



## Mainstreaming Governance in M4P Projects

Input paper for the third e-discussion of SDC's e+i network 2012  
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### Defining governance

The term governance is generally used to define the act of governing and relates to decisions that **define expectations, grant power, or verify performance**. International development practice usually sees governance in relation to the government. UNDP, for example, defines governance as “the exercise of economic, political and administrative authority to manage a country’s affairs at all levels. It comprises the mechanisms, processes and institutions through which citizens and groups articulate their interests, exercise their legal rights, meet their obligations and mediate their differences” (cited from ECOSOC 2006, p. 3.). The term governance, however, not only refers to what a geo-political government does, but is also applicable to other actors such as corporate government (business entity), non-profit organisations, etc.

SDC defines governance for different decision-making levels<sup>1</sup>. **National governance** relates to the way how decision-making processes are used by government institutions at all levels (central, regional, local) as well as on the relationship of the state with its citizens and with the private sector. **Global governance** relates to power exerted by the international community, be it from multilateral organisations like the World Bank, WTO, or from bilateral agencies like SDC. **Corporate governance** comprises the various processes, policies and habits that influence the way an institution is managed, administered and controlled (SDC, 2007).

Linked to governance is the concept of **political economy** that looks at power interactions and relations and considers the factors that determine winners and losers of development processes.

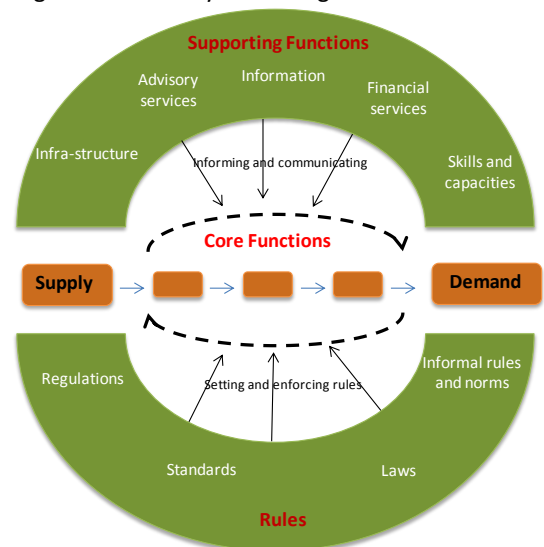
### The M4P approach and its connection to governance

In the fields of private sector, value chain and market development, **SDC promotes the M4P approach** which is guided by four underlying principles<sup>2</sup>:

- Systemic action: understanding where market systems are failing to serve the needs of the poor, and acting to correct those failings.
- Sustainable change: delivering sustainable outcomes by better aligning key market functions and players with the incentives and capacity to work more effectively.
- Large-scale impact: targeting intervention that benefits large numbers of poor people.
- Facilitative role: determining a catalytic purpose for the development agent that stimulates, but does not displace, market functions or players.

In the **main documentation of the M4P approach, governance is not addressed explicitly**. It is rather included implicitly by addressing market systems as multi-player, multi-function arrangements comprising core functions, supporting function and rules (see Figure 1). Different players

Figure 1: Market systems diagram



Source: adapted from SDC, DFID (2008)

<sup>1</sup> Multi-level governance refers to a system of continuous negotiation among nested governments at several territorial tiers and describes how supranational, national, regional, and local governments are enmeshed in territorially overarching policy networks. It emphasizes both the increasingly frequent and complex interactions between governmental actors and the increasingly important dimension of non-state actors in policy-making.

<sup>2</sup> <http://www.m4phub.org/what-is-m4p/introduction.aspx>

from the private sector, the government and civil society take over these functions (SDC and DFID, 2008). M4P recognises formal and informal rules and power and information asymmetries in market systems and the need for supporting functions that address these, such as for example advocacy.

However, practitioners comment that M4P offers **no specific guidance on how to analyse, address and monitor governance related constraints**.

### SDC's current guidance on governance

SDC has recognised that good governance is key for bringing a country on the pathway of broad based socio-economic development. It has thus decided to select **governance as a transversal theme** for all its development interventions finding that "... governance as a transversal theme enhances the efficiency and sustainability of sectoral support ..." (SDC, 2007).

The method applied to support the integration of governance as transversal theme is based on the **five principles of good governance** (SDC, 2007, page 12):

**Accountability:** refers to the control of the power exercised within state and society, as well as to the obligation for the people holding power to explain their decisions. In addition, it concerns the duty of the controlling agencies to reward good performance and to sanction abuses of power. Accountability presupposes clear definitions of the functions, duties, and rules for the scope of action of public and private institutions.

**Transparency:** implies that the public in general, or at least those directly affected, should obtain information from the state about the rationale underlying decisions, decision-making criteria, the intended manner of implementing a decision, and any insight into its effects.

**Non-discrimination:** means that no group may be excluded from power and resources. This implies that proactive public integration policies for excluded or marginalised groups need to be implemented. Non-discrimination policies have to be applied for the expressed purpose of reducing inequalities between men and women, urban and rural populations, and between different ethnic groups.

**Participation:** implies that all population segments need to be connected to the political and social processes that affect them. This means that public forums exist where different groups can express dissenting opinions and personal interests, and where these viewpoints are treated as serious input in the decision-making process.

