

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

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First version: 12 April 2013

This version: 13 March 2014

Abstract

Microfinance can serve as a key case for studying the operation and expansion of financial systems, by focusing on three dimensions. First, microfinance's appeal has been built on positive mobilising narratives which present poverty as a problem of finance, portraying "financial inclusion" as a solution superior to charity or other redistributive alternatives. Second, microfinance as a financial system can be shown to exert a governmentality which works through technologies of the self for disciplinary individuals to uphold regularity in capital flows. Third, microfinance makes possible the extraction of surplus value from borrowers, who may not have much choice, at a considerable scale. The paper concludes with a brief discussion of the value of studying these three dimensions (narratives, governmentality and surplus extraction) for understanding the operation and expansion of financial systems, particularly given the increasing importance of financial transactions at the fringe and the agenda of "financial inclusion".

* Many thanks to Sigrid Quack, Christoph Deutschmann, Milford Bateman, Paul Lagneau-Ymonet, Isabelle Chambost, Marion Fourcade, Marie-Laure Djelic, Matthias Thiemann, Daniel Mertens, Jan Fichter, Richard Meyer-Eppler, and Felipe Gonzales and many others for feedback and input on prior versions.

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1. Introduction

Rallying cries like “Occupy Wall Street’s” call to re-appropriate the economy from the “1 per cent” in favour of the “99 per cent” show a recognition in contemporary societies that financial systems play a role in regressively distributing the fruits of labour. But they fall short of understanding the mechanisms through which financial markets actually distribute resources. This paper argues that studying microfinance as a key case can contribute to better analysing the way financial systems function to extract surplus labour from one class of actors and distribute it to another. 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), and is currently perhaps the most widely-recognised tool in the development policy portfolio. However, the role of microfinance as an element of financialisation is less recognised, and its capacity to extract surpluses from its target population has gone largely unnoticed even in critical scholarship.³ This is particularly surprising in light of the present state of evidence that microfinance does little or nothing to measurably reduce material poverty (Bateman 2010; Duvendack, et al. 2011; Roodman 2012a).

The paper proceeds from the recognition that the project of financial inclusion (of which microfinance is a key part) and the process of financialisation are connected – more than just correlated but in fact deeply intertwined – to show how the expansion of financial markets into new realms turns societal and economic issues into *problems of finance* and makes them the basis for creating market relations which promote discipline and surplus extraction. It suggests that microfinance and the programme of financial inclusion represent a *financialisation of poverty* by creating new credit relations which help extract surplus value from poor borrowers into the financial system.

The next section discusses the connection of microfinance with financialisation in general terms. The paper then argues in three steps. First, the success of microfinance is built on *mobilising narratives* appropriate to a financialised world, which bestow a moral urgency and normative power on processes of financialisation. Second, microfinance constructs a form of *governmentality* through credit relations, which feeds financial logics and metrics down through the financial system into everyday practices, fostering observation and discipline.

³ Notable exceptions discussed below.

Third, microfinance constructs a *material relation* between the owners of capital (creditors and investors) and the users of capital (borrowers) through intermediaries (MFIs), which allows surplus extraction through finance. The last section concludes with a brief discussion of the findings from this case for a better understanding of financial systems overall.

2. Microfinance, financial inclusion, and financialisation

Microfinance, following CGAP (the World Bank’s in-house microfinance agency and 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 understood here, microfinance constitutes of the activities of these MFIs – predominantly small loans, often from NGOs acting as MFIs – and the transnational financial system built around them, nested at the intersection of development, civil society and business.⁴

The roots of microfinance are often seen to lie in South Asia, but they reach back beyond the operations which Muhammad Yunus began in Bangladesh in 1976, which popular discourse often takes as the starting point (Counts 2008; Dowla/Barua 2006). They may better be traced back to cooperative credit introduced to South Asia by the British colonial administration at the beginning of the 20th century (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 give small loans for entrepreneurship. This coincided with the broad shifts in development thinking and policy in the 1970s and 1980s, as state-coordinated import-substituting industrialisation fell out of favour, and informal markets, women’s role in

⁴ This paper explicitly focuses on the *lending* side of microfinance, often distinguished as *microcredit*. This focus is justified and necessary because, to date, most microfinance is microcredit. Microinsurance is a marginal business (Kiviat 2009; De Bock/Gelade 2012), while savings are comparatively less than loans. Of 1,241 MFIs reporting to MIX Market in 2010, 555 reported no client savings at all, while another 212 held less than 1 US \$ million, yet 999 held loan portfolios over US \$ 1 million. Over 20 percent of all microsavings globally were at a single state-owned development bank, BRI, in Indonesia. Furthermore, many MFIs only offer savings accounts linked to credit products, or collect “forced savings” (a loan part not disbursed, held as collateral, but officially registered as savings). The interest paid on savings is low, often even negative (Dupas/Robinson 2011). Overall, it is most unlikely that a consideration of microsavings or microinsurance would significantly affect the findings of this paper.

development, basic needs, and NGO activities were emphasised. Furthermore, economists based at Ohio State University mounted an influential critique against subsidised credit (Adams/Graham/Von Pischke 1984). In the 1980s, in the course of neoliberal reforms, microcredit was first adopted by donors as a policy tool. Microloans helped facilitate the abandonment of government intervention and regulation, and support for the informal sector instead, inscribed in the “Washington Consensus”. Microcredit played a key role in the Bolivian Structural Adjustment process, which became a model for other Structural Adjustment Programs (Weber 2004).

The 1980s also saw first attempts to transform MFIs into for-profit operations; 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 financial markets and entrepreneurship of the 1990s and early 2000s, by offering a financial market-driven approach to poverty reduction (Bateman 2010). During the 2000s, microfinance expanded rapidly in most regions of the world (see Figure 1). An explicitly commercial and for-profit model of microfinance became dominant, facilitated by an increasing presence of financial investors in the sector, but above all the deliberate promotion efforts of organisations like CGAP (Roy 2010). The commercialisation allowed a number of MFIs to directly access the stock markets (Lieberman, et al. 2008). In recent years, many in the microfinance sector have begun to describe its true mission not so much as poverty reduction, but as providing financial services to help poor people better balance volatile incomes and expenditures over time; that loans, savings and insurance are understood as tools for universal “financial inclusion” (Collins, et al. 2009; Schwittay 2011; Center for Financial Inclusion 2008).

