The Extractive Success of Financial Systems: Microfinance and the Financialisation of Poverty[*]

Philip Mader[†]

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Abstract

Microfinance emerged from the sphere of grassroots development but has transformed into a financial sub-sector which can serve as a key case for studying the mechanisms and effects of financialisation. As a financial market-driven intervention deeply intertwined with transnational processes of financialisation, the expansion and workings of microfinance may be studied on three dimensions, which represent important dimensions of the growth and deepening of financial systems: shifting narratives, growing governmentality and extractive success. First, an analysis of microfinance's representation in contemporary developmental and financial discourse shows that its appeal is built on positive mobilising narratives which present poverty as a problem of finance, portraying microfinance as superior to charity or redistributive alternatives. Second, an analysis of credit technologies in microlending shows that as a financial system microfinance builds governmentality which generates technologies of the self, employed by disciplinary individuals, to uphold regularity in capital flows. Third, microfinance makes possible an extraction of surplus value from borrowers at a considerable and quantifiable scale, drawing new resources into the capital accumulation circuit through an entreployee-type capital-labour relationship. These three dimensions invite to reflect upon the operation of capitalist financial systems and the ways in which they expand, by demonstrating the normative importance of supportive narratives, the role of specific technologies of power, and their material effects in terms of surplus accumulation.

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[†] Institute of Development Studies, Brighton, UK.

1. Introduction

Microfinance, according to its father figure Muhammad Yunus, is a revolutionary tool for empowering women and reducing poverty, which can be expected to send poverty to "poverty museums" within a generation (Yunus 1997). Forming the cornerstone of the broader emerging developmental agenda of "financial inclusion", microfinance is not only the perhaps most widely-recognised tool in the "development" policy portfolio. It also has attained a quantitative salience in "development" practice: microlending in 2012 nearly equalled global aid flows.[1] The practices of microfinance, however, have increasingly come under critical scrutiny in recent years, with scholars from fields including economics, sociology, anthropology and gender studies arguing that microfinance actually "undermines sustainable development" (Bateman 2011).[2] Indeed the present state of evidence indicates that microfinance does little or nothing to measurably reduce material poverty (Duvendack, et al. 2011; Roodman 2012a). Even insiders have lately portrayed the global microfinance industry as an ineffective and corrupt sector (Sinclair 2012).

Yet these analyses, while accurate and persuasive, give insufficient attention to a significant success of the microfinance intervention: reconfiguring economies and societies to match the needs of rentier capital and facilitate the accumulation of surpluses into the financial system.

In this paper I show how by commodifying the labour power of populations which have so far mostly worked outside or at the extreme margins of transnational capital accumulation circuits, microfinance not only reflects the ongoing financialisation in Northern countries, but increasingly presents a leading frontier of financial expansion. Microfinance financialises poverty by turning societal and economic problems into *problems of finance*, to be addressed through new market relations which aim to empower but in fact generate heightened discipline. Instead of reducing inequalities and empowering sellers of labour power over capital, microfinance increasingly shows successes at facilitating surplus extraction into the financial system.

The following section outlines the general connection of microfinance with financialisation. The paper then argues in three steps. First, the expansion of microfinance is built on *mobilising narratives* appropriate to a financialised world which bestow a strong moral urgency and normative power on processes of financial expansion. Second, microfinance exerts a form of *governmentality* which feeds financial logics and metrics down through the system into everyday practices, fostering observation and discipline. Third, microfinance constructs new *economic relations* between the owners of capital (creditors and investors) and the users of capital (borrowers) through intermediaries (MFIs) which facilitate surplus extraction through finance. The paper concludes with a brief discussion of the findings from this case for a deeper understanding of financial systems and financialisation.

2. Microfinance, financial inclusion, and financialisation

Microfinance, following the World Bank's in-house agency CGAP, a central actor in the field, refers to "financial services for poor and low-income clients offered by different types of service providers. In practice, the term is often used more narrowly to refer to loans and other services from providers that identify themselves as 'microfinance institutions' (MFIs)" (CGAP 2012). As the term will be understood here, microfinance constitutes of the activities of these MFIs – predominantly small loans,[3] often from NGOs acting as MFIs – as well as the transnational financial system built around them, nested at the intersection of development, civil society and business. In recent years, many in the microfinance sector have begun to describe microfinance's true mission not so much as reducing poverty, but providing financial services to help poor people better balance volatile incomes and expenditures over time. Loans, savings and insurance are seen as tools for achieving universal "financial inclusion" (Collins, et al. 2009; Center for Financial Inclusion 2008).

The roots of microfinance are often popularly traced back to the lending begun by Muhammad Yunus in Bangladesh in 1976 (Counts 2008; Dowla/Barua 2006). But in fact they reach back to the era of British colonialism, under which cooperative credit was introduced to South Asia (Darling 1925; Turnell 2005). After independence, India continued to encourage cooperative credit, as did the Pakistani government through its "Comilla" cooperatives (Choldin 1968). The traumatic war of independence (1971) and the weakness of the new Bangladeshi state borne out of it gave rise to an active civil society, and some Bangladeshi non-governmental organisations (NGOs) began to offer small loans for entrepreneurship. This experimentation coincided with broad shifts in development thinking and policy in the 1970s and 1980s in which state-coordinated import-substituting industrialisation fell out of favour while informal markets, women's role in development, basic needs, and NGO activities were emphasised. Furthermore, economists based at Ohio State University mounted an influential critique against subsidised credit which added normative impetus to the new practices of privately-offered small loans (Adams/Graham/Von Pischke 1984). In the 1980s, in the course of neoliberal reforms, microcredit was adopted by donors as a policy tool (Bateman 2010). Microloans helped to facilitate the abandonment of government intervention and regulation of the economy, as well as offering support for the swelling informal sector, first playing a key role in Structural Adjustment in Bolivia, which became a model for other Structural Adjustment Programs (Weber 2004). The 1980s saw first attempts to transform MFIs into for-profit operations, and in the 1990s the World Bank began to systematically organise the transmutation of MFIs into commercial entities (Rhyne/Busch 2006). Microfinance matched the optimism about finance and entrepreneurship in the 1990s and early 2000s by offering a financial market-driven approach to poverty reduction (Bateman 2010). Throughout the 2000s, microlending expanded rapidly in most regions of the world (see Figure 1). This expansion interlocked with an ascendancy of the explicitly commercial, for-profit model of microfinance which organisations like CGAP promoted deliberately (Roy 2010), seeking to inculcate and capitalise upon an interest in the sector among Northern financial investors.

Figure 1 here

The growth of financial markets in this time period profoundly affected modern societies. Financial market expansion exacerbated socio-economic inequalities by strengthening owners' and elite workers' relative negotiating powers (Lin/Tomaskovic-Devey 2013) and fuelling an increase in overall financial activity which allowed top financial managers to capture greater rents (Godechot 2012). Access to credit has expanded, but increasingly so on highly differentiated terms between classes (Fourcade/Healy 2013). Financialisation has opened up new accumulation opportunities for rentiers (Epstein/Jayadev 2005) by expanding the available "coupon pool" of possible investments (Froud/Johal/Williams 2002), at the same time as transforming capitalist production and re-production to be increasingly dependent on accumulation through finance (Krippner 2005). Culturally and socially, financialisation has shifted opportunities, values and aspirations, to bring "the entrepreneurial and calculative management and manipulation" (Langley 2008: 141) of financial products and services into "daily life" (Martin 2002). In sum, financialisation is *a historical process since the 1970s which has expanded the frontier of financial accumulation into new realms, based on changes in politics, economics, social relations, and culture*. Microfinance is fully compatible with this transformation, and supports and promotes it both discursively and operationally.

