Financialisation through Microfinance: Civil Society and Market-Building in India

PHILIP MADER*

Max Planck Institute for the Study of Societies

Abstract: Microfinance does not reduce poverty, but it does successfully construct economic relations between owners of capital and borrowers of capital, allowing surpluses to accumulate through finance. It does so by drawing on the agency of financialised civil society actors who facilitate financialisation by working around the state to build new markets in finance and other goods. This article understands financialisation as the expansion of the frontier of financial accumulation. Microfinance is shown to achieve this expansion by establishing credit-based linkages between owners and borrowers of capital, allowing surplus accumulation to take place via the credit relation. Underlying this material relationship, there is also a level at which financialisation motivates and pressures civil society actors to bring microfinance to the poor. By becoming financialised agents themselves, civil society organisations act as conduits for an expansion of financial markets and the construction of new market relations for other goods. A case study of microfinance for water and sanitation in India shows in detail how this construction of markets via civil society works in practice, highlighting the pressures and opportunities presented by microfinance as a vehicle for building markets.

Keywords: microfinance, financialisation, civil society, market-building, neoliberalism, India, water and sanitation

Credit is a human right that should be treated as a human right. If credit can be accepted as a human right, then all other human rights will be easier to establish.

Muhammad Yunus (5 April 2011)
The financialization of microfinance is a relatively small event in the context of a larger world of global finance dominated by foreign exchange markets and the global markets for derivatives. Its symbolic importance, however, is striking.

Aitken (2010, p. 235)

Introduction

Microfinance has held immense appeal in the public imagination, offering a way to ostensibly help poor people escape poverty via the provision of financial services on a for-profit basis. This thoroughly financialised notion of “development” has been inextricably linked with the process of financialisation, as only in a financialised world can slogans such as “Finance For All” or the insistence of Grameen Bank founder and Nobel Peace Prize laureate Muhammad Yunus that “credit is a human right” appear to make any sense.

“Microfinance” refers to the industry of financial institutions that extends a range of services including credit, savings and insurance to people below or near the poverty line in poor countries; an industry in which – recent discursive shifts towards a more encompassing program of “financial inclusion” notwithstanding – credit remains by far the dominant pursuit. It has grown from a niche activity conducted mainly by NGOs in the 1980s into a profitable global industry whose loan portfolio presently surpasses half of total aid. East and South Asia accounted for nearly half (49.5 per cent) of the global microfinance portfolio in 2011, according to the database Mixmarket.

The question asked by this contribution is not “does microfinance work at reducing poverty?” – to which the empirical evidence strongly suggests the answer to be “no” (Banerjee et al., 2010; Bateman, 2010; Duvendack et al., 2011; Hulme, 2007; Karlan and Zinman, 2009) – but rather, “what does microfinance achieve, and how does it work?” The findings here represent a counterpart to Roodman’s (2012) suggestion that microfinance’s sheer existence is a marker of success, his idea being to evaluate “development as institution building” – the key institutions being those concerned with finance. Instead, the answers proposed in this contribution are twofold. First, microfinance, while according to the best evidence doing nothing to directly reduce material poverty, works at building markets by constructing a credit-based economic relation between owners and borrowers of capital, which facilitates capital accumulation. Second, microfinance does this by drawing on the agency of civil society actors, who perceive credit to be a force for good and therefore act to facilitate such market-building through microfinance.

Microfinance acts as a vehicle for “market-building” – a program that Carroll (2012a, p. 351) describes as an “all-encompassing technocratic agenda being operationalised in the name of development” – at the intersection of the financial sector and civil society. It plays a central role in the pro-market politics of development emerging since the Washington Consensus, which has followed earlier phases of neoliberalism in which first the state’s withdrawal from the economy (“roll-back neoliberalism”) and subsequently its role as regulatory overseer for the economy (“roll-out neoliberalism”) was emphasised. Instead, the new neoliberal politics of development emphasises a drive
to actively build markets via a “deep marketisation of development” working on, through and around the state (Carroll, 2012b); a framework on which this paper draws.

In this drive, microfinance helps to construct those institutions that should constitute the actual fabric of market society: multitudes of entrepreneurs, highly competitive enterprises, disciplined borrowers, new financial institutions, and unfettered financial markets. It works on the state by requiring a permissive environment for financial services sold at (high) market prices, through the state by often employing public development funds, and most importantly also around the state by creating new economic institutions and actors to displace and supersede the state’s activity. By re-shaping local social and economic relations in ways that accommodate capital channelled through transnational financial markets, microfinance opens up new avenues for capital accumulation via a financialised capital-labour relationship with entrepreneurial, self-exploiting subjects. It thereby shifts the frontier of financial accumulation beyond its present limits into the slum and village economies of the Global South. Moreover, it renders the activities of civil society actors amenable to projects of market-building, with many NGOs increasingly acting as financial institutions. As a case study from India shows, it works even in sectors such as water and sanitation to deploy market-driven “solutions”.

The first section of this paper outlines my understanding of financialisation. The following section argues that microfinance materially produces credit relations between owners/intermediaries of capital and borrowers of capital, allowing the former to accumulate surpluses on the labour of the latter. The final section shows that underlying this material relationship is an ideological level of financialisation that motivates and pressures civil society actors to bring microfinance to the poor, with the result that many civil society actors increasingly become conduits for the expansion of financial markets and other market relations. A case study of microfinance for water and sanitation in India shows how such construction of markets via microfinance works in practice, illuminating the forces for market-building at work – part ideological, part practical necessity – and explaining the crucial function of microfinance in this market-building process.

