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## **From microfinance to inclusive financial markets: the challenge of social regulation**

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### **Abstract**

*Policy towards microfinance has undergone a shift away from building financial institutions focussed on serving poor people to an 'inclusive' agenda for financial sector development, operationalized by some donors in an approach entitled "Making Markets Work for the Poor". This approach is located in new institutional economics and the enabling environment focus of the post-Washington Consensus. Despite the way in which this inclusion agenda echoes social exclusion discourse, it engages with a residualist rather than relational understanding of poverty. This leads to an analytical disjuncture between its discourse and analysis overlooking the root causes of poverty and exclusion in relational processes. . Arising from this, is the failure to recognise that developing institutions and 'enabling' environments requires an understanding of social institutions and their influence as social regulatory structures. I illustrate how analysis can proceed to address this disjuncture using the example of gender relations.*

**Key words:** inclusive markets, financial inclusion, social institutions, microfinance, financial sector development

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# From microfinance to inclusive financial markets: the challenge of social regulation

## 1. Introduction

In the past five years microfinance has undergone a policy shift away from a focus on building sustainable microfinance institutions to serve poor people, to one which focuses on the development of the financial sector as a whole and the operation of the financial market in its enabling environment. This shift to a wider financial sector or financial market development perspective is evident in the World Bank's 2008 publication "Finance for All" (FFA)(World Bank 2008b) . This move reflects the wider shift in development policy towards the focus on 'getting institutions right' of the Post-Washington Consensus (Gore 2000 ; World Bank 2002) but shifts away from a focus on poverty to one of inclusivity of the unbanked and those on low incomes.

The widened agenda of inclusive finance laid out in "Finance for All" (World Bank 2008b) is underpinned by research that suggests that the direct effects on poverty of access are outweighed by the indirect effects of financial sector development that arise through product and labour markets (World Bank 2008b). The appeal of this widened agenda has been supported in the business and management fields by the recognition of the scale of market opportunities which the corporate sector is not currently reaching highlighted by works such as Prahalad's "Fortune at the Bottom of the Pyramid" (2005). This demonstrates a huge unserved market for products and services which incorporates a low income market even before the poorest are reached. However, while the emphasis on "getting institutions right" and working with the private sector has been embraced by many donors, the complete abandonment of a poverty focus has not equally been accepted. Some donors have therefore collaborated in systematising an approach termed "Making Markets Work for the Poor" (M4P). The origins of this lie largely with work sponsored by the UK's Department for International Development (Ferrand, Gibson et al. 2004 ; Porteous 2004) (DFID 2005a) and the Asian Development Bank and SIDA (SIDA 2003 ; DFID 2005a). While developed to assist intervention in a wide range of markets (DFID/SDC 2009b), it has been specifically adapted and operationalized in financial markets such as those of South Africa and Kenya (Gibson 2006 ; Stone, Johnson et al. 2010). In this approach the wider institutional development framework underpinning financial market development is evident, but there is an explicit focus on the inclusion of poor people.

This policy discourse of financial inclusion and its embodiment in through the “Making Markets Work for the Poor” approach can be termed the inclusive financial markets agenda and it raises the question of how exclusion and poverty are understood in order that inclusion can be addressed through policy or intervention. The paper first argues that there is an analytical disjuncture between the discourse and its analysis. The inclusive financial markets mission directly echoes the language of social exclusion that developed during the 1990s in developed countries. Hence we might expect these approaches to highlight the causes of exclusion or the negative consequences of existing inclusion and the ways these are implicated in the reproduction of poverty. Poverty analysis has increasingly paid attention to the way poverty is produced rather than just its outcomes (such as incomes, education etc), particularly those analyses based in concepts such as social exclusion (Narayan, Chambers et al. 2000 ; World Bank 2000) and more recently relational approaches (Tilly 2007 ; Mosse 2010). These point to the need for analysis of markets which can be made to work better and inclusively, to connect to analysis of poverty as produced by the way poor people are either excluded from or engaged in markets in the first place. However, the theoretical approach from which these approaches derive in the New Institutional Economics engages with a residualist rather than a relational view of poverty and hence does not make these connections.

Second, the paper argues that since relational poverty is strongly embedded in social institutions, an understanding of their role in markets is necessary. However, while the inclusive financial markets agenda and the M4P approach are centrally concerned with institutions for market development in the form of formal regulatory structures and ‘enabling’ environments, this has been criticised for its focus on institutional form over function (Chang 2005), and for overlooking the role of underlying social institutions. Moreover, in the context of economies where formal regulation is limited and/or ineffective and hence the reach of formal institutional arrangements is limited, Harriss-White argues that the economy is primarily subject to forms of “social regulation” (2004) which flow from underlying social institutions.

Third, women have been a core focus of microfinance with considerable debate about whether this has been primarily an instrumental focus or in fact empowering and this goes to the heart of the relational dimensions of gender. However, inclusive financial markets approaches leaves gender and women’s empowerment perspective outside the core of the debate. Since gender is a key social institution that regulates these markets, the paper goes on to outline how gender analysis could begin to be addressed if inclusive financial market development were to seek to address the disjuncture presented.

