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Philip Mader

Financialisation through Microfinance: Credit Relations and Market Building

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Financialisation through Microfinance: Credit Relations and Market Building

Philip Mader[1]

ABSTRACT: *Microfinance does not reduce poverty, but it successfully constructs economic relations between owners of capital and borrowers of capital, which allow surplus accumulation through finance to occur. It does so by drawing on the agency of financialised civil society actors who facilitate financialisation through microfinance. Five distinct approaches to financialisation are highlighted, each focused on a different facet. It is shown that money and credit are not unproblematic neutral intermediaries, but possess complex social meanings of their own which allow microfinance to be associated with profound social transformations. However, these transformations are not of the kind usually theorised, but rather they are the establishment of credit-based linkages between owners and borrowers of capital which allow surplus accumulation to take place via the credit relation. Underlying this material relationship there is also a level at which financialisation motivates and pressures civil society actors to bring microfinance to the poor. By becoming financialised agents themselves, civil society organisations act as conduits for an expansion of financial markets and the construction of new market relations for other goods. A case study of microfinance for water and sanitation access in India shows in detail how this construction of markets via civil society works in practice.*

> "Credit is a human right that should be treated as a human right. If credit can be accepted as a human right, then all other human rights will be easier to establish." (Yunus 2011)
> "The financialization of microfinance is a relatively small event in the context of a larger world of global finance dominated by foreign exchange markets and the global markets for derivatives. Its symbolic importance, however, is striking." (Aitken 2010)

Introduction

Microfinance has held immense appeal for the public imagination as well as for providers of finance by offering a way to ostensibly help poor people escape poverty through the provision of finance on a for-profit basis – a thoroughly financialised notion of "development". Microfinance has been inextricably linked with the process of

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financialisation. Only in a financialised world can slogans like „Finance For All"[2] or Muhammad Yunus' insistence that "credit is a human right"[3] appear to make any sense.
Asia accounts for nearly half (47.7 per cent) of the global microfinance portfolio. "Microfinance" refers to the industry of formal financial institutions which extend a range of services including credit, savings and insurance to people below or near the poverty line; an industry in which – recent discursive shifts towards an encompassing programme of "financial inclusion" notwithstanding – credit remains the vastly dominant pursuit. It has grown from a niche activity conducted mainly by NGOs in the 1980s into a highly profitable and significant global industry, whose loan portfolio presently surpasses half of the world's total aid.[4]

The question asked in this paper is not "does microfinance work?" – a question for which negative results already abound (Bateman 2010; Karlan; Zinman 2009; Banerjee et al. 2009; Duvendack et al. 2011; Hulme 2007) – but rather: *what* does microfinance work *at*? and: *how* does it work? In this sense, the findings in this paper represent a counterpart to Roodman (2012), who suggests that microfinance should be seen as working if we consider its sheer *existence* a success; his suggestion being to evaluate "development as institution building". The answers proposed here are twofold. First, microfinance – while according to the best evidence doing nothing to reduce material poverty – succeeds at constructing a credit-based economic relation between owners and borrowers of capital, which allows accumulation to occur. Second, it does so by drawing on the agency of civil society actors who facilitate financialisation through microfinance.

The first section highlights five distinct approaches to financialisation. The paper then explores the meanings of money and credit, which are found to be *not* simply unproblematic economic intermediaries, but economic relations rife with contradictions and social meanings. The following section applies these insights to argue that microfinance produces credit relations between owners of capital and borrowers of capital, allowing the former to accumulate a surplus on basis of the labour of the latter. However, *underlying* this material relationship, as the final section shows, there is also an ideological or ideational level of financialisation which motivates and pressurises civil society actors to bring microfinance to the poor. They thereby act as conduits for an expansion of financial markets and for the construction of new market relations. A case study of microfinance for water and sanitation access in India shows in detail how this construction of markets via microfinance and civil society works in practice, and how this market building process even extends outwards into markets for means of social reproduction.

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[2] Title of the Frankfurt School of Finance and Management's business magazine's latest issue (Werner 2012).

[3] Or even, following Yunus, a more fundamental right than others. But just how problematic this notion is, does not seem to occur to Yunus or most microfinance enthusiasts, for as Thomas Dichter has cogently pointed out in the award-winning documentary *The Micro Debt*: "Muhammad Yunus said that credit is a Human Right; but he never said that debt is a Human Right" (Heinemann 2010).

[4] The four largest donors posted a development assistance budget of 63,230 million USD in 2009, contributing more than half of all DAC-registered foreign aid (OECD 2010). These budgets furthermore partially include an unknown amount of government and multilateral support for microfinance programmes, registered as aid.

Approaches to financialisation

Alongside the sea-changes of neoliberalism and globalisation, a third defining feature of capitalist development since the 1970s has been financialisation (Epstein 2005; Foster 2007). *Neoliberalism* refers to the revival (and mutation) of the liberal school of thought driving socio-economic change as a political programme as well as an ideological framework for the deliberate and active construction, expansion and deepening of markets, strong property rights, "free" markets and "free" trade (Harvey 2005). *Globalisation* is a geographical concept, expanded to connote an assortment of political and economic implications of an increasingly de-localised economic and political order, which has proven appealing as a descriptor of – but less effective as a causal explanation for – recent changes in capitalism; and a problematic conception, since most economic interactions as well as governance institutions in practice remain anything but global, and instead may best be understood as transnational (Djelic; Quack 2010). *Financialisation* is the youngest in the triad of conceptions for the "disembedded" liberal-market capitalism which followed the "embedded" postwar era (Ruggie 1982). It is, however, also the only explicitly economic concept – albeit one with strong political and social implications – which makes it particularly useful for an understanding of the *material* transformations which have taken place.