For Roy (2010: 30), microfinance is "poverty capital": "a subprime frontier where development capital and finance capital merge and collaborate such that new subjects of development are identified and new territories of investment are opened up and consolidated". Although politically nested in the larger field of development, fundamentally, microfinance today is an economic system for channelling capital from holders of financial wealth through intermediaries to (new) classes of borrowers who face needs or desires which cannot otherwise be fulfilled except through debt; this capital subsequently is repaid together with a certain quantum of surplus, generating new financial flows of interest or dividends for the owners as well as fees, salaries, bonuses, etc. for the intermediaries. Sophisticated financial instruments such as collateralised debt obligations (cf. Shanahan 2007) are mere variations on this general principle; instruments for steering, manipulating and increasing the scope and trajectories of the financial in- and outflows in microfinance which constitute the essence of microfinance. The reorientation of many MFIs towards capitalisation via the financial market (rather than through state or donor funding) since the 1990s has introduced an amplified financial pressure – "the financialization of microfinance" (Aitken 2010: 235) – which progressively radiated outward into donor policy and client livelihoods. Even many non-profit donors now are deeply concerned with maximising the return on equity earned with their money, since full "financial inclusion" requires microfinance to be profitable (to curry the favour of mainstream investors and help the sector grow faster).

Microfinance is hardly the same as moneylending or pawnbrokering; it is interconnected with the financial mainstream, speaks its language, and employs its calculatory devices. Microfinance brings the mainstream financial system into the age-old business of making loans to poor people. Increasingly sophisticated financial structures of "middlemen", informal credit bundling and on-lending at the client level (Arunachalam 2011: 308-349) indicate the pervasiveness of this financialisation even at the grassroots level. A microloan which is on-lent instead of used for own activities becomes a financial instrument in the hands of a poor person, producing a new financialised agent in their own right. What ultimately makes microcredit into micro*finance*, and microfinance into an element of the larger process of financialisation, is that the myriad of tiny transactions form a system of finance recognisable to other systems of finance.

3. Mobilising narratives

To understand the growth of microfinance simply as a new strategy for investment capital to find new applications would be far too simple and mechanistic. Naturally, capital seeks new combinations which generate fresh opportunities for accumulation, but this in itself hardly sufficiently explains the attraction which tiny loans to poor people in the Global South have shown to the capital-owning class. Supportive *mobilising narratives* have been crucial to the process as well. Such "narratives" are affirmative (or prohibitive) stories which portray what finance should be, what constitutes success and failure, right and wrong. They are intrinsically linked with actors' self-perception of their own adequate social role(s), and thereby inform the actions of creditors and debtors.

Already Adam Smith noted that money could be imbued with many different messages and meanings for different people.[4] Such narratives can drive processes of financial change. As Akerlof and Shiller (2009: 51, 55-56) point out, "the human mind is built to think in terms of narratives", with the effect that narratives "affect the expectations for personal success in business, the success of entrepreneurial ventures, and for payoffs to human capital". As for instance Calder (1999) shows, the historical acceptance of debt into the household as part of a "normal" and "decent" lifestyle required the active redefinition of what it meant to use credit through a positive narrative of socially useful debt. Similarly, Harrington (2008) shows the power of narratives of social rise through participation in finance in the 1990s, inducing people to come together in groups to perform and affirm the desirable identity of "investors".

On one level, microfinance has clearly been anchored in the public imaginary via a narrative of individual *empowerment through finance*; "empowerment debt" in Elyachar's (2005: 192) terms. Credit – or its inverse, debt – is understood as a force for liberating women from traditional gender identities, allowing innate entrepreneurs to prosper, or generally helping poor people manage their difficult economic lives better. The ubiquitous client success stories inscribed into the self-representations of donor organisations and MFIs, as well as those filling countless media exposés, are building blocks of this mobilising narrative. They tell a story of finance serving a good, even almost transcendent, purpose. For instance:

> At first, Mary was very shy, and wouldn't look me in the face when I sat down to hear her story. Later, when she took me to see her home and meet her family, her whole demeanor changed. It's obvious that she is so proud of all she has accomplished since she became an Opportunity client. […] The family struggled to put three meals on the table, and lived with relatives because they couldn't afford a home of their own. Then

> Mary heard about Opportunity International on the radio and from other Opportunity clients, and applied for her first Trust Group loan of 30,000 kwacha (US$200) to buy more used clothing to sell in the market. She was able to repay her loan within five months. She is now on her fifth loan of 30,000 kwacha. […] She has also diversified into selling her home-grown maize and produce in the Mathambi Trading Center, and rents out 10 two-bedroom homes that she owns. […] It's always an inspiration to me to meet clients like Mary who have worked so hard and used Opportunity's microfinance services to improve life for their families and their communities. (Greenwood 2011)

This is one of countless similar stories which recount minor economic miracles (Mary's progression from homelessness to trader and landlord), connect with the reader, and depict the apparent power of microfinance allowing poor people to improve their lives with well-intentioned debt. Debt-driven financial flows can *build pride* and *inspire*, the narrative even implies. The mobilising element lies in the implicit (and often explicit) invitation to the reader to become part of the success story.[5]

By studying the users of Kiva, an on-line microlending platform, Bajde (2011: 6) shows how middle-class people seek to "implement their moral visions of 'good society'" through *finance*-based poverty alleviation, as opposed to *giving*-based poverty alleviation. Kiva portrays the debt contract as inherently more empowering for recipient and donor individuals than charity. Kiva always refers to its borrowers as "working poor", "replacing" – as Bajde explains – for the lender "the outstretched empty hand of the helpless beggar with the 'full hands' of hardworking entrepreneurs, who have 'something to offer'" (Bajde 2011: 15). Bajde understands Kiva lenders – who can lend as little as $25 – as enacting their own social visions through "their" loans, identifying with their chosen borrowers and treating "the loan as an affirmation of their personal moral beliefs" (Bajde 2011: 17). However, unlike charity, Kiva lenders are entitled to a return (loan repayment without interest) and an information flow about borrowers' activities, allowing – as Kiva co-founder Jessica Jackley puts it – "the average individual to feel like a mini-Bill Gates by building a portfolio of investments in businesses around the globe" (Bajde 2011: 18). In microfinance, many a would-be small-scale philanthropist thus assumes the new desired identity of financial investor, and would-be recipients of generosity the identity of investees. The frontier of financial accumulation shifts to even include charitable motives as new conceptions of finance (in this case as a more empowering relative of philanthropy) are embodied in new narratives and translated into action. This mirrors older shifts in the legitimacy of money, such as the one

Zelizer (1997) traced for "poor people's money" in America around the turn of the 20th century. Around the turn of the 21st, the microfinance narrative appears to have shifted legitimacy to an uplifting form of credit.