Insert Figure 1 here

The growth of financial markets over the same time scale has profoundly affected modern societies, making an understanding of finance increasingly central to the study of political economy overall (Jackson 2013). Financial market expansion is noted to have exacerbated socio-economic inequalities through strengthening owners’ and elite workers’ negotiating power (Lin/Tomaskovic-Devey 2013) and an increase in overall financial activity which allows top financial managers to capture greater rents (Godechot 2012). Access to credit has expanded but at the same time been increasingly differentiated between classes (Fourcade/Healy 2013). Financialisation, as a transitional period in capitalism (Boyer 2000),

opens 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 it transforms capitalism 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 this contribution, financialisation is understood as *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.*

Within and through microfinance we can study some of the mechanisms and effects of financialisation in greater detail. Certain positive narratives which normatively support the expansion of financial markets (in ways similar to, but even more extreme than, those underlying the “subprime” expansion) are clearly visible, as are the distributional dimension and certain political effects (governmentality). The modern financial system of microfinance, fundamentally, is a system for channelling capital from holders of financial wealth through intermediaries to borrowers who face needs or desires which cannot otherwise be fulfilled, except through debt; this capital subsequently is repaid from the borrowers, together with a certain quantum of surplus value, which takes the shape 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 (CDOs) (Shanahan 2007) are simply variations on this general principle; they are instruments for steering, manipulating and increasing the scope and trajectories of the financial in- and outflows in microfinance. What makes microcredit into *microfinance*, and microfinance into an element of the larger process of financialisation, is ultimately not just that small sums of money are handled in basic transactions, but that these transactions are part of a system of finance recognisable to other systems of finance. Microfinance is not the same as moneylending or pawnbroking; it extends far beyond the local level, and is financially more advanced and incorporates the calculatory devices, languages and logics of the mainstream financial system into the business of lending to poor people.

The reorientation of many MFIs towards capitalisation via the financial markets (rather than through state or donor funding) since the 1990s introduced a new quality into the microfinance system – “the financialization of microfinance” (Aitken 2010: 235) – which has progressively radiated outward into donor policy and client livelihoods. Even many non-profit

donors (not for-profit investors) are now concerned with maximising the return on equity earned with their money, since full “financial inclusion” requires microfinance to be profitable, in order to curry the favour of mainstream investors and grow the sector faster. On the other end, increasingly sophisticated financial structures of “middlemen” and informal credit bundling and on-lending activities at the client level (Arunachalam 2011: 308-349) indicate the pervasiveness of 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.

3. Mobilising narratives

To understand what has driven (and still drives) the expansion of microfinance, it would be too simple to explain it as a strategy for investment capital to find new outlets. Certainly, capital tends to seek new markets and new opportunities for accumulation; but this in itself does not sufficiently explain the appeal of tiny loans to poor people in the Global South. Supportive *mobilising narratives* have been crucial to the process. Such “narratives” are affirmative (or prohibitive) stories about what finance should be, of success and failure, of right and wrong, and are intrinsically linked with actors’ self-perception of their own adequate social role(s). They inform the actions of creditors and debtors. Akerlof and Shiller (2009: 51, 55-56) explain, “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”. Already Smith (1976 [1759]: 175) noted that money could be imbued with different messages and meanings for different people. Such narratives also matter in processes of financial change: as for instance Calder (1999) shows, historically the acceptance of debt into the household as part of a “normal” and “decent” lifestyle required an active redefinition of what it meant to use credit; the promotion of a new, positive narrative. Similarly, Harrington (2008) shows how in the 1990s regular people came together in groups to create and reaffirm a new and desirable identity as “investors”, performatively enacting roles in a narrative of social rise through participation in finance.

Microfinance has been anchored in the public imagination through a narrative of *empowerment through finance*. Credit (or its inverse – debt) is seen as a force for liberating women from traditional gender identities, or allowing innate entrepreneurs to prosper, or helping poor people manage their difficult economic lives better. The ubiquitous client

success stories in the publications of donor organisations and MFIs, as well as countless media exposés, are key building blocks of microfinance’s mobilising narrative. They tell a story of finance serving a good purpose. For instance⁵:

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 story of such minor economic miracles (Mary’s progression from homelessness to trader and landlord) epitomises the narrative of microfinance allowing poor people improve their lives through well-intentioned debt. Finance can *build pride* and *inspire*. The mobilising aspect of these narratives lies in the implicit (and often explicit⁶) invitation of the reader to become part of the success story by supporting microfinance.

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 to the middle and upper classes by proposing a solution to poverty on terms they can identify with. We do not know “Mary” and have no comprehension of the realities of her life, but are invited to imagine her situation through the lens of a small successful venture crafted with finance. When microfinance representatives like Muhammad Yunus preach that the poor need finance in order to fulfil their potential, this instinctively rings true to Western middle and upper classes for whom (as the financialisation literature discusses) economic and social success is increasingly determined by their success

⁵ One out of countless similar stories.

⁶ The international ACCION network 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.” The reader is directly mobilised in conjunction with the narrative.

or failure at managing finance. While their circumstances and constraints are fundamentally different, the rich and the poor are seemingly aligned in the microfinance narrative through their shared identity as subjects of finance, such that social problems increasingly come to be mere problems of finance (not politics, economic injustice, collective action, etc.). The particular fascination for microfinance among wealthy IT entrepreneurs showcases the power of the narrative; Gates, Dell or Omidyar can align their own biographical experiences with the narrative of an entrepreneurial escape from poverty (Lewis 2009).⁷

With reference to users of Kiva, the on-line microlending platform, Bajde (2011: 6) shows how they use microfinance to “implement their moral visions of ‘good society’” through *finance*-based poverty alleviation, as opposed to *giving*-based poverty alleviation. Kiva always refers to its borrowers as “working poor”, “replacing” – as Bajde explains – “the outstretched empty hand of the helpless beggar with the ‘full hands’ of hardworking entrepreneurs, who have ‘something to offer’” (Bajde 2011: 15). Bajde sees Kiva users – who can lend as little as \$25 – enacting their own social visions through “their” loans, identifying with “their” borrowers and treating “the loan as an affirmation of their personal moral beliefs” (Bajde 2011: 17). Yet, differently from charitable donations, 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). The would-be small-scale philanthropist thus assumes the new identity of financial investor, and the would-be recipient of generosity the identity of investee. The frontier of financial accumulation shifts as new conceptions of finance – e.g. as an intimate but superior relative of philanthropy – embodied in new narratives are translated into action.