## 2. From microfinance to inclusive financial markets

The first shift in policy in microfinance over the past two decades involved moving from the “poverty lending approach” to the “financial systems approach” in the 1990s (Robinson 2001:22). This involved removing subsidies that were directed towards the recipients of credit and instead giving them to service providers in order to build ‘sustainable’<sup>1</sup> financial systems. However, within the Washington Consensus framework of “getting prices right” subsidies are only tenable when there are clear market failures. FFA takes the view that the extent of subsidy required and how it is best provided are still open to question, especially since welfare impacts are still unclear and there is scope for service delivery without subsidy, since many MFIs have demonstrated financial viability. These arguments are complemented by evidence that the effects of direct access to financial services for the poor are less substantial than the indirect effects via economic growth and its effect on product and labour markets. One such study (Beck, Demirguc-Kunt et al. 2007)<sup>2</sup> finds that 60% of the poverty impact on the poorest 20% arises from this indirect effect compared to 40% of the direct effect. Indeed the Banking the Poor study (World Bank 2008a) also suggests that access is promoted by formal jobs rather than any other route so adding further grist to this mill. However, some studies have argued that direct access to services is important if inequality is not to increase (Jalilian and Kirkpatrick 2005 ; Honohan 2007).

FFA clearly signals the shift in emphasis which brings microfinance policy into the context of financial sector development by concluding that “financial sector reforms that promote broader access to financial services should be at the core of the development agenda”....“Government policies should focus on building sound financial institutions, encouraging competition (including foreign entry), and establishing sound prudential regulations to provide the private sector with appropriate incentive structures and broaden access” (World Bank, 2008: p17).

The M4P approach on the other hand is focused on effective intervention and reflects a concern among particular donors who have been active in microfinance for an approach which enables them to work with the mainstream financial sector but retains a poverty focus. While the motivation can be seen in the original concerns of the Washington Consensus to get markets working, it is modified by the concerns of the ‘post-Washington Consensus’ for poverty reduction and the understanding that without adequate structured opportunities for poor people this recipe is set to increase inequality (World Bank 2006).

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<sup>1</sup> I put this in quotation marks as the recent financial crisis clearly highlights the need to question assumptions about what the sustainability of financial systems means especially when based on profitability indicators.

<sup>2</sup> This study is also the central one referred to in Finance for All, which was also written by Beck.

M4P is clearly based in new institutional economics (Ferrand, Gibson et al. 2004) and focuses on identifying transactions occurring in markets along with the institutions and infrastructure that supports them. Intervention is focussed on analysing how these markets may work more effectively by adjusting rules and regulations and facilitating provision of information and services that can reduce transactions costs for participants and be financially sustainable in the longer term. Many recent approaches to private sector development have been termed “new minimalist” (Altenburg and Drachenfels 2006) in their combination of four elements: pro-poor property rights (in particular tenure policy); simplification of procedures and regulations (highlighted by the rise of the World Bank’s “Doing Business” Reports); microfinance development through an enabling environment and commercialisation rather than direct service provision; and finally emphasis on the role of business development services that enable the private sector to develop – especially small and medium enterprises . The M4P approach combines aspects of these elements but is less minimalist in that it sees the potential for their pro-active combination to be facilitated by interveners, it seeks a middle way between liberalisation and reform at the broadest level and donor / government intervention which engages directly in markets and with businesses.

Analytically M4P sees the market as consisting of three aspects (DFID/SDC 2009b). First, is analysis of the core market in terms of its actors, structure, trends and performance. This is now increasingly operationalised in commodity markets through the use of value chain analysis (Miehlbradt and McVay 2006). The role of poor people in these markets as producers, consumers and employees is also analysed. Second, analysis of institutions looks at general rules such as contracts, property, health and safety; sector-specific rules (eg banking law, or telecommunications laws); and non-statutory requirements and regulations such as those that exist in the form of codes of conduct. It requires an analysis of how these affect the market. In addition they highlight the need to look at how informal institutions affect the market, pointing out that it is often informal rules that govern arrangements when formal regulation is weak. For example, reliance on existing social and business networks may limit the capacity to break out and to take up new business opportunities. Finally, the support services and infrastructure available in the market and how they operate is important. This covers, professional services such as accounting and training; “embedded” services that are part of other commercial transactions (eg. payment arrangements and availability of stock on credit; supplier provision of information and training) infrastructure availability and public services such as licensing and regulations.

With this analysis, the task of M4P is to consider how the market could work more effectively and identify the weaknesses to achieving this concentrating on the rules to be developed and enforced; the services and infrastructure to be provided and how these elements can be sustainably developed

in terms of payment for them. This, it argues, has been a key missing feature of previous approaches. Hence, drawing on the new institutional economics (NIE), the M4P approach has its primary focus on lowering transactions costs to facilitate expanding markets resulting in improved access for poor people, better returns to labour and products, reduced prices, increased choice and reduced risk. The recognition that formal and informal institutions affect markets and the regulatory emphasis is an important development. A market that works for the poor is “one which expands the choices available to poor people and produces outcomes that benefit the poor” (DFID 2005b:10) judged in terms of access to markets and overcoming exclusion; affordability of purchases; returns to products and labour; increased choice and reduced risk, with these effects leading to increased participation over time.