Approaches to Financialisation

Observations on the political and economic significance of “finance capital” and the rentier class go back to the early twentieth century, with Hilferding, Lenin, Kalecki and Keynes analysing a period of financial proliferation that ended in the 1920s and 1930s. The more recent period of resurgent finance was first noted by authors in the late 1970s, with for instance Gramm (1978, p. 309) recognising the expansion of credit as an “alternative to increased wages” for demand stimulation, or later Magdoff and Sweezy (1987, p. 149) describing a “casino economy” on which production increasingly became dependent.

Recent analyses have developed progressively more fine-grained empirical and theoretical explanations, which present five broadly different approaches to financialisation, each emphasising different facets of the whole. Although broad definitions such as Epstein’s (2005, p. 3) – “the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and
international economies” – are useful, financialisation remains a multidimensional process evading any single definition, and therefore it is worth isolating and exploring separately the different analyses in a brief review.

**Financialisation as rising rentier incomes**

The political shifts of financial deregulation, monetarism and fiscal austerity since the 1970s substantially increased rentiers’ share of economic output – “the income received by owners of financial firms, plus the return to holders of financial assets generally” (Epstein and Jayadev, 2005, p. 49). In the UK, for instance, the inflation-adjusted rentier portion increased approximately 90-fold from the 1960s to the 1990s (Epstein and Jayadev, 2005, p. 56). Since the “rentier class” is an active class, financialisation is a cycle of rentiers using their economic power to shape politics, politics shaping economies in rentiers’ interest, and economic outcomes once again increasing rentiers’ economic power (Palley, 2008). This process is often driven by financial intermediaries such as investment funds that represent the interests of rentier money – money held by middle classes as well as upper classes, which seeks rent on capital, irrespective of entrepreneurial use – against workers’ and entrepreneurs’ demands (Deutschmann, 2008a; 2008b). Through changes in the pricing and availability of finance and credit, financial power becomes increasingly concentrated in the hands of rentiers’ agents, and contradictions build up as greater returns to capital are demanded and more debt is issued; societies’ productive and entrepreneurial base eventually erodes.

**Financialisation as a new historical period**

Although nearly all analyses of financialisation posit a “then” versus “now” distinction, a specifically historical approach is shared by the *Régulation* School and Social Structures of Accumulation (SSA) theorists, who have explored the differences between the configuration of capitalism in previous periods and the latest period. While an important role for finance is not without historical precedent (Arrighi, 1994), in the view of both schools, financialisation has proven to be a crucial new component of the most recent institutional, regulatory and economic configuration, forming the “neoliberal” variant of capitalism (Wolfson and Kotz, 2010). Technology that encourages financial innovation played a role, but politics and ideology were central to the recent rise of finance (Boyer, 2000; Lipietz, 1992). Supported by the neoliberal creed, the “finance-led growth regime” (Boyer, 2000) of the 1990s and 2000s operated – or still operates – on principles of shareholder value, flexibilisation, inflation control and market supremacy. But while it fixed the problem of profitability that the postwar accumulation regime ran into, “financial hegemony” (Duménil and Lévy, 2011) ultimately led into the present crisis, which both schools agree signals the beginning of a new institutional reconfiguration (Boyer, 2010; McDonough, Reich and Kotz, 2010).

**Financialisation as coupon pool capitalism and dis-intermediated finance**

A third approach pays greater attention to the magnitude of financial markets and the nature of the financial work done in them (Folkman et al., 2007, pp. 150–62). Froud et al. (2002, p. 120) propose an understanding of financialisation as “coupon pool
capitalism”, a type of capitalism “where the financial markets are no longer simple intermediaries between household savers and investing firms, but act dynamically to shape the behaviour of both firms and households”. The “coupons” are all the different kinds of “financial paper” (primarily bonds and shares) that are traded in the market. Froud et al. (2002) argue that not merely ideas and ideologies (like shareholder value) but the coupon pool itself – the trading of financial paper – has created new pressures and opportunities for households as well as corporations; so that, for instance, “US managers now worry about pressures from the stock market rather than from Japanese competitors” (Froud et al., 2002, p. 135). In this sense, financial markets increasingly exert a power of their own, and if any class of actors is at work, it is the financial managers who seek to restructure companies and economies to match the needs and opportunities of financial investors. In a “Varieties of Capitalism” (VoC) perspective, capitalist countries may adapt to or seek to limit the impacts of this financialisation on their firms and denizens, but they cannot avoid it (Engelen and Konings, 2010).

**Financialisation as accumulation through finance**

Another approach has understood financialisation in terms of the capital accumulation process increasingly taking place through finance, relative to other activities. Finance, insurance and real estate (FIRE) in the US increased their share in national profits from 11 per cent in the 1950s to nearly 50 per cent in 2001, despite their share in employment remaining stable at between 5 and 7 per cent (Krippner, 2005). Yet financialisation is not a turn away from production as an economic activity, as many presuppose; it is a process whereby finance increasingly becomes the precondition for production. Financialisation then is, so to speak, a shift in where the “magic” in capitalism happens: even firms solidly grounded in goods-production – whose raison d’être is producing goods to earn a profit – must increasingly pursue financial activities, with for instance General Electric or Ford now earning half or more of their profits via financial activities (Krippner, 2011, p. 29).