Not in any cynical way, wealth-holders appreciate the notion of poor people working hard, finding dignity in work, hopeful to liberate themselves from the shackles of poverty. 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 great exertions remain poor; they earn the respect of wealth-holders for not being lazy or giving up. The microfinance proposition of help via self-help offers certainty

⁷ At US \$ 133 million, the second-largest spending category of the Gates Foundation’s “Global Development” programme was “Financial Services for the Poor” in 2009 was (Gates Foundation 2009). EBay founder Pierre Omidyar donated a US \$ 100 million fund to his *alma mater* Tufts University in 2005, conditional on it being invested only in *commercial* microfinance (Tufts 2010). There are numerous others examples.

that only the deserving poor benefit. As Zelizer (1997) found in America around the turn of the 20th century, what constitutes legitimate “poor people’s money” is shifting; today’s microfinance narrative proposes a morally uplifting form of credit as good money for the poor. Otherwise it is hardly comprehensible that, in recent years, many charities have chosen to give money to microfinance operations – for instance, Oxfam gave US \$ 6 million to various MFIs in 2006 (Mixmarket 2010) – 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).

Even for the type of capital provider using microfinance as a vehicle for investment, rather than charity – for instance, as a tool of portfolio diversification and hedging against risk (Krauss/Walter 2009) –, for whom it serves a strictly financial purpose, the financial attraction remains buttressed by the conception of microfinance as a “social investment” generating additional value under a “double bottom line” of social impact *and* financial returns.⁸ No doubt, microfinance investments are often financially attractive thanks to the very high repayment rate of loans – or as enthusiasts put it: “the poor always pay back” (Dowla/Barua 2006) – at 95 to 98 per cent on-time loan recovery on loans with high interest rates (Grameen Foundation 2013). Microfinance securities and bond issues can appear as one financial asset among others, but they nonetheless also 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 a certain 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). For lack of certainty, actors base their expectations on stories or dreams about what the future *would* be like if they engage in a certain act, such that some markets even represent “markets for dreams” (Lutter 2010). The “imagined future” which the investor can value in microfinance, at least in part, is what a borrower may do with the money. A microfinance investor cannot *know* with any certainty whether the activities funded by her will bring success in an African village or an Asian slum, but may well imagine thanks to stories the miraculous effects of her tiny loans.

Further reinforcement for the narratives of empowerment through finance and poverty as a problem of finance comes from a portrayal of poor people as inherently financially-minded subjects. The book *Portfolios of the Poor*, authored by a team of microfinance

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

practitioners and academics who tracked poor people's financial lives via diaries, has emerged as *the* central text of the "financial inclusion" paradigm.⁹ While not addressed to very broad audiences, *Portfolios* provides legitimation in the eyes of development/microfinance experts for the vision of helping poor people to master their lives through financial services. Poor people are portrayed as Third-World "portfolio managers" (Collins et. al. 2009: 238); just 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 the diaries were rational and optimal, MFIs should hence feed poor people's ubiquitous credit needs. Using a microloan at 36 percent interest to buy gold, for instance, as 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 paid a surcharge of 36 percent for their "investment" relative to any less-poor person was not an issue. Yet the book's weightiest contribution to the narrative of poverty as an issue of "financial inclusion" – and also its most evident fallacy – is its conclusion: "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 doctrine of microfinance, "financial inclusion", thus no longer even envisions increasing the resources available to the poor, merely improving the efficiency of how poor people can marshal their meagre resources.

The darker side of the narratives is also rendered visible when Nobel Peace Prize laureate Muhammad Yunus argues: "If they fall afoul of this one loan, they will have lost their one and only chance to get out of the rut" (Yunus 2003: 58); he claims his variation on moneylending to be poor people's "only opportunity to break out of poverty".¹⁰ Rather than questioning the lack of options open to poor people in Bangladesh (or elsewhere) Yunus and his followers suggest that failure to take a loan and employ it usefully can revoke people's right to a more dignified existence). Another example from his rhetorical repertoire: the present system constitutes "a kind of financial apartheid; two thirds of the world's population

⁹ An official endorsement even describes *Portfolios* as the "new bible" for combating global poverty; cf. Simmel (2004) on the relationship of money with religion.

¹⁰ Noting in this connection: "Indeed, more than 98 percent of our loans are repaid." (Yunus 2003: 58).

are excluded” (Yunus 2011). The solution-narrative, of course, which mobilises the audience, is: give loans to the poor, so they can be financially included, and even such pernicious atrocities as a form of *apartheid* can be overcome. The normative content of financialisation, which often remains hidden in political economy analyses, thus becomes very clear.

Thus, the expansion of the financial system of microfinance has hinged on mobilising narratives which present social problems (and particularly poverty) as problems of finance, and finance as a superior tool for empowerment, relative to charity or redistributive alternatives. These narratives draw on the imagination of capital-providers to re-align roles and identities, and advance financial market expansion by providing an additional social appeal to financial investments (which may or may not be financially attractive, too). Furthermore, they present poor people as financially hyper-rational subjects, more urgently in need of financial inclusion than of direct poverty relief (since “not being able to manage whatever money you have is worse”), and portraying the management of finance – more precisely: debt – as their only realistic escape from poverty. The following two sections discuss why the effects of the narrative may be disempowering for the poor, despite the best intentions of the rich.

4. Financialised governmentality

The financialised mobilising narratives of empowerment through finance and poverty as a problem of finance have had two most noteworthy categories of effects, which can roughly be labelled “political” and “economic”. Turning to the political first: microfinance played an important role in advancing programmes of neoliberal restructuring in the 1980s and 1990s (Weber 2002; Weber 2004), as an explicit political tool. But there is also a more insidious dimension: the governmentality produced by microfinance. Despite their free-contracting market appeal, the client relationships in microfinance remain fundamentally predicated on a – usually implicit, but when necessary, explicit – regime of 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 the 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 according to the will of the powerful in a self-controlled manner out of an ingrained discipline (Merquior 1991: 108-118). Finance – microfinance – can generate such forms of discipline, thanks to its specific form. Emphasising the need to direct capital to the poor *for their own sake*, the microfinance sector has progressively transformed since the 1980s from an NGO domain to a more disciplined business sector, in order to appeal to investment capital. As Aitken notes,

recent developments are contributing to a transformation of microlending into a fully financialized 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"¹¹ as part of "*globalized* financial flows" (Aitken 2010: 224), drawing poor people (as well as their new lenders) into the governance, viz. governmentality, of the transnational financial market.

