Explaining and Quantifying the Extractive Success of Financial Systems: Microfinance and the financialisation of poverty

Philip Mader
Max Planck Institute for the Study of Societies
Cologne, Germany
mader@mpifg.de

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Abstract
Microfinance serves as a key case for studying the effects of financial systems. As a development intervention deeply intertwined with processes of financialisation, we study the expansion and workings of microfinance on three dimensions. First, microfinance’s appeal is built on positive mobilising narratives which present poverty as a problem of finance, and portray it as superior solution relative to charity or other redistributive alternatives. Second, microfinance as a financial system exerts a governmentality which works through technologies of the self for disciplinary individuals to uphold regularity in capital flows. Third, in this way microfinance makes possible the extraction of surplus value from its poor borrowers, who may not have much choice, at a considerable scale. We conclude that these three dimensions help to explain the ways in which financial systems overall operate and expand.
1. Introduction

Microfinance is widely perceived as a successful programme for development, poverty alleviation and women’s empowerment. According to its father figure Muhammad Yunus, microfinance should be sending poverty to “poverty museums” within a single generation (Yunus 1997). The role of microfinance as an element of financialisation, however, is far less recognised, and its capacity to extract surpluses from its target population has gone effectively unnoticed even in critical scholarship.¹ This is particularly surprising in the light of accumulating evidence that microfinance does little or nothing to measurably reduce material poverty (Bateman 2010; Duvendack, et al. 2011; Roodman 2012). However, it is less surprising considering that, even with recent crises, the ways in which financial markets work to extract surplus labour have been taken little notice of relative to issues of regulation and embedding of the financial markets. Popular references to the role of Wall Street at generating the immensely unequal income shares which accrue to “the 1 per cent” vis-à-vis “the 99 per cent” show that there is a hazy recognition in contemporary societies of financial systems playing a central role in the regressive distribution of the fruits of labour (cf. Guardian 2011), but they fall short of understanding the actual mechanisms through which this takes place.

This paper argues that studying microfinance as a key case can make a contribution to better analysing the ways financial systems function at extracting surplus labour from one class of actors and distributing it to another. It argues that this functionality plays out on levels of narratives and power as well as in the more narrowly economic sense. The paper proceeds from the recognition that microfinance and 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 surplus extraction. We suggest that microfinance represents the financialisation of poverty by turning poverty into a problem of finance and making it the basis for creating new credit relations which function to extract surplus value from borrowers into the financial system.

We discuss the connection of microfinance with financialisation, and then argue in three steps. First, we show how the success of microfinance builds 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, in which financial logics and metrics feed down through the financial

¹ Notable exceptions are discussed below.
system into everyday practices, and foster discipline. Third, microfinance constructs a material relation between the owners of finance (creditors and investors) and the users of finance (borrowers) through intermediaries (MFIs), which allows surplus extraction to go forth through finance. We conclude with a discussion of the findings from this case for a better understanding of the operation of financial systems overall.

2. Microfinance 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). In a broader sense, microfinance constitutes a transnational financial system built around these MFIs, nested at the intersection of development, civil society and business. The roots of microfinance reach beyond the lending to villagers in Bangladesh begun by Muhammad Yunus in 1976, which popular discourse often takes as the starting point (Counts 2008; Dowla/Barua 2006), and may be traced back to the introduction of cooperative credit 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 and the weakness of the new Bangladeshi state prompted more active civil society interventions, and some non-governmental organisations (NGOs) also began to give small loans for entrepreneurship. This coincided with fundamental changes in development thinking and policy took place in the 1970s and 1980s as policies of import-substituting industrialisation fell out of favour and the informal sector, women’s role in development, the need to fulfil basic needs, and NGO interventions were emphasised; furthermore, economists at the Ohio State University mounted an influential critique of subsidised credit (Adams/Graham/Von Pischke 1984).

In the 1980s, in the course of neoliberal reforms, microcredit was adopted by donors as a policy tool, as the Washington Consensus demanded government intervention and regulation be abandoned and the informal sector instead promoted, for which microcredit proved ideal. Microcredit’s role in Structural Adjustment in Bolivia became a model for other Structural Adjustment Programs (Weber 2004). The 1980s also saw the first deliberate
attempts to transform MFIs into for-profit operations, and in the 1990s the World Bank began
to pursue the transmutation of MFIs into commercial entities (Rhyne/Busch 2006). Microfinance matched the optimism about financial markets and the power of capitalism of the 1990s and early 2000s by offering a financial market-driven approach to poverty reduction, which was popularised and anchored in the public imagination through high-profile events including the Microcredit Summit in 1997, the Year of Microcredit in 2005, and the Nobel Prize for Peace for Muhammad Yunus and Grameen Bank (Bateman 2010). The explicitly commercial and for-profit model of microfinance became dominant, facilitated by an increasing presence of financial investors in the sector and aided by specialised information platforms, but above all by the deliberate promotion efforts of organisations like CGAP (Roy 2010). Four high-profile share issues by MFIs which generated significant payoffs for investors helped to further reinforce the reputation of microfinance as a novel investment opportunity at the expanding frontier of finance (Lieberman, et al. 2008). Around the same time, as scientific evidence began to cast doubts onto the capacity of microloans to alleviate poverty, many in the microfinance sector began increasingly to describe its true function as simply the provision of financial services to help poor people better balance their volatile incomes and expenditures over time; loans, savings and insurance should be understood as tools for “financial inclusion” (Collins, et al. 2009; Schwittay 2011; Center for Financial Inclusion 2008).

We understand financialisation here as a historical process in the last decades which brought the expansion of the frontier of financial accumulation into new realms, based on changes in politics, economics, social relations, and culture. Financialisation, as a transitional period in capitalism (Boyer 2000), 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 it transformed the structure of accumulation into a system increasingly dependent on accumulation through finance (Krippner 2005). Culturally and socially, financialisation has worked as a shift in opportunities, combined with a change in values and aspirations, which brought “the entrepreneurial and calculative management and manipulation” of financial products and services (Langley 2008: 141) into daily life (Martin 2002).

The rise of microfinance has gone hand in hand with this process, as the following sections show, even if by no means uniformly or automatically. Not all parts of microfinance are equally financialised, for instance many microfinance loans are still disbursed by NGO
actors operating without connection to mainstream financial markets. But financialisation is proceeding through financial innovations in the microfinance sector which serve to connect practices of microlending ever more strongly with mainstream financial markets. Currently this process is legitimised via a mission of “financial inclusion”, which declares that people will remain poor as long as they are “financially excluded”: living without access to financial products and services (cf. CGAP 2004). The resulting drive to bring finance to every person, proponents suggest, requires the ample private resources of mainstream financial circuits to be tapped (Intellecap 2007).