**Financialisation as a culture of finance and financial risk**

A final approach comes predominantly, though not exclusively, from cultural economy. Rajan (2005; 2010), a macroeconomist, for instance, sees a key cause of financial proliferation and instability in an increasing popular propensity to accept risk, believing it to be calculable and manageable; while in fact many risks are systemic and unpredictable. Technological, regulatory and institutional changes created “financial development” in recent decades and fed a “culture of risk” (Green, 2000). At the individual level, finance creates new roles and identities that are performatively enacted by people and households who come to think of themselves as financial capitalists and risk-takers; a change in ideology. This culture of finance and financial risk takes many forms, from investing through investment clubs (Harrington, 2008); or optimising credit card debts in “the entrepreneurial and calculative management and manipulation of outstanding obligations” (Langley, 2008, p. 141); to a belief in grand visions of a “portfolio society” (Davis, 2009) or “high-risk society” (Mandel, 1996) where success is attained by actively embracing risk. Financialisation is felt in the everyday as a shift in opportunities combined with a change in values and aspirations, whereby the individual becomes
its own object of speculation, constantly seeking to fulfil financial opportunity in an increasingly uncertain world (Martin, 2002).

Financialisation is thus a phenomenon approached from different angles, each of which leads to different conclusions about its nature and effects: a reconfiguration of economies benefiting rentiers; a component of the “neoliberal” variant of capitalism; an expansion of the “coupon pool” and a dis-intermediation of finance; a shift to accumulation via finance; and a culture of finance and financial risk. Instead of privileging any particular approach, we should understand financialisation as the sum and interplay of these facets. We see that it is a material phenomenon – a transformation in the composition and functionality of the economy as a productive space – as much as one that operates at the level of ideas and ideologies. Social, political, economic and cultural changes are at work, shaping the ways in which actors use finance, and altering the reach of finance within societies. For the purposes of this research, then, we take financialisation to denote the relatively recent expansion of the frontier of financial accumulation, based on changes in politics, economics, social relations and culture. This not only draws together the above understandings, but also allows us to comprehend microfinance as a force within the expansion of financial markets, pushing the frontier at both the material and ideological levels.

Microfinance-Constructed Credit Relations

In this section and the next we evaluate microfinance as based on its function of expanding credit relations, which pushes the frontier of financial accumulation. The argument is that, beyond facilitating political transformations conducive to financialisation (for instance, by buttressing demands for liberal regulation), microfinance itself works to construct a financialised material relation between the owners of capital and the users of capital, which allows surplus accumulation to take place through finance. This has discernible effects on borrowers, lenders and other actors.

The function of microfinance in facilitating political transformations consistent with neoliberalism, and particularly financial liberalisation, expansion and deepening, has been noted since the turn of the millennium by authors such as Weber (2002, p. 541), who finds that “as a financially steered targeted poverty reduction strategy, microcredit, via its implications for policy, facilitates financial sector liberalisation as well as extending the policy of trade in financial services to the local level”. Weber notes that organisations such as the World Bank and the IMF, acting directly as well as through elements such as CGAP, impose an “enabling environment” for financial services “via the microcredit and poverty reduction agenda” and thereby use microfinance to work on the state. Weber theorises the rise of finance in general and microfinance in particular as a form of neoliberal crisis management, arguing: “The implementation of microcredit programmes can be advanced in ways so as to generate implications for financial sector policy restructuring conducive to efforts to advance financial sector liberalisation” (Weber, 2004, p. 360).

This policy function of microfinance working on the state (Carroll, 2012b) was most evident in the wake of the Third World debt crisis of the early 1980s, when microcredit was first instituted internationally as an element of development policy. More than 20 years before “privatised Keynesianism” was diagnosed in advanced capitalist economies
by Crouch (2009) and Streeck (2011), microfinance deployed under the aegis of Structural Adjustment Plans thus allowed states in the Global South to retreat from such responsibilities as demand management, growth promotion and social welfare, instead letting deregulated financial markets supply low-income people with cheaper credit while traditional industrial labour relations were dismantled. Instead of just being part of neoliberalism, microfinance thereby serves as an active tool in the implementation of neoliberal agendas: reinforcing private authority, entrenching commercial legal frameworks, and curtailing the power of democratic processes to potentially challenge such institutions.

Yet the role of microfinance goes beyond merely acting to advance new economic relations politically in the context of neoliberal transformations: it also increasingly serves to build distinct market-based economic relations of its own, working in particular around the state (Carroll, 2012b) to expand and deepen markets. Microfinance, via the credit relations it constructs, creates a material relation between owners of capital, via financial intermediaries, and the sellers of labour-power. The mechanism is the profitability of debt, which – once successfully instituted – makes surplus extraction possible through debt servicing.

This observation is echoed by voices close to the practice of microfinance. Professor Malcolm Harper, co-founder of the erstwhile-leading Indian microfinance institution (MFI) BASIX, voices a fundamental critique of the microfinance sector in what he terms a “tentative Neo-Marxist diagnosis”:

Microfinance offers a more subtle and potentially more durable means whereby those who control capital can exploit those who have only their labour to sell... Microfinanciers can now provide capital, in the form of microcredit, which borrowers use to purchase the tiny amounts of stocks or simple tools they need to run microenterprises. The surplus they can earn is barely sufficient for survival, but because the investments are so small the turnover is relatively high and the borrowers can afford to pay high rates of interest on their loans. Capitalists no longer have to organise and manage labour. They can extract a higher return on their capital not by directly employing people, but by financing their petty businesses under the guise of assisting them to become entrepreneurs. Better still, these entrepreneurs compete against one another rather than combining against capital (Harper, 2011, p. 59).

