

Chapter 2

Expanding the Frontiers of Poverty Finance

The shift from microfinance to access to finance, inclusive finance or financial inclusion can be understood as a discursive strategy of involved actors to regain legitimacy against cumulating criticism (Mader and Sabrow 2015). Yet, it must also be understood as the result of a broader struggle over the orientation of development policy in the context of the financialisation of the world economy (Soederberg 2013). This section sheds light on the transformations of global development financing since the millennium. It highlights how the financial systems approach to microfinance became entrenched through the broader notion of financial inclusion. In this regard, creating the ‘unbanked’ as a new development subject allowed for expanding the frontiers of poverty finance, reaping profits from the bottom of the pyramid.

Leveraging the Financial Systems Approach

Inclusiveness had already been a buzzword in Development since the World Bank and others admitted to the critics of neoliberal policies endorsed by the PWC that “globalisation could be much more effective for poor people, and its adverse effects could be substantially reduced” (Collier and Dollar 2002, 155). Around the millennium, pro-poor growth suggesting that low-income households should benefit from economic growth on absolute terms gained widespread attention. In this framework, distributional corrections are necessary to make ordinary economic growth work for the poor (see e.g. Ravallion 2004). The emphasis on welfare targets and equity should demonstrate that the World Bank has moved beyond the neoliberal Washington Consensus. At the global level, the Millennium Development Goals (MDGs) emphasised the necessity to increase Official Development Aid (ODA) to address the multiple dimensions of poverty (Biswas 2016; Mawdsley and Taggart 2022). However, despite donor states having pledged to spend 0.7 of their Gross National Income (GNI) on ODA in the early 1970s and reaffirming this ambition in

the early 2000s, five years after the launch of the MDGs only about a third of the envisioned US\$ 200 billion were raised annually (Sachs and McArthur 2005, 348).

While the MDGs were at the centre of public attention, market proponents contested the conventional link between equity and redistribution behind the scenes, arguing for equal opportunities and a call to move from pro-poor to inclusive growth (Saad-Filho 2010, 2013). This reframing combined the merits of finance-led growth and social inclusion, hence financial inclusion. According to a World Bank report, financial inclusion was a necessary corrective to the prevailing notion of redistributive measures in development policy in the 2000s (World Bank 2008, 2). Instead of focusing on redistribution (of public funding, income, wealth, etc.), the growth-development-poverty nexus became increasingly centred around *opportunities* in financial markets. These would go both ways. People with low incomes could profit from access to financial services as novel customers, while financial institutions could expand their market share and diversify underlying risks inherent to financial products. This resonated with the broader euphoria of global finance in the early 2000s (Harvey 2010; McNally 2011a).

In line with the already proposed role of the state in microfinance as an “enabler, not provider” (Roy 2010, 47), governments were challenged to facilitate broad alliances and provide adequate infrastructure extending private sector financial services. For instance, the UN’s Second International Conference on Financing for Development in Monterrey, Mexico, 2002 acknowledged that “microfinance and credit for micro-, small and medium enterprises [...] are important for enhancing the social and economic impact of the financial sector. [...] In addition, the promotion of private-sector financial innovations and public-private partnerships can also deepen domestic financial markets and further develop the domestic financial sector” (United Nations 2003, 8). In a follow-up to the Monterrey Consensus, the UN Department of Economic and Social Affairs (DESA) and the UN Capital Development Fund (UNCDF) summarised the outcomes of a multi-stakeholder consultation from 2004 and 2005, with the help of the World Bank, IMF and ILO in a publication titled *Building Inclusive Financial Sectors for Development*. Acknowledging the diverse regional contexts, the so-called UN Blue Book was admittedly not intended as a blueprint for financial inclusion but as a companion that would guide “national dialogues to develop strategies for building inclusive financial sectors, emphasis is placed on the full examination of constraints and opportunities as perceived domestically” (United Nations 2006, 2). Ultimately, these processes should not only result in according policies to foster inclusive financial markets but, more importantly, in *ownership* and a political commitment of governments, donors and other important actors to implement and foster the agenda of financial inclusion.

The UNCDF’s role in promoting financial inclusion paid off. Between 2007 and 2017, the organisation’s budget doubled through voluntary contributions from transnational corporations (TNCs) and philanthropic think tanks with a vested

interest in expanding the poverty finance frontiers. In 2017, UNCDF accepted more than US\$ 11 million from Mastercard Worldwide/Foundation, VISA Inc., BMGF, Metlife Foundation, Omidyar Network and PACT Global Microfinance Fund. These private players now covered about one-fifth of the organisation's budget. In 2012, a similar group of organisations¹ started to fund the *Better than Cash Alliance* housed at the UNDFC. The Alliance seeks to create a consensus amongst governments, the private sector, and development organisations to move from cash to electronic payments. As such, the group is but one example of corporative-driven initiatives to facilitate broad coalitions for expanding the frontiers of poverty finance in the name of digital financial inclusion (Gabor and Brooks 2016; Mader 2016; Santos and Kvangraven 2017). The adverse implications of this push were already touched upon in the introduction when discussing the case of how South Africa's social security system was digitised and collateralised for profitable financial services.

