts to protect the centres and invest in maintaining the equipment. Lastly, in a number of instances 'major tensions in the community between different factions over who should own the telecentre led to the centres closing down'.[45] That this form of community ownership was unworkable can be seen by the fact that the few centres that ended up becoming privately owned were assessed as 'noticeably more sustainable'.[46]

The second noteworthy aspect of the failure of these telecentres is the role played by Telkom. Telkom was the monopoly service provider to these centres and, despite its close connection with government, the company appears to have done little to help the centres suceed, and much to contribute to their downfall. In many cases the phone bills turned into an insurmountable debt that the owners could not repay. Telkom charges were high and left little income for the centre operators, which then contributed to numerous closures.[47]

In contrast to the negative results achieved by the explicit, government-initiated desire to create universal access through telecentres, the phone shops set up by Vodacom have exceeded the expectations of regulators.[48] These phone shops are regulated by Vodacom but owned and managed by entrepreneurs in disadvantaged parts of South Africa.[49] They have low overheads, are simple to manage, very profitable, and are fully backed by Vodacom. Managers said they were highly satisfied with the support they received from Vodacom. By contrast, Telkom reportedly 'did not fulfil many of its obligations' to the telecentres.[50]

Here is a clear case of the market pushing providers into serving the poor in ways that a state-driven monopoly using top-down initiatives failed to achieve

As a monopoly provider, Telkom had no explicit incentive to promote the cause of universal access, and focused more on immediate profits. By contrast, as a private company facing competition, Vodacom had good reasons to build up relationships with potential customers in disadvantaged areas. As Jennifer Reck and Brad Wood put it:

> By investing so extensively in disadvantaged communities, Vodacom is investing in its own future, building a distribution channel for its services. … As South Africa progresses economically, and as traditional cellular plans become ever more popular, Vodacom is already seeing an increase in the number of people who own cellphones in disadvantaged communities. Familiar with the Vodacom brand because of the services rendered through Vodacom shops, many people feel most comfortable purchasing their first cellular service through the trusted name.[51]

Here is a clear case of the market pushing providers into serving the poor in ways that a state-driven monopoly using top-down initiatives failed to achieve.

But even here the state may have created too many distortions to allow markets to help the poor effectively. The universal service requirement the state has imposed on the major cellphone companies has forced these companies to establish community phone shops in areas that are already served by the market. This problem came forcefully to light recently when the Commercial Payphone Association of South Africa (COPSA) claimed that the 150 000 jobs and R2 billion annual revenue generated by commercial pay phone kiosks were threatened; Cell C, the association maintained, was placing subsidised community service phone shops in close proximity to established phone businesses, thereby creating unnecessary duplication and unfair competition for established, unsubsidised operators.[52]

Policy implications

Our findings should not necessarily be read as a wholehearted endorsement of how the private cellphone companies have conducted their business in South Africa. Rather, this case points to the benefits that the poor derive from the introduction of competition in a given market. The cellphone companies have created a more competitive environment for the general telephone market, and in so doing have provided services to poorer South Africans that are appropriate to their needs and level of affordability, and can thus be sustained. The introduction of competition in telephony, hitherto dominated by state monopolies in South Africa and elsewhere, has even had an impact on Telkom. The fixed line provider is becoming more innovative and flexible by, for example, offering pay-as-you-go services to clients who cannot afford regular phone charges. All of this points to the importance of increasing the levels of competition in a sector that is still highly regulated and possibly collusive.[53] We support moves by regulators to create greater competition in this sector, and more competitive behaviour among telephone providers.

The introduction of competition in telephony, hitherto dominated by state monopolies in South Africa and elsewhere, has had an impact on Telkom

The World Bank proposes that, besides increasing competition, countries should also implement strategies to improve the ability of the poor to access phones. This may be a more tricky process, but can be effective:

> Regulatory incentives to attract investors to high cost or challenging areas can be created through specific universal access policies and public investment subsidy schemes. Such strategies of public support can maximise their impact by leveraging competitive private investment through minimal and well-targeted subsidies ('smart subsidies') to achieve good social returns and commercial viability in the long run.[54]

This kind of approach, in which subsidies are carefully targeted to avoid state failures and minimise market distortions, has worked effectively in Chile, and fits squarely into the MMW4P approach. In Chile the state offered a variety of maximum subsidies based on the difficulties of, and potential losses to be incurred from, supplying remote, poverty-stricken sites with telephones. Next, they opened up a bidding process whereby the bidder requesting the lowest subsidy would be offered the project. Thirty companies purchased the bidding documents, and 60 offers were made for 42 of the 46 projects. The subsidy came in way below the maximum, thanks mostly to the decision of a local company, Chilesat, to bid at zero subsidy on 16 of the most attractive projects. By adopting this strategy it pushed out CTC, the largest local telephone operator, and was able to embark on its goal of developing local networks. This, then, is a case where smart subsidies implemented in a competitive environment helped the poor without wasting public resources.[55]

2. Commercial radio and the poor in Uganda[56]

This interesting case study is about enhancing poor peoples' ability to access helpful information. It shows how working within, rather than against, a market context can reduce the difficulties that well-meaning outsiders face when trying to find a way to help the poor. Finally, it shows that when information is disseminated in a competitive context, consumers of information are empowered and provided with choice.

In Uganda a popular way for donors to provide information to the poor was by buying airtime on commercial radio stations and then running their own programmes. This was seen by many development agencies as a convenient and relatively cheap tool for disseminating information to the poor. However, the programmes tended to be dull, and were pulled off the air as soon as donor funding ended. No account was taken of the existing market for airtime, paid for by commercial sponsors wanting to reach the same target groups. Moreover, the purchase of airtime by donors distorted the market very substantially. Thus the donor-driven initiatives produced programmes that very few poor people listened to, had no lasting impact, and made it difficult for Ugandan private sector groups to launch their own programmes.

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In 1999, agencies such as the Swedish International Development Co-operation Agency (SIDA) and the British government's Department for International Development (DFID) launched an approach in Uganda that rejected the prevailing assumptions and attempted to work with rather than against markets. The result has been better, more widely received, and more sustainable programming. It has also emerged that, given the choice, the poor actually listen much more to useful information-based programmes than to 'frivolous' entertainment. The idea behind the new approach was to reject the existing dependence of programming on donor cash and to rather emulate media markets in industrialised countries, where excellence of content leads to increases in listener numbers, which in turn leads to increased advertising revenues.

The cost of a permit to launch a radio station in Uganda was low, and many new stations were entering the market. As a result, stations were struggling to differentiate themselves from the competition, and were receptive to new business models. A survey showed that listeners wanted more developmental information and less entertainment, which was particularly true of people in rural areas who lived in information-poor environments. Initially, just one station, CBS, was willing to adopt the new business model. Fortunately, this station was an industry leader and specialised in content-based programming. Others soon followed. By the end of 2004, 21 commercial stations were broadcasting a total of 24 programmes focused on the needs of small business, with 100 percent commercial sponsorship. About 7 million people are listening to these programmes, and assert that they benefit from them. Their choice to invest their time in listening to these programmes is itself an indicator of positive impacts. Independent audience research highlights that these programmes are highly appreciated and valued by their audiences. The listeners generally came from poorer groups within Uganda.[57]

Core features of the initiative

The central features of the programmes targeted at the poor included the following new elements:

- They would be content-based programmes devised, developed, and owned by the radio stations themselves rather than driven or controlled by advertisers or sponsors.
- They would therefore be listener-driven and, as it turned out, would become as much of a voice for the business community as a channel for the flow of information to business people.
- They would involve field-based reporting and, in the words of the CBS radio producer, effectively 'take radio to the people'.

Development agencies provide training and advice rather than cash, thus enabling the stations themselves to generate high-quality content, leading to more listeners and thus to more commercial sponsors. By mid-2004 the programmes being broadcast as a result of these interventions were generating an estimated US$700 000 a year in commercial sponsorships.

Development agencies provide training and advice rather than cash, thus enabling the stations themselves to generate high-quality content

As part of their strategy to build their listener base, radio stations have sought out controversial issues. The government has mostly encouraged this trend, allowing a high degree of freedom of speech and taking the opportunities presented to respond, both on air and through regulatory reform, to resolve the issues raised. However, it now wants to regulate the industry more stringently, particularly in terms of content, structure, and access to information.

Another major threat to the project is the continuing tendency of other development agencies to buy airtime for their own programmes. To counter this problem attempts have been made to persuade these agencies that their objectives would be met more effectively (and more sustainably) by helping commercial media to develop their own content. The development agencies would then communicate their chosen information in formats that would tempt the journalists to use it voluntarily, rather than because they are paid to do so.

Outcomes

This market-based intervention has led to sustainable changes in the programming of commercial radio stations, in ways that are definitely pro-poor. While some of the existing business programmes may go off air, many will continue, and new programmes will emerge. The market potential of serving the poor with meaningful content has been proven. By working with the market, development agencies in Uganda have ensured that useful information is being made available to millions of people on a sustainable basis. This can only be achieved in an open and competitive environment, where neither government nor development agencies presume to tell the poor what it is that they need to hear.

The programmes have also played a key role in pro-poor advocacy, particularly for those in the informal sector; some examples are given below:

- **Payment for coffee outgrowers:** Coffee buyers were not paying farmers when promised, and were fixing prices with little negotiation with the farmers. Following exposure of this problem on radio farmers started receiving payments, and buyers asked to appear on subsequent programmes to help address the rift that had developed between them and their suppliers.
- **Parking fees dispute:** Following the introduction of parking fees in western Uganda's Fort Portal, taxi operators took to parking on the forecourts of filling stations to avoid paying these fees, which they said were too high to keep their businesses viable. When police impounded these vehicles, tensions rose between taxi operators, police, and town officials. The dispute was resolved after a discussion on air during which police and oficials explained the reasons for the fees.
- **Dispute between livestock traders and an abattoir:** When a conflict broke out between livestock traders and an abattoir in Kampala, the small business radio programme investigated the traders' complaints and highlighted their problems. The operation of the abattoir as a commercial monopoly was highlighted, and these unfair trading practices were changed to fall in line with the operation of other abattoirs in other areas in Kampala.