Thus we can witness how within and through microfinance a process of financialisation is taking place. With the reorientation of many MFI’s towards capitalisation through the financial market (rather than through state or donor funding) which has taken place since the 1990s, a new quality was introduced into the microfinance system which has progressively radiated outward from the financial market through microfinance organisations into donor policy and even 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 “financial inclusion” requires microfinance to be profitable in order to curry the favour of mainstream finance. On the other end, increasingly sophisticated financial structures of “middlemen” and informal credit bundling and on-lending activities at the client level 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.

In the modern financial system of microfinance, capital seeking returns is channelled from holders of financial wealth through intermediaries to borrowers who face needs or desires which cannot otherwise be fulfilled, except through debt – just as the US mortgage industry did for the housing needs of working people there (Rivlin 2010) –, and this capital subsequently is repaid from the borrowers, through the intermediaries, back to the owners, together with a certain quantum of surplus value, which takes the shape of interest for the owners, as well as fees, salaries, bonuses, etc. for the intermediaries. More sophisticated financial instruments, such as collateralised debt obligations (CDOs) (Shanahan 2007), are simply variations on this general principle; instruments of steering, manipulating and increasing the scope and trajectories of these financial in- and outflows. What makes microcredit into microfinance, and microfinance 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 pawnbrokering; it 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.

3. Mobilising narratives

To address the question of what has driven and still drives the expansion of microfinance, it would be too simple to explain it as a strategy for capital to find new outlets. Of course capital tends to seek new markets and new opportunities for accumulation; but this in itself would be too simple and mechanistic an explanation for the stellar rise of the business of tiny loans to poor people in the Global South. Supportive mobilising narratives have been crucial to the process. These narratives are affirmative and prohibitive stories about finance, of success and failure, of right and wrong, which are intrinsically linked with actors’ self-perceptions of their own adequate social role(s), and which inform the actions of creditors and debtors in a financialised world.

Akerlof and Shiller (Akerlof/Shiller 2009: 51, 55-56) explain, “the human mind is built to think in terms of narratives”, with the effect that stories and narratives “affect the expectations for personal success in business, the success of entrepreneurial ventures, and for payoffs to human capital”. In short, the behaviour of humans in and towards financial markets is shaped by the narratives around those markets. Already Smith (Smith 1976 [1759]: 175) knew that money conveyed different messages and meanings to different people. As for instance Calder (1999) shows, the acceptance of debt into the household as part of a “normal” and “decent” lifestyle historically in the USA required an active process of redefinition of the meaning of owing debt or using credit; a new, positive narrative for debt and credit. Similarly, Harrington (2008) shows how in the 1990s people came together in groups to create and reaffirm a new and desirable identity as “investors”, performatively enacting their roles in a narrative of social rise through participation in the financial markets.

While stories and mobilising narratives always matter in finance, in the case of microfinance their importance is even more pronounced, in part thanks to the many colourful and uplifting stories surrounding microfinance. Microfinance has been anchored in the public imagination through narratives of empowerment thanks to credit: credit (or its inverse – debt) as a force for liberating women from traditional gender identities, for allowing innate
entrepreneurs to prosper, or giving poor people the financial tools to manage their situations better. The ubiquitous client success stories which fill the publications of donor organisations and MFIs, as well as countless media exposés, are building blocks of a highly successful mobilising narrative: they tell a story of finance serving a good purpose, combined with a call to action to become part of the story, by supporting microfinance. 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 story of a minor economic miracle (Mary’s progression from home-lessness to wealthy landlord) epitomises the narrative of microfinance as allowing poor people to multidimensionally improve their lives through well-intentioned debt. The mobilising aspect of these narratives lies in the implicit, often even explicit, invitation to the reader to become part of the success story by supporting microfinance.

But there is also a more fundamental mobilising narrative woven into the fabric of the microfinance construct: microfinance makes poverty in the Global South understandable to the middle and upper classes by promising 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 story of a small successful business crafted with finance. When microfinance representatives like Muhammad Yunus preach that the poor need access to credit and finance in order to fulfil their potential, this instinctively rings true to Western middle and upper classes for whom (as the financialisation literature shows)

2 The international ACCION network for example 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.
economic and social success is increasingly determined by their success 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 newly shared identity as subjects of finance, in which social problems increasingly come to be mere *problems of finance*. The particularly strong fascination for microfinance among wealthy software entrepreneurs illustrates the power of this narrative; these entrepreneurs align their own biographical experience with the narrative of an entrepreneurial escape from poverty.

Unsurprisingly, 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 other examples.

Not in any cynical way, wealth-holders appear to enjoy the idea of the poor working hard, finding dignity in work while hoping that their own efforts will liberate them from the shackles of poverty. As Shipler (2004) shows, many Americans – not unlike people in other advanced capitalist countries – distinguish between the “deserving poor” and “undeserving poor”, in the sense of deserving help because of their poverty. The most “deserving” poor in this moral rubric are the “working poor”, who despite their maximal exertions remain poor, yet at least have earned the respect of wealth-holders for not being lazy or giving up, and microfinance’s narrative of help (only) via self-help grants the certainty that only the deserving ones benefit. The new type of legitimate “poor people’s money” then evidently is a morally uplifting form of credit, as opposed to the morally uplifting version of the “dole” which Zelizer (1997) found in America around the turn of the 20th century. This may explain in part why, in recent years, many charitable organisations have chosen to donate money to microfinance lenders – for instance, Oxfam *gave* US $ 6 million to various MFIs in 2006 (Mixmarket 2010) – instead of giving money or services 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).

With reference to Kiva users, the clients of an on-line microlending platform, Bajde (2011: 6) shows how funders use microfinance to “implement their moral visions of ‘good society’” through *finance-based* poverty alleviation, as opposed to *giving-based* poverty alleviation, as a fundamentally more positive form of interaction between people. Kiva always refers to 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 shows how Kiva users – who can make loans as
small as $25 – enact 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). Differently from charitable donations, Kiva lenders are entitled to a financial return
(loan repayment) as well as ongoing information about borrowers’ activities, allowing – as
Kiva co-founder Jessica Jackley put 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.