Numerous other examples also underscore the importance of public-private partnerships for institutionalising financial inclusion as a premier development strategy. In the wake of the global financial crisis, the G20 emerged as an essential international *ad-hoc* forum to manage the trembling world economy and to create consensus amongst the largest economies on the directions of future financial market reforms (Cammack 2012; Wade 2011). As part of their strategy to strengthen resilience, the G20 endorsed the agenda of financial inclusion as a critical development policy. The *G20 Principles for Innovative Financial Inclusion* were drafted by three key implementing partners, namely the Alliance for Financial Inclusion (AFI), the Consultative Group to Assist the Poor (CGAP), and the World Bank's International Finance Corporation (IFC). AFI is perhaps the best institutional example of how state bodies internalise the ownership of a corporate-driven agenda. The organisation was founded in 2008, essentially financed by the BMGF, and with contributions from the German Federal Ministry for Economic Cooperation and Development² and Omidyar Network. It originated as a grant-making facility but quickly developed into a vital network that would drive policies of central banks and governments in so-called developing and emerging economies. At annual Global Policy Forums, central bankers, government officials and private-sector providers discuss common approaches and instruments to fostering financial inclusion, each time reaffirming their commitment by a declaration. The first such statement was the Maya Declaration in 2011,³ which sought to complement the G20 Principles of strengthening and expanding financial inclusion (Soederberg 2013, 598f.). Since

1 The Bill & Melinda Gates Foundation, Citi, Ford Foundation, MasterCard, Omidyar Network, USAID, and Visa Inc.

2 As well as knowledge and logistics support from the German Development Corporation GIZ.

3 The following declarations included new commitments (or old commitments with new, fashionable titles), including the Maputo Accord 2015 on SME Financing, the Denarau Action Plan on Gender and Women's Financial Inclusion, the Sharm El Sheikh Accord 2017 on Financial

2016 the AFI has been owned by members, who comprise the central banks of most countries in the global South.⁴

Furthermore, the G20 created the Global Partnership for Financial Inclusion (GPFI) in 2010 as a platform for all G20 countries, plus interested non-G20 countries and ‘relevant stakeholders’ to follow up on the commitments and Action Plan made at the G20 Summit in Seoul. The implementing partners read like a summary of all other initiatives and include AFI, Better Than Cash Alliance, CGAP, IFC, International Fund for Agricultural Development (IFAD), OECD, SME Finance Forum, and the World Bank Group. On top of these high-level networks and institutions, the financial inclusion agenda also receives royal support. Her Majesty Queen Máxima of the Netherlands was appointed UN Secretary-General Special Advocate for Financial Inclusion (UNSGSA) in 2009, seeking to boost financial inclusion amongst governments in the global South and to sell the agenda to the public.⁵

The importance of broad public-private alliances seeks to manifest a global discourse and entrench the notion of inclusive financial markets in domestic policy-making. Ultimately, it aims to expand the market for financial services through Development. The case of the Sustainable Development Goals (SDGs), adopted in 2015, demonstrates this well. Financial inclusion is central to achieving at least seven out of 17 goals, including poverty reduction, zero hunger, good health and well-being, gender equality, decent work and economic growth, industry, innovation and infrastructure, and reduced inequalities (United Nations 2015b). In contrast to the MDG’s emphasis on ODA, financing the SDGs is premised on private investment. The UN’s Third International Conference on Financing for Development in Addis Ababa adopted a framework that emphasised the need to “unlock[ing] the transformative potential of [...] the private sector” (United Nations 2015a). Likewise, the Multilateral Development Banks (MDBs), spearheaded by the World Bank, have emphasised that financing the SDGs is possible only by leveraging billions of public funding (ODA) to unlock trillions of financial means through extension and closer integration with financial markets (African Development Bank et al. 2015; World Bank 2017).

The massive re-direction of financial development flows parallels this shift in rhetoric. In 2020, international funders invested US\$ 58 billion in financial inclusion projects worldwide. While private investments have slowly but steadily

Inclusion, Climate Change and Green Finance, and the Sochi Accord 2018 on FinTech for Financial Inclusion.