Competition also ensured that those who misunderstood the informational needs of the poor would go out of business

Policy implications

This case study provides a clear example of how a top-down approach created numerous problems, and failed to actually reach the poor. The donor agencies assumed that they themselves had to produce information and transfer it to the poor, and that the poor could not be trusted to decide for themselves what kind of information would be useful. By avoiding markets and the competition they provide, the donor agencies ensured that they would decide what kind of information was useful to the poor, and whether this information was having an impact or not. Once the intervention was undertaken in the context of competitive markets, however, a stronger incentive was created to bring poor customers into the loop and to discover what kind of information they themselves required. Competition also ensured that those who misunderstood the informational needs of the poor would go out of business, to be replaced by those who more successfully understood the needs of the poor.

The argument is not that the private sector will always provide better quality programming than the public sector, but that operating in a competitive, self-interested environment avoids the problems of the traditional NGO approach and forces providers to take the interests and concerns of their clients into account. The central policy implication is therefore that markets can regulate product quality, and empower the poor.

This implication goes beyond the provision of information. It is relevant to a wide range of goods and services that the poor may require. Of course, this does not imply that one has to rely entirely on the market when seeking to improve the access that the poor have to information. One can adopt a parallel strategy of improving the general ability of the poor to interpret and use information. This can be done through education programmes targeted at the poor. One does not need to adopt a condescending attitude towards poor people to recognise that increases in education levels significantly enhance the capacity of the poor to process information. It has been shown, for example, that education creates significant improvements in the way in which women respond to health information programmes.[58] Competition can, however, also improve the way education is provided to the poor. We will deal with this issue when we discuss the education sector in South Africa.

3. Global textile markets and Lesotho[59]

This case study also deals with experience in Africa, this time in Lesotho. It is about the poor being able to access and benefit from international market opportunities. The debate about the fairness of global markets can be problematic for the poor if it is used to justify a disengagement from international opportunities. It is good for less developed countries to sustain efforts to change the structure of the international economy as well as to encourage inter-regional trade between developing countries. But, as our case study reveals, it is also essential to take advantage of whatever opportunities are available. The African Growth and Opportunity Act (AGOA), launched by the United States government in 2000, created export opportunities for certain African countries which textile producers in Lesotho exploited. By 2004, Lesotho's apparel exports to the United States had grown to US$456 million from just over $50 million in 1996. Some 34 000 jobs have been created. Workers in the industry have been earning up to $70 million a year, which is circulating through the Lesotho economy, stimulating a plethora of micro businesses and many more job opportunities.

The context created by AGOA is one of the primary reasons why Lesotho textile manufacturers have been able to successfully penetrate export markets

Reasons for success

The context created by AGOA is one of the primary reasons why Lesotho textile manufacturers have been able to successfully penetrate export markets. The agreement has provided Lesotho with significant advantages over its competitors; it can now export clothing to the United States free of duties and quotas. AGOA also allows Lesotho's garment makers to use fabric produced in a third country. This is not normally permitted in other parts of the world, which means that some factories in Lesotho have been established for the specific purpose of avoiding the restrictions on trade imposed by countries such as the United States. Nevertheless, this is an opportunity that Lesotho has accepted with vigour. In doing so it has produced significant benefits for the poor, and has put in place a process that has the potential to create lasting improvements for Lesotho's people.

The Lesotho textile industry is largely driven by private entrepreneurs. Some of them were active in the country before AGOA, and others came in once AGOA had increased the likelihood that Lesotho textiles could be internationally competitive. Most of these industrialists come from South East Asia, but some were originally based in

South Africa. These entrepreneurs have brought with them valuable capital, skills, and knowledge of the international textile market. Their lack of familiarity with conditions in Lesotho has also created some problems, but these are being reduced by various initiatives and by the pressure of competition.

Other factors behind the expansion of the textile industry have been the absence of barriers against hiring workers and the generally positive way in which the Lesotho government has worked with industrialists. The Lesotho government has made enormous strides in creating an enabling business environment in a politically stable milieu. The government's proactive engagement with industry stakeholders is highly rated by industrialists and purchasers alike, and joint visits by the minister and leading industrialists to the United States have helped to cement relationships with some major buyers. This is a significant key to the future success of the industry. The minister of trade and industry engages very closely with industrialists and works to address their problems in a proactive manner. He recently established an interministerial task team on attracting and maintaining FDI in Lesotho's textile and apparel industry to address the concerns of industrialists. Initially the team, made up of industrialists and representatives of concerned ministries and parastatal bodies, was mandated to examine specific problems and report back promptly. Some problems have been dealt with immediately, but others will take longer to resolve. In the interim, this consultative forum meets every fortnight, and deals with issues as they arise.

Becoming more competitive in terms of price does not necessarily imply reducing the wages of workers

Prospects

The AGOA preferences expire in early 2007, and are unlikely to be renewed. This will present the industry with a difficult test, and there are grave concerns that the Lesotho producers will not be able to survive in a more competitive global market. However, competitiveness is not simply determined by labour costs. There are many aspects to competitiveness, and, because of their involvement in the American market, Lesotho producers have made some crucial improvements in this regard. Price is important, but response time and reliability also matter. Some competitors with very low labour costs, such as Bangladesh, have not always performed favourably in terms of these requirements. Quality of merchandise is also a crucial issue for buyers, and meeting this requirement often depends on effective management systems. Strengthening these systems can therefore do much to enhance competitiveness. Lastly, Lesotho has also been able to take advantage of customers who are opposed to obtaining their goods from 'sweatshops' in poor countries. Lesotho performs relatively well in terms of ethical labour practices.

Becoming more competitive in terms of price does not necessarily imply reducing the wages of workers. A more effective way to achieve this is to increase productivity. This can lead to a situation where wages of workers rise while the price of the good comes down. Significant initiatives have been launched to improve the productivity of workers in Lesotho, and positive results have already begun to emerge. Some firms have found that once training programmes have been introduced their sewing production line outputs have increased by up to 25 percent. It has also been argued that 'employees selected for training often view this as an affirmation of their value to the company, and this itself transforms into increased motivation'. [60] A further benefit of these training programmes has been a change in the mindset of managers, which could lead to significant reductions in cost. Many of the South East Asian industrialists initially believed that the Basotho did not have the skills to reach supervisor and management levels. As a result of the training programmes, this belief is being eroded. This could lead to more cost-effective management structures as well as the emergence of managers who better understand those who work under them.

If the Lesotho garment manufacturers are to survive in the post-AGOA era, they will need to establish textile mills in or around Lesotho from which they can source their material. One denim manufacturing factory has already been established, and some progress has been made in attracting investment in a knitting mill.[61] But the challenges of establishing a local mill from which fabric can be sourced remains a key issue.

Policy implications

This case study demonstrates that opportunities exist in the global economy for less developed countries

This case study demonstrates that opportunities exist in the global economy for less developed countries. What is important for those who want to benefit is to understand the nature of the opportunity, and to then devote both public and private resources to meeting the challenges of responding. The issue is not whether the global economy is free, but rather whether one decides to work within an existing market to take advantage of the opportunities that do exist – or whether one doesn't even try, or tries to work against it.

The Lesotho example also shows that it is not simply a case of leaving the private sector alone to discover global opportunities. Making global markets work for the poor requires the construction of a growth alliance in which the state and development agencies are able to respond to the concerns of the private sector, and provide various forms of assistance. This is essentially the situation in Lesotho, as the state supports the textile industry in international negotiations, encourages investment in improved productivity, and seeks to reduce the costs of its regulations. The creation of such an alliance, according to Doner and Hawes, was precisely how South Korea, a country that has taken better advantage of global opportunities than most, has achieved its impressive successes. In their words, development is 'often a function of states responding to, learning from, and strengthening private sector interests and institutions'.[62] The bottom line is that the state must be eager for investment, watching global developments and react speedily and decisively to facilitate the processes through which the private sector can access opportunities that arise.

4. Markets for South African wool farmers[63]

The Lesotho textile case represents a fairly broad and large-scale engagement with markets. It is also an industry-level or macro case. By contrast, this case study is at a micro level; it is about helping individual, small-scale farmers to access markets more effectively. It shows that benefits can accrue to farmers if their capacity to enter markets is enhanced. It also shows that such capacity-building is best done in a way that ensures that markets continue to work effectively and are not overly disrupted by the interventions of outsiders.

Initial capacity-enhancing interventions

By selling wool to local traders who monopolised underserviced regions, farmers were in a weak bargaining position

There are about 200 000 black wool farmers in southern Africa, mainly in the Eastern Cape, Free State, and Lesotho, who own about 20 million sheep.[64] Efforts to improve the market access of some of these poor farmers began in the late 1990s in three Transkei villages, Xume, Luzie, and Mhlahlane, where the National Wool Growers' Association (NWGA) encouraged farmers to form farming associations.[65] This meant that farmers would shear wool, grade it, pack it, and transport it as an association. The underlying idea was to increase the bargaining power of farmers, enable them to take advantage of economies of scale, and allow them to access new outlets. The general lack of choice that individual farmers had when accessing markets had contributed to them selling their wool to traders at a price far below what they could receive in a broader market. In essence, by selling wool to local traders who monopolised underserviced regions, farmers were in a weak bargaining position. They therefore expected to get a low price, and saw no reason to invest in better forms of wool production. To counter this, the NWGA project encouraged farmers to band together, and also provided large shearing sheds where they could work together. This improved farmers' access to markets because:

- They shared transport and packaging costs.
- Bulk marketing meant that market agents were able to sell wool on behalf of the various associations and not on behalf of individual small producers. This made it viable for the agents to market the wool without increasing their administration costs.
- By shearing and marketing in bulk, the farmers were able to bypass local traders. In the process, they avoided traders' price fixing.

