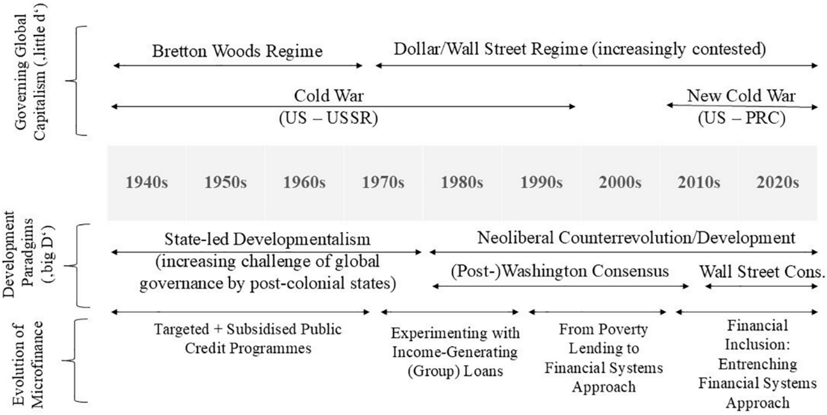
Chapter 3
Synopsis: Thinking Development through Finance

This first part of the book sought to contextualise the evolution of microfinance in the broader trajectory of international development. It has highlighted the political, economic, and ideological dynamics that have contributed to the rise of commercial microfinance at the global level. In this regard, it stressed how Development thinking and practice is embedded in the broader shifts of capitalist development, how it works through its contradictions, and reproduces them in new and mutated ways (Hart 2010; Taylor 2005). Rather than a straightforward process, the success of microfinance must be understood as a contingent result of multiple intersecting dynamics since the 1970s (see Figure 5). On the one hand, targeted and subsidised public credit programmes were retrenched in the context of the crumbling Bretton Woods System and disciplinary lending from IFIs demanding neoliberal austerity, liberalisation, and privatisation. On the other hand, substantial parts of the global population were immiserated by a new wave of enclosing the commons, cancelled subsidies for agricultural production, and new dependencies on export markets, which pushed ever more people into precarious labour and survival activities in the so-called informal sector (Federici 2012; George 1990; Ghosh 2015).

In this context, experiments with income-generating (group) loans mushroomed across the global South, often driven by civil society organisations and supported by national and international DFIs. When some of these experiments demonstrated that poverty finance could be a profitable business case, especially when borrowing to women's groups who would vouch for one another, corporate capital began to push for the professionalisation and scaling-up of the sector since the 1990s. This process triggered the commercialisation of microfinance and its integration into the expanding domain of global finance. With increased investments from global financial institutions through structured finance, microfinance expanded rapidly in the 2000s, reflecting the broader euphoria of finance-led growth in global capitalism. However, the increased linkages with international finance also exposed microfinance to the volatilities of financial markets. Toward the end of the 2000s, when the sector experienced numerous repayment crises and the myth of entrepreneurial credit as an effective tool for sustained income generation was increasingly debunked, commercial microfinance experienced a profound crisis (Guérin, Labie, and Servet 2015; Mader and Sabrow 2015).

Figure 5: The Evolution of Microfinance in D/development



Source: own illustration, adapted and expanded from Hart (2010).

After the global financial crisis, the G20, IMF, World Bank and others defended the broader legitimacy of finance-led economic growth by popularising decent finance and inclusive growth. At the household level, this agenda was framed under financial inclusion, providing access to financial services to previously unbanked populations. Essentially, the new development agenda entrenched commercialised and financialised microfinance in the name of inclusive (finance-led) growth. Broad alliances between financial institutions, philanthropic think tanks, development ministries/agencies of the global North, central banks, and international organisations and fora of Development (UN, World Bank, G20, etc.), such as the AFI or the GPFI, manifested the agenda of inclusive finance as the primary approach to tackling the growth-poverty nexus (Gabor and Brooks 2016; Mader 2018; Soederberg 2013).

Essentially, the shift towards financial inclusion resonates with the broader trend toward market-based finance in the era of sustainable development. As such, it is part of the new Wall Street Consensus, which elaborates on the PWC and is a strategy in the recent rivalry for global hegemony between the United States and the People's Republic of China (Alami, Dixon, and Mawdsley 2021; Gabor 2018; Mawdsley and Taggart 2022). In a context where social infrastructure is increasingly indexed against its bankability, commodification and financialisation lead to monetising access to basic needs. Since the 'unbanked' largely overlap with the working poor, who struggle to make ends meet, access to credit replaces the right to essential entitlements, including housing, education, and health care, amongst others. This reality lies at the ground of the chasm between benevolent rhetoric and structural violence of financial inclusion.

Finally, this chapter demonstrated India's significance in the inclusive finance agenda. The country is one of the most dynamic microfinance markets and hosts the most extensive customer base in the world. As such, the chapter provides a meaningful context and background for further investigation. Most of the developments discussed here are already well-researched. However, in re-narrating the story of microfinance based on the critical literature, there is a danger of reproducing significant blind spots.

First, an analysis of the evolution of microfinance in D/development at the global level is undoubtedly important. However, if exclusively employed, it reproduces a particular top-down perspective, insufficiently attentive to how Development policies respond to concrete problems in specific contexts, and how they might be applied differently from the general rhetoric. In other words, one cannot deduce the workings of microfinance on the ground either from its function to global capital accumulation or the imperatives of the Development paradigm (Taylor 2005). Second, by exclusively focusing on neoliberal development, most of the microfinance literature silences the colonial histories and legacies that matter to understand the rise of commercial microfinance in the present. As such, the periodisation represented in this chapter might obscure the intimate relationship between colonialism, racism, capitalism and Development (Bernards 2022; Wilson 2012). Third, the periodisation presented above has a certain institutional bias. By looking at the evolution of microfinance through the evolution of microfinance institutions, there is a dangerous tendency to flatten the livelihoods of the global poor into a customer base, reifying the affirmative narrative. Doing so underappreciates microfinance as one amongst many other tools for dominating and exploiting working-class households. Put differently, looking at the evolution of access to credit from the perspective of subaltern working-class households might tell us more about the intimate and dynamic relationship between class formation, exploitation, and struggle on the one side and the uneven (financial) capital accumulation on the other side.

So, while this brief review of thinking D/development through finance is an important context which helps understand the rise of commercial microfinance in recent decades, it does not account for the fractured lives that underpin this rise. Before engaging with a deep history of microfinance in India in Part III, the following chapters will discuss the methodological foundations and relevant theoretical concepts necessary to pursue such an investigation.