However, the approach does not clearly define who “the poor” are. Mendoza and Thelen (2008) also argue that inclusive market approaches should reach the poor, suggesting that many do not, and suggest the use of the US\$2 per day consumption measure. This therefore suggests a poverty focus that is defined by expenditure measures, with the lowering of transactions costs the means through which inclusivity is achieved. The core M4P documents do however, recognise that that poor people have “weaker informal networks and links to government patronage” (DFID/SDC 2009b:8) but as has also been noted by Meyer-Stammer (2006) there does not appear to be a coherent analysis of poverty and how this relates to market failure. Similarly, there is no discussion of the causes of poverty or, more specifically, the causes of exclusion from markets, within the inclusive financial markets discourse. How then can institutional development to promote an ‘enabling environment’ and supportive institutions be understood if what is ‘disabling’ with respect to inclusion has not been identified?

### **3. Residual and relational analyses of poverty**

The focus of NIE analysis on which M4P is based is the information and transactions costs which institutional arrangements produce and which mean that prices are not market clearing. Factors which influence prices (especially technology) may then produce opportunities for collective action as new institutional arrangements become beneficial to players. The NIE does not have an explicit theory of poverty but sees poverty in income terms and poor people as a residual category who lack the income to engage in a variety of markets. Deploying the NIE into approaches to M4P therefore primarily sees the route to inclusion as the lowering of prices through lower information and transactions costs, with potential for co-ordination where this has failed. It therefore fits with an

approach to poverty that sees poor people as a residual category who are simply left out due to low incomes (see for example Mendoza and Thelen (2008)).

The analysis of poverty has expanded significantly over the last two decades from a focus on income to embrace its multi-dimensionality through approaches such as basic needs, entitlements, human development and capabilities and how these have expanded to dimensions which pay attention to rights and freedoms for individuals to participate in society (Sen 1999 ; World Bank 2000 ; Saith 2007). The concept of social exclusion has also contributed to this from its base in European social policy discourse where it is primarily concerned with the way people are unable to participate in what is regarded as 'normal' activity, particularly in terms of labour markets and state welfare systems. It has in turn been much debated with different aspects being emphasised by different writers (Saith 2007). More broadly the social exclusion approach has contributed to the emergence of an understanding of poverty which is "relational" in contrast to one which is "residual" and sees the poor as simply left out (Bernstein 1992).

Saith (2007) highlights five key aspects of the contribution of social exclusion literature in comparison to monetary definitions of poverty. First, it is multi-dimensional and recognises how, for example, unemployment may not simply lead to income poverty but affects people's social networks and self-esteem, Second, it is relational in focusing not solely on the individual or household but how these relate to groups and organisations in the society. Third, it is relative in the sense that exclusion occurs relative to others in the society and therefore must be evaluated relative to what others in the society do. Fourth, it is dynamic and concerned with how people fare over time and inter-generationally since exclusion can affect their longer term potential. Finally, it is concerned with the process through which poverty outcomes are produced in the sense that it looks at the way particular institutions may generate exclusion and hence moves the emphasis from the outcomes alone to the means through which these outcomes arise enabling particular paths to poverty to be identified. According to Saith (2007), this emphasis on process is one of the main contributions it makes.

The application of the concept to developing countries is not straightforward and has raised analytical problems since what is 'normal' is not necessarily easy to identify and in some societies exclusion is part of the social structure - e.g. through the caste system in India (Stewart, Laderchi et al. 2007). However, the concept has heavily influenced the discussion of poverty and this has in the main focused on the processes involved. Examples of its adoption into the mainstream poverty discourse are evident through the widely referenced Voices of the Poor study. This states that: "[I]n describing illbeing and the bad life, poor people and especially women, often express powerlessness



vis-à-vis employers the state and markets; their inability to get a fair deal; their inability to take a stand against abuse, lying and being cheated; their inability to access market opportunities” (Narayan, Chambers et al. 2000:265). The World Development Report 2000 (WDR 2000) (World Bank 2000) which was heavily influenced by the “Voices of the Poor” study recognises that poverty is multidimensional and the result of economic, political and social processes interacting with each other. Moreover, the role of social institutions such as gender, age, ethnicity, race, caste and religion in creating these processes of disadvantage and powerlessness were well understood. Its policy proposals to expand opportunity, promote empowerment and security also recognise the role of social institutions (especially gender) and the need to tackle social barriers borne of inequitable social structures.

However, the chapter of WDR 2000 entitled “Making Markets Work Better for Poor People” is interesting for its primary emphasis (though not articulated as such) on creating opportunities rather than addressing how these dimensions of empowerment and security affect how markets work. In this context too then we see the multi-dimensional analysis of causes of poverty but an inability to translate this into an understanding of the implications for policy and intervention in relation to markets. The subsequent WDR 2002 “Building institutions for markets” does recognise the role social institutions, norms and networks play in producing exclusion from both formal and informal institutions for some people – but it does not systematically connect this to an analysis of poverty that articulates how these problems are to be addressed. It offers only rather broad statements about strengthening human capital if markets are to work better for poor people (World Bank 2002:26).

