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Enterprise development on the margins : Making markets work for the poor?

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Conclusions



Mineworker and Mural: Quthing Business Supply Store, Lesotho

1. Overview

In Chapter Two, it was noted that despite the history of resistance to the creation of an African working class in South Africa, employment in the formal sector is now the preferred point of entry into the market economy for the poor. Self-employment and enterprise on the margins are the options of last resort for many people excluded from access to labour markets, who are left with no alternative but to claw their way into the market economy this way - on very adverse terms.

The central focus of this thesis has been on the quest to build effective strategies to support the development of enterprise on the margins, to create jobs and to reduce poverty. Across fourteen years and several different phases of MDA's programme, it remains striking just how marginal enterprise on the margins remains, how miserably low the returns tend to be, and how little promise this route still seems to hold as

anything but the option of last resort, when there are no alternatives. It is hard to see this as anything more than 'making the poor work for markets'.

In practice, much of MDA's work and also much that now passes as M4P goes no further than this – or at best, than making markets work a bit better for the poor.

This may seem like a bleak and pessimistic conclusion, but it is instead simply intended as a realistic starting point on which to build the conclusions. These take this bleak landscape as the current reality in marginal areas, and recognise that in the short time frames which the immediacy of poverty imposes, there often really are no alternatives, and that even getting the poor 'to work for markets' is not so easily achieved. Within this framework, MDA's experience of enterprise on the margins holds important lessons for how to optimise the outcomes and impacts of such change processes, both in terms of a better understanding of the markets within which enterprise on the margins are engaged, as well as in relation to the market effects of different forms of development intervention.

The purpose is also to draw a distinction between the often necessary task of improving the 'claw in' mechanisms for those excluded, and the far more fundamental and systemic challenge of making market systems work better for the poor. The latter is a challenge of a different magnitude from the former, despite the way the two tend to be conflated. It is also potentially a far more radical challenge than its origins might suggest.

These conclusions will therefore reflect also on key insights that MDA's experience over this period bring to how market systems might work better for the poor and how this might be achieved, in ways that bring the discussion back to the wider theoretical concerns over markets in society, the social construction of markets, the need for more institutional specificity in understanding markets, the scope of systemic change, and the need for more of a political economy of markets.

Chapter Two noted the power of markets to create wealth as well as to create poverty. Much of the focus 'from the left flank' has been on the latter, and the need therefore to protect society from the effects of markets. This is not incorrect. However, what has often been missing is the recognition that the wealth-creating

power of markets cannot be harnessed by a focus on protection alone, necessary as this is. There is a need to go beyond defensive strategies aimed at protecting society from markets, to identify new terms of engagement within markets to shape markets and to harness their wealth-creating potential in ways that have different distributional consequences, as part of a long-term agenda of eradicating poverty.

It is in the dichotomy between these two emphases that much of the growth/social development debate remains locked, with one half of the discussion seeing only the wealth creation potential, and the other half seeing only the poverty impacts. There is a need to address the missing dimensions in both.

The challenge of making market systems work better for the poor is not one that can be left to markets alone, nor are such change processes necessarily likely to be private sector led. At the same time, however, this is also not a challenge that can be achieved solely from 'outside' of markets, by relying on the role of the state in 'making' markets work in a particular way, through changes to the formal rules of the game or to incentive frameworks at this level.

Part of the process of making markets work better for the poor has to take place within markets, between stakeholders involved in such markets, in ways that contest the terms on which these markets operate, using levers of power and finding ways to reposition the poor not only in relation to markets, but also within markets.

As was argued in the early chapters, the labour market probably provides the best example of systemic change being achieved in the way a given market functions, as a result of the agency of the poor within that market, contesting the terms of their inclusion. While this market is unique in many ways, processes in the labour market nevertheless illustrate that amorphous and immutable as they may seem, markets are institutions that are socially constructed. This construction takes place not only through political and social processes that are seen as framing markets from the outside, but also within them. Transforming the way markets work has to engage all these levels in iterative ways.