The deeper interpenetration of microfinance with mainstream financial circuits, however, has enhanced the potential for conflicts of interest – even in the view of many proponents of microfinance – between profitability and social aims, with commercialisation leading to political backlash (Dowla forthc.). The potential for conflict is echoed by Eversole (2003: 185) who investigated borrowers' perceptions of the MFIs they dealt with, and found that "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 is quoted as asking: "Tell us the truth, [...] Is that money to benefit artisans, or is it to benefit the institutions?" (2003: 185). Borrowers are expected to express their needs by making them legible in the financial metrics of demand (for credit) and on-time repayment. Microfinance actors, communicating with their clients through financial channels, therefore can read MFIs' balance sheets as the measure of success:

¹¹ Fringe credit refers to the broader palette of organisations lending to poor and marginal customers, traditionally shunned by mainstream financial systems.

[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)

For Young (2010: 607), microfinance thus strategically repositions 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, as well as social roles and identities at the micro level; not just for the borrowers.

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 in financial discipline of MFIs and borrowers – most markets began with higher default rates, which came down over time – are attributed to precisely this integration of microfinance with organised financial markets. According to Rhyne and Busch, investor *sophistiqué* is central to maintaining 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 MFI thereby may be seen to operate as a veritable “panopticon” of economic activities the Global South (Foucault 1975), rendering them visible and (partially) controllable. The extent to discipline and control activated by the chain of microfinance also radiate outward in the relationship with borrowers is related by Young (2010), who observed the tactics and strategies adopted by loan officers to ensure borrowers fulfilled MFIs’ and their investors’ expectations of repayment. Women, above all married women, are targeted particularly because of their *lack* of mobility (hence, easier to enforce repayment), as are borrowers with “business plans” which keep them based in the village, such as holding buffaloes or operating sewing machines or corner stores. These activities are easier to monitor by the bank, but incidentally are also low value-added, low-growth, traditional lines of work; women are expected to generally stick to socially-sanctioned “women’s work”.

Taylor (2011) reports how microfinance borrowers and other actors in the local economy in parts of India reacted to the discipline which came with flows of credit in ways

not predicted by the microfinance narratives. To adapt to the severe regularity of repayment schedules designed to ensure predictable cashflows, which bore little resemblance to their varied income and spending circumstances (particularly in agriculture), borrowers responded with often perilous coping tactics: in particular accessing additional loans from the traditional moneylenders whom microfinance was supposed to displace, such that “informal moneylending has therein adapted and expanded alongside the rise of microfinance” (Taylor 2011: 16). 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). Under the increasingly seamless matching of microfinance with the requirements of transnational capital flows, some more successful borrowers appropriate the financial rationales of these capital flows.¹²

Further evidence of the 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 by American economists in Hyderabad, India, disappointingly found no rise in incomes or assets. However, the researchers noted a significant reduction in the consumption of so-called “temptation goods” – a category in which the economists included cigarettes, gambling and alcohol, but also tea and food consumed outside the home – in slums with new MFI branches. They interpreted this as a “success” in creating more entrepreneurial attitudes among the poor, concluding that “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). Notably, the households observed were all “quite poor in absolute terms” (Banerjee, et al. 2010: 25). Thus, by whatever mechanisms – “allowing” them to reduce spending they “would like to reduce”, or forcing them to cut back tiny luxuries or social necessities like roadside *chai* – the deployment of transnational financial flows showed the *measurable* disciplining effect of getting the poor to tighten their belts to service their loans. Unsurprisingly, similar impact studies elsewhere find borrowers’ overall life satisfaction decreasing (Karlan/Zinman 2009).

¹² Microfinance may thus even be understood as a tool for creating a special cognitive condition, an *habitus* (cf. Bourdieu 1997) with certain skills and dispositions suited to financialised circumstances. In this way, some might come to really perform their desired roles as Third-world “portfolio managers” (Collins, et al. 2009)..

To showcase some of the key mechanisms which the industry banks upon, one may reconstruct an archetypical cascade of governmentality in microfinance (see Figure 2). It would be impossible to name all the observation and disciplining devices, but these are key ones. An origin of the discipline lies with the expectation of regular financial flows by investors; even socially-motivated investors and governments often invest in microfinance through specialised microfinance investment vehicles (MIVs), which require regular payments. Discipline emanates “downward” from the financial markets where these investors operate, for instance with a Deutsche Bank investment fund buying shares in an MFI, or a US pension fund purchasing a portfolio of collateralised microloans from Citibank, and both demanding regular (and adequate) cashflows from the investment. They monitor the investments, consume rating reports, follow asset prices and compare MFIs’ performance with benchmarks. Their requirements are instilled within the MFIs through standardised accounting schemes and regular reporting.

MFI operations in turn are 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 deteriorate, allowing management to intervene. Loans are usually repaid weekly, allowing the performance of individual branch offices to be heavily monitored; branch offices are often pitted in competitions against each other, and staff remuneration can depend on branch performance. Loan officers, in turn, individually receive a large share (sometimes even the bulk) of their pay as variable “performance-based” bonuses, depending on their success at enforcing on-time payment (McKim/Hughart 2005); of course, unsuccessful loan officers can be fired or demoted.