In this way new conceptions and narratives of finance – for instance as an intimate but
superior relative of philanthropy – can underlie changes in the practical role and reach of
finance. While this is only one of the many meanings of credit, it shows how the ideas attached
to credit through mobilising narratives matter significantly for explaining the shape and
extension of credit relations. For the type of capital providers seeking to use microfinance
merely as a vehicle for investment, rather than charity – for instance, as a tool of portfolio
diversification and hedging against risks (Krauss/Walter 2009) –, microfinance may serve a
strictly financial purpose. No doubt – the proliferation of crises in microfinance in recent
years notwithstanding (Mader 2013) – one key aspect making microfinance investments
attractive is the ultra-high repayment rate of loans, or as enthusiasts put it: “the poor always
pay back” (Dowla/Barua 2006). 95 to 98 per cent on-time loan recovery rates paired with high
interest rates (Grameen Foundation 2013) allow microfinance securities and bond issues to
appear on the financial scene as an attractive investment opportunity, such that lending to the
poor can become one financial asset among others.

However, this inherent financial attraction nonetheless remains buttressed by the
conception of microfinance as a “social investment” generating additional value via a “double
bottom line” of social impact and financial returns. Microfinance investments appeal to the
imagination of investors by promising results which other investments cannot bring, at the
same time as they appeal to investors’ appetites for financial reward. As Beckert’s work
exposes, many economic acts would not be possible without a certain element of fictionality
to allow actors to imagine the future consequences of their actions; for lack of certainty, they
must base their expectations on stories or dreams about what the future would be like if they

3 A number of funds and MFIs even refer to “triple bottom lines”, with variations on what the third one should be.
engaged in a certain act, such that some markets even represent “markets for dreams” (Lutter 2010). “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). The “imagined future” which the investor values in microfinance, at least in part, is the imagination of what a borrower may be doing with the money. The ubiquitous client success stories feed this imagination such that the ostensible successes of microfinance are almost always communicated in this story form (despite privately the genre of client stories being criticised as misleading by many in the sector). A microfinance investor cannot know with any certainty whether the activities funded by her will bring success for a borrower, but can still proceed on assumptions to imagine the miraculous effects generated with “her” tiny loans.

Very helpful, furthermore, is the portrayal of poor people as inherently financially-minded subjects. The book *Portfolios of the Poor*, authored by a team of microfinance practitioners and academics who tracked poor people’s financial lives via diaries, has emerged in recent years as the central text of the “financial inclusion” paradigm. While not addressed to popular audiences, *Portfolios* provides legitimization for microfinance experts and development policymakers to support the dominant vision of microfinance as a universally appropriate tool for poor people to master their lives. The needs of poor people are interpreted in this book exclusively as needs for finance, and as Third-World “portfolio managers”, poor people are portrayed as just as savvy and skillful as their Wall Street counterparts. Underlying the authors’ narrative is their assumption that, in any given situation, individuals are guided by the cognitive framework of the purest *homo oeconomicus*: the free investor, such that *Portfolios* interpreted every financial decision inscribed in the subjects’ diaries as rational and optimal. A central claim in the book is that the poor need loans for almost everything, not just entrepreneurship, so MFIs should feed their ubiquitous credit needs. Using a microloan at 36 per cent 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 per cent relative to any less-poor person was not seen as an issue. Yet the book’s most evident fallacy and simultaneously its weightiest contribution to the narrative of poverty as “financial exclusion” is its conclusion: “Not having enough money is bad enough. Not being able to manage whatever money you have is worse” (Collins, et al.

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4 An official endorsement even describes *Portfolios* as the “new bible” for combating global poverty – note Simmel on money and religion.
2009: 184). This 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*. In their fallacy, Collins et. al. thereby illuminate how the newer “financial inclusion” paradigm differs from the original idea of microfinance for entrepreneurship: microfinance no longer aims to increase the resources available to the poor, but merely improve the efficiency of how poor people can marshal their meagre resources.

The darker side of this narrative is visible when Grameen Bank founder and Nobel Peace Prize laureate Muhammad Yunus warns: “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). Yunus claims his variation on moneylending is poor people’s “only opportunity to break out of poverty”. Rather than questioning the lack of options open to poor people in Bangladesh (and elsewhere), Yunus and his followers suggest that if the poor fail to take a loan and employ it usefully, it is *their failure*, so they have effectively revoked their right to a more dignified existence. If we take another example from Yunus’ repertoire, the normative content of financialisation, which often remains hidden even in political economy analyses, becomes very clear: Yunus calls the present system, in which banks lend to wealthy people but not to the poor, “financial apartheid” (Yunus 2011), a problem definition which paints the most extreme picture. Luckily there is an easy solution-narrative, of course, which mobilises the audience: give loans to the poor, so they can be financially included, and even *apartheid* will be overcome.

Thus, we see how the expansion of the financial system of microfinance has hinged on positive mobilising narratives, which present poverty as a problem of finance, and microfinance as a superior solution than charity or other redistributive alternatives. These narratives draw on the imagination of capital-providers to re-align roles and identities, and advance financial market expansion by providing additional appeal to investments (even if they are premised primarily on financial returns). Furthermore, they present poor people as financially hyper-rational subjects, more urgently in need of financial services than they are of 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 route from poverty. Whether there is any truth to these narratives of empowerment through debt, or whether their effects may actually be disempowering, is the subject of the following two sections.
4. Financialised governmentality

The transformation of poverty into the basis for a credit relationship between capital-owners and borrowers via mobilising narratives is not the only dimension in which microfinance is an element of financialisation. We find two broad categories of effects which can roughly be described as “political” and “economic”, and turn to the political first. Microfinance has been deeply involved with programmes of neoliberal restructuring, but there is also a more insidious dimension of its effects, which may be even more important: the governmentality produced by microfinance.