The conclusions will develop these arguments by focussing on three linked themes that have been covered during the previous chapters:

1. Understanding enterprise on the margins;
2. Lessons from development praxis;
3. Making markets work for the poor.

2. Understanding enterprise on the margins

2.1 From worker co-ops to economic co-operation

MDA's experience of enterprise on the margins began with the co-op programme. While all forms of enterprise on the margins face complex sets of challenges and choices, these are compounded in worker co-ops or in other analogous forms of collective group enterprise, as described in Chapters Four and Five.

Co-ops and collective enterprises can succeed; the problem is that the sets of conditions required for them to do so are so often absent in the very contexts in which they are being most strongly incentivised - at risk of setting them up for failure. They too often represent the lowest rung on the ladder of developmental approaches, with relatively high costs, a low success rate, and the lowest returns to participants.

In the early stages of NUM's engagement with enterprise development, worker co-ops were seen as a form of enterprise that prefigured socialist forms of ownership and control, and that provided a form of social protection for workers against the impacts of the market, with co-op failure or degeneration ascribed to such market pressures.

However, while the collective and democratic character of ownership and control within a co-op may mitigate certain negative features of work organisation associated with conventional employment, the co-op form provides no protection from market pressures for the enterprise as an entity, which still has to compete and engage within wider markets.

To compound the problem, the NUM Co-op experience highlighted that the ability of co-ops to adapt to such external pressure is circumscribed by a set of skewed

internal incentives specific to the co-op form. While Chapter Two reflects on North's analysis of how incentive structures at an institutional level in societies may predispose them either to growth or to economic stagnation, the incentive structures within worker co-ops predispose them to failure if they cannot adapt. Attempts to cushion the effects of the market on the enterprise did not deal with these internal incentive issues, which require adaptations to the traditional co-op form – as successfully demonstrated in different ways in both the Italian Lega and the Mondragon Co-ops.

For the final themes of this thesis, the more crucial issue, however, is the way in which in South Africa, the often narrow focus on worker co-ops and on forms of collective group enterprise intended to create jobs seems to have taken place at the expense of exploring other more successful forms of co-operative organisation; in particular, forms of user co-op that provide economic services to their members. In the context of this thesis, forms of economic co-operation that create economies of scale of various kinds for entrepreneurs and small enterprises are of particular interest, because of the different way in which these forms of economic co-operation interact with markets.

While worker co-ops were expected to provide a form of social protection from the market, Bettelheim reflects a long-standing Marxist criticism that such co-ops are focused internally, and have no systemic impact on the social relations of production or on the workings of the market economy.

By contrast, other forms of co-operative and other forms of economic co-operation and association are less about protecting members from markets than about asserting their presence within markets on different terms: to create economies of scale, to negotiate a more equitable distribution of benefits, and to change the balance of power within markets, in order to exert economic influence on the rules of the game within which they operate – with the potential to have a more systemic impact on the structure of a given market, and the way it works.

2.2 From local to external markets

In Chapters Four and Five, during both the co-op programme and in the context of service delivery through Development Centres, the focus was on support to

enterprise activity targeting largely local markets. Based on assessment and review, the focus shifted to bridging the gap into external markets, as covered in Chapters Eight and Nine on the craft sector and marula product development.

Both local and external markets present opportunities and constraints that will always be context specific. While it has been noted that local markets are often poor and dispersed, and can represent a poverty trap, success in accessing external markets is by no means an easy alternative, despite the significant potential such markets hold. So, the purpose here is not to weigh the merits of these different markets in any absolute terms, but to recognise some key features of each, and to identify some significant strategic implications of such choices for a wider development agenda.

While there are no doubt exceptions, an important factor in marginal markets is that the potential to achieve scale economies is undermined by the lack of an equivalent scale of local demand. The limitations in the depth and breadth of local markets tend to mean that enterprise targeting such markets has little choice but to remain small and to diversify 'horizontally' where opportunities arise to expand. This is another reason why the focus on scale economies in production, characteristic of co-ops and collective projects, is so misplaced when the target market is marginal and local – as it often is.

Nevertheless, enterprise targeting local markets has certain advantages, as described in Chapter Eight: entrepreneurs can rely on local knowledge and networks, the barriers to entry may be low, the context lends itself to informality, and income-generating activity can often be done part-time and from home on a flexible basis. Much enterprise at this level is below the radar of regulatory frameworks. While these factors may be seen as advantages in some contexts, Tendler argues that instead, this condemns them to low-level and marginal activities, which limits their impact on the reduction of poverty.