- 4 In March 2019, the alliance had 84 principle and 17 associate members. According to the organisation, 85 percent of the world’s ‘unbanked’ live in a country with an AFI member.
- 5 Her advisory reference group includes the who is who of institutions aggressively pushing financial inclusion: AFI, Better than Cash Alliance, The Bill & Melinda Gates Foundation, CGAP, IFC, IMF, Omidyar Network, UNCDF, UNDP, UNDESA and the World Bank.

increased over the past years, they still account for only US\$ 14 billion of the total investment (Tolzmann 2022). The larger share stems from public sources: Development Finance Institutions (DFIs), Bilateral and Multilateral Development Banks.⁶ The case of South Asia, arguably the most vibrant region for financial inclusion, demonstrates how most of this public funding is diverted towards private financial service providers, primarily as debt, equity, and grants. In 2014, two-thirds of the international financing for financial inclusion in the region was allocated to governments (67%), while financial service providers received about 18 per cent. In 2020, the share had inverted, with financial service providers receiving 62 per cent and governments only a mere 9 per cent of the US\$ 4.7 billion invested (CGAP 2022).

This section has highlighted how the crisis of microfinance towards the end of the 2000s was essentially resolved by embracing broad public-private coalitions for inclusive financial markets. The new financial inclusion agenda has entrenched the 'financial systems approach' to commercialised and financialised microfinance. Thereby, it has also expanded the frontiers of poverty finance. Against this backdrop, the following section will explore the contradictions of financial inclusion more thoroughly, focusing on the new development subject: the unbanked.

Developing A New Market Segment: The Unbanked

Critiques have emphasised that Development is inherently ambiguous, malleable and contradictory and has shaky normative and methodological foundations (Escobar 1995; Sachs 2010; Ziai 2016). For instance, Arturo Escobar has suggested that Development proceeds by producing abnormalities, such as 'underdevelopment', to define problems in ways that allow specific interventions to appear as reasonable treatments (Escobar 1999, 384). In this sense, the 'unbanked', 'underbanked' or 'underserved' have already become a powerful new development subject of the twenty-first century, creating the urgent need to treat them with the only rational solution that is thinkable: access to financial services. The power of Development apparatuses lies in quantifying such random categories, turning them into something sensible that can be investigated scientifically and acted upon (Escobar 1999, 386). Moreover, beyond justifying interventions, the value of measuring also lies in countries becoming part of a competitive race on which the economy is 'more inclusive' in terms of inclusive financial markets, as Kaushik Basu, former Chief Economist of the World Bank, knows (Basu, 2018).

6 The CGAP 2020 Funder Survey included FCDO (UK), SIDA (Sweden), USAID (US), AFD Group (France), CDC (UK), DFC (US), EBRD and EIB (EU), FMO (Netherlands), IDB Invest, IFC (WB), KfW (Germany), African and Asian Development Bank, European Commission, IFAD, World Bank. Moreover, the Bill & Melinda Gates Foundation.

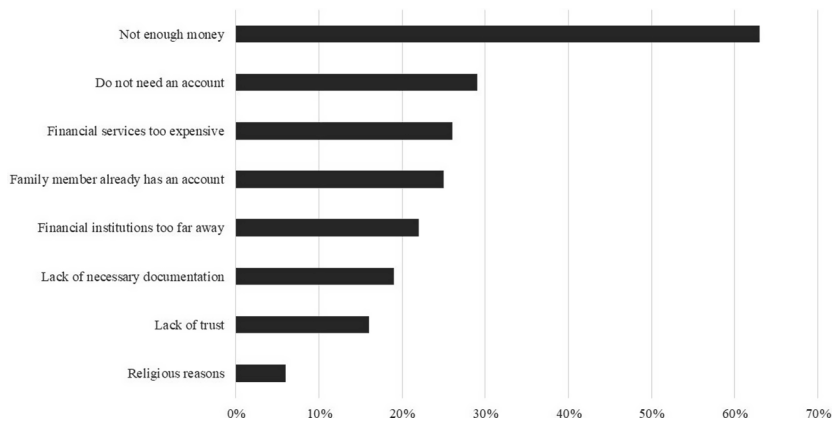
According to the World Bank, significant progress has been made toward universal financial inclusion in recent years. The percentage of unbanked in so-called developing countries has dropped from 58 per cent in 2011 to 37 per cent in 2017 (Demirgüç-Kunt et al. 2018). At the 10th anniversary of the Alliance for Financial Inclusion (AFI) in September 2018, the international development community celebrated that its policies had resulted in 634 million adults being integrated into the global financial system over the past decade (AFI 2018). At first sight, these numbers may indicate substantial progress. However, a closer look reveals that the success story tells us next to nothing about the actual living realities of either the 'banked' or the 'unbanked'. Instead, as Aram Ziai has argued for the Development discourse more generally, the construction of the unbanked as new development subjects has Eurocentric, depoliticising and authoritarian implications (Ziai 2016, 59). Drawing on this categorisation, the following addresses some fundamental contradictions of the financial inclusion discourse.