Heloise Weber has pointed out since the turn of the millennium how microcredit politically serves to facilitate the expansion, liberalisation and transnationalisation of the financial sectors of low-income countries. Weber (2002: 541) outlines that, “as a financially steered targeted poverty reduction strategy, microcredit, via its implications for policy, facilitates financial sector liberalisation as well as extending the policy of trade in financial services to the local level”. Weber points out how “[s]ignificant progress has been made on the liberalisation of the financial sectors of developing countries [through the] contribution of microcredit conducive policy adjustments towards this outcome” (Weber 2002: 550-551). Understanding the rise of finance including microfinance as a form of neoliberal crisis management, Weber argues: “The implementation of microcredit programmes can be advanced in ways so as to generate implications for financial sector policy restructuring conducive to efforts to advance financial sector liberalisation.” (Weber 2004: 360) Hence, microfinance was integrated into Structural Adjustment Plans since the 1980s together with aims of reforming financial sectors and easing capital flows; since MFI s required capital infusions from abroad, capital accounts needed to be liberalised. Furthermore, neoliberal economic policies and austerity translated into more poverty-push activity in the informal sector, which in turn needed be “supported” by microcredit. Microcredit thus served and continues to serve as a powerful political tool in programmes of neoliberal economic reform.

The concept of *gouvernementalité*, developed by Michel Foucault, however, offers us a much broader view onto the politics of microfinance, as part of technologies of power both within the traditional realm of state sovereignty and beyond. Governmentality is 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). Particularly under neoliberalism, states and supranational bodies – far from simply losing power to the market or civil society – tend to evolve more indirect techniques with which to control and direct individual behaviour without simultaneously having to take responsibility for welfare.

Finance – microfinance – has an eminent role to play in this process through its transmission of financial market discipline. Emphasising the need to direct capital to the poor for their own sake, the microfinance sector was restructured deliberately by organisations like CGAP to become a more disciplined business, in order to appeal to market capital.

Although microfinance has pursued a certain style of financialization from the outset in its commitment to deepening connections between the very poor and mainstream circuits of capital, 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 story of Mexico’s largest MFI, Compartamos, which charges interest rates up to 195 per cent annual interest (Roodman 2011), and has generated high returns and successfully issued its shares on the stock market, is a prime example of such processes of financialisation in microfinance.

The IPO consummates a particular kind of financialization in which high rates are designed primarily not to finance expansion but to constitute microfinance as a financial object itself, an object capable of generating and sustaining forms of financial profit and accumulation. […] The process of financialization establishes the logic of financial assessment as an inherent element of how microfinance is made governable. (Aitken 2010: 234-235)

Compartamos’ accession to the stock market, Aitken infers, signalled the arrival of “fringe credit” as part of “globalized financial flows” (Aitken 2010: 224), drawing the poor and their lenders into the governance, viz. governmentality, of the transnational financial market. The deeper interpenetration of microfinance with mainstream financial circuits, however, has created massive potential for conflicts of interest, even in the view of many

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5 Fringe credit refers to the organisations lending to poor and marginal customers, traditionally shunned by mainstream financial systems.
proponents of microfinance, between profitability and social aims (Dowla forthc.). This 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). In the old world of microfinance, a harmonious convergence of interests was always assumed between the former and the latter; but in the financialised world of microfinance simply the businesslike fact that borrowers access loans at rates which satisfy financial investors is taken as sufficient evidence of microfinance fulfilling its purpose, namely granting them access to financial services. Borrowers are expected to express their preferences only by “voting with their feet”, making their needs legible in the financial metrics of demand (for credit) and on-time repayment. Microfinance actors, who communicate with their clients through financial channels, even see MFIs’ balance sheets as the only real 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)

For Young (2010: 607), drawing on critical geopolitics, microfinance has thus strategically repositioned places and people “in relation to the perceived opportunities or risks they present to global capital flows”. Young understands financial flows and the associated practices of accounting, rating and benchmarking as “geopolitical technologies” which work to structure development pathways at the macro level, as well as social roles and identities at the micro level; not just for borrowers. For instance, in India microfinance created new gendered job opportunities for loan officers, which were

predominantly taken up by young, middle-class/caste men because of perceptions about their natural abilities to be mobile, to adapt to new technologies, and to embody the kind of ‘fiscal responsibility’ that is sought in their clients. Their mobility is linked to new forms of cultural assertion, as many of these young men see themselves as financial entrepreneurs, connecting remote villages to global capital flows. (Young 2010: 608)
By interviewing and accompanying staff at all levels in the “chain of microfinance” in Andhra Pradesh, Young offers an illustrative account of the micro-processes and hard work underlying the credit relations between MFIs and borrowers:

I accompanied field officers […]. They would arrive at the branch offices at around 6:30 in the morning and leave to visit villages soon afterwards. Meetings followed a strict regime. A group of around twenty clients would gather together and sit in a circle and the meeting would open with an oath said by the women in which they promised to use the money for the benefit of their families and make their repayments on time. The field officer would then collect the week’s repayments and, if all the groups paid their full instalments, new loans would be dispensed and credit needs discussed. […] The afternoons would be spent transferring the data from the day’s business onto a computer at the branch office. From there it was e-mailed to the Head Office, thereby providing the hard data that would later be used to attract new investments. In the early evening, new villages were visited and surveys conducted, in which the quality of housing and small enterprise potential was assessed. (Young 2010: 617-618)

Thus, from the ground up, 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 with borrowers, based on observation, standardisation, discipline, and communication of results through financial metrics. The improving financial discipline of MFIs and borrowers over the history of microfinance (most markets began with higher default rates, which came down over time) is in fact attributed to precisely this integration of microfinance with organised financial markets. Rhyne and Busch consequently highlight the central role of investor *sophistiqué* at 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). In microfinance operations we can thus observe a financial governmentality wherein the MFI operates as a veritable “panopticon” of economic activity (Foucault 1975).

The extent to which the resulting discipline and control radiate outward in the relationship with borrowers is related by Young, who observed tactics and strategies adopted by loan officers to ensure borrowers’ behaviour remained in line with the imperatives of the
transnational financial linkage they were in. Women, above all married women, were targeted particularly because of their lack of mobility (easier to enforce repayment), as were borrowers with “business plans” which would keep them based in the village, such as holding buffaloes or operating sewing machines or corner stores. These activities are easier to monitor for the bank, but incidentally are relatively low value-added, low-growth, traditional lines of work; women generally stuck to socially-sanctioned “women’s work”.