Targeting external markets brings a different set of constraints and opportunities into play. Enterprises targeting external markets move into the terrain of 'anonymous exchange'; this requires an end to many aspects of informality, and a move towards greater formality, in order to limit the risks of such exchange. The rules of the game

governing such transactions have developed a great deal since Adam Smith first drew attention to their role; today the bare minimum required to make contracts recognisable and enforceable within the protocols of accepted business practice probably includes an address, a bank account, a telephone number, invoices and receipts – and increasingly, an e-mail address.

In the early days of the period covered here, access to bank accounts and telephones were significant hurdles in marginal areas. Today, Mzansi accounts and cell phone banking have transformed this landscape of access, with the result that certain key 'signifiers' required for formal transactions to take place across geographical space are no longer quite the hurdle they used to be – making external markets that much more accessible.

In this context, notions of informality and formality are also in a process of flux: the formalities of legal registration or compliance with regulation in a given national context are not always either necessary or sufficient to facilitate the ability to transact outside of local markets. The standards required for access into supply chains are determined by the dynamics of a particular sub-sector market, and private standards (imposed by consumers and shareholders, rather than by government regulation) can also introduce new hurdles.

In addition, as global markets become increasingly integrated, a process of 'backward engineering' to align national standards with those in the largest global markets is taking place, in ways that mean that even where these markets are not the targets, the standards that apply in them are increasingly being localised.

In this complex context, co-ordination within supply chains is increasingly being used to off-set the risks and transaction costs associated with anonymous exchange, or exchange on 'spot markets.' While there are risks associated with the terms on which marginal enterprises are included in such supply chains, such participation creates opportunities for them to mitigate aspects of their own risk also.

These trends mean that a lone enterprise on the margins of the economy gaining access to markets with a finished product that it delivers directly from the margins to the retail market is an increasingly rare phenomenon. Instead, the gap between

enterprise on the margins and external markets relies increasingly on the role of intermediaries to gain market access in sustainable ways, and to gain access into supply chains of varying complexity. A range of consequences flows from this.

Firstly, while power relations within a supply chain may well be unequal, the longer an enterprise remains part of a given supply chain, the more they are able to build their tacit knowledge of the needs of the buyers in that chain. This raises the 'switching costs' for such buyers. This was well illustrated in the case of the stone-cutters, and also in MNP's supply relationship with Bronpro.

Secondly, participation in a supply chain allows for specialisation, because entry into the chain is possible at a range of different levels that may include the supply of raw materials, or of semi-processed products rather than finished ones. This can reduce the scale and complexity of the challenge facing entrepreneurs on the margins, as described in Chapter Seven. As a result, rather than having to bridge the gap between the margins and the market in one great leap, it can be done in a set of steps that add value along the chain – bringing us back to the critical roles played by various intermediaries in this process.

While intermediaries can and do abuse their power in supply chains, their role is indispensable in bridging the gap between the margins and markets. Rather than doing away with intermediaries, the challenge is to create frameworks that provide recourse for producers against such abuse, and that incentivise different forms of practice.

In MDA's experience, intermediaries were vital in bridging the gap in understanding between rural producers and the value proposition that existed for their products in distant and unknown markets. This was not only the case where design was a key feature such as in the craft sector, but also, for example, in relation to the role Bronpro played in translating industry requirements in the beverage sector back to MNP to inform adjustments to their juice extraction processes.

In the case of the marula programme, Bronpro as an intermediary also invested in technological adaptations of their equipment to assist in meeting the required industry specifications for a juice product, in ways that served their own interests,

but were certainly in those of MNP also, creating another link in the chain to markets.

A central part of the rationale for targeting external markets relates to the volume opportunities they hold out, yet often, there are constraints in the ability of enterprise on the margins to meet the significantly greater volumes required in such wider markets. Intermediaries bridged this gap too; for example with the consolidation of craft products from different producers into export containers on terms that kept unit costs as low as possible, as well as the reverse role played by Oscar Ngcobo, who secured large export orders and then allocated them across a network of small producers who could never have accessed such an opportunity directly.