Harper’s observation is contextualised in an evaluation of the stock market flotation of shares in the Mexican MFI Compartamos, which distributed substantial capital returns to management and investors (a number of which were NGOs and civil society organisations, such as ACCION International); but the quoted statement explicitly hypothesises about microfinance in general. Effectively, Harper describes what the Régulation and SSA theorists have referred to as the “finance-led growth regime”, with a twist. Microfinance is a regime-consistent and regime-furthering means of including – note the recent redefinition of microfinance’s purpose as “financial inclusion” – an increasingly individualised, self-employed class of poor people into the mainstream capital accumulation process.

We may wonder why such a system of exploitation is better than employing the poor. After all, it forgoes productive economies of scale that are possible in regular
employment situations under Taylorist conditions. Part of the answer is that it offers three distinct advantages to capital-owners. First, it permits the rentier type of accumulation, which requires income streams without actual entrepreneurial activity or innovation on the part of the capital-owner and allows this accumulation to take place at some scale. For instance, India’s leading MFI had each loan officer supervise an average of 488 borrowers in 2009 (Mixmarket, 2009b). Hence the entrepreneurial work is outsourced to the individual proletarian labourer who acts as “entreployee” (Voß and Pongratz, 2003). Second, this system avoids major fixed costs for the capital-owner (microloans usually have terms of less than one year) and allows labour power to be acquired on an individual, piece-by-piece basis, with borrowers even self-selecting the most viable routes for surplus-creation available to them under their given conditions. Third, it outsources the largest part of the risk to the borrower, who must (within legal bounds) repay the loans plus 26.6 per cent interest (the global average rate in 2010; author’s calculations using Mixmarket yield data), regardless of whether the loan’s usage generated a 200 per cent return or a total loss for the borrower. This entrepreneurial risk is kept at a distance from the capital-provider, becoming a mere financial risk that is calculable via average repayment rates and other financial metrics.

For lenders and investors – from high net worth individuals to pension funds or “socially motivated” investors – the system of microfinance offers a potentially high-return/low-risk opportunity for capital accumulation at the present frontier of the global financial market, but borrowers must perform their part by borrowing money and paying a more-than-cost-covering price for it. Money, as Simmel (2004) specified in his Philosophy of Money, is a claim on, or entitlement to, the work of others. To lend money therefore means to temporarily transfer those entitlements at the price of a contractual entitlement to a greater magnitude of the borrower’s entitlements later; which she, usually, must earn by labour. Therefore, the role of financial markets – including the microfinance market – may be understood as continually creating and mediating new entitlements on the labour of others. As Ingham (2004, p. 12) clarifies, “money is itself a social relation; that is to say, money is a ‘claim’ or credit that is constituted by social relations that exist independently of the production and exchange of commodities”. Conversely, then, to lack money is to be weak in particular social relations, not unproductive or unwilling to exchange.

In microcredit, the lack of sufficient claims to societal wealth – whether for production purposes or social reproduction purposes – among one class of people (“poor people”) becomes the basis for a contract with another class able and willing (on certain terms) to rent out capitalist claims. In order to ensure contractual repayment, borrowers have to engage their productive capacities to earn the money for repayment, and then transfer some (or all) of the fruits of their labour to the creditor as a rent on capital. Microfinance, whose central effort is the extension of credit to the poor, is then effectively a form of financial innovation that creates new entitlement relationships between capital-lenders and capital-borrowers, via financial intermediaries, which (like any other credit relation) requires borrowers’ discipline in making repayment.

The quintessentially innovative element of microfinance is that this relationship can run directly from the (very) poor to the (very) wealthy, and globally so; literally from Wall Street to the slums and villages of the Global South. If anything, such relationships existed only very indirectly in the past, with diverse layers of middlemen and intermediaries between the owners of substantial amounts of capital and the pawnshops
and informal moneylenders who ultimately lent to the poor; or capital-owners had to actually employ the poor in wage-labour relationships. Now, thanks to microfinance, it is possible for a Bill Gates to lend almost directly to an Indian seamstress and hold an entitlement on an asset stream generated by her, with only an MFI in between, which is not to suggest that this is the motivation for Gates’ noted support of microfinance, but merely to highlight that the relation materially takes this form. By instituting the technical means for channelling large amounts of capital as loans to people without collateral or assets – means including group lending, social collateral, standardisation and computerisation of disbursement, ratings of MFIs, and the securitisation of microfinance portfolios – the microfinance sector works at creating a more efficient capital-labour relationship, consistent with and conducive to the financialised variant of capitalism.