Firstly, the financial inclusion discourse reproduces the Eurocentric assumption that European societies, including many former European settler colonies, are the ideal models to be followed by the rest of the world. The civilising mission is clear from how the benchmark of the unbanked is constructed. According to the World Bank's Global Findex database, 96% of adults were financially included in the UK and 93 per cent in the US (Demirgüç-Kunt et al. 2018). Naturally, neither the World Bank nor other development organisations would explore the lived realities behind these numbers for high-income countries. The near-to-100-percent figure simply fulfils the function of a benchmark for the new 'underdeveloped'. The notion of financial inclusion assumes that widened access to financial services is *per se* desirable, without providing robust evidence for this.

However, many studies have shown how in the context of neoliberal austerity and declining real wages in recent decades, working-class households in the US and UK had to increasingly rely on predatory financial services, including mortgages, payday loans, credit card debts, and others to organise their daily lives (Crouch 2009; Montgomerie 2013; Roberts 2016; Soederberg 2015). In other words, the financial inclusion of these households is fostered by distress and, in many cases, contributes to the eroding living standards rather than improving them (Dymski, Hernandez, and Mohanty 2013; McNally 2011a; Wang 2018). Moreover, beyond obscuring and idealising the lived realities of the presumed standards, the Eurocentric character of financial inclusion is also witnessed by its disregard for the history of unbanked people. Flattening their stories and lives into a binary consumer choice in the present eclipses the entire history of financial inclusion/exclusion these populations have experienced until now. This silencing, including the vast colonial and racial violence, is not limited to financial inclusion but incorporates the broader relation between D/development (Haiven 2020; Hart 2006; McNally 2020).

Secondly, the financial inclusion discourse has authoritarian implications because it prescribes interventions into people's lives that people may themselves disapprove of (Ziai 2016, 62). It assumes that exclusion from (global) financial circuits is always involuntary without providing evidence for it. However, the 'unbanked' may consciously decide not to engage with financial services for various reasons. All too often, these reasons are simply silenced with reference to a lack of financial literacy or awareness. However, the World Bank's data suggest that exclusion from financial services is primarily caused by insufficient incomes and the realistic assessment that financial services are too expensive (see Figure 1).

Figure 1: Reasons for Not Having a Financial Institution Account in 2017



Source: Global Findex Database. Note: Adults without account, age 15+, in developing economies. Multiple answers are possible.

Rather than a general disregard for financial services (or a lack of awareness), these numbers suggest that unbanked households consciously decide against financial inclusion because of their precarious livelihoods. These results are even more pressing considering that nearly half of all the unbanked adults live in just seven countries, including China, India, Pakistan, Indonesia, Nigeria, Bangladesh and Mexico (Demirgüç-Kunt et al. 2018). Except for China and Mexico, the principal home countries of the unbanked are all among the regions in the world where the state of hunger is either serious or alarming, according to the *Global Hunger Index* 2018. More than one in six, or 290 million of the 1.7 billion 'unbanked' worldwide, live in just India and Pakistan together, which despite vibrant economic growth and a surge of microfinance in recent decades, are ranked 103 and 106 respectively out of

119 countries in terms of hunger and undernourishment (von Grebmer et al. 2018).⁷ In a context where the contemporary corporate food regime excludes hundreds of millions of people from basic food security (McMichael 2009; Patel and Moore 2017; Patnaik 2007), lecturing people without a bank account about financial literacy is indeed authoritarian.

Thirdly, talk of the unbanked as a development subject obscures inequalities and conflicts (Ziai 2016, 60), including how the financial inclusion discourse facilitates the creation of a new market segment for global finance. The pioneers of the 'financial systems approach' had a more concrete vision of their target population than the opaque notion of the unbanked.⁸ The World Bank's *International Finance Corporation* (IFC) defines the "working poor" earning less than US\$ 2 a day, who make up the bulk of the labour force in developing countries, as the "key target market segment for expanding financial inclusion" (Stein, Randhawa, and Bilandzic 2011, 2 own emphasis). Under neoliberal globalisation, this "market segment" has experienced rapid growth. While the Development community has praised the impressive progress made in terms of reducing extreme poverty since 1990, the World Bank data suggests that the number of people living on daily incomes between the US\$ 1.25 extreme poverty line and the US\$ 2 per day poverty line has doubled between 1981 and 2008 (Phillips 2017b, 429).⁹ Of the 1.6 billion adults "working poor", who largely overlap with the 1.7 billion unbanked, just 200 million are entrepreneurs. The vast majority are "small-holder farmers, casual labourers, and low wage salaried workers", as the World Bank's *New Microfinance Handbook* knows (Ledgerwood and Gibson 2013, 20).