Despite their free contracting market appeal, client relationships in microfinance remain fundamentally predicated on a – usually implicit, but when necessary, explicit – regime of monitoring and discipline. The discipline and diligence aimed for at headquarters feeds down literally to the borrower level as a financial governmentality mediated through the (mostly transnationally-organised) credit relation. 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 expected under the mobilising narratives. Adapting 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), required of borrowers to respond with some perilous coping tactics: mainly, accessing extra 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 risks as well as some 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 borrowers clearly appropriated precisely the financial rationales of those capital flows by using microloans to become moneylenders themselves.6

Other evidence of the financialised governmentality feeding down through the credit system also, inadvertently, was discovered by researchers seeking to prove microfinance’s positive impact. One major study by American economists in Hyderabad, India, 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

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6 Microfinance may thus even be understood as a tool to create a special cognitive condition, an *habitus* (cf. Bourdieu 1997), with certain skills and dispositions adapted to financialised social relations through which some people came to really perform their roles as Third-world “portfolio managers” (Collins, et al. 2009), albeit as new microfinance-enabled loan sharks.
consumed outside the home – in those slums in which new MFI branches had opened. The authors of the study interpreted this as “success” in creating more entrepreneurial attitudes. They concluded 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). It is worth noting that, according to the study’s authors, the households they observed were all “quite poor in absolute terms” (Banerjee, et al. 2010: 25). Thus, by whatever mechanisms – “allowing” them to reduce spending that they “would like to reduce”, or rather forcing them to cut back on extremely minor luxuries – the deployment of transnational financial flows into their slums had showed a measurable disciplining effect in getting the poor to tighten their belts in order to service their loans. Unsurprisingly, other impact studies have shown decreased happiness levels among borrowers (Karlan/Zinman 2009).

In sum, we may reconstructing an archetypical cascade of governmentality in microfinance. It would be impossible to name all the disciplining devices, but here are the key ones. Discipline emanates downward from mainstream financial markets, for instance through a Deutsche Bank investment fund buying shares in an MFI, or a US pension fund buying a portfolio of collateralised microloans from Citibank; both demand regular cashflows from their investment. This regularity is then instilled within the MFI through standardized accounting schemes and real-time management information systems which inform head offices quickly (often on the same day) if borrowers’ repayment rates in a certain rural district have deteriorated, allowing management to intervene. Loans are usually repaid weekly and the performance of individual branch offices is heavily monitored. Loan officers, in turn, receive a large share (sometimes even the bulk) of their wage as variable “performance-based” bonuses, which depend on their success at enforcing on-time payment (McKim/Hughart 2005). If just one borrower is late with repayment, loan officers usually will deploy immediate sanctions individually or against the entire borrower group.

The most famous disciplining device of microfinance, finally, of course is the so-called “social collateral” used in the group lending model, which literally employs neighbours and acquaintances for doing the observation and disciplining for the MFI. Unsurprisingly, it is often the members of the so called “solidarity group” who harass other borrowers and perform the notorious “house-breaking” as punishment (Karim 2011) – or worse, like kidnapping children (Times of India 2010). Fundamentally, 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
they have ever owned. The fact that this social capital cannot be monetised by a bank like regular collateral in no way diminishes the punitive effect of its confiscation, to which shame must be added (Karim 2011). The effective repossesson of a poor person’s social relations can be an existential threat to life and limb, when those people who normally offer support in hard times refuse to do so because of an unpaid debt, or even turn against the debtor.

Yet despite these explicit disciplining devices, the power deployed in these credit relations must be understood as governmentality exerted through “technologies of the self” by “disciplinary individuals”. This is because, at each stage, if the active techniques have to be used, it is only because the individuals involved have failed to discipline themselves enough; the business (or business-as-usual) of microfinance is built on self-discipline. The best way for a debtor to avoid “house breaking” or harassment is to always repay her loans on time, even if it necessitates going to moneylenders, or becoming a moneylender herself, or adjusting the rhythm of her life, her family’s nutrition, and so on, to the loan repayment schedule. In turn, loan officers cannot afford to be negligent and not visit a village on schedule; branch office heads must monitor their own balances closely; and so on. Through the deployment of this financialised governmentality, MFIs ultimately obtain their famous 95 to 98 per cent repayment rates (Grameen Foundation 2013); not by regularly “disciplining” and “punishing” borrowers, but by regularly not having to do so.

5. Financialised material relations

While the previous analysis focused on what may be termed the realms of culture, identities, ideas and power, we still must note that microfinance’s financialisation also shows discernibly “economic” effects. It is important to consider poverty’s constitution as a material phenomenon, which the introduction of microfinance can re-shape. Thus we advance the thesis in this section that microfinance serves to financialise the material relations between rich and poor, re-shaping relations of poverty with finance. Then, “financial inclusion”, the presently-proclaimed aim of microfinance, and microfinance, the instrument for achieving the aim, acquires a wholly new meaning: “including” poor people in the financial market microfinance turns the poverty of the poor into an investable asset for the rich. The result which we can demonstrate, is the extraction of substantial amounts of surplus value into the
financial system. This allegation is not far-fetched considering that some voices close to the actual practices of microfinance paint such a devastating picture:

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)

This statement points towards a debate in industrial sociology on the causes and consequences of an increasing flexibilisation and individualisation of labour. Researchers in the 1990s noted a marked decline in the hitherto-normal employer-employee relationship premised on fixed wages which were determined in processes of collective bargaining, in which the onus of extracting labour power from the employee fell on the employer (cf. Braverman 2003). Referring to such changing modes of labour organisation in highly-developed capitalist economies, Voß and Pongratz (1998) theorised the emergence of Arbeitskraftunternehmer – translated as “entreployees”, literally meaning “labour power entrepreneurs” – as a new rising archetype of labourer characterised by “self-control”, “self-commercialisation” and “self-rationalisation”, seeking constantly to enhance and commodify her or his own capabilities and potentials more effectively, while threatened with a precarious economic and social situation.

One way to conceive of microfinance’s interaction with the poor is thus to view it as an extension of this model to the developing world and into the “informal sector” (viz. the market-based survival activities done by poor people) as well as subsistence agriculture, which have long existed as catchment basins for surplus labour, but had remained effectively separated 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

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7 The production of surplus value, following Marx, being a “quantitative aspect” of the production process, which is the production of value beyond the amount necessary to sustain the labourer and the labour process itself. (Marx 1970 [1867]-a: Pt. III Ch. 7)

8 Malcolm Harper was co-founder the erstwhile leading Indian MFI BASIX.
potentials in the most effective way possible (hence the recurrent themes of hard work and creativity in microfinance client stories). But why should such a system be better than employing the poor? After all, it forgoes productive economies of scale possible via regular employment contracts in Taylorist settings; but the entrepreneur relationship broadly shows three notable advantages for capitalists. First, it necessitates no entrepreneurship on the capitalist’s side; it allows the rentier type of accumulation because actual entrepreneurship is outsourced to the labourer, and borrowers even self-select the most viable routes for surplus-creation available to them. Second, it avoids many fixed costs, as microloans usually run for 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 to others, since a borrower must repay the loan regardless of whether its productive usage generated a 200 per cent return or a total loss. Microloans newly make such entreployee relationships possible even with people living in the slums and villages of the Global South – an astonishing feat.