Insert Figure 2 here

But the most famous disciplining device of microfinance is the so-called “social collateral” of the group lending model, which literally employs neighbours and acquaintances to perform acts of observation and discipline *for* the MFI. In the event of one borrower being late with repayment, loan officers usually deploy sanctions against the entire group, like detaining all members until dues have been paid,¹³ or withholding future credit. Group leaders perform basic accounting for the group, and are often required to show the books to the loan

¹³ This can deprive up to forty families of a day’s wages.

officer. Unsurprisingly, group members observe each other in daily life, and it is often the members of these so called “solidarity groups” who harass other borrowers, shame or threaten them in public, or perform the notorious “house-breaking” (*ghar banga* in Bengali) as punishment (Karim 2011) – or even worse, like kidnapping children (Times of India 2010). Fundamentally, at the grassroots level, most microcredit is premised on the threat of punishment via confiscation of the *social capital* of the poor, which is the only type of capital many have ever owned. The fact that this social capital cannot be monetised by a bank in no way diminishes the punitive effect of its confiscation; to which shame must be added (Karim 2011). The effective repossession of a poor person’s social relations can be an existential threat when those ties which normally offer support in hard times are lost because of an unpaid debt, or neighbours and relatives even turn against the debtor.¹⁴

Yet despite the explicitness of these disciplining devices, the power deployed is best understood as governmentality exerted through “technologies of the self” by “disciplinary individuals”; for at each stage, if active techniques of power (punishment, sanctions) have to be used, it is only because the individuals involved failed to discipline *themselves* enough. The business (or business-as-usual) of microfinance is built on *self-discipline*, -observation and -punishment: the best way for a debtor to avoid “house breaking” and harassment is always repay on time, even if this necessitates going to a moneylender, or becoming a moneylender herself, or adjusting the rhythm of her life or her family’s nutrition (etc.) to the repayment schedule. In turn, loan officers cannot 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 per cent repayment rates – not by regularly “disciplining” and “punishing” borrowers, but by regularly *not* having to do so.

5. Financialised material relations

The previous two sections focused on what may be termed the realms of culture, ideas, identities and power. This section finally takes stock of the discernable “economic” effects, arguing that microfinance serves to *financialise the material relations between rich and poor*, re-shaping relations of poverty with finance. “Financial inclusion” (the presently-proclaimed

¹⁴ 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 presumably has similar effects.

aim of microfinance) in this reading acquires a wholly new meaning: “including” poor people into the financial market turns the poverty of some into an investable asset for others. The result, in the words of one former practitioner¹⁵:

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, with a marked decline in 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). Instead, in highly-developed capitalist economies, Voß and Pongratz (1998) noted the emergence of *Arbeitskraftunternehmer* – translated as “entreployees”, literally meaning “labour power entrepreneurs” – as a rising type of labourers characterised by “self-control”, “self-commercialisation” and “self-rationalisation”, precariously seeking constantly 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 the “entreployee model” into the “informal sector” (*viz.* the market-based survival activities of poor people) and subsistence agriculture in the developing world; two areas which have long existed as catchment basins for excess labour, remaining effectively separate from mainstream capitalist accumulation circuits.

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 effectively (hence the recurrent themes of hard work and creativity in client stories). This entreployee relationship broadly shows three advantages for capitalists. First, it necessitates no entrepreneurship on the capitalist’s side,

¹⁵ Malcolm Harper co-founded the erstwhile leading Indian MFI BASIX.

perfectly accommodating the rentier type of accumulation, as 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, as microloans usually run for under one year, and allows labour power to be acquired on an individual, piece-by-piece basis. Third, it outsources the *risks* of entrepreneurship to others, since a borrower must repay the loan regardless whether its usage generated a 200 per cent return or a total loss. Microfinance makes an “entreployee” relationship possible even with denizens of slums and villages in the Global South, through the credit relation – an astonishing innovation.

People who enter into this economic relationship as borrowers enter into it for diverse reasons; sometimes, no doubt, out of opportunity. However, there is also often the structural cause of poverty: simply lacking money. An extreme case: were one to offer a starving person a dollar at *any* sort of interest, they would most likely take it (or die). They need to survive today, and deal with the consequences tomorrow.¹⁶ This indicates that neither economic “irrationality”, nor a rational decision to use credit, necessarily explains microfinance demand. Under conditions of duress, any temporary respite or mitigation of uncertainty, even in the form of a loan with unclear or even 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 be structured to compel many into needing or wanting credit; a better explanation than both irrational desire or “addiction” to credit (Mahajan, cited in Burke 2011), or an entrepreneurial/portfolio-rational decision.

Understanding microfinance as a financial system building material relations between the owners of capital and the borrowers, albeit not necessarily voluntarily from the borrower’s perspective, one can recognise poverty itself as being financialised. One person’s poverty becomes the basis for surplus accumulation by another.¹⁷ That phenomenon is, of course, as old as capitalism itself; but microfinance-built credit relations, working *through finance*, can even bring the informal and subsistence activities (through which the poor in the Global South manage their poverty day by day) into the reach of capitalists, as assets which sophisticated investors can add to their portfolios.

¹⁶ 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)

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.

Yet is this surplus extraction via microfinance considerable, relevant? Thanks to the investor-oriented “Microfinance Information Exchange” MIX (“the Bloomberg of Microfinance”) collecting relevant data, it is possible to calculate an estimate of the actual surplus extracted through microfinance. In 2010, out of a total of 1179 MFIs reporting the amount of loans (Gross Loan Portfolio) they made, 1052 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 amount extracted by microfinance using Yield figures for 2012, the last year with reliable data, the MFIs which reported their Yield in 2010 accounted for US \$ 80.37 billion (885 MFIs), or 79.8 per cent of the global loan portfolio of US \$ 100.72 billion (1,257 MFIs).¹⁹ Their mean yield, weighted by loan portfolio size, was 21.54 per cent.²⁰ Proceeding with the 21.54 per cent average yield figure, and assuming the yield of those MFIs which did not report to be the same, I calculate

$$\text{gross loan portfolio} * \text{yield} = \text{surplus extraction}$$

to find that US \$ 100.712 yielding 21.54 per cent produces a total of US \$ 21.70 billion US dollars, as an estimate of what microfinance borrowers actually paid to the microfinance industry in 2010.

Insert Figure 3 here

What does this figure mean, conceptually? This is not the profit earned by MFIs or their investors – MFIs naturally face high costs, including personnel, infrastructure, inputs and cost of capital, which may even render their returns negative – though it is known from companies like Compartamos and SKS Microfinance that microfinance lending *can* be very profitable. Also the figure does not automatically represent a net loss incurred by the poor, since the best estimate of the net effect of microfinance currently is “zero” (Roodman 2012b).