Data gathered from the area showed that the income per kilogram of wool varied considerably between members and non-members of associations, as well as between villages in which associations were functioning and those in which associations were not.[66] Thus, the ability of associations to bypass the traditional sale of wool to local traders led to significant increases in the price per kilogram that the farmers received. The higher wool price must also be attributed to technical efficiency in sorting the wool, and the availability of the shearing sheds. Association members also became better wool farmers, obtaining nearly 30 percent more wool per sheep than non-members. The reason was that members spent nearly double what non-members spent on veterinary services. Having improved their access to markets, and their opportunities to make a profit, they were now far more willing to invest in their sheep.

Limitations of the intervention

This intervention therefore produced significant benefits, but also had certain limits. Firstly, the shearing sheds, which were provided by local governments, were of an inferior quality and by 2003 were starting to fall apart. These sheds reflect the problem of top-down assistance frequently being inappropriate, inferior, and unnecessarily expensive. As will be seen below, a more decentralised approach involving the private sector has led to a more appropriate and more cost-effective outcome. The project also had a fairly limited impact. Project reach was restricted as the intervention was confined to a small number of sheds. Furthermore, wool income represented a small part of the overall earnings of the project beneficiaries, and they were, almost without exception, elderly people who farmed to supplement their state pensons. However, for households depending on a diversified livelihood system, wool was found to be the steadiest source of non-grant cash income.

In 2003, drawing on the success and lessons of this initial project, the NWGA, with financial assistance from the ComMark Trust, expanded its activities in the Eastern Cape. The NWGA is involved in 300 sheds servicing more than 9 000 emerging wool farmers, thereby ensuring that this intervention has a wider impact.

A more decentralised and private sector-based approach has produced creative financing methods, and reduced the cost of infrastructure

Following a more market-friendly approach

A more decentralised and private sector-based approach has produced creative financing methods, and reduced the cost of infrastructure. In some areas of the Eastern Cape a mobile wool shearing system has been introduced.[67] The goal is to improve the yield from the estimated 130 000 sheep belonging to 500 farmers in the area by moving fully equipped shearing marquees among villages. In this way, these mobile shearing tents can be kept in production throughout the whole period. This approach is being funded via an Eastern Cape Development Corporation loan of R150 000. The payment takes place in terms of a levy of 70c per kilogram of wool. As a result of these interventions, the income of farmers in this area is expected to increase from R390 000 a year to R1,3 million.[68]

To counteract the top-down approach that has characterised the provision of shearing shed infrastructure, NWGA and local authorities are increasingly requiring wool farming communities to contribute either in cash or in kind towards the cost of shearing sheds. Anecdotal evidence suggests that this has led to increased local ownership of these assets, prompting increased use, maintenance and investment.

In Lesotho, where the wool marketing environment differs from South Africa's, an alternative shearing shed management model has been developed. Here, a significant portion of the wool clip is marketed through private traders who own and operate the shearing sheds. Sales through these licensed traders decreased dramatically in the late

1990s. This decline was partly attributed to stock theft and the increased activities of itinerant traders. The poor service and uncompetitive prices offered by licensed traders was also a key reason. To address this, in 2004 ComMark extended a grant to an NGO, Teba Development, to help these traders develop a business model to provide farmers with better services with respect to payment practices, shearing shed operations, and animal health extension. Farmers now earn about R20 per sheep a year, as opposed to R5–R10 when they sell wool directly to an informal trader. Furthermore, the shed owners work with farmers to prepare for the shearing season so that the shearing operation is improved, more wool is shorn and sorted at sheds than at farmers' homes, and prices are clear and fair. By adding value in the form of embedded services such as animal health extension, the traders also benefit by having access to an increased quantity and quality of wool.

This project is aimed at minimising the distortions that the NGO's initiatives impose on the wider market, and at expanding as widely as possible the benefits that the market can provide. It is hoped that, once they see that this approach makes everybody better off, both the traders and the farmers will be motivated to continue with it even when the NGO withdraws. At that stage, they should also be willing to invest their own money in maintaining the shearing sheds and improving their farming practices. This approach fits into a broader development trend that the International Labour Organisation (ILO) refers to as 'value chain development'. According to a recently published 'reader', it 'is fundamentally about strengthening market relationships so that businesses work better together to compete more effectively in the global market. Strengthening market linkages is a key component … The focus is on building win–win relationships or on aligning business interests that attract and keep all players engaged … well beyond the life of the project.'[69]

This case study demonstrates how it is possible, at a smaller, project level, to work within the logic of the market to benefit poor people

Policy implications

This case study demonstrates how it is possible, at a smaller, project level, to work within the logic of the market to benefit poor people. ComMark's efforts to strengthen the market access of small-scale wool farmers has the potential to be more effective than the top-down interventions used in previous projects. While, on a national scale, farming is a minor activity among South Africa's poor,[70] the ability of the country's 200 000 emerging wool farmers to participate in the formal wool value chain has the potential to make a significant difference to their lives. The evidence also shows that the provision of training and infrastructure such as shearing sheds can help the poor to access markets more effectively. However, how this assistance is provided is important. Many such interventions have failed to be either effective or sustainable. For example, the department of agriculture of the erstwhile 'homeland' of Bophuthatswana invested a great deal in infrastructure, but because market conditions were not addressed, it did not make a meaningful difference to the profitability of farming enterprises.[71]

5. Pro-poor tourism in South Africa[72]

In this case study we will show that pro-poor tourism is more likely to work effectively if it is undertaken in a market context, and that the institutions that permit markets to work must be put in place before any kind of sustainable tourism development can take place. The first point will be illustrated by showing how an approach that worked with the market was more effective than an approach that ignored the market. The second point emerges from a description of how the absence of property rights and effective institutions created major problems in the former Transkei, and continue to pose challenges in North West and Mpumalanga provinces.

The perils of ignoring the market

Because the project was driven by donor-defined targets they approached the problem in a back-to-front way

The Wild Coast Tourism Programme is an ambitious pro-poor initiative that has floundered because it did not take the tourism market into account, and failed to undertake interventions that would have created a better institutional environment for tourism development. The four-year programme began in March 2000 and made little headway over the next three years, at which stage a mid-term review was undertaken.

The programme was highly ambitious in scope (with a wide array of initiatives), in scale (extending across a large and widely differentiated area), and in terms of the output targets. The original intention was to develop a number of community-owned and operated tourism-related enterprises, thus creating sustainable employment for previously disadvantaged individuals along the Wild Coast. The mechanism for achieving this was a grant of €12,8 million from the European Union (EU). The programme was implemented by local NGOs. Essentially, they sought to extend the type of tourism activities of the small and relatively undeveloped Amadiba horse and hiking trail along the entire 280-kilometre Wild Coast. It seems as if the scale and practicalities of this project were not fully considered at the outset. Implementation of the programme was strongly target-driven, which resulted in some projects starting prematurely. A number were not completed, and others are unlikely to be sustainable when the programme ends. The results after three years were, at best, disappointing.

The mid-term review concluded that the outcome was 'extremely poor,' to the extent that 'a commercial enterprise would in all likelihood be looking for an immediate exit strategy out of the project'.[73] The review pointed to the following limitations:

- The goals that had been achieved came at a high cost (the 45 full-time and 61 part-time jobs created had been at a cost of around R285 000 per job).
- Although the programme was intended as a pilot for testing various options with a view to replicating them nationally, the opportunity to do this had effectively been lost.
- While the first phase of the programme was well-intentioned, it was poorly designed, and tried to achieve far too much in a very difficult environment.
- The community-owned and operated implementation model was unworkable; the programme structure complex and ineffective; and the institutional setting insufficient.

What the review points to is the common problem of externally determined approaches creating perverse incentives and unsatisfactory outcomes. Because the project was driven by donor-defined targets, and because the NGOs involved failed to take into account the importance of creating sustainable tourism markets in the area, they approached the problem in a back-to-front way. Instead of focusing on establishing an enabling operating environment and embedding the programme locally, they tried to deliver the tourism 'outputs' regardless of the existing institutional barriers and the needs and interests of local people. Property rights were non-existent in the area, the capacity of local governance was extremely weak, and infrastructure was completely inadequate. Unless something can be done about this context, it will be difficult to launch sustainable tourism ventures in this area.

Using the market and private expertise

The poor often pay more for services and essential goods than the rich because there is little competition between suppliers in the areas where the poor reside, and because suppliers are often weak and inefficient

These problems have been largely overcome in North West and Mpumalanga provinces through three methods that are all central to the MMW4P approach:

- bringing in private sector expertise;
- working in a market context in which tourists are attracted to the region and the private sector suppliers are motivated by profit and the fear of going out of business; and
- constructing workable institutions through which the tourism benefits are distributed to the poor.

One area where this approach has been applied is in Madikwe, in North West. The programme started in 1998 when it was known as the Madikwe Initiative. It was funded by a range of local and international donors and reported to a committee of key stakeholders including elected representatives of the Madikwe reserve's neighbouring communities. One of the key innovations negotiated within the framework of the initiative was an agreement to grant local residents commercial rights in the protected area, thus allowing them to participate in the mainstream of the tourism-led economy as if they were private investors. The first such development, Buffalo Ridge Safari Lodge, opened its doors in December 2004. It is owned by the Balete community of Lekgophung. The project yielded R1,3 million for residents during the construction phase. At maturity, it is estimated that the lodge will deliver more than R2 million a year in sustainable income to rural households in the acutely impoverished Lekgophung village. A second lodge, owned by the Batlokwa community of Molatedi, is being built, and should be operational by early 2006.

At the outset of the project, the trust that was set up to run it on behalf of the villagers decided to retain responsibility for the funding and development, but also recognised that it did not have the specialised capacity required to manage and operate the lodge. It therefore decided to contract in a suitably qualified private partner to maintain and operate the lodge for an initial ten-year period. In order to source a suitable partner, the trust called for proposals and selected an established private sector company with a proven record of accomplishment in marketing and operating tourist lodges. Under its agreement with the trust, the operating company funds the fittings, furnishings, equipment, pre-opening expenses, and operating capital required by the enterprise. The operator has therefore had to invest about R3 million, which exposes it to significant financial risk. This was seen as a crucial mechanism to safeguard the market-based integrity of the project: the willingness of the private operator, based on its own assessment, to bear substantial risk in the venture was taken as an indication of a serious commitment to the venture by a seasoned tourism entrepreneur.