Moreover, seeing exclusion as a function of the way markets are structured and total exclusion as only a small part of the problem necessitates a closer examination of the terms and conditions of poor people’s incorporation into, or marginalisation within, markets which may not be favourable – a concept which the term ‘adverse incorporation’ (Wood 2003) usefully captures. Of course such an idea is not entirely new but draws on the analysis of political economy. Indeed, while M4P statements do refer to power relations as sources of market failure (DFID 2005b:6; DFID/SDC 2009b) they are not systematically integrated into the analysis.

Responding to the need to develop poverty analysis that brings in power relations, Tilly’s approach involves looking at “interactional” explanations of inequality in order to move away from the individualistic focus of poverty definitions and discourse. In this he looks at distinctions between categories of people and how interactions (processes) between these paired categories of “greater and lesser beneficiaries” operates in terms of inequality generating mechanisms of “exploitation and

opportunity hoarding” (ibid:56). He points out that it is not simply an issue of the ability of some groups to “enlist the effort of others in production of value by means of a resource” but also to “exclude others from the value of their effort”, and opportunity hoarding as the way an “in group” is able to retain control of a resource. These processes result in “durable inequality” because categorical distinctions are reinforced when they work alongside existing unequal categories and mobility across these boundaries does not change the boundaries but rather who benefits from them. He goes on to identify types of resources which have historically been key to generating inequality such as: coercive means (weapons, jails, violence); labour; animals (especially domesticated); land (including natural resources); institutions which maintain commitment such as religious, kin and others; machines; financial capital; information; media access and scientific knowledge (ibid:61).

Mosse seeks to bring a clearer analysis of power into this approach beyond what he sees as Tilly’s somewhat functional analysis (ibid:1163). To do this, he draws on Lukes (2005) “agenda setting” second dimension of power pointing out the ways in which political process results in some issues being put on the agenda while others are “organised out”. Political processes systematically marginalise the interests of poor people essentially because they lack representation. However, the process of gaining access to formal political representation is in itself highly problematic as it invariably involves the “concession of people’s interests to the definitions and categories of outsiders” (ibid: 1172) whether via party politics or civil society movements, where, their objective may instead be to disrupt these categories and definitions (as in the case of *adivasis* in India that he discusses). He takes the argument further to incorporate Lukes’ “preference-shaping” third dimension of power. This refers to the deep and subtle processes through which perceptions and preferences are actually shaped and in which ‘non-decisions’ are not even recognised as such. Mosse uses it to argue that “structural inequalities of power produce self-enforcing effects on individual behaviour” (ibid: 1170) in the way that these inequalities themselves influence desires, subjectivity and agency which in turn contribute to the failure of collective action against political exclusion. Hence “extreme vulnerability and the search for security allies the immediate interests of poor people to those of their exploiters, lending stability to wider systems that perpetuate disadvantage” (ibid:1172)

To the extent that previous work on markets has addressed adverse inclusion, its core focus has been on inter-locking markets seeking to explain what were seen as exploitative credit relationships linking land and labour (Bhaduri 1977 ; Rao 1980 ; Bhaduri 1981). Neo-classical institutional economics has explained these as functional institutions which solve problems of asymmetric information and incomplete contracts (Von Pischke, Adams et al. 1983 ; Hoff, Braverman et al. 1993 ; Adams 1994).

The political economy approach on the other hand, sees the NIE analysis of these arrangements as failing to recognise that the means by which such information is built up over time can itself be an instrument of economic power and present agents with difficulties exiting these relationships (Bell 1993 ; Olsen 1994 ; Harriss-White 1999:272) and that these relationships therefore result in “financial repression from below” in markets (McGregor 1994:276).

While land<sup>3</sup> and labour arrangements have been a focus of South Asian political economy and which have been particularly related to credit markets, they are but two of the items on Tilly’s list of resources which are central to processes of exploitation or opportunity hoarding. The deployment of these resources to produce relational poverty clearly varies across space and time. So, for example, the use of violence and coercion is evident in ‘market’ creation in Africa for labour (slaves; apartheid), land and commodities (timber, minerals etc). Indeed, the ways in which illfare rather than welfare have historically been generated in an African context<sup>4</sup> - including as a result of mass violent deaths and injuries arising from political and military activities - has resulted in them being characterised as “insecurity regimes” (in contrast to European “welfare regimes”) (Bevan 2004). The extensive literature on state failure, weak states, and neo-patrimonialism (Bayart, Ellis et al. 1999 ; Chabal and Daloz 1999 ; Walle 2003) and the varied forms of accumulation these give rise to are analyses of the role of coercion amongst others in what are processes of exploitation and opportunity hoarding. The relational dimensions of these processes also lie in the way categories such as those of race and tribe were created (Mamdani cited in Bebbington et al (2008)) and how these were written into law and created the bases for discrimination in how people were governed. Bevan (2008) also cites Mamdani’s analysis of ‘bifurcated states’ in that the majority were governed by ‘decentralised despotism’ while a small elite were citizens of a ‘modern’ state consistent with these strategies. Moncrieffe (2008) indicates how violence was a feature of pre-colonial as well as colonial relationships among ethnic groups in Uganda , as well as within them in terms of gender relations, for example: patterns which have extended into post-colonial experience. The construction of markets in Africa, as in other contexts, is therefore underpinned by processes and historical arrangements for inclusion and exclusion through both coercion and relational category construction although the links to these analyses are not yet well developed.