MNP played the role of a market intermediary consolidating volumes of fruit from 42 dispersed and inaccessible villages, bringing this together at one supply point, with the quality control role played by MNP further reducing transaction costs and risk for Bronpro also – hence creating the potential to link into established volume markets.

Intermediaries can also act as an interface between an environment in which trust, reciprocity and forms of social capital still frame the rules of transactions, and the different and more formal set of rules of the game that govern anonymous exchange. MNP acted as an interface between the 'rules of the game' governing access to the marula resource, the village-based networks necessary to supply it, and the negotiations with traditional authorities, at the same time as addressing the concerns and expectations of buyers from within a more formal supply chain reaching into large-scale national and export markets. This interface role, intermediating between systems that do not necessarily connect, or between different formal and informal rules of the game, was played in different ways by Grobler and Ngcobo also.

Finally, given the significant constraint posed by access to finance for enterprise on the margins, the role played by intermediaries in sharing risk, pre-financing production, or carrying the cost of unsold stock is a significant issue. MNP could not have carried inventory of unsold juice for three years (quite apart from its lack of freezer capacity to do so). Ngcobo mortgaged his house to pre-finance raw material

inputs and to pay beadworkers before he was paid, and Grobler carries stock of the unsold stone. These represent significant forms of risk sharing, finance and investment – that seem to have been lacking in the chain linking the Body Shop to its Namibian suppliers.

The assumption by all the South African intermediaries that it would be unreasonable to expect their suppliers to carry such risk or cost is an example of an informal business practice that has developed the status of 'the way things are done' – as a result of a particular social and political context. There is no law or regulation or formal commercial requirement that governs the terms of these transactions, and the Body Shop experience reflects that such terms cannot be assumed. This is a small example of the way in which practice in relation to risk-sharing and the allocation of benefits can be influenced and negotiated within a supply chain, with significant implications for suppliers.

These insights highlight a critical issue for development intervention, which is that rather than circumventing intermediaries or attempting to substitute for them with public or donor-funded alternatives, the challenge is to work to integrate enterprise on the margins into such supply chains and external markets, to build the transparency, capacity, and equity of returns within such relationships, to find ways to enhance reciprocity and risk-sharing, and to start to explore the mechanisms to do so.

3. Forms of development intervention

3.1 The 'projectising of poverty'

The conflicts and disputes that characterised the social history described in Chapter Three illustrate a wider development reality that applied throughout the process, which is that insofar as any form of development intervention does succeed in reducing poverty, such intervention will have distributional consequences, with the impacts on poverty invariably uneven. At a more basic level, development intervention often brings new resources into resource-starved communities. As a result, the terms of intervention are likely to be contested and may cause conflict. These are the political realities that underlie the implementation of poverty reduction strategies, and these dynamics affect all development praxis. So while the texture of

the kinds of conflicts that arose are highlighted in the early Chapter on the social history, similar dynamics were present in varying forms and at varying levels of intensity at all stages.

One of the lessons of the process, however, is that the more development intervention takes place in a 'zero-sum' context in which some benefit greatly and others not at all, and/or on the basis of relatively arbitrary indicators, the greater the likelihood of conflict.

This kind of zero-sum effect is particularly marked in 'project approaches' to development, in which, for example, a given group of people within a community are given grant capital to set up an enterprise – often within a wider context of endemic poverty. The NUM Co-op programme was one variant of this kind of approach to development. While debate and praxis in MDA moved on, the approach remains typical of the way in which income generating projects or group enterprises continue to be promoted in many contexts in South Africa, as part of both small enterprise development and 'developmental social welfare'.

Quite apart from the low success rate and low returns that seem to characterise such projects, as illustrated in Chapters Four and Five, there is a wider critique of the approach at the level of development strategy.

As Tendler has argued, these kinds of approaches to development lend themselves to elite capture and patronage. Attempts to mitigate this by targeting the poorest, often through complex processes of 'outing' them in their communities, can have their own perverse consequences.