The outcome of this project is a significant reduction in poverty. According to the most recent survey, the village of Lekgophung has a total population of about 2 300 in just more than 600 households. Prior to the project the total disposable income generated by residents was estimated at less than R600 000 a month, and average household income was therefore about R900 a month. The single lodge enterprise will boost average household income in the village by about R3 300 a year, and overall disposable income by more than 30 percent.

This lodge significantly outperforms other local tourism initiatives in the area, and because the whole process has been conducted in terms of market logic, it is highly likely that these returns will be sustainable in the long run.

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Similar success has been achieved at Makuleke, on the border of the Kruger National Park. Here the Makuleke community gained land from which they had been removed in and around the Kruger Park. They then entered into a conservation agreement with the park, set up a trust to develop the tourism potential of the land, and contracted a private provider to develop a lodge. This was again done in a market context in which the private provider was motivated by profit. A 30-year lease was granted to the most suitable tender; a 32-bed lodge, known as The Outpost, was completed in 2002 and is currently operational. The private operator of this lodge is expected to establish it as a brand in the market, and is responsible for all the expenditure associated with the lodge.

During 2004 the Makuleke Communal Property Association conducted a second round of competitive bidding, which resulted in an agreement with a leading southern African game lodge operator, Wilderness Safaris. Structurally and financially, the deal is similar to The Outpost, with the private firm acquiring the right to develop and operate game lodges on the Makuleke land in return for 8 percent of turnover. Wilderness has agreed to develop a maximum of three lodges on the Makuleke land. The first 54-bed development opened in June 2005.

Institutions and property rights

Both these areas are much more geared for tourism in their institutional make-up than the Wild Coast. Nevertheless, because they involve areas that were once part of South Africa's 'homelands', they still contain substantial institutional challenges stemming from decades of neglect and discrimination. The biggest of these challenges involve property rights and governance capacity. Property rights are non-existent in these areas, and the institutional arrangements that give the poor in Madikwe and Makuleke some right to the money generated on 'their' land must therefore involve notions of community, as well as community structures. But these structures, such as chiefly authority, are mostly extremely weak and divided, and cannot be expected to ensure that income generated from tourism will be equitably distributed. In both areas the problem has been recognised and careful programmes of institution-building have been implemented. Nevertheless, the processes remain fraught with difficulties, and the poor may only be able to participate maximally in tourism ventures once property rights have been effectively established in their areas.

A finding backing up this concern comes from a review of tourism development in Namibia. The authors explain that, while there has been an attempt in Namibia to 'restore control over resources to local communities,' this has not led to significant tourism benefits flowing to these communities. Two central problems preventing this are the contradictory and un-enforced laws that govern these areas, and the preference for communal over individual property rights. As a result, it is difficult for those who want to undertake economic ventures on the land to assert their right to the benefits that accrue from those ventures, and it is impossible to get funding from Namibian banks who 'perceive land rights in communal areas to be insecure and therefore to have no collateral value'.[74]

There is mounting evidence that privately supplied education, operating in well-functioning, competitive markets, can create many benefits for the poor

Policy implications

In the case of Madikwe and Makuleke, the involvement of private sector companies has helped to overcome many of the capacity constraints confronting pro-poor tourism ventures. Despite continuing problems with institutional arrangements and rights, these cases have also operated within broadly conducive institutional environments. The roles of the various actors were clearly defined within broadly stable institutional frameworks. This has permitted investment, ensured that tourists would consider travelling to these areas, and has helped to transfer some of the benefits to the poor.

The importance of the institutional context for success in tourism indicates that outside interventions are often required in those parts of the country where tourism opportunities exist, and poor people abound, but the institutional environments are not conducive to private sector activity. The creation of a clear rights framework and retention by the community or by poor individuals of ownership of the assets emerge as crucial factors. Assets can then be used to leverage funding, and as a basis for building capacity in the long term. It is clear that communities – organised collectively – do not have the capacity to manage businesses at the high-value end of the tourism industry. A well-managed community-based organisation may be appropriate for asset ownership and the management of the associated revenue streams, but tourism is a highly specialised service industry which requires the specialised business skills of the private sector.

In sum, linking poor communities to tourism markets involves different processes, staged through time, progressively building the confidence and capacity of different stakeholders. An enabling environment needs to be established in which poor communities can start to make linkages. Steps need to be built whereby sophisticated private sector tourism industry operators can reach out to host communities, and these communities can start reaching up.

6. Private education and the poor[75]

There is mounting evidence that privately supplied education, operating in well-functioning, competitive markets, can create many benefits for the poor. The implications for this, in a country where public education faces enormous challenges, is to see the value of a mixed public–private education system creating benefits from increased choice and competition.

The international evidence

The work of James Tooley has been instrumental in demonstrating that private education is not, as many believe, geared primarily towards serving the well-to-do. In numerous slums throughout the developing world, Tooley has found hundreds of schools that provided the poor with a good education.[76] He has described his discoveries in the following terms:

When private schools work well, they do so for a number of reasons that are associated with the market context in which they are operating

> I have found private schools in battle-scarred buildings in Somaliland and Sierra Leone; in the shanty town of Makoko built on stilts above the Lagos lagoons in Nigeria; scattered among the tin and cardboard huts of Africa's largest slum, Kibera, Kenya; in the teeming townships perched on the shoreline of Accra, Ghana; in slums and villages across India; among the 'floating population' in Beijing; and in remote

ST MATTHEWS CATHOLIC SCHOOL

St Matthews is a private school situated next to the well-known Regina Mundi church in Rockville, Soweto. The two blocks of classrooms are fenced, and the compact school ground is well-kept and clean. It is a Catholic School that was founded by the Sisters of Mercy in 1981. St Matthews Secondary has, over time, acquired a reputation for academic excellence. Over the last five years its matric pass rate has never slipped below 95 percent, despite big classes. Because it charges low fees, the school receives the maximum subsidy – 60 percent – which covers about 75 percent of its expenses. It also receives donations, in the form of cash or goods. The hardware at the school, such as computers, has been paid for with donations. From its income, the school has to cover its running costs and pay teachers. It employs 25 teachers, a part-time secretary who doubles as computer lab assistant and full-time secretary, a gate watchman, and a gardener. Teachers receive a basic salary on par with those of their peers in the public sector, but they do not have other benefits such as medical aid and pensions. Parents or guardians participate actively in their children's education. Meetings are held for the parents or guardians of every grade during the year, thus giving them the opportunity to meet every teacher who teaches his or her child. Up to 95 percent of parents attend these meetings. In sum, the school is well run and clearly attempts to provide the best possible education to the children with the resources it has at its disposal.

> Himalayan villages in China. Indeed, I have yet to find a developing country environment where private schools for the poor don't exist, and I doubt that I will.[77]

Apart from providing education to poor people who could not access public schools, Tooley has also found that many of these schools, despite often being run on a shoestring, provide quality education. Even a recent Oxfam report, which was generally critical of private education, admitted that private schools for the poor sometimes 'offer cheaper and better-quality alternatives to state provision'.[78]

When private schools work well, they do so for a number of reasons that are associated with the market context in which they are operating. Since private schools are accountable to parents who pay their fees, the schools may have to exert themselves harder to provide good instruction to pupils. Competition among providers also creates significant incentives to provide quality services, and the decentralised management that often emerges in private schools is conducive to efficiency.[79] By contrast, the bureaucratic and unwieldy nature of public school administration can lead to ineffective management and poor staff motivation.

The chief value of private schools is that they operate in markets, and therefore have a strong incentive to provide appropriate, high-quality education to their clients

What is important about these findings is not that the schools are private, but that they are operating in a market context. The argument here is that when education markets work they can produce very positive outcomes for the poor and for the more general cause of development. We cannot, however, assume that markets will always work in this way, nor is it necessarily the case that public institutions always malfunction.

The South African evidence

The extent and the quality of private schooling for the poor in South Africa have not been adequately studied for us to make a definitive statement.[80] However, we have studied four private schools that serve, in varying degrees, relatively underprivileged children. In each of these we found features that suggest that the market is having a positive impact on the extent and the quality of education that these schools provide.

The schools we studied varied in terms of their location and their character. One was Crystal Springs Combined School in Orange Farm. This school charges very low fees and yet maintains a staff of dedicated, qualified teachers, and has achieved major educational successes. The secret of its success is the determination of the principal to promote hard work from his staff, the desire that most learners have to stay in the school, and the close co-operation between the school and parents. The school strives to improve and to be successful, and, by so doing, hopes to attract fee-paying learners and remain open.

Two Catholic schools were also studied: one in Soweto, and another in Atteridgeville. These schools charge higher fees than most of the local public schools, but still significantly less than the former Model C schools to which relatively affluent local parents tend to send their children. While charging low fees, the schools once again produce high-quality education and high success rates, and are constantly seeking to improve.

The last private school we examined is a rural school, situated in Burgersfort, Mpumalanga, which caters to learners, both black and white, who want to receive a competitive education. This school started out by catering primarily for black learners, but has since attracted many white learners whose parents have decided that it provides a superior education to the old public schools that traditionally catered exclusively for Afrikaans-speaking whites.

We found that all the schools displayed the following characteristics:

- an ethos of care;
- bursaries for needy learners;
- an emphasis on discipline;
- sound financial management;
- a service regarded as superior and/or more appropriate by local parents who, despite their poverty, continue to send their children to these private schools even when public schooling is available;
- principals who are determined to promote hard work among their staff;
- staff members who are determined to attract learners by offering high-quality education that meets the needs of their constituency;
- close co-operation between the school and parents;
- a tendency not to focus merely on generating throughput, but also to care about the quality of the education and whether or not graduates are able to enter university or remunerative forms of employment; and
- an involvement in the problems faced by surrounding communities.