While ways in which barriers to financial access can originate in discriminatory policies are recognised in the inclusive finance literature (Claessens 2006 ; Beck and Demirguc-Kunt 2008) they are as yet inadequately theorised for their role in creating exclusion or adverse inclusion. Political

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<sup>3</sup> While African is seen as a region of low population densities and abundant land, this is clearly now changing with rapid population growth.

<sup>4</sup> Violence and coercion have of course been part of processes in South Asia also, while land and labour arrangements are changing as population growth occurs in Africa, especially in more highly productive zones.

economy approaches, on the other hand, see these market relations as fundamentally exploitative and requiring that markets are restructured in order to liberate poor people from their entrenched disadvantage. Relational approaches to poverty analysis are broadening this analysis to understand how poverty and inequality are created through the wider interaction of groups of people and the multi-dimensional terms on which they are either apparently excluded or incorporated. Despite occasional mentions of the role of such power relations in the M4P literature (DFID 2005b:6ff) it has failed to incorporate this dimension into its analysis because it is primarily driven by a theoretical framework that sees poverty as residual. The inclusive financial markets agenda therefore suffers an analytical disjuncture between its discourse and its analysis of poverty.

#### **4. Institutions, markets and social regulation**

Given this disjuncture, the inclusive financial markets agenda also lacks a counterpart framework for recognising the way these relational dimensions underpin institutional development for markets. While institutions have been a core analytical concern for development economists over many decades, the recent rise of interest in mainstream economics in analysing the role of institutions in economic development has largely been associated with North's (1990) contribution (Bardhan 2007) and the recent literature by economists such as Rodrik and Acemoglu exploring the role of property rights; regulatory institutions; institutions for macroeconomic stabilization and for social insurance (Acemoglu, Johnson et al. 2001 ; Rodrik, Subramanian et al. 2004). Specifically with respect to financial markets, Fergusson's review (2006) indicates that the main focus has been protection for creditor's with a balance to be sought since too high a level of protection can impede incentives and risk taking. The role of politics in FSD has also been explored, while competitive political institutions support FSD by limiting state power, powerful political interests can oppose reform and therefore it may only occur when in their interests (Rajan and Zingales 2003).

While this research has brought institutions to the forefront of the mainstream economic development debate, critics have pointed out theoretical problems involved in the approach.<sup>5</sup> Chang (2005) questions why institutions such as those of property rights; regulation; macroeconomic stabilisation; and social insurance used by Rodrik and others should so often be the centre of these analyses. He argues that this is not a theoretically informed approach. The key issue for economic development with respect to property rights is the "ability to decide which property rights to protect to what extent under what conditions" if improvements in the use of resources are to be supported

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<sup>5</sup> Criticism has also focussed on the use of instrumental variables to attempt to disentangle the relationships between institutions and their outcomes, see for example (Glaeser, Porta et al. 2004) but this does not affect the substance of the discussion here.

(ibid:15). Hence, approaches which focus on particular forms of institution are reductionist. He further argues that there is confusion between the analysis of the form (eg judiciary) of the institutions and their functions (eg rule of law). Since the same function may result from different forms it is problematic to focus on form as much of the literature does.

Moreover, the institutions of social structure such as those of gender, class, religion and ethnicity that have rarely been the focus for economists (Harriss-White 2004). Rodrik (2000:3) has recognised that the market economy is embedded in non-market institutions, but that there is no direct or “unique mapping” between them but that these non-market institutions are not there to serve the logic of market institutions. Using Chang’s distinction between form and function, we can argue that these social institutions have multiple forms but their function is to create social difference and processes through which inclusion and exclusion in the economy operates. These institutions therefore play a role in creating poverty through this function. The need then is to incorporate the influence of these institutions into analysis of the operation of the economy and markets. While this is in itself a major theoretical project, what follows are insights from existing work that offer directions for such an analysis, and which suggest how the role of social institutions is central to understanding how markets work for poor people.

A market can be defined as “an institution in which a significant number of commodities of a particular, reasonably well-defined type are regularly exchanged. They contain rules and structures that pattern these exchange negotiations and transactions” (Hodgson 2001:274). The theoretical work for identifying and analysing the way social institutions contribute to these rules and structures lies mainly in the contribution of economic anthropology and sociology. The substantive tradition of economic anthropology has sought to identify the influence of social institutions on exchange in markets with Polanyi’s concept of embeddedness as central in this regard (Polanyi 2001). However, this has been regarded by many as an over-socialized account in which social structure plays too deterministic an influence on action. Alternative notions, such as Granovetter’s account of social embeddedness (1992:62) allow for the interaction of structure and agency and hence degrees of “distrust, opportunism and disorder” to be present.