Turning to the “nuts and bolts” of the material relation built by microfinance: Marx noted how money was first of all a unit of account (of social power), and only secondarily it fulfilled the function of means of exchange (Marx 1973 [1858]: 140-193). For the giver and the receiver of money, money is the “absolute means” (Simmel 2004) with which to claim commodities and services from society. Since money is the universal form of payment for labour power in modern societies as well as in most contemporary situations of depersonalised exchange in developing countries, the need for people to have money serves to render their labour power governable to an extent. Money being, in this sense, power, and money-based exchange relationships compelling people to work, is hardly a novel insight, but a simple truth of living under capitalism. What must be pointed out, however, is that in a money economy people do not necessarily need to own money in order to engage in exchange, but at the very least control some money so they can claim what they need for their nourishment, social reproduction, etc. People with no prior control over money are presented with essentially two legal, market-based, options9 of acquiring such claims against society: first, selling their labour power now for money, or second, borrowing money to repay it later with their labour power. Selling labour power now binds the seller for an agreed time, in which she makes her labour power available; but credit or debt, the promise of future payment, binds the seller over a later period of time. A contract of credit or debt (as in microfinance) thus is a contractual relation which endures over time in the form of an exchange of money (claims) now for money plus a surplus (larger claims; interest) later. Any

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9 A qualifier excluding inheritance, redistribution within the household, robbery, deception, and begging.
uncertainty about the borrower’s future capacity to deliver such labour, or a lender’s capacity to enforce repayment, or the urgency of the borrower’s need, can be differentially priced into this contract through the interest rate. What fundamentally remains the same in any such contract is the requirement of the borrower to perform labour (or get others do so for him, as with micro-moneylenders) to be able pay for the borrowed claim in the future.

People who enter into this economic relationship as borrowers enter into it for diverse reasons. Sometimes it is opportunity. However, in microfinance there is also often the structural cause of simply lacking money. To illustrate with 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 must deal with the consequences tomorrow. This indicates that neither economic “irrationality” nor a rational decision to use credit for what financial inclusion enthusiasts label “consumption smoothing” must be the case; it simply notes that under conditions of duress any temporary respite which offers a mitigation of uncertainty, even if in the form of a loan which brings unclear or even punitive longer-term consequences, would appear beneficial. And if microfinance investors grapple with uncertain futures through their imaginations (Beckert 2011), then borrowers clearly must engage in the same acts, if not more, such that a short-term uncertainly – for instance, how to feed the family next week – will be traded off for a longer-term one, which can be imagined as a better future. Thus, opportunity and free choice notwithstanding, we must consider that the life realities of poor people (often living in slums or engaging in marginal agriculture) are structured in such a way that they are likely to develop a need for credit. This offers a better explanation for demand than some irrational desire or “addiction” to credit, as some suggest (Mahajan, cited in Burke 2011), or as an entrepreneurial/portfolio-rational choice, as microfinance enthusiasts suggest.

Finally, however, for microfinance to be viable as a durable financial market investment – to be a sustainable means of capital accumulation – a market of microfinance must remain in existence even after successive loan cycles are concluded; an observation which has potentially far-reaching consequences. Microfinance theory in fact even recognises that the assurance of being “here to stay” is an essential element of the business model since, in the absence of collateral, the promise of a future loan is a key factor in ensuring clients’ repayment (an argument neglecting social pressure of course). Assuming microfinance

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10 As for instance an Indian microfinance 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)

11 Therefore microfinance publications often use the word “sustainable” to refer to profitable operations, the idea being that only operations which extract a profit can be sustained in the absence of donor funding. CGAP’s
actors were one day able to proclaim “mission accomplished, poverty eradicated”, or to cease issuing loans for whatever other reason, their last loan cycle would hardly be repaid; which would represent a loss of capital. In this sense, the microfinance sector even (involuntarily and unconsciously) recognises its own dependence on the re-production of poverty in each cycle. We make no argument here that this is deliberately achieved, or even that microfinance even is to blame for the persistence of poverty, but this much is clear: if microenterprises regularly “graduated” to sizes at which the formal banking sector is willing to serve them, or if households were eventually able to make ends meet without debt, they would hardly continue to pay the high interest rates on loans with short terms which make microfinance an attractive business. Given the persistent lack of positive evidence from quantitative impact assessments, it appears that the economic success of the microfinance sector indeed rests on a persistence, rather than an amelioration, of poverty.

Understanding microfinance in this way as a financial system fundamentally built on a material relation between owners of capital and borrowers, albeit not necessarily voluntarily from the borrower’s perspective, we can speak of poverty itself as being financialised, in that can make one person’s poverty the basis for surplus accumulation by another, via finance. Through the credit relation, microfinance can turn those activities via which the poor manage their poverty, surviving day by day, into an asset which investors can accumulate on their portfolios. The relations of poverty are (partly) reconstituted as financial ones. Proponents of the microfinance business nonetheless proceed on the assumption that in the microfinance contract the interests of debtors and creditors are aligned: willing borrowers, who can improve their lives and experience empowerment through debt, harmonise with the social or financial motivations of capital providers. As have shown here, these interests are in fact not aligned, since debtors must pay their creditors with their labour power which is extracted into the financial system as surplus value – at no measurable benefit for the debtor.

Yet, having shown this principle, the question remains to what extent this surplus extraction via microfinance is actually taking place in practice. Is it considerable, relevant? Thanks to the availability of some useful data, it is possible to calculate an estimate of the actual surplus extraction through microfinance. In its role of collecting and disseminating investor-oriented information, the “Microfinance Information Exchange” MIX Market provides indicators of MFIs’ financial performance worldwide. In 2010, out of a total of 1179 MFIs reporting the amount of loans (Gross Loan Portfolio), 1052 also reported their “Yield on definition of sustainability is explicit: “Is the microfinance industry financially sustainable – is it profitable after making adjustments for subsidies not likely to continue in the future?” (CGAP 2012)
Gross Loan Portfolio” to MIX Market. This “Yield” is routinely used as a proxy for effective interest rates; it is an estimate of the gross margin, or more precisely the total income earned over a period divided by the average portfolio over the same period.\textsuperscript{12} MIX Market thus offers the best data available for the actual money taken in by the global microfinance industry.