When private schools work well, they do so for a number of reasons that are associated with the market context in which they are operating

Market failures in education

These are success stories that reveal what the market mechanism is capable of achieving. However, not all private schools produce high-quality, desirable education. Market failures can occur in the realm of education, mostly because of information asymmetries and because of the disjuncture between private and public incentives. It is not always possible for consumers of education to make informed judgements about the quality of education they are receiving, and there may be an incentive for learners to merely desire a certificate if this is seen as a way of getting ahead in the society. If this becomes a general perception, then quality education can be seriously compromised as a result of 'free markets'.

But the central idea of MMW4P is not to let markets be free, but to regulate and promote them in such a way that they produce optimal results. In this regard there may be more opportunities than are presently being considered to promote private schooling for the poor, and to introduce elements of competition into the education sector as a whole. We should be looking to harness the positive aspects of private involvement in education by creating a diverse sector in which education consumers have real choices.

Policy implications

Although the government does subsidise the private sector to some extent, it has not yet fully harnessed the benefits of private education markets. The subsidisation of private education is often seen as diverting essential resources from needs in the public sector. This perspective fails to appreciate the way in which the private sector provides services that the government struggles to match. This includes servicing areas that are neglected by government, providing quality education and serving niche markets (such as specific religious denominations) in the education sector. For these reasons there is a powerful argument in favour of at least maintaining the existing subsidy scheme.

It would also be advisable to reduce the restrictions on private sector education. This would include doing away with the idea that private schools should not be allowed to offer services in an area that is already served by a public school, and reducing the excessive and overly centralised quality controls that private education institutions have to comply with. Much could be done to make this regulation more streamlined and efficient. But, as a whole, it represents the wrong kind of approach. Instead of controlling schools and restricting entry, the government should focus on ensuring that educational markets are working in an optimal way. The main issue is that the asymmetries of information inherent in the market are tackled. This means providing parents with the means to assess the quality of the education and the value of that education in the jobs market. Some regulation would still be required to achieve this, but it would require much more interaction between government and the various stakeholders, including

Instead of controlling schools and restricting entry, the government should focus on ensuring that educational markets are working in an optimal way

CALVIN SCHOOLS, BURGERSFORT

Calvin Schools is the name of Calvin Preparatory School and Calvin College. Although it is not a religious institution in the denominational sense, it was named after the church reformer Johan Calvin in order to express the school's Christian values. Calvin Schools is located in Burgersfort, a small mining town in Mpumalanga. Chrome mining used to be the life blood of this community, but in recent times platinum has attracted the big mining houses. Calvin College opened in 1998 with 176 learners. Today it has a total of 600 learners in the preparatory school and college. The growth in numbers from 1998 until 2005 is telling, suggesting that parents are willing to pay for what the school is offering. An even greater revelation is the fact that the school, which was founded because of a demand expressed by African parents, is today a racially integrated school. A total of 85 to 90 percent of the learners are black (African, coloured, and Indian); the rest are white, predominantly Afrikans-speakers. What makes this situation unique is that in almost all other parts of the country black learners have moved to former white schools, not the other way around. What makes it even more extraordinary is that the Afrikaans community has traditionally been extremely conservative and reacted to the racial integration of the local primary school in 1994 by establishing a Christelike Volkseie Skool, a private school that caters for white learners only. The founder and principal of Calvin Schools, Mike Roetz, says the learner integration has happened for one simple reason: 'the quality education that we provide'.[81]

the businesses that hire those who complete their education. It also means that the focus should be on empowering parents and promoting information exchanges, rather than making the education system more bureaucratic.

The chief value of private schools is that they operate in markets, and therefore have a strong incentive to provide appropriate, high-quality education to their clients. Rather than restricting competition between public and private providers, the government should encourage it as well as seeking ways to introduce the principles of competition into the public sector. In this respect it would be advisable to create a level playing field on which private institutions can compete with public ones.[82] Another mechanism through which competition can be encouraged is through the provision of educational vouchers to disadvantaged parents. In this way, poor parents can choose to which school they send their children, and schools will be forced to compete in order to attract the revenue inherent in the vouchers. Clearly the private sector could complement the public sector.

We cannot, however, offer more precise policy recommendations until further research has been done. We need much more precision about what private education for the poor looks like in South Africa, what opportunities exist to expand private initiatives, and where the private sector can come to the aid of the public sector. Our strongest policy recommendation is therefore for 'independent, objective research at sufficient scale to assess the current national situation'.[83]

The problem is not necessarily poverty, but how the poor use the credit that is available to them, and what recourse banks have to enforce repayments

7. Financial markets and the poor

This case study shows how financial markets in South Africa have begun to work more effectively for the poor. It will look at the Financial Charter and show how, as a result of this Black Economic Empowerment (BEE) initiative, big banks have geared their services more effectively to the poor.[84] Despite the less than voluntary nature of this initiative, it seems to be creating the kinds of effects that Prahalad predicted would emerge when big businesses enter what he calls 'markets at the bottom of the pyramid'. We first examine the role of finance in reducing poverty, then the access that the poor have to financial services in South Africa, and then the impact that recent interventions have had and are likely to have on extending financial services to the poor. Lastly, we will make some policy recommendations.

The role of finance in reducing poverty

The poor are caught in a bind regarding finance. Without access to finance, they are restricted in their ability to consume products essential to their health during those times when they have a shortage of disposable income. They are also prevented from educating and maintaining the health of their children, and they find it difficult to launch and sustain income-generating enterprises. But when they have been able to access finance, they have often descended into indebtedness and had repayment difficulties. This has made financial institutions wary of lending to the poor. The problem, however, is not necessarily poverty, but how the poor use the credit that is available to them, and what recourse banks have to enforce repayments.[85]

Access to financial services in South Africa

As in so many areas relating to poverty, not much has changed fundamentally since the end of apartheid in respect of the access the poor have to financial services. In the words of one report, 'despite the progress since 1994 in drawing those previously excluded into the financial mainstream, there is still plenty to achieve'.[86] That this is the reality is supported by the following figures collected in 2004:

- Fifty four percent of the adult population are 'unbanked', and 42 percent have never had a bank account.
- Most of the 'unbanked' cite poverty as the biggest problem that prevents them from getting access to financial services.
- Only 5 percent of the 8,1 million people living on tribal lands report that they have a bank 'nearby'.

The banks involved were controlled by the government, and lacked the skills and incentives to expand services to the poor

Reducing the barriers to entry experienced by the poor and improving the reach of the banking infrastructure into rural areas, where the majority of the poor are located, are major developmental challenges.

Expanding access: the role of the financial services charter

The idea behind the government's BEE strategy is to use government influence, rather than government power, to push businesses into creating new management and ownership opportunities for black South Africans. There is a level of threat within the legislation and accompanying government statements, but the financial sector's commitment to the BEE Financial Sector Charter in October 2003 was largely voluntary. The charter has been described as 'a document that is remarkable for its vision and for the clarity with which many of its goals are expressed'.[87]

It commits the financial sector to, among other things, increasing the number of people with access to bank savings products from 28 percent to 80 percent by 2008. There are many other goals in the charter, including the collateralisation of property in high-risk or 'red-lined' areas, which are still being negotiated. The clear targets for expanding banking services have, however, helped to galvanise the banking sector into action. While further research into the precise motivation behind recent banking initiatives must still be done, it seems that the sector was already looking for ways to extend banking services; able to become more open to co-operative ventures as a result of the co-operative nature of the charter; and given a sense of urgency by the charter's targets.[88] The result was the Mzansi banking initiative.

Mzansi is a low-cost banking product launched jointly by the 'Big Four' banks and the government-initiated PostBank, at a collective cost of R25–R30 million. This pooling of resources allowed these banks to make a significant dent in both the cost and the infrastructure barriers preventing the poor from accessing banks. By combining their resources (as well as, on a more negative note, offering fewer services) the banks charge their Mzansi customers significantly less than their ordinary customers. This, then, is a cheaper banking facility targeted at the poor, and is also more widely available. By pooling infrastructure, the eight participating banks have made 12 000 Automatic Teller Machines (ATMs) available to Mzansi account holders. In its initial stages Mzansi has been a resounding success:

> Within the first six weeks Mzansi had attracted 180 000 users, exceeding many people's expectations. While these early successes need to be maintained if the Charter target is to be achieved by 2008, it is clear that Mzansi is a material step forward towards the delivery of a universal service and has been achieved without government subsidy, legislation or interference, except for its insistence on competitive pricing.[89]

This initiative has, furthermore, been far more successful than the original PostBank scheme launched by the government. Although this was specifically designed to provide banking access to the poor, it failed to produce attractive banking options.[90]

Through more competition, prices will be reduced and financial products will become more accessible to the poor. That this is possible can be seen from the effect that Pick 'n Pay's Go-Banking services are having

The limitations of previous attempts to 'bank the unbanked'

Since 1994, various attempts have been made to extend banking services to the poor. These were unsuccessful for three main reasons:

1. The banks undertaking the initiatives were too small and lacked the resources, structures and skills to survive the fluctuations inherent in financial markets.
2. The banks involved were controlled by the government, and lacked the skills and incentives to expand services to the poor.
3. The banks were large, highly resourced private banks, but lacked the will to develop and expand their initiatives.[5].

There are numerous examples of banks setting out to serve the poor, but we will focus on three prominent cases, each illustrating one of the tendencies outlined above. The first is PostBank, a long-established state-owned wing of the Post Office, which seemed to be ideally placed to provide the poor with banking services through the 2 700 widely spread post office branches and agencies. In 1996 the Strauss Commission recommended that PostBank should change the nature of its services so that it could attract financial clients in the rural areas. This would have involved providing new, affordable savings facilities as well as general payment services. Despite the intention to do so, however, the PostBank has not delivered on this brief. It has failed to provide new services, continues to use manual passbooks rather than offering electronic services, and controls a very small share of the market. The reasons for this can be found in resources being diverted from PostBank to shore up the losses incurred by the Post Office and, as is the case with Telkom, the absence of market pressures to increase its client base.