Without this legitimacy it is hardly comprehensible why many charities now choose to donate money to microfinance operations – for instance, Oxfam *gave* US$ 6 million to various MFIs in 2006 (Mixmarket 2010), so they could on-lend it with interest – instead of directly to the poor; in 2009, a total of nearly US$ 2.7 billion in total were donated to the microfinance industry as cross-border grants (El-Zoghbi/Gähwiler/Lauer 2011: 10). Not necessarily in a cynical way, wealth-holders evidently appreciate the notion of poor people (particularly women) working hard, finding dignity in work, hoping to liberate themselves from deprivation and oppression. As Shipler (2004) discusses, many Americans – not unlike people in other advanced capitalist countries – distinguish sharply between the "deserving poor" and "undeserving poor", in the sense of deserving help; the most "deserving" in this moral rubric are the "working poor", who despite their exertions remain poor. At least, they earn the respect of wealth-holders for not being lazy or giving up. The microfinance proposition of help (only) through financial self-help offers certainty that only the deserving benefit, and can feel truly empowered as creators of their own destiny.

But there is also a more fundamental narrative woven into the fabric of the microfinance construct: *social problems are problems of finance*. Microfinance makes poverty in the Global South understandable (and apparently remediable) for the middle and upper classes through a solution on terms they can identify with. We do not personally know "Mary" and have no comprehension her actual lived reality, yet are invited to imagine her situation through the lens of a small successful venture crafted through the individual's improved access to and use of finance. When microfinance representatives like Muhammad Yunus preach that the poor need finance to fulfil their potential, this apparently rings true to Western middle and upper classes for whom (as the financialisation literature shows) protection against risks, economic success, homeownership and social status increasingly depend on success at managing finance. While their circumstances and constraints are fundamentally of course fundamentally unalike, the rich and the poor are seemingly aligned in the microfinance narrative through a shared identity as subjects of finance. The particular fascination with microfinance among wealthy IT entrepreneurs showcases the power of the narrative; Bill Gates, Michael Dell or Pierre Omidyar evidently align their own biographical experiences with the narrative of an entrepreneurial escape from poverty (Lewis 2009).[6] With the possibility of a materially adverse relationship between rich and poor erased, social problems come to resemble mere problems of finance; not politics, economic injustice, or collective action.

Epistemological reinforcement for the narrative of poverty as a problem of finance comes from an understanding of poor people as inherently financially-minded subjects, who are unjustly denied adequate financial tools. The book *Portfolios of the Poor*, authored by microfinance practitioners and academics who tracked poor people's money habits using financial diaries, has emerged as the central text of the "financial inclusion" paradigm.[7] *Portfolios* portrays poor people as Third-World "portfolio managers" (Collins et. al. 2009: 238), who are as savvy and skilful as their Wall Street counterparts. Underlying the authors' claim is their assumption that, in any given situation, individuals are guided by the cognitive framework of the purest specimen of *homo oeconomicus:* the free investor. Since the multitude of financial decisions inscribed in their subjects' diaries were rational and optimal (within the given constraints), MFIs should feed poor people's ubiquitous credit needs (and remove those constraints). Using a loan at 36 percent interest just to buy gold, as for instance one diarist did, was a sensible choice since "[t]he fact that the loan could be repaid in a series of small weekly payments made it manageable. […] Price was only one aspect of the loan, less important than the repayment schedule that matched installments [sic.] to the household's cash flow" (Collins, et al. 2009: 23). That the diarist however paid a surcharge of 36 percent for their "investment" relative to any less-poor person was considered irrelevant.

The book's weightiest contribution to the narrative of poverty as a problem of finance – and also its most evident fallacy – is revealed in its argument: "Not having enough money is bad enough. Not being able to manage whatever money you have is worse" (Collins, et al. 2009: 184). This statement is powerful but patently false, as can be demonstrated by formulating its (true) inverse: *not being able to manage whatever money you have is bad enough; not having enough money to manage is worse*. The emerging new justification for microfinance as a tool of "financial inclusion" no longer envisions increasing the resources available to the poor, merely improving the efficiency of how poor people can marshal their meagre resources.

The narratives matter even for the type of capital provider who might use microfinance as a pure vehicle for investment, for instance as a tool of portfolio diversification and hedging against risk (Krauss/Walter 2009). The financial attraction of microfinance investments remains buttressed by the conception of microfinance as a "social investment" that generates additional value under a "double bottom line" of social impact *and* financial returns.[8] No doubt, MFIs are often attractive investment targets thanks to the highly regular repayment rate of loans and comparatively high interest rates. 95 to 98 percent on-time loan recovery of loans (with high interest rates) are considered normal (Grameen Foundation 2013); or as enthusiasts put it: "the poor always pay back" (Dowla/Barua 2006). Yet they nonetheless additionally appeal to the imagination of investors by promising results which other investments cannot bring: social change. As Beckert discusses, many economic acts would be impossible without an element of fictionality allowing actors to *imagine* the future consequences of their actions: "These fictional depictions take narrative form. […] Financial markets are especially prone to giving rise to such stories about events in the future" (Beckert 2011: 7-8). In an uncertain world, actors regularly base their expectations on stories or dreams about what the future *would* be like if they engaged in a certain act, such that some markets even represent "markets for dreams" (Lutter 2010). Microfinance investors can hardly *know* with any certainty whether the activities funded by them will bring success in an African village or an Asian slum, but they can well imagine the miraculous effects of their tiny loans, and take pleasure in this imaginational value.

Thus, the expansion of the overall financial system thanks to microfinance has hinged on narratives which suggest finance is a (uniquely) powerful tool for individual empowerment, and more fundamentally, present social problems – particularly poverty – as problems of (individual) finance. These narratives mobilise the imagination of capital-providers and re-align roles and identities to advance financial market expansion by granting an additional social appeal to financial activities. Furthermore, they present poor people as financially hyper-rational subjects, more urgently in need of "financial inclusion" than anything else (since "not being able to manage whatever money you have is worse"[9]), and portray the management of finance – more precisely: debt – as the best, if not the only feasible[10] escape route from poverty.

4. Financialised governmentality

The expansion of the frontier of finance thanks to these mobilising narratives shows two distinct but connected categories of material effects, which for shorthand may be labelled political and economic effects. This section deals with the political, the next with the economic.

Microfinance played an important political role in advancing programmes of neoliberal restructuring in particular countries in the 1980s and 1990s (Weber 2002; Weber 2004) as an explicit tool in the politics of structural adjustment. But there is also a more insidious dimension to microfinance expansion: the governmentality produced in the system. Despite the free-contracting market appeal, the relationships between capital-providers, intermediaries and clients in microfinance are fundamentally predicated on a – usually implicit, but occasionally also explicit – power imbalance which manifests in a regime of financial observation and discipline. The Foucauldian concept of *gouvernementalité* as technologies of power which work both within the traditional realm of state sovereignty as well as beyond affords a broader view onto these political implications of microfinance. Governmentality offers a perspective in which "political leadership is only one form of government among others" and "government refers to a continuum, which extends from political government right through to forms of self-regulation, namely 'technologies of the self' as Foucault calls them" (Lemke 2001: 201). The exercise of "power-knowledge" in organised relationships creates "disciplinary individuals" who act in accordance with the will of the powerful in a self-controlled manner out of an ingrained discipline (Merquior 1991: 108-118). Finance – microfinance – generates such forms of discipline.

