Chapter Six

# The Market Development Approach to Business Development Services

## Implications for Development Centres

*The Business Supply Store at Lesotho Development Centre, Maseru*

## 1. Confronting a new paradigm

Internationally, by the turn of the millennium, a paradigm shift was taking place within the small enterprise support sector that crystallised into what became known as the market development approach to Business Development Services (BDS).

This was the paradigm that informed the next Output to Purpose Review (OPR) that MDA underwent, conducted by Alan Gibson and Marshal Bear, a year after the Impact Assessment process described in Chapter Five. This Chapter will introduce the market development approach to business development services (BDS), and will critique certain core elements of the paradigm. Chapter Seven will then focus on

some important lessons this approach nevertheless held for development strategy and praxis.

This analysis has to take into account that in 2001, MDA was confronting this paradigm in its early form; but it is a debate that has since moved on. Many of the arguments presented at the time have since been modified or jettisoned altogether – including by some of its early proponents, who have been part of reshaping it in response to both analysis and praxis. On 'weak' markets, for example, the paper by Hitchins et al 2004 remedies many of the earlier weaknesses in approach. This revisionist process is also captured in the annual 'BDS Readers' prepared by Miehlbradt and McVay as an input into the annual Business Development Services (BDS) Seminars hosted by the ILO in Turin. These Readers capture feedback from practitioners, and highlight contradictions and tensions in the approach, which has led over time to the BDS market development paradigm being substantially recast until it was finally formally superseded by the wider 'making markets work for the poor' approach (M4P) in 2005. Rather than reproducing the shifts in debate over time, this Chapter will attempt to focus on a few key elements of it as they confronted MDA, the insights that arose from engaging with this challenge, and how these inform the analysis going forward.

In summary, the central weakness of the early BDS market development paradigm was its limited recognition of the links between markets, power, and poverty; the difficulty some of its main proponents had in conceding that markets, left to their own devices, do not necessarily work for the poor, and its associated tendency to default into market fundamentalism. In addition, the approach was focused narrowly on developing markets for business services. There was little recognition that other markets might matter more for small enterprise development, and as a result, very limited focus on the kinds of market access issues that might have linked the paradigm to the trade agenda, for example. How this aggressively narrow focus came to dominate the agenda of the enterprise development sector for several years remains a mystery.

Despite these weaknesses, the paradigm did have key strengths and did catalyse key shifts in the way development in the sector is done. In particular, it focused the attention of the SME sector on the market effects of development interventions,

which had not previously been the subject of scrutiny; and it raised the bar for development intervention away from direct service delivery to a focus on 'systemic change' – where it should always have been – even if the concept of systemic change was initially ring-fenced to the narrow confines of business service markets. In the process, it also shifted the definition of sustainability away from a narrow focus on cost recovery through service delivery, defining sustainability in relation to the systemic impacts of development intervention instead. The implications of these insights transcend the context of business service markets alone, as well as the limitations of the early paradigm.

These strengths had direct relevance to challenges and contradictions that had started to emerge in MDA's Development Centres. They are also the key elements that link the BDS approach to the wider M4P approach, which grapples with the relationships between markets, power and poverty in ways the BDS paradigm never quite did, despite sharing some common roots and congruent development paths. M4P is elaborated further in Chapter Eight, but first MDA had to run the gauntlet of the BDS market development approach in its raw form.

# 2. The BDS Market Development Approach

## 2.1 The Donor Guidelines

The base document for this approach was prepared for the Committee of Donor Agencies for Small Enterprise Development of the World Bank, and is entitled 'Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention, 2001 Edition'; rather appropriately referred to as 'the Blue Book'. It is the recognised foundation document for the BDS market development approach.