Observations on the political and economic significance of "finance capital" and the rentier class go back to the early 20th century with authors such as Hilferding, Lenin, Kalecki and Keynes analysing an earlier period of financial proliferation which came to an end in the 1920s and 1930s. The more recent period of resurgent finance was first noticed by authors from the late 1970s onward, such as Gramm (1978: 309), who recognised the expansion of credit as an "alternative to increased wages" for demand-stimulation, or Magdoff and Sweezy (1987: 149), who described a "casino economy" on which production was increasingly becoming dependent. Recent analyses have developed progressively more fine-grained empirical and theoretical explanations, which may be understood as constituting five[5] broadly different approaches to financialisation, each emphasising different *facets* of the whole. Although broad definitions like Epstein's (2005: 3) – financialisation as "the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies" – are useful, financialisation remains a multidimensional development evading any one clear-cut definition. It is useful therefore to isolate and explore separately the different analyses in a brief literature review.

Financialisation as rising rentier incomes.

[5] Other authors have categorised and grouped the literature differently. The works of different authors will be grouped here not by the affiliations or convictions of their authors, but by their shared *objects* of interest. The approaches are neither mutually exclusive (they are overlapping and mutually reinforcing), nor have many authors focused on one or another approach exclusively (most show a strong awareness for the multidimensionality of financialisation). Nevertheless, to highlight the key dimensions of financialisation systematically, it is best to distinguish as clearly as possible between the different foci.

The political shifts of financial deregulation, monetarism and fiscal austerity since the 1970s have substantially increased the rentiers' share of economic output, "the income received by owners of financial firms, plus the return to holders of financial assets generally" (Epstein; Jayadev 2005: 49). For instance, in the United Kingdom, the inflation-adjusted rentier portion increased approximately 90-fold from the 1960s to the 1990s (Epstein; Jayadev 2005: 56). Since the "rentier class" is an active class, financialisation is effectively a cycle of the economic power of the rentier being able to shape politics, politics shaping economics in the rentier's interest, and economic outcomes once again increasing rentiers' economic power (Palley 2008). This process is often driven by financial intermediaries like investment funds which represent the interests of rentier money (owned by middle classes as well as upper classes) against workers' and entrepreneurs' demands (Deutschmann 2008a; Deutschmann 2008b). Through changes in the pricing and availability of finance and credit, financial power becomes increasingly concentrated in the hands of rentiers' agents, with the result that contradictions build up as higher returns to capital are demanded, greater amounts of debt are issued, and societies' productive and entrepreneurial base eventually erodes.

Financialisation as a new historical period

While nearly all analyses of financialisation posit a "then" vs. "now" distinction, one distinctly historical approach is shared by the *Régulation* School and Social Structures of Accumulation (SSA) theorists, who have explored the differences between the configuration of capitalism in previous periods and in the latest period. While finance playing an important role is not without historical precedents (Arrighi 1994), in the view of both schools financialisation has proven a crucial new component of the most recent institutional, regulatory and economic configuration which formed the "neoliberal" variant of capitalism (Wolfson; Kotz 2010). Technology encouraging financial innovation certainly played a supporting role, but politics and ideology were central for creating the recent rise of finance (Lipietz 1992; Boyer 2000). Supported by the neoliberal creed, the "finance-led growth regime" (Boyer 2000) of the 1990s and 2000s operated – or still operates – on principles of shareholder value, flexibilisation, inflation control, and a dogma of market supremacy. But while it fixed the problem of profitability which the post-war accumulation regime had run into, "financial hegemony" (Duménil; Lévy 2011) ultimately led into the present crisis, which both schools agree signals the beginning of an institutional re-configuration (Boyer 2010; McDonough et al. 2010).

Financialisation as coupon pool capitalism and dis-intermediated finance.

A third approach pays great attention to the *magnitude* of financial markets and the *nature* of the financial work done in them (Folkman et al. 2007: 150-162). Froud et. al. (2002: 120) propose an understanding of financialisation as "coupon pool capitalism", a type of capitalism "where the financial markets are no longer simple intermediaries

between household savers and investing firms but act dynamically to shape the behaviour of both firms and households". The "coupons" are all the different kinds of "financial paper" (primarily bonds and shares) traded in the market. They argue that it is not merely ideas and ideologies (such as shareholder value) but the coupon pool *itself* – the trading of financial paper – which creates new pressures and opportunities for households as well as corporations; with the effect, for instance, that "US managers now worry about pressures from the stock market rather than from Japanese competitors" (Froud et al. 2002: 135). In this sense, financialisation means that financial markets increasingly exert a power and follow a logic of their own. If there is a class of actors at work at all, it is the class of financial managers who seek to restructure companies and economies to match the needs and opportunities of financial investors. In a "Varieties of Capitalism" (VoC) perspective, capitalist countries may adapt to and seek to limit the impacts of financialisation on their firms and denizens, but they cannot avoid it (Engelen; Konings 2010).

Financialisation as accumulation through finance.

Another approach has been to understand financialisation as the capital accumulation process increasingly taking place *through* finance, relative to shrinking accumulation via other activities. Finance, insurance and real estate (FIRE) in the USA increased its share in national profits from 11 per cent in the 1950s to nearly 50 per cent in 2001, despite the share in employment remaining fairly stagnant between 5 and 7 per cent% (Krippner 2005). But financialisation was not a turn *away* from production as an economic activity, as many presuppose; it has been a process whereby finance increasingly becomes the precondition for production. Financialisation then is, so to speak, a shift in where the "magic" in capitalism happens: even firms solidly grounded in goods-production – whose *raison d'être* is to produce goods to earn a profit and accumulate capital – must increasingly pursue financial activities; with firms like General Electric or Ford now earning half or more of their profits via financial activities (Krippner 2011: 29).

Financialisation as a culture of finance and financial risk.

A final approach to financialisation comes predominantly from the field of cultural economy, but is not limited to that field. Rajan (2005; 2010), for instance as a macroeconomist, sees a key cause of the financial proliferation and financial instability in an increasing propensity to accept risk, believing it to be calculable and manageable; while in fact many risks are systemic and unpredictable. Technological, regulatory and institutional changes have created "financial development" in recent decades which fed a "culture of risk" (Green 2000). At the individual level, finance creates new roles and identities which are performatively enacted by normal working people and households who come to think of themselves as capitalists and risk-takers. The culture of finance and financial risk takes many forms, from everyday practices such as investing through investment clubs (Harrington 2008) or optimising credit card debts whereby individuals

engage in "the entrepreneurial and calculative management and manipulation of outstanding obligations" (Langley 2008: 141), to a belief in grand visions of a "portfolio society" (Davis 2009) or a "high-risk society" (Mandel 1996) in which the key to success is to actively embrace risk. Financialisation is thus felt as a shift in opportunities combined with a change in values and aspirations, whereby the individual becomes its own object of speculation, constantly seeking to fulfil financial opportunity in an increasingly uncertain world (Martin 2002).