In many contexts, in order to try to spread the benefits of such projects and increase the 'number of jobs created', a minimum number of members is made a condition of funding. Yet such projects typically target local markets, where the scale of demand cannot sustain scale economies in production. As a result, such groups are set up for failure as a condition of funding.

At the same time, the scrutiny that the BDS approach imposed on the market effects of subsidies and grant funds highlights another inadvertent risk posed by such

projects, providing another example of how poorly designed subsidies can have negative development impacts.

When donors provide grant funds for groups to establish local enterprises, the chances are that there are already a handful of self-employed entrepreneurs engaged in the same economic activity: probably informally, perhaps from their backyard, capitalised with their own savings or a micro-loan, on their own or maybe employing a few people. Along comes the project with its minimum of 10 members, capitalised with new equipment and working capital worth R50,000 or more to enter the same market.

The co-op or project may not be viable and it may not survive for long after its grant funding ends, but for a year or two it will compete with other local producers for market advantage, and its access to grant funding will give it a competitive cost advantage as well as a scale advantage over those local entrepreneurs who have built their business from a mix of savings and loans. If production volumes exceed the absorption capacity of the local market, they may try to solve the problem by cutting prices. The existing local entrepreneurs don't really stand a chance. The risk is that by the time the project collapses, its competitors will already have done so – with a net loss of jobs and economic activity in a given local economy.

Finally, Tendler critiques the 'projectising of poverty,' arguing that the focus on projects of various kinds as the vehicle for poverty reduction keeps the attention of public policy at this level, often at the expense of more systemic solutions, whether in relation to social or economic policy. This critique of the limits of project approaches echoes Bettelheim's critique of worker co-ops for providing no challenge to wider social relations. Both of these critiques provide a link to the later concern with 'systemic change' that arises as part of the M4P approach.

3.2 Development Centres and BDS

The shift away from a project development approach as represented by NUM's co-op programme and to a focus on service delivery through Development Centres yielded significantly improved outreach and outcomes. However, MDA's role in direct service delivery through Development Centres soon came up for scrutiny and critique as a result of the BDS market development approach.

There were some substantive flaws in the BDS paradigm. As argued in Chapter Six, the central weaknesses of the early BDS market development approach were its lack of recognition of the links between markets, power and poverty, its predilection for a rather uncritical market fundamentalism, and the core assumptions in the Donor Guidelines; in particular that both operational and strategic business services could and would be provided by the private sector 'even for the lowest income segment of the entrepreneurial SE sector,' and that this segment would be willing and able to pay for such services, if only distortionery subsidies were removed.

As argued in Chapter Six, these assumptions proved flawed. The paradigm did, however hold certain important lessons, which have carried through into M4P. The approach focussed attention on the market effects of development intervention, and in particular, on the role of subsidies, and the ways in which these could either serve to develop or to displace market-based processes.

While the early absolutism in relation to the use of subsidies has largely been jettisoned over time, what remains is a new level of recognition that the way development intervention takes place and the way subsidies are used can either contribute to the development of markets and assist in overcoming market failures, or can displace the role of the markets in ways that exacerbate such failure. This can affect the poor negatively – despite the best of policy intentions.

3.3 Cost recovery and the new anti-politics machine

While the BDS market development approach focussed on the market impacts of development intervention in new ways, it also inadvertently drew attention to the effects that a market-driven approach to cost recovery was having on the development agenda of MDA's Development Centres.

This posed challenges on many levels, and highlighted contradictions in the core rationale for the centres. As the experience at Mhala Development Centre illustrated, where the sustainability of a Centre was secured by delivering services in order to address a form of market failure in the local economy, the centre developed a competitive interest in playing this role, with market-based alternatives representing competition – rather than a successful end to that particular form of market failure.

The focus on cost recovery in development was a feature of the post-apartheid period, in civil society organisations beyond the enterprise sector. Organisations that had largely been focused on 'systemic change' in the political realm, attempted to convert to playing a service delivery role to support the democratic transition. With the advocacy funding characteristic of the anti-apartheid period largely drying up, cost recovery became the new imperative.

Where cost-recovery concerns pit the organisational survival of development agencies against their purpose, where incentive structures lead to declining access to services for the poor, and where competitive pressures mitigate against a focus on systemic change, then, drawing on Ferguson, cost recovery in development can be described as the new 'anti-politics machine'.