The second example is the Community Bank, which was launched in 1994 and offered a low-end savings account as well as small mortgage and business loans. The bank was partly donor-funded in order to facilitate 'developmental' loans. It collapsed as a result of 'too rapid expansion, internal conflicts, inadequate understanding of the market sector, and unsound criteria for credit extension'.[91]

The third example is Standard Bank's E-plan, introduced in 1994. This initiative from one of the 'Big Four' offered simplified savings and electronic payment facilities, and the establishment of special ATM facilities in low-income areas. These electronic sites also provided customer education facilities and a special death benefit facility. Take-up of this product was initially rapid. Standard Bank later introduced management and transaction charges, ostensibly to eliminate accounts with zero balances, and this may have led to the stagnation in take-up by 2000. Equally important appears to have been the lack of follow-up initiatives. Although it vigorously launched the E-plan, the bank did little to keep the momentum going in subsequent years.

Mzansi: a preliminary assessment

Without competition, the interests of the big corporations will come first, and those of their clients second

If we take into the account the various reasons for the slow progress of previous attempts to 'bank the unbanked', the Mzansi initiative appears to be the ideal solution. It draws in the big banks, causes them to pool their resources, and encourages co-operation between them and PostBank. It is therefore able to overcome the skills and capacity shortages that plagued earlier initiatives. At the same time, the Financial Charter's target and the pressure government has exerted to make businesses BEE compliant provides a reason to keep expanding this service until it has reached 80 percent of the population.

However, the limitation of the exercise lies in the lack of competition it introduces into the lower-income financial market. Although the partners have co-operated in putting the Mzansi product together, they are competing as individual banks for Mzansi clients. This is a weak basis for competition in a sector that is already highly concentrated. South African bank charges are extremely high by international standards, and this is usually ascribed to the uncompetitive nature of the banking sector.[92] The Mzansi initiative has brought these charges down under pressure from the Financial Charter, but more competition may be needed to make further inroads into the prices. Through more competition, prices will be reduced and financial products will become more accessible to the poor. That this is possible can be seen from the effect that Pick 'n Pay's Go-Banking services are having. Without seeking to specifically target the poor, Pick 'n Pay is seeking to attract more customers. As a result it offers services that may be cheaper than those provided via Mzansi. According to one commentator, 'would-be Mzansi customers living near one of Pick 'n Pay's 337 countrywide outlets may find they can do their banking more cheaply through the retail chain's card-based Go-Banking account'.[93]

Although the Mzansi initiative has expanded rapidly by all accounts, concerns about its performance are already emerging. The account is making most of its progress in urban provinces such as Gauteng, and seems to be leaving the rural areas relatively untouched.The launch account provided no debit order or transmission facilities, 'which are essential if people are to gain access to a financial service such as insurance and credit. Insurers will only provide insurance if they can collect premiums, and credit providers will only lend if they can collect repayments. Mzansi can still not be used to facilitate the R12 billion of remittances that flow from urban to rural areas each year.'[94] Encouragingly, a decision has been taken to provide debit order facilities from mid-2006, and discussions are under way with the Department of Social Services on the transmission of pension payments.

Policy implications

Prahalad's argument that the poor will benefit from big businesses seeking to turn them into customers is based on the idea that these businesses are innovative, have skills and capacity, and will competitively strive to deepen market relations in poor areas. [95] In the Mzansi case these factors certainly seem to be in play, and this case study therefore adds further weight to the argument that markets can benefit the poor. However, we have argued throughout this report that competition is the essential fuel that makes markets work for the poor. Without competition, the interests of the big corporations will come first, and those of their clients second. Without competition the private sector will in fact frequently engage in the kind of top-down initiatives we have seen so often from governments and development agencies. This does not imply, however, that we must replace large, dominant firms with small, perfectly competitive ones. The size and the capacity of South Africa's major banks is a crucial ingredient of the Mzansi initiative.There are also many forms of competition, and firms that appear to have a monopoly are often dominant because they are better at providing services and products than their competitors. Such firms cannot rest on their laurels; they continually strive to stay ahead of potential competitors. Nevertheless, it seems that the poor will benefit if ways can be found to make the South African banking sector more competitive. We must also remember that the Mzansi account is in the early phases of its development, and its progress needs to be monitored. Nevertheless, it is an interesting initiative with significant possibilities.

Our report calls on those in the development field to take the potential of markets seriously, and to work on ways in which markets could be made to deliver more benefits

Summary

Our case studies show that markets are working for the poor in South Africa. They are working to provide useful and increasingly cheap access to communication technology; improve the incomes of wool farmers; ensure that the poor are able to benefit from the tourism potential of the areas in which they reside; create an alternative education option for the poor; and improve the access of some disadvantaged people to banking services and credit. We have also seen how markets outside South Africa are improving access to useful information, and making global markets work for the poor.

Our case studies also point to policies that could make markets work better. We could increase competition in the telephone sector, extend the private sector's involvement in the tourism sector, and strengthen the institutional context in which the rural poor reside. We could more effectively harness the potential of education markets by creating a level playing field and public–private partnerships, and we can be vigilant in ensuring that the momentum of the Mzansi initiative does not dissipate, and that greater competition is encouraged. We could also do far better in accessing global markets.

The policy challenges are large. Our report calls on those in the development field to take the potential of markets seriously, and to work on ways in which markets could be made to deliver more benefits. In our conclusion we suggest some ways in which these complementary agendas could be pursued.

Part 3

Concluding remarks

IN South Africa, the reduction of poverty and unemployment are, unambiguously, the core challenges for those concerned with development. Few would reasonably dispute the centrality of these goals. It is differences on how to commit resources to reduce poverty and unemployment that separate the protagonists in policy debates.

In South Africa, discussions about how to help the poor tend to ignore or be biased against the market. The examples cited in this report, as well as many others contained in the research conducted for this project, may help to restore some balance. It has been shown, for example, that:

- Privately provided cellphone services have rapidly become the primary means of telecommunications by the poor, while Telkom, the expensive monopoly fixed-line operator, has effectively been forced into retreating from serving this constituency;
- Pro-poor tourism projects driven by foreign aid, with market research and market analysis being avoided in favour of 'direct action,' has resulted in a costly waste of European taxpayers' money, whereas;
- Market-based approaches to ecotourism in similar developmental contexts has led to long-term gains for the poor, at no cost to European or South African taxpayers;
- Private education for the poor which is focused on offering value for money to parents is growing at little or no cost to the taxpayer, while subsidised, often free, public education frequently yields poor results;
- Efforts to strengthen the market access of small-scale wool farmers have been more successful, and have the potential to be still more effective, than the expensive donor- or state-driven 'top-down' interventions in black agriculture of times past; and
- the growth alliance between the Lesotho government and private apparel producers has ensured that globalisation works for the poor in this small country.

Initiatives centred on working with markets draw on existing activities among the poor, usually lead to realistic targets, and generate continuing benefits

How can this type of information be fed into real world circumstances in order to allow development practitioners to factor in market-based solutions to poverty? Our conclusion that the poor will benefit if their exposure to markets is intensified, rather than blunted, is often the opposite of what many people working in the development field seem to believe. Through their actions, such practitioners reveal their concern to 'protect' the poor from markets, and to deliver goods and services to them directly, without the mediation of negotiated exchanges. It has been shown that such strategies, while often motivated by good intentions, have a strong tendency to fall flat, to encounter insurmountable obstacles, and to work only for short periods of time. By contrast, initiatives centred on working with markets draw on existing activities among the poor, usually lead to realistic targets, and generate continuing benefits.

In the context of a general sense of frustration with traditional development approaches as well as the numerous successes of market-driven approaches in South East Asia, China, and now India, many of the world's leading development agencies have adopted the MMW4P approach to development. The essence of this approach is to strengthen the institutional context in which markets work; reduce barriers to market entry; and, where this can be done without creating major distortions, enhance the ability of the poor to participate and compete in markets.

Our perspective on the evidence cited is by no means that of 'wishing away the state', but rather how best to use South Africa's relatively modest resources in fighting poverty. The same assumption underlies our observation on international aid: how to best use it. Our research points to circumstances where markets, either on their own or in combination with the state or aid agencies, can do a better job than either the state or aid agencies acting on their own. Whether or not such circumstances exist will depend on the capacity of the state, the way in which markets are already functioning, and, possibly most importantly, the extent to which private sector actors can be drawn into processes that will benefit the poor. Relatively weak governments that constantly seek to extend their control are bound to run into trouble. But when the government, the private sector, civil society organisations, aid agencies, and the poor themselves all work towards a common goal, there is every chance of success. Setting out to make markets work for the poor is a project that can draw all these parties together.

Our research points to circumstances where markets, either on their own or in combination with the state or aid agencies, can do a better job than either the state or aid agencies acting on their own

We have emphasised throughout that it is not simply a matter of leaving markets alone. Interventions are often required to make markets work better for the poor. Markets do not work in a vacuum; nor do they always work as they should or could. This sometimes makes it necessary to intervene to strengthen markets and to link poor people to cheaper goods and services and better economic opportunities. These interventions, however, need to be undertaken carefully, and they must use the logic of the market wherever possible.

Competition is often the most valuable aspect of markets. It may create difficulties for firms struggling to survive, but it is the fundamental force that pushes firms to lower prices, improve their products and their services, and grow. The case studies have shown how competition creates benefits in areas such as the provision of phones, education and radio programming. They have also suggested that increased competition will be beneficial to the poor in most of these sectors. Governments can take action to increase competition, either by reducing regulations that prevent new firms from entering a market or more directly by making certain forms of price-fixing behaviour and mergers illegal. At the same time, what is needed is a light touch by the state. It can become very tempting for state actors to view large companies as anticompetitive or as opposed to the interests of the poor when in fact they are just more effective than smaller firms or some of their larger competitors. Prahalad's perspective provides an important corrective here, as he shows how large companies, by virtue of their strength and efficiency, often provide better services and cheaper goods to the poor than small, under-resourced local entrepreneurs.