The membership of the Committee of Donor Agencies is a who's who of donor agencies internationally, and this shift in the international discourse was cause for any donor-dependant NGO's to sit up and pay attention. According to the Donor Committee, the search for a new paradigm in the small enterprise development sector was motivated by frustration by both donors and many practitioners at the lack of outreach, impact, and sustainability of small enterprise support programmes:

> Motivating the search for a "new paradigm" for BDS was the shared recognition that traditional interventions have failed to provide quality,

> affordable BDS to a large proportion of the target population of small enterprises...(Committee of Donor Agencies 2001: v)

This was coupled with a desire to emulate the successes supposedly achieved in the financial services sector, which had seen a paradigm shift of its own.

In the 1990s, and building on the Grameen Bank and other experience, the view developed that in fact, the cost of finance was not the critical constraint in access to finance for the poor. Ample evidence existed that the poor were willing and apparently able to pay exorbitant fees to informal money-lenders in order to access finance; yet they continued to be excluded from more affordable market-based forms of access.

Along with this went the argument that by subsidising interest rates for the poor, the development sector had distorted the market for micro-finance in ways that meant the private sector could not compete, and therefore could not and would not service this sector. Subsidies for a few were preventing the sustainable expansion of access for the poor, as the outreach of subsidised programmes would always be limited by the size of the subsidy, leaving the balance of the poor at the mercy of the informal moneylenders. Hence the aim should be to facilitate broadened access to finance through market-based mechanisms.

In this context, subsidised interest rates in micro-finance programmes targeted at the poor largely ended in the early 1990s. While subsidies for product development, capacity building and 'pre- and post-' transaction costs are still considered justified and are still funded, interest rate subsidies are not, and interest rates soared in programmes targeting the poor – although not usually to the levels charged by informal moneylenders.

While there is debate within the micro-finance sector over the outcomes of this shift, and there are certainly questions over how applicable the lessons from micro-finance are to business development services, it is widely accepted that the shift precipitated a new dynamism and expanded access to financial services.

The BDS approach drew part of its inspiration from this, in attempting to redefine an approach to the provision of business services to SMEs – now termed 'business

development services' or BDS. As the Donor Guidelines reflect, while 'traditional' BDS had been focused on strategic services such as training, counselling, and business linkages programmes, BDS encompassed all forms of business services. (Committee of Donor Agencies 2001: 1)

## 2.2 From service delivery to systemic change

The BDS market development approach argued that instead of intervention in the enterprise development sector taking the form of an ongoing and permanent role in the direct delivery of subsidised services, it should be focused on effecting systemic change in business services markets. This could ostensibly be achieved by developing business service markets so that SME's would be able to access such services through market mechanisms. Although this is a rather narrow view of what constitutes 'systemic change', it nevertheless put the concept of systemic change back on the development agenda – soon to be appropriated within a wider political economy of markets. But that is to jump ahead.

North's theory on institutions and the 'rules of the game' was used as the framework to locate business service markets in the wider context of market forces or social forces. This was part of the neo-liberal discovery of institutions described in Chapter Two. The focus of the BDS market development approach was on how these rules of the game were manifest at the level of business service markets:

> In BDS, as in other areas, our growing acceptance of the importance of markets has been accompanied by increasing recognition of the institutions – the 'rules of the game' – that shape their functioning and performance. (North 1990). 'Institutions' here refers both to the formal and informal frameworks within which markets operate that determine critical features of markets, such as information, incentives, values, standards and so on, and consequently govern transaction costs and access. The institutional environment pertaining to a specific market is therefore influenced by wider social and cultural norms, as well as through the actions of formal organisations, for example, governments or associations. The implication here is clear: market economies (and BDS markets within these) function well only when they are embedded in a local context; any comprehensive view of a BDS market must understand this to provide insight into the underlying reasons for market performance and into the capacity for change. (Bear, Gibson and Hitchins 2003: 15)

'Systemic change' entails changing the rules of the game in markets, but apart from the need to be 'embedded in a local context', issues of political or economic power are largely absent from the picture, which narrows rapidly in focus to the level of

business service markets, and the ways in which formal and informal rules of the game affect the way this particular market works. In practice, the rules of the game that are advocated are aligned with the core tenets of NIE covered in Chapter Two, and the 'market-enhancing institutions' identified in WDR 2002: institutions that reduce information asymmetries, reduce transaction costs and enhance competition in markets.