For Ferguson, writing in the era of the post-colonial state, it was state-lead processes of development that leached the politics out of the development process. Against the later backdrop of a neo-liberal hegemony, market-driven processes of development achieved similar effects in different ways. According to Johnson, part of the challenge of M4P is to address the failures of both state and market-driven development; but a development politics able to achieve systemic change from below remains elusive and constrained.

The BDS and M4P approaches brought an end to 'service delivery as development purpose', and with this, an end to cost recovery as the over-riding imperative for development agencies. The focus shifted instead to the challenge of facilitating systemic change – where the focus certainly belongs. The question, however, is to what extent 'facilitation' can in fact achieve such change – and the role of a 'development politics from below' in that process.

3.4 Facilitation, organisation and systemic change

The concept of 'facilitation' has emerged as a distinct function in development, and a mode of development engagement, in the context of the BDS approach and M4P. Part of what makes the concept attractive is that certain aspects of the way it is defined resonate with elements of what would be understood as an 'organising' role in South Africa.

Facilitation is certainly an ally of organisation, and can complement and support it. However, a key difference between the two is that the concept of facilitation tends to be used in ways that ignore issues of power. Perhaps it is not surprising that a discourse that often does this should develop an instrument for systemic change that does so too.

Most of the elements usually described as being required to make a market work, in the classic sense, can be 'facilitated'. Facilitation can enhance access to information, create linkages, reduce transaction costs, and achieve the kinds of outcomes that make markets work more effectively and efficiently; it can even make them work more inclusively, although as Johnson has argued, efficient markets can co-exist quite happily with high levels of inequality, poverty and exclusion, with efficiency a necessary but not sufficient part of achieving pro-poor impacts. The point, however, is that facilitation can achieve a range of win-win outcomes in markets, where making markets work better also happens to make them work better for the poor.

These impacts are not trivial. The role played by the Mhala Development Centre, for example, was one of facilitation; such processes can lead to new levels of efficiency, new forms of access to goods and services, to information and to market opportunities. All of these may make markets work better; it may make them work better for the poor, and at a certain threshold, it may lead to changes in the structure of the market in a way that embeds these effects.

At a certain point, however, making markets work better for the poor is likely to reach the limits of win-win solutions, and to entail changing the distribution of benefits in a given market, in ways that are likely to require and/or lead to a shift in the power relations in that market. Shifts in power relations and in the distribution of benefits are not facilitated, they are negotiated, and may have to be fought for, won, and defended.

As argued in Chapter Seven, the role of trade unions has certainly been to catalyse change in the labour market, in ways that have often made that market work better for the poor. How far could trade unions have gone in 'facilitating' such change, without the economic power that organisation gives them to negotiate it?

As soon as change in the way a market works entails a zero-sum shift in the distribution of benefits, it moves beyond the scope of facilitation and onto the terrain of negotiation, where outcomes are determined to a large extent by power relations. While facilitation is defined as a catalytic role played from outside of markets, negotiation relies on players rooted in the market, or affected by that market. At a process level, their interaction can be facilitated from the outside, but this does not change the fact that the outcomes of change processes in a given market will be a consequence of negotiation and of consensus reached between insiders – defined as those affected, or with a stake in the outcomes.

Any serious attempt to catalyse systemic change in markets or to change the distribution of benefits within them has to go beyond 'facilitation'. It has to take serious account of the ways in which power is organised and constituted both within markets and in relation to markets, and the forms of organisation and influence through which such power is exerted and through which different sets of interests are defended - or through which compromises are reached in the interests of wider social concerns, as Polanyi argues takes place as part of the 'double movement'. This is the critical arena within which systemic change is achieved – this is where the political economy of markets is to be found, and this is why the political economy context is so crucial in determining whether 'facilitation' has any prospect of assisting to catalyse such change.

These debates link directly to the theories of economic change discussed in Chapter Two, and to North's analysis of the determinants of institutional and economic change. North argues that it is organisation and forms of association within markets and within societies that matter in shaping institutions. He also argues that such change takes place incrementally and over time as a result of ongoing interaction, engagement, negotiation and struggle.