The case study on Lesotho's burgeoning textiles industry shows that less developed countries do have global opportunities, and that strategic and collective action is required to take advantage of those opportunities. Rather than seeking to restrict trade, we should work together to expand it. Part of this should involve government-led initiatives to bring about a restructuring of the international economy and to reduce the unfair trading practices of large players such as the EU and the United States, and to encourage greater levels of free trade between developing countries themselves. But rather than bide our time until the (unlikely?) event that considerable progress is achieved in this respect, we should be on the look-out for new opportunities and devote private sector, government, and civil society resources to taking advantage of whatever opportunities emerge. The global economy moves very quickly. It therefore requires a rapid response from public and private actors, otherwise they will lose out to those who are quicker and more decisive in their response.[96]

One final lesson is that all role players need to be clear about what the respective role of markets and states are. States need to be effective at some very important basic things such as providing security, upholding the rule of law, and enforcing contracts. They also need to be flexible and intelligent. They must have an understanding of what is happening globally and regionally, and work with the private sector to take advantage of opportunities to grow markets and market opportunities rather than restrict them, or only favour certain companies. In co-operation with other actors, they also need to ensure that society has the right institutions and infrastructure for effective market-based development. They need to extend property rights to as many people as possible, and create a clear and simple regulatory framework to which most people in the society are committed. These are difficult – and yet not highly visible – things to do, and will extend most states in developing countries, especially if they have populist political tendencies. It is therefore important for states to limit themselves to these things and to not get into areas in which they go way beyond their capacity. Efforts to extend state control beyond the state's capabilities will harm the potential of markets to work effectively, and this will be especially detrimental for poorer citizens.

Our conclusion that the poor will benefit if their exposure to markets is intensified, rather than blunted, is often the opposite of what many people working in the development field seem to believe

Our findings on education deserve special mention. For a long time, it has been taken for granted that it is the state's responsibility to fund and provide mass education for the majority of a country's population. We do not seek to question that assumption on the basis of a few examples. What our research does uncover, and what considerable international research confirms, is that while state funding must underpin a national system of education and training, there are a number of other new dynamics worthy of considered reflection and appropriate action.

Like middle- and upper-class parents, poor parents are also able and willing to contribute financially to the education of their children. Private providers of education are already playing an important role in this crucial field – even in a context where public education is subsidised and they are not – and are, in some cases, providing better education for poor people than state schools. In this area where all South Africans would agree that better performance is crucially important for the country's future well-being, and for opening up more and more opportunities to poorer people, it is essential to think anew about the beneficial impact of markets, and the most appropriate roles of public and private provision and the complementary relationship between them.

The competitive principles that private education providers bring to a mainly monopolistic national system can have enormous benefits not only for learners enrolled in private schools, but also for those learners from poorer communities remaining in state schools who will now be subject to the discipline of competitive market forces.

The state has an important role to play in ensuring that the positive impact of this competition has an effect on poorly performing state schools, as well as the allocation of budgetary support.

These findings have implications for education and schooling across the board in South Africa. Issues such as how we finance each learner's education and how we deal with non-performing schools in the public sector can all be thought through within a system that benefits from markets and the effective integration of private providers, 'edupreneurs', to help make for a better quality of education for poor people in South Africa.

Turning MMW4P ideas into practice

National leadership could encourage local political and business leaders to identify opportunities to enhance the capacity of the poor in a market context

In order to convert the ideas contained in this report into development practice, we need those agents who actively assist the poor to engage with the validity of our arguments, and then to put at least aspects of those ideas into practice. In an attempt to initiate this process, we will now point to reasons why specific constituencies within the development community should take markets seriously. We will also point to ways in which these practitioners could start to make markets work for the poor in the South African situation. We start with those who occupy the various spheres of government.

Many in government would recognise from the present report – and others like it – that they have a choice about how to intervene in the interests of the poor. Many would also base their choice about whether they want to strengthen markets or government control on the merits of each case. Such strategic ways of approaching the problem should be encouraged in all spheres of government. Crucial in this regard is the leadership provided by cabinet ministers or members of executive committees, from whom officials derive their sense of orientation. They could be encouraged to play a leadership role in promoting market-based solutions at levels well below the broad macro-economic perspectives in which government leadership has hitherto been bold and positive. National government leaders advocate a national market-based strategy for growth and employment, but many line-function ministers, MECs and local government leaders do not seem willing to carry this logic over into the realm of actual, departmental or local-level development projects. Especially at the local government level, this perspective is lacking.[97]

Bridging this communication gap between the principles that guide national policy and their application at the local level would be a constructive way forward. In doing so, national leadership could encourage local political and business leaders to identify opportunities to enhance the capacity of the poor in a market context. Together they could develop programmes in specific regions and sectors that encourage private sector investment through improved institutional frameworks. It is unlikely that this will occur without strong leadership from the centre.

In the meantime, each time local officials, who may be closer to the ground and have a good understanding of local conditions, confront a development challenge, they should be encouraged to ask themselves to what extent a market-based solution could be promoted, how this solution would enhance the prospects for sustained development, how the solution would reduce the demands on overstretched bureaucracies, and to what extent it permits poor people to use their own initiative and make their own choices. We are confident that if this procedure were to be followed there would be many instances where it would be most feasible and beneficial to focus on making markets work better for the poor.

A similar challenge also often extends to parastatals. Our case studies show that, in many instances, markets can do the job more effectively than direct provision. For example, all South Africans would support the important goal of extending telephone services for the poor. But well-intentioned attempts to provide telephone services to the poor through regulation and in a monopolistic way have been very disappointing. In the meantime, competitive market players who have been primarily motivated by the need to improve or maintain their profits have been extremely successful in providing the poor with phones and in setting up phone shops in disadvantaged areas. Surely there are other key services – in transport, energy and power, land and agriculture, and housing – where this kind of approach would work well, and each of these different areas should be looked into with energy and commitment.

More could be done within government departments to use markets to achieve the aims of poverty reduction

More could be done within government departments to use markets to achieve the aims of poverty reduction. For example, there is a commitment to markets in the departments of Land and Agriculture. This has led to South African agriculture becoming one of the least regulated sectors in the world, but it has not really led to policies that could make markets work better for poor farmers, as in the case of the wool farmers we studied. Moreover, officials often ignore or even denigrate the very important role of market forces in redistributing land to poorer black farmers, rather favouring inefficient and politicised approaches. The Department of Social Development has expressed its intention to reduce the dependence of the poor on transfers, and to find ways of encouraging sustainable development, but its methods of achieving this appear to depend primarily on traditional, project-based approaches to development rather than harnessing the power of competitive markets. Although parts of the housing programme have worked against rather than with the market, the Department of Housing now appears to be taking the lead in promoting an approach in which property rights are strengthened and the poor are provided with assets that they can use in a market context. Hopefully this programme will be fortified over time, and whatever successes it achieves will be publicised and expanded to other departments.

A change in perspective is also required outside of government. Business in South Africa seems to be on the defensive, and often seems to assume that 'the poor are the problem of government'. Yet the MMW4P approach will create many exciting opportunities for South African entrepreneurs and businesses. Our report suggests that there are significant prospects for them to extend their activities into the many geographic areas in our country and in the subcontinent where the poor are concentrated. But this is not a simple exercise, as it may require changing business practices, research and development activities, and marketing to suit these markets. Many of our businesses are, of course, already engaged in such activities, but there seem to be many untapped possibilities in our country and on the subcontinent. One of the most important implications of the MMW4P approach is that businesses should not only sell goods and services to the poor but also, through their activities, build and strengthen markets among the poor. By building up markets, they not only serve their own immediate interests by creating customers; they also contribute towards establishing a growth dynamic that will benefit all South Africans in the long run. The MMW4P approach also provides opportunities to expand and improve the impact of corporate social responsibility programmes. Rather than merely providing some publicity for the firm concerned through undertaking 'good works', such programmes can expand its customer base and improve business practices of the firm if they are aimed at expanding market activities among the poor.

Businesses should also look to identify and promote programmes in which they can co-operate with various levels of government. Here the primary issues are usually those of appropriate role definitions for business and government in partnerships or joint ventures. Rather than waiting passively for government to take the initiative, business leaders should actively promote the ideas of MMW4P, help to launch successful initiatives, and, through such successes, strengthen the general support for market-based development in the country. Businesses should champion the cause of MMW4P as it gives them a vital role to play in a brighter South African future.

Business leaders should actively promote the ideas of MMW4P, help to launch successful initiatives, and, through such successes, strengthen the general support for market-based development in the country

However, to make this possible, those NGOs and aid agencies that harbour anti-business precepts will need to revise their thinking, if only to recognise the strategic value of gaining access to business boardrooms on a basis of the genuine merits of the cases being raised. Business in South Africa is under pressure on a wide array of fronts, and presenting them with well-researched and profitable (if only in the long term) opportunities, rather than preaching to them, will probably provoke the most positive, and sustainable responses.

Educational institutions could also be inspired by the ideas that make up the MMW4P approach. In particular, business schools might teach the ideas of Prahalad and De Soto and examine the experiences of those involved in implementing MMW4P programmes. In this they would be following the trend set by the world's leading business schools (including Harvard and Stanford) which are increasingly interested in the works of these two and related authors. Young entrepreneurs and managers might well find these new business opportunities awaiting those who are prepared to look hard for new markets and consumers. Well-directed funding by aid agencies or business in this direction would be an important next step. It is not only business schools that could be inspired within the universities. All those schools and departments in tertiary education involved in teaching courses about development or poverty or community development could be encouraged to use this perspective to at least debate the role of markets in poverty alleviation, if not taking the ideas further.

One opportunity that emerges from the MMW4P framework is for universities and businesses to develop new kinds of mutually beneficial relationships. Historically, universities have tended to see business as a 'cash cow' for donations, and business has in turn seen them as a repository of 'good works' mostly unrelated to real world interests. Yet the students who attend universities and the parents who pay dearly for their fees and costs are often desperate for a more pragmatic intersection of interests, centred on the prospects for jobs or enterprise opportunities. The MMW4P perspective provides an arena within which the educational and developmental concerns of universities could fruitfully intersect with the interests of the business community.