In order to promote competition, a key focus of the approach is on removing 'distortions' from business service markets. In Chapter Two, Ha Joon Chang's critique of the assumptions that underlie neo-liberal notions of what constitutes intervention in markets is discussed. The ways in which the concept of market distortion is used in the BDS market development approach is entirely analogous. The prime cause of market distortion is identified as the provision of subsidised services by governments, donors and NGO's. History is just an innocent by-stander in this paradigm, and the way the concept of 'distortion' is used evokes the alternative of free and unfettered markets – the kind Polanyi argued that societies need to be protected from.

The scourge of subsidies not only creates dependency, it was argued; subsidies have also distorted service markets in ways that have undermined the development of market forces:

> In many countries the net effect of years of government and donor-supported interventions has been to undermine the development of market forces. Products delivered at low cost or free to SMEs induce a debilitating dependency and a cynicism over quality and value; providers offered easy and generous terms by donors develop a taste for these inflated fees which often bear little relation to real economy situations; they become motivated to pursue donors rather than, for example, private sector customers or sponsorship. Agencies have budgets that, above all, need to be spent – a predilection that may lead neither to considered actions nor to 'treading softly'. The result has been hugely distorted and largely dysfunctional markets, especially in low-income countries where institutions (including markets) are often more fragile and less able to resist the compelling pressures of hard donor money. Private sector BDS providers are inexorably 'crowded out.' (Gibson 1999, quoted in Hitchins et al 2004)

Strong language is reserved for subsidies, which are guilty of distorting markets, undermining impact and suppressing, crowding out and smothering the private sector:

> Long term donor subsidies to the demand or supply of BDS are likely to distort BDS markets and crowd out the commercial provision of services, thus undermining the objectives of impact, outreach, cost effectiveness and sustainability that are the pillars of the BDS market development paradigm. (Committee of Donor Agencies 2001: 6)

> Large government and donor programs have often suppressed private BDS markets or crowded out private suppliers....If markets are to develop and serve low-income clients with the services they desire, they must not be smothered. (ILO BDS Seminar Reader 2002: 25)

> .....the provision of free or highly subsidised services may contribute to market failures and inhibit the availability of services to SEs. While these highly subsidised services may benefit the few who have access to them, in the long run, they may hinder economic growth, employment generation and poverty alleviation. (ILO BDS Seminar Reader: 2002: 30)

Instead, the Donor Guidelines present this alternative:

> The ultimate vision for BDS... is of a well functioning market with a diverse array of high-quality services that meet the needs of a large proportion of SEs affordably. Thus, these Guiding Principles are based on a private-sector led, market economy framework which reflects:
>
> - A fundamental belief in the principles of a market economy, where the State has a role in providing an enabling environment, in correcting or compensating for market failures, and in the provision of public goods, but not in the direct provision of private goods that can be more efficiently provided by the market;
> - The assumption that the majority of BDS are private goods and are thus similar in nature to any other service, so market rules apply; and
> - The expectation that with appropriate product design, delivery and payment mechanisms, BDS can be provided on a commercial basis even for the lowest-income segment of the entrepreneurial SE sector. (Committee of Donor Agencies 2001: 1)

These assumptions form the backbone of the approach; all contain flaws that were to bedevil its application in practice. The debates around the key assumptions of the approach are explored below.

## 2.3 The Key Assumptions

### 2.3.1 Affordability and willingness to pay

The Donor Guidelines are confident that all forms of BDS 'can be provided on a commercial basis even for the lowest-income segment of the entrepreneurial SE sector'.