I reconstruct the archetypical cascade of governmentality in microfinance here to showcase key mechanisms of observation and discipline which the microfinance industry banks upon (see Figure 2). The primary origin of the discipline lies with the expectation of regular financial flows by investors. Even socially-motivated investors, non-profit investors, and governments usually expect at least to recoup their loan outlay within an agreed time period. Alongside profit-oriented investors, whose demands are more acutely felt, these investor groups also often invest in microfinance through specialised microfinance investment vehicles (MIVs), which generate regular payments to investors on the basis of demanding regular flows from the MFIs they invest in. For instance, a social investor may purchase shares in a Deutsche Bank investment fund which in turn buys shares in an MFI, or a US pension fund may purchase a portfolio of collateralised microloans from Citibank. At least a certain minimal financial discipline thus always trickles down from the financial markets where investors operate, whether fully commercial or "social investor".

Investors and their funds ensure MFI discipline by monitoring their investments, consuming rating reports, following asset prices and comparing MFIs' performance with benchmarks. Their financial demands are instilled within the MFIs through standardised accounting schemes and regular reporting requirements. MFI operations are therefore structured through up-to-date management information systems which inform head offices quickly (often on the same day) if borrowers' repayment rates in a certain rural district for instance should deteriorate, allowing management to intervene. Loans are usually repaid weekly, allowing the performance of individual branch offices to be closely monitored. To instil self-discipline, branch offices are often pitted in competitions against each other, and staff remuneration depends on branch performance. Individual loan officers, in turn, usually receive a large share (sometimes even the bulk) of their pay as variable "performance-based" remuneration dependent on their success at enforcing on-time payment (McKim/Hughart 2005). Unsuccessful loan officers can, of course, be fired or demoted.

The most famous disciplining device of microfinance subsequently operates at the grassroots: the so-called "social collateral" of the group lending model, which employs neighbours and acquaintances to perform acts of observation and discipline *for* the MFI. Fundamentally, at this level, most microcredit disbursement is premised on the threat of punishment via confiscation of the *social capital* of the poor in the case of non-repayment (or non-punctual repayment); this is the only type of capital many have ever owned.[11] The fact that this social capital cannot be monetised by the bank in no way diminishes the punitive effect of its potential confiscation; neighbourly strife or loss of face can be financially costly, and shame must also be added into this equation (Karim 2011). The effective repossession of a poor person's social relations and good reputation can be an existential threat when people are deprived of support by associates and kin in bad times, or when neighbours and relatives even punitively turn against the debtor.

Borrower group leaders perform basic accounting for the group and are often required to show the books to the loan officer. In the event of one borrower being late with repayment, loan officers usually deploy sanctions against the entire group, such as detaining all members until dues have been paid,[12] or withholding future credit, which arouses anger against the one. Unsurprisingly, group members observe each other in daily life for signs of financial health or trouble. And unsurprisingly it is often the members of these so called "solidarity groups" who, if necessary, harass other borrowers, shame or threaten them in public, or even perform the notorious "house-breaking" (*ghar banga* in Bengali) as punishment (Karim 2011) – or worse, like kidnapping children (Times of India 2010).

Figure 2 here

Although these disciplining devices can be made explicit as above, the power deployed here is best understood as *governmentality*, for it is exerted by disciplinary individuals employing technologies of the self. At each stage, when active techniques (punishment, sanctions) have to be used, this is only because the individuals have failed to discipline *themselves* enough. The business (or business-as-usual) of microfinance is built on self-discipline, self-observation and even self-punishment: the best way for a debtor to avoid "house breaking" and harassment is always to repay on time, even if this necessitates going to a moneylender, or becoming a moneylender herself, or adjusting the rhythm of her life and her family's nutrition to the repayment schedule. In turn, loan officers can never afford to be negligent and not visit a village on schedule; branch office heads must monitor their own performance closely; and so on. Through the deployment of this financialised governmentality, MFIs ultimately obtain their famous 95 to 98 percent repayment rates – not by regularly "disciplining" and "punishing" borrowers, but by regularly *not* having to do so.

Statistical evidence of the effects of this governmentality feeding down through the credit system was even, inadvertently, discovered by researchers seeking to prove microfinance's positive impact. A major randomised impact study conducted in 2005 by American economists in Hyderabad, India, found no rise in household incomes or assets. However, the researchers noted a significant reduction in consumption of so-called "temptation goods" – a category in which they included cigarettes, gambling and alcohol, but also tea and food consumed outside the home – in slums with new MFI branches. They interpreted this as "success" at creating more entrepreneurial attitudes among the poor, concluding: "access to MFI credit can act as a *disciplining device* to help households reduce spending that they *would like* to reduce, but find difficult to reduce in practice" (Banerjee, et al. 2010: 28, emphasis added). Notably, the households observed were all "quite poor in absolute terms" (Banerjee, et al. 2010: 25). Whatever the mechanism – "allowing" them to reduce spending they "would like to reduce", or forcing them to cut back tiny luxuries or social necessities like a roadside *chai* –, the deployment of transnational financial flows showed the *measurable* disciplining effect of getting the poor to tighten their belts in order to service their loans. Unsurprisingly, similar impact studies elsewhere have found borrowers' overall life satisfaction decreases (Karlan/Zinman 2009).

This disciplinary power has always been hard-wired into the microcredit intervention, but with its progressive transformation into *commercial* microfinance, it has become amplified. With actors like CGAP emphasising the need to direct capital to the poor for their own sake, the microfinance sector progressively transformed since the 1980s from an NGO domain to a more disciplined business sector able to attract investment capital (cf. Roy 2010) – higher financial returns means more commercial capital means more poor people reached, is the logic of commercialisation. The effect, as Aitken notes, has been

> a transformation of microlending into a fully finanicalized object. And this is as an object capable of generating financial returns distant from its initial commitment to 'social' goals […]. This shift entails the rearticulation of microfinance into a category legible not in terms of its conventional association with 'social responsibility', but in terms of the 'normal science' of finance. (Aitken 2010: 232)

The accession of some MFIs to the stock market, Aitken infers, signalled the arrival of "fringe credit" [13] as part of "*globalized* financial flows" (Aitken 2010: 224), drawing poor people and their lenders, despite the social sheen, into the governance of the transnational financial market. In the financialised world of commercial microfinance, borrowers are expected to express their needs only by making them legible in the financial metrics of demand (for credit) and on-time repayment. Microfinance actors, communicating with their clients through these financial channels, therefore can read MFIs' balance sheets as a measure of success: "[T]he good institutions […] pass the acid test: the clients, who are paying full price for services, vote with their feet and come back for more. Poor clients are borrowing, saving, repaying, and returning to purchase additional services at above-market interest rates. That is as honest an impact assessment as I need." (Malhotra 2000: 204)

Yet the deeper interpenetration of microfinance with mainstream financial circuits has evidently enhanced the potential for conflicts of interest between profitability and social aims, and the commercialisation has led to some political backlash (Dowla forthc.). The fundamental conflict is also echoed by findings from investigations of borrowers' perceptions of the MFIs they dealt with: "on the ground, the interests of organizations and microentrepreneurs diverge. While creating strong, sustainable microfinance organizations is a priority for donors, businesspeople argue that it is they, not the organizations, who are the intended recipients of help for businesses". One borrower asked: "Tell us the truth, […] Is that money to benefit artisans, or is it to benefit the institutions?" (Eversole 2003: 185).

