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EXPLAINING AND QUANTIFIYING THE EXTRACTIVE SUCCESS OF FINANCIAL SYSTEMS: MICROFINANCE AND THE FINANCIALISATION OF POVERTY

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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 selffor 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.

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I. 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. This is particularly surprising given 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 waysfinancial markets workto extract surplus labour have been taken little notice of, relative to issues of regulation and embedding financial markets. Popular references to Wall Street generating immensely unequal income shares which accrue to "the 1 percent" vis-à-vis "the 99 percent" show that there is a hazy recognition of financial systems playing a central role in regressive distribution of the fruits of labour(cf. Guardian 2011), but they fall short of understanding the actual mechanisms. These mechanisms, we propose here, at least partly are to be found in governmentality and surplus extraction.

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. […] More narrowly […] 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. We understand financialisation as a historical process in the last decades which brought expanded 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 growth of microfinance was one part of this broader process.

This paper argues that studying microfinance as a key case can make a contribution to better analysing the ways financial systems, which are growing thanks to financialisation, 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 paperproceeds from the recognition that microfinance and financialisation are connected – morethan just correlated but in factdeeply 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 making it the basis for new credit relations which function to extract surplus value from borrowers into the financial system.

II. MOBILISING NARRATIVES

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 historicallyin 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. Microfinancehas 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 storieswhich fill thepublications of donor organisations and MFIs, as well as countless media exposés, are building blocks of a highly successful mobilising narrative: they tell a storyof finance serving a good purpose, combined with a call to action to become part of the story, by supporting microfinance. These stories of minor (individual) economic miracles 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 or explicit invitation to the readerto become part of the success story by supporting microfinance.

But there is also a more fundamental mobilising narrative woveninto 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. 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)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*.

Not in any cynical way, wealth-holdersappear 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 –like people in otheradvanced 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", whodespite their maximal exertions remain poor, yet at leasthave earned the respect of wealth-holders for not being lazy or giving up. 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.Kivaalways 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 – enacttheir 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 underliechanges in the practical role and reach of finance, and the ideas attached to credit through mobilising narratives matter significantly for explaining the shape and expansion of credit relations.

For the type of capital providersseeking 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) –, microfinancemay serve a strictly financial purpose. Theproliferation of crisesin microfinance in recent years notwithstanding(Mader 2013),one key aspect makingmicrofinance investments attractive isthe ultra-high repayment rate of loans, or as enthusiasts put it: "the poor always pay back"(Dowla/Barua 2006). 95 to 98per cent on-time loan recovery rates paired with high interest rates(Grameen Foundation 2013)allowmicrofinance 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 remainsbuttressed by the conception of microfinance as a "social investment" generating additional value via a "double bottom line" of social impact and financial returns.[1] 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' appetitesfor financial reward.As Beckert's work exposes, many economic acts would not be possible without

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

a certain element of fictionalityto allow actors to *imagine* the future consequences of their actions(Beckert 2011); they basetheir expectations on stories or dreams about what the future *would* be like if they engaged in a certain act, such that some markets even represent "markets for dreams" (Lutter 2010). "These fictional depictions take narrative form. […] Financial markets are especially prone to giving rise to such stories about events in the future". 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, so that a microfinance investor cannot *know* with any certainty whether the activities funded by her will bring success for a borrower, but still proceed on assumptions to imagine the miraculous effects generated with "her" tiny loans.

Very helpful, furthermore, is the portrayalof poor people as inherently financially-minded subjects.The book *Portfolios of the Poor*has emerged in recent years as *the* central text of the "financial inclusion" paradigm.[2] While not addressed to popular audiences, *Portfolios* provides legitimationfor 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; as Third-World "portfolio managers"poor people are just as savvy and skilfulas 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:*thefree investor, such that*Portfolios* interpreted every financial decision inscribed in the subjects' diaries as rational and optimal. Using a microloan at 36 percent interest to buy gold, for instance, as one diarist did, was a sensible choicesince "[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 diaristpaid a surcharge of 36 percent relative to any less-poor person was not seen as an issue. The book's most evident fallacy and 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. 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 illuminatehow the newer "financial inclusion" paradigmdiffers 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.