**Efficiency:** implies that financial and human resources are used in optimal fashion (in other words, the target is fixed in relation to the resources, or the resources are adapted to the fixed target), without waste, corruption, or delays.

In its Implementation Guide, SDC has developed a series of guiding questions that allow assessing the principles above during key moments of a project.

SDC South Caucasus has played a leading role in further defining governance mainstreaming by developing a **Concept for Mainstreaming Good Governance** and Gender Equality Principles (SDC South Caucasus, 2010) and a **Mini-Toolkit** for addressing governance as a transversal theme (SDC, 2010). In a workshop in 2011, they specifically addressed the question of how to mainstream governance in M4P.

Besides these initial efforts, the **existing documents do not take into consideration issues specific to the governance within market systems**.

### Governance in market systems from a private sector development perspective

#### *Two Dimensions of Governance*

As indicated in the initial definition above, and recognized in the work done by SDC South Caucasus, governance includes two dimensions:

1. Governance as consideration of the **interaction between private sector actors**, focusing on the different actors of the core transactions, but also the private actors providing supporting functions and formal and informal rules between these actors.
2. The **role of the government** to regulate market systems and to define formal rules. This includes the interaction of the government with market players in decision-making processes and partnerships.

Programmes and projects need to approach the two dimensions in different ways.

#### *Governance between private market actors*

The governance dimension between private market actors looks at the **relationships between these actors, the power structures in the market and specifically the situation of the projects' target groups in this power structure**. Most of the academic literature related to governance and markets

focuses on governance in the value chain, referring firstly to how buyers and sellers interact (see Dietz 2012). In the M4P market system diagram this relates to relationships in the core, which is again influenced by supporting functions and rules. Value chain governance structures differ in terms of the degrees of coordination and power asymmetry between actors. Governance structures range from a very loose type of relationship between buyers and sellers – in the case of very simple and non transformed products – to integrated value chains – for very complex and high tech products – where a lead firm performs all the production steps from input to end product. Indeed, it is important to understand the value chain governance structure and its impact on the target group in-depth before starting an intervention. Dietz (2012) provides **guiding questions** that allow assessing and understanding market governance structures and the specific position of producers.

The **five good governance principles** (accountability, transparency, non-discrimination, participation, and efficiency) **have not yet been commonly used to assess governance aspects between private market players**. In the South Caucasus, efforts have been made to interpret the principles in this first dimension of governance. For example, transparency is about access to and exchange of information between market actors. A practical example would be that the regional livestock market publishes up to date prices for animals before and during market time<sup>3</sup>. It is yet to be seen, however, if all five good governance principles are relevant for assessing and addressing governance issues between private market players.

#### *Governments regulating the market system*

This dimension of governance looks at the **role of the government and its interaction with market actors and the market system**. Market systems are influenced by **rules** that can be both formal and informal. Formal rules such as industry regulations and laws are usually set and enforced by a national government. A variety of actors have an incentive to advocate for rules that are conducive for their goals, including the private sector, civil society and public institutions. Informal rules are also part of the business environment and include norms such as social values, gender relations, or entrepreneurship. **Both formal and informal rules affect how actors access and behave in a market system**. Governments at all levels have an important responsibility to establish a conducive environment for market development. Likewise, the private sector and civil society's role is to voice their demands for a conducive environment and fulfil their responsibilities (e.g. in terms of tax payments). A practical example would be a local government consulting with poor farmers about the redevelopment of the local agriculture market.

M4P projects often address constraints in the area of rules, although there is more experience in interventions concerning formal than informal rules. More recently, some M4P projects have specifically focused on business environment reforms, addressing governmental decision-making processes by strengthening public-private dialogue and private sector advocacy (i.e. the DFID-funded project ENABLE-Enhancing Nigerian Advocacy for a better Business Environment<sup>4</sup>).

#### Objectives of the e-discussion

In light of the inputs presented above, the objectives of the e-discussions were defined as follows

- M4P practitioners better understand the different dimensions of governance with special regard to economic development.
- M4P practitioners have discussed the relevance of the five good governance principles in the context of M4P projects.
- The e-discussion contributes to the dialogue and consensus building on how to prioritise and operationalise governance within the M4P framework.

#### Outlook

Taking the results of this e-discussion and based on the work of SDC South Caucasus and the guiding questions with respect to value chain governance, SDC's e+i network will develop guidelines on "How to Mainstream Governance in M4P Projects" in order **to provide clearer guidance to M4P projects on analysing (and addressing) governance issues** and working more effectively with the five transversal good governance principles.

The guidance will support the application of a governance lens in support of each of the main elements of the M4P approach. *In the diagnostic process* a more clearly articulated set of definitions, guiding questions

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<sup>3</sup> based on experiences of the Alliances Project Georgia, <http://alliances.ge/>

<sup>4</sup> <http://www.enable-nigeria.com>

and processes support projects to move from description to analysis. *In intervention planning and design* a governance lens supports integration of identified governance issues in the results chains. *In the monitoring and assessment of interventions* amended processes and guiding questions can stress the importance of checking and testing assumptions as implementation proceeds. Checking back against anticipated governance constraints will be important to verify the original analysis and progress.

#### Reference documents

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*BSM team/August 2012*