This has two key implications for how we understand the challenge of making markets work better for the poor. Firstly, it means engaging with the forms of social and economic organisation that shape markets. This has to include the forms through which 'the poor' constitute themselves or are present – across a diverse spectrum of interests, capacities and identities – in order to influence the way

markets work. The existence of forms of organisation that represent or are able to advocate for the interests of the poor becomes rather important to ensuring pro-poor outcomes; the use of consulting firms to act as proxies for the interests of the poor probably will not achieve the desired effect.

Secondly, it means that such organisations need to be able to stay the course. This brings the issue of organisational sustainability back onto the agenda in a different way. With 'facilitation' having become the preferred development function (and the focus of funding), and with development sustainability measured in systemic terms and no longer in relation to organisational cost recovery, the issue of organisational sustainability has dropped from the agenda as a development concern. If the analysis of how change takes place in markets is accurate, however, then this lack of concern for organisational sustainability is flawed.

In broad terms, M4P identifies that the poor are present in markets as workers, as consumers, and as producers. They also have the potential to shape markets in their capacity as citizens. These capacities overlap; the interests of the poor can also manifest in contradictory ways, and be in conflict. The forms of association and organisation through which the poor assert their interests and identities can be political, cultural, social and economic, and within these different forms of association, their status as 'the poor' may be an ascribed one, determining neither their choices nor their identities.

Without attempting to derogate from this complexity, it is nevertheless also the case that in looking at the location of the poor in markets in relation to their capacities as workers, consumers and producers, a few issues become clear.

The first is that it is in their capacity as workers that the clearest form of organisation has emerged that has consistently been able to contest the location of the poor in a given market, to shape that market, to contest the terms on which the poor within it are included, and to do so in the incremental and ongoing kind of way that North describes as characterising the processes of economic change. That this process remains contested, has faced setbacks, and may arguably and in some contexts have had contradictory outcomes for other sectors within the poor, is not the point.

The point is that within the labour market, the levers of change are clear, and a form of organisation has emerged that is able to become a sustainable part of the landscape of power in that market. The backbone of this sustainability is membership. While the power derived from such membership is vital, membership also brings sustainability for the simple reason that when membership is high, trade unions are often able to achieve financial sustainability as organisations. Financial sustainability is taken extremely seriously in the trade union movement. It is seen as a necessary condition for wielding power and influence in the labour market, and it is key to the organisational sustainability that has enabled trade unions to stay the course to achieve the kinds of incremental and negotiated outcomes to which North refers.

What are the equivalent forms of organisation able to represent the interests of the poor as consumers or as producers? There are a wide range of forms of economic co-operation and association, yet few have achieved a level of organisational stability or sustainability equivalent to that found in the trade unions. Two challenges arise. The first is to craft a different framework for providing funding to organisations and associations of the poor or with the legitimacy to advocate on behalf of the poor. Despite the contributions made in various ways by developed-country donors - including to organisations such as MDA - reliance on such funding carries significant risks. It is not sustainable, and it is also notoriously erratic. Right now, as this thesis is being concluded, the eleven-year-old Micro-Enterprise Alliance is being liquidated, in part at least for lack of donor funding. In a highly unequal society such as in South Africa, the challenge is to develop alternative, local mechanisms able to provide access to sustainable core funding to diverse forms of organisation, to ensure that it is not only the more resourced sectors of society that are able to wield influence in the processes that structure the rules of the game, in markets and beyond.

More important, however, is to explore forms of organisation that can achieve the same level of financial stability and sustainability as the labour movement. This thesis has engaged with too much complexity to put forward silver-bullet solutions at this stage, but it does have to be said that to the extent that forms of organisation have emerged anywhere in the world that are able to organise and to represent the interests of the poor as consumers or as producers, to create new kinds of economies of scale and to assert their presence in markets on different terms, these

organisations are the kinds of user co-ops described in Chapter Four: consumer co-ops, input supply co-ops, marketing co-ops, and co-op banks, for example; there are no doubt other forms of economic co-operation that qualify also. The challenge of developing sustainable forms of organisation and association able to contest the terms on which the poor are integrated into markets and their ability to shape markets has to be a key part of achieving M4P.