The social meaning of money and credit

Financialisation is a phenomenon approached from five broad angles, each of which can lead to different conclusions about its nature and effects. Following the different approaches outlined here, financialisation may be characterised as: first, a reconfiguration of economies to benefit the rentier class; second, a key element in the latest historical period of capitalism; third, a dramatic expansion of the "coupon pool" and the dis-intermediation of finance; fourth, a shift to accumulation via financial means; and fifth, the development of a culture of finance and financial risk. Instead of privileging any particular approach, financialisation should be understood as comprising *all* of these facets at once. In fact, financialisation may best be comprehended as the sum and interplay of these different facets.

To a large extent, financialisation is thus understood in terms of distinctly material effects; transformations in the composition and functionality of the economy as a productive space. But lacking in this taxonomy of financialisation is an understanding of what credit[6] actually means; that is, the changing normative and ideological foundations of the financial markets remain underexplored. This is striking because financialisation has entailed a massive expansion of credit (or its inverse, debt) as well as qualitative changes in credit itself, and a qualitative growth in the societal importance of credit (debt). A brief foray into the different understandings of credit developed in the social sciences promises a new perspective on financialisation and microfinance. Indeed one of the greatest blind spots in microfinance has been the failure to ask about the *social meaning* of credit, which is particularly bizarre given the common assumption among microfinance proponents that small loans would profoundly transform social values, identities, and power relationships. "Empowerment", poverty reduction, entrepreneurship, and improvements in gender relations – all of which are hypothesised as microfinance outcomes (cf. Robinson 2001) – are value-laden and deeply social notions, rife with questions about power and identity.

A search for the meaning(s) of credit must begin with the meaning(s) of money, which is inextricably linked with credit, and about which far more has been written. As Dodd (1994: 154) points out, money has always been linked with notions of empowerment (like those which microfinance is now linked with) through "symbolic qualities generically linked to the ideal of unfettered empowerment" which are "the basis of the desire to possess money". Ignoring this symbolic feature "is not to merely

[6] Credit and finance, for simplicity sake, are both best understood as variants of lending (or borrowing) money.

miss a particular aspect of money. It is to be blind to money itself". But based on (as so often) a selective reading of Smith, mainstream economics has traditionally assumed money to be a neutral facilitator of exchange, devoid of any social meaning. Money is supposed to be the product of a natural progression over time, from barter to ever-more efficient forms of money exchange. Smith, it is true, understood money as a means of exchange, a tool for receiving value, but not a value in itself: "what the borrower really wants, and what the lender really supplies him with, is not the money, but the money's worth, or the goods which it can purchase" (Smith 1904: II.4.4). But he very well also noted the uncertainty inherent in money's acting as an agent for value and entitlements, and discussed how it held different meanings for different possessors (cf. Smith 1904: II.2.16). He also remarked on how money's usage could interfere with, and how it in turn could be distorted by, personal relationships.[7] Money then was not just an objective, neutral means of exchange, even for Adam Smith, but also a complicated and meaningful social relation.

For Marx, on the other hand, money represented not the means, but the *end* of the circulation process, evidenced already in the simple formula for capital circulation, M-C-M'. In *Grundrisse*, Marx even identified money as "the lord and god of the world of commodities" (Marx 1973: 221). Money clearly embodies social power in acting an "essential relation of production", a key connector of productive forces under capitalism. But it can only ever communicate the *price*, and not the *value*, of commodities, and therefore has a contradictory nature. While money equalises commodities according to their exchange values, commodities qualitatively remain very different. Money is "the universal equivalent", but it is only an *abstraction* of value realised in a symbol (cash, etc.). In a developed money economy, for Marx money is firstly a unit of account (of social power), and only second a means of exchange. Its contradictory character arises precisely from the fact that it is *not* akin to barter *because* it is a storage of social power. While on the one hand facilitating purchase and sale, money also on the other hand can drive a wedge between the two, thanks to a social power of its own. Money in capitalism, Marx concludes, is a all three: a measure (value), a medium of exchange (circulation), and an end in itself (commodity), three functions which remain contradictory to one another and which underlie key contradictions in capitalism itself.

Simmel's (2004) philosophy of money also recognised in money a conflictual, morally ambivalent (but *not* neutral) character, in that money allows individuals to perform ever more specialised functions and develop their identities in ever different ways, but also brings rational calculation into interpersonal relationships. However, money is not just an *intermediary* in the exchange of services, but also a *claim* or an

[7] For instance, Smith asks: "If your friend lent you money in your distress, ought you to lend him money in his? How much ought you to lend him? When ought you to lend him? Now, or to-morrow, or next month? And for how long a time? […] The difference between his character and yours, between his circumstances and yours, may be such, that you may be perfectly grateful, and justly refuse to lend him a halfpenny: and, on the contrary, you may be willing to lend, or even to give him ten times the sum which he lent you, and yet justly be accused of the blackest ingratitude, and of not having fulfilled the hundredth part of the obligation you lie under." (Smith 1790: III.I.121)

entitlement to the services of others. In this claiming function lies money's actual power: the power to affect the acts of others. Simmel drew attention to another extraordinary power of money, the so-called "superadditum of wealth", a value over and above the value of money as exchange medium. This "unearned increment of wealth" (Simmel 2004: 217) arises from the opportunity of choice which money offers any person who has a substantial sum, since the sheer range of spending options open to a rich man affords him greater respect and deference from others in exchange relationships (as well as often lower prices), and in social relationships in general. In such a purely *social* value of money then lies the reason for the phenomenon that money, which may once have been intended as a means, finally becomes an end in itself.

Sociological scholars have also studied such practices as the "earmarking" of money, by which seemingly uniform currency is turned into "special monies" (Zelizer 1997), and have explained how "the meaning of money derives from the way it is used in practice" which goes far beyond its use as medium of exchange (Carruthers 2010: 53). Others have argued that money is a form of *sovereignty* whose origin of power lies in the promise between the user and issuer of money, with the issuer usually referring to ("In God We Trust") or possessing some form of authority: "Money cannot be neutral; it is the most powerful of the social technologies" (Ingham 2004: 202). But this sovereignty is always contingent, since "*value* is also a direct result of struggle [, as] groups struggle to monetise their positions of power by raising their prices". Therefore, "[h]istorically, the struggle between creditors and debtors may be the most significant class struggle" (Ingham 2004: 78-82). Yet others have pointed to money's capacity to even allow *time* to be bought and sold, as borrowing and lending money permits options to be shifted into the future, or brought into the present, thereby extending the coercive or liberating facets of social relations ever deeper into time and space:

> "money combines all of these possibilities in one single medium. In this sense, money is the "absolute" medium. The only trouble with money is: one needs to have it. The poor man, who is happy when he can make ends meet with his income, gains nothing from the freedom of choice embodied in money. […] He is confronted with the negative side of money's capacity [Geldvermögen], namely debt. For him, money, transforms from a vehicle of freedom into a means of social disciplining which forces him into the sale of his labour power." (Deutschmann 2000: 305, translated)

A theory of credit more specifically has not progressed as far as that of money, remaining a fragmentary enterprise dominated by historical works. Many authors have tended to extrapolate from money to credit, considering one an extension of the other. But there are clearly essential differences between money and credit. Credit must (at least under "normal" circumstances) be repaid, while money can be spent according to its possessor's will, or simply not spent, and also does not *have* to be accepted by way of obligation. Credit therefore magnifies, or increases, the "action orientation" (*Handlungsorientierung*) which Kellermann (2006) notes is already embodied in money. Credit is stronger because of the dimension of compulsion; opening up options at the same time as it increases risk (for the lender) and obligation (for the borrower). "For, the question on every debtor's mind is: Will I have the money tomorrow which I promised today to repay? [Borrowed m]oney not only placates by opening up options,

but it also puts pressure to act inasmuch as it is an exchange drawn into the future" (Paul 2004: 178, translated).

Historical research into credit and finance has turned up dramatic differences in the way credit relations and the purposes/meanings attributed to them have been structured over time. Carruthers and Ariovich (2010) show how as an accompanier of modernisation in America, credit was transformed beginning in the 19th century from a local and personal relation between debtor and creditor into an impersonal network-type system of credit relations. Changing technologies of finance, they argue, allowed new technologies of impersonal trust to arise, which in turn allowed finance and credit to grow. By becoming practically universally tradable and exchangeable, modern credit became akin to money.

But this process was neither certain nor natural; de Goede, for instance, shows how modern credit practices grew out of a "genealogy" of "insecurities, confusion, and contingencies" (de Goede 2005: 19). They developed particularly out of a gendered discourse during the Enlightenment age, in which cash money and particularly credit, which were both regarded as particularly morally conspicuous and effeminate, first had to be "tamed" and made amenable (to man). More recently, Harrington (2008: 12) evaluates the 1990s as a period when "market populism" caused Americans to flock "to the stock market as they once flocked to lands of opportunity". Perhaps more palpably then than ever before, engagement in financial activity became a social identity marker *as much* as a vehicle for capital accumulation, so that finance served not merely, or even primarily, financial goals. "[I]nvesting together during the 1990s also meant participating in a form of social organisation that was both historically specific and status-relevant: in other words, fashionable" (Harrington 2008: 14).

Calder (1999) traces how the "personal finance" industry of the late 19th and early 20th centuries – which, much like today's microfinance industry, was founded in as an exercise in philanthropy to promote social change – became a for-profit industry: "Small-loan lenders hoped that with an advance of "'capital' and a little financial advice, some workers, at least, would be enabled to take charge of their lives and become 'capitalists' themselves. […] But what they intended never materialised. Instead of building a society of independent, thrifty, and hardworking small businessmen, personal finance companies helped to build a debt-driven consumer culture." (Calder 1999: 111-112)

Promoted to combat the "evil" of loan sharks, small loans were intended to "democratise" credit in the USA, and famous businesspeople contributed generously to lending institutions for the poor as a "semiphilanthropic investment". Thanks to the marketisation of a variety of new consumer goods, the early 20th century became a booming period for consumer finance, with the "socially-minded" small lending organisation soon giving way to the "personal finance" company. Most small lenders switched to explicitly for-profit imagery and business models, some began issuing stock to investors, and the sector gradually became commercialised. While at first there was doubt about the ethics of debt, consumers and moral opinion leaders began to finally "learn to feel good" (Calder 1999: 261) about credit when credit-financed purchases began to be associated with social rise, and when it became clear that access to credit

promoted discipline instead of wasteful hedonism. "Give a man a home mortgage, it was held, and he will work twice as hard" (Calder 1999: 252). Thus it was found that "consumer credit has actually worked to make most modern credit users at least as disciplined in their finances as the generations who lived before the credit revolution. […] The fact is, "easy credit" is really not all that easy" (Calder 1999: 301).

It can then be seen how – while money is the basis for modern credit practices, and money transports complex social meanings, contains ambiguities, conveys power, and can be differentiated and earmarked – some key factors distinguish credit from money. We see that the options opened up by, and the risks and obligations contained in credit are stronger than those in money. We also see that credit has been very strongly associated with questions of morality and social identity, and has undergone profound transformations over time.

Microfinance-constructed credit relations

The above sections gave an overview of key literature on financialisation, and discussed the social meanings of money and credit. But a certain tension is discernible, in that financialisation has focused largely on the material impacts of the financial system, while the social meaning of money and credit is discernibly more complex than the mere mediation of consumption and production. These separate analyses need not necessarily exclude one another, but in fact should be seen as layered, with a level of ideas and social meaning underlying, and potentially reinforcing, a level of concrete material relations.

In the final two sections, I draw on the insights from both previous discussions to propose an evaluation of microfinance as an expansion of credit relations (which are rife with social meaning) intrinsically and inseparably linked with financialisation. The argument is that, beyond facilitating political transformations conducive to financialisation, microfinance itself constructs a *financialised material relation* between the owners of capital and the users of capital. This allows surplus accumulation to take place through finance. I then proceed to illustrate with a case study how *financialisation through microfinance* takes place through actors in civil society which, at the level of ideas and social meanings are influenced by, and in turn engage in, transformations in the role of credit – transformations which may be read as a case of financialisation.

The functionality of microfinance in facilitating transformations consistent with the neoliberal vision has been noted since the turn of the millennium by authors like Heloise Weber (2002: 541), who argues 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". She casts the political-economic role of transnational organisations like the World Bank and the IMF, acting directly as well as through elements like CGAP[8], as imposing a global development framework aimed at creating an "enabling environment" for financial services "via the microcredit and poverty reduction agenda". This imposition

[8] Consultative Group to Assist the Poor; a multi-donor organisation founded by and housed within the World Bank

was achieved in a situation of profound crisis in the developing world. As Streeck (2011: 26) recently noted, "'the markets' have begun to dictate in unprecedented ways what presumably sovereign and democratic states may still do for their citizens and what they must refuse them"; for low-income countries this experience is much older, harking back to the "Third World Debt Crisis" of the early 1980s, in the wake of which microcredit was first instituted internationally as a development policy. Parallel to the "privatised Keynesianism" noted by Crouch (2009) in advanced capitalist economies, microfinance allowed the developmental state to retreat from responsibilities of demand management, active growth-promotion and social welfare, while deregulated financial markets would instead supply low-income people with cheaper credit.

Weber pointed out how microfinance facilitated a geographical and quantitative expansion of finance-in-general: "Significant progress has been made on the liberalisation of the financial sectors of developing countries. The contribution of microcredit conducive policy adjustments towards this outcome must not be underestimated." (Weber 2002: 550-551) Theorising the rise of finance as well as the rise of microfinance as a form of neoliberal crisis management, she argued: "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) In this sense, Weber's work understands microcredit as a *tool* for reinforcing the rights of private authority, entrenching commercial law-based legal frameworks, and curtailing the power of democratic processes to potentially challenge such institutions. It served/serves a strategic purpose of promoting processes of economic and financial liberalisation and integration in the form of a poverty reduction initiative.

But far more than only serving as a political tool (a "*political* safety net" in Weber's terminology), microfinance *itself* also can increasingly be recognised as creating distinct economic relations based on credit, which are intrinsically useful to their promoters. As Servet (2010: 12) argues:

> "In the case of micro-credit, there does not seem to be a monetary relationship of the type employer/employee type [sic], and this could suggest that there is no exploitation of workers. […] Actually, financial repayments done through commercial microcredits can be interpreted as a particular form of the capital/labour ratio. [… T]he interest payments for the loans which enable production or exchange activities to be carried out, correspond to a levy on the income obtained through these activities. There is no capital/labour relation at interpersonal level. But as a whole, there is transfer from one sector to another."

Microfinance, via the credit relations it constructs, then creates a material relation between owners of capital and sellers of labour-power. The mechanism for this is the profitability of debt, which – once successfully implemented – makes surplus extraction possible through debt servicing.

This observation in fact also comes from voices fairly close to the actual practice of microfinance. Malcolm Harper, who co-founded the microfinance institution (MFI) BASIX[9] in 1996 in Hyderabad, recently suggested:

[9] BASIX was the Indian microfinance sector leader for many years.

> "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. Capitalists no longer have to organise and manage labor. They can extract a higher return on their capital not by directly employing people, but by financing their petty businesses under the guise of assisting them to become entrepreneurs. Better still, these entrepreneurs compete against one another rather than combining against capital." (Harper 2011: 59)

Harper's observations come contextualised in an evaluation of the IPO of the Mexican MFI Compartamos, which distributed very large capital returns to its management and investors (many of which were NGOs and civil society organisations, like ACCION). But his quoted statement explicitly hypothesises about microfinance *in general*. Effectively, he describes what the *Régulation* and SSA theorists called the "finance-led growth regime". Here, microfinance is a regime-consistent means of including – note here the recent redefinition of microfinance by its advocates as a means of "financial inclusion" – the poor in the accumulation process.

Premised on the informal self-employment of borrowers as much as on their other coping strategies, microfinance operations have succeeded in upholding substantial rates of profit accumulation. For instance, the five largest MFIs in India (the world's biggest microfinance market as of 2010) posted an average ROE[10] from 2005 to 2009 of 36.9 per cent per annum, which is to say that the provision of investment capital for microfinance in India has proven immensely profitable.[11] (Strikingly, however, India has since then been the site of the most serious microfinance crisis to-date, starting in late 2010 with reports of borrower suicides followed by a virtual freezing of microfinance operations and a severe decline of the sector's size and profitability; cf. Arunachalam 2011.) Microfinance thus adds an entirely new dimension to the "accumulation through finance" (Krippner 2011) of financialised capitalism. The accumulation which is now possible through microfinance allows – for instance via the growing involvement of pension funds like TIAA-CREF – a process of financialisation as rising rentier incomes (Epstein; Jayadev 2005; Palley 2008) to proceed on the basis of new economic arrangements with the poor.

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[10] Mixmarket (2009b). ROE = Return on Equity. Own calculation using mixmarket data to determine a 5-year weighted average for the five largest MFIs in India as of 2009: SKS, Spandana, Share, Bandhan and AML.

[11] Comparing these figures to, for instance, an overall RoE of US firms of 15.2 per cent in 2008 and 9.9 in 2009, or 7.2 and minus 69.0 per cent in US financial services in 2008 and 2009 respectively (Damodaran 2011), the extent to which Indian MFIs represented a lucrative investment opportunity becomes evident – especially given their previous reputation as virtually risk-free thanks to the sector's average loan repayment rate of over 99 per cent.

For these combinations to function, borrowers must also perform their part by borrowing money and paying a more-than-cost-covering price for it. To recall, as Ingham (2004: 12) clarified, "money is itself a social relation; that is to say, money is a 'claim' or credit that is constituted by social relations that *exist independently of the production and exchange of commodities*". Conversely, then, to lack money is to be weak in a social relation, to lack a key claim in society. The lack of sufficient claims to societal wealth – for production purposes or social reproduction purposes – among one class of people ("poor people") for satisfying their material needs becomes the basis for a contract with another class able and willing (on the right terms and premises) to rent out capital.

But in order to ensure contractual repayment, borrowers must subsequently engage their productive capacities in one way or another to repay the loan and transfer some share of the fruits of their labour to the creditor; effectively as a rent on capital. Due to the underlying labour necessary to facilitate the repayment of loaned money, the role of financial markets – microfinance as well as any other sort of financial market – may be understood as that of continually creating and mediating new entitlements on the labour of others. Financial markets do so by issuing and trading certificates ("coupons", cf. Froud et. al. 2002) on future payments. Money, we remember for Simmel, is a claim on, or entitlement to, the work of others; to lend money is a temporary transfer of those entitlements, but at the price of a contractual entitlement by the lender to a *greater* magnitude of the borrower's entitlements (which she normally must earn by work).

Microfinance is then effectively a form of financial innovation which creates a *new* entitlement relationship between capital-lenders and capital-borrowers, premised on borrower discipline of the kind discovered by the small-loan lenders and moral analysts of credit in early 20th century America (Calder 1999). What is innovative about microfinance is that this relationship runs directly from the (very) poor to the (very) wealthy. If anything, such a relationship existed usually only very indirectly in the past, with diverse layers of middlemen and banks sitting between the owners of substantial amounts of capital, and the pawnshops and informal moneylenders which ultimately lent to the poor; or capital owners had to employ the poor in wage-labour relationships. Now, thanks to microfinance, it is literally possible for a Bill Gates to lend directly to an Indian seamstress and hold an entitlement to an asset stream generated by her, with *only* an MFI in-between – which is not to suggest that this is the reason for his support for microfinance, but materially the relation takes this form.

By developing the technical means of channelling large amounts of capital into lending directly to people without collateral or assets – including: group lending, social collateral, standardisation and computerisation of disbursement, rating of MFIs, securitisation of microfinance portfolios, etc. – the microfinance sector is creating a more efficient capital-labour relationship, consistent with and conducive to financialisation. 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 2009a) – demonstrates both this efficiency and the unremitting demand for loan capital, which indicates that few borrowers actually ever "escape" from poverty. Rather, the

microfinance credit relation is a permanent one, and indeed must be, if microfinance is to remain an attractive investment.

Thanks to microfinance, then, the everyday activities of poverty enter into modern practices of financial valuation; they are financialised. They are now *perceptible* to the financial market. This reality of finance entering into the world of poverty is strikingly revealed, not last, in one of the foremost publications on the financial lives of the poor: *Portfolios of the Poor* (Collins et al. 2009), whose intention is to highlight how poor people manage their money with as great aptitude as professional portfolio managers. But the converse message is also that microfinance effectively *builds* portfolios of the poor: through the credit relation, microfinance turns those activities via which the poor manage and survive their poverty every day into an *asset stream* which investors can accumulate on their investment portfolios; extending the existing "coupon pool" of financial entitlements.

Civil society in practises of financialisation

Microfinance has concrete material implications, as the last section showed; but there is also an ideological or ideational dimension which has guided its ascent. It is found in the changing and malleable social meanings of money and credit which hinge on the social meaning attributed to the credit relation in the production of this materiality. It is the "symbolic qualities generically linked to the ideal of unfettered empowerment" embodied in money (Dodd 1994: 154) which nurture the notion that lending money could promote something greater – development, poverty reduction, empowerment, etc. – than simply constructing a new material relationship. All of the new relations constructed via microfinance have however also required *agency* for their construction; the deliberate and inspired actions of civil society actors. With Polanyi, the (now progressively subsidy-independent) market-organised microfinance industry is a classical case of how "laissez-faire was planned" (Polanyi 2001: 147). Without having appealed to the "moral sentiments" of many people, without the past decades' processes of financialisation (which hinged on political agency), and above all without the efforts of diverse "civil society" actors, microfinance would likely not exist. How these actors navigate and in turn create the sphere of finance is the object of this final section, first with reference to a small stream of literature investigating the meaning of microfinance, and then with reference to own findings from a specific case in India.

Civil society has proven a broad but somewhat vague and elusive term; it is taken here to represent a theorised "third sector", ostensibly beyond the market and politics, populated by non-state not-for-profit actors as well as citizens committed to diverse forms of civic engagement. Civil society is a space of societal organisation in the realm between – though not clearly delimitable from – the realms of the state, the market and the private (cf. Kocka 2000). The transnational microfinance sector has grown thanks to the efforts of a highly diverse field of actors situating it precisely at the intersection of state, market and private sphere, including but not limited to:

- microfinance institutions (MFIs) like Grameen (Bangladesh) or SEWA (India), mostly beginning as NGOs or cooperatives;
- International Financial Institutions (IFIs) like the World Bank, acting as funders, standardisers, political promoters and resource bases for MFIs;
- government development agencies and multilateral development bodies like USAID or IFAD (International Fund for Agricultural Development);
- transnational non-state non-profit funding organisers like ACCION or Kiva, often also acting as de-facto think-tanks;
- philanthropic funds and foundations like Oxfam;
- private wealthy individuals, funding and prominently promoting microfinance;
- banks and other for-profit financial institutions, themselves funding or channelling funds from large and retail investors via specialised investment funds;
- and finally a broader social movement committed to spreading the idea and practice of microfinance.

Many of these actor groups can be characterised as civil society, but most notably state, market and private individuals (entrepreneurs, investors) interpenetrate with the realm of civil society, creating what Aitken (2010) terms the “ambiguous incorporations” of microfinance.

Strikingly, these actors have concertedly constructed a for-profit financial subsector, increasingly linked to the mainstream financial system (cf. Dieckmann 2007); an act of deliberate market building. Of crucial importance in this connection appears to be the fifth and most underexplored facet of financialisation, the “culture of finance and financial risk”, which, we saw earlier, creates new roles and identities performatively enacted by actors who come to think of themselves as capitalists and risk-takers. Authors like Bajde (forthc.: 1), for instance, have located the microfinance narrative in an “utopian ideology of entrepreneurial philanthropy”, knitted together at the intersection of the market and philanthropy, which is “rife with ideological frictions”. With reference to the users of Kiva, an on-line microlending platform, Bajde traces how small-scale microfinance funders seek to “implement their moral visions of ‘good society’” via *finance*-based, as opposed to giving-based, philanthropy (Bajde forthc.: 6). Kiva lenders enact their social ideals through their credit, identifying with “their” borrowers’ entrepreneurialism and treating “the loan as an affirmation of their personal moral beliefs”. This allows, 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 forthc.: 17-18).

Others have located in microfinance a specific form of financial “governmentality” – that is, a subtle form of authority – “contributing to a transformation of microlending into a fully financialized object” (Aitken 2010: 232). The re-framing of the granting of credit for profit in terms of a socially-necessary intervention, in turn, constitutes a re-framing of credit itself as a socially-necessary good, which Aitken notes – to follow de Goede (2005) – makes finance recognisable no longer as a contestable or dubious construct, but as a rational and universally useful tool. By acquiring a new *meaning*, the

governmentality and rules of mainstream finance thereby enter into an activity previously considered the remit of NGOs and civil society. For Young (2010: 607) microfinance has proven part of a "financialisation of space", strategically repositioning 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, to Young, therefore are "geopolitical technologies" which structure development pathways as well as social roles and identities, creating a new role for credit in legitimising, structuring and funding the activities of certain civil society actors.

As we see here, the changing social meanings of credit appear to have encouraged an expansion of credit relationships, the effects of which are far-reaching. Not only are credit markets expanded via microfinance, but also other goods can be marketised via microfinance. This is directly related to the changes in the social meanings of credit, whereby credit is now commonly recognised as a rational, necessary, inconspicuous and empowering tool for producing social good. Via the aspirations pinned on credit markets, the need among poor people for the means of social reproduction like water and sanitation becomes recognisable to the financial markets as a financial need which must be remedied *via* finance. Actors associated with civil society play a key part in this process, as the following case shows.

The concept of microfinance for water and sanitation has existed for more than fifteen years, but has remained largely unexplored by critical researchers. As Reis and Mollinga (2009: 3) explain: "Due to the finance gap in the RWSS[12] sector and the paradigm of cost-recovery, microcredit schemes have globally become a popular element of RWSS policies in recent years", which has also increasingly been the case in urban areas as the Indian case shows. From winter through summer of 2010, I performed field research in a project whose purpose was to direct microfinance funding into the provision of water and sanitation resources to slum households in urban and peri-urban areas in Andhra Pradesh, India. The background, methods and findings of this research from a public goods-theoretic perspective are reported in Mader (2011a) and Mader (2011b).

The organisational structure of the project studied in Andhra Pradesh consisted of three main organisations: a philanthropic foundation managed by a very wealthy North American IT entrepreneur ("the Foundation"); an India-based NGO working with women's groups in slums ("the NGO"); and an India-based development consultancy founded by a microfinance investment fund manager, which operated *de facto* as a non-profit ("the Consultants").[13] The project consisted of three interventions: (1) microfinance-funded household water tap connections; (2) microfinance-funded sanitary latrines; (3) and pay-per-can drinking water from reverse osmosis (RO) purification plants – the latter having no direct microfinance element. The tap connections and latrines were supposed to be funded from a subsidy covering 50 per cent of the full cost (which was estimated lower than the actual cost, as recipients often

[12] RWSS = Rural water supply and sanitation.

[13] The identities of these organisations and their members have been kept anonymous here, due in part to an agreement with one of the organisations, and in due to no intention on my part to affect their reputations in any way.

reported), paid for by the Foundation and disbursed by the NGO, with the remainder of the funding borrowed by the households in the form microfinance loans from sundry microfinance providers of their choice. The borrowing – it was found, and with hindsight against the soon-to-ensue over lending-based microfinance crisis is unsurprising – was easy for households to do. While the outcomes of the project itself were politically as well as economically problematic, as explained elsewhere, I turn here to an evaluation of the different roles played by the three organisations involved.

At the apex of the project's structure sat *the Foundation*, whose strategic decisions were taken at the head-office level in the USA while operations were managed from the Indian country office. The project was funded out of its "Family Economic Stability" programme, self-described as supporting "institutions that offer impoverished urban families access to the capital they need to put their children on the path to self-sufficiency", which in practice consisted mostly of grants to and equity investments in urban microfinance providers. Relative to its direct microfinance support, the sum disbursed in this project as a grant by the Foundation was minor. The Foundation's India-based staff was kept up to date on the progress of subsidy disbursement, which was in practice far slower than planned because only a fraction of households actually came forward for the subsidy premised on their own prior partial investment. The Foundation did not appear to take any further active role in the implementation or steering of the project. Beyond the grant of just under US$ 1 million to be disbursed as individual latrine and water tap subsidies, the Foundation had hired the Consultants for their expertise in microfinance and "social business" to monitor the activities of the NGO and finally evaluate the impact of the entire project.

The NGO, the implementing agency of the project, had just under one decade of experience working with women's groups in the state, mainly in "capacity building" of Self-Help Groups (SHGs) in the Andhra Pradesh government's bank linkage programme, conducted by its professional social workers. It was a well-respected and well-known NGO among civil society circles, but also well-connected with regional government bodies, while remaining independent. The NGO's employees were responsible, in the project, for disbursement of the subsidy money to women for the construction of water and sanitation facilities, which was made contingent on their progress with construction. However, as "capacity builders", the employees also played a crucial role in facilitating women's access to the necessary additional loan finance by involvement the SHG-bank linkage. While the water and sanitation project was being rolled out, federations of SHGs (with up to around 200 member individuals) were being upgraded into formal "cooperative societies" whose income statements were subjected to a formal accounting audit. After successful completion of the audit, federations would be able to gain easier and cheaper access to financial services.

In practice, the NGO's (mostly male) employees' functioned as project coordinators, training providers, informal financial auditors[14] and, whenever considered necessary, financial and social discipliners (vis-à-vis the all-women SHG members). They regularly coordinated with municipal officials, sometimes attempting to secure

[14] Preparing the books in advance to the chartered accountants performing the formal audit.

construction of network infrastructure in neighbourhoods to service the loan-financed taps and latrines, but could only very rarely provoke investments of such a size. As officials explained in multiple interviews, the municipalities themselves lacked the resources, with loan finance and the subsidy – it is important to keep in mind – being directed instead toward the end user. For the NGO, the identified problem in slums was water and sanitation, and the identified solution – mostly for pragmatic reasons – was to facilitate microfinance. As the NGO's project director explained in an interview with me, the microfinance-based setup was chosen for two reasons: first, to prevent a corrupt misallocation of funds if orchestrated via political channels; and second, because microfinance was plentifully-available and the Foundation was supportive of it: "Microfinance, microfinance is the requirement. The finance is small, micro."

The Consultants proved a fascinating team to work with and study as participant-observer. Consisting mostly of Indian-born MBAs without any engineering or development background, the team had been hired to design an impact evaluation[15] for the water and sanitation project in the slums (which they visited only very rarely and briefly). On the side, however, the Consultants were also seeking to use the Foundation-funded project to construct their own "knowledge base" for developing future "BOP" ("bottom of the pyramid") interventions using microfinance. These would be marketed as consulting expertise or completed business models to other civil society and corporate entities at a later stage. It transpired, in time, that the Consulting company had been founded as a (*de jure* independent) pet project by its owner, a venture capital microfinance fund manager who did not require it to earn a profit (only outwardly the Consultants presented themselves as a corporate entity). Its role was effectively to act as a think-tank for "social business" solutions for problems at the "BOP", and for the founder-owner to implement his ideals of a non-hierarchical and hyper-creative corporate environment separate from the more traditional venture capital fund located in another city.

Microfinance was taken by the Consultants to represent a uniquely "demand-driven solution", with demand for the water and sanitation project always premised on *financial* improvements from gaining access to better facilities, which was up to the poor to recognise and be willing to invest in. That the poor were not coming forward in droves did not noticeably irritate the team leader, who explained to me: "We know better. It's not that the demand isn't there, it's just that they don't know better." A commonly-used term was "latent demand", which would take "cultural change" to become real. In report-writing (the main activity of the consultants) the concept of "need" was consistently translated into "market potential", the "poor" were termed "BOP segment" of the market, and to "use" or "employ" any device (or any person) was to "leverage". Financial terminology and logics pervaded every formal utterance of thought.

[15] The impact evaluation questionnaire, developed by me in conjunction with the Consultants regrettably was never implemented beyond the test stage (despite being termed by the consultants as a "new gold standard for questionnaire structure and presentation"). To the best of this author's knowledge, however, no systematic impact evaluation ever was performed, and may not actually be required for the final report to the Foundation.

The NGO's project director once expressed the difference between the ethos of his NGO and of the consultants' work in a private moment: "They are corporate. So of course they will see things in a corporate way." When project proposals and interim reports were being written by the Consultants, the premise from the outset (not a finding in the end) was consistently that some way would have to be found for the private sector to finance the proposed intervention, which in turn required the poor themselves to pay. The sheer poverty (lack of money) of the poor, in turn, necessitated a microfinance element in most projects. That financial markets had to solve problems was thereby usually a foregone conclusion.

Market building to solve social problems therefore is, for the different actors involved in this project, to widely different extents, a matter of practical/pragmatic as well as ideological necessity. The financial presence of the amply-funded microfinance sector was felt and interpreted differently by the NGO and the Consultants (for the Foundation it remained unclear), in part as pressure, and in part as opportunity.

The Consultants, far more so than the NGO, which worked closer to the life-reality of the intended beneficiaries were palpably permeated by a "culture of finance", in which all problems were simply a matter of "leveraging" the adequate financial resources. That this effectively should mean building *financial* markets for goods like water and sanitation was for them an unquestionable inevitability, and for the NGO apparently a pragmatic and mostly unquestioned necessity.

Conclusion

What this paper has shown is how microfinance pervades the activities and strategies of actors often associated with civil society, transforming them into conduits for the expansion of financial markets; and furthermore, for instance in the case of NGOs becoming MFIs, into financialised actors in their own right. What the case from India reveals is how microfinance additionally generates a perceived urgency among civil society actors to address social problems *via* an expansion of markets for finance. Some civil society actors, in this sense, are becoming drivers for market building; a building of markets which extends also, as the Indian project showed, beyond markets for finance to markets for means of social reproduction like household water and sanitation.

As Weber (2002; 2004) has been pointing out for years, microfinance always was a political tool for market building, so this finding should be only partly surprising. But as this paper has shown, microfinance also introduces financial rationalities into civil society, and directly creates material credit linkages between rich and poor. Even more surprisingly, the ostensibly apolitical capital nexus can actually serve to directly build markets in goods like water and sanitation; incidentally goods whose privatisation encountered intense political resistance when attempted in the 1980s and 1990s (also in Andhra Pradesh). We may interpret this as a micro-privatisation – or enclosure – of these natural resources now taking place through the back door, *via* finance. This is more than simply congruent with the vision espoused by the father figure of microfinance, that "government, as we now know it, should pull out of most things except for law enforcement, the justice system, national defense, and foreign policy, and

let the private sector […][16] take over its other functions" (Yunus 2003: 204). It is that vision's logical conclusion, a measure of its success.

[16] "…a 'Grameenised private sector', a social-consciousness-driven private sector…"

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