Theories of the embeddedness of markets in social institutions and relations and their power dimensions have underpinned a range of empirical research on their role in markets. Some of these studies have explored both the role of particular forms of social institution, such as gender and caste, while others have recognised that the function of these various forms of social structure is to create market fragmentation. So labour markets have been shown to be heavily influenced by gender relations (Folbre 1994) while Rogaly demonstrates the roles of class, caste and gender in labour

hiring arrangements in West Bengal (Rogaly, 1997), and Figueroa demonstrates a racially segmented labour market in the case of Peru (Copestake 2006). The influence of gender in structuring access to and control over land and hence exchange based on this has been documented by Agarwal (1994). The role of class and caste in credit markets is demonstrated by Harriss-White (1996), Olsen (1994) and gender in credit markets by Johnson (2004). Grain markets have been shown to be influenced by class (Crow 2001), gender (Pujo 1996 ; Harriss-White 1998), race (Bernstein 1996), and markets for coir to be influenced by caste and gender (Rammohan and Sundaresan 2003).

Harriss-White argues that these underlying social institutions are derived from 'primordial identity' and operate both inside the economy to regulate it while also operating outside it in other domains of social life, and at the same time are continually contested (Harriss-White 2004). Her study of the Indian economy shows how the labour market is riven with the influence of social class, gender, religion, caste and space which interact with each other to create a "socially regulated" (2004) economy. In introducing the term 'social regulation', Harriss-White moves beyond the notion of embeddedness to allow for the operation of what she calls "fields of power" (2004:5) which emanate both from inside and outside the economy. Although she does not refer to Bourdieu's use of the term field, she is using the term to recognise the diversity of forms through which power is exercised. The term therefore captures the means through which the dimensions of power - evident above in relation to Lukes - originating in underlying social structures and institutions emanate into the economy.

Even where it may be argued that formal institutional structures are in place, it can be understood that they in turn are "nested" (Ostrom 2005) in underlying sets of rules such that these allow the exercise of social power and their influence permeates both through formal and informal institutions (White 1993). For example, patriarchal gender relations can be institutionalised in discriminatory property laws, restrictions on tasks or work as well as ideologies of subordination. The actual processes through which markets are in fact "instituted" (Polanyi 2001) in particular contexts are as yet poorly understood. Recent studies at a micro level also start to reveal the complex processes of institutional change that arise in the way 'informal' institutions articulate and interact with 'formal' or bureaucratic institutions in ways that are messy and complex. In this way rather than rationalistic individuals, "institutions do the thinking" (p15) in the way that institutions are "created through a process of bricolage – gathering and applying analogies and styles of thought already part of existing institutions" and in ways that adapt them to socially embedded arrangements (Clever 2002). In the specific context of microfinance Rankin argues that the somewhat counter-intuitive case of the successful building of microfinance in Vietnam has arisen in an environment which appears to have got the institutions wrong, is a result of "institutional assemblage" with seemingly quite disparate

institutions being brought into play – ranging from those of state socialist thinking through to gender ideology (Rankin 2008). However, while the dynamic processes of the permeation of social institutions within markets are clear in a wide range of contexts, the analysis of social regulation is particularly appropriate where the informal sector is dominant (Harriss-White 2004).

This discussion therefore raises a number of challenges for the project of building inclusive financial markets. First, social institutions and the power relations connected to them are means through which poverty is itself created and reproduced in markets and in markets in which institutional development is intended to take place, they may be predominantly operating in the context of widespread informality where the logic of regulation by social structures dominates. Moreover, the process of market creation is a complex and messy process of “bricolages” and “assemblages” in which diverse institutional forms are articulated into new arrangements. The implication is that making markets work better for poor people requires that the regulatory role of social institutions as a cause of poverty through the processes that they bring to bear in the economy needs to be identified and incorporated into inclusive financial market analysis and interventions in order for it to be effective.

## **5. Addressing the role of social regulation in markets: the case of gender**

The focus of the discussion over the impact of microcredit on women’s empowerment has been oriented towards a discussion of the *outcomes* - whether or not women are empowered - rather than the gender relations involved. The literature has debated the extent to which women have achieved degrees of empowerment either on multi-dimensional indicators (Hashemi, Schuler et al. 1996) or their own assessment (Kabeer 2001), especially given its potential to put women in the midst of conflictive intra-household relations to their detriment (Schuler, Hashemi et al. 1998 ; Rahman 1999). That the evidence on outcomes is mixed (Mayoux 2001 ; Johnson 2005) is unsurprising given the varied circumstances of gender relations involved which differ between women, in relation to a wide range of other dimensions of social difference (caste; age; class; ethnicity etc) as well as between geographical contexts and which result in highly varied processes of relational exclusion and poverty creation.