Despite the centrality of the working poor in the new development agenda, there is a staunch silencing of systemic relations between financial inclusion and decent work (Bernards 2018; Natarajan et al. 2021). Tackling this silence requires unravelling the intimate and contradictory relationship between Development and capitalist development. After all, the generalisation of market-based finance in the name of sustainable development institutionalises imperatives of bankability into the social infrastructures of societies – from housing, energy and water provisioning to education, health care and others (Bayliss and Van Waeyenberge 2018; Elsner et al. 2022; Gabor 2021; Perry 2021). In doing so, it also increases pressures to privatise

7 The GHI tracks hunger annually and worldwide, measuring the combined the share of the population that is undernourished (insufficient calorie intake), the share of children under the age of five who are waster and stunted, and the mortality rate of children under the age of five (von Grebmer et al. 2018, 7f.)

8 At the turn of the millennium Robinson (2001) already maintained in a World Bank publication that 1.8 billion people could benefit from access to commercial microfinance.

9 Moreover, many critiques have highlighted how the international poverty line (IPL) is ridiculously low and tends to significantly underreport the actual number of working poor (Hickel 2016; Prashad 2012; Selwyn 2017).

and commodify social provisioning, leading to the monetisation of accessing basic needs. If substantial parts of the labour force in the global South earn poverty wages, the expansion of market-based finance may create a bottleneck in terms of lagging (aggregate) demand.¹⁰ Access to credit for working-class households is thus a powerful strategy to deal with the contradictions of financial capital accumulation (see also Chapter 5). Importantly, this solution is not merely an ameliorative welfare project. Rather, it opens a new market for financial capital to serve respective households with credit and other financial services necessary to access basic needs.

The previous chapter briefly explored the shift in reasoning for financial inclusion towards microfinance as an existential safety net. A glance at the operations of commercial microfinance can substantiate this reasoning. According to industry estimates, MFIs have doubled their gross loan portfolio to just below US\$ 80 billion in the past decade (Finch et al. 2022). Profit-oriented financial service providers give more than two-thirds of these loans. While the share of loans for income-generating activities has only marginally increased, the bulk of this expansion is based on “credit for daily living expenses, consumer goods, home improvements and loans to pay off other loans” (Finch et al. 2022). This is where we come full circle. The unbanked are not only a depoliticised object of development bureaucracy (Escobar 1999). They are also a profitable business case for global investors who can simultaneously invest money profitably and regain recognition for ostensibly making an ‘impact’, promoting sustainable development, and contributing to the fight against poverty.

Profits at the Bottom of the Pyramid

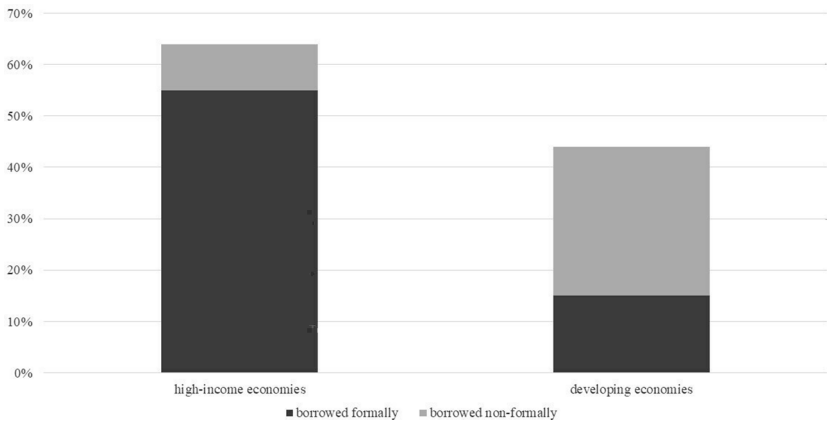
One could argue that account ownership is crucial for financial inclusion because customers can save money and thus build financial cushions that come in handy in cases of income fluctuations or emergencies. However, the World Bank data suggests that only 20 – 30 per cent of account holders have saved money in formal accounts in many countries, including India, Kenya, Brazil and South Africa (Demirgüç-Kunt et al. 2018). Moreover, as the previous section has shown, the unbanked may hardly have enough income to survive, so regular saving seems rather tricky. Notably, the same dataset suggests that access to credit may not even be an issue for the unbanked. Overall, adults in high-income economies borrow money more frequently (64%) than in so-called developing economies (44%). However, the difference is not very pronounced, particularly when considering borrowing

10 The same mechanism has been discussed in the literature on financialisation in the US and UK (see e.g. Crouch 2009; Harvey 2011; McNally 2011a).

within the category ‘high income countries’ is quite uneven.¹¹ So, what drives the meticulous occupation with the unbanked?

The incidence of indebtedness across income-categories becomes more meaningful when differentiating the numbers for various suppliers of credit. Figure 2 shows that most credit in so-called developing economies is supplied by families and friends or other sources like self-help groups, moneylenders, or employers, which are all usually clubbed together in a category of informal sources. In contrast, credit supply in high-income economies is dominated by formal financial institutions, usually commercial banks or other recognised financial service providers.

