The gospel of harmony between labor and capital has been preached now for almost fifty years, and bourgeois philanthropy has expended large sums of money to prove this harmony of interests by building model institutions, and, as we shall see later, we are today exactly where we were fifty years ago.

Friedrich Engels, *The Housing Question* (1935)

Towards a transnational political economy of microfinance

Contemporary capitalism is a financialized capitalism, and microfinance is its response to poverty. Microfinance taps into the capital markets and uses philanthropic support to build banks because – its proponents argue and its supporters believe – these banks help to build a better world. Far from being unimportant or eccentric elements of global finance, the multitudes of tiny transactions that are organized in the microfinance system stand paradigmatically for the hopes and contradictions of the present, finance-based economic order. That a financial subindustry could come to stand for such lofty aims as ending poverty and empowering women is a phenomenon to be explained and questioned. But microfinance is more than mere lofty aims. It also engenders concrete practices which shape people’s lives in different ways, generating new narratives, roles, risks and capital flows at local and global scales. Microfinance today is increasingly a financial system in its own right, which uses an array of different methods to channel return-seeking capital into Asian slums, African villages and Latin American *favelas*, bringing them closer to the core of contemporary capitalist activity.
To explain how this could arise, and what it means, is the challenge of this book.

The microfinance system takes financial markets to the extreme, using finance to build economic relationships which stretch from the very richest investors to the poorest borrowers – from billionaires such as George Soros and Pierre Omidyar to African, Asian and Latin American seamstresses, peasants and rickshaw drivers. These model institutions of “bourgeois philanthropy” have been invested with the greatest expectations: microfinance institutions are supposed to help to grow stunted “bonsai people”, empower oppressed women, “financially include” the disenfranchised, help policy-makers achieve variously defined “development” goals and replace the ineffectual developmental state with more efficient self-help through credit. As a leading global microfinance network explains in The Business of Fighting Poverty, “we use your philanthropic support to build banks for the poor in some of the world’s most remote and difficult places…Our goal is to help break down the walls of financial exclusion, in order to build a world in which no one is shut out of all that society has to offer” (ACCION International 2009: 3).

According to the father figure of the sector, Muhammad Yunus, microfinance should confine poverty to “poverty museums” within two generations (Yunus 1997). Only time will tell. But meanwhile, a significant and growing body of literature has controversially engaged with how microfinance activities impact the target populations – including, among others, Armendáriz and Morduch (2005), Dichter and Harper (2007), Collins et al. (2009), Bateman (2010; 2011a), Duvendack et al. (2011b), Karim (2011), Roodman (2012a), Klas and Mader (2014) and Bateman and Maclean (forthcoming) – and reached vastly divergent conclusions. For some, microfinance sanguinely “presents a series of exciting possibilities for extending markets, reducing poverty, and fostering social change” (Armendáriz and Morduch 2005: 3); for others, because of the innate incompatibility of these goals, “[p]ut simply, microfinance does not work” (Bateman 2010: 1).

In the light of this profusion and confusion, this book’s goal is to move forward the debate which has very often revolved around the question “Does microfinance work?” by asking: “What does microfinance work at – and how?” In doing so, this book examines contemporary microfinance through the lens of financialization, and it also seeks to understand financialization through microfinance. By proposing to analyse the transnational political economy of microfinance as financializing poverty, this work connects with and builds upon foregoing critical analyses, particularly Weber’s (2006b; 2010) explication of