This raises another question: is the rate of accumulation really so substantial? Premised on informal self-employment of borrowers as much as on their other coping strategies, microfinance operations have in fact upheld very substantial rates of profit accumulation. Even if not always or everywhere, and although punctuated by financialisation-typical crises such as the one in India in 2010 (Mader, 2013), the potential for profits is nevertheless high. For instance, the five largest MFIs in India (the world’s biggest microfinance market as of 2009) posted an average ROE\(^7\) from 2005 to 2009 of 36.9 per cent per annum over five years; the provision of investment capital to microfinance in India was an immensely profitable enterprise.\(^8\) Microfinance thereby adds a new dimension to the prevalent system of “accumulation through finance” (Krippner, 2011): it permits – for instance, via the involvement of US-based pension funds such as TIAA-CREF – a process of “financialisation as rising rentier incomes” (Epstein and Jayadev, 2005; Palley, 2008) on the basis of new economic arrangements with the poor. The pre-existing relationship of wealth and poverty between rich and poor transmutes into a financial relationship as the financial frontier is shifted to include ever more borrowers. The persistent rapid growth of the global microfinance loan portfolio – at rates between 27 and 42 per cent each year from 2002 to 2009 (Mixmarket, 2009a) – demonstrates the appeal to capital-owners as much as an unremitting demand for loaned capital, which indicates that few borrowers actually ever “escape” from poverty thanks to microfinance. Rather, the microfinance credit relation appears to be a permanent one, and indeed must be, if microfinance is to remain an attractive investment.

Thanks to microfinance, then, the everyday activities of poverty – the meagre consumption expenditures and micro-entrepreneurial incomes of the poor – enter into modern practices of financial valuation, and are financialised. They are now perceptible and relevant to financial markets, which expand and include them. This reality of mainstream finance entering into the world of poverty is strikingly revealed not least in one of the foremost current publications on poor people’s financial lives, *Portfolios of the Poor* (Collins et al., 2009), which compares the aptitude with which poor people manage their money with the work of professional portfolio managers. But the converse message is that microfinance effectively builds portfolios of the poor: through the credit relation, microfinance turns those activities through which the poor manage and survive their poverty into an asset stream that investors can infuse into their portfolios, thereby expanding the “coupon pool” of financial entitlements traded in the market.
Civil Society and Financialisation: The Case of Microfinance for Water and Sanitation

Microfinance has concrete material implications, as the last section showed, but there is an underlying ideological dimension that has guided its ascent. This lies in the changing and malleable social meanings of money and credit, which hinge on the social meanings attributed to the credit relation. The new material relations constructed via microfinance have required agency: the deliberate and inspired actions of civil society actors founded on money’s “symbolic qualities generically linked to the ideal of unfettered empowerment” (Dodd, 1994, p. 154) which nurture the notion that loans could promote something greater, such as development, poverty reduction or empowerment. Without having appealed to the “moral sentiments” of many people, without recent decades’ processes of financialisation, and without the efforts of diverse “civil society” actors, the growth of microfinance and its attendant construction of new markets could hardly have proceeded in comparable scale and form.

“Civil society” has proven a broad, vague and elusive term; it is taken here as a theorised “third sector”, ostensibly beyond the market and the state, populated by non-state, not-for-profit actors, as well as citizens committed to diverse forms of civic engagement. Civil society is a space of societal organisation in the realm between—though not clearly delimitable from—the remits of the state, the market and the private (cf. Kocka, 2000). Despite its effect of facilitating private capital accumulation, and despite its increasing commercialisation and privatisation, the transnational microfinance sector grew and still continues to exist thanks to the efforts of a diverse concoction of actors situated precisely at this intersection of state, market and the private sphere, including but not limited to:

- Microfinance Institutions (MFIs) such as Grameen (Bangladesh) or SEWA (India), which mostly began as (or still are) NGOs or cooperatives;
- International Financial Institutions (IFIs) such as the World Bank acting as funders, standardisers, political promoters and resource bases for MFIs;
- governmental development agencies and multilateral funding bodies such as USAID or IFAD (International Fund for Agricultural Development);
- special transnational non-state non-profit organisations such as ACCION or Kiva, funding microfinance but often also acting as think-tanks and advocacy bodies;
- philanthropic funds and foundations such as Oxfam or CARE International;
- private wealthy individuals who fund and prominently promote microfinance;
- banks and other for-profit financial institutions, funding or channelling funds from large investors or retail investors (often “socially motivated”);
- specialised investment funds; and
- a broader social movement committed to the idea and practice of microfinance.

States, market actors and private individuals (entrepreneurs, investors) interpenetrate here with the realm of classical civil society actors, forming what Aitken (2010) terms the “ambiguous incorporations” of microfinance.

Strikingly, under the rubric of poverty reduction and development, these actors have come together to construct a for-profit financial subsector that is increasingly linked to mainstream financial circuits (cf. Dieckmann, 2007); a deliberate act of market-building
working through (with the involvement of public funders) and around the state, as well as on it. Of crucial importance as an explanatory factor here is the fifth and most underexplored facet of financialisation, the “culture of finance and financial risk”, which – we saw earlier – creates new roles and identities that are performatively enacted by actors who come to think of themselves as capitalists and risk-takers. Authors such as Bajde (2013, p. 2), for instance, locate the culture of microfinance in a “utopian ideology of entrepreneurial philanthropy”, knitted together at the intersection of the market and charity, although “rife with ideological frictions”. With reference to the users of the online microlending platform Kiva, Bajde traces how small-scale microfinance funders seek to “implement their moral visions of ‘good society’” through finance-based rather than giving-based acts of philanthropy (Bajde, 2013, p. 4). Kiva lenders identify with “their” borrowers’ entrepreneurialism, treating “the loan as an affirmation of their personal moral beliefs”. This allows, as Kiva co-founder Jessica Jackley puts it, “the average individual to feel like a mini-Bill Gates by building a portfolio of investments in businesses around the globe” (cited in Bajde, 2013, p. 9), creating the new identity of the charitable small investor, using and shaping transnational financial markets in the pursuit of social aims.