Taylor (2011) reports how microfinance borrowers and other actors in the local economy have reacted to the discipline which came with flows of credit aimed at southern parts of India. To adapt to the severe regularity of repayment schedules designed to ensure predictable cashflows, which bore little resemblance to their varied incomes and spending circumstances (particularly among agriculturalists), borrowers often adopted perilous coping tactics: in particular, many took additional loans from traditional moneylenders such that "informal moneylending has therein adapted and expanded alongside the rise of microfinance" (Taylor 2011: 16).[14] This mismatch of financial rhythms with the local productive base thus generated new risks as well as some new opportunities: "a significant number of recipients of microcredit within this period – particularly those from relatively advantaged castes – used such funds to begin moneylending activities […] symptomatic of a neoliberal logic taken to its furthest expression" (Taylor 2011: 16).[15] These coping tactics led straight into the deepest crisis of microfinance so far (Mader 2013).

For Young (2010: 607), microfinance thus has served to strategically reposition places and people "in relation to the perceived opportunities or risks they present to global capital flows". Financial flows and the associated practices of accounting, rating and benchmarking can structure development pathways at the macro level, but also social roles and identities at the micro level. MFIs employ sophisticated labour-intensive *and* technology-intensive techniques for evaluating and constantly re-appraising the "opportunities or risks" which individuals present to capital. Their business is to construct transnational credit relations between investors and borrowers, based on observation, standardisation, discipline, and communication of results through financial metrics. The improvements over time in the financial discipline of both MFIs and their borrowers (most markets began with higher default rates than today) are attributed to precisely the integration of microfinance with organised financial markets. According to Rhyne and Busch, commercial investors' *sophistiqué* has been central to establishing market order. "One of the most important dimensions of ownership involves the relative roles of local and international players. While many prominent industry participants find themselves biased towards local ownership for a number of practical and philosophical reasons, international investors have brought important assets *and discipline* to some MFIs" (Rhyne/Busch 2006: 17, emphasis added).

The financialised MFI thereby may be understood as a veritable "panopticon" (Foucault 1975) of economic activities in the Global South, rendering them visible and (at least partially) controllable by financial investors and intermediaries. The tactics and strategies adopted by loan officers to enhance observation and discipline and ensure borrowers fulfil MFIs' and their investors' expectations of repayment even extend to the famed targeting of women, above all married women, for their gendered lack of mobility. Borrowers with "business plans" of the simplest sort (usually with the lowest returns!) such as holding buffaloes or operating sewing machines or corner stores are preferred, as they will remain based in the village (cf. Young 2010).

5. Financialised economic relations

This section takes stock of the economic material effects of microfinance, as it re-shapes relations of poverty with finance to facilitate surplus extraction. In this reading, the programme of "financial inclusion" acquires a wholly new meaning: "including" poor people into the financial market means turning the poverty of one into an investable asset for another. The result, in the words of one former practitioner[16], is that:

> Microfinance offers a more subtle and potentially more durable means whereby those who control capital can exploit those who have only their labor to sell. It does not finance machines that require many workers to come together to operate them, and possibly to unite against their employer. Microfinanciers can now provide capital, in the form of microcredit, which borrowers use to purchase the tiny amounts of stocks or simple tools they need to run microenterprises. The surplus they can earn is barely sufficient for survival, but because the investments are so small the turnover is relatively high and the borrowers can afford to pay high rates of interest on their loans. […] Better still, these entrepreneurs compete against one another rather than combining against capital. (Harper 2011: 59)

Harper's statement points towards industrial sociologists' studies of the increasing flexibilisation and individualisation of labour vis-à-vis the hitherto-normal employer-employee relationship premised on fixed wages determined in processes of collective bargaining, in which the onus of extracting labour power fell on the employer (cf. Braverman 2003). In highly-developed capitalist economies, among others Voß and Pongratz (1998) note the emergence of a new type: *Arbeitskraftunternehmer* – translated as "entreployees", but literally meaning "labour power entrepreneurs" – characterised by "self-control", "self-commercialisation" and "self-rationalisation", constantly and precariously seeking to enhance and commodify their own capabilities and potentials more effectively.

One way to conceive of microfinance's interaction with the poor is to view it as an extension of this increasingly dominant "entreployee model" into the rural subsistence agricultural and urban informal sector in the global South; two sectors which have long existed as catchment basins for excess labour and remained effectively separate from mainstream capitalist accumulation circuits, yet are now the targets of transnational capital flows. Like an "entreployee", a microfinance borrower must strive to sell her labour power in a self-administered manner, using the loan as an opportunity to enhance and further commodify her capabilities and potentials; hence the recurrent themes of hard work and creativity in the client stories. The subsistence agriculturalist must begin producing for the market; the informal tradeswoman must extend her market orientation and scale up or seek new niches or clientele.

This microfinanced entreployee relationship between capitalist and microborrower broadly shows three advantages for capitalists. First, it necessitates no entrepreneurship on the capitalist's side, perfectly accommodating the rentier ideal type of accumulation, since all actual entrepreneurship is outsourced to the borrowers, who even self-select the most viable routes for surplus-creation available to them. Second, it avoids many fixed costs, because microloan terms usually are less than one year, and allows labour power to be acquired on an individual, piece-by-piece basis. Third, it outsources the *risks* of entrepreneurship, since a borrower must repay the loan regardless whether its usage generated a 200 percent return or a total loss. Microfinance thus makes the innovative "entreployee" relationship possible even with the denizens of slums and villages in the Global South.

With one class of actors providing capital and the other working to repay the capital plus a certain surplus (interest, fees, dividends), microfinance is a financial system that builds economic relations between the owners of capital and the borrowers. One person's poverty becomes the basis for surplus accumulation by another.[17] This phenomenon is, of course, as old as capitalism itself, but through innovative *financial* activities increasingly it even extends directly into the informal and subsistence labour through which the poor in the Global South manage their poverty day by day. Capitalists can now accumulate the proceeds of such remote activities as assets on their portfolios.