The empowerment focus has been particularly problematic because it obscures the gender relations that women are engaged in when managing and negotiating the resources and opportunities these programmes offer both inside the household and beyond it in markets and society more generally (Johnson 2005). Moreover, as the debate shifts to inclusive financial market development, the

empowerment dimension has little resonance with the language of institutional reform and transactions costs reductions. FFA rehearses the arguments about women's empowerment (p124) with a minor mention of gender in relation to creating indicators of barriers to access that looks at three dimensions - physical access, affordability and eligibility (p40). However, the treatment of them as "customer characteristics" does not recognise the deep and embedded ways in which gender (or age) structures market opportunities, affects regulatory and legislative institutions, and hence also affects transactions costs. The recent M4P documentation does not address gender as an analytical dimension of working in markets, it only refers to gender in its operational guide where this might be a concern for some implementers (DFID/SDC 2009a:51).

An analytical starting point is needed which can allow for both a structured analysis of gender dimensions of exclusion or existing inclusion and allow for a relational approach to addressing these dynamics. The approach draws on Johnson (2004) - which in turn draws on gendered market analysis in Africa and Asia (Pujo 1996 ; Harriss-White 1998) - and has two main dimensions. First, it considers the demand side for finance by analysing the gender norms that surround intra-household activities and how these determine the intra-household gender dynamics of income and expenditure. This builds on the long standing anthropological literature on intra-household dynamics of resource and income allocation which in particular has critiqued unitary household models (Whitehead 1981 ; Kabeer 1994). In addition, this needs to be extended to the gendered analysis of women's market engagement. Second, is an analysis of how gender norms affect women's engagement with the demand for and supply of financial services. A range of norms, including those of property rights in particular, affect women's access and control of finance.

Gender analysis can securely start by analysing what men and women do – the gender division of labour – first within the household as a site of production and reproduction. Economic analysis then needs to analyse the patterns of rewards to this activity. How are the income flows from these activities allocated?<sup>6</sup> In Central Kenya, Johnson (2004) found that returns for different activities were allocated to individuals depending on a range of factors including scale, returns and the presence of men. Expenditure responsibilities are then also examined for their gendered patterns. Since savings and credit are means of moving the time at which funds are available, the need to bridge between flows of income and expenditure then determines the demand for financial services in the form of saving or loan facilities by men and women (Johnson 2004). The income streams which men controlled in Central Kenya were large and periodic, even irregular, compared to women's, which tended to be smaller but more frequent. This meant that women rather than men were more likely

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<sup>6</sup> This is essentially an extension of the Harvard gender analysis tools into returns and income, and adds a further analysis of expenditure responsibilities.



to have access to the regular contributions that informal group-based financial mechanisms required. Since men's expenditure responsibilities tended also to be lumpy, and in many cases tied to particular times of year, this meant they were more reliant on formal financial institutions to cater to these needs as groups were on the whole unable to cater for them

Extending beyond household production activities to trade in markets also demonstrates gendered patterns of market engagement. Grain marketing systems in West Africa and India have been shown to be patterned by complex gendered patterns which also interact with a range of other social differences such as ethnicity, age, religion, family, and the role of the state (Harriss-White 1998). These affect patterns of returns and accumulation opportunities. The demand for finance in such situations is influenced both by past accumulation through production and trade as well as access to finance influencing these opportunities. Harriss-White reports that returns among women traders were more highly unequal than for men in Guinea but that while men dominated the grain trade in Hausa, Nigeria, there was still a lot of differentiation among women traders. With this wider perspective on gendered economic opportunities, Goetz and Sen Gupta's (1996) finding that women handed over their loans to husbands and other male family members is also better understood. In Bangladesh, women had few opportunities to directly invest in an economy that is male dominated due to women's relative seclusion, returns overall would likely be higher in those male run activities than in the very few and small scale market opportunities open to them. Under these circumstances women were often dependent on husband's or son's to sell their produce where they undertook the production activities themselves eg. the production and sale of puffed rice. Investment opportunities for expanded production are therefore likely to be limited, and investment in a husband's or son's rickshaw or other business therefore a more viable opportunity.

Seen in these contexts, microfinance programmes that anticipate that accumulating savings or taking credit is the sole constraint to expanding economic activities that women themselves control are clearly problematic. At the household level and beyond, the range of gendered barriers to entry into production or markets are many and varied. Within the household are the many gendered norms regarding the division of productive and reproductive labour; the extent to which access to productive resources (land, labour, technology etc) can be developed are often sites of bargaining, negotiation and contestation. For market engagement, the constraints include skills, mobility, access to inputs, social networks, access to market space and so on and these are evident, for example, in the case of microfinance in Malawi (Johnson 2005). Indeed, the NIE's analysis of adverse selection as a problem in financial markets may in fact be gendered if women on the whole undertake projects that are less risky in their profile than men because they face such constraints. This is not to say that they are without risks and many of these risks have specific gender dimensions.

But since the economy as a whole is gendered in terms of market opportunities for these reasons, it is necessarily the case that the investment opportunities open to women and men differ in terms of both return and risk. Further, as the above discussion illustrates, market entry barriers may be alleviated or exacerbated by ethnicity, age, religion and so on. Therefore the particular circumstances and constraints of women for whom microfinance is expected to produce financial market inclusion need to be carefully diagnosed.