¹⁸ Unlike annual percentage rate (APR), Yield is the money taken in by an MFI relative to what it lent; 30 per cent, for example, means that for every US \$ 100, \$ 130 were paid back in.

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 per cent, but far below the 35 per cent recently reported by the Economist (1 February 2014).

Rather, the figure quantifies the value actually extracted from the borrowers, which they must produce via *some form of labour*.²¹ The poor pay this out of the *surplus* of the market labour they performed in the time they had the loan; if they earned no surplus or an insufficient surplus, then worse yet, the figure represents “accumulation by dispossession” (Harvey 2003). Poor people must transfer each of those 21.70 billion Dollars as the price paid to their capital providers.

This figure may be considered a measure of the scope of the extraction achieved in this element of financialisation; even a measure of this element of financialisation’s (dubious) success. Of course, microfinance is tiny compared to financial markets overall. But, 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).²² As a sovereign, Greece paid far less than microborrowers, whose total debt was US \$ 100.72 billion, illustrating how lucrative the surplus extraction from microlending can be, compared to other options. One may also compare the microfinance surplus extraction with the one-off debt relief granted developing countries in 2005 at the G8 Summit, Gleneagles – US \$ 37.0 billion (World Bank 2005) – which MFIs recover directly from the poor every less than two years, at the going rate.

Yet MIX data on gross loan portfolio reaches back to 1996, and Yield is captured since 2003. Adding up only the surpluses *known* to have been extracted since 2003 (those MFIs reporting yield) by the same method, one reaches US \$ 88.79 billion. And estimating from this figure to also include those MFIs which did not report yield, by the same procedure as above, 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 for poor people in the global South to pay, the assumptions in these calculations are very conservative, leading to what is most likely a gross underestimate. The true figure may be near double.²³

²¹ *Even if they do not use the loan itself productively; of theft, inheritance or begging notwithstanding.*

²² This was the last year Greek government bonds were not wholly “junk” status, raising its interest rates massively, and before “haircuts” reduced its debt load. Number sources: debt service, Government of Greece budget for 2011 (Greek Government 2010); gross debt, Eurostat (2012); exchange rate, €0.785 for \$1 (average for 2010).

²³ As the Economist’s report on interest rates would suggest. Furthermore, portfolio yield is merely a proxy for interest income; actual rates are often higher, since Yield is net of defaults and late payments. Yield also fails to consider forced savings and some non-interest fees, which can have a huge impact on the returns from lending. Another factor leading to underestimation is portfolio growth, which is highly relevant; given microfinance’s exponential growth in recent years the average of loan portfolio at beginning and end of each year is too high, making yield appear lower than it actually was. A further factor is that MIX Market data is voluntarily self-reported by MFIs, with no systematic quality checks; MFIs may accidentally or deliberately under-report Yield

6. Conclusion

This paper has examined microfinance as an element of financialisation which constructs a system of credit relations on the basis of positive mobilising narratives, and produces financialised governmentality and financialised material relations. After discussing microfinance as part and parcel of the financialisation phenomenon (section 2), section 3 assessed how the transnational system of microfinance is anchored in the public imaginary through positive narratives about the power of finance. Microfinance promises empowerment thanks to finance, and poverty appears as a problem of finance, such that loans can even appear as superior to charity or redistribution. Section 4 examined the “political” effects of microfinance, focusing on the production of governmentality which builds financial market discipline. The microfinance system deploys various techniques to create a cascade of observation and discipline which emanates down from mainstream financial circuits into the daily lives of borrowers, soliciting disciplinary individuals to employ technologies of the self. Finally, section 5 examined how microfinance financialises the material relations between rich and poor, re-shaping relations of poverty by “financially including” the poor into global capital accumulation circuits as self-administered labour. The result, shown with evidence from a global dataset, is the substantial extraction of surplus labour into the financial system.

In sum, microfinance as a development-intervention-cum-financial-system constructs a capital-labour relationships which hold great promise for capitalists but may generate significant potentially disempowering effects for the poor. True – some poor people do benefit from microfinance; but the average effect remains ambivalent (Duvendack et. al. 2011). True – many MFIs are not (yet) profitable for investors; but the high rates of extraction of surplus labour into the financial system at least demonstrate that lending to the poor works well for the financial industry, including the employment of hundreds of thousands staff by MFIs, and managers remunerated handsomely.²⁴ In this connection it is unsurprising that Roodman (2012: 226) concludes “the greatest strength of microfinance has been in building industries that enrich the fabric of nations”, by which Roodman means financial industries.

Proponents of the microfinance business nonetheless allege that the interests of debtors and creditors are aligned: willing borrowers seeking to improve their lives and to be

and over-report portfolio size. Finally, given the drop in average Yield over the known period, to assume Yield as “only” 21.54 per cent in the period before (the dashed line in Fig. 3) could cause under-estimation.

²⁴ An extreme case: in 2010, Vikram Akula of SKS Microfinance netted roughly US \$ 55 million (cf. Mader 2013: 54).

“empowered” through debt (Elyachar 2005) encounter the social and financial motivations of capital providers. As was shown here, these interests are not necessarily aligned, since debtors must transfer their labour power to the creditors. Thus by developing the technologies and capacities (including group lending, social collateral, standardisation and computerisation of disbursement, rating of MFIs, securitisation of microfinance portfolios, etc.) to channel significant amounts of capital and “financially include” people without collateral or assets (“the unbanked”) the microfinance sector builds new capital-labour relationships. These relationships are doubly attractive for capital providers: socially (given the image of microfinance as a “responsible investment”) and financially (given its capacity to generate substantial returns). Recent crises in microfinance – most notably in India, 2010 – have shown that microfinance-driven financialisation also has limits (Mader 2013), but overall the sector continues to grow.

From the case of microfinance I deduce some broader findings about surplus extraction through financial systems. Microfinance can be seen here as a key case for three reasons. First, it showcases the distributional dimension of finance more clearly than other financial systems (or sub-systems). Credit relations in microfinance run directly from some of the world’s richest people (e.g. Bill Gates) to borrowers living in absolute poverty in the Global South, and work to distribute resources between them. This is not to say that finance has only distributive or extractive functions – it also has intermediating and productivity-enhancing functions –, but that it *also* has these, and perhaps increasingly so, under financialisation.