Let us calculate the amount extracted by microfinance using the Yield figures for 2010, the last year for which reliable data was available. The MFIs which reported their Yield in 2010 accounted for US $ 54.4 billion (1052 MFIs), or 73.9 per cent, of the global total loan portfolio of US $ 73.6 billion (1179 MFIs).\textsuperscript{13} The mean yield these MFIs reported, weighted by the sizes of their loan portfolios, was 26.6 per cent; a figure which is congruent with the average interest rate reported by Rosenberg, Gonzalez and Narain (2009) of CGAP for a dataset of 175 “sustainable” MFIs, namely 28.2 per cent, and therefore we may take it to be representative. Proceeding with the 26.6 per cent average yield figure, and assuming the yield of those MFIs which did not report to MIX Market to be the same, we assign this value to the gross loan portfolio of all MFIs globally using the formula

\[ \text{gross loan portfolio} \times \text{yield} = \text{surplus extraction} \]

and find that US $ 73.6 yielding 26.6 per cent produces a total of US $ 19.583 billion US dollars, as an estimate of what microfinance borrowers actually paid to the microfinance industry in 2010.

What does this figure of roughly 19.6 billion Dollars mean, conceptually? This is not the profit earned by MFIs or their investors. MFIs naturally face high costs of lending, including personnel, infrastructure, inputs and the cost of capital, which may even make their returns negative – although we know from well-publicised cases like Compartamos and SKS Microfinance that microfinance lending can be very profitable for owners and managers. Nor does the figure automatically represent a loss incurred by the poor, since the best estimate of the net effect of microfinance (after repayment) in the impact evaluation literature currently is zero (Roodman 2012). Rather, the figure tells us how much surplus value is actually extracted by the microfinance industry from its borrowers; surplus which, as we know from above, must be produced by the borrowers through some form of labour. Poor people provided each of those 19.6 billion Dollars as their price paid to their capital providers, which they would

\textsuperscript{12} It does not represent a standardised figure for interest cost like an annual percentage rate (APR), but an estimate of the money taken in by MFIs relative to what it lent out; a yield of 30 per cent, for example, simply means that for every US $ 100 lent out, $ 130 were paid back in.

\textsuperscript{13} $ 14.0 billion out of the “missing” US $ 19.2 billion for 2010 were at the Postal Savings Bank of China, PSBC, which reported its gross loan portfolio but not yield. As a commercial retail bank (Hansakul 2007: 6) and for lack of any contradicting information, the best guess of its yield would be the global average yield.
not have paid to these capital providers in the absence of microfinance. We may thus consider this figure a measure of the scope of the extraction performed in this form of financialisation; perhaps even as a measure of this financialisation’s dubious success.

US $ 19.583 then was the value of the labour performed by microfinance borrowers for the microfinance industry in 2010. What may such a figure mean? 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, worse yet the figure represents accumulation by dispossession (Harvey 2003). For comparison, the government of Greece paid “only” € 13.017 billion (US $ 16.582 billion) for servicing its debt in 2010, despite being indebted to the far larger tune of € 329.3 (US $ 419.5 billion) at the time.14 As a sovereign government, Greece paid a much lower rate of interest than microborrowers, whose total microfinance debt was only US $ 73.6 billion, illustrating just how lucrative the possible surplus extraction from microfinance lending can be compared to other options. Also, for scale, we may compare microfinance’s surplus extraction to the debt relief granted developing countries in 2005, the year of the G8 Summit at Gleneagles, which amounted to US $ 24.357 billion; a one-off relief initiative (in 2010, only US $ 3.898 billion in debt were forgiven) (OECD 2012).

US $ 19.6 billion was, however, only the surplus extraction for 2010. MIX Market data on gross loan portfolios 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) we reach a total of US $ 55.341 billion. However, estimating from this figure to include those MFIs which did not report yield, by the same procedure as above, and using the average yield 2003-2010 for the years 1996-2002, the figure rises to US $ 77.350 billion (see Figure 1). This leaves 2011; data for 2011 was largely not yet available on MIX Market, so that the best assumption for 2011 is a continuation of the stagnation between 2009 and 2010 (a stagnation probably only of statistical nature, caused by still incomplete data for 2010). Following these assumptions, then, the total value estimated as extracted via microfinance from borrowers from 1996 to 2011, was US $ 100.485 billion.15

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14 Debt service according to the Government of Greece’s budget for the year 2011 (Greek Government 2010), its poor reputation for reliable statistics notwithstanding. Gross debt figure from Eurostat (2012). Exchange rate used here is the average US $ to Euro exchange rate for 2010, € 0.785.
15 These figures to be updated before submission to a journal.
In sum, we see that microfinance, a development-intervention-cum-financial-system, constructs a new capital-labour relation which might work well for capitalists, but does not look to work very well for the poor. However, we have certainty that it works very well for the financial industry in between these two, in the sense of high rates of extraction of surplus labour into the financial system. The number does not tell us how much money microfinance has passed on to its capital providers, but how much money has flowed into the financial system of microfinance itself, thanks to the debt/credit relation, as the estimated surplus extracted via credit in microfinance operations. Even if, net of costs like labour, funds, or infrastructure, MFIs were not earning a profit on this lending, it would still evidence the successful extraction of surplus value into the financial system.

And yet this is likely a gross underestimate, as the assumptions are conservative. Portfolio yield is just a proxy for actual interest income; actual interest rates are higher, since Yield is net of defaults and late payments. Yield also fails to consider the effects of savings and some non-interest fees; savings can have a huge impact on the cost of capital, given the widespread practice of forced savings as a form of collateral – such that interest is paid, for instance, on $100, while only $90 are disbursed to the client with $10 kept by the MFI as...
“savings”. Another factor leading to underestimation is portfolio growth, which is highly relevant given microfinance’s exponential growth over past years; accelerated growth over the course of any one year means that the average of beginning and end is too high, making the yield look lower than it actually was. A further factor is that MIX Market data is voluntarily self-reported by MFIs with no systematic quality checks, and MFIs may accidentally or deliberately under-report to MIX Market for a number of reasons. A high yield as an indication of profitability could attract investors, but most investors ultimately seek efficient usage of their capital in earning profits; thus reporting yield lower than it actually is would create the semblance of a more efficient operation with more outlook for profitability. Furthermore, some negative attention given to high-interest MFIs in recent years (see for instance Rosenberg 2007; MacFarquhar 2010) may cause MFIs to deliberately under-report on publicly accessible databases like MIX Market, or not report their Yield at all; the “missing” 127 MFIs for 2010 may have higher than average Yield. Finally, given the drop in average Yield from 32 to 26.6 per cent over the known period, to have assumed Yield at “only” 27.2 per cent in the period before (the dashed line in the diagram, as opposed to the thinner, falling line) could be a cause of under-estimation as well. CGAP has documented (with pride) the falling tendency of interest rates over time (Rosenberg/Gonzalez/Narain 2009), so actual Yield was likely higher in the previous period than assumed.