This expectation includes two linked assumptions. The first is that once 'distortionery' subsidies are removed, the private sector will fill the service gap. The second assumption is that the 'lowest-income segment' will be willing and able to pay for the services they need – including strategic services. Both these assumptions have proven flawed. On the supply side, by 2004, the annual 'BDS Update' noted as follows:

> A critical supply-side challenge is engaging providers in the programme and convincing them to serve SE's. Most implementers report difficulty in persuading private businesses that targeting SE's or improving services to SE's is a profitable business opportunity. (Miehlbradt and McVay 2004: 52)

This rather fundamental flaw in the central logic of the approach had not been unanticipated. At the 2002 Turin Conference, Jean Christophe Favre from the Swiss Agency for Development and Co-operation made the following comments:

> The Swiss Agency does not care about Business Development Services or BDS market development; the Swiss Agency cares about poverty reduction, through employment creation and income generation. We are interested in BDS market development only insofar as it is a means to address these issues. (Favre: Quoted in Philip 2003 (3))

Favre outlined the concern within the Swiss Agency that a reliance on market-driven BDS would lead to upward targeting by service providers, who would gravitate away from the bottom end of the market for predictable market-driven reasons, particularly in marginal areas, where the economies of scale may not exist to underpin business service markets. This was coupled with concerns over issues of affordability for enterprise on the margins. Yet affordability was not considered a binding constraint for the poor; instead, willingness to pay was the critical factor.

In a seminar to the Micro-Enterprise Alliance in South Africa, Alan Gibson summarises why markets do and do not work. It is quoted at some length to provide the context for the brief and indirect appearance that the concept of affordability makes:

> What makes markets work?
> For any market to work, whether it is business development services or anything else, one has to have *awareness*, a *willingness to pay* on the demand side and on the supply side one has to have people with *something valuable to offer* and who know how to offer that. If all those factors are there, the market should work reasonably well. But markets often do not work because those factors are not there or are being undermined in some way. In the South African context, for example, the

> willingness to pay for services is undermined by too much and too generalized subsidies.
>
> .....Similarly, on the supply side, it is assumed that the reasons why businesses do not want to pay for agencies services are because they are ungrateful, lazy and poor. Business may not want to pay for services because these services are not good. For years, agencies have been flogging bookkeeping for example as something that small business had to know about... Bookkeeping is only of relevance to businesses if they can see the relevance. Thus a whole range of factors could undermine the workings of markets. (Gibson 2001: 11; his emphasis)

Willingness to pay was key, ability to pay or affordability was of little relevance. Such concerns were routinely attributed to donor-dependent NGO's wanting a continuation of subsidies to their organisations, and who, by inference, actually saw their clients as 'ungrateful, lazy and poor.' In a key paper on BDS by Field, Hitchins and Bear, the issue of affordability – or 'capacity to pay' - is addressed only once in a footnote:

> Capacity to pay is not tracked separately. Willingness to pay is a better proxy for motivation than capacity. Willingness is a precondition for a successful market transaction. Low capacity to pay is something that can be fixed – e.g. through credit or different payment terms. (Footnote: Field, Hitchins and Bear 2000: 4)

There was an almost perverse resistance to the notion that poverty might have a materiality that affects the ability, rather than just the willingness, of entrepreneurs on the margins to pay the full cost for services that might add value to their ability to grow – and to contribute to the poverty reduction goals of the sector.

> Poverty, it seems, is a state of mind, and all that stands between the rural poor and a wide and sustainable range of business development services is their own bad attitude. (Philip 2003 (3): 25)

### 2.3.2 BDS markets: delivering a diverse array of high quality services

A key weakness in the early approach was, ironically, its weak understanding of markets in marginal areas, as later partly conceded in Hitchins et al 2004. Commercial markets for business services can only arise as a consequence of a minimum level of enterprise activity in a local economy, in which sufficient demand for business services exists to sustain commercial supply. A market with a diverse array of business services requires a diverse array of businesses to service, and a feature of weak markets is that the necessary economies of scale on the demand side are often absent.

This raised the question: how do you build a growing, vibrant, diverse, sustainable small enterprise sector in a context in which the level of demand and/or the ability to afford key business development services cannot yet sustain the commercial delivery of key services?