Yet is the surplus extraction thus attained considerable, or relevant? Thanks to data gathered by the investor-oriented "Microfinance Information Exchange" MIX ("the Bloomberg of Microfinance") it is possible to calculate an estimate of the actual surplus extracted through microfinance. In 2012, the last year with reliable data, 1,257 MFIs reported the amount of loans (Gross Loan Portfolio) they made, and 885 also reported their "Yield on Gross Loan Portfolio" to MIX. "Yield" is a common proxy for effective interest rates; a gross margin estimate, or more precisely the total income earned over a period divided by the average portfolio over the same period.[18] To calculate the surplus extracted by microfinance: the MFIs which reported their Yield in 2012 accounted for US$ 80.37 billion, or 79.8 percent of the global loan portfolio of US$ 100.72 billion.[19] Their mean yield, weighted by loan portfolio size, was 21.54 percent.[20] Proceeding with the 21.54 percent average yield figure (and assuming the yield of all other MFIs to be the same) I calculate

*gross loan portfolio * yield = surplus extraction*

finding that US$ 100.72 with a yield of 21.54 percent yielded US$ 21.70 billion US dollars in surplus payments to MFIs. This is an estimate of what microfinance borrowers actually transferred to the microfinance industry in 2012, net of their loans.

Figure 3 here

To clarify: what does this figure mean, conceptually? Not the profit earned by MFIs or investors; MFIs naturally face high costs including personnel, infrastructure, inputs and cost of capital, which may even render some MFIs' returns negative, although it is known from companies like Compartamos Banco (Mexico) and SKS Microfinance (India) that microfinance lending *can* be very profitable.[21] Also, the figure does not automatically represent a net loss incurred by the borrowers, since the best estimate of the net effect of microfinance currently is "zero" (Roodman 2012b). Rather, this figure simply quantifies the market value of the labour actually extracted from the borrowers.[22] The poor pay this money out of the surplus of the market labour they performed in the time during which they had the loan. If they earned none, or only an insufficient surplus, then even worse yet, the figure represents the monetary value of "accumulation by dispossession" (Harvey 2003).

21.7 billion Dollars is the best measure of the scope of the extraction achieved via microfinance; a quantification of this element of financialisation's success from capital's perspective. Of course, the microfinance sector is tiny compared to financial markets overall. But its returns are clearly no longer insignificant. For a scale comparison: the government of Greece paid € 13.0 billion (US$ 16.6 billion) for its "systemically relevant" debt service in 2010, despite being indebted to the tune of € 329.3 (US$ 419.5 billion).[23] As a sovereign, Greece paid less than the microborrowers, whose total debt was US$ 100.72 billion, illustrating how lucrative the surplus extractable from microlending can be, compared to other options. One may further compare microfinance's extractive success with the one-off debt relief granted to developing countries at the G8 Summit, Gleneagles – US$ 37.0 billion (World Bank 2005) – which MFIs evidently recover directly from the poor every less than two years. US$ 21.7 billion exceeds the GDPs of Nicaragua and Mongolia combined.

Yet MIX data on gross loan portfolio reaches back to 1996, and Yield has been recorded since 2003. Adding up the surpluses *known* to have been extracted since 2003 (by those MFIs reporting yield) by the same method one reaches US$ 88.79 billion; estimating also to include MFIs which did not report yield, and using the Yield of 2003 for the years 1996-2002, the figure rises to US$ 124.58 billion (see Figure 3). Although these are already very large sums to levy from poor and very poor borrowers in the global South, this is most likely a gross underestimate.[24] The assumptions used here have been very conservative; the true figure may be near double.

The extent to which the contract underlying this innovative financial relationship is "free", finally, is unclear. People who enter into microfinance as borrowers, naturally, enter into it for diverse reasons; no doubt sometimes for opportunity. But there is also the structural issue of sheer poverty – simply lacking money – to consider. To illustrate with an extreme case, were one to offer a starving person a dollar at *any* interest, they would most likely take it (or die). Needing to survive today, one deals with the consequences tomorrow.[25] This indicates neither economic "irrationality" among borrowers nor rational optimisation with credit. Under conditions of duress, any temporary respite or mitigation of uncertainty, even in the form of a loan with unclear or perhaps punitive longer-term consequences, can appear beneficial. Thus, opportunity and free choice notwithstanding, it is important to consider how the life realities of poor people can compel many into needing or desiring credit. Neither irrational desire – or even credit "addiction" (Mahajan, cited in Burke 2011) – nor an entrepreneurial/portfolio-rational decision to grasp an opportunity can sufficiently explain microfinance demand. Microfinance may better be understand as putting the structural phenomenon of global poverty to a more directly productive use for capital.

In sum, microfinance as a development-intervention-cum-financial-system constructs a capital-labour relationship which holds great promise for capitalists, but generates significant potentially disempowering effects for the poor. True: microfinance loans benefit a few poor people, yet have no positive effect on average (Duvendack et. al. 2011). True: many MFIs are not (yet) profitable investments, but the high rates of extraction signal that lending to the poor is en route to generating substantial profits for capital. For now, at least, microlending works well for the financial industry, as hundreds of thousands of people employed by MFIs and the handsomely remunerated managers can testify.[26] Microfinance successfully accumulates value into the financial system. Roodman's (2012: 226) apologist conclusion that "the greatest strength of microfinance has been in building industries that enrich the fabric of nations", by which he means financial industries, may be seen in a different light.

6. Conclusion

Marx (1981: 927) noted in *Capital* how the "specific economic form, in which unpaid surplus-labour is pumped out of direct producers, determines the relationship of rulers and ruled, as it grows directly out of production itself and, in turn, reacts upon it as a determining element. Upon this, however, is founded the entire formation of the economic community which grows up out of the production relations themselves, thereby simultaneously its specific political form." Microfinance facilitates new forms of the capital-labour relationship by developing novel technologies and capabilities (such as group lending, social collateral, standardisation and computerisation of disbursement, rating of MFIs, and the securitisation of microloan portfolios) for channeling significant amounts of capital towards "financially including" populations without collateral or assets. Although recent crises in localities such as Andhra Pradesh demonstrate how the system often produces its own destabilising dynamics which generate crises (Mader 2013), overall it continues to expand and solidify. Despite its many flaws and structural weaknesses, in fact what is most remarkable about the global microfinance system is its stability and resilience over more than thirty years. For this the paper has offered three interlinking explanations: the forceful positive narratives which continue to mobilise (many) capital providers, the governmentality produced within the sector which keeps actors disciplined, and the high (potential) financial returns which allow it to financially sustain and grow.

For a better understanding of financialisation and the operation of financial systems, I propose three theses. First, microfinance can be used to showcase the distributional dimension of finance more clearly than other financial (sub-)systems: the credit relations in microfinance run from some of the world's richest people (like Bill Gates) straight to borrowers living in absolute poverty in the Global South, distributing resources between them. This is not to say that finance necessarily has only distributive or extractive functions – it also has intermediating and productivity-enhancing functions – but as the case of microfinance shows it *also* has these, and perhaps increasingly so. Second, the emergence of the entreployee-type worker, seeking (or often forced) to commodify her labour-power in a pseudo-autonomous self-rationalising manner, is intimately linked to financialisation. Microfinance illustrates how the turn to finance contributes to building a rentier-friendly accumulation regime premised on reduced fixed costs and (possibly) reduced risks for the capital provider, by amplifying the risks and responsibilities for those who must sell their labour power. The capacity of the latter class to creatively and judiciously manage finance – perhaps as “third-world portfolio managers” – naturally becomes a more salient concern; hence recent emphases on “financial literacy”. Third, financial systems surprisingly can still engender hopes for creating a better world, by evoking a strongly positive normative discourse. While such narratives may at times appear superstructural or epiphenomenal, they can in fact grant important legitimacy to the expansion of finance, or even have an almost agentic character in driving financial expansion through projects such as “financial inclusion”.