Thus, 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 redistributivealternatives. 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 when premised primarily on financial returns). 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

[2] An official endorsement even describes Portfolios as the "new bible" for combating global poverty – note Simmel on money and religion.

of empowerment through debt, or whether their effects may actually be disempowering, is the subject of the following two sections.

III. FINANCIALISED GOVERNMENTALITY

The transformation of poverty into the basis for a credit relationship between capital-owners and borrowersvia mobilising narrativesisnot the only dimension in which microfinance is an element of financialisation.The concept of *gouvernementalité*, developed by Michel Foucault,offers us abroader 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 – farfrom simply *losing* power to the market or civil society – tendto evolve more indirect techniques with which to control and direct individual behaviour without simultaneously having totake responsibility for welfre.

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 disciplinedbusiness, in order to appeal to market capital.The story of Mexico's largest MFI, Compartamos,which charges interest rates up to 195 per cent annual interest (Roodman 2011),and has generated highreturns and successfully issuedits shares on the stock market (IPO),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, as 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 assumed; but in the *financialised* world of microfinancesimply the 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 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)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,and not just for borrowers. 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.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 Buschconsequently 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).

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 forat 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.Adaptingto 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), requiredof borrowers to respondwith 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 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 requirementsof transnational capital flows, some borrowers appropriate the financial rationales of those capital flowsby using microloans to become moneylenders themselves.

Other evidence ofthe financialised governmentality in the credit system also inadvertentlywas 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" –in which the economists included cigarettes, gambling and alcohol, but also tea and food consumed outside the home – inslums in which new MFI branches opened. The authors of the study interpreted this as "success" at creating more entrepreneurial attitudes, and 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– the deployment of transnational financial flows into their slums showed a*measurable*discipliningeffectin order to service the loans.Unsurprisingly, other impact studies have shown decreased happiness levels among borrowers (Karlan/Zinman 2009).

In sum, we reconstructan archetypical cascade of governmentality in microfinance. It would be impossible to name alldisciplining 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 instilled within the MFI through standardized accounting schemes and real-time management information systems which inform head offices quickly 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 the majority) 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 courseis 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, kidnapping children (Times of India 2010).Fundamentally, most microcredit is premised on the threat of punishment via confiscation of the *socialcapital* of the poor, which is often their only type of capital. That this social capital cannot be monetised by a bankin no way diminishes the punitive effect of its confiscation, to which must be added shame (Karim 2011). The effective repossession of a poor person's social relations can be an existential threat when those people who offer support in hard times refuse because of an unpaid debt, or even turn against the debtor.

Yet despite these explicit devices, the power deployed must be understood as governmentality through "technologies of the self" by "disciplinary individuals", because at each stage if 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 repay loans on time, even if it necessitates going to moneylenders or becoming a moneylender herself, or adjusting the rhythm of life, family nutrition, etc., to the loan repayment schedule. In turn, loan officers cannot afford negligenceand not visiting a village on schedule; branch office heads must monitor their own balances closely; and so on. Through the deployment of this financialised

governmentality,MFIs obtain their famous 95 to 98 percent repayment rates(Grameen Foundation 2013); not by regularly "disciplining" and "punishing" borrowers, but by regularly *not* having to do so.

IV. FINANCIALISED MATERIAL RELATIONS

While the previous analysis focused on what may be termed culture, identities, ideas and power, we must finally note that microfinance's financialisation also shows discernibly "economic"effects. Microfinance serves to *financialise the material relations between rich and poor*, re-shaping relations of poverty with finance, as Harper's suggestion that "microfinance offers a more subtle and potentially more durable means whereby those who control capital can exploit those who have only their labor to sell" suggests (Harper 2011: 59).