A second and related dimension of this gender analysis is of the social norms that surround and perpetuate gendered engagement with financial services. These range from those that are relatively well understood and may be formalised such as those of property rights, or men's approval of the use of household chattels as collateral to those that relate to expectations of acceptable behaviour. While norms regarding property rights have long constrained women's ability to borrow from the formal sector, it is the fact that alternative norms of women's sociality that have been invoked through group-based microfinance that is in part responsible for the development of this sector.

In this regard Johnson (2004) points out how gendered differences in the use of informal savings and credit groups in Central Kenya reflect different socialisation processes which enable women to experience shame as a sanction to non-repayment in ways that men do not. The strength of underlying social norms appears to underpin the more widely recognised experience of microfinance noted above that women make better repayers than men. Women in that context noted that men had no shame in relation to not paying ROSCA group contributions. This goes to the heart of another key concept of transactions costs analysis in that it suggests that moral hazard is gendered (Johnson, 2004).<sup>7</sup> The implications of this for financial market development may be significant: costs may be cut by targeting women.

In the light of the above discussion, an understanding of market development should be informed by an understanding of institutional "bricolage". While this two-fold analysis highlights the way gender as a social structure presents foundations on which market development will take place, agency in the deployment of existing institutions including that of gender ideologies may arise from a range of actors whether state or citizens either to promote or contest their development, as Rankin has shown in the case of Vietnam. The design of programmes may allow space for agency through the promotion of solidarity and space to reflect on their own experiences of gender subordination, or may deploy a more minimalist approach which elides such spaces (Mayoux 1999 ; Rankin 2002 ; Copestake, Greeley et al. 2005).

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<sup>7</sup> Indeed Yaqub (1995) argued that increasing levels of default by women in Bangladesh were a sign of increasing empowerment!

The need for formal regulation to overcome gender biases in markets has increasingly become the norm in labour markets for example, even though overcoming exclusion and discrimination on grounds of sex have been demonstrably intractable even where formal anti-discrimination legislation exists. Even in developed countries the influence of the underlying norms of gender relations are ongoing in labour market remuneration patterns. Addressing this and other sources of social regulation such as ethnicity, caste, religion, age and disability require not solely work on the supply of institutions but also on the demand side (Nino-Zarazua 2006). Since the preference-shaping role of these social institutions is deep and pervasive and takes more than the stroke of a legislative pen to change. Hence, campaigns for attitudinal change along with test cases being used to establish precedents in law also require ongoing support.

Hence, the analytical basis of addressing gender as a form of exclusion in financial (or other) markets, requires understanding both the economic dimensions such as the gender division of labour and control of income and expenditure, the gender dimensions of market engagement and how these relate to scale and returns; and also the social norms at a range of levels which may render both opportunities and constraints to economic activity and market engagement. In such a context, inclusion may be on disadvantageous terms and the perpetuator of poverty rather than its alleviator. Moreover, empowerment through engagement is not necessarily a linear process since gains in one dimension may produce trade-offs in others (increased income earned by women results in an increased overall work burden and/or the withdrawal of contributions by men (Johnson 2005) . The circumstances and dynamics of these processes need to be the focus of concern if inclusion is to produce the impacts to which interventions aspire.

## **6. Conclusion**

This paper has identified a key disjuncture in the relationship between the discourse of inclusive financial markets and its analysis. Markets are implicated in the underlying causes of people's poverty through the ways in which people are adversely incorporated into them or excluded from them through relational processes. If approaches to inclusive financial market development seek to improve their functioning they must analyse and address these causes. While there is some recognition of the role of formal and informal institutions in markets, these do not go far enough in identifying the role of these relational processes, particularly of social institutions, in creating poverty and inequality.

While the actual processes through which markets are in fact “instituted” have not yet been adequately developed to link to approaches to market development using institutional theory, the concept of social regulation is particularly helpful in offering a view of the role of underlying social institutions in their impact on the market. It is based in an analysis of the embeddedness of markets in social institutions and relations, and it offers a clear analysis of the means through which social institutions structure market exchange through both informal and formal means. In addition there is already a sound body of empirical evidence using this approach and which can be further developed. Approaches to inclusive financial market development can and must therefore bring the role of social institutions in structuring market relationships into the core of their analysis, clearly linking them to the processes through which poverty and exclusion is produced and reproduced through them in the first place.

The policy interventions required are not necessarily obvious but they clearly must go beyond dealing with the regulatory supply side and offering light touch facilitation. At a minimum they must extend their analysis to understand how market opportunities are structured and formal regulatory environments are patterned by social regulatory structures to constrain poor people’s equitable participation in financial markets. Going further, interventions must incorporate strategies for empowerment and engagement with social regulatory structures by facilitating agency through the myriad types of education and training programmes for women, minorities and excluded groups that have long been part and parcel of development activity. Struggles for rights on a wider scale are obviously also central to influencing the way regulatory structures – especially social ones - operate.

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