Figure 2: Sources of Credit in 2017



Source: Global Findex database. Note: Adults 15+ who borrowed any money in the past year. Formal borrowing refers to all credit relations with financial institutions like banks, MFIs or credit card debt. Non-formal borrowing refers to all other sources, including for example friends and family. Since multiple borrowing is possible but the categories are created mutually exclusive, the actual number of informal borrowings is likely to be underrepresented.

The graph shows the potential of bringing the ‘unbanked’ into the formal financial system. Vibrant debt relations already characterise many so-called developing economies. However, most of these are not organised by and integrated into the

11 In 2017, for example, about 77% of adults (age 15+) in the US and 75% in the UK said they had borrowed any money in the past year, while the respective share for the Eurozone was only 55%. Furthermore, the difference could also be justified by acknowledging that generally higher average incomes and entirely different labour markets (in which formalised wage labour predominates) in the former category allow for broader sections of society to borrow money in the first place.

flows of global capitalist finance. The catchphrase of the bottom of the pyramid (BOP) is sometimes misunderstood and often also actively miscommunicated as a charity case. According to commercial microfinance proponents, however, the BOP is primarily a business case, or as business guru C.K. Prahalad put it: “this is not a market to be ignored” (Prahalad 2005, 10). If we think of the unbanked as a strategically constructed development subject of the agenda of financial inclusion, integrating these subjects into debt-based accumulation becomes a pivotal task for proponents. In other words, financial inclusion is primarily a battle over credit supply, with the expansion of formal credit delivered by commercial banks, MFIs or other financial institutions linked to global capital accumulation.

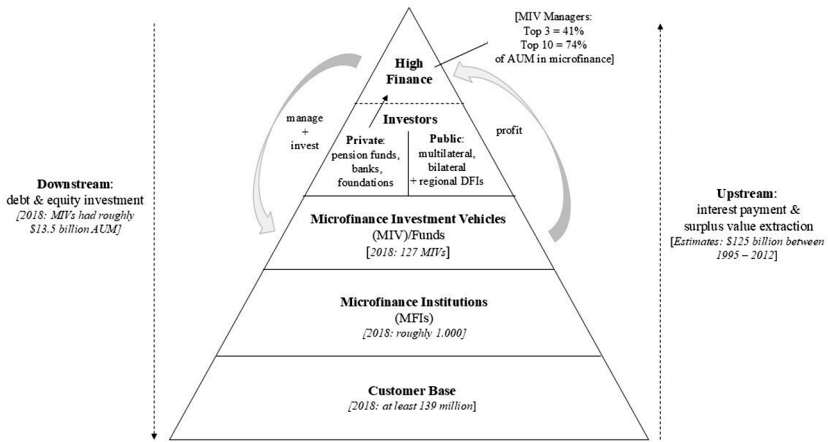
Since the mid-2000s, many of the large MFIs went public or got involved with private equity and the securitisation of microfinance portfolios to secure cheap funding beyond obtaining loans from commercial banks and DFIs. Notably, DFIs were crucial in accompanying this transformation, guaranteeing the securitisation of loan portfolios and demonstrating to global investors that microfinance was a viable asset class. For instance, BRAC was the first MFI to securitise a microfinance portfolio (worth US\$ 180) in July 2006, selling one-third to Citigroup, an investment that was double-guaranteed by the Dutch agency FMO and the German KfW (Mader 2015, 66f.). The Citigroup, again, is a significant driver for financial inclusion policies in Development through its foundation. In 2016, Citigroup partnered with the U.S. government’s Overseas Private Investment Corporation to provide more than US\$ 430 million to 47 MFI in 25 countries (reportedly reaching 1.2 million borrowers) and signed an agreement with the Asian Development Bank (ADB) to facilitate up to US\$ 100 million of local currency loans to MFIs in the Asia-Pacific region (Citi 2017, 24).

With the rise of finance-led accumulation, rising inequality, persistent poverty and increasing concern for environmental degradation, the question of socially and environmentally responsible investments has gained momentum in global finance. Often referred to as ‘impact investing’, money holders invest capital to generate social or environmental impact beyond financial return (Jafri 2019, 525f.; Kar 2018, 43f.).¹² In this context, specialised investment funds turned microfinance into “its own asset class with an image of social responsibility [...] with particular small risk for investors due to high repayment rate and widespread outreach” (Wichterich

12 Drawing on data from the Global Impact Investor Network (GIIN), Jafri (2019) shows that the vast majority (roughly 64%) of more than 4,600 impact investors stem from financial services, with microfinance being the most important asset class (see also Fanconi and Scheurle 2017, 28).