The media can also play an important role in informing people of the potential of market-based solutions, and influencing opinions to become more market-friendly. The South African media in particular can add to a sense of positive developmental momentum by counterposing stories of unsung market successes against their more common agenda of both public and private 'big bang' successes/failures, or endless descriptions of poverty. Demonstrating to newspaper managements that this material is commercially marketable (as has in fact been proven in certain South African instances) should form part of the MMW4P policy thrust.

International development organisations can also make, and are increasingly making, choices about how they wish to interact with markets, based on the merits of each case. At the level of large donor agencies, MMW4P is becoming increasingly popular and is accepted as at least a possible strategy by most organisations. This includes the United Nations, the ILO, the Organisation for Economic Co-operation and Development (OECD), the Canadian International Development Agency (CIDA), DFID, the German dvelopmental agency GTZ, and SIDA. All development agencies should take this trend seriously. A potential barrier is the view among some development practitioners that the poor are necessarily the victims of market forces and that they therefore need to be protected from these forces. In some instances this may be the case, but it is not the norm. As has been demonstrated in this report, there are ample opportunities to help the poor in the context of markets. Such assistance is frequently more effective, permits the poor to make their own choices, and is usually more sustainable. Where they are not already doing so, development organisations could follow the lead of DFID on MMW4P.

There are ample opportunities to help the poor in the context of markets. Such assistance is frequently more effective, permits the poor to make their own choices, and is usually more sustainable

In a recent publication, DFID points to the following concrete steps it is taking to make markets work for the poor:

- It is working with the International Finance Corporation and Multilateral Investment Guarantee Facility to encourage private investment in poor countries
- It is supporting institutions in developing countries that allocate resources competitively and have decision-making boards chaired by private sector representatives.
- It is identifying more effective routes (such as public–private partnerships) for increasing the access of the poor to essential services.
- Rather than intervening directly, it is funding programmes that focus on enhancing human capital and good governance and therefore improve the ability of the poor to help themselves.
- It is engaging governments in order to support interventions that will improve the way in which markets function. This includes support for regulatory reform and the reduction of red tape; commercial justice reform; competition policy reform; equitable land reform; and public enterprise reform.[98]

South African NGOs could hopefully also draw inspiration from the set of ideas and cases we have presented here. The kind of approach explored in our study of wool farmers provides one way in which smaller focused projects can seek to work in a market context, and supplement government initiatives. To do this successfully, NGOs need to adopt the following attitudes:

- A determination to understand how markets are (or are not) working in specific contexts, and how their operation may be improved in the interests of poor participants.
- A focus on normalising or influencing market structures rather than attempting to directly assist the poor.
- A willingness to work with other role players.
- A desire to achieve sustainable solutions.
- An avoidance of inappropriate solutions imposed by external 'experts'.
- A readiness to develop and monitor the 'crowding in' effects of any intervention.

This must take place in the most important areas of national development, and not only on the fringes of a rapidly urbanising society. Additionally, the MMW4P approach requires intensive research as it works best when there is a good understanding of how markets are actually working in particular localities, and also of the potential implications of different kinds of interventions aimed at strengthening markets. NGOs should be encouraged to budget for market research, and their donors should be encouraged to support such budgets. Lastly, there is scope for NGOs to operate as market development facilitators – pointing the way for both business and the state to find ways of strengthening markets and reducing restrictions on markets wherever they may exist. These civil society functions are a crucial element in bringing together government, the private sector, and the poor. All the studies show that it is in such a co-operative environment that markets really take off.

The case studies presented in this report and the lessons they provide for South African development strategy should be effectively communicated to all stakeholders

The MMW4P approach clearly does not suggest that development agents simply pull out of the process and 'let markets work'. Instead, it requires interventions which respect the market activities that are already happening, and seek to strengthen, rather than replace, those activities. What is required in order to create effective MMW4P interventions is, first, an understanding of how markets are working in specific environments, and then the provision of the infrastructure, information, regulations, legal framework, and other forms of support that will make those markets work better. This is not an easy, quick-fix solution to poverty, but it is the most promising way to make a real and sustained difference to the prospects of poor people in our country and all over the world.

Where to begin? Two initial steps need to be taken to start advancing the MMW4P agenda in South Africa:

- The case studies presented in this report and the lessons they provide for South African development strategy should be effectively communicated to all stakeholders. This should be coupled with;
- A rethinking of the most appropriate roles for the various protagonists and interests in the trajectory of South African development. Some role players seem to be taking on too much, with too few resources; others are being expected to do things they are either reluctant or unable to do; there are many who seem to want to do something but are unable to articulate what it is; and many others are doing many positive things, but are unrecognised or unsupported.

Reflecting upon the MMW4P case studies presented here provides a new empirical and conceptual basis for rethinking these roles, thus leading towards a pattern that will yield much better results for the poor. 'Getting real' will require that we go the next step, and respect and reward each other for appropriate actions.

Appendix A: Background research papers

1. Doreen Atkinson, Mark Ingle and Lochner Marais, *Making Markets Work for the Poor in the Informal Sector*, Johannesburg, June 2005.
2. John Boughey and Syd Kelly, *Making Markets Work for the Poor: A case study of uMhlathuze Municipality* (incorporating Richards Bay), Johannesburg, July 2005.
3. Jeff McCarthy, *Corporates and Making Markets Work for the Poor: Some South African Illustrations of inadvertent impacts*, Johannesburg, July 2005.
4. Jeff McCarthy, *Upper and Middle Income Retail and Residential Services Markets (inadvertently) at Work for the Poor*, Johannesburg, October 2005.
5. Kwame Owusu-Ampomah, *Making Markets Work for the Poor: The impact of cellphone markets and landlines on South Africa's poor*, Johannesburg, March, 2005.
6. Cornia Pretorius, MMW4P and Education, Johannesburg, May, 2005.
7. Peter Robinson and Peter John Massyn, *Making Markets Work for the Poor: Successes and failures in community based tourism in South Africa*, Johannesburg, July, 2005.
8. Andy Salm, *Linking Southern Africa's Poor into the Global Apparel Value Chain*, Johannesburg, July, 2005.
9. Stefan Schirmer, *Making Markets Work for the Poor: The international experience*, Johannesburg, March, 2005.
10. Jim Tanburn, *Making Markets Work for the Poor: International cases*, Johannesburg, July, 2005.
11. Mary R Tomlinson, *Making Markets Work for the Poor: The residential property market*, Johannesburg, July, 2005.[22]

Endnotes

This report was written by a CDE team led by the executive director, Ann Bernstein. The principal authors were Stefan Schirmer, Jeff McCarthy, and Ann Bernstein. The research was managed by Jeff McCarthy. The report is based on 11 background research papers commissioned from various experts which are listed in Appendix A. Paul Zille, director of ComMark, made substantial contributions throughout the project.

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2 A Johnson (DFID), Making Market Systems Work Better for the Poor (MMW4P): An introduction to the concept, Discussion Paper for ADB-DFID Conference, Manila, February 2005, p 3.
3 Derived from Johnson, Making Market Systems Work Better for the Poor, p 3.
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6 R Chambers, *Rural Development: Putting the last first*, Harlow, UK: Longman, 1983, p 85.
7 J Sender, Rural Poverty and Gender: Analytical Frameworks and policy proposals, in H Chang (ed), *Rethinking Development Economics*, London: Anthem Press, 2003, pp 405–423.
8 See Ferrand, Gibson & Scott, *Making Markets Work*, p 8 for practical calls for research.
9 R Southall and J Daniel, The State of Parties Post-Election 2004: ANC dominance and opposition enfeeblement. In J Daniel, R Southall and J Lutchman (eds), *State of the Nation: South Africa 2004-2005,* Cape Town: HSRC Press, 2004.
10 N Oppenheimer, Africa Needs a Hand Up, Not a Hand Out, speech to the International Institute for Strategic Studies, London, 13 June 2005, http://www.debeersgroup.com/NR/rdonlyres/6974F6A1-14C8-46C5-A281-CC5E647F83D7/1266/SP_130605NFOAfrica.pdf, accessed on 17/08/05
11 Easterly, *The Elusive Quest*, p 217.
12 Johnson, Making Markets Work Better for the Poor, p 5.
13 Water Aid, Demand Response Approach in Practice: *Why sustainability remains elusive*, Paper Presented to the World Water Forum, London, March 2003.
14 Creating Rural Transport: *Lessons from a failed road project in SouthAfrica*, http://www.id21.org/society/s6amm1g1.html, accessed on 13 July 2005.
15 The Challenges of Financing Sanitation, http://www.id21.org/urban/u3mm1g1.html, accessed on 13 July 2005.
16 UNDP, *Unleashing Entrepreneurship: Making business work for the poor,* New York, UN, 2004.
17 World Bank, *World Development Report 2005: A better investment climate for everyone*, Oxford University Press, 2005, p 4.

18 Ferrand et al, *Making Markets Work*, p 2.
19 Ibid.
20 M Wolf, *Why Globalization Works,* New Haven & London: Yale University Press, 2004.
21 A Johnson, Making Markets Systems Work Better for the Poor: An introduction to the concept, DFID, February 2005.
22 World Bank, *Emerging Lessons in Private Provision of Infrastructure Services in Rural Areas*, London, 2002, www.ermurk.com.
23 UNDP, Unleashing entrepreneurship, p 8.
24 Johnson,Making Market Systems Work Better for the Poor, p 6.
25 World Bank, *Development Report*, p 6.
26 A Smith, 1985,*The Wealth of Nations, Book 1V*, Chapter 2, London: Penguin, 1985.
27 World Bank, *Development Report 2005*, p 5.
28 CDE, Creating Urban Citizens: Stephen Goldsmith and America's new urbanism in the city of Indianapolis, *New Frontiers*, Issue 2, May 2003.
29 See list of background research papers, Appendix A.
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Cover photograph: Elizabeth Jauza, a small farmer in the Eastern Cape, uses her cellphone to access market information. *Janet Wilhelm / ComMark Trust*

Edited and produced by Acumen Publishing Solutions, Johannesburg
Printed by Colorpress, Johannesburg

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