6. Conclusion

This paper has discussed microfinance as an element of financialisation, which has proceeded thanks to positive mobilising narratives to construct a system of credit relations which produce a financialised governmentality and financialised material relations. As we saw in section 3, the transnational financial system of microfinance has been anchored in the public mind through narratives of empowerment thanks to credit. Poverty is presented as a problem of finance, and microfinance portrayed as superior to any redistributive alternatives, building on an understanding of poor people as rational, financially-minded subjects whose only realistic escape route from poverty is the management of finance. Section 4 highlighted the “political” effects of microfinance, briefly discussing its functions as a policy tool for neoliberal agendas, then turning to its effect of producing a governmentality which builds financial market discipline. Microfinance, we saw, deploys various techniques to create what we analysed as a veritable cascade of observation and discipline, emanating down from mainstream financial circuits into the daily lives of borrowers, producing disciplinary
individuals who should employ technologies of the self to ensure regularity in capital flows. Finally, section 5 argued that microfinance serves to financialise the material relations between rich and poor, re-shaping relations of poverty with finance by “including” self-administering labour into the capital accumulation process; however, as we saw, this inclusion is not necessarily built on voluntary contracting (from the borrower’s perspective) and may be driven by sheer need. The result, as we showed using a global microfinance dataset, is a substantial extraction of surplus labour from microfinance borrowers into the financial system, estimated at (at least) just under US $ 20 billion in 2010.

By developing the means for channelling significant amounts of capital directly to people without collateral or assets at the bottom of the global income distribution (means which include group lending, social collateral, standardisation and computerisation of disbursement, rating of MFIs, securitisation of microfinance portfolios, etc.) the microfinance sector is building new capital-labour relationships – relationships which from the perspective of capital providers are doubly attractive: socially and financially. The continuous rapid growth of the global microfinance loan portfolio – at rates between 27 and 42 per cent each year from 2002 to 2009 (Mixmarket 2009) – demonstrates both this efficacy and the continuing demand for such loan capital. It indicates that this relationship works well for capital-owners and can be expected to be fairly durable.

Some readers may object that we have focused in this paper only on the effects of the lending side of microfinance (microcredit), without discussing other elements of the microfinance industry, such as savings or insurance. This focus is justified and necessary. Credit is the essential element of the microfinance business model, and remains by and large its only profitable part. Microinsurance simply is utterly marginal (Kiviat 2009; De Bock/Gelade 2012), while savings are comparatively minor. Of 1,241 MFIs reporting to MIX Market in 2010, 555 reported no client savings deposits at all, while another 212 held less than 1 US $ million. Yet 1,231 reported that they were lending, and 999 of these lent more than US $ 1 million. More than 20 per cent of all global microsavings were at a single state-owned development bank, BRI, in Indonesia. Furthermore, when MFIs do offer savings, these are often linked to credit products, with collections of savings done simultaneously to loan repayments. Or they are even just forced savings; simply a part of the loan not disbursed, held as collateral but officially registered as savings. The interest paid to clients is low, often even negative (Dupas/Robinson 2011), such that in sum it seems most improbable that any benefits from microsavings or microinsurance would significantly affect the findings above.
From the case of microfinance we can deduce some fundamental observations about how successful surplus extraction works in financial systems. Microfinance serves as a key case for studying the issue, simply because it embodies more clearly than other financial systems (or sub-systems) the class dimension which is present in all finance but, usually rather opaque. In microfinance, the credit relations clearly run literally directly from some of the world’s richest people (Bill Gates) to borrowers who live in absolute poverty in the Global South. But there is another reason to understand microfinance as a key case: few aspects of finance have engendered such high hopes for creating a better world, and evoked such a strongly positive moral discourse, as microfinance. If even microfinance, which has come to represent the ostensible “good” side of finance, produces such fundamentally dis-empowering effects for its clients as heightened discipline and the extraction of their hard-earned labour, what does this spell for “regular” finance?

If financialisation is a process in which the frontier of financial accumulation expands into new realms, based on changes in politics, economics, social relations, and culture – as we have understood it here, building on the prior literature – then financialisation is the process of creating new financial relations which allow the surplus extraction from owners of labour power into financial systems. Likely, whether in microfinance or in other financial sub-systems, these relations will also channel at least some of the surplus labour further onward to the actual owners of capital, indicating that the rise of financial markets is indeed directly culpable for part of the vast growth of the income shares of “the 1 per cent”. However, more fundamentally, our study of microfinance shows how surplus value can successfully be brought into the financial system even from the world’s poorest people with the right technologies, and be accumulated in that system. The vast growth of the overall financial system which the financialisation literature has diagnosed thereby at least partly represents an expansion of the surplus paid by labour to the financial system.

We also see in microfinance how financialisation and financial systems can foster a flexibilisation and individualisation of accumulation, in line with neoliberal visions of perfect markets, by permitting certain forms of surplus extraction directly from individuals who self-exploit in the interest of rentier capitalists. The resultant impact on social relations, which we have understood here in terms of a governmentality operating for the benefit of financial markets, can have far reaching effects which are beginning to show adverse political consequences for democracy (Streeck 2013). However, already Marx 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” (Marx 1970 [1867]-b Pt. VI Ch. 47). What remains striking nonetheless in this analysis of microfinance is the extent to which its expansion has been built on the highest hopes for it solving social problems, couched in terms like “financial democracy” or “financial inclusion”; these hopes for solving social problems with finance may be seen as continuing through today with expectations for instance of being able to address the economic woes of European countries by more debt channeled through financial institutions. Our study of microfinance shows that it is possible and indeed necessary to peer behind the neutral, and sometimes even upbeat, veil of financial systems to reveal the concealed mechanisms by which they can produce disempowering and regressive results.

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