In addition, the rise in the demand for services in the developed world is associated with specialisation, and an exponential rise in complex and anonymous forms of exchange. These features are largely absent from marginal markets.

### 2.3.3 Business services: public or private goods?

The Donor Guidelines argue that the majority of business services are private goods, and so market rules should apply. Actually, there was never any dispute that most business services are private goods; there was, however, a debate over whether some services had impacts that contributed to wider policy goals and hence to the public good in ways that might create a development rationale for incentivising their delivery in some way. This debate took place partly through a proxy debate over whether there was any value in distinguishing between operational and strategic services. The Donor Guidelines conceded a distinction in order to refute it:

> A distinction is sometimes made between 'operational' and 'strategic' business services. Operational services are those needed for day-to-day operations, such as information and communications, management of accounts and tax records, and compliance with labor laws and other regulations. Strategic services, on the other hand, are used by the enterprise to address medium- and long-term issues in order to improve the performance of the enterprise, its access to markets, and its ability to compete. For example, strategic services can help the enterprise to identify and service markets, design products, set up facilities, and seek financing.
>
> The market for operational services may already exist, since there is often articulated demand and willingness to pay for these services. In contrast, markets for strategic services for SEs have largely failed to develop, and they are the focus of most donor interventions in BDS.' (Committee of Donor Agencies 2001: 1)

This excellent definition of the distinction between the two could have been used to argue that while there is little rationale for subsidies to operational services, there may be a case in relation to strategic services, because these target the more

medium-term and non-core aims of innovation, enhanced productivity, expansion, opening new markets, or skills development. It is also not only marginal enterprises that balk at spending money on such non-core strategic services; even at the developed end of the private sector, the use of such strategic services often has to be incentivised. The rationale for doing so is that the potential outcomes benefit not only a given enterprise, but contribute also to growth, job creation, and/or human capital formation. In marginal contexts, such intervention may have the potential to lift enterprise out of low-value poverty traps into a different location in markets. The lack of it may lock such enterprise into such traps. It is in relation to these goals that SME development intersects most directly with wider public policy aims, bringing an element of the public interest into the rationale.

The issue is further complicated in marginal markets, where the fact that operational services are largely recurrent costs means they require a more limited universe of users to be viable. Each new customer adds cumulatively to the turnover base of providers, and can be relied upon for repeat purchases on a consistent cycle. In addition, many operational services are relatively generic, and can service a diverse range of types of enterprise: for example, motor vehicle maintenance, freight, or accountancy services. This part of the business services market therefore faces fewer constraints even in a marginal context.

Strategic services, by contrast, are usually not recurrent, and any one business may use a particular strategic service once only. It therefore requires a far larger market for strategic services to be viable. Without a critical mass of economic development in a given area, the costs of delivering such services are likely to be prohibitive – and as a result, a market-related price in a weak market would not be competitive with a market-related price in a developed market – providing a different dimension to the issue of 'affordability.'

These issues also have implications for the concept of 'the access frontier' in the context of BDS. This concept postdates these early debates, and was developed by FinMark's David Porteous, in the context of financial markets, and efforts to expand 'the landscape of access' in relation to financial services for the poor (Porteous 2005). The concept recognises that while the financial sector should be challenged to expand access to basic services for the poor, there will be limits on how far financial

services markets will be able to do so on purely market-based terms, with segments of the poor unlikely to be serviced in this way. In BDS markets, and in marginal contexts, the dynamics described above are key to understanding what the access frontier means in BDS markets – also raising the question of when and on what terms there may be a case to provide such services on a subsidised basis beyond that frontier.

Bear et al 2003, argued, however, that no distinction between operational and strategic services is relevant to the debate, while Hitchins et al 2004, instead question whether strategic services are really necessary in weak markets at all:

> Development agencies have typically focused on services they perceive as sophisticated, strategic or developmental (hence the term business development services!). In weak economic situations – where commercial tasks are perhaps less complex and the operating environment presents more challenges – the presence or absence of often quite a basic range of services make a big difference to doing business. For example, pest control, email or mobile phone service points, equipment leasing or the maintenance of water or irrigation systems. Such practical and accessible services are often far more relevant and desirable to business on the margins than, for example, comprehensive extension, entrepreneurship or business management services. (Hitchins, Elliot and Gibson 2004: 29).