2012, 407).¹³ At the end of the 2000s, these funds managed assets worth US\$ 1.5 billion and thus represented more than half of the total international funding for the sector (Convergences 2011). By the end of 2016, the total sum had increased almost ten times. According to the Microfinance Barometer 2018, 127 MIVs – juridically mostly based in tax havens of Luxembourg, the Netherlands, and the United States – managed roughly US\$ 13.5 billion, with most of the funding stemming from institutional investors (pensions funds, banks, and foundations), and further significant contributions deriving from retail investors and high net worth individuals (28%) as well as public investors (20%) (Convergences 2018, 10). According to a joint publication of CGAP and the ‘impact investor’ Symbiotics, the number of active borrowers financed by MIVs has increased from more than half a million in 2006 to 24 million at the end of 2015, generating on average stable net returns of 3.3% for investors between 2006 and 2015 (Symbiotics and CGAP 2016).

Figure 3: Profits at the Bottom of the Pyramid



Sources: Own illustration. Data from Convergences (2018); Fanconi and Scheurle (2017), Mader (2015).

13 Moreover, this new asset class was presented as being delinked from capital market trends, making it a perfect investment to diversify the ‘portfolios of the rich’ (Janda and Svárovská 2010).

Figure 3 visualises the financial flows in structured microfinance. According to industry estimates, more than a thousand commercial MFIs served approximately 130 million customers in 2018. These are increasingly funded through MIVs managed by a few large financial entities, including investment banks and asset management companies, which reap profits from the bottom of the pyramid through their ‘impact investment’. Mader (2015a, 117) estimates that, in the early phase of the financialisation of microfinance between 1995 and 2012, at least US\$ 125 billion were extracted from MFI customers. Since 2012, the speed and scope of financialisation have increased many times over, as the above-discussed trends show. In other words, the expansion of poverty finance is far from over.

The affirmative financial inclusion discourse rarely talks about these profits and the uneven financial flows of commercialised and financialised microfinance. Instead, they justify the expansion of global finance as a benevolent mission that liberates the unbanked from “the clutches of high-cost moneylenders” (Mahadeva 2011, 197; Yunus 2007, 46). Ironically, the battle over credit supply is waged through the formal/informal divide. While the former is understood to be safe, cheap, and inherently good, the latter is associated with usurious debt practices of moneylenders. However, the rise of MFIs since the 1990s is essentially associated with expanding shadow banking, a largely non-regulated financial services industry with little transparency and accountability (Finch et al. 2022; Jafri 2019; Mader 2015). Moreover, studies have emphasised striking similarities in business operations between MFIs and moneylenders (Kar 2018, 81ff.), rendering the differentiation between formal and informal finance at least problematic, if not irrelevant. Finally, there is hardly any empirical evidence reflecting that the rise of MFIs has diminished the role of moneylenders, while however counterevidence confirming a complementarity between the two creditor institutions does exist (Agarwal 2021; Guérin et al. 2022). Looking at the case of India, Part III and Part IV will scrutinise these contradictions in more detail. However, before concluding this first part, the following section will briefly explore India’s significance for the financial inclusion agenda.

India’s Significance for the New Development Agenda

It would not be exaggerated to claim that the rise of microfinance in recent decades, particularly the success story of integrating hundreds of millions of unbanked into the formal financial system, has been primarily backed by the proliferation of financial services in India. Home to more than 1.2 billion people, the rapid rise in the share of account holders rose from 35 per cent in 2011 to 80 per cent in 2017. What is the story behind this impressive growth? Soon after Narendra Modi took office as prime minister of India in May 2014, he launched the Pradhan Mantri Jan Dhan Yojana (PMJDY), a flagship financial inclusion program of the Government of In-

dia (GoI) to broaden access to financial services. At the end of August 2014, more than 18 million bank accounts were opened within a week. By August 2019, more than 367 million accounts had been opened, according to the official website.¹⁴ The programme was not only celebrated for its astounding growth rate. The World Bank emphasised how account ownership had increased between 2014 and 2017 “by more than 30% among women as well as among adults in the poorest 40 percent of households” (Demirgüç-Kunt et al. 2018, 19). The incentives to open a PMJDY account were high, since accounts opened under the scheme included an overdraft facility of Rs. 5,000, a debit card of RuPay, and an insurance cover of Rs. 100,000 for accidents and Rs. 30,000 for life. Based on Modi’s campaign slogans and speeches on confiscating and returning black money to ordinary people’s bank accounts, rumours spread, suggesting account holders would receive between Rs. 5,000 and Rs. 150,000 for free once they had opened an account. The alleged money gifts were also the reason for Mukhne, an Adivasi woman from Maharashtra who works as a daily wage labourer in agriculture and earns up to Rs. 250 a day, to open an account under the scheme. In an interview a few years later, she demonstrated that she was not inclined to use banking facilities: “Five years ago, we didn’t have money, so we never even thought of going to a bank [...]. We still don’t have money. So what will we do there now?” (Abraham 2019). According to the World Bank Findex database, less than half of all (bank) accounts in India in 2017 were used at least *once* in the past year (Demirgüç-Kunt et al. 2018, 65). The Reserve Bank of India (RBI) estimates that almost 75 per cent of savings accounts lie dormant, and other estimates are even higher (Patel 2016).