Lofty motives notwithstanding, this market-building requires a specific form of financial “govern mentality” – an insidious form of authority that contributes to the “transformation of microlending into a fully financialized object” (Aitken, 2010, p. 232), and works to instil market discipline among actors and realms that have regularly evaded market forces. The re-framing of for-profit credit as a socially-necessary intervention constitutes a re-framing of credit itself as a socially-necessary good, which Aitken argues makes finance recognisable no longer as a contestable or dubious construct, but rather as a rational and universally useful tool. For Young (2010, p. 607), microfinance thereby serves to strategically reposition places and people “in relation to the perceived opportunities or risks they present to global capital flows”. Financial flows and the associated practices are “geopolitical technologies” that generate new social roles and identities, and restructure the activities of civil society actors. From the philanthropist or “social investor” via the developmental NGO to the beneficiary herself, participants in this financial chain are asked to think of themselves as capitalists and risk-takers, channelling market forces towards the aim of promoting development. By acquiring new meanings – as socially necessary and benevolent – the rules of mainstream finance, which include regular repayment schedules, monitoring, and a drive for profitability, enter into developmental activities previously considered the remit of NGOs and civil society.

**Case: Microfinance for water and sanitation in India**

The expansion of credit relationships through microfinance has had even further-reaching effects. Not only does microfinance in general shift the frontier of financial accumulation, concomitantly increasing the amount of market labour poor people must perform for loan repayment; it also increasingly serves to marketise other goods through novel projects emerging from the realm of civil society. This is directly related to the changing social meaning of credit under financialisation, whereby credit is now held as a rational, necessary and empowering tool for producing social good. Thanks to microfinance, the need among poor people for the means of social reproduction such as
water and sanitation (and other public goods; see Mader, 2011a) also becomes increasingly recognisable to financial markets as a financial need, to be remedied via the construction of markets in finance. Actors associated with civil society play a key part in this process, as the case of a project using microfinance for water and sanitation in India shows.

The concept of microfinance for water and sanitation – that is, the application of credit to certain goods that constitute elementary means of social reproduction – has existed for over 15 years. As Reis and Mollinga (2009, p. 3) explain: “Due to the finance gap in the RWSS sector and the paradigm of cost-recovery, microcredit schemes have globally become a popular element of RWSS policies in recent years”; also increasingly in urban areas, as India shows. Between January and July 2010, I performed field research on a project whose purpose was to channel microfinance funding into the provision of water and sanitation to slum households in several urban and peri-urban areas of Andhra Pradesh (AP), India.

The organisational structure of the project in AP consisted substantially of three organisations: a philanthropic foundation managed by a very rich North American IT entrepreneur (“the Foundation”); an India-based NGO working with women’s groups in slums (“the NGO”); and an India-based development consultancy founded by a microfinance investment fund manager (“the Consultants”). The project consisted of three interventions: (1) microfinance-funded household water tap connections; (2) microfinance-funded sanitary latrines; and (3) pay-per-can drinking water from reverse osmosis (RO) purification plants – the latter having no direct microfinance element. The tap connections and latrines were supposed to be funded by women using microfinance loans. A subsidy from the Foundation, disbursed by the NGO, was supposed to cover 50 per cent of the notional cost (which was estimated by many recipients to be an understatement of the real cost), while the remainder of the funds were to be borrowed by households from microfinance providers of their choice. While the outcomes of the project itself were politically as well as economically problematic as explained in Mader (2011b), I turn here to evaluating the roles played by the three organisations involved.

At the apex of the project sat the Foundation, whose strategic decisions were taken at head offices in the US, while operations were managed from India. The project was part of its “Family Economic Stability” program, described as supporting “institutions that offer impoverished urban families access to the capital they need to put their children on the path to self-sufficiency”, which in practice consisted mostly of grants to and equity investments in urban MFIs – evidently a rather narrow definition of “family economic stability”. Relative to its overall microfinance support, the sum disbursed as a grant of just under US$1 million for the latrine and water tap subsidies was fairly minor. The Foundation’s India-based staff were kept up to date by the NGO on the progress of the subsidy disbursement, which was far slower than intended, because only a fraction of households actually came forward. The Foundation did not take any further active role in implementing or steering the project, but hired the Consultants (more below) to monitor the activities of the NGO and evaluate the project’s impact.

The NGO, the implementing agency of the project, had just under one decade of experience in working with women’s groups, mainly on “capacity building” for Self-Help Groups (SHGs) in the context of the Andhra Pradesh government’s bank linkage program. It was respected and well known in civil society circles, and well
connected with regional governmental bodies while retaining independence. Its employees – mostly trained social workers – were responsible in the project for disbursing subsidy money to the women for the construction of water and sanitation facilities; disbursement was contingent on progress with construction. As “capacity builders”, the employees also played a crucial role in facilitating women’s access to additional loan finance, via the SHG-bank linkage and other microfinance. Around the time the water and sanitation project was being rolled out, federations of SHGs (representing up to around 200 individuals) were upgraded as formal “cooperative societies” whose income statements were subject to a formal financial accounting audit; through a successful audit it was hoped that federations would be able to gain easier and cheaper access to financial services from the formal financial market.