The fact that the lack of 'practical and accessible' services provides a starting point in these areas is accepted, and is why such services were prioritised by Development Centres. But giving examples of services intended to seem irrelevant in order to show that strategic services have no role in weak markets evades the argument rather than answering it. In practice, as later Chapters will demonstrate, the provision of strategic services can be vital in catalysing new opportunities that assist enterprise in marginal markets to break out of low-value poverty traps. Where such services remain beyond the access frontier for marginal enterprises, effective ways to bridge this gap remain a key challenge.

## 2.4 New roles for development actors

In the context of this approach, new roles were also defined for development actors:

> Traditionally, donors and governments have intervened in BDS markets at the level of the BDS transaction: directly providing services to SE's via public BDS providers, or permanently subsidizing services delivered by other BDS providers. In the old approach, donors and governments have tended to substitute for underdeveloped BDS markets, possibly crowding out existing or potential commercial providers of services. (ILO BDS Seminar Reader 2002)

Service delivery should be market-based, and there was no real justification for development agencies to be engaged in it. Instead, the role of development agencies was to act as 'facilitators' or catalysts for the development of markets. While subsidised services to entrepreneurs were not acceptable, subsidies to stimulate or develop the market for services could be:

> Subsidies may be justified in the short term as an investment in the development of BDS markets (e.g. through development of new products and models). However, even temporary subsidies can create distortions, and are justified only if their market development impacts outweigh their distortionery effects. Therefore, donors must exercise care in the application and duration of subsidies. (Committee of Donor Agencies 2001: 6)

So while the provision of services would no longer be funded, the role of a facilitator could be funded, as long as this facilitation was not an ongoing function in a given market, and was time-bound, targeted at 'systemic change' in markets, and had clear exit strategies. Organisations should not, however, function as both service providers and facilitators, and would have to choose whether they were 'in' the market, or were facilitating the development of the market.

In this process of redefining these development roles, the emphasis donors had placed on the need for development agencies to cover at least some of their costs through the delivery of services was removed – as was any concern with the organisational sustainability of such agencies.
Instead, sustainability was to be measured by the extent to which the facilitation role was able to catalyse systemic change in the business services market, leading to expanded demand and supply of such services on market terms.

In practice, the achievement of this vision of market-based delivery of BDS reaching marginal enterprises has proved elusive. The 2002 BDS Seminar Reader summarised the situation in this way:

> Although the market development paradigm has challenged practitioners to get more out of each public sector dollar, and to create sustainable BDS, the era of subsidies is far from over, and the challenge of how to use them most productively has only begun. (Miehlbracht and Mcvay 2002: 102)

This focus has shifted to addressing this latter challenge; and while the early absolutism of the approach has been significantly tempered, the way in which

subsidies of all kinds are delivered is now the subject of much greater scrutiny, and a recognition that any form of development intervention or subsidy needs to be designed to support, underpin and/or complement the development of markets and the growth of market-based forms of delivery, rather than displacing or stunting the potential for these to emerge.

## 2.5 The Role of the state

State-subsidised provision of services to SME's is a focus of the BDS critique. For Bear et al 2003, the low-outreach, small impact, high cost, limited sustainability outcomes of this kind of role, and the role of 'the panoply of state and quasi-state organisations (and not for profit organisations)' created by aid were key factors driving the need for an alternative approach.

Instead, government's role is to exit from direct service provision, and focus on public goods. The roles Bear et al identify include regulation, information, research and standards, as well as a focus on general priorities 'such as education, social welfare and infrastructure.' (Bear et al 2003: 17, also see Hitchins et al 2004: 38).