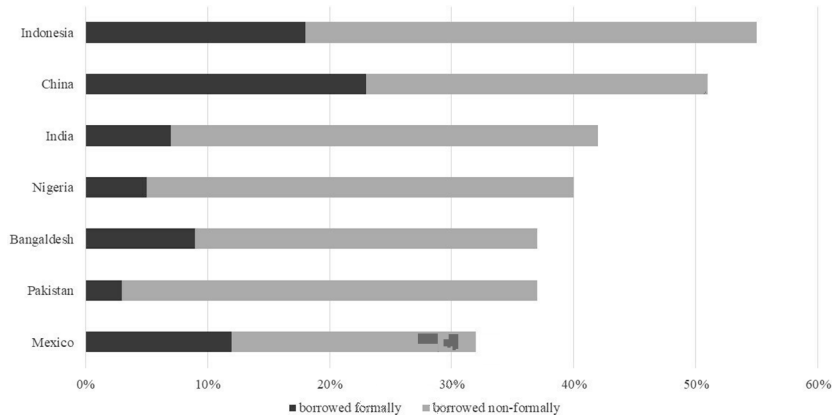
Looking at those countries which host nearly half of the world’s unbanked today, the vibrant credit-debt relations are striking. Borrowing money in Indonesia is as frequent as it is in the Eurozone. In all the listed economies, the share of formal borrowing (including borrowing from MFIs and credit card debt) is significantly smaller than informal borrowing from family, friends, moneylenders and other sources (see Figure 4).

For South Asia, formal borrowing covers only a tiny share of overall lending, indicating a promising market for commercial microfinance. This is the case, even though the region is already the most populous regarding global microfinance customers. In 1995, the World Bank proclaimed that 12 million microfinance customers worldwide had borrowed a total of US\$ 5 billion. Ten years later, the customer base has quadrupled (48.8 million), while the portfolio size has increased at a similar pace (US\$ 18.2 billion) (Mader 2015). Another decade later, in 2017, the number of microfinance clients reached a staggering 139 million globally, with outstanding loans of US\$ 114 billion. South (East) Asia comprises approximately 60 per cent of the global customer base and a quarter of the total global portfolio. India is by far the largest country for microfinance services worldwide, comprising more than one-third of

14 <https://www.pmjdy.gov.in/account> [accessed on August 28, 2019]

the global customer base and more than 60 per cent of South Asia's portfolio size (see Table 1).

Figure 4: Sources of Credit in Countries Where Most 'Unbanked' Live, 2017



Source: Global Findex database. Note: Adults 15+, borrowing any money in the past year. Formal borrowing refers to all credit relations with financial institutions like banks, MFIs or credit card debt. Non-formal borrowing refers to all other sources, including for example friends and family. Since multiple borrowing is possible but the categories are created mutually exclusive, the actual number of informal borrowings is likely to be underrepresented.

Table 1: Microfinance's Global and Regional Figures in 2017

	Portfolio (\$)	% of total	No. of borrowers	% of total
World	114 billion	100	139 million	100
South (East) Asia	27.9 billion	24.5	83.3 million	59.9
India	17.1 billion	14.9	50.9 million	36.6

Source: Microfinance Barometer 2018.

Although the loan portfolio is significantly smaller compared with Latin America and the Caribbean, growth rates in South Asia have been much faster in recent years. Regarding global investments through MIVs, South Asia was the fastest-growing region in the past decade, with a staggering compound annual growth rate (CAGR) of 47 per cent (Convergences 2018). Moreover, profits are the highest on average (with 3.5% on assets) because interest rate yield is similar to other world regions (roughly

21%). At the same time, the operating costs of MFIs are comparatively small thanks to group-based methodologies of lending, which outsource repayment surveillance to peer groups (Convergences 2018).

Proponents of financial inclusion frequently talk about the need to build a financial ecosystem (see e.g. Ehrbeck, Pickens, and Tarazi 2012). As should have become apparent, this refers only to profit-oriented financial services. Looking at Figure 4, it is obvious how leveraging the financial systems approach to microfinance in India engages in a battle over credit supply with already established creditors. To explore the dynamics of expanding commercial microfinance into vibrant debt economies beyond the formal banking system, the distinction between formal and informal financial services is of little help. Instead, one has to trace the foundations of this existing creditor ecosystem.