The case of microfinance highlights the contradictions between the often genuinely high hopes still placed in finance, couched in terms like “financial democracy” or “financial inclusion”, and the extraction of surplus value into the financial system. Proponents of the microfinance business allege that the interests of debtors and creditors can be aligned: willing borrowers seeking “empowerment” and “development” should encounter the social and financial motivations of benevolent capital providers. But, as shown here, these interests are structurally misaligned in that debtors must transfer labour power to creditors. The impact of financialisation on social relations already shows clear adverse political consequences for democracy, with struggles over debt repayment materialising domestically and internationally (Graeber 2011; Streeck 2013). However, despite such newfound discontents, as this exposition of microfinance shows, narratives about the positive social meaning of finance still exert a strong force which further drives the expanding frontier of financial accumulation, even into the slums and villages of the global South.

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Figures

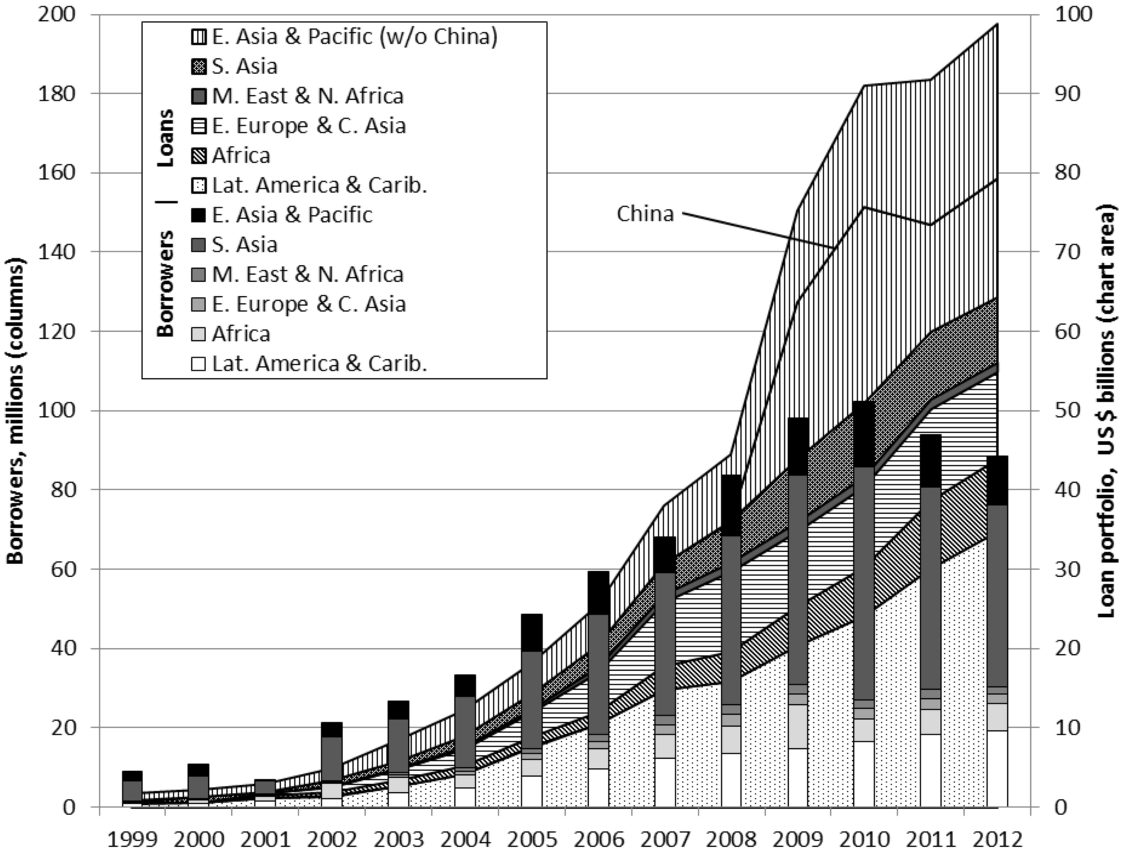

Figure 1: Growth of the microfinance industry, 1999-2012 (China's loan portfolio figures suffer from various reporting problems)

Microfinance Actors	Observation & disciplining devices
Capital providers / investors	
↕	Monitoring, ratings, pricing, benchmarking
Financial institutions, investment funds	
↕	Standardised accounting, reporting
Microfinance institutions	
↕	Management information systems, incentive schemes, branch-level competitions
Branch offices	
↕	Bonus payments, threat of job loss
Loan officers	
↕	Basic accounting; group sanctions & punishment: delays, withholding credit, etc.
Borrower groups	
↕	Mutual observation; „social capital“ and social punishment: public shaming, house breaking, threats, etc.
Individual borrowers	