GTZ's Jim Tomecko approaches the issue in a slightly different way. He argues that the private sector, business membership organisations (BMO's) and government are all potential partners and service providers as part of a market development approach:

> The term service provider is intentionally used to describe these actors, because all three of them would see themselves as providing some form of service to enterprise...A BMO, for example, is providing a service to enterprise when it advocates for certain policy change, a government is also providing a service when it promotes inward investment or plugs its country's products overseas (economic diplomacy). These are public as opposed to private services but nevertheless services that are also vital to enterprise competitiveness. (Tomecko 2003: 32)

For Tomecko, there is no reason why different kinds of services – public and private – cannot contribute to the development of markets in different ways - creating a somewhat different framework of assumptions. While Tomecko argues the need for a clear understanding of the difference between public and private benefits in the design of interventions and co-funding arrangements, a range of public services to enterprises are accepted as a major part of a market development framework. He sees government as having a role as a market facilitator also. (Tomecko 2003: 34).

In practice, over time, the role of government in setting the rules of the game, and in creating 'an enabling environment' for market development has become increasingly central to M4P, as has the recognition that small enterprises are operating in a 'mixed market economy' (Hitchins et al 2004), in which there is a spectrum of potential roles for the state. While it is recognised that there are no precise formulae for the role government should play, 'the direct service delivery role that governments have often assigned themselves is often not the best choice, because it neither utilises the state's distinctive competence nor stimulates other players (especially the private sector) to best utilise their competencies.' (Hitchins et al 2004: 38).

## 2.6 Markets, power and poverty

> For some critics, the notion that (amoral) markets can serve (moral) developmental objectives is anathema – even if they are the basis of market economies – therefore 'debate' here is about more than BDS market development alone. (Bear, Gibson and Hitchins: 2003: 21)

It certainly is. It is precisely because markets are 'amoral' that their role can be contradictory, and why it is the social and political context in which the 'rules of the game' are set that will frame whose interests they serve, and whether their power is harnessed in ways that lead to a reduction of poverty or deepen it.

The market development approach placed a lot of emphasis on the need to remove distortions in order for markets to work for the poor. But, as argued in Philip 2003 (3), the limited framework within which 'distortions' are defined assumes a blank slate and a level playing field. However, there is just too much history involved: feudalism, colonialism, conquest, land appropriation, slavery, patriarchy and patronage, for a start. These 'distortions', further shaped by contestation of many kinds, and with varying outcomes, live on in the social relations of the present. In this context, where does 'market distortion' start and end? And how can these distortions be addressed without engaging the social and political dimensions underpinning them?

Power relations past and present influence the patterns of demand, supply, and the terms of exchange: not only on the macro, global level, but in any given village – or household – too.

> Scanning the 'best-practise' BDS websites, there is scant evidence of reflection on these issues in the discourse. Instead, the BDS market paradigm seems to be in danger of an uncritical genuflection towards a notion of markets that is devoid of social context and content, as if markets operate in a privileged domain outside of social forces and relations, and are innocent of any but beneficial social impacts.
>
> But to the extent that market development strategies focus merely on the internal functioning of particular markets and supply chains, and tinker with distortions internal to the workings of such markets, without engaging these wider issues, then market development is at risk of re-enforcing inequalities and empowering elites: with adverse consequences for the poor. (Philip 2003 (3): 29)

In South Africa, the ways in which social relations and the history of political power have informed the structure of markets is glaring, as are the ways those market structures continue to play a role in shaping the reproduction of poverty and inequality – even as they hold opportunities for wealth creation and growth. In South Africa, North's notion of 'path dependency' is writ large in the way in which patterns of wealth, ownership and poverty are being reproduced despite the best (and second best) efforts of policy. Markets cannot be made to work for the poor without confronting wider distributional issues, or the nature of endowments with which players enter the game.

These are the kinds of systemic market issues that have to be addressed, and while they may not have been at the forefront of the BDS market development approach when it began, Pandora's box had been opened.