Second, the microfinance system brings to the fore a little-studied dimension of financialisation: the emergence of the entreployee-type worker, seeking (or forced) to sell her labour-power in a pseudo-autonomous and self-rationalising manner. Microfinance illustrates at the micro level how the macro turn to finance contributed to building a rentier-friendly capitalist accumulation process based on reduced fixed costs and perhaps even reduced risks for the capital provider, by increasing the risks and responsibilities of those who have to sell their labour power. The capacity of the latter class to creatively and wisely manage finance becomes a more salient concern (hence, recent emphases on “financial literacy”) as financial systems can foster a flexibilisation and individualisation of accumulation in line with neoliberal visions of perfect markets.

Third, very few elements of the financial system have engendered such high hopes for creating a better world as microfinance, evoking such a strongly positive moral discourse. These discourses are perhaps key to the expansion of finance in bestowing moral urgency

onto such ambivalent projects as “financial inclusion”. Given that microfinance represents in many people’s view the “good” side of finance, but produces such fundamentally disempowering effects as heightened discipline and substantial extraction of clients’ hard-earned labour, this does not bode well for “regular” finance.

As understood here, financialisation is a process through which the frontier of financial accumulation expands into new realms, based on changes in politics, economics, social relations, and culture. This has entailed the development and elaboration of new financial instruments, like microfinance, which allow surplus to be absorbed into the financial system from the slums and villages of the Global South. The case of microfinance thus illustrates how the expansion of finance has been partly culpable for the widening inequality between different economic agents – or, if one prefers less analytical terms, “the 1 per cent” and “the 99” – and the concurrent shift in political-economic power. Already Marx (1981: 927) identified this principle when he noted: “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.”

The impact of finance on social relations is already beginning to show adverse political consequences for democracy as struggles over the repayment burden of debt arise domestically and internationally (Streeck 2013). The case of microfinance reveals the contradiction between the high hopes for solving social problems with finance, couched in terms like “financial democracy” or “financial inclusion”, and the absorption of surplus value into the financial system (even from the world’s poorest) which results. In line with the approach of this paper, it may be fruitful to (empirically and conceptually) investigate other aspects of the global growth of the financial system in terms of the underlying narratives, the governmentality, and the subsequent transfers of resources, which are at work.

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Figures

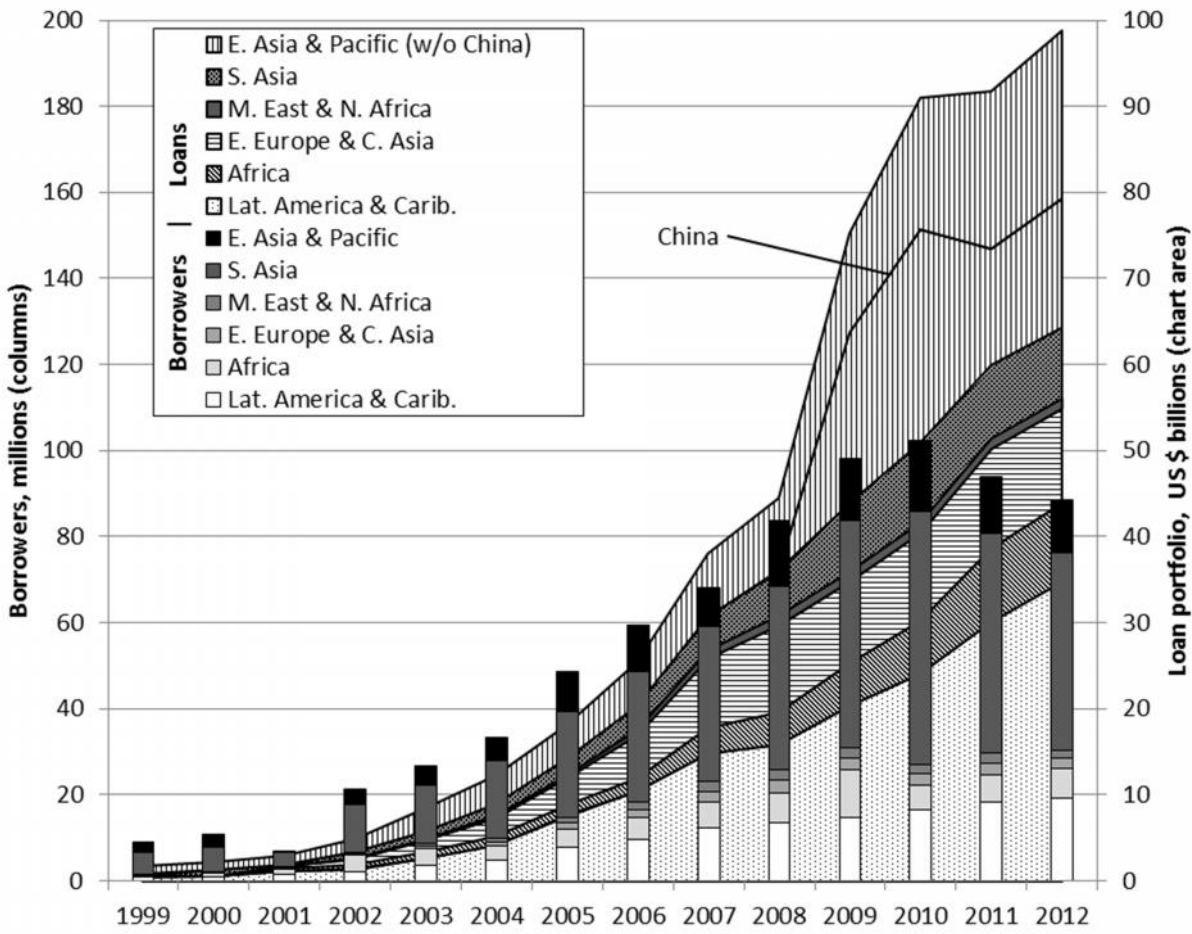


Figure 1: Growth of the microfinance industry, 1999-2012 (China’s loan portfolio figures suffer from various reporting problems)