In practice, the NGO’s (mostly male) employees functioned as local project coordinators, training providers, informal financial auditors and, whenever considered necessary, financial and social discipliners (vis-à-vis all-women SHG members). They regularly coordinated with municipal officials, sometimes attempting to facilitate construction of network infrastructure in certain neighbourhoods, but they could only rarely secure such public investments. As officials explained in multiple interviews, the municipalities themselves lacked resources, while the loan finance and subsidy, crucially, were directed towards the end users – with the result that the constructed water and sanitation systems often lacked the underlying public infrastructure necessary for proper functioning. For the NGO, the identified problem was water and sanitation, and the identified solution in the project – for pragmatic reasons, given the conditions of the Foundation – was to facilitate microfinance. As the NGO’s project director explained in an interview, the microfinance-based setup was chosen for two reasons – first to prevent a possible corrupt misallocation of funds (if larger volumes were disbursed via political channels), and second because microfinance was plentifully available and the Foundation wanted to support this: “Microfinance, microfinance is the requirement. The finance is small, micro”.

The third group, the Consultants, proved a fascinating team to work with and study as participant-observer. Consisting mostly of internationally-mobile Indian-born MBAs without an engineering or development background, the team had been hired to design an impact evaluation of the water and sanitation project in the slums (slums they visited only rarely, briefly, and generally rather unwillingly). On the side, the Consultants were seeking to use the Foundation-funded evaluation to improve their own “knowledge base” for future “BOP” (“bottom of the pyramid”) water and sanitation interventions using microfinance, which they would later sell as consulting expertise or as completed business models to other civil society and corporate entities. The consulting company had been founded as a (de jure independent) pet project by its boss, a venture capital microfinance fund manager, and its role was effectively to act as a highly visible think-tank for market-driven “social business” solutions to problems at the “BOP”, producing conducive policy recommendations as well as private sector consulting services while remaining separate from the more traditional venture capital fund located in another city.

Microfinance was understood by the Consultants to represent a uniquely “demand-driven solution”, and demand for water and sanitation projects was always premised on financial improvements from better facilities. The assumption was that the poor would recognise financial benefits and therefore spend money on water and sanitation
improvements, since realistically in no other way could a market-driven solution to the problem have been espoused. That the poor were not coming forward in droves did not seem to irritate the team leader, who explained: “We know better. It’s not that the demand isn’t there, it’s just that they don’t know better”. A commonly-used term therefore was “latent demand”, which would take “cultural change” to finally become “real” demand for a for-profit business model. In report-writing (the main activity of the consultants) the concept of “need” was consistently translated into “market potential”, the “poor” were termed “BOP segment” (of the market), and to “use” or “employ” any device (or person) was to “leverage” it (or them) – financial terminology and logics routinely pervaded many formal utterances of thought.

The NGO’s project director once expressed the difference between his NGO’s ethos and the Consultants’ mode of thought in a private moment: “They are corporate. So of course they will see things in a corporate way” – where the NGO saw social problems, the Consultants saw market potential. Whenever project proposals and reports were being written by the Consultants, the premise from the outset – never a finding in the end – was that some way must be found for the private sector to finance a proposed intervention, which in turn required the poor themselves to pay. Yet since no market was present to service the needs of the poor, the appropriate technologies and actors for the formation of a market had to be introduced, and thereby the market built. Furthermore, since the sheer poverty of the “BOP segment” represented a problem in making the poor pay for market-driven solutions, it was suggested that the poor could borrow the money, and therefore microfinance was the solution for market-building in water and sanitation.

In this project using microfinance for water and sanitation in India, market-building to address social problems was for each actor involved in different ways a matter of practical-pragmatic as well as ideological necessity. Microfinance served as a market-compatible means for addressing social problems, acting as a tool for building new markets in the means of social reproduction such as water and sanitation. For the Foundation, building a market via microfinance was its way to promote “family economic stability”; for the NGO, microfinance was a requirement for gaining funds to address an urgent problem; for the Consultants, microfinance was the only conceivable way of extracting “demand” from the poor for their market-based “solutions”. The financial presence of the amply-funded microfinance sector was acutely felt by all actors, and differently interpreted respectively by the NGO, the Consultants and the Foundation; in part as an opportunity to cooperate, in part as sheer necessity. The Consultants, far more than the NGO (which worked closer to the life-reality of the intended beneficiaries, and retained some scepticism), were palpably permeated by a “culture of finance”, in which all problems were simply a matter of “leveraging” the adequate financial resources. That this should effectively mean building financial markets around goods such as water and sanitation, whose status as marketable goods was simply assumed, was an unquestionable inevitability. For the NGO, this was a pragmatic (and mostly unquestioned) necessity resulting from the acute pressure to gain funds, as well as scepticism of the state as a means of delivery. For the Foundation, the specific reasons why it sought to promote “family economic stability” via microfinance remained unclear.