Figure 2: Archetypical cascade of governmentality in microfinance

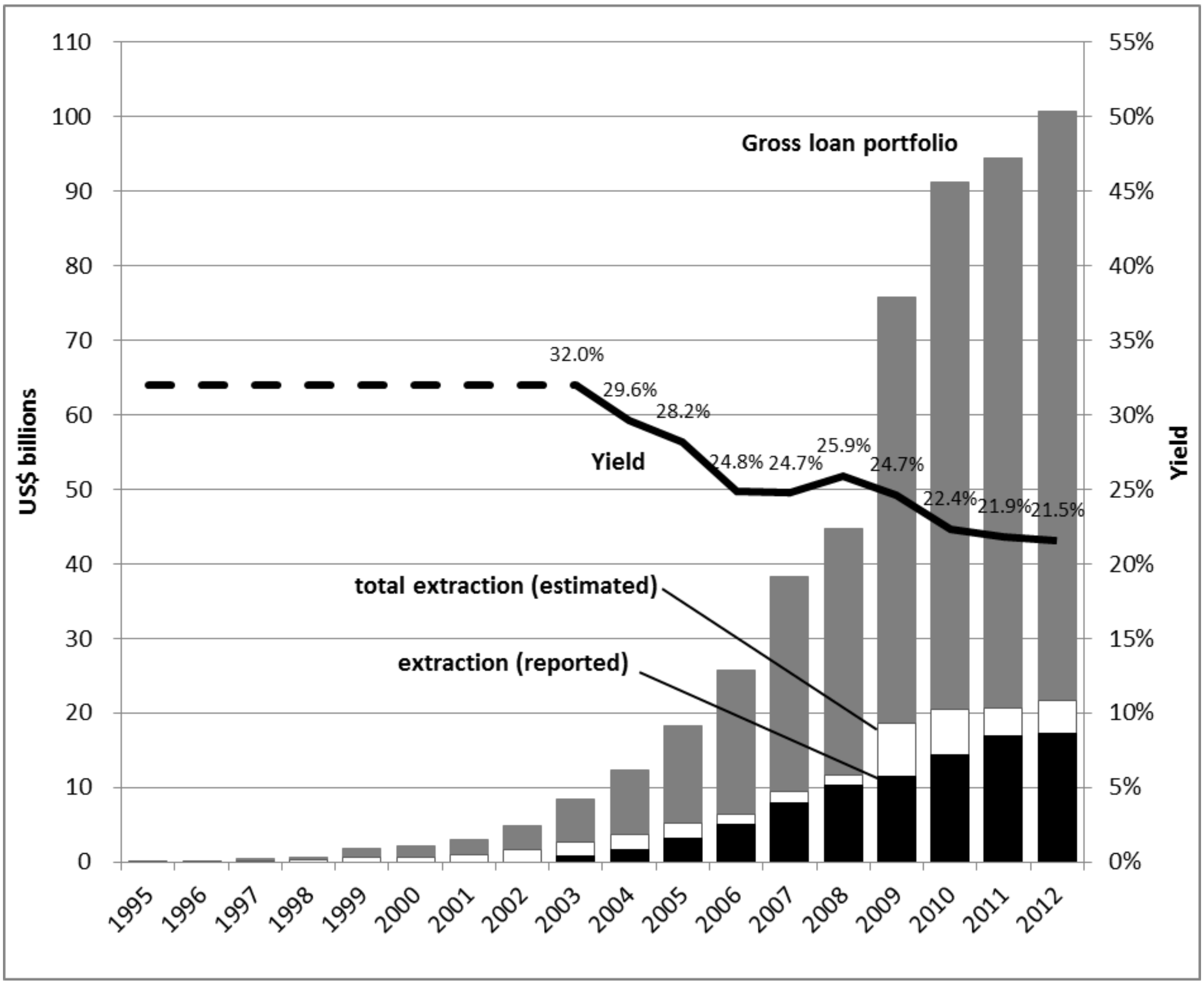

Figure 3: Surplus extraction through microfinance, 1995-2012

Footnotes

[1] 2012: US$ 126.9 billion in multilateral and bilateral official development assistance (ODA) vs. US$ 100.7 billion microloans (data: OECD, MIX).

[2] Key recent works in this literature include Dichter/Harper 2007, Bateman 2010, Karim 2011.

[3] This paper explicitly focuses on the *lending* side of microfinance, often distinguished as micro*credit*. This focus is justified and necessary because most microfinance *is* microcredit. Microinsurance, for instance, remains a marginal business (Kiviat 2009; De Bock/Gelade 2012). Microsavings are comparatively less than loans: of the 1,263 MFIs reporting to the database MIX in 2012, 579 reported no client savings; another 255 held less than US$ 1 million savings, yet 978 had lent more than US$ 1 million. 48.8 percent of all microsavings globally were at just two large banks: Harbin Bank (China) and BRI (Indonesia). Further, many MFIs only offer savings accounts in conjunction with credit, or do "forced savings" (loan parts not disbursed and officially held as "savings"). Where offered, the interest paid on savings is low, often even negative (Dupas/Robinson 2011). Overall, a stronger consideration of microsavings or microinsurance is unlikely to significantly alter the findings of this paper.

[4] Compare, for instance, Smith (1976 [1759]: 175).

[5] The international microfinance network ACCION for example directly accompanies its client stories with the note: "For more information or to make a donation online, please visit www.accion.org and click on "Donate Now" on the home page."

[6] At US$ 133 million, the second-largest spending category of the Gates Foundation's "Global Development" programme in 2009 was "Financial Services for the Poor" (Gates Foundation 2009). EBay founder Pierre Omidyar donated US$ 100 million to his *alma mater* Tufts University in 2005 conditional on it being invested only in *commercial* microfinance. Numerous others examples could be given.

[7] An official endorsement even calls it the "new bible" for combating global poverty.

[8] A number of funds and MFIs even refer to "triple bottom lines", with variations on what the third one should be.

[9] Collins et. al., see above.

[10] Compare Yunus (2003: 58): "The poor know that this credit is their ownly chance to break out of poverty. […] If they fall afoul of this one loan, they will have lost their one and only chance to get out of the rut."

[11] Group lending is slowly on the decline in microfinance, in favour of individual loans. Most individual loans are, however, backed by guarantors or co-signers; a setup which has the same effect.

[12] This can potentially deprive up to forty families of a day's wages, and therefor has a strong punitive effect.

[13] Fringe credit refers to the broader palette of organisations lending to poor and marginal customers, traditionally shunned by mainstream financial systems.

[14] Microfinance was supposed to displace these moneylenders, as Yunus always argued.

[15] Microfinance may thus even be understood as a tool for creating an *habitus* (cf. Bourdieu 1997) with certain skills and dispositions suited to financialised circumstances. In this way, some people might come to really perform their desired roles as Third-world "portfolio managers" (Collins, et al. 2009).

[16] Malcolm Harper co-founded the erstwhile leading Indian MFI BASIX.

[17] The creation of surplus value, following Marx (1980: 284-306), being a "quantitative aspect" of the production process where value is produced beyond the amount necessary to sustain the labourer and the labour process itself.

[18] Unlike annual percentage rate (APR), Yield is the actual money taken in by an MFI relative to what it lent; 30 percent, for example, means that for every US$ 100, $ 130 were paid back in; losses or late payments are already deducted.

[19] Of the US$ 20.3 billion reported without yield, US$ 10.9 billion were with Bank Rakyat Indonesia (BRI), a state lender lending at market rates.

[20] The figure is still in a ballpark with the average interest rate reported by Rosenberg, Gonzalez and Narain (2009) for 175 "sustainable" MFIs, namely 28.2 percent, but far below the 35 percent recently reported by the Economist (1 February 2014).

[21] Both companies accessed the stock market and saw heavy interest from investors.

[22] *Even if they* do not use the loan itself productively, the borrowers must produce the value via some form of labour; theft, inheritance or begging notwithstanding.

[23] This is a fair comparison figure, because 2010 was the final year Greek bonds were not wholly degraded to "junk". Number sources: debt service, Government of Greece budget for 2011 (Greek Government 2010); gross debt, Eurostat (2012); exchange rate is average for 2010.

[24] As the Economist's report on interest rates would suggest (see note 20). Also: portfolio yield is merely a proxy for interest income, and actual rates are often higher since Yield is net of defaults and late payments; Yield fails to consider forced savings and some non-interest fees; portfolio growth leads to underestimation, which given microfinance's exponential growth in recent is highly relevant; MIX data is voluntarily self-reported by MFIs, with no systematic quality checks; MFIs may deliberately under-report Yield and over-report portfolio size; given the known drop in average Yield, having assumed Yield was "only" 21.54 percent in the prior period (dashed line in Fig. 3) also causes under-estimation.

[25] As one Indian borrower driven to attempt suicide reported in 2010: "We had always needed money, and the supply suddenly seemed unlimited. We stopped saying no." (Mohan 2010)

[26] An extreme case: in 2010, Vikram Akula of SKS Microfinance netted roughly US$ 55 million (cf. Mader 2013: 54).