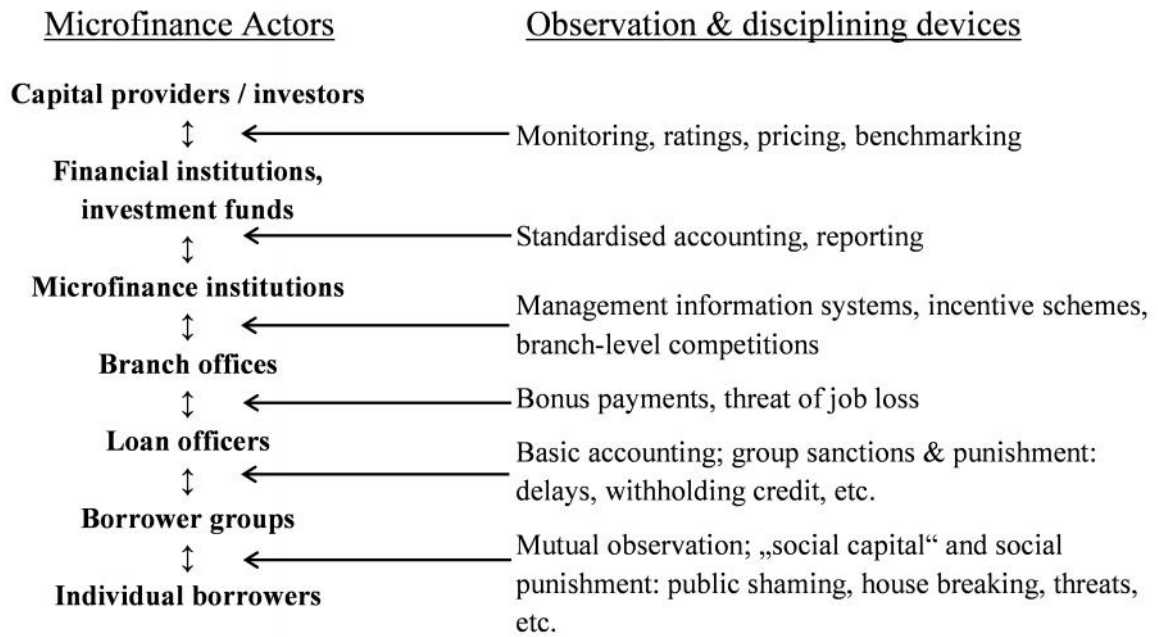


Figure 2. Archetypical cascade of governmentality in microfinance

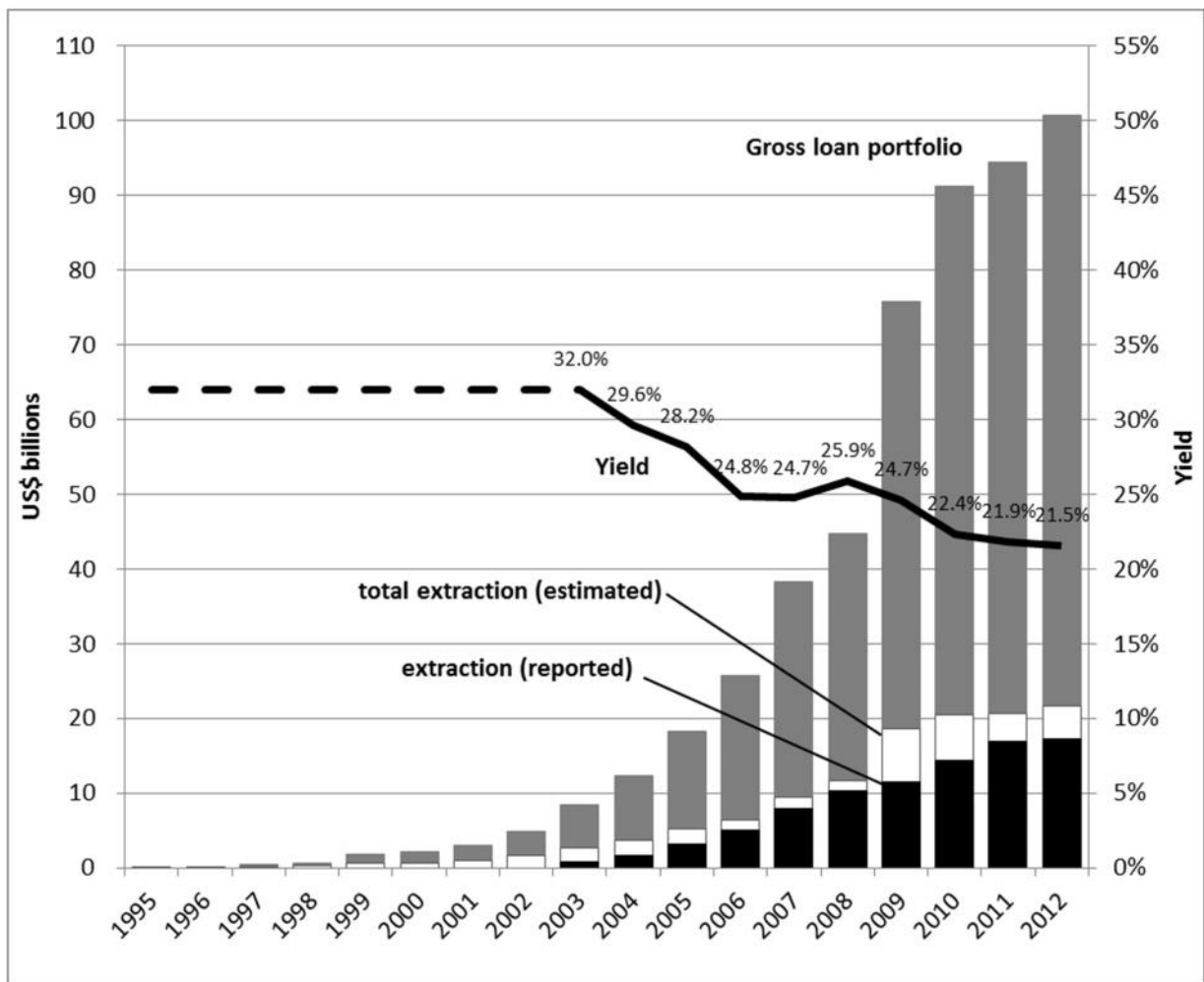


Figure 3: Surplus extraction through microfinance, 1995-2012