As the case in India shows, microfinance’s market-building potential reaches beyond its intrinsic function of coaxing market-oriented labour from borrowers for repayment, through which microfinance extends financial market linkages into new realms so that
mainstream capital accumulation circuits now reach many slums and villages in the Global South. Microfinance, we see, also increasingly pervades the activities and strategies of actors associated with civil society in areas traditionally unrelated to financial markets, making these actors conduits for a broader, more comprehensive, market-building project. In the case of water and sanitation, the spread of microfinance has opened new and perhaps surprising channels for projects of market-building, whereby microfinance serves as a tool to operate around the state for an expansion and deepening of financial market linkages. The Indian case reveals how microfinance generates a perceived urgency for addressing social problems through expanding and deepening markets for finance, and how some civil society actors, in this sense, have become agents for building markets even in the means of social reproduction such as water and sanitation. This process repositions NGOs as purveyors of market-based solutions to social problems – partly out of pragmatic necessity, and partly inspired by ideology – and poor people as consumers.

Conclusion

This paper has discussed five different approaches to financialisation, finding it to be an expansion of the frontier of financial accumulation based on changes in politics, economics, social relations and culture. Microfinance is part of this expansion of the frontier of financial accumulation, creating new channels for surplus accumulation with an increasingly individualised, self-employed class of labourers; yet it has drawn on normative and ideological shifts that present finance as a means for positive social ends. The paper has thereby integrated a study of the distinct material effects of microfinance, which are to create asset streams that allow rentiers to accumulate capital on the basis of the labour power of the poor, with a study of how these material effects hinge on changes in the social meaning assigned to credit. Moreover, the paper has demonstrated how this shift in the frontier of financial accumulation engages civil society actors in promoting the expansion of credit markets, even in areas seemingly unrelated to credit, such as water and sanitation in India.

The case study of a project linking access to water and sanitation with microfinance in India demonstrates how microfinance, in the context of the larger global process of financialisation, has mobilised civil society actors as agents for building markets in the means of social reproduction. The ostensibly apolitical financial nexus can actively serve the project of building markets in goods such as water and sanitation, whose politically-engineered privatisation encountered fierce political resistance during the 1980s and 1990s. We may interpret this as a process of marketisation and micro-privatisation through the back door, via finance, which is fully congruent with the vision espoused by the father figure of microfinance: “government, as we now know it, should pull out of most things except for law enforcement, the justice system, national defense, and foreign policy, and let the private sector … take over its other functions” (Yunus, 2003, p. 204). This vision’s logical conclusion clarifies the increasingly important role of financial markets and financial actors in projects of market-building. Weber (2002; 2004) highlights how microfinance has always been a political tool for market-building by working on the state, so this finding should not be a complete surprise. This article considers a different dimension and shows that microfinance should also be recognised as a tool for
market-building by working around the state – as part of the new neoliberal politics of development in which development efforts directly work to open up new capital accumulation avenues. By deploying market-driven “solutions” to problems of global poverty, while not succeeding in reducing this poverty, microfinance evidently is working to construct institutions of a market society, in particular the financial institutions that actively re-shape social relations in ways conducive to capital accumulation.

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Notes

1. Title of an academic business magazine issue (Werner, 2012).
2. Credit, following Yunus, even being a more fundamental right than others. Just how problematic this notion is evidently does not occur to Yunus or other microfinance enthusiasts. As Thomas Dichter cogently points out in the award-winning documentary The Micro Debt: “Muhammad Yunus said that credit is a Human Right; but he never said that debt is a Human Right” (Heinemann, 2010).
3. The four largest donors posted a development assistance budget of US$63,230 million in 2009, contributing more than half of all DAC-registered foreign aid (OECD, 2010). Microfinance loans amounted to US$72 billion. These budgets furthermore partially include an unknown amount of government and multilateral support for microfinance programs, registered as aid.
4. Other authors have categorised and grouped the literature differently. The works of different authors are grouped here not by authors’ affiliations or convictions, but by their shared objects of interest. The approaches are not mutually exclusive; nor have the authors necessarily focused exclusively on the approach they are associated with here. Merely to highlight the dimensions of financialisation systematically we distinguish the different foci.
5. Consultative Group to Assist the Poor; a multi-donor organisation founded by and housed within the World Bank.
6. BASIX was the Indian sector leader for many years.
7. Mixmarket (2009b). ROE = Return on Equity. Author’s calculation using Mixmarket data to determine a 5-year weighted average for the five largest MFIs in India as of 2009: SKS, Spandana, Share, Bandhan and AML.
8. Comparing these figures to, for instance, an overall RoE of all US firms (15.2 per cent in 2008 and 9.9 in 2009), or 7.2 and minus 69.0 per cent in US financial services (in 2008 and 2009 respectively) (Damodaran, 2011), the extent to which Indian MFIs were lucrative is evident – especially given their reputation at the time of being virtually risk-free, thanks to the sector’s average loan repayment rate of more than 99 per cent. The crisis of 2010, of course, changed this.
9. RWSS = Rural water supply and sanitation.
10. The identities of these organisations and their members have been kept anonymous here, due in part to an agreement with one of the organisations, and there is no intention to affect their reputations in any way. The background, methods and findings of this research from a public goods-theoretic perspective are reported in Mader (2011a).
11. Preparing the books in advance to the chartered accountants performing the formal audit.
12. The impact evaluation questionnaire, developed by the author as stipulated by the Consultants, regrettably was never implemented beyond test stage. To the best of my knowledge, no systematic impact evaluation was ever performed, and none may ever have been intended for the final report to the Foundation.
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