4. Making Market Systems Work for the Poor

> Capitalism has not just survived; it has been rejuvenated, and shows no prospect of imminent collapse, or even ageing. This is the totally unpredictable outcome of the twentieth century. It is still unbelieved in many circles. Many point to the injustices, inequities and costs of the new dispensation……There is no rival mode of production on the horizon as a viable alternative. Capitalism is the only game in town. The contest is between rival versions. [Desai: Marx's Revenge: 2005]

Any hope of advancing social and economic justice in today's world has to take rather seriously the limits and possibilities of impacting on how market economies and market systems work.

Markets are the institutions that govern exchange in society. Whatever form those institutions take, and however they are governed, the need for institutions to govern exchange will remain. There is no return to an era reliant primarily on household self-sufficiency in production, or the kind of localised reciprocities imbued with social meaning that were mourned as the Age of Commerce began – not even in the kinds of marginal local economies under discussion here. Instead, the global division of labour continues to mutate at pace, taking new forms spatially and technologically, with new forms of value inscribed in different forms of assets, raising new opportunities for challenge at the same time as closing others down.

As this thesis has argued, in this complex context, a focus simply on protecting society from markets is too defensive and limited an approach – important as this still is. What is missing is the elaboration of strategies to engage with the wealth-creating capacity of markets on new terms, to achieve a different set of outcomes and different patterns of distribution. This means engaging in new ways with what it

means that markets are socially constructed and socially constituted, and identifying the levers of change to construct them differently.

The analysis that markets are socially and politically constructed is a common thread across Polanyi, North and Chang, although it is Chang who uses these particular terms to describe the process. In demonstrating the ways in which such social construction takes place, all three point to the history of market formation, and the active intervention of the state and social processes in shaping markets and the rules of the game that govern them. It is because markets are socially constructed that systemic change in the way markets work is possible. That is the link between these theoretical concerns and the M4P agenda. The current structure of markets, globally, nationally and locally is an outcome of the history these analysts describe; this history in turn frames the scope for systemic change, or, in North's terms, creates a degree of 'path dependence'.

The history of intervention that shaped the creation of the global market economy and the economy in South Africa lives on in patterns of power and inequality, and in the endowments that market players bring to market processes – and the accrued endowments that nations bring to the global economy.

For all the disclaimers in economic theory around the limited role that markets play in relation to distributional issues, markets tend to concentrate wealth and follow power. Reinforcing and deepening existing patterns of wealth and power is a distributional function, even if it is not a redistributive one. Markets also not only follow power, they also confer power, deepen it, and reproduce it in cycles of exclusion that leave those on the margins ever more marginalised. Engagement with the fundamental ways in which existing distributions shape the interests in which markets work and set the limits to change continues to be a significant gap in the M4P discourse.

In the World Development Report 2002 on 'Building Institutions for Markets', the point is made that institutions affect distribution because they are an outcome of political processes in which particular groups have incentives to maintain or change those institutions (WDR 2002: 21). Markets *are* institutions, and the way markets have been constituted as institutions has distributional consequences.

Making market systems work better for the poor is an agenda with a distributional challenge at its core; it can only be achieved as part of a wider redistributive agenda that addresses questions of distribution, equity and the underlying rights framework in markets as intrinsic to achieving systemic change in markets, and to shifting the distribution of the critical endowments that underpin power in markets. Without this, markets will continue to play a distributive role in reproducing and extending inequality.

This transformative agenda is not one that markets themselves will drive, nor will all the processes needed to achieve it be market processes. A range of instruments will be required to achieve such outcomes, which range from changes in the global governance of markets through to the role of social protection; the process may also at times entail the kinds of ruptures in the framework of rights and endowments described by Mushtaq Khan in Chapter Two.

These challenges bring the debate back to an analysis of the interface between markets and society, and to the political economy of achieving the kinds of transformative interventions required to change the distributional impacts of markets, globally, nationally and locally, to make market systems work better for the poor. There are certainly ways in which gains can be made. The less qualified and more absolute goal of making market systems work for the poor is, however, a challenge of a different magnitude – and one that may prove to be just as elusive as the wider goal of socialism which framed this particular journey when it started nearly twenty years ago.