We can note a marked decline in the normal employer-employee relationshipbased on fixed wages determined in collective bargaining in highly-developed capitalist economies.Voß and Pongratz(1998) theorisethe emergence of *Arbeitskraftunternehmer*– translated as "entreployees", literally "labour power entrepreneurs" – as a new risingarchetypeof labourer characterised by "self-control", "self-commercialisation" and "self-rationalisation", seeking to enhance and commodify their capabilities and potentials more effectivelywhile threatened with precarious economic and social situations. Microfinance may be understood as the extension of this model to the developing world and into the "informal sector"as well as subsistence agriculture, which have long existed as catchment basinsfor surplus labour,but remained 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 potentials in the most effective way possible; hencethe recurrent themes of hard work and creativityin microfinance client stories. Microloans newly makes entreployee relationshipspossible even with people living in the slums and villages of the Global South – an astonishing feat – butwhy should such a system be *better* than employing the poor? On the downside, it forgoes productive economies of scale possible via regular employment contracts in Taylorist settings.But the entreployee relationship shows three notable advantages for capitalists. First, it necessitates no entrepreneurship on the capitalist's side; it allows the rentier type of accumulationas 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 run for less than one year, and allows labour power to be acquired on apiece-by-piece basis.Third, it outsources the risks of entrepreneurship to others, since borrowersmust repay the loan regardless of whether its usage generated a 200 per cent return or a total loss.

Since a contract of credit or debt (in microfinance and elsewhere) is a contractual relation which endures over time in the form of an exchange of moneynow for money plus a surplus (interest) later, any such contract is the requirement of the borrower to perform labour(or get others do so for him, as with micro-moneylenders) to pay for the borrowed claim in the future. Understanding microfinance in this way as a financial system fundamentally built on material relations between owners of capital and borrowers,microfinance can turn those activities via which the poor manage their poverty, surviving day by day, into assets which investors can accumulate on their portfolios. Debtors must pay their creditors with labour power which is extracted into the financial system as surplus value – a relationship which, given the current state of impact research (Duvendack, et al. 2011; Roodman 2012), has no apparent measurable benefit for the debtor.

Yet is this surplus extraction via microfinance considerable or relevant?The "Microfinance Information Exchange" MIX Market provides indicators of MFIs' financial performance worldwide. In 2010, out of a total of 1179MFIs reporting the amount of loans (Gross Loan Portfolio), 1052 also reported their "Yield on Gross Loan Portfolio" to MIX Market ("Yield" is routinely used as a proxy for effective interest rates; it is an estimate of the gross margin, or more preciselythe total income earned over a period divided by the average portfolio over the same period). We can use these data to 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 theglobal total loan portfolio of US $ 73.6 billion (1179 MFIs).[3] 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 and assuming the yield of non-reporting MFIs to bethe same, we assign this value to the gross loan portfolio of all MFIs globally using the formula

*gross loan portfolio * yield = surplus extraction*

finding that US $ 73.6 at 26.6 per cent generates US $ 19.583 billion US dollars as an estimate of what microfinance borrowers actually paid to the microfinance industry in 2010.

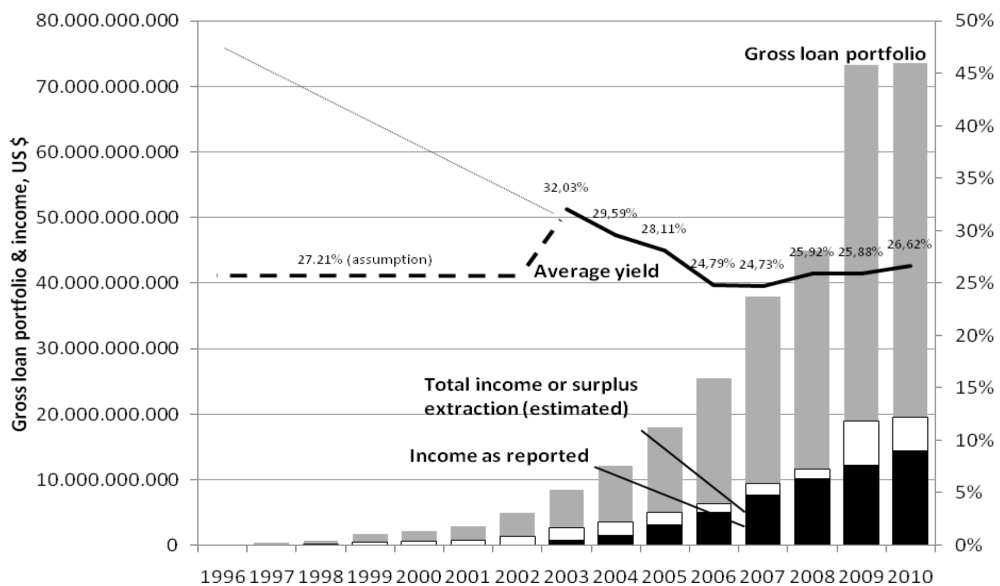

FIGURE 1. SURPLUS EXTRACTION THROUGH MICROFINANCE, 1996-2010

Source: Author's calculation

[3] $ 14.0 billion out of the "missing" US $ 19.2 billion for 2010 were at the Postal Savings Bank of China, PSBC, which reported gross loan portfolio but not yield. As a commercial retail bank (Hansakul 2007: 6) and for lack of contradicting information, the best estimate is the global average yield.

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. Rather, the figure tells us how much surplus value is extracted by the microfinance industry from its borrowers; surplus which must be produced by the borrowers through some form of labour. Poor people provided each of those 19.6 billion Dollars as theirprice paid to their capital providers, which they would not have paid to these capital providers in the absence of microfinance.

We may 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. 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.[4] As a sovereign government, Greece paid far lower interest than microborrowers, whose total microfinance debt was only US $ 73.6 billion, illustrating how lucrative the possible surplus extraction from microfinance lending is 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 estimatedas extracted via microfinance from borrowers from 1996 to 2011, was US $ 100.485 billion.

Yet this remains 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. Another factor leading to underestimation is portfolio growth, which is highly relevant given microfinance's exponential growth over past years;accelerated growth 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

[4] According to the Government of Greece's budget for the year 2011 (Greek Government 2010), poor reputation for statistics notwithstanding. Gross debt figure from Eurostat (2012). Exchange rate used is the average for 2010, € 0.785.

systematic quality checks, and MFIs may accidentally or deliberately under-report to MIX Market for a number of reasons, particularly to create the semblance of more efficient operations with more outlook for profitability, and to avoid negative public attention (see for instance Rosenberg 2007; MacFarquhar 2010). Finally, given the drop in average Yield from 32 to 26.6 per cent over the known period, to have assumed Yieldat "only" 27.2 per cent in the period before (the dashed line in the diagram, as opposed to the thinnerline) could be a cause of under-estimation; actual Yield was likely higher in the previous period than assumed.

V. CONCLUSION

This paper has discussed microfinanceas 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 2, the financial system of microfinance has been anchored in the public mind through narratives of empowerment thanks to credit. Section 3 highlighted the "political" effects of microfinancein producing a governmentality which builds financial market discipline. Section 4 argued that microfinance serves to financialise the material relations between rich and poor, resulting in substantial extraction of surplus labour from microfinance borrowers into the financial system.

Some readers may object that we have focused in this paper on the lending side of microfinance (micro*credit*). This focus isjustified and necessary. Credit is the essential element of the microfinance business model and remains its only profitable part. Microinsurance 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 lent more than US $ 1 million. 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 just forced savings; simply a part of the loan not disbursed. The interest paid to clients is low, often even negative (Dupas/Robinson 2011).It is 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 surplus extraction works in financial systems.Microfinance serves as a key case 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 run literally 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. Since financialisation is the process of creating new financial relations which allow the surplus extraction from owners of labour power into financial systems,likely(in microfinance as in other financial sub-systems)these relations will also channel at least some surplus furtherto the actual owners of capital. This indicates that the rise of financial markets observed described as financialisation is indeed culpable for part of the immense growth of income and wealth inequalities.More fundamentally,however, this study of microfinance shows how surplus value can successfully be brought into the financial system from even the world's poorest (using the right technologies) and be accumulated in that 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.Financial markets can “discipline and punish”, and thereby act as technologies of power. 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] Pt. VI Ch. 47). What is striking nonetheless is the extent to which the expansion of finance, in which microfinance has been but one element, was been built on the highest hopes for solving social problems, couched in terms like “financial democracy